sugarbud

SECOND QUARTER 2020 MANAGEMENT'S DISCUSSION & ANALYSIS

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.

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Sugarbud Craft Growers Corp. ("Sugarbud" or the "Company") (TSX-Venture Exchange: SUGR, SUGR.WT, SUGR.DB and SUGR.WS) is dated August 26, 2020. The Management Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 dated August 26, 2020, together with the notes thereto ("Financial Statements"). Sugarbud's Board of Directors reviewed and approved Financial Statements and MD&A on August 26, 2020.

Additional information about Sugarbud, including the Company's annual information form for the year ended December 31, 2019 is available on SEDAR at www.sedar.com and on the Company's website at www.sugarbud.ca.

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company uses certain non-IFRS measures in this MD&A. Refer to pages 12 to 16 for important information related to Non-IFRS measures and forward-looking information.

Operating and Financial Update

Receipt of Amended Sales Licence for Dried and Fresh Cannabis from Health Canada

On August 21, 2020, the Company received its amended sales licence for dried and fresh cannabis ("Sales Licence") from Health Canada which will allow the Company to sell its products to authorised inter-provincial distributors/retailers and registered medical patients. The Company expects to focus on sales in the near-term in the provinces of Alberta, Saskatewan and British Columbia, and will expand to other provinces as it completes its roll out in target markets.

First Calgary Financing and Debenture Unit Offering

First Calgary Credit Facility

On May 28, 2020, Sugarbud closed the previously announced $5.03 million senior secured credit facility ("First Calgary Credit Facility") with Connect First Credit Union Ltd ("First Calgary"). The full amount of the new debt facility is now available and was partially used to repay in full the $2.04 million outstanding under the previous credit facility with Pillar Capital Corp (the "Pillar Credit Facility"). The balance will be used for ongoing working capital purposes and to support the continued scale-up of its Stavely Facility.

Debenture Unit Offering

On June 24, 2020, the Company 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 Debenture"); and (ii) 20,000 common 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.

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.

Non-dilutive Lease Financing

On November 15, 2019, Sugarbud executed an agreement in respect of non-dilutive equipment financing arrangements with Grand HVAC Leasing (the "Capital Equipment Financing"). Pursuant to the Capital Equipment Financing, Sugarbud has the opportunity to utilize equipment financing to advance the final build-out and full scale-up of two existing cultivation rooms. Under the terms of the agreement, Grand HVAC has provided Sugarbud with $0.4 million in immediate vendor lease back funds for capital equipment already deployed at the Stavely Facility. The agreement has a six-year term and includes the option to buyout the equipment. The Capital Equipment Financing allows the Company to better utilize the collateral value associated with its Stavely Facility.

The Company is pursuing similar financing terms for the acquisition of additional HVAC, lighting and racking equipment associated with the scale-up of the two licensed cultivation rooms within Phase 1a and two new cultivation rooms within Phase 1b.

Stavely Facility Expansion

As noted above, Phase 1a is fully licenced with two cultivation rooms. Each cultivation room is comprised of up to 4 layers of stacked vertical cultivation space and is capable of producing approximately 1,653,760 – 1,945,600 grams of premium cured craft cannabis flower per year, based on the following assumptions: a maximum of 4 layers per room; 1024 plants per layer; 85 - 100 gram yield per plant; and 4.75 harvests per year.

The Company successfully completed its first two harvests on March 2, 2020 and May 29, 2020 respectively. The initial harvests were at a smaller scale with subsequent scale-up to occur throughout 2020 as additional equipment is installed and optimized.

Phases 1b and 1c will both be comprised of two additional grow rooms each with four stacked vertical layers of hydroponic growing racks similar to the rooms noted in Phase 1a. Phase 1b will also include the scale up of one additional packaging and processing room. The total budget for the build-out and equipping each cultivation room is $1.5 million; which is primarily associated with HVAC, lighting and growing racks. At full scale, Phases 1a, 1b and 1c (collectively "Full Phase 1") will consist of six multi-layer grow rooms and associated drying/curing, propagation, processing, production, and administrative areas. At full capacity, Full Phase 1 will be capable of producing between 9,922,560 – 11,673,600 grams per year, based on the production assumptions described above. Timing of the development of Phases 1b and 1c is dependent on available capital; which may come in the form of working capital, future debt facilities or lease financing arrangements similar to those utilized in the development of Phase 1a.

The total Stavely Facility buildout budget is $22.5 million – encompassing four stacked vertical layers (or 4,096 sq. ft) of flowering canopy across each of the six licenced grow rooms. Of this amount, approximately $10 million remains to be deployed to complete Full Phase 1. The Company plans to fund the development of Full Phase 1 primarily through positive cashflow from operations supplemented by leasing agreements, proceeds from the Convertible Debenture, and access to the First Calgary Credit Facility. As each room within the Stavely Facility can be developed individually, the Company will phase construction to meet the available sources of capital at that time.

Sugarbud is focused on increasing its operations at a scale focused on efficiently and effectively producing high-quality, high-potency and terpene-rich craft cannabis. The Company is well-positioned to drive sustainable operating profit and positive cashflow from early 2021. With a total flowering canopy of approximately 24,576 sq. ft, the Company has an estimated total design capacity of between 9,922,560 – 11,673,600 grams per year.

Sugarbud Entered Into Strategic Retail Supply Agreements

On April 6, 2020, the Company entered into a wholesale distribution and supply agreement with National Cannabis Distribution ("NCD") whereby NCD will exclusively distribute the Company's cannabis products in the province of Saskatchewan for an initial two-year period.

On April 14, 2020, Sugarbud entered into a brand licence and product purchase agreement with Agro-Greens Natural Products Ltd ("Agro-Greens") whereby Agro-Greens is authorized under license to sell and distribute the Company's craft cannabis dried flower products to authorized inter-provincial wholesalers, distributors and retailers.

On April 15, 2020, the Company entered into a contract manufacturing and distribution agreement with Agro-Greens whereby Agro-Greens may process, package and distribute Sugarbud's craft cannabis pre-roll products under license to authorized inter-provincial wholesalers, distributors and retailers.

Purchase Orders for Dried Flower and Pre-roll Products

On May 27, 2020, with its partner Agro-Greens, the Company received the first purchase orders for it's Craft Cannabis Collection of products from NCD for sale in the Province of Saskatchewan.

The first products scheduled for launch in the Craft Cannabis Collection were Sugarbud OG Kush 3.5g Dried Flower and Sugarbud Wedding Cake 3.5g Dried Flower.

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

expressed in Canadian dollars unless otherwise noted

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, 2020, 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.

New Management and Directors

On February 11, 2020, Sugarbud appointed Mr. Chris Moulson as Vice President of Finance and Chief Financial Officer of the Company. Mr. Brad Giblin made a personal decision to step down from his positions as Sugarbud's V.P. of Finance and Chief Financial Officer to return to the energy sector.

Mr. Moulson's authority is limited until such time as he receives security clearance from Health Canada.

On June 24, 2020, Mr. Bill Macdonald resigned as a director of the Company.

Liquidity and Capital Resources

Working capital

As at June 30, 2020, the Company had working capital of $1,901,735 compared to a working capital deficiency of $2,060,164 as at December 31, 2019. Funds expended during the quarter primarily relate to the Company's first two commercial harvests which were successfully completed on March 2, 2020 and May 29, 2020, respectively.

On May 28, 2020, Sugarbud closed the previously announced $5.03 million senior secured credit facility with First Calgary. The full amount of the new debt facility is now available and was partially used to repay in full the $2.04 million outstanding under the Pillar Credit Facility. The balance will be used for ongoing working capital purposes.

On June 24, 2020, the Company 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 Interest Payment Date with the first payment occurring on June 30, 2020, and will have a maturity date that is three years from 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.

Subsequent to June 30, 2020, 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.

Applicable regulations

On June 18, 2018, the Government of Canada passed legislation, the *Cannabis Act* (Canada) (the "Federal Cannabis Act"), outlining the framework for the legalization of recreational use of cannabis, as well as laws to address drug-impaired driving, protection of public health and safety and prevent youth access to cannabis. Regulations to support the Federal Cannabis Act were published in the Canada Gazette, Part II, on July 11, 2018. The Federal Cannabis Act and its regulations (the "Federal Regulations") came into force on October 17, 2018, and adults are now able to purchase limited amounts of cannabis products from licensed retail stores subject to provincial and municipal government restrictions.

Pursuant to the Federal Regulations, cannabis products require plain packaging and must be labelled with mandatory health warnings, a standardized cannabis symbol and specific information about the product.

The Federal Regulations also set out strict requirements with respect to logos, colours and branding. The Federal Cannabis Act grants the provincial and municipal governments the authority to prescribe regulations regarding retail and distribution (including advertising), as well as the ability to alter some of the existing baseline requirements, such as increasing the minimum age for purchase and consumption. Retail-distribution models vary nationwide from one province and territory to another. All Canadian provinces and territories have implemented mechanisms for the distribution and sale of cannabis for adult-use purposes within their jurisdictions.

Effective May 12, 2020, Health Canada implemented a significant change to previous regulations and requirements for changes to site plan approval. Licence holders are no longer required to submit an amendment for review and approval by Health Canada for the following site plan changes:

- Adding a new operations area within an approved building that already appears on the licence holder's licence; **and**
- Changing an operations area within an approved building that already appears on the licence.

Given that the Stavely Facility as constructed meets the new requirements, these changes are material to Sugarbud - and provide the Company with a much clearer pathway to future expansion by removing any potential future delays previously associated with the submission, review and approval process of site change requests.

Cannabis 2.0

expressed in Canadian dollars unless otherwise noted

Canadian legalization of additional cannabis derivative product categories occurred in October 2019, and distribution commenced between late 2019 and early 2020.

The Company is evaluating the impact of these regulatory changes on the business. Further, Health Canada may change their administration, interpretation or application of the applicable regulations or their compliance or enforcement procedures at any time. Any such changes could require the Company to revise its ongoing compliance procedures.

Genetics

Sugarbud was able to complete a one-time declaration when it received the Licenses regarding the scope and composition of its starting materials. Sugarbud has built a substantial library of top-tier genetics in order to cultivate premium cannabis products and to offer a broad range of cannabis products upon the receipt of the requisite licenses from Health Canada.

On December 5, 2019, Sugarbud entered into a strategic plant genotyping and tissue culture agreement with Segra Biogenesis Corp., a wholly owned subsidiary of Segra International Corp. ("**Segra**").

Under the terms of the agreement, which include royalties tied to production success, Segra is providing Sugarbud with exclusive and proprietary cannabis cultivars as well as tissue culture technology and services for the preservation, regeneration, and production of key cultivars already held by Sugarbud. Plant tissue culture, also known as plant micropropagation, is an advanced scientific technique utilized in many commercial agricultural applications to mass-produce plants with desirable traits. Using micropropagation, large volumes of sterile, healthy, disease-free, and genetically identical plantlets can be rapidly produced. Plant tissue culture eliminates systemic diseases in starting materials that can negatively impact yields and chemotype expression, while at the same time dramatically reducing the space required to maintain viable stock plants and produce healthy and uniform plants year-round.

Cannabis financial and operating results – continuing operations

Three months ended June 30		**2020**		**2019**
Cash used in operating activities	$	**(2,840,574)**	$	(827,511)
Per share - basic and diluted		**(0.01)**		(0.00)
Comprehensive loss		**(2,060,515)**		(2,175,526)
Per share - basic and diluted		**(0.00)**		(0.01)
Capital expenditures	$	**122,760**	$	1,518,661

During the three months ended June 30, 2020, cash used in operating activities from continuing operations was $2,840,574. Expenditures incurred primarily relate to the Company's first two commercial harvests which were successfully completed on March 2, 2020 and May 29, 2020, respectively. These expenditures include general and administrative expenses primarily due to salaries and wages to employees, professional fees, and other scale-up costs. During the three months ended June 30, 2019, cash used in operating activities from continuing operations was $827,511.

During the three months ended June 30, 2020, comprehensive loss from continuing operations was $2,060,515, primarily due to general and administrative expenses. During the three months ended June 30, 2019, comprehensive loss from continuing operations was $2,175,526.

expressed in Canadian dollars unless otherwise noted

Six months ended June 30		**2020**		**2019**
Cash used in operating activities	$	**(3,990,987)**	$	(975,045)
Per share - basic and diluted		**(0.01)**		(0.00)
Comprehensive loss		**(4,053,226)**		(2,459,727)
Per share - basic and diluted		**(0.01)**		(0.01)
Capital expenditures	$	**177,401**	$	4,069,974
As at June 30				
Total assets	$	**18,734,651**	$	15,773,327
Working capital (working capital deficiency)		**1,901,735**		(208,612)
Investment	$	**98,042**	$	205,830
Shares outstanding - end of period		**441,768,532**		358,896,457

During the six months ended June 30, 2020, cash used in operating activities from continuing operations was $3,990,987. Expenditures incurred primarily relate to the Company's first two commercial harvests which were successfully completed on March 2, 2020 and May 29, 2020, respectively. These expenditures include general and administrative expenses primarily due to salaries and wages to employees, professional fees, and other scale-up costs. During the six months ended June 30, 2019, cash used in operating activities from continuing operations was $975,045.

During the six months ended June 30, 2020, comprehensive loss from continuing operations was $4,053,226, primarily due to general and administrative expenses and interest expenses in connection with the convertible debenture unit offering. During the six months ended June 30, 2019, comprehensive loss from continuing operations was $2,459,727.

As of June 30, 2020, the Company had a total of 441,768,532 Common Shares, 34,156,667 stock options and 268,654,508 Warrants outstanding.

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

expressed in Canadian dollars unless otherwise noted

General and administrative expenses

Three months ended June 30,	**2020**	2019
General and administrative expenses	**$ 811,951**	$ 1,211,256

During the three months ended June 30, 2020, general and administrative expenses from continuing operations were $811,951. This is primarily due to salaries, wages and benefits to employees of approximately $407,000, consulting expenditures of approximately $36,000, professional fees of approximately $91,000, office lease expenditures of approximately $11,000 and other start-up costs. During the three months ended June 30, 2019, general and administrative expenses from continuing operations was $1,211,256. General and administrative expenses are primarily related to an increase in head count due to cultivation operations and one-time non-recurring charges during the three months ended June 30, 2020.

Six months ended June 30,	**2020**	2019
General and administrative expenses	**$ 2,221,722**	$ 2,243,122

During the six months ended June 30, 2020, general and administrative expenses from continuing operations were $2,221,722. This is primarily due to salaries, wages and benefits to employees of approximately $831,000, consulting expenditures of approximately $120,000, professional fees of approximately $291,000, office lease expenditures of approximately $44,000 and other start-up costs. During the six months ended June 30, 2019, general and administrative expenses from continuing operations was $2,243,122. General and administrative expenses are primarily related to an increase in head count due to cultivation operations and one-time non-recurring charges during the six months ended June 30, 2020.

Stock based compensation

Three months ended June 30,	**2020**	2019
Stock based compensation	**$ 121,247**	$ 425,685

Stock-based compensation expense recognized during the three months ended June 30, 2020 from prior period stock option grants was $121,247. During the three months ended June 30, 2019, stock-based compensation from continuing operations was $425,685.

Six months ended June 30,	**2020**	2019
Stock based compensation	**$ 280,500**	$ 635,821

Stock-based compensation expense recognized during the three months ended June 30, 2020 from prior period stock option grants was $280,500. During the three months ended June 30, 2019, stock-based compensation from continuing operations was $635,821.

expressed in Canadian dollars unless otherwise noted

Working capital

		June 30, 2020		December 31, 2019
Cash	**$**	**3,191,581**	$	1,077,741
Term deposit		**14,000**		14,000
Accounts receivable		**95,470**		81,744
Prepaid expenses, deposits and other		**423,237**		182,840
Inventory		**518,442**		-
Biological asset		**175,200**		70,072
Investment		**98,042**		-
Retail assets held for sale		**-**		866,514
Accounts payable and accrued liabilities		**(2,061,744)**		(1,640,159)
Pillar Capital Term loan		**-**		(1,972,050)
Current portion of lease obligations		**(142,297)**		(142,845)
Current portion of First Calgary Credit Facility		**(410,196)**		-
Retail lease liabilities held for sale		**-**		(598,021)
Working capital (1)	$	**1,901,735**	$	(2,060,164)

(1) Non IFRS measure

As at June 30, 2020, the Company had a working capital of $1,901,735, compared to working capital deficiency of $2,060,164 as at December 31, 2019, representing an increase of $3,863,857. Funds expended during the quarter were primarily directed towards general and administrative expenditures related to the Company's first two commercial harvest which was successfully completed on March 2, 2020 and May 29, 2020, respectively.

During the six months ended June 30, 2020, the Company closed the previously announced $5.03 million senior secured credit facility with First Calgary and paid in full the $2.04 million outstanding balance of the Pillar Credit Facility, therefore cancelling the arrangement with Pillar Capital Corp.

	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

First Calgary Credit Facility

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

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 existing debt facility with Pillar. The proceeds were used to repay the $2.04 million outstanding under the existing debt facility, for ongoing working capital purposes and to support the continued scale-up of its Stavely Facility.

expressed in Canadian dollars unless otherwise noted

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 the lender 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	-

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 incurred 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-rate values.

The Company issued to the agent who led the public offering 12,800,000 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.

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.

expressed in Canadian dollars unless otherwise noted

	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	-

Capital expenditures – cannabis

Description	Three months ended June 30, 2020	Three months ended June 30, 2019
Stavely facility & other	**122,760**	1,511,949
Computer equipment	-	6,712
	$ **122,760**	$ 1,518,661

During the three months ended June 30, 2020, the Company added $122,760 of property, plant and equipment (PP&E) related to its cannabis operations at the Stavely Facility.

Description	Six months ended June 30, 2020	Six months ended June 30, 2019
Stavely facility & other	**177,401**	4,061,586
Computer equipment	-	8,388
	$ **177,401**	$ 4,069,974

During the six months ended June 30, 2020, the Company added $177,401 of property, plant and equipment (PP&E) related to its cannabis operations at the Stavely Facility.

Commitments – cannabis

The following represents a maturity analysis of the Company 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

expressed in Canadian dollars unless otherwise noted

Historical quarterly information

	2020 Q2	2020 Q1	2019 Q4	2019 Q3
Comprehensive (loss) income – discontinued operations	-	-	-	-
Comprehensive loss – continued operations	(2,060,515)	(1,846,385)	(2,674,428)	(1,926,202)
Comprehensive income (loss) per share - basic – discontinued operations	-	-	-	-
Comprehensive loss per share - basic – continued operations	**(0.00)**	(0.00)	(0.01)	(0.01)
Capital expenditures	122,760	54,641	(1,281,000)	773,192
Total assets	18,734,651	14,731,402	16,497,425	16,651,735
Working capital (working capital deficiency) (1)	1,901,735	(3,582,215)	(2,060,164)	(2,605,142)
Shareholders' equity	$ 10,309,718	$ 9,865,527	$ 11,552,659	$ 12,329,807
Shares outstanding	441,768,532	393,768,532	393,768,532	358,896,457

(1) Non IFRS measure

	2019 Q2	2019 Q1	2018 Q4	2018 Q3
Comprehensive (loss) income – discontinued operations	-	-	(1,304,732)	127,073
Comprehensive income (loss) – continued operations	(2,175,526)	(284,201)	(6,193,095)	520,957
Comprehensive income (loss) per share – basic - discontinued operations	-	-	(0.01)	0.00
Comprehensive income (loss) per share - basic – continued operations	(0.01)	0.00	(0.03)	0.01
Capital expenditures	1,518,661	2,551,313	5,501,935	1,271,202
Total assets	15,773,327	16,964,161	17,416,770	18,005,648
Working capital (Working capital deficiency) (1)	(208,612)	1,702,409	4,492,342	2,354,868
Shareholders' equity	$ 13,940,695	$ 15,195,360	$ 15,262,525	$ 13,105,667
Shares outstanding	358,896,457	355,532,381	355,463,381	220,522,706

IFRS - This MD&A and the financial statements and comparative information have been prepared in accordance with IFRS.

NON-IFRS MEASURES - This MD&A provides certain financial measures that do not have a standardized meaning prescribed by IFRS. These non-IFRS financial measures may not be comparable to similar measures presented by other issuers. Working capital and working capital deficiency are not a recognized measure under IFRS. Management uses certain industry benchmarks, such as working capital to analyze financial and operating performance. These metrics are useful to investors and research securities analysts in evaluating operating performance. These benchmarks do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. Management believes that in addition to net income (loss), working capital (working capital deficiency) is a useful supplemental measure that demonstrates the Company's overall debt position and assess the Company's overall leverage position necessary to repay debt or fund future capital investment. Sugarbud's method of calculating this measure may differ from other companies and accordingly, may not be comparable to measures used by other companies. Working capital (working capital deficiency) is the total of cash plus term deposits accounts receivable and prepaids and deposits, less accounts payable, term loan and current portion of lease obligations. The calculation of the Company's working capital (working capital deficiency) can be seen on page 8 under the table titled "working capital".

READER ADVISORY REGARDING FORWARD LOOKING INFORMATION – Certain statements contained within this MD&A constitute forward-looking statements within the meaning of applicable Canadian securities legislation. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" , "budget, "outlook", "forecast" and similar expressions. The Company believes that the expectations reflected in such forward-looking statements are reasonable but no assurance can be given that such expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

Without limitation, this MD&A contains forward-looking statements pertaining to:

- the intentions of management and the Company;
- expectations as to future operations of the Company, including the completion, development and use of the Stavely Facility and costs thereof (including Phases 1a, 1b and 1c);
- expected cultivation capacity, yield and frequency at the Stavely Facility;
- construction of additional flower rooms and the scale thereof;
- product quality;
- cultivation equipment and technologies, including vertical growing;
- cost of construction and sources and availability of funds;
- expectations as to future cannabis production and sales by the Company;
- expectations as to the size and value of the medical cannabis and recreational cannabis markets in Canada;
- the Company's anticipated financial performance;
- the Company's future development and growth prospects;
- the Company's expected operating costs, general and administrative costs, costs of services and other costs and expenses;
- the Company's ability to generate cash flow from operations;
- the Company's ability to meet current and future obligations;
- the Company's ability to obtain equipment, services and supplies in a timely manner;
- the supply agreements and partnerships with Segra;
- cannabis cultivation in Sugarbud's newly licensed grow rooms;
- future expanded product offerings, including oils;
- total shareholder return; and
- future acquisitions.

Forward-looking statements and other information contained herein concerning the cannabis industry and the Company's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from market research and industry analysis and on assumptions based on data and knowledge of these industries which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Company is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors. With respect to the forward-looking statements contained in this MD&A, Sugarbud has made assumptions regarding, among other things:

- the global public health crises in respect of the outbreak of a novel strain of coronavirus ("COVID-19"), including volatility and disruptions in global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people;
- the impact of increasing competition;
- availability of skilled labour, services and equipment;
- timing and amount of capital expenditures;
- the use of proceeds from completed and proposed financings;
- product quality; and the genotyping and tissue culture agreement with Segra, including the benefits thereof;
- the legislative and regulatory environments of the jurisdictions where the Company will carry on business, has operations or plans to have operations and the continuation of the current tax and regulatory regime;
- availability of cannabis products from licensed producers and the distribution thereof by governmental entities;
- the ability of the Company to enter into contracts with target companies;
- the ability of the Company to obtain qualified staff and services in a timely and cost-efficient manner;
- conditions in general economic and financial markets; and
- the Company's ability to obtain additional financing on satisfactory terms.

Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated or implied by such forward-looking statements due to a number of factors and risks. These include:

- the material uncertainties and risks described under the headings "Non-IFRS Measures", "Disclosure controls and procedures", "Internal control over financial reporting", "Critical Accounting Estimates" and "Risk Factors";
- the material assumptions and observations described under the headings "Operating and Financial Update", "Applicable regulations", "Cannabis financial and operating results – continuing operations", "Investment", "General & administrative expenses", "Stock based compensation", "Working capital", "Capital expenditures – cannabis" and "Commitments – cannabis";
- failure to realize the anticipated benefits of acquisitions, investments and dispositions;
- success of the operations of the Company;
- the ability of management to execute its business plan, including its cannabis-focused investment strategy;
- legislative and regulatory environments of the jurisdictions where the Company will carry on business or have operations;
- the affect consumer perception of the medical-use and adult-use of cannabis will have on the market price of cannabis-related products;
- impact of competition and the competitive response to the Company's business strategy;
- the risks of the cannabis industry, such as regulatory risks and increasing competition;
- actions taken by governmental authorities, including increases in taxes and changes in government regulations and incentive programs;
- risks inherent in marketing operations, including credit risk;

- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- timing and amount of capital and other expenditures; and
- conditions in financial markets and the economy generally, including the global public health crises in respect of the outbreak of COVID-19.

Readers are cautioned that the foregoing list of risk factors is not exhaustive. The risk factors above should be considered in the context of current economic conditions, the attitude of lenders and investors towards corporations in the cannabis industry, potential changes to royalty and taxation regimes and to environmental and other government regulations, the condition of financial markets generally, as well as the stability of joint venture and other business partners, all of which are outside the control of the Company. Also to be considered are increased levels of political uncertainty and possible changes to existing international trading agreements and relationships. Additional information on these and other factors that could affect the business, operations or financial results of Sugarbud are included in reports on file with applicable securities regulatory authorities, including, but not limited to, Sugarbud's annual information form for the year ended December 31, 2019, which may be accessed on Sugarbud's SEDAR profile at www.sedar.com or on the Company's website at www.sugarbud.ca.

The forward-looking statements contained in this MD&A are made as of the date hereof and Sugarbud undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

FOFI Disclosure. This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Sugarbud's future financings, prospective operations, future cannabis production capacity, revenue, working capital, cash flow, expenses, profit and components thereof, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs. FOFI contained in this MD&A was approved by management as of the date of this MD&A and was provided for the purpose of providing further information about Sugarbud's anticipated future business operations. Sugarbud disclaims any intention or obligation to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Disclosure controls and procedures - Disclosure controls and procedures have been designed to ensure that information to be disclosed by Sugarbud is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures. The Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures, as defined by National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109"), to provide reasonable assurance that (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. All control systems by their nature have inherent limitations and, therefore, the Company's disclosure controls and procedures are believed to provide reasonable, but not absolute, assurance that the objectives of the control system are met.

Internal control over financial reporting - The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting, as defined by NI 52-109. Internal controls over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met. There were no changes made to Sugarbud's internal controls over financial reporting during the period beginning on January 1, 2020, and ending on June 30, 2020, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if revision affects current and future periods.

Significant judgments, estimates and assumptions that have the most significant impact on the amounts recognized in the Financial Statements are consistent with those applied in the annual consolidated financial statements, except for those described in Notes 2 and 3 of the Financial Statements.

RISK FACTORS

Business Risks - The Company's current operations consist of an emerging medical and adult-use cannabis business focused on cultivation. There are a number of inherent risks associated with cannabis cultivation and sales. Many of these risks are beyond the control of the Company.

The medical and recreational marijuana industry in Canada is in its early development stage and restrictions on sales and marketing activities imposed by Health Canada, AGLC, various medical associations, other governmental or quasi-governmental bodies or voluntary industry associations may adversely affect the Company's ability to conduct sales and marketing activities and could have a material adverse effect on the Company's business, operating results or financial condition.

The Company's cannabis operations and investments may not be able to maintain the necessary cultivation and sales licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate their respective businesses. In addition, the Company's operations and investments may not be able to comply fully with the wide variety of laws and regulations applicable to the cannabis industry. Failure to comply with or to obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on the Company's or an investment's ability to operate in the cannabis industry, which could have a material adverse effect on the Company's business.

The Company's current activities and resources are principally in the Stavely Facility and are expected to continue to be focused on this facility for the foreseeable future. Adverse changes or developments affecting this facility could have a material and adverse effect on the Company's ability to produce cannabis, its business, financial condition and prospects. The Company's business involves the growing of cannabis, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company grows its products indoors under climate-controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on the volume, quality and consistency of its products.

Management of the Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of cannabis sold. Consumer perception of cannabis products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the recreational cannabis industry or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis products or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Further, the parties with which the Company conducts business may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities. Affected relationships could include, without limitation, those with real estate personnel, marketers and bankers. For example, the Company may in the future have difficulty establishing or maintaining bank accounts or other business relationships with firms choosing to not invest in the cannabis industry. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

The Company's participation in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, provincial, or local governmental authorities against the Company or its activities. Litigation, complaints, and enforcement actions involving either the Company or its activities could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

Regulatory Risks - Regulatory risks include the possibility of changes to cannabis, tax, environmental and safety legislation. Sugarbud endeavors to anticipate the costs related to compliance and budget sensibly for them. Restrictive new legislation is a risk the Company cannot control.

Operations and investments in the cannabis industry are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage, sale, health, safety and disposal of cannabis, including the Federal Cannabis Act and the Federal Regulations. Participants in the cannabis industry are also subject to laws and regulations relating to health and safety (including those for consumable products), the conduct of operations and the protection of the environment. These laws and regulations are broad in scope, subject to evolving interpretations and may change in ways currently unforeseen by the Company. If any changes to such laws, regulations and guidelines occur, which are matters beyond the control of the Company, Sugarbud's operations and investments in the industry may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operation. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's cannabis-focused growth strategy and result in a material adverse effect on certain aspects of its operations.

The Federal Cannabis Act and the Federal Regulations prohibit testimonials, lifestyle branding and packaging that is appealing to youth. The restrictions on advertising, marketing and the use of logos and brand names could have a material adverse impact on the Company's proposed business, financial condition and results of operation.

The legislative framework pertaining to the Canadian recreational cannabis market and the impact thereof remains uncertain. The governments of every Canadian province and territory have, to varying degrees, announced proposed regulatory regimes for the distribution and sale of cannabis for recreational use within those jurisdictions. There is no guarantee that provincial legislation regulating the distribution and sale of cannabis for recreational use will be enacted according to all the terms announced by such provinces and territories, or at all, or that any such legislation, if enacted, will create the growth opportunities that the Company currently anticipates. Any of the foregoing could result in a material adverse effect on the Company's business, financial condition and results of operations.

Competition Risks - The Company faces intense competition from other companies, some of which have more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company. To date, the Canadian government has only issued a limited number of licenses under the Federal Cannabis Act and Federal Regulations to produce and sell cannabis. The number of licenses granted could have an impact on the business, financial condition and operating results of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. The Company also faces competition from illegal cannabis dispensaries that are selling cannabis to individuals despite not having a valid license. Many illegal dispensaries are still in operation, providing the Company with additional competition. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and operating results of the Company.

COVID-19 Outbreak - In December 2019, COVID-19 emerged in Wuhan, China. Since then, it has spread to many other countries and infections have been reported around the world. Canada confirmed its first case of COVID-19 on January 25, 2020 and its first death related to COVID-19 on March 9, 2020. On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. In response to the outbreak, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place and social distancing. The COVID-19 outbreak and the response of governmental authorities to try to limit it are having a significant impact on the private sector and individuals, including unprecedented business, employment and economic disruptions.

The continued spread of COVID-19 nationally and globally could have an adverse impact on the Company's business, operations and financial results, including through disruptions in labour inputs and cultivation and processing activities, supply chains and sales channels. In response to the COVID-19 pandemic, the Company has implemented precautionary measures at the Facility to ensure the safety of its staff and product consumers, including limiting visits to essential personnel and ensuring proper protocols around sanitation and social distancing. These measures and similar measures taken by other businesses may adversely impact the Company's labour productivity and its supply chains. In addition, the COVID-19 pandemic is impacting cannabis retail sales channels and may adversely affect the Company's ability to successfully market and sell its products. While cannabis retail was initially declared an essential service in many provinces, the situation is fluid and unpredictable. Moreover, sales volumes of cannabis may be adversely impacted by consumer "social distancing" behaviours. What further impact, if any, the COVID-19 pandemic may have on cannabis retail markets is unpredictable. The COVID-19 pandemic may also negatively impact service levels with Health Canada, which licences and regulates the Company's operations. The continued spread of COVID-19 nationally and globally could also lead to a deterioration of general economic conditions including a possible national or global recession. Due to the speed with which the COVID-19 situation is developing and the uncertainty of its magnitude, outcome and duration, it is not possible to estimate its impact on our business, operations or financial results; however, the impact could be material.

NOTE: In this report all currency values are in Canadian dollars (unless otherwise noted). Figures, ratios and percentages in this MD&A may not add due to rounding.

Officers & Directors

John Kondrosky
President and Chief Executive Officer
Calgary, Alberta

Chris Moulson
VP, Finance and Chief Financial Officer
Calgary, Alberta

Daniel T. Wilson (1,2,3)
Chairman
Calgary, Alberta

Janice Comeau (1)
Director
Vancouver, British Columbia

Stephen Martin
Director
Denver, Colorado

Joseph Dietrich
Special Advisor
Calgary, Alberta

Ian Miller
Special Advisor
Denver, Colorado

[1] Member of the Audit Committee
[2] Member of the Compensation Committee
[3] Member of the Governance Committee

Corporate Information

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Stock Listing
TSX Venture Exchange
Trading Symbols: SUGR, SUGR.WT, SUGR:DB, SUGR.WS