MEDCOLCANNA (BVI), INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019

NOTICE OF NO AUDITORS' REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim condensed financial statements of Medcolcanna (BVI), Inc. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

MEDCOLCANNA (BVI) INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, expressed in Canadian Dollars)	**March 31, 2019**	**December 31, 2018**
Assets		
Current Assets		
Cash and cash equivalents	**106,615**	628,618
Restricted cash (Note 8)	**7,305,430**	3,178,260
Accounts receivable	**20,250**	18,000
Due from related parties (Note 14)	**187,587**	22,533
Prepaids	**20,200**	3,413
	7,640,082	3,850,824
Non-Current Assets		
Property plant and equipment (Note 9)	**373,430**	50,384
Right-of-use assets (Note 10)	**370,276**	-
Intangible assets (Note 11)	**147,500**	148,868
Total Assets	**8,531,288**	4,050,076
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**676,086**	238,163
Due to related parties (Note 14)	**-**	48,810
Short-term loans (Note 12(b))	**332,532**	-
Current portion of lease liabilities (Note 10)	**81,052**	-
	1,089,670	286,973
Non-current Liabilities		
Lease liabilities (Note 10)	**290,112**	-
Total Liabilities	**1,379,782**	286,973
Shareholders' Equity		
Share capital (Note 13)	**1,135,399**	1,102,584
Subscription receipts (Note 8)	**6,996,402**	3,093,786
Warrants (Note 13)	**79,729**	79,729
Compensation options (Note 13)	**83,117**	26,770
Deficit	**(1,142,323)**	(538,482)
Accumulated other comprehensive loss	**(818)**	(1,284)
Total Shareholders' Equity	**7,151,506**	3,763,103
Total Liabilities and Shareholders' Equity	**8,531,288**	4,050,076

Related party transactions (Note 14)

Commitments (Note 16)

Subsequent Events (Note 18)

See accompanying notes to the interm condensed consolidated financial statements.

MEDCOLCANNA (BVI) INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the three months ended March 31, 2019

(Unaudited, expressed in Canadian Dollars)	**2019**
Expenses	
Pre-operating expenses	46,200
Professional fees	225,794
General and administrative	81,422
Salaries, wages, and benefits	118,903
Depreciation (Note 10)	21,396
Transaction costs	103,302
Business development	2,143
Finance expense	3,348
Foreign exchange loss	1,333
	603,841
Loss before income taxes	(603,841)
Current and deferred income tax	-
Net loss	**(603,841)**
Other Comprehensive Income	
Foreign Currency Translation Adjustment	466
Comprehensive loss	**(603,375)**
Loss per share - basic and diluted (Note 13)	(0.01)
Weighted average number of shares outstanding	41,788,215

See accompanying notes to the interm condensed consolidated financial statements.

MEDCOLCANNA (BVI) INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited, expressed in Canadian Dollars)	**Common Shares**	**Share Capital** (Note 13)	**Warrants** (Note 13)	**Subscription Receipts** (Note 8)	**Compensation Options** (Note 13)	**Deficit**	**AOCL**[(1)]	**Total**
Balance at incorporation (July 10, 2018)	50,000	-	-	-	-	-	-	-
Shares cancelled	(50,000)	-						-
Shares issued	32,000,000	32,000						32,000
Shares issued for September 2018 placement	7,362,659	643,883						643,883
Share issuance costs		(10,347)						(10,347)
Warrants issued September 2018 placement			18,758					18,758
Warrant issuance costs			(301)					(301)
Shares issued for December 2018 placement	2,000,000	438,276						438,276
Share issuance costs		(1,228)						(1,228)
Warrants issued for December 2018 placement			61,724					61,724
Warrant issuance costs			(452)					(452)
Subscription receipts issued				3,480,500				3,480,500
Subscription issuance costs				(359,944)				(359,944)
Compensation options issued				(30,554)	30,554			-
Net loss for the period						(538,482)		(538,482)
Other comprehensive income							(1,284)	(1,284)
Balance at December 31, 2018	**41,312,659**	**1,102,584**	**79,729**	**3,090,002**	**30,554**	**(538,482)**	**(1,284)**	**3,763,103**
Shares issued for March 2019 placement	400,000	36,000						36,000
Share issuance costs		(3,185)						(3,185)
Subscription receipts issued				4,266,200				4,266,200
Subscription issuance costs				(307,237)				(307,237)
Compensation options issued				(52,563)	52,563			-
Net loss for the period						(603,841)		(603,841)
Other comprehensive income							466	466
Balance at March 31, 2019	**41,712,659**	**1,135,399**	**79,729**	**6,996,402**	**83,117**	**(1,142,323)**	**(818)**	**7,151,506**

(1) Accumulated other comprehensive loss

See accompanying notes to the interm condensed consolidated financial statements.

MEDCOLCANNA (BVI) INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three months ended March 31, 2019

(Unaudited, expressed in Canadian Dollars)	**2019**
Operating activities	
Net loss	(603,841)
Adjustments for:	
Depreciation (Note 10)	21,396
Interest on loans	2,532
Unrealized FX gain	(316)
Change in non-cash working capital (Note 17)	259,328
Cash used in operating activities	**(320,901)**
Investing activities	
Expenditures on property, plant & equipment	(325,449)
Cash used in investing activities	**(325,449)**
Financing activities	
Issue common shares, net of issue costs	32,815
Change in related party debt	(209,584)
Change in short-term loans (Note 12(b))	330,000
Change in restricted cash	(6,131)
Principal portion of lease payments (Note 10)	(20,502)
Change in non-cash working capital (Note 17)	(2,250)
Cash generated from financing activities	**124,348**
Net decrease in cash	**(522,002)**
Effects of variation in the exchange rate on cash	(1)
Cash, beginning of period	628,618
Cash, end of period	**106,615**

See accompanying notes to the interm condensed consolidated financial statements.

1. NATURE OF OPERATIONS

Medcolcanna (BVI), Inc. (the "Company" or "MCC") was incorporated July 10, 2018 as Geberi, Ltd. under the laws of the British Virgin Islands. The Company filed articles of amendment effective August 28, 2018, and changed its name to Medcolcanna (BVI), Inc.

MCC is the parent company of its wholly owned subsidiary, Medcolcanna S.A.S., which is located in Bogota, Colombia. Medcolcanna S.A.S. is licensed to grow psychoactive and non-psychoactive cannabis in Colombia with its cultivation facility and manufacture cannabis products anywhere in Colombia.

On July 24, 2018, the Company closed the acquisition of Medcolcanna S.A.S. The transaction was accounted for as an asset acquisition (Note 7(a)).

2. GOING CONCERN

These interim condensed consolidated financial statements (the "Financial Statements") have been prepared on a going concern basis, which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of operations for the foreseeable future. Since incorporation, the Company has incurred a net loss with no revenue-generating operations, which were primarily financed from proceeds received through loans and issuance of share capital. As at March 31, 2019, the Company maintains working capital of $6,550,412. However, this working capital balance includes $7,305,430 in restricted cash that is in escrow until the completion of the transaction outlined in Note 7(c).

As the Company has no assets currently generating cash flow, it will continue to exhaust its remaining financial resources to fund existing operations for the foreseeable future. These conditions indicate the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern as it will be contingent upon the Company's ability to successfully identify and procure necessary capital, which may be by way of strategic transactions to obtain financing and/or generate profitable operations that are beneficial to the Company and its shareholders.

Management believes that the going concern assumption is appropriate for these Financial Statements and that the Company will be able to meet its budgeted administrative costs during the upcoming year and beyond when considering the Company's current financial forecast. However, there is no certainty as to the timing and likelihood of realizing a strategic transaction that would provide additional financial resources beyond those currently retained by the Company. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, these Financial Statements would require adjustments to the amounts and classifications of assets and liabilities.

3. BASIS OF PREPARATION

Statement of compliance

These Financial Statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These Financial Statements follow the same accounting policies and method of computation as the Company's annual financial statements for the year ended December 31, 2018, with the exception of certain disclosures that are normally required to be included in annual financial statements which have been condensed or omitted. These Financial Statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2018.

Basis of measurement

These Financial Statements have been prepared on a going concern basis, under the historical cost methodology, and were authorized for issue by the Board of Directors on May 30, 2019.

Functional and presentation currency

The functional currency of the Company is the Canadian dollar. The functional currency of the Colombian subsidiary is the Colombian Peso ("COP"). The consolidated financial statements and notes to the financial statements are expressed and presented in Canadian dollars unless otherwise stated.

Transaction in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the date of such transaction. At each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rate at the reporting date. Foreign exchange gains and losses are recognized in the statement of loss and comprehensive loss.

At the financial reporting date, the Colombian subsidiary's assets and liabilities are translated at the reporting period exchange rate, while revenues, expenses and cash flows are translated at the average exchange rate for the period. Shareholders' equity is translated at the rate effective at the time of the transaction. The resulting translation adjustments are recognized in other comprehensive income (loss) ("OCI") and in accumulated OCI in shareholders' equity.

Basis of consolidation

The Financial Statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. As of March 31 2019, the only subsidiary of MCC is Medcolcanna S.A.S., which is incorporated under the jurisdiction of Colombia and is wholly owned by MCC.

All transactions and balances between companies are eliminated on consolidation. Each entity within the consolidated group determines its own functional currency and items included in the financial statements of each entity are measured using the functional currency.

4. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less.

Property Plant & Equipment ("PP&E")

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statement of loss and comprehensive loss in the period the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial period end, and adjusted if appropriate. PP&E is depreciated through profit and loss over their estimated useful lives. Assets under construction are not subject to depreciation as they are not ready for use.

Intangible assets

Intangible assets are recognized as such if it is probable that future economic benefits attributable to the asset will flow to the Company and their cost can be reasonably measured.

Intangible assets that are acquired by the Company, which have definite useful lives, are measured at cost less accumulated amortization and impairment losses. These intangible assets are comprised of license costs and costs related to the retention of the licenses and authorizations for the recreational and cannabinoids extraction projects. These intangible assets are amortized through profit or loss on a straight-line basis over their estimated useful lives estimated to be five years for license costs and ten years for costs related to the retention of licenses, respectively, from the beginning of operations.

For licenses and permits that are classified as intangible assets with an indefinite life, no amortization is recognized but impairment tests on such licenses are carried out on an annual basis. This would apply to licenses and permits that do not expire and, as such, there is no foreseeable limit to the period over which these assets are expected to generate future cash inflows to the Company.

Impairment of non-financial assets

The Company reviews and evaluates impairment of its non-financial assets subject to depreciation and amortization whenever events or changes in circumstances occur that indicates that the carrying amount of the asset will not be recovered from its use or sale. An impairment loss is recognized for the amount by which the carrying amount of the assets exceeds the higher of its fair value and value in use. Fair value is the amount that can be obtained from the sale of an asset in an open market. The value in use corresponds to the present value of the estimated future cash flows expected to be obtained from the continuing use of the asset and from its sale at the end of its useful life. Impairment losses recognized in previous years are reversed if there is a change in the estimates used on the last time an impairment loss was recognized.

Financial instruments

The company classifies and measures its financial instruments as follows:

- Cash and cash equivalents – classified as fair value through profit and loss ("FVTPL") and measured at fair value
- Accounts receivable – classified at amortized costs and measured at amortized cost
- Due from related party – classified at amortized costs and measured at amortized cost
- Accounts payable and accrued liabilities - classified at amortized costs and measured at amortized cost
- Short-term loan - classified at amortized costs and measured at amortized cost

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. On initial recognition, the Company may irrevocably designate a financial asset that meets the amortized cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of income and comprehensive income. Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition.

All financial instruments are initially recognized at fair value. For financial assets and liabilities not classified as FVTPL, transaction costs directly attributable to the acquisition or issuance of the financial assets or financial liabilities are recognized with the asset or liability. Transaction costs of financial assets and liabilities carried at FVTPL are expensed in profit or loss

Impairment of financial assets

The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Segment reporting

According to IFRS 8, operating segments are identified based on the ‘management approach’. This approach stipulates external segment reporting based on the Company’s internal organizational and management structure and on internal financial reporting to the chief operating decision maker. Management of the Company is responsible for measuring and steering the business success of the segments and is considered the chief operating decision maker within the meaning of IFRS 8. The company operates in one segment being the operations of cannabis cultivation facilities in Colombia

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income (loss).

Current tax

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income (loss) or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

New standards adopted on January 1, 2019

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on or after January 1, 2019 or later periods.

IFRS 16 Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16 "Leases", which provides guidance on accounting for leases. The new standard replaced IAS 17 "Leases" and related interpretations. IFRS 16 eliminates the distinction between operating leases and financing leases for lessees and generally requires balance sheet recognition for all leases. Certain short-term (less than 12 months) and low-value leases (as defined in the standard) are exempt from the requirements, and the Company continues to treat these leases as expenses.

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach with no impact to opening retained earnings at the date of adoption. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption, the Company elected to use the following practical expedients permitted under IFRS 16:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases; and
- Account for lease payments as an expense and not recognize a right-of-use asset if the leased asset is of a low dollar value (less than US$5,000).

On adoption of IFRS 16, the Company recognized a lease liability in relation to rural property that is used for the cannabis operations. The lease has been measured at the present value of the remaining lease payments, discounted using the discount rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The Company's incremental borrowing rate was estimated at approximately 15.0 percent. Total lease liabilities of $255,960 were recorded as at January 1, 2019. Refer to Note 16 for a reconciliation of lease liabilities recognized on January 1, 2019 to operating lease commitments disclosed at December 31, 2018.

The associated right-of-use assets were measured in an amount equal to the corresponding lease liability on the statement of financial position as at January 1, 2019. Refer to Note 10 and Note 16 for additional information regarding the right-of-use asset.

The impact on adoption is as follows:

	Reported amount at December 31, 2018	IFRS 16 Adjustment	Balance as at January 1, 2019
Assets			
Right-of-use asset	-	255,960	255,960
Liabilities			
Lease liability	-	255,960	255,960

Effective January 1, 2019, the Company adopted the following accounting policy:

The Company assesses whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
A lease liability is recognized at the commencement of the lease term at the present value of the lease payments.

Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. Payments are discounted using the implicit rate within the lease, when readily available, or the Company's incremental borrowing rate when the rate implicit is not known. The Company applies a single discount rate for a portfolio of leases with reasonably similar characteristics.

The lease liability is measured at amortized cost using the effective interest rate method. The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the assessment of whether the Company will exercise a purchase, extension, or termination option that is within the Company's control.

Upon recognition of a lease liability at the lease commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability. Depreciation is recognized on the right-of-use asset on a straight-line basis, over the shorter of the estimated useful life of the asset or lease term over the lease term.

Leases with terms of less than twelve months and leases for which the underlying asset is of low value (US$5,000) are recognized as an expense in the financial statements on a straight-line basis over the lease term.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. 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 the review affects both current and future periods.

Impairment testing

At the date of each statement of financial position, the Company reviews the carrying amounts of its finite-life intangible assets carried at cost to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Valuation of deferred income tax assets

The Company assesses the probability of taxable profits being available in the future based on its budget forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When a forecast shows a net profit, the Company considers that the use of deferred income taxes is probable and recognizes the benefit. When management believes that the benefits will not be realized, the deferred income tax asset is not recognized.

Warrants and compensation options

All warrants and compensation options issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation and warrants, estimates have to be made regarding the expected volatility in share price, instrument life, dividend yield, risk-free rate, estimated life and estimated forfeitures at the initial grant date.

Lease liabilities and right-of-use assets

A lease liability and a corresponding right-of-use asset is recognized at the commencement of the lease term at the present value of the lease payments. The Company uses the implicit rate within the lease, if readily available, or the incremental borrowing rate when the rate implicit is not known. The discount rate is based on judgements including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term. The lease term is also subject to certain assumptions including, the Company's intent regarding extension and termination options of a lease.

6. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

As of March 31, 2019, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, due from related parties, accounts payable and accrued liabilities, and short-term loans. The fair values of these financial instruments approximate their carrying values due to the short-term maturity of these instruments.

The Company characterizes its fair value measurements of financial instruments into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the assets or liabilities either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

A financial instrument is classified to the lowest level hierarchy for which a significant input has been used in measuring fair value.

The company measures cash and cash equivalents at fair value. These financial instruments are classified as level 1 inputs in the fair value hierarchy.

Financial risk management

The Company's activities are exposed to a variety of financial risks in the normal course of business. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize the Company's capital costs by using suitable means of financing and to manage and control the Company's financial risks effectively.

The principal financial risks arising from financial instruments are liquidity risk, credit risk, and capital risk.

Liquidity risk

As at March 31, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities and short-term loans, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's working capital position at March 31, 2019, management regards liquidity risk to be low.

Foreign Currency Risk

The Company's functional and reporting currency is the Canadian dollar but is exposed to foreign currency risk with respect to the expenditures incurred by its Colombian subsidiary, Medcolcanna S.A.S. For period ending March 31, 2019, the foreign currency risk exposure was not considered to have a significant impact on the Company.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its contractual obligations. Financial instruments subject to credit risk include cash and cash equivalents, accounts receivables, and amounts due from related parties.

As of March 31, 2019, the Company's management considers the Company's receivables do not have non-collectable accounts because they do not have significant credit risk.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk on cash and cash equivalents. The Company is also exposed to interest rate risk on promissory notes and short-term loans that may be issued. Promissory notes issued were interest-free loans. Short-term loans received are for a period of less than one year. As such, fluctuations of interest rates for the period ending March 31, 2019 would not have had a significant impact on the consolidated financial statements.

7. CORPORATE TRANSACTIONS

a) Medcolcanna S.A.S.

On July 24, 2018, the Company acquired from a related party (a Colombian Company controlled by shareholder) all of the issued and outstanding shares of Medcolcanna S.A.S. in exchange for a promissory note of $65,785 (US$50,000) to be paid within 2 months of the date of the sale agreement (the "Acquisition"). Furthermore, costs related to this transaction were comprised of success fees of $130,160 (US$100,000) owed to a third-party consultant of the Company. A promissory note was issued to the third-party consultant to be paid within 90 days of the issuance of the promissory note. The total consideration paid was $195,945 (US$150,000).

The transaction was accounted for using the asset acquisition method of accounting. The fair values assigned to the net assets and liabilities and consideration paid are as follows:

Licenses	148,868
Accounts receivable	53,465
Accounts payable and accrued liabilities	(6,388)
Total consideration	**195,945**

The results of the Acquisition have been included in the accounts of the Company commencing July 24, 2018.

b) Canada Coal Inc.

On July 24, 2018, the Company entered into a Letter of Intent with Canada Coal Inc. ("CCK") whereby terms for the acquisition of 100% of the common share of MCC by CCK were outlined (the "Transaction"). The proposed Transaction will result in the shareholders of the Company receiving common shares in CCK as consideration, using a ratio of one CCK common share being issued for each existing MCC common share.

The completion of the Transaction is conditional upon the satisfaction of a number of conditions that are in the process of being fulfilled, and are as follows:

- Consent being received by all necessary parties
- CCK having completed satisfactory due diligence on the business and operations of the Company.

- Approval to the terms of the transaction by all pertinent regulatory authorities
- The finalization of the definitive agreement which incorporates the terms proposed within the Letter of Intent

In July 2018, in accordance with the Letter of Intent, CCK made payment of $32,750 (US$25,000) to the Company under the provisions of an exclusivity fee, providing 60 days of exclusivity to CKK after the signing of the Letter of Intent to complete a definitive agreement.

On October 12, 2018 MCC sent formal communication to CKK to terminate its proposed business combination given the Letter of Intent had already expired.

c) Integrated Energy Storage Corp.

On December 5, 2018, the Company entered into a definitive agreement with Integrated Energy Storage Corp (“IES”) whereby terms for the acquisition of 100% of the common share of MCC by IES were outlined (the “Transaction”). IES is a Canadian reporting issuer that has not had any active business to date. The Transaction will be effected by way of a share exchange. Pursuant to the proposed Transaction, the holders of the issued and outstanding common shares of MCC (each, a “Medcolcanna Share”) shall receive one common share in the capital of IES (each, an “IES Common Share”) for each Medcolcanna Share held. Finalization of the Transaction took place subsequent to March 31, 2019, details of which are described below in Note 18.

IES was to complete a non-brokered offering of shares in order to meet a closing condition of the Transaction that it have not less than $1,000,000 of available cash, after deducting all fees associated with the Transaction (such as legal, audit, printing and mailing costs, etc.) (the “IES Offering”). Pursuant to the Transaction definitive agreement, MCC has the ability to borrow funds raised in the IES Offering for general working capital purposes until the closing of the Transaction, subject to granting a security interest in the assets of MCC as collateral for such loan.

8. SUBSCRIPTION RECEIPTS & RESTRICTED CASH

Subscription Receipts

As of March 31, 2019, MCC completed a brokered private placement accumulating to 30,986,800 subscription receipts (the “Subscription Receipts”) at a price of $0.25 per Subscription Receipt for gross proceeds of $7,746,700 (the “Offering”). The subscription agreement for these Subscription Receipts specifies that the closing of the underlying subscriptions (described in Note 18) is conditional upon the closing of the Transaction with IES.

As at December 31, 2018, $3,480,500 of gross proceeds towards Subscription Receipts had been received by the Company. Total costs of $390,498 were allocated to these Subscription Receipts ($30,554 in the form of Compensation Options to agents and $359,944 in other incurred costs) were recognized as of December 31, 2018. During the three months ending March 31, 2019, a further $4,266,200 of gross proceeds towards Subscription Receipts was received by the Company, coming to the cumulative total of $7,746,700 in gross proceeds. Total costs of $359,800 were allocated to these additional Subscription Receipts ($52,563 in the form of Compensation Options to agents and $307,237 in other incurred costs) and recognized as of March 31, 2019.

Each Subscription Receipt entitles the holder thereof to receive one unit in the capital of MCC (a “Unit”). Each Unit consists of one Medcolcanna Share and one-half of one Medcolcanna Share purchase warrant. Upon completion of the Transaction, each Medcolcanna Share and Medcolcanna Share purchase warrant shall be exchanged, without further consideration, for equivalent securities (shares and warrants) in the capital of IES. Following the exchange, each warrant shall entitle the holder thereof to acquire one common share of the IES at a price of $0.40 per share for a period of 24 months following issuance.

Restricted Cash

As of March 31, 2019, $7,305,430 was held under escrow in accordance with the terms of the governing agreement of the Subscription Receipts. This cash balance is presented as restricted given management does not have access or authority to these underlying balances under escrow until such time that the Transaction closes.

The restricted cash of $7,305,430 differs from the cash received on the Subscription Receipts of $7,746,700 due to amounts paid as transaction fees and commissions associated with the Subscription Receipts.

9. PROPERTY, PLANT & EQUIPMENT ("PP&E")

The components of the Company's property, plant and equipment ("PP&E") assets are as follows:

	Agricultural Facilities	Laboratory Equipment	Office Equipment	Total
Balance at incorporation (July 10, 2018)	-	-	-	-
Capital additions	49,986	-	-	49,986
Foreign currency translation	398	-	-	398
Balance at December 31, 2018	50,384	-	-	50,384
Capital additions	304,920	20,523	31,017	356,460
Foreign currency translation	(33,043)	(148)	(223)	(33,414)
Balance at March 31, 2019	**322,261**	**20,375**	**30,794**	**373,430**

No depreciation on PP&E has been recognized to date as the underlying assets are not yet available for use.

10. RIGHT-OF-USE ASSET AND LEASE LIABILITIES

The Company recognized right-of-use assets and corresponding lease liabilities relating to a property lease agreement and a commercial-use office lease. Further details regarding the lease agreements have been disclosed in Note 16.

Right-of-use assets

	Property	Office	Total
Balance at January 1, 2019	255,960	-	255,960
Additions	-	135,085	135,085
Depreciation	(13,830)	(7,566)	(21,396)
Foreign currency translation	445	182	627
Balance at March 31, 2019	**242,575**	**127,701**	**370,276**

Lease liabilities

	Property	Office	Total
Balance at January 1, 2019	255,960	-	255,960
Additions	-	135,085	135,085
Payments	(12,820)	(7,681)	(20,501)
Foreign currency translation	438	182	620
Balance at March 31, 2019	**243,578**	**127,586**	**371,164**

Current vs non-current lease liabilities

The current and non-current portions of the lease liabilities are presented below:

	Property	Office	Total
Current portion	42,027	39,025	81,052
Non-current portion	201,551	88,561	290,112
Balance at March 31, 2019	**243,578**	**127,586**	**371,164**

11. INTANGIBLE ASSETS

On June 22, 2018, Medcolcanna S.A.S. was granted a license to produce, manufacture, market and export cannabis derivatives and products using extracts in Colombia by the Ministry of Health.

The balance of $148,868 for intangible assets recognized as of March 31, 2019 (December 31, 2018 - $148,868) is attributed to the fair value assessed to the license assets at the time of the Acquisition, which is considered to have an indefinite life as there is no foreseeable limit to the period over which these assets are expected to generate future cash inflows to the Company. As such, no amortization is recognized on these assets. However, impairment tests are carried out on an annual basis, unless new facts and circumstances arise to suggest impairments indicators exist at a specific point in time.

12. PROMISSORY NOTES & LOANS

a) Promissory Notes

During the period ended December 31, 2018, the Company issued non-interest bearing promissory notes to certain parties in connection with the Acquisition of Medcolcanna S.A.S. (see Note 7(a)). The terms of the promissory notes and balances outstanding as of December 31, 2018 were as follows:

i. The promissory note for the principal amount of $67,785 (US$50,000) specified an interest-free period for two months from issuance of the note, payable upon maturity. The promissory note was paid in its entirety in September 2018.

ii. The promissory note for the principal amount of $130,160 (US$100,000) specified an interest-free period for three months from issuance of the note, payable upon maturity. The promissory note was paid in its entirety in December 2018 after the due date of November 22, 2018. The creditor gave a unilateral extension without charging interest.

b) IES Loans

Pursuant to the proposed Transaction, the Company obtained a loan of $330,000 from IES to cover working capital requirements of MCC subsequent to year end and until the closing of the Transaction. IES and MCC entered into a loan agreement dated February 22, 2019 with respect to the loan of $330,000. The loan is unsecured, has an interest rate of 8% per annum and has a term of 90 days starting from February 25, 2019. The loan can be extended an additional 30 days at the sole discretion of MCC. As of March 31, 2019, no payments towards interest or loan principal had been realized, resulting in total balance owing with accumulated interest of $332,532.

13. SHARE CAPITAL

Common shares

At March 31, 2019, the Company was authorized to issue up to 60,000,000 common shares with no par value, with holders of common shares entitled to one vote per share and to dividends, if declared. As of March 31, 2018, common shares issued and outstanding are as follows:

	Common shares	Amount
Balance at incorporation (July 10, 2018)	50,000	-
Shares cancelled	(50,000)	-
Shares issued under shareholders agreement	32,000,000	32,000
Shares issued for subscription in September 2018	7,362,659	643,883
Share issuance costs		(10,347)
Shares issued for subscription in December 2018	2,000,000	438,276
Share issuance costs		(1,228)
Balance at December 31, 2018	41,362,659	1,102,584
Shares issued for subscription in March 2019	400,000	36,000
Share issuance costs		(3,185)
Balance at March 31, 2019	**41,762,659**	**1,135,399**

a) In August 2018, the Company formalized the shareholders agreement wherein 32,000,000 common shares of the company were issued. 8,100,000 of these shares were issued for $0.001 per common share. The other 23,900,000 shares were issued to various founders for services rendered. The value of the shares issued for services have also been recorded at $0.001 per common share. In accordance with the shareholders agreement, the 50,000 common shares issued at the incorporation of the Company were cancelled.

b) In September 2018, the Company closed a non-brokered private placement raising gross proceeds of $662,639 through the issuance of 7,362,659 units at an issue price of $0.09 per unit. Each unit was comprised of one common share of the Company and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price equal to $0.25 per share, until September 2019. The Company has allocated the total proceeds of $662,639 to share capital of $643,883 and warrants of $18,757. The warrant fair value was determined based on a Black-Scholes option pricing model (see below). The issue costs totaling $10,648 were also allocated to share capital of $10,347 and warrants of $301. As at December 31, 2018 there were subscriptions receivable of $18,000 from this private placement. This $18,000 was subsequently received in January 2019.

c) In December 2018, the Company closed a non-brokered private placement raising gross proceeds of $500,000 through the issuance of 2,000,000 units at an issue price of $0.25 per unit. Each unit was comprised of one common share of the Company and one half a share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price equal to $0.40 per share, until December 2020. The Company has allocated the total proceeds of $500,000 to share capital of $438,276 and warrants of $61,724. The warrant fair value was determined based on a Black-Scholes option pricing model (see below). The issue costs on the private placement totaling $1,680 were also allocated to share capital of $1,228 and warrants of $452.

d) In March 2019, Medcolcanna completed a non-brokered private placement of 400,000 common shares at a price of $0.09 per share for gross proceeds of $36,000. The issue costs totaling $3,185 were allocated to the share capital of $36,000 on this private placement.

Purchase Warrants

Pursuant to the September 2018 private placement discussed previously, the Company issued 3,681,330 share purchase warrants. The warrants are exercisable immediately at a price of $0.25 per common share until September 2019.

Pursuant to the December 2018 private placement discussed previously, the Company issued 1,000,000 share purchase warrants. The warrants are exercisable immediately at a price of $0.40 per common share until December 2020.

The purchase warrants were allocated a value using the Black-Scholes option pricing model to estimate the fair value with the following weighted average assumptions:

	September 2018 Purchase Warrants	**December 2018 Purchase Warrants**
Risk-free interest rate	2.18%	1.90%
Expected dividend yield	0%	0%
Expected stock price volatility	89.7%	85.3%
Expected warrant life (years)	1.0	2.0
Fair value of warrants granted	$0.0051	$0.0617

Compensation Options

Pursuant to the closing of Subscription Receipts described in Note 8, Compensation Options are awarded to agents of the Offering equal to 6% of the number of Subscription Receipts sold pursuant to the agency agreement under the Offering. Under the terms of the agency agreement, 50% of the Compensation Options are awarded immediately upon receipt of the Subscription Receipts. The remaining 50% are awarded upon closing of the Transaction. As of December 31, 2018, 11,632,000 subscriptions were received, resulting in 348,960 Compensation Options being immediately awarded. During the three months ended March 31, 2019 a further 19,354,800 subscriptions were received, resulting in a further 580,644 Compensation Options being immediately awarded. The balance of 929,604 Compensation Options are to be awarded upon closing of the Transaction.

Each Compensation Option will entitle the holder thereof to acquire one Unit (a "Compensation Option Unit") at the offering price of $0.25 for a period of 24 months following the closing of the Transaction, each Compensation Option Unit being comprised of one common share (a "Compensation Option Share") and one-half of one Warrant (each whole Warrant, a "Compensation Option Warrant"). Each Compensation Option Warrant shall entitle the holder thereof to purchase one common share at a price of $0.40 for a period of 24 months following the closing of the Transaction.

The Compensation Options award as of December 31, 2018 and March 31, 2019 were each allocated a value using the Black-Scholes option pricing model to estimate the fair value with the following weighted average assumptions:

	December 2018 Compensation Options	**March 2019 Compensation Options**
Risk-free interest rate	1.90%	1.62%
Expected dividend yield	0%	0%
Expected stock price volatility	85.3%	88.4%
Expected warrant life (years)	2.0	2.0
Fair value of warrants granted	$0.0880	$0.0910

The 348,960 Compensation Options existing as of December 31, 2018, were assessed a total value of $30,554. The 580,644 Compensation Options awarded during the three months ended March 31, 2019, were assessed a total value of $52,563. These Compensation Option amounts are recorded as subscription issuance cost in the statement of changes in shareholder's equity in each period when initially recognize.

Basic and diluted loss per share

For the period ended March 31, 2019, there is no difference between the calculated basic and diluted loss per share of $0.01. The 929,604 compensation options and 4,681,330 purchase warrants have been excluded from the calculation as they have an anti-dilutive effect on the loss per share.

14. RELATED PARTIES

During the period ended December 31, 2018, there were separate related party transactions as follows:

a) On account of the Acquisition of Medcolcanna S.A.S. in July 2018 as described in Note 7(a), a promissory note of US$50,000 was issued to the selling party, (a company controlled by shareholders of MCC) which was subsequently paid in full in September 2018. The selling party with whom the transaction was paid in cash and to whom payment of US$50,000 on the issued promissory note was a related party to the Company.

b) During the period, certain expenses were paid by members of management. Periodically advances are made to management for reimbursing these amounts. From time to time, the amount may result in a net receivable position. As at March 31, 2019, a net receivable of $187,587 existed as a result of these transactions. This was presented on the Statement of Financial Position as an asset.

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence in order to sustain the future development of the business. The Company is dependent upon funding these activities through a combination of available cash, debt and equity, which it considers to be the components of its capital structure. The Company's share capital is not subject to external restrictions.

16. COMMITMENTS

a) Lease commitment reconciliation

As at March 31, 2019, the Company had two lease commitments outstanding which were recorded as lease liabilities on the financial statements.

Commitments	**2019**	**2020**	**2021**	**2022**	**Total**
Property Lease	57,225	76,300	76,300	127,167	336,992
Office Lease	41,965	55,954	55,954	4,663	158,536
Total	**99,190**	**132,254**	**132,254**	**131,830**	**495,528**

Property lease agreement

In 2018, Medcolcanna S.A.S. entered into a lease agreement for rural property in Colombia for utilization of its cultivation operations. The monthly lease payment is for $15,000,000 COP (approximately $6,358 CAD based on the average foreign exchange rate for the three months ended March 31, 2019) and adjusted annually according to the Consumer Price Index. Lease payments began in November 2018 and the Company will pay annually an additional amount equal to 1% of the profits obtained from the sale of the products made with the cannabis grown on the leased property.

Office lease agreement

During the three months ended March 31, 2019, the Company entered into a new lease agreement for office space in Bogota, Colombia. Per the terms of the agreement, the Company is required to pay a fixed monthly fee of $11,000,000 COP (approximately $4,663 CAD based on the average foreign exchange rate for the three months ended March 31, 2019). The Company was required to make an initial prepayment of $62,3340,000 COP (approximately $26,423 CAD) plus value-added tax to cover five months and 20 days' worth of payments. The lease began February 1, 2019 and ends January 31, 2022.

b) Lease reconciliation

The following table reconciles the Company's lease commitments disclosed as at December 31, 2018 with lease obligations recognized on the Company's statement of financial position at January 1, 2019.

Total commitment as disclosed at December 31, 2018 (1)	379,260
Less: payments made in 2018 (1)	(12,642)
Impact of discount	(109,973)
Effect of foreign exchange rate changes (2)	(685)
Lease liability recognized at January 1, 2019	**255,960**

1) Commitments disclosed in the December 31, 2018 year end financial statements relate to the property lease payments of 15,000,000 COP monthly for a five-year term beginning in November 2018. This amount translates to approximately $379,260 CAD using December 31, 2018 foreign exchange rates. As the lease payments began in November 2018, $12,642 has been deducted from the total commitment, which approximates two months' worth of lease payments.

2) The impact of foreign exchange rate changes from December 31, 2018 to January 1, 2019 is approximately $685.

c) Other Commitments

As of March 31, 2019, the Company had no other financial commitments beyond the lease obligations disclosed in Note 16(a).

17) SUPPLEMENTAL CASHFLOW INFORMATION

For the period ended March 31	**2019**
Accounts receivable	(2,250)
Prepaids	(16,912)
Accounts payable and accrued liaibilities	276,240
Change in non-cash working capital	**257,078**
Relating to:	
Operating activities	259,328
Financing activities	(2,250)
Change in non-cash working capital	**257,078**

18) SUBSEQUENT EVENTS

a) IES Loans

Pursuant to the proposed Transaction, the Company obtained additional loans in total of $400,000 from IES to cover working capital requirements of MCC subsequent to year end and until the closing of the Transaction. IES and MCC entered into two loan agreements dated April 1, 2019 and May 6, 2019 with respect to a loans of $250,000 and $150,000, respectively The loans are unsecured, have an interest rate of 8% per annum and have a term of 90 days starting from April 1, 2019 and May 8, 2019, respectively. They can each be extended an additional 30 days at the sole discretion of MCC.

b) Completion of the Transaction with IES

In May 2019, the Company completed the Transaction whereby IES acquired all of the issued and outstanding shares of MCC. Pursuant to the Transaction, all of the issued and outstanding IES Common Shares were consolidated, resulting in approximately 12,900,000 IES Common Shares being issued and outstanding immediately prior to the subsequent share issuances described below. As well, approximately 6,450,000 share purchase warrants (the "IES Warrants") were issued to certain IES shareholders, with each IES Warrant now being exercisable, with the completion of the Transaction, into one Medcolcanna Share at an exercise price of $0.40 for a period expiring May 17, 2021. Additionally, IES had outstanding 500,000 pre-consolidated stock options exercisable at a price of $0.25 per IES Common Share, which have been cancelled.

MCC had 41,762,659 Medcolcanna Shares and 4,681,330 share purchase warrants outstanding, of which 3,681,330 warrants were exercisable into one Medcolcanna Share at an exercise price of $0.25 for a period expiring September 2019, and the remaining 1,000,000 warrants being exercisable into one Medcolcanna Share at an exercise price of $0.40 for a period expiring December 2020 (see Note 13).

As previously outlined in Note 8, prior to the closing of the Transaction, MCC completed the Offering of 30,986,800 Subscription Receipts at a price of $0.25 per Subscription Receipt for gross proceeds of $7,746,700. The proceeds from the Offering, less certain expenses, were placed into escrow. In connection with the completion of the Transaction, the Subscription Receipts were converted on a one-for-one basis into units of MCC comprising a total of 30,986,800 Medcolcanna Shares and 15,493,400 common share purchase warrants exercisable for a period of two years at $0.40 per warrant. The escrowed proceeds from the Offering, less commissions and certain transaction fees and expenses, have been released from escrow to MCC. 2,102,028 compensation options issued to the agents in the Offering in conjunction with, and as partial compensation for, acting as agents in the Offering were also exchanged for compensation options of MCC on a one-for-one basis.

Immediately prior to the completion of the Transaction, IES changed its name to “Medcolcanna Organics Inc.” The Transaction was completed through a share exchange whereby each security of MCC was exchanged for securities of Medcolcanna Organics (the “Share Exchange”) and each post-consolidation IES Common Share became a share of Medcolcanna Organics. The Transaction constitutes a reverse take-over as the former shareholders of MCC now own (on a non-diluted basis, and including the Offering) the controlling interest of the issued and outstanding shares of Medcolcanna Organics immediately following the completion of the Transaction. Upon completion of the Transaction there were 85,649,459 Medcolcanna Organic shares issued and outstanding, with an additional 38,342,718 Medcolcanna Organic shares reserved for issuance upon the exercise of securities convertible into Medcolcanna Organic shares.