SECOND QUARTER 2020 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL RESULTS

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.
The accompanying unaudited condensed consolidated interim financial statements of the Company as at, and for the three and six months ended June 30, 2020 and 2019, have been prepared in accordance with IFRS and are the responsibility of the Company's management. The interim financial statements and related financial reporting matters have been reviewed and approved by the Audit Committee.

The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2020 and 2019 in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
unaudited, expressed in Canadian dollars unless otherwise noted

	Note	June 30, 2020	December 31, 2019
Assets			
Current assets			
Cash		**$ 3,191,581**	$ 1,077,741
Term deposit		**14,000**	14,000
Accounts receivable	5	**95,470**	81,744
Prepaid expenses, deposits and other		**523,237**	182,840
Inventory	6	**518,442**	-
Biological assets	7	**175,200**	70,072
Investment	10	**98,042**	-
		$ 4,615,972	1,426,397
Retail assets held for sale	19	**-**	866,514
Current assets		**$ 4,615,972**	2,292,911
Non-current assets			
Intangible asset	8	**2,565,508**	2,598,148
Investment	10	**-**	16,714
Non-current prepaid expenses and deposits		**419,484**	280,685
Property, plant and equipment	9	**10,468,393**	10,579,066
Right of use asset	15	**665,294**	729,901
Total Assets		**$ 18,734,651**	$ 16,497,425
Liabilities			
Current liabilities			
Accounts payable		**$ 2,061,744**	$ 1,640,159
Current portion of lease obligations	15	**142,297**	142,845
Current portion of credit facility	16	**410,196**	1,972,050
		$ 2,614,237	3,755,054
Retail lease liabilities held for sale	19	**-**	598,021
Current liabilities		**$ 2,614,237**	4,353,075
Non-Current liabilities			
Lease obligations	15	**537,417**	591,691
Credit facility	16	**4,511,564**	-
Convertible debenture	17	**761,715**	-
Total Liabilities		**$ 8,424,933**	4,944,766
Shareholders' equity			
Share capital	11	**38,021,339**	35,621,339
Contributed surplus		**6,621,777**	6,211,492
Deficit		**(34,333,398)**	(30,280,172)
		10,309,718	11,552,659
Total Liabilities and Shareholders' Equity		**$ 18,734,651**	$ 16,497,425

Commitments (Note 20)
Subsequent events (Note 22)

The accompanying notes are an integral part of the condensed consolidated interim financial statements.
SIGNED ON BEHALF OF THE BOARD

"*Dan Wilson*" — Director

"*Janice Comeau*" — Director

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
unaudited, expressed in Canadian dollars unless otherwise noted

	Note		Three Months Ended June 30, 2020	Three Months Ended June 30, 2019		Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Unrealized fair value (gain) loss on growth of biological asset	7	**$**	**(675)**	-	**$**	**47,947**	-
Expenses							
General and administrative	18	**$**	**811,951**	1,211,256	**$**	**2,221,722**	2,243,122
Stock based compensation	13		**121,247**	425,685		**280,500**	635,821
Interest and finance costs			**936,580**	81,074		**1,010,322**	81,261
Depreciation and amortization	8,9		**156,900**	36,810		**320,714**	36,810
Depreciation on right-of-use assets	15		**25,828**	29,150		**64,606**	35,131
Net loss (gain) on investment	10		**(24,511)**	391,551		**18,672**	(572,418)
Accretion expense	16,17		**33,195**	-		**72,814**	-
Loss on divestiture of retail assets and other	19		**-**	-		**15,929**	-
Total expenses			**2,061,190**	2,175,526		**4,005,279**	2,459,727
Loss and comprehensive loss			**(2,060,515)**	(2,175,526)		**(4,053,226)**	(2,459,727)
Total loss and comprehensive loss			**(2,060,515)**	(2,175,526)		**(4,053,226)**	(2,459,727)
Loss and comprehensive loss per share, basic and diluted	14	**$**	**(0.01)**	(0.01)	**$**	**(0.01)**	(0.01)

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
unaudited, expressed in Canadian dollars unless otherwise noted

	Number of common shares		Share capital	Contributed surplus	Deficit		Total
Balance at December 31, 2019	393,768,532	$	35,621,339	6,211,492	(30,280,172)	$	11,552,659
Stock-based compensation (Note 13)				280,500			280,500
Convertible debenture conversion (Note 17)	48,000,000		2,400,000				2,400,000
Convertible debenture reserve (Note 17)				129,785			129,785
Comprehensive loss for the period					(4,053,226)		(4,053,226)
Balance at June 30, 2020	**441,768,532**	**$**	**38,021,339**	**6,621,777**	**(34,333,398)**	**$**	**10,309,718**

	Number of common shares		Share capital	Contributed surplus	Deficit		Total
Balance at December 31, 2018	355,463,381	$	33,487,057	4,995,283	(23,219,815)	$	15,262,525
Exercise of warrants (Note 12)	3,399,743		339,974	-	-		339,974
Exercise of stock options (Note 13)	33,333		3,625	-	-		3,625
Stock-based compensation (Note 13)	-		-	635,821	-		635,821
Warrant reserve (Note 16)	-		-	158,477	-		158,477
Comprehensive loss for the period	-		-	-	(2,459,727)		(2,459,727)
Balance At June 30, 2019	358,896,457	$	33,830,656	5,789,581	(25,679,542)	$	13,940,695

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

unaudited, expressed in Canadian dollars unless otherwise noted

Six months ended	Note	June 30, 2020	June 30, 2019
Cash used in operating activities:			
Loss and comprehensive loss for the period		**$ (4,053,226)**	$ (2,459,727)
Adjustments for non-cash items:			
Net loss (gain) on investment	10	**18,672**	(572,418)
Depreciation and amortization	8,9	**320,714**	36,810
Depreciation on right-of-use assets	15	**64,606**	35,131
Stock based compensation	13	**280,500**	635,821
Accretion expense	16,17	**72,814**	11,289
Change in unrealized fair value of biological asset	7	**47,947**	-
Loss on divestiture of retail assets and other	19	**15,929**	-
Change in non-cash working capital		**(758,943)**	1,338,049
Cash used in operating activities		**(3,990,987)**	(975,045)
Cash used in investing activities:			
Additions to property, plant and equipment	9	**(177,401)**	(4,069,974)
Net proceeds from divestiture of retail assets	19	**153,399**	-
Proceeds from investment	10	**-**	1,304,187
Cash used in investing activities		**(24,002)**	(2,765,787)
Cash provided by financing activities:			
(Repayment) proceeds from Pillar Capital Corp. Credit Facility	16	**(2,040,000)**	500,000
Net proceeds from First Calgary Financial Credit Facility	16	**4,923,753**	-
Net proceeds from Convertible Debenture	17	**3,491,898**	-
Payment of Convertible Debenture Interest Reserve	17	**(192,000)**	-
Issuance of warrants and stock options	11	**-**	343,599
Repayment of lease obligations	15	**(54,822)**	(42,681)
Cash provided by financing activities		**6,128,829**	800,918
Decrease in cash		**2,113,840**	2,939,914
Cash, beginning of period		**1,077,741**	3,821,548
Cash, end of period		**$ 3,191,581**	$ 881,634

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

1. Nature of operations

Sugarbud Craft Growers Corp. ("Sugarbud" or the "Company") is a federally licensed, publicly traded cannabis company. Sugarbud is incorporated in Alberta and listed on the TSX Venture Exchange ("TSXV") under the symbols "SUGR" (common shares), "SUGR.WT" (common share purchase warrants), "SUGR.DB" (convertible debenture units), "SUGR.WS" (convertible debenture warrants). The Company operates primarily in Alberta and its head office is located at Suite #620, 634 6th Avenue SW, Calgary, Alberta T2P 0S4. The Company became a reporting issuer in April 2004 and was previously an oil and natural gas company.

During the year ended December 31, 2018, the Company completed a change of business with the TSXV to be listed as a Tier 2 Life Sciences Issuer. The TSXV formally approved the Company's name change from "Relentless Resources Ltd." to "Sugarbud Craft Growers Corp." and the common shares ("Common Shares") commenced trading on the TSXV under the Company's new name and new trading symbol "SUGR" at the market opening on October 26, 2018.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements ("Financial Statements") have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited financial statements and notes thereto in the Company's December 31, 2019 Annual Report available on SEDAR at www.sedar.com.

These Financial Statements were approved by the Company's Board of Directors on August 26, 2020.

(b) Basis of consolidation

These Financial Statements include the accounts of Sugarbud and its wholly owned subsidiaries, Trichome Holdings Corp. ("Trichome") and 1800905 Alberta Ltd. Trichome and 1800905 Alberta Ltd. are fully consolidated from the date of acquisition, being the date on which the Company obtained control, and continue to be consolidated until such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company; using consistent accounting policies. Any balances, unrealized gains or losses, or income or expenses from intra-company transactions are fully eliminated upon consolidation.

(c) Basis of measurement

These financial statements have been prepared on the historical cost basis except for share based payment transactions and certain financial instruments which are measured at fair value.

(d) New accounting policies
Inventory

Inventories for finished goods and packaging and supplies are initially valued at cost, and subsequently at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. The direct and indirect costs of finished goods inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials and labour. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within cost of sales on the condensed consolidated interim statements of loss and comprehensive loss at the time cannabis is sold. Inventory is measured at lower of cost or net realizable value on the statements of financial position.

(e) Convertible debenture

Convertible debentures are financial instruments that are accounted for separately dependent on the nature of their components. The identification of such components embedded within a convertible debenture requires significant judgment; given that it is based on the interpretation of the substance of the contractual agreement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value. The determination of the fair value is also an area of significant judgment given that it is subject to various inputs, assumptions and estimates including: contractual future cash flows, discount rates, credit spreads and volatility. Transaction costs are apportioned to the financial liability, derivative liability and equity components in proportion to the allocation of proceeds.

(f) COVID-19

During 2019 and 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. During the global outbreak, the production and sale of cannabis have been recognized as essential services in Canada. The Company believes that it can maintain safe operations with pandemic related procedures and protocols in place.

3. Significant accounting judgments estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and expenses during the reporting year. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can materially differ from these estimates.

In the process of applying the Company's accounting policies, the significant accounting judgements are consistent with Note 4 of the Company's December 31, 2019 consolidated financial statements, however, management has made the following additional judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the Financial Statements:

(a) Inventory

The valuation of biological assets at the point of harvest is used as the measurement basis for all cannabis-based inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable to inventory. The valuation of work-in-progress and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount of the inventory. The Company must also determine if the carrying value of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

(b) Convertible debenture

The identification of components embedded within financial instruments is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the financial instruments at issuance and the subsequent recognition of interest on the liability component. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit or loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost. The determination of the fair value is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

4. Fair value measurements

The Company's financial instruments are measured using level 1 inputs.

(i) Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

(ii) Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

(iii) Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

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5. Accounts receivable

The accounts receivable balance primarily consists of goods and services tax receivable.

The following is a table with an aging analysis of the outstanding accounts receivable as at June 30, 2020:

Period Outstanding		June 30, 2020		December 31, 2019
< 30 days	$	72,057	$	43,044
31 to 60 days				10,500
61 to 90 days				-
Over 90 days		23,413		28,200
Grand Total	$	95,470	$	81,744

6. Inventory

Inventory is comprised of:

	Capitalized cost	Fair value adjustment		June 30, 2020		December 31, 2019
Work-in-progress harvested cannabis	639,523	(133,507)	$	506,016	$	-
Purchased cannabis	12,426	-		12,426		-
	651,949	(133,507)	$	518,442	$	-

During the six months ended June 30, 2020, the Company completed its first and second harvests and recorded $506,016 in net harvested cannabis costs.

7. Biological assets

Biological assets are comprised of:

	Amount
Balance at December 31, 2019	**$70,072**
Production costs capitalized	659,092
Decrease in fair value due to biological transformation	(47,948)
Transferred to inventory upon harvest	(506,016)
Balance at June 30, 2020	**175,200**

The Company measures biological assets, consisting of cannabis plants, at fair value less costs to sell. The fair value of the biological assets is determined using a model which is based on the expected harvest yield (grams per plant) for plants currently being cultivated, adjusted for the expected selling price per gram and for any additional post-harvest costs to be incurred.

The following inputs are used in determining the fair value of biological assets:

(a) Average selling price per gram: calculated as the average selling price of cannabis, adjusted for expectations about future pricing;
(b) Yield: consists of the number of grams of finished cannabis that is expected per cannabis plant;
(c) Post-harvest costs: calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest.

The Company believes that any reasonably possible change in the key assumptions would not cause a material change in the carrying value of biological assets.

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8. Intangible asset

	Amount
Balance at December 31, 2018	$2,611,204
Amortization	($13,056)
Balance at December 31, 2019	$2,598,148
Amortization	(32,640)
Balance at June 30, 2020	$2,565,508

On October 23, 2018, the Company acquired all of the issued and outstanding shares in the capital of Grunewahl (the "Acquisition"), whose subsidiary was a late-stage applicant to become a licensed producer under the Access to Cannabis for Medical Purposes Regulations ("ACMPR") which were amended and concurrently restated as the Federal Regulations on October 17, 2018. Pursuant to the Acquisition, the Company issued an aggregate of 19,259,993 Common Shares to former holders of shares in the capital of Grunewahl and 2114152 Alberta Ltd., a wholly owned subsidiary of the Company, which amalgamated with Grunewahl to form Trichome. The value of the acquisition was based on Sugarbud's market price of $0.11 per share on October 23, 2018, resulting in a value of $2,118,600 plus a $490,000 cash payment made to Grunewahl shareholders. In connection with the acquisition of Grunewahl, Sugarbud acquired an intangible asset related to the Company's Health Canada license application.

During the year ended December 31, 2019, Sugarbud received its cultivation, processing and medical sales licenses ("the Licenses") from Health Canada in respect of Phase 1a of the Company's Stavely facility ("Stavely Facility"). During 2019, the Company began amortizing its intangible asset as it was available for its intended use upon receipt of the Licenses.

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9. Property, plant and equipment

		Land	Stavely Facility	Computer equipment	Retail	Other		Total assets
Cost								
At December 31, 2018	$	323,000	6,409,108	50,638	306,200	132,434	$	7,221,380
Additions		-	4,269,926	13,467	58,680	4,456		4,346,529
Disposals		-	(419,483)	-	-	-		(419,483)
Transfer to retail assets held		-	-	-	(364,880)	-		(364,880)
At December 31, 2019	**$**	**323,000**	**10,259,551**	**64,105**	**-**	**136,890**	**$**	**10,783,546**
Accumulated depreciation								
At December 31, 2018		-	-	-	-	-		-
Depreciation		-	(200,856)	(3,205)	-	(419)		(204,480)
At December 31, 2019	**$**	**-**	**(200,856)**	**(3,205)**	**-**	**(419)**	**$**	**(204,480)**
Net book value								
At December 31, 2018	$	323,000	6,409,108	50,638	306,200	132,434	$	7,221,380
At December 31, 2019	**$**	**323,000**	**10,058,695**	**60,900**	**-**	**136,471**	**$**	**10,579,066**
Cost								
At December 31, 2019	$	323,000	10,259,551	64,105	-	136,890	$	10,783,546
Additions		-	177,401	-	-	-		177,401
At June 30, 2020	**$**	**323,000**	**10,436,952**	**64,105**	**-**	**136,890**	**$**	**10,960,947**
Accumulated depreciation								
At December 31, 2019	$	-	(200,856)	(3,205)	-	(419)		(204,480)
Depreciation		-	(280,824)	(6,410)	-	(839)		(288,074)
At June 30, 2020	**$**		**(481,680)**	**(9,616)**	**-**	**(1,258)**	**$**	**(492,554)**
Net book value								
At December 31, 2019	$	323,000	10,058,695	60,900	-	136,471	$	10,579,066
At June 30, 2020	**$**	**323,000**	**9,955,272**	**54,489**	**-**	**135,632**	**$**	**10,468,393**

10. Investment

	June 30, 2020	December 31, 2019
Balance, beginning of period	$16,714	$937,599
Additions	100,000	-
Unrealized loss on investments	(1,958)	(81,725)
Realized (loss) gain on investments	(16,714)	465,027
Proceeds from disposition	-	(1,304,187)
Balance, end of period	**$98,042**	**$16,714**

During the six months ended June 30, 2020, the Company received 612,764 common shares in High Tide Inc. ("High Tide") at a value of $100,000 in connection with the retail assets divestiture. The 612,764 common shares were revalued at June 30, 2020 based on High Tide's closing market share price of $0.16.

During the year ended December 31, 2019, the Company sold 6,216,000 Inner Spirit common shares for proceeds of $1,304,187. As at December 31, 2019, the Company held 3,750,000 common share purchase warrants of Inner Spirit valued at $16,714 using the Black -Scholes option pricing model.

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During the six months ended June 30, 2020, the Company cancelled the warrants associated with the Inner Spirit investment.

The Black-Scholes option pricing model used the following inputs:

Year ended	December 31, 2019
Volatility	96%
Life	0.5 years
Risk-free interest rate	1.65%
Exercise price	$0.30
Stock price	$0.115
Dividend yield	nil

11. Share capital

(a) Authorized

The authorized share capital of the Company is comprised of an unlimited number of voting Common Shares and preferred shares.

The holders of Common Shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share. All Common Shares are of the same class with equal rights and privileges.

(b) Issued

Six months ended June 30, 2020	**Shares**		**Amount**
Balance, beginning of period	**393,768,532**	**$**	**35,621,339**
Issuance of common shares (i)	**48,000,000**		**2,400,000**
Balance, end of period	**441,768,532**		**38,021,339**

(i) During the six months ended June 30, 2020, Sugarbud completed a fully subscribed public offering of secured convertible debenture units of the Company ("Debenture Units") at a price of $1,000 per debenture unit for proceeds of $4 million. Each debenture unit consists of: (i) one 12.0% secured convertible debenture ("Convertible Debentures"); and (ii) 20,000 common share purchase warrants of the Company ("Debenture Warrants"). Each Debenture Warrant will entitle the holder to purchase one common share in the capital of the Company at an exercise price of $0.05, at any time up to 36 months following the date of issuance.

During the six months ended June 30, 2020, $2,400,000 principal amount of Debenture Units were converted into 48,000,000 common shares of the Company at a price of $0.05.

Year ended December 31, 2019	**Shares**		**Amount**
Balance, beginning of period	355,463,381	$	33,487,057
Issuance of common shares (i)	18,500,000		925,000
Common shares to be issued (ii)	16,372,075		900,464
Exercise of warrants (iii)	3,399,743		339,974
Exercise of stock options (iv)	33,333		3,625
Share issuance costs	-		(34,781)
Balance, end of period	**393,768,532**	**$**	**35,621,339**

(i) During the year ended December 31, 2019, Sugarbud completed a non-brokered private placement ("2019 Private Placement") for total proceeds of $925,000. Pursuant to the private placement, Sugarbud issued a total of 18,500,000 units ("2019 Private Placement Units") of Sugarbud at a price of $0.05 per 2019 Private Placement Unit. Each 2019 Private Placement Unit was comprised of one Common Share and one Common Share purchase warrant. Each warrant entitles the holder to purchase one Common Share at a price of $0.10 until November 18, 2021, subject to early expiry in the event that the 5-day volume weighted average trading price of the Common Shares equals or exceeds $0.125.

(ii) During the year ended December 31, 2019, Sugarbud completed a rights offering ("2019 Rights Offering") to holders ("Shareholders") of Common Shares. Under the 2019 Rights Offering, Shareholders subscribed for and purchased an aggregate of 16,372,075 units (each, a "2019 Rights Offering Unit"), at a price of $0.055 per 2019 Rights Offering Unit, resulting in gross proceeds to Sugarbud of $900,464. Each 2019 Rights Offering Unit consists of one Common Share and one Common Share purchase warrant (each, a "2019 Rights Offering Warrant"). Each 2019 Rights Offering Warrant entitles the holder thereof to purchase one Common Share at a price of $0.10 until December 20, 2021, subject to early expiry in the event that the 5-day volume weighted average trading price of the Common Shares equals or exceeds $0.125. The Company issued the Common Shares subsequent to the year ended December 31, 2019. However, the Common Shares were included in the share capital continuity as at December 31, 2019 as shares to be issued.

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(iii) During the year ended December 31, 2019, 3,399,743 Common Share purchase warrants issued in connection with the 2018 Private Placement ("2018 Private Placement") and the 2018 Rights Offering ("2018 Rights Offering") were exercised at a price of $0.10 per Common Share for total proceeds of $339,974.

(iv) During the year ended December 31, 2019, 33,333 stock options were exercised for total proceeds of $3,625.

12. Warrants

Six months ended June 30, 2020	**Warrants**		**Weighted average exercise price**
Balance, Beginning of period	**175,854,508**	**$**	**0.0929**
Warrants issued (i)	**80,000,000**		**0.05**
Warrants issued (i)	**12,800,000**		**0.05**
Balance, End of period	**268,654,508**	**$**	**0.0781**

(i) During the six months ended June 30, 2020, Sugarbud completed a fully subscribed public offering of Debenture Units at a price of $1,000 per debenture unit for proceeds of $4 million. Each debenture unit consists of: (i) one 12.0% secured Convertible Debenture; and (ii) 20,000 Debenture Warrants. Each Debenture Warrant will entitle the holder to purchase one common share in the capital of the Company at an exercise price of $0.05, at any time up to 36 months following the date of issuance. Additionally, the Company issued to the agent who led the public offering 12,800,000 compensation warrants ("Compensation Warrants"). Each Compensation Warrant is exercisable for one common share in the capital of the Company at an exercise price of $0.05 for a period of 36 months from the date of issuance.

The weighted average remaining life of the Company's warrants as at June 30, 2020 are 3.53 years.

Year ended December 31, 2019	**Warrants**		**Weighted average exercise price**
Balance, beginning of year	145,059,432	$	0.0916
Warrants exercised (i)	(3,399,743)		0.1000
Warrants expired (ii)	(2,142,856)		0.1400
Warrants issued (iii)	18,965,600		0.1000
Warrants issued (iv)	16,372,075		0.1000
Warrants issued (v)	1,000,000		0.1600
Balance, end of year	**175,854,508**	**$**	**0.0929**

(i) During the year ended December 31, 2019, 3,399,743 warrants issued in connection with the 2018 Private Placement and the 2018 Rights Offering were exercised at a price of $0.10 per Common Share for total proceeds of $339,974.

(ii) During the year ended December 31, 2019, 2,142,856 warrants expired in connection with the 2014 private placement.

(iii) During the year ended December 31, 2019, Sugarbud issued a total of 18,500,000 warrants (the "2019 Private Placement Warrants") in connection with the 2019 Private Placement. Each 2019 Private Placement Warrant entitles the holder to purchase one Common Share at a price of $0.10 until November 18, 2021, subject to early expiry in the event that the 5-day volume weighted average trading price of the Common Shares equals or exceeds $0.125.

Sugarbud has also issued 465,600 finders non-transferable warrants ("Finder Warrants") to purchase Common Shares in proportion to the number of Units issued to investors as a result of such finder's efforts. Each Finder Warrant entitles the holder to purchase one Common Share at a price of $0.10 until November 18, 2021, subject to early expiry in the event that the 5-day volume weighted average trading price of the Common Shares equals or exceeds $0.125.

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(iv) During the year ended December 31, 2019, Sugarbud issued a total of 16,372,075 warrants (the "2019 Rights Offering Warrants") in connection with the 2019 Rights Offering. Each 2019 Rights Offering Warrant entitles the holder thereof to purchase one Common Share at a price of $0.10 until December 20, 2021, subject to early expiry in the event that the 5-day volume weighted average trading price of the Common Shares equals or exceeds $0.125.

(v) During the year ended December 31, 2019, 1,000,000 warrants (the "Pillar Warrants") were issued to Pillar Capital Corp. ("Pillar").

Pillar in connection with the Pillar Credit Facility at an exercise price of $0.16 per Common Share. The Company attributed a fair value of $158,477 to the Pillar Warrants by using the Black-Scholes option pricing model. The Pillar Warrants granted during the period are valued using the following inputs.

	Year ended December 31, 2019
Volatility	160%
Life	5 years
Risk-free interest rate	1.46%
Exercise price	$0.16
Stock price	$0.17
Dividend yield	nil

The weighted average remaining life of the Company's warrants as at December 31, 2019 are 3.73 years.

13. Stock based compensation

The Company has a stock option plan (the "Plan") for its officers, directors, employees and consultants. Under the Plan, the Company may grant options to purchase up to 10% of the outstanding Common Shares. The options have a five-year term and generally vest in tranches. The polices of the TSXV require "rolling" stock option plans to be approved on an annual basis by the shareholders of a listed issuer. During the six months ended June 30, 2020, the Company did not approve or issue stock options.

		Six months ended June 30, 2020	Year ended	December 31, 2019
	Options outstanding	**Weighted average exercise price**	Options outstanding	Weighted average exercise price
Outstanding, beginning of period	**39,356,667**	**0.12**	32,700,000	0.14
Granted during the period (i) (ii)	-	-	18,440,000	0.07
Exercised during the period (iii)	-	-	(33,333)	0.11
Forfeited during the period	(5,200,000)	**0.08**	(11,350,000)	0.11
Cancelled during the period	-	-	(400,000)	0.07
Balance, end of period	**34,156,667**	**0.13**	39,356,667	0.12
Exercisable, end of period	**26,007,778**	**0.10**	27,374,444	0.10

During the six months ended June 30, 2020, stock-based compensation expense recognized was $280,500. During the six months ended June 30, 2019, stock-based compensation expense recognized was $635,821.

(i) During the year ended December 31, 2019, the Company granted 3,100,000 stock options to an executive of Sugarbud. Stock-based compensation expense recognized during the year ended December 31, 2019 was $1,057,732. The weighted average remaining life of the Company's stock options as at December 31, 2019 was 4.16 years.

(ii) During the year ended December 31, 2019, the Company granted 15,340,000 stock options to certain directors, officers, employees and consultants. The options expire five years from the date of grant and are exercisable at a price of $0.065 per common share. The options vest as to one third on the grant date and one third on each of the first and second anniversaries of the grant date. To facilitate the option grant, including 900,000 stock options to CEO and Director, John Kondrosky, certain directors have surrendered 6,750,000 options for cancellation, which were cancelled and returned for future grants under Sugarbud's stock option plan effective immediately.

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(iii) During the year ended December 31, 2019, 33,333 stock options were exercised for total proceeds of $3,625.

The weighted average remaining life of the Company's stock options as at June 30, 2020 are 3.39 years.

The Company values stock-based compensation by using the Black-Scholes option pricing model. Stock options granted were valued using the inputs below.

	Year ended December 31, 2019
Volatility	110% - 135%
Life	5 years
Risk-free interest rate	1.35% - 1.65%
Exercise price	$0.065 - $0.16
Stock price	$0.060 - $0.17
Dividend yield	Nil

14. Loss per share

	Six months ended June 30, 2020	**Six months ended June 30, 2019**
Comprehensive loss per share, basic and diluted	**$ (0.01)**	$ (0.01)
Weighted average shares outstanding	**395,350,950**	357,009,191

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15. Right-of-use assets

		Vehicles	Equipment	Retail		Total assets
Cost						
Transition to IFRS 16	$	26,957	68,524	-	$	95,481
Additions		229,779	470,865	658,535		1,359,179
Transfer to retail assets held for sale		-	-	(620,045)		(620,045)
At December 31, 2019	**$**	**256,736**	**539,389**	**38,490**	**$**	**834,615**
						-
Accumulated depreciation						-
At January 1, 2019	$	-	-	-	$	-
Depreciation		(38,021)	(28,203)	(38,490)		(104,714)
At December 31, 2019	**$**	**(38,021)**	**(28,203)**	**(38,490)**	**$**	**(104,714)**
						-
Net book value						-
At January 1, 2019	$	26,957	68,524	-	$	95,481
At December 31, 2019	**$**	**218,715**	**511,186**	**-**	**$**	**729,901**

		Vehicles	Equipment	Retail		Total assets
Cost						
At January 1, 2020	$	256,736	539,389	-	$	796,125
Additions				-		
Disposals				-		
At June 30 2020	**$**	**256,736**	**539,389**	**-**	**$**	**796,125**
						-
Accumulated depreciation						-
At January 1, 2020	$	(38,021)	(28,204)	-	$	(66,225)
Depreciation		(22,363)	(42,242)	-		(64,606)
At June 30 2020	**$**	**(60,384)**	**(70,446)**	**-**	**$**	**(130,831)**
						-
Net book value						-
At January 1, 2020	$	218,715	511,186	-	$	729,901
At June 30 2020	**$**	**196,352**	**468,943**	**-**	**$**	**665,294**

Lease obligations

The following represents a maturity analysis of the Company's undiscounted contractual lease obligations as at June 30, 2020:

	2020	**2021**	**2022**	**2023**	**2024**	**Thereafter**		**Total**
Truck lease	46,441	71,781	65,746	27,283	-	-		211,251
Equipment lease	73,132	130,248	129,501	122,481	102,935	90,189		648,486
Total	119,573	202,029	195,247	149,764	102,935	90,189	$	859,737

Discounted lease obligations included in the condensed consolidated interim statement of financial position:

Current portion		**142,297**
Non-current portion		**537,417**
Total	**$**	**679,714**

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16. Credit Facilities

Pillar Capital Corp. Credit Facility

On June 5, 2019, Sugarbud entered into a secured credit facility with Pillar for up to $5 million (the "Pillar Credit Facility"). The proceeds of the Pillar Credit Facility were used by Sugarbud to support working capital requirements and to continue to equip Phase 1a of the Stavely Facility. The Pillar Credit Facility was guaranteed by Sugarbud and its wholly owned subsidiary Trichome. The first $2 million of the Pillar Credit Facility was available for drawdown at Sugarbud's discretion, with draws thereafter subject to approval by Pillar. The Pillar Credit Facility bore interest at 12.5% per annum and had a five-year term but could be due and subject to demand following the first anniversary of the initial draw which occurred in June 2019.

The Pillar Credit Facility had general security executed by the Company, pursuant to which the Company granted the lender a first priority security interest over all present and after acquired personal property of the Company.

As a result of prior period draw downs, the Company incurred a facility fee of $63,000 and legal fees and disbursements of $25,000.

During the six months ended June 30, 2020, the Company closed the previously announced $5.0 million senior secured credit facility with Connect First Credit Union Ltd ("First Calgary") and paid in full the $2.04 million outstanding balance of the Pillar Credit Facility; thereby cancelling the arrangement with Pillar.

	June 30, 2020	**December 31, 2019**
Beginning balance	1,972,050	-
Credit facility drawdown		2,000,000
Interest		40,000
Debt issuance costs		(158,477)
Accretion	67,950	90,527
Credit facility repayment	(2,040,000)	
Ending balance	-	1,972,050

During the year ended December 31, 2019, 1,000,000 Pillar Warrants were issued to Pillar in connection with the Pillar Credit Facility at an exercise price of $0.16 per Common Share. The Company attributed a fair value of $158,477 to the Pillar Warrants by using the Black-Scholes option pricing model (note 12). The Pillar Warrants were treated as debt issuance costs and recorded as a reduction of the carrying value of the Pillar Credit Facility balance. The Pillar Credit Facility was accredited back to it's carrying value over one year using the effective interest rate method.

First Calgary Credit Facility

On May 28, 2020, Sugarbud entered into a new secured credit facility with First Calgary for $5.03 million ("First Calgary Credit Facility").

The committed interest rate under the First Calgary Credit Facility is the Canada Bond Rate for five years + 3.55% per annum with a minimum floor rate of 4.25% and matures five years following closing. The First Calgary Credit Facility replaces the Company's prior debt facility with Pillar. The proceeds were used to repay the $2.04 million outstanding under the Pillar Credit Facility, for ongoing working capital purposes and to support the continued scale-up of the Company's Stavely Facility.

The First Calgary Credit Facility is guaranteed by Sugarbud and its wholly owned subsidiaries Trichome and 1800905 Alberta Ltd. and has general security executed by the Company, pursuant to which the Company grants First Calgary a first charge security interest over all present and after acquired personal property of the Company.

Debt issuance costs related to the First Calgary Credit Facility amount to approximately $109,149 and were recorded as a reduction of the carrying value of the First Calgary Credit Facility, while being accredited back to its carrying value over its term.

	June 30, 2020	**December 31, 2019**
Beginning balance	-	-
First Calgary Credit facility	$5,030,000	-
Debt issuance costs	(109,149)	-
Accretion	910	-
Ending balance	$4,921,760	-

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17. Convertible debenture

During the six months ended June 30, 2020, Sugarbud completed a fully subscribed public offering of Debenture Units at a price of $1,000 per debenture unit for proceeds of $4 million.

Each debenture unit consists of: (i) one 12.0% secured Convertible Debenture; and (ii) 20,000 Debenture Warrants. Each Debenture Warrant will entitle the holder to purchase one common share in the capital of the Company at an exercise price of $0.05, at any time up to 36 months following the date of issuance.

The Offered Debentures will bear interest at a rate of 12.0% per annum from the date of issue, payable semi-annually in arrears, in cash, on the last day of June and December of each year (an “Interest Payment Date”) with the first payment occurring on June 30, 2020, and will have a maturity date that is three years from the closing of the Offering (the “Maturity Date”). Interest shall be computed on the basis of a 360-day year composed of twelve 30-day months. The June 30, 2020 interest payment represented accrued interest for the period from the closing date to June 30, 2020.

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. The Company valued the debt component of the convertible debentures by calculating the present value of the principal and interest payments, discounted at a rate of 20%; being management’s best estimate of the rate that a non-convertible debenture with similar terms would earn. The Company has allocated the proceeds from issuance between the estimated fair value of equity and debt components using an effective interest rate for the debt component of 20%. Based on this calculation, the liability component is $3,350,104 and the residual equity component is $649,896.

In consideration of the services provided by the agent and other costs in connection with the offering, the Company paid the agent a cash commission and other expenses, as well incurring transaction costs for professional fees and other expenses totaling of $711,908. These transaction costs have been allocated to the liability and equity components based on their pro-rata values.

The Company issued 12,800,000 Compensation Warrants to the agent who led the public offering. Each Compensation Warrant is exercisable for one common share in the capital of the Company at an exercise price of $0.05 for a period of 36 months from the date of issuance.

On the closing of the offering, an interest reserve account was established and funding from the proceeds of the offering in an amount equal to 12 months of interest payments (“Interest Reserve”). The Interest Reserve shall be used exclusively to fund the semi-annual interest payments to the holders.

During the six months ended June 30, 2020, $2,400,000 principal amount of Debenture Units were converted into 48,000,000 common shares of the Company at a price of $0.05.

	June 30, 2020	**December 31, 2019**
Beginning balance	-	-
Additions	$4,000,000	-
Equity portion of convertible debt	(649,896)	-
Conversion of debenture units	(1,995,556)	
Transaction costs allocated to debenture liability	(596,788)	
Accretion	3,955	-
Ending balance	$761,715	-

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18. General and administrative expenses

Three months ended		June 30, 2020		June 30, 2019
Professional fees	$	90,801	$	116,330
Salaries, wages and benefits to employees		406,876		385,944
Consulting expenditures		113,860		102,984
Office lease expenditures		10,850		33,000
Advertising		13,608		35,276
Insurance		45,300		41,082
Restructuring expenditures and other		130,655		496,640
General and administrative expenses	$	811,951	$	1,211,256

Six months ended		June 30, 2020		June 30, 2019
Professional fees	$	290,850	$	279,741
Salaries, wages and benefits to employees		830,513		668,707
Consulting expenditures		309,771		318,787
Office lease expenditures		43,850		69,866
Advertising		13,922		78,290
Insurance		90,581		87,039
Restructuring expenditures and other		642,235		744,692
General and administrative expenses	$	2,221,722	$	2,243,122

19. Retail assets divestiture

During the six months ended June 30, 2020, the Company completed the sale of all of its retail cannabis assets with two independent arm's length purchasers in two separate transactions for gross proceeds of $220,000 and $100,000 of common shares in one of the purchasers. The total net proceeds received from the purchasers were $253,399 after considering for costs of disposal. During the six months ended June 30, the Company reported a loss on disposal of $15,094, which is on the condensed consolidated interim statements of loss and comprehensive loss.

		Amount
Net proceeds from disposition of retail assets	$	153,399
Common shares received as consideration		100,000
Total consideration received	**$**	**253,399**
Assets held for sale		
Disposal of retail assets held for sale	$	866,514
Liabilities held for sale		
Disposal of retail liabilities held for sale	$	598,021
Disposal of net assets held for sale	$	268,493
Loss on disposition of retail assets	**$**	**(15,094)**

During 2019, the Company commenced the process of disposing of its retail assets. In accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, the retail assets held for sale were assessed for impairment based on fair value less costs of disposal. The fair value was measured using the price at which the Company expected to receive for the disposal group less estimates for the costs of disposal. The fair value less costs of disposal was lower than the carrying value of the disposal group resulting in recognition of a loss of $118,411 in 2019 and $15,094 for the period ended June 30, 2020.

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20. Commitments

During the year ended December 31, 2019, the Company entered into a commitment to purchase land in the amount of $960,000, whereby the transaction is scheduled to close in 2020.

21. Related party transactions

The following is a summary of the Company's related party transactions during the six months ended June 30, 2020. Compensation of key management personnel may include short-term and long-term benefits as applicable, including salaries and stock options. The key management personnel of the Company are the Company's executive management team and the Board of Directors.

Key management compensation

Six months ended	June 30, 2020	June 30, 2019
Stock based compensation	$280,500	$635,821
Compensation paid to key management – expensed	300,705	273,173
Consulting expenses	155,000	65,217
Restructuring expenditures paid	415,310	87,500
Total	$1,151,515	$1,061,711

22. Subsequent events

First product shipments to Saskatchewan

Subsequent to June 30, 2020, together with its partner Agro-Greens Natural Products Ltd., the Company commenced the first shipment and sale of the Company's Craft Cannabis Collection of products to National Cannabis Distribution for sale in the Province of Saskatchewan.

Convertible Debenture conversions to equity

Subsequent to June 30, 2020, and in connection with the 2020 convertible debenture offering, the Company issued approximately 20.3 million Common Shares, including Common Shares issued as part of the make-whole provision and Common Shares in respect of a total converted principal amount of approximately $700,000.

After such conversions, the principal amount of Debenture Units remaining outstanding was approximately $0.9 million; representing 18 million Common Shares or 22.5% of the face value of the Convertible Debenture.

As a result of the conversion of Debenture Units, the Company received a portion of the Interest Reserve for cash proceeds of approximately $83,000.