MEDCOLCANNA ORGANICS INC.

(FORMERLY INTEGRATED ENERGY STORAGE CORP.)

ANNUAL AUDITED CONSOLIDATED
FINANCIAL STATEMENTS

For the year ended December 31, 2019
And for the period from July 10, 2018 (Incorporation Date) to
December 31, 2018

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and related financial information are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards. They include certain amounts that are based on estimates and judgments relating to matters not concluded by year-end. Financial information presented elsewhere in this document is consistent with that contained in the consolidated financial statements.

In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies adopted by management. If alternate accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. Management has established systems of accounting and internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and produce reliable accounting records for the preparation of financial information. Policies and procedures are maintained to support the accounting and internal control systems.

The independent external auditors, MNP LLP, have conducted an examination of the consolidated financial statements on behalf of shareholders. The auditors have unrestricted access to the Company and the Audit Committee.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee. This Committee reviews the consolidated financial statements with management and the auditors, as well as recommends to the Board of Directors the external auditors to be appointed by the shareholders at each annual meeting. The Audit Committee meets at least quarterly to review and approve interim financial statements prior to their release and recommend their approval to the Board of Directors.

The Board of Directors on the recommendation of the Audit Committee has approved the consolidated financial statements and information as presented.

(signed)

Felipe De La Vega
Chief Executive Officer

(signed)

Chris Reid
Chief Financial Officer

June 1, 2020.
Calgary, Canada

Independent Auditor's Report

To the Shareholders of Medcolcanna Organics Inc.:

Opinion

We have audited the consolidated financial statements of Medcolcanna Organics Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2019 and for the period from July 10, 2018 (date of incorporation) to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2019 and for the period from July 10, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company has incurred a net loss of $7,214,468 during the year ended December 31, 2019. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management’s Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Marufur Raza.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
June 1, 2020

MEDCOLCANNA ORGANICS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

For the years ended December 31,

(Expressed in Canadian Dollars)	**2019**	2018
Assets		
Current Assets		
Cash and cash equivalents	**2,800,665**	628,618
Restricted cash (Note 15(a))	**-**	3,178,260
Accounts receivable (Note 8)	**86,613**	18,000
Due from related parties (Note 25)	**9,324**	22,533
Inventory (Note 9)	**58,021**	-
Prepaids (Note 10)	**265,921**	3,413
	3,220,544	3,850,824
Non-Current Assets		
Advances towards property, plant, and equipment	**68,547**	-
Property, plant and equipment (Note 11)	**1,655,462**	50,384
Right-of-use assets (Note 12)	**472,224**	-
Intangible assets (Note 13)	**1,150,811**	148,868
Total Assets	**6,567,588**	4,050,076
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 14)	**575,221**	286,973
Unearned revenue	**6,043**	-
Current portion of lease liabilities (Note 12)	**84,817**	-
	666,081	286,973
Non-Current Liabilities		
Lease liabilities (Note 12)	**403,633**	-
Total Liabilities	**1,069,714**	286,973
Shareholders' Equity		
Share capital (Note 15(a))	**10,863,131**	1,102,584
Subscription receipts (Note 15(a))	**-**	3,090,002
Shares to be issued (Note 15(b))	**84,000**	-
Purchase warrants (Note 16)	**1,334,987**	79,729
Compensation options (Note 17)	**189,039**	30,554
Contributed surplus (Note 18)	**851,521**	-
Deficit	**(7,752,950)**	(538,482)
Accumulated other comprehensive loss	**(71,854)**	(1,284)
Total Shareholders' Equity	**5,497,874**	3,763,103
Total Liabilities and Shareholders' Equity	**6,567,588**	4,050,076

Going concern (Note 2)

Related party transactions (Note 25)

Commitments (Note 26)

Subsequent events (Note 29)

See accompanying notes to the annual consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31, 2019

and for the period from July 10, 2018 (Date of Incorporation) to December 31, 2018

(Expressed in Canadian Dollars)	**2019**	2018
Revenue		
Vape products	**1,582**	**-**
Exclusivity fee	**-**	32,750
	1,582	32,750
Cost of sales	**636**	-
Gross Profit	**946**	32,750
Expenses		
Operating expenses	**746,669**	27,666
General and administrative (Note 19)	**2,551,550**	556,901
Selling, marketing and promotion	**20,351**	-
Inventory write-off (Note 9)	**4,711**	-
Listing expense (Note 7)	**2,232,149**	-
Transaction costs relating to the RTO (Note 7)	**202,874**	-
Depreciation and amortization (Note 11 and 12)	**179,884**	-
Business development (Note 20)	**59,347**	-
Research and development	**169,052**	-
Share-based compensation (Note 15(b) and 18)	**917,064**	-
Finance expense (income) (Note 21)	**56,785**	(290)
Foreign exchange loss (gain)	**74,978**	(13,045)
	7,215,414	571,232
Loss before income taxes	**(7,214,468)**	(538,482)
Current and deferred income tax (Note 22)	**-**	-
Net loss	**(7,214,468)**	(538,482)
Other comprehensive loss		
Foreign currency translation adjustment	**(70,570)**	(1,284)
Comprehensive loss	**(7,285,038)**	(539,766)
Loss per share - basic and diluted (Note 23)	**(0.10)**	(0.02)
Weighted average number of shares outstanding	**71,535,517**	27,275,808

See accompanying notes to the annual consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2019
and for the period from July 10, 2018 (Date of Incorporation) to December 31, 2018

(Expressed in Canadian Dollars)	**Common Shares**	**Share Capital** (Note 15(a))	**Subscription Receipts** (Note 15(a))	**Shares to be issued** (Note 15(b))	**Purchase Warrants** (Note 16)	**Compensation Options** (Note 17)	**Contributed Surplus** (Note 18)	**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 loss									(1,284)	(1,284)
Balance at December 31, 2018	**41,362,659**	**1,102,584**	**3,090,002**	**-**	**79,729**	**30,554**	**-**	**(538,482)**	**(1,284)**	**3,763,103**
Shares issued for March 2019 placement	400,000	36,000								36,000
Share issuance costs		(3,187)								(3,187)
Subscription receipts issued			4,266,200							4,266,200
Subscription issuance costs			(320,770)							(320,770)
Compensation options issued			(134,805)			134,805				-
Shares issued pursuant to the RTO Transaction	12,899,968	2,708,993								2,708,993
Warrants issued pursuant to the RTO Transaction					405,450					405,450
Warrant issuance costs					(881)					(881)
Compensation options issued pursuant to the RTO Transaction						23,680				23,680
Shares issued for subscriptions	30,986,800	6,770,990	(6,770,990)							-
Share issuance costs		(739,509)	739,509							-
Warrants issued for subscriptions			(975,710)		975,710					-
Warrant issuance costs			106,564		(106,564)					-
Shares issued for acquisition of ICP	4,701,240	987,260								987,260
Warrants expired					(18,457)		18,457			-
Share-based compensation				84,000			833,064			917,064
Net loss for the period								(7,214,468)		(7,214,468)
Other comprehensive loss									(70,570)	(70,570)
Balance at December 31, 2019	**90,350,667**	**10,863,131**	**-**	**84,000**	**1,334,987**	**189,039**	**851,521**	**(7,752,950)**	**(71,854)**	**5,497,874**

(1) Accumulated Other Comprehensive Loss

See accompanying notes to the annual consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019

and for the period from July 10, 2018 (Date of Incorporation) to December 31, 2018

(Expressed in Canadian Dollars)	**2019**	2018
Operating activities		
Net loss	**(7,214,468)**	(538,482)
Adjustments for:		
Listing expense	**2,232,149**	-
Depreciation and amortization	**179,884**	-
Accrued interest on leases	**6,502**	-
Share-based compensation	**917,064**	-
Unrealized foreign exchange loss (gain)	**11,458**	-
Change in non-cash working capital (Note 27)	**(185,855)**	331,994
Cash used in operating activities	**(4,053,266)**	(206,488)
Investing activities		
Advances towards property, plant and equipment	**(70,050)**	-
Expenditures on property, plant and equipment	**(1,627,208)**	(49,986)
Transaction costs on acquisition of ICP	**(14,682)**	-
Cash acquired from RTO Transaction	**208,604**	-
Cash used in investing activities	**(1,503,336)**	(49,986)
Financing activities		
Issue common shares, net of cash issuance costs	**3,481,310**	1,061,204
Issue warrants, net of cash issuance costs	**496,933**	79,219
Issue subscription receipts, net of cash issuance costs	**-**	3,120,556
Receipt of funds from September 2018 private placement	**18,000**	-
Funds received from short-term loan	**730,000**	-
Payment of promissory note	**-**	(195,945)
Change in restricted cash	**3,178,260**	(3,178,260)
Principal portion of lease payments	**(86,176)**	-
Cash generated from financing activities	**7,818,327**	886,774
Net increase in cash	**2,261,725**	630,300
Effects of variation in the exchange rate on cash	**(89,678)**	(1,682)
Cash, beginning of period	**628,618**	-
Cash, end of period	**2,800,665**	628,618
Cash interest paid	44,003	-
Cash interest received	20,786	-

See accompanying notes to the annual consolidated financial statements.

1. NATURE OF OPERATIONS

Medcolcanna Organics Inc. ("Medcolcanna" or "MCCN"), which formerly operated under the name Integrated Energy Storage Corp. ("IES"), was incorporated on May 31, 2010 in the province of Alberta under the Business Corporations Act (Alberta).

On May 17, 2019, the Company completed a transaction whereby IES acquired all of the outstanding shares of Medcolcanna (BVI), Inc. ("Medcolcanna BVI" or "MCCN BVI" or the "Private Company"), a private company incorporated under the laws of the British Virgin Islands. The transaction constituted a reverse asset acquisition in accordance with International Financial Reporting Standards ("IFRS"), whereby the shareholders of Medcolcanna BVI took control of IES (the "Reverse Takeover Transaction" or "RTO Transaction" or "RTO"). Pursuant to the RTO Transaction, IES changed its name to Medcolcanna Organics Inc. and was continued into the province of British Columbia under the Business Corporations Act (British Columbia). See Note 7 for further details.

Through the Private Company's wholly owned subsidiary, Medcolcanna S.A.S, ("MCCN SAS"), Medcolcanna Organics Inc. is licensed by the Colombian Ministry of Social Health and Protection and the Colombian Ministry of Justice and Law to use seeds for sowing, cultivate both psychoactive and non-psychoactive cannabis plants, and manufacture cannabis derivatives in Colombia. Medcolcanna is also involved in the cannabis vaping industry through its Switzerland subsidiary MCCN SA.

References within these financial statements to the "Company" for periods, dates and/or transactions prior to the RTO Transaction are in reference to the Private Company, as the corporate entity of interest pre-RTO Transaction. Alternatively, references within these financial statements to the "Company" for periods, dates and/or transactions subsequent to the RTO Transaction are in reference to Medcolcanna, as the corporate entity of interest post-RTO Transaction. The comparative periods reflected in these financial statements are those of the Private Company, as the financials are a continuance of MCCN BVI.

The Company's corporate office address is Suite 800, 400 – 5th Avenue SW, Calgary, AB, T2P 0L6. On May 23, 2019, the common shares of the Company were listed on the TSX Venture Exchange ("TSXV") under the symbol "MCCN".

2. GOING CONCERN

These consolidated 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.

During the year ended December 31, 2019, the Company incurred a net loss of $7,214,468 and used $4,053,266 of cash flow in its operating activities. As at December 31, 2019, the Company had a working capital surplus of $2,554,463 which indicates the Company has the ability to meet its current obligations as they come due. The available working capital is also sufficient to meet contractual capital construction and lease commitments identified in Note 26. However, the Company does not have consistent revenue generating assets as Medcolcanna is still in early stages of development. Until the Company has sustaining revenue streams, it will continue to exhaust its remaining financial resources to fund existing operations. These conditions indicate the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

Management believes that the going concern assumption is appropriate for these consolidated financial statements and that the Company will be able to meet its budgeted administrative and development costs during the upcoming year and beyond when considering the Company's current financial forecast. Medcolcanna continues to enter into strategic agreements, joint ventures, and relationships to source funds and maintain its operations. As outlined in Note 29, subsequent to the year ended December 31, 2019, the Company received final approvals from the Instituto Colombiano Agropecuario ("ICA") for commercial production of certain strains of cannabis from its Colombian cannabis farm. However, there is no certainty that this will lead to sufficient revenues to fully sustain the Company's activities.

The Company may need to seek further financing in the future to maintain its current level of activity. To date, Medcolcanna has been successful in raising funds to sustain operations. However, there can be no assurance that adequate funding will be available in the future, or under terms favourable to 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 consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities.

3. BASIS OF PREPARATION

Statement of compliance

The Company applies IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements have been approved and authorized for issuance by the Company's Board of Directors on June 1, 2020.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost convention except for certain assets, liabilities, or equity instruments measured at fair value as explained in the Company's accounting policies below.

Functional and presentation currency

The functional currency of Medcolcanna is the Canadian dollar. The consolidated financial statements and notes to the financial statements are expressed and presented in Canadian dollars unless otherwise stated.

Transactions 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 foreign subsidiaries assets and liabilities are translated at the reporting period exchange rate. 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 consolidated 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 date of acquisition up to the date of disposition or loss of control. All intercompany balances and transactions are eliminated upon consolidation in preparing the financial statements. As at December 31, 2019, Medcolcanna had the following subsidiaries:

Subsidiaries	Country of incorporation	Ownership	Functional currency
Medcolcanna (BVI), Inc.	British Virgin Islands	100%	Canadian Dollar (CAD)
Medcolcanna S.A.S	Colombia	100%	Colombian Peso (COP)
Innovative CBD Products B.V.	Netherlands	100%	Euro
MCCN SA	Switzerland	100%	Swiss Franc (CHF)

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.

Inventory

Medcolcanna inventories consist of raw materials and supplies to be consumed in the process of producing medicinal Colombian cannabis. Inventories also include finished goods vaping devices and liquids as well as the raw materials and supplies to create the vaping products. When finished goods inventory are sold, the carrying amount of those inventories is expensed in the consolidated statement of loss and comprehensive loss within the period in which the related revenue is recognized. Any write-down of inventories to net realizable valuable and all losses of inventories are recognized as an expense in the consolidated statement of loss and comprehensive loss when the write-down or loss occurs.

Biological assets

The Company's biological assets consist of medicinal cannabis plants and are valued using the income approach. Production costs are capitalized to biological assets and include all direct and indirect costs relating to biological transformation. The Company measures and adjusts the biological assets to fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from the changes in fair value less cost to sell during the period are included in the results of operations for the related period.

As at December 31, 2019, the commercial production licenses were not yet granted to Medcolcanna. For this reason, biological assets have a nil balance on these financial statements.

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 depreciation is recorded in the consolidated statement of loss over the assets' estimated useful life. Assets begin to be depreciated when they are available for use.

PP&E is depreciated using the following estimated useful lives:

	Method	Estimated useful life
Agricultural facilities	Straight-line	10 years
Laboratory equipment	Straight-line	10 years
Computer and office equipment	Straight-line	3 - 10 years
Leasehold improvements	Straight-line	Expected remaining lease term

Intangible assets

Intangible assets are recognized 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. Finite life intangible assets are amortized through the consolidated statement of loss on a straight-line basis over their estimated useful lives.

For licenses, permits, and other intellectual property that are classified as intangible assets with an indefinite life, no amortization is recognized. This would apply to intangible assets that do not expire or that are expected to continue indefinitely 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.

Business combinations and asset acquisitions

Acquisitions are accounted for as business combinations if the assets acquired and liabilities assumed constitute a business as outlined in IFRS 3 “Business Combinations” (“IFRS 3”). Business combinations are accounted for using the acquisition method, where identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of assets given up, equity instruments issued, and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the assets acquired and liabilities assumed is recorded as goodwill. Transaction costs associated with a business combination are expensed as incurred.

Acquisitions which do not meet the definition of a business are accounted for as an asset acquisition. Consideration paid is allocated to the identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill. Transaction costs are included as part of the consideration paid and are allocated to the value of assets acquired and liabilities assumed.

Impairment of non-financial assets

The Company reviews and evaluates impairment of its non-financial assets 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 from the last time an impairment loss was recognized.

Indefinite life intangible assets are tested for impairment at a minimum on an annual basis and whenever events or circumstances indicate that an impairment may have occurred.

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
- Restricted cash - 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

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 fair value through other comprehensive income ("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 at amortized cost. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of income and comprehensive income. Financial liabilities classified at amortized cost are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. 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 the statement of loss and comprehensive 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.

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in the statement of 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. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax
Deferred taxes are the taxes expected to be payable or recoverable 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 the statement of loss.

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.

Share capital and warrants

Common shares and warrants are classified as equity on the financial statements. The share capital represents the amount received upon issuance of shares. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs. Proceeds from unit placements are allocated between shares and warrants using the Black-Scholes option pricing model to determine the fair value of warrants issued.

Revenue

The Company uses the five-step contract-based analysis of transactions to determine when, if, and how much revenue can be recognized:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when or as the Company satisfies a performance obligation

Revenue from the sale of products to customers is recognized when performance obligations are met and control has transferred from the Company to customers. The Company typically considers its performance obligations to be satisfied and control to be transferred at a point in time either upon shipment to or receipt and acceptance by the customer, depending on the contractual arrangement. Revenue is recorded at the expected amount of consideration the Company is entitled to, with adjustments for any rights of return.

Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in the statement of loss.

Share-based compensation

Stock options issued to employees are measured at fair value at the grant date using the Black-Scholes option pricing model. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeitures. Share-based compensation expense is recognized over the relevant stock option vesting period, with a corresponding increase to contributed surplus. At the time stock options are exercised, the issuance of common shares is recorded as an increase to share capital and a corresponding decrease to contributed surplus.

Shares issued as part of compensation arrangements are recorded at the fair value of the good or service received or the fair value of the equity instrument issued, if it is determined that the fair value of the goods or services cannot be reliably measured. The fair value of the shares issued is recorded as an expense at the date the goods or services are received with a corresponding increase to share capital or shares to be issued if the shares have not yet been officially issued.

New standards adopted on January 1, 2019

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or 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 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 26 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 asset was measured in an amount equal to the corresponding lease liability on the statement of financial position as at January 1, 2019. Refer to Note 12 and Note 26 for additional information regarding the right-of-use asset.

The impact on adoption was 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. The Company recognizes the amount of any remeasurement of a lease liability as an adjustment to the right-of-use-asset. If the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company shall recognize any remaining amount of the remeasurement in the statement of loss and comprehensive loss.

Upon recognition of a lease liability at the lease commencement date, a corresponding right-of-use asset is recognized at the amount equal to 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 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, liabilities, revenue, expenses and equity. 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.

Biological assets

Biological assets are measured at fair value less cost to sell up to the point of harvest at each reporting period using the income approach. Certain assumptions, judgements, and estimates are required to be made by the Company in determining the fair value of these assets. These assumptions, judgements, and estimates include the expected selling price, number of plants harvested, expected yield, cost to harvest and convert to cannabis finished goods, and the stage of completion in the production process.

Impairment

Long-term, non-financial assets are tested for impairment when events or changes in circumstances indicate that the asset's carrying amount may exceed its recoverable amount. Indefinite life intangible assets are tested for impairment, at a minimum, on an annual basis regardless of whether or not events or circumstances exist indicating possibility of impairment. For the purpose of testing impairment, assets may be grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit or "CGU"). Professional judgement is used to assess and determine the Company's CGU groupings.

Useful lives of PP&E and intangible assets

Depreciation and amortization of PP&E and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of professional judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

Business combinations and assets acquisitions

Judgment is required in determining whether an acquisition is a business combination or an asset acquisition. The Company assesses if the assets acquired and liabilities assumed constitute a business following guidance in IFRS 3. In determining the fair value of consideration paid, assets acquired, and liabilities assumed, of a business combination and the relative fair value under an asset acquisition, management may be required to make certain assumptions and judgements. These judgements and assumptions include whether amounts paid on achievement of milestones represents contingent consideration, the classification of contingent consideration as equity or a liability, and the measurement of such consideration.

Valuation of deferred 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 account for 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, compensation options and stock options

All warrants, compensation options, and stock 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 date of a lease at the present value of the lease payments over the lease term. 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 asset, lease liability, and resulting interest expense and depreciation expense, may differ due to changes in the market conditions. The lease term is also subject to certain assumptions including, the Company's intent regarding extension and termination options of a lease.

6. CORPORATE TRANSACTIONS

Medcolcanna S.A.S.

In July 2018, the Company acquired, from a related party (a Colombian corporation controlled by an officer of the Company), 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 "Colombian 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. As such, the total consideration paid was $195,945 (US$150,000). 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 Colombian Acquisition have been included in the accounts of the Company commencing July 24, 2018. The operations of Medcolcanna S.A.S. did not meet the definition of a business under IFRS 3. Accordingly, the transaction has been recorded as an asset acquisition.

Innovative CBD Products B.V.

In July 2019, the Company acquired all the issued and outstanding shares of Innovative CBD Products B.V. ("ICP"). ICP is the owner of various medicinal cannabinoid formulations and related intellectual property with respect to the development of cannabis and cannabis by-products. In exchange for the shares of ICP, Medcolcanna issued 4,701,240 shares of the Company to the seller. At a price of $0.21 per share, the share consideration paid equated to $987,260. Medcolcanna also incurred transaction costs relating to the acquisition of $14,682, which has been included as part of the consideration paid by Medcolcanna. The total consideration of $1,001,942 has been allocated entirely to the formulations owned by ICP as this was its only net asset.

Consideration paid	
4,701,240 common shares issued	987,260
Transaction costs	14,682
Total consideration (inclusive of transaction costs)	**1,001,942**
ICP net assets acquired	
Medicinal cannabinoid formulations	**1,001,942**

The operations of ICP did not meet the definition of a business under IFRS 3. Accordingly, the transaction has been recorded as an asset acquisition.

The Company has also granted a royalty to the seller of ICP of 10% of Medcolcanna's interest in products derived from the formulations that are subsequently produced, marketed, and sold. Additionally, should Medcolcanna license or sell any of the formulations to a third party, then the royalty entitles the seller of ICP to 10% of proceeds received by Medcolcanna for such license or sale. The royalty commenced in July 2019 and ends ten years thereafter.

7. REVERSE TAKEOVER TRANSACTION

In May 2019, IES completed the transaction to acquire all of the issued and outstanding shares of MCCN BVI (41,762,659 shares) in consideration for shares of IES on a one-for-one basis. MCCN BVI also had 3,681,330 unit warrants, 1,000,000 private placement warrants, 1,859,208 compensation options, and 30,986,800 subscription unit receipts issued and outstanding. The warrants and compensation options were exchanged for an equal amount of purchase warrants and compensation options of Medcolcanna as outlined in Note 16 and Note 17. On completion of the RTO Transaction, MCCN BVI's 30,986,800 subscription receipts were converted into 30,986,800 shares and 15,493,400 purchase warrants of Medcolcanna (Note 15(a) and 16).

The Company (then being IES) did not meet the definition of a "business" under IFRS guidelines, thus causing the RTO Transaction to be treated as a reverse asset acquisition rather than a business combination, with IES' main attribute being its public listing. Under this premise, as consideration for 100% of the outstanding shares of IES, by way of reverse acquisition, the Private Company issued 12,899,968 shares to the shareholders of IES. These shares were assigned a fair value of $0.21 per share for total share consideration of $2,708,993. Additionally, as part of the RTO Transaction consideration, the 6,450,000 IES warrants were converted to 6,450,000 of Medcolcanna purchase warrants and were ascribed a total value of $404,569 net of issuance costs (Note 16). The 267,656 IES compensation options were converted to 267,656 compensation options of Medcolcanna and were ascribed a total value of $23,680 (Note 17). With the issuance of shares, purchase warrants, and compensation options, the total consideration paid on the RTO Transaction was $3,137,242.

The total consideration has been allocated first to the fair value of the net assets acquired with any excess to non-cash cost of the RTO Transaction as follows:

Consideration paid	
12,899,968 common shares issued	2,708,993
6,450,000 warrants issued	404,569
267,656 compensation options issued	23,680
Total consideration	**3,137,242**
Net assets acquired of IES	
Cash	208,604
Accounts receivable	15,942
Loan receivable	730,000
Accounts payable and accrued liabilities	(49,453)
Total net assets acquired at fair value	**905,093**
Listing expense	**2,232,149**
Transaction costs relating to the RTO Transaction	202,874
Total cost of acquisition	**2,435,023**

8. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

For the years ended December 31	2019	2018
Sales receivable	**683**	-
Subscriptions receivable	**-**	18,000
Value added tax receivable	**77,238**	-
Other receivables	**8,692**	-
Total	**86,613**	18,000

9. INVENTORY

Medcolcanna inventories consist of raw materials and supplies to be consumed in the process of producing medicinal Colombian cannabis and vaping related products in Switzerland. Inventories also include finished goods vaping products which are held for sale in the ordinary course of business. The classification of inventories is as follows:

	Cannabis production	Vaping products	Total
Raw materials and supplies	16,469	16,341	32,810
Work in progress	-	-	-
Finished goods	-	25,211	25,211
Balance at December 31, 2019	**16,469**	**41,552**	**58,021**

During the year ended December 31, 2019, vaping inventory of $4,711 was written off due to certain materials and products being considered obsolete and will no longer be used by the Company. The amount has been recorded as an expense in the statement of loss and comprehensive loss.

10. PREPAIDS

The Company's prepaids consist of the following:

For the years ended December 31	2019	2018
Prepaid insurance	**54,317**	-
Prepaid materials and supplies	**-**	3,413
Deposits	**7,095**	-
Prepaid professional fees and other expenses	**204,509**	-
Total	**265,921**	3,413

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

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

a) COST

	Agricultural Facilities	Laboratory Equipment	Computer & Office Equipment	Leasehold Improvements	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	758,452	184,979	183,716	599,864	1,727,011
Foreign currency translation	(19,345)	(3,968)	(3,942)	(12,869)	(40,124)
Balance at December 31, 2019	**789,491**	**181,011**	**179,774**	**586,995**	**1,737,271**

b) ACCUMULATED DEPRECIATION

	Agricultural Facilities	Laboratory Equipment	Computer & Office Equipment	Leasehold Improvements	Total
Balance at incorporation (July 10, 2018)	-	-	-	-	-
Depreciation	-	-	-	-	-
Foreign currency translation	-	-	-	-	-
Balance at December 31, 2018	-	-	-	-	-
Depreciation	(21,948)	(6,045)	(11,932)	(43,678)	(83,603)
Foreign currency translation	471	130	256	937	1,794
Balance at December 31, 2019	**(21,477)**	**(5,915)**	**(11,676)**	**(42,741)**	**(81,809)**

c) NET BOOK VALUE

	Agricultural Facilities	Laboratory Equipment	Computer & Office Equipment	Leasehold Improvements	Total
As at December 31, 2018	50,384	-	-	-	50,384
As at December 31, 2019	**768,014**	**175,096**	**168,098**	**544,254**	**1,655,462**

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

In 2018, Medcolcanna S.A.S. entered into a lease agreement for rural property in Colombia for utilization of its cultivation operations. Lease payments began in November 2018 for a fixed amount that is subject to annual adjustments based on the Colombian consumer price index. Additionally, the Company will pay an amount equal to 1% of the profits obtained from the sale of the products made with the cannabis grown on the leased property. As at December 31, 2019, the Company also had commercial-use office leases in Colombia and Switzerland.

The Company recognized right-of-use assets and corresponding lease liabilities relating to the property lease agreement and commercial-use office leases. A continuity of right-of-use assets and lease liabilities is presented below.

Right-of-use assets

	Property	Office	Total
Balance at January 1, 2019	255,960	-	255,960
Additions	-	155,241	155,241
Remeasurement adjustment(1)	182,120	-	182,120
Depreciation	(51,230)	(45,051)	(96,281)
Foreign currency translation	(17,780)	(7,036)	(24,816)
Balance at December 31, 2019	**369,070**	**103,154**	**472,224**

Lease liabilities

	Property	Office	Total
Balance at January 1, 2019	255,960	-	255,960
Additions	-	155,241	155,241
Remeasurement adjustment(1)	182,120	-	182,120
Interest expense	38,322	12,367	50,689
Payments	(73,172)	(57,192)	(130,364)
Foreign currency translation	(18,130)	(7,066)	(25,196)
Balance at December 31, 2019	**385,100**	**103,350**	**488,450**

(1) During the year ended December 31, 2019, the property lease term was reassessed based on expectations to exercise an option to extend the lease term. The resulting remeasurement of remaining lease payments has been accounted for as an increase to the lease liability and right-of-use asset.

For the year ended December 31, 2019, $24,466 was expensed and $9,415 recognized as cash outflows in relation to short-term leases.

Current vs non-current lease liabilities

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

	Property	Office	Total
Current portion	29,572	55,245	84,817
Non-current portion	355,528	48,105	403,633
Balance at December 31, 2019	**385,100**	**103,350**	**488,450**

13. INTANGIBLE ASSETS

In June 2018, Medcolcanna S.A.S was granted licenses to produce, manufacture, market and export cannabis derivatives and products using extracts in Colombia by the Ministry of Health. The license assets are recorded on the consolidated financial statements at a value $148,868 (December 31, 2018 - $148,868). This was the fair value assessed to the license assets at the time of the Colombian Acquisition (Note 6). These are 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.

In July 2019, Medcolcanna acquired ICP (Note 6). The consideration paid in relation to this acquisition of $1,001,943 was attributed entirely to various medicinal cannabinoid formulations and related intellectual property owned by ICP. The formulations are considered to have an indefinite life as there is no foreseeable limit to the period over which the assets are expected to generate future cash inflows to the Company.

Impairment tests performed indicate that the recoverable amount of the licenses and medicinal cannabinoid formulations exceed the carrying amount. Therefore, no impairment loss has been recognized.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities is comprised of the following:

For the years ended December 31	2019	2018
Trade payables	**359,860**	76,798
Accrued liabilities	**98,121**	156,389
Payroll related liabilities	**85,524**	49,982
Other liabilities	**31,716**	3,804
Total	**575,221**	286,973

15. SHARE CAPITAL

(a) Common shares

As at December 31, 2019, the Company was authorized to issue an unlimited number of common shares, with no par value, with holders of common shares entitled to one vote per share and to dividends, if declared.

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(1)	32,000,000	32,000
Shares issued for subscription in September 2018(2)	7,362,659	643,883
Share issuance costs		(10,347)
Shares issued for subscription in December 2018(3)	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(4)	400,000	36,000
Share issuance costs		(3,187)
Share pursuant to the RTO Transaction (Note 7)	12,899,968	2,708,993
Fair value of units attributed to common shares(5)	30,986,800	6,770,990
Share issuance costs of units attributed to common shares		(739,509)
Shares issued to acquire ICP (Note 6)	4,701,240	987,260
Balance at December 31, 2019	**90,350,667**	**10,863,131**

(1) 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.

(2) 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 to share capital of $643,883 and warrants of $18,758. The warrant fair value was determined based on a Black-Scholes option pricing model (see Note 16). Of the total $10,648 issuance costs, $10,347 has been allocated to share capital and $301 to warrants.

(3) 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 total proceeds of $500,000 has been allocated to share capital for $438,276 and warrants for $61,724. The warrant fair value was determined based on a Black-Scholes option pricing model (see Note 16). The issuance costs on the private placement totaling $1,680 were also allocated to share capital for $1,228 and warrants for $452.

(4) 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. Issuance costs totaling $3,187 has been recognized in share capital in connection with this placement.

(5) Upon completion of the RTO Transaction, the subscription units issued by the Company were allocated to common shares and warrants based on the assessed fair value using the Black-Scholes valuation model. As at the RTO date, the subscription receipts had a gross value of $7,746,700 (December 31, 2018 - $3,480,500) and a net value of $6,900,627 (December 31, 2018 - $3,090,002) after issuance costs. The $6,900,627 was held as restricted cash at the RTO date (December 31, 2018 - $3,178,260) and only became available for the Company to use at the completion of the RTO Transaction. As a result of the RTO, 30,986,800 shares were issued to unit holders for a total gross value of $6,770,990 and 15,493,400 warrants issued for a gross value of $975,710. Issuance costs of $739,509 were allocated to the shares, while $106,564 issuance costs were allocated to the warrants for a net value of $6,031,481 and $869,146 respectively.

(b) Shares to be issued

Included in equity is $30,000 of shares to be issued relating to the value of services provided by an external consultant. It was agreed that payment would be issued in the form of shares of the Company. As at December 31, 2019, the shares were not officially issued, but the consulting services were performed by the external party.

Additionally, during the year ended December 31, 2019, the Company hired a new executive officer of the Company and agreed to issue 720,000 shares up front as part of his employment contract. The shares were valued at $54,000 on the grant date and were issued subsequent to December 31, 2019 (Note 29).

The total value of shares to be issued has been recorded in share-based compensation expense with an offsetting amount recorded in shares to be issued equity account.

16. PURCHASE WARRANTS

The following tables summarizes changes in the number of warrants:

	Purchase warrants	Amount ($) (net of issuance costs)
Balance at December 31, 2017	**-**	**-**
Warrants issued in September 2018 (1)	3,681,330	18,457
Warrants issued in December 2018 (2)	1,000,000	61,272
Balance at December 31, 2018	**4,681,330**	**79,729**
Warrants issued pursuant to RTO (3)	6,450,000	404,569
Warrants issued from subscription units (3)	15,493,400	869,146
Warrants expired (1)	(3,681,330)	(18,457)
Balance at December 31, 2019	**22,943,400**	**1,334,987**

(1) Pursuant to the September 2018 private placement, the Company issued 3,681,330 share purchase warrants. The warrants were exercisable immediately at a price of $0.25 per common share. These warrants expired in September 2019 and the value thereof of $18,457 was transferred to contributed surplus.

(2) Pursuant to the December 2018 private placement, 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.

(3) In May 2019, Pursuant to the RTO Transaction, 6,450,000 settlement warrants in IES were converted to 6,450,000 purchase warrants in Medcolcanna. Additionally, the 30,986,800 subscription units were converted into 30,986,800 common shares and 15,493,400 purchase warrants. The warrants issued are exercisable immediately at a price of $0.40 per common share until May 2021.

The following table summarizes information about the warrants outstanding as at December 31, 2019:

Exercise price ($)	Number of warrants outstanding	Weighted average term to expiry (years)	Number of warrants exercisable
0.40	22,943,400	1.36	22,943,400

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

	September 2018 Purchase Warrants	December 2018 Purchase Warrants	May 2019 Purchase Warrants
Risk-free interest rate	2.18%	1.90%	1.64%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	89.7%	85.3%	86.6%
Expected warrant life (years)	1.0	2.0	2.0
Fair value of warrants granted	$0.0051	$0.0617	$0.0630

17. COMPENSATION OPTIONS

Pursuant to the closing of subscription receipts (Note 15(a)), compensation options were awarded to agents of the subscription offering accumulating to 6% of the number of subscription units sold pursuant to the agency agreement under the offering. As at December 31, 2018, 348,960 compensation options with a value of $30,554 were awarded.

During the year ended December 31, 2019, a further 1,510,248 compensation options with a value of $134,805 were awarded and 267,656 IES compensation options with a value of $23,680 (Note 7) were converted to Medcolcanna compensation options for a total of 2,126,864 compensation options outstanding.

Each compensation option entitles 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 date of issuance. Each compensation option unit is comprised of one common 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 RTO Transaction.

The following tables summarizes changes in the number of compensation options as at December 31, 2019:

	Compensation options	Amount ($)
Balance at December 31, 2017	-	-
Compensation options issued	348,960	30,554
Balance at December 31, 2018	**348,960**	**30,554**
Compensation options issued pursuant to the RTO	267,656	23,680
Compensation options issued	1,510,248	134,805
Balance at December 31, 2019	**2,126,864**	**189,039**

The following table summarizes information about the Compensation Options outstanding as at December 31, 2019:

Exercise price ($)	Number of compensation options outstanding	Weighted average term to expiry (years)	Number of compensation options exercisable
0.25	2,126,864	1.09	2,126,864

The compensation options issued in 2018 and 2019 were each allocated a value using the Black-Scholes option pricing model to estimate the fair value with the following weighted average assumptions:

	2018 Compensation Options	2019 Compensation Options
Risk-free interest rate	1.90%	1.63%
Expected dividend yield	0%	0%
Expected stock price volatility	85.3%	87.2%
Expected compensation option life (years)	2.0	2.0
Fair value of compensation options granted	$0.0876	$0.0893

18. CONTRIBUTED SURPLUS

Pursuant to the RTO Transaction, Medcolcanna adopted the Incentive Stock Option Plan (the "Plan") dated May 16, 2019. Per the Plan, the Board will establish vesting and other terms and conditions for stock options at the time that they are granted. The plan provides that stock options may be granted up to a number equal to 10% of the Company's outstanding shares. The plan also indicates, subject to a minimum exercise price of $0.05 per common share, the exercise price per common share for an option shall not be less than the discounted market price for the Company's common shares at the grant date. Options can have up to a maximum term of 10 years.

As at December 31, 2019, a total of 7,875,000 (December 31, 2018 – nil) options were issued and outstanding under this plan.

The following table summarizes information about the changes in stock options as at December 31, 2019:

	Stock options	Exercise price ($)
Balance at December 31, 2018	**-**	**-**
Options issued	8,100,000	0.40
Options forfeited	(225,000)	0.40
Expired options	-	-
Balance at December 31, 2019	**7,875,000**	**0.40**

In May 2019, 7,400,000 options were granted with an exercise price of $0.40 per option. These options have 5-year term, expiring in May 2024. One-third of the options vested immediately on the grant date, one-third vests on the first anniversary of the grant date in May 2020, and one-third vests on the second anniversary of the grant date in May 2021.

In July 2019, 700,000 options were granted with an exercise price of $0.40 per option. These options have a 5-year term, expiring in July 2024. One-third of the options vested immediately on the grant date, one-third vests on the first anniversary of the grant date in July 2020, and one-third vests on the second anniversary of the grant date in July 2021.

The following summarizes information about stock options outstanding as at December 31, 2019:

Exercise price ($)	Number of stock outstanding	Weighted average term to expiry (years)	Number of stock options exercisable
0.40	7,875,000	4.41	2,624,998

The stock options issued were allocated a value using the Black-Scholes option pricing model to estimate the fair value with the following assumptions:

	May 2019	July 2019
Risk-free interest rate	1.62%	1.51%
Estimated stock price	$0.28	$0.18
Forfeiture rate	10%	10%
Expected dividend yield	0%	0%
Expected stock price volatility	89.05%	87.47%
Expected option life	5 years	5 years
Fair value per stock option	$0.18	$0.09

The value of the stock options vesting during the year ended December 31, 2019 equated to $833,064 in share-based compensation (December 31, 2018 – nil) and is included in contributed surplus.

19. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

General and administrative ("G&A") expenses relate to day-to-day operations of the business, not directly attributable to the production of goods and services. The components of G&A expense are as follows:

For the years ended December 31	2019	2018
Salary, wages, and benefits	**889,106**	162,974
Professional fees	**605,196**	166,868
Legal fees	**344,357**	148,501
Travel	**148,545**	21,253
Investor relations	**145,245**	-
General office[(1)]	**133,142**	26,570
Transfer agent and filing fees	**119,136**	30,180
Director fees	**43,942**	-
Software and IT expenses	**40,657**	101
Insurance	**35,233**	-
Other	**46,991**	454
Total	**2,551,550**	556,901

(1) General office expense includes rent on office equipment, communication costs, cleaning services, office supplies and stationery, etc.

20. BUSINESS DEVELOPMENT

Business development expenses relate to business initiatives towards the development, promotion and growth of the Company's operations and assets outside the normal course of the Company's day-to-day endeavors. The components of business development expense are as follows:

For the years ended December 31	2019	2018
Legal Fees	**41,816**	-
Travel	**17,531**	-
Total	**59,347**	**-**

21. FINANCE EXPENSE (INCOME)

The components of finance expenses (income) are as follows:

For the years ended December 31	2019	2018
Interest income	**(20,786)**	(600)
Lease interest expense (Note 12)	**50,689**	-
Bank charges	**26,882**	310
Total	**56,785**	(290)

22. INCOME TAX

Reconciliation of effective tax rate

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2018 – 0% in comparative British Virgin Islands) to the effective tax rate is as follows:

For the years ended December 31	**2019**	2018
Net income (loss) before taxes	**(7,214,468)**	(538,482)
Tax rate	**26.50%**	0.00%
Computed expected income taxes	**(1,911,834)**	-
Increase (decrease) in taxes:		
Difference in foreign tax rates	**61,911**	(71,739)
Tax rate changes and other adjustments	**69,988**	-
Sharebased compensation and non-deductible expenses	**876,568**	285
Change in tax benefits not recognized	**903,367**	71,454
Total tax expense (recovery)	**-**	-
The Company's income tax (recovery) is allocated as follows:		
Current tax (recovery) expense	**-**	-
Deferred tax (recovery) expense	**-**	-

Deferred tax

The following table summarizes the components of deferred tax:

Deferred tax assets	**2019**	2018
Tax losses - Colombia	**17,305**	-
Tax losses - Switzerland	**193**	-
Deferred tax liabilities		
Property, plant and equipment	**(17,305)**	-
ROU asset and lease obligation	**(193)**	-
Net deferred tax asset	**-**	-

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

For the year ended December 31	2019	2018
ROU asset and lease libility	**17,574**	-
Share issuance costs - 20(1)(e)	**63,818**	-
Tax losses - Colombia	**2,149,398**	215,266
Non-capital loss carried forward - Canada	**1,122,389**	-
Tax losses - Switzerland	**78,196**	-
Tax losses - Netherlands	**150**	-
Other temporary differences	**-**	2,124
Total	**3,431,525**	217,390

The Canadian non-capital loss carryforwards expire as noted in the table below. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Medcolcanna can utilize the benefits thereof.

The Company's Canadian non-capital income tax losses expire as follows:

Year of expiry	Amount
2039	1,122,389
Total	**1,122,389**

The Company's Colombian subsidiary non-capital income tax losses expire as follows:

Year of expiry	Amount
2030	157,724
2031	2,046,610
Total	**2,204,334**

The Company's Switzerland subsidiary non-capital income tax losses expire as follows:

Year of expiry	Amount
2026	79,167
Total	**79,167**

23. BASIC AND DILUTED LOSS PER SHARE

For the years ended December 31, 2019 and 2018, there is no difference between the calculated basic loss per share and diluted loss per share amounts. For the period ended December 31, 2019, 22,943,400 purchase warrants, 2,126,864 compensation options and 7,875,000 stock options have been excluded from the calculation as they have an anti-dilutive effect on the loss per share.

24. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

As of December 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 lease liabilities.

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 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 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 carrying amounts for cash and cash equivalents, accounts receivable, due from related parties, and accounts payable and accrued liabilities approximate their respective fair values due to the short-term maturities of those instruments. The carrying amount of lease liabilities approximates its fair value as it is present valued using the discount rate implicit within the lease or the Company's incremental borrowing rate.

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 market risks.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. As at December 31, 2019 the Company's financial liabilities consist of accounts payable and accrued liabilities and lease liabilities. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Liquidity risk is considered to be low due to the Company's positive working capital position as at December 31, 2019. All of the Company's liabilities are due within the next 12 months, except its lease liabilities (see Note 12 and 26).

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. All of the Company's cash and cash equivalents are held at reputable financial institutions. As of December 31, 2019, the Company's accounts receivable balance consists mainly of sales tax receivables that the Company expects to receive from the Government of Canada. As such credit risk is deemed to be low.

Market risk

Market risk is the risk or uncertainty that changes in price, foreign exchange rates, and interest rates will affect the Company's net earnings and the value of financial instruments. Medcolcanna is exposed to two types of market risk, being foreign currency risk and interest rate risk as outlined below.

Foreign Currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. 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 foreign subsidiaries. As at December 31, 2019, the Company had not entered into any foreign currency derivatives to manage its exposure to currency fluctuations.

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 only on cash and cash equivalents. Fluctuations of interest rates for the period ending December 31, 2019 would not have had a significant impact on these consolidated financial statements.

Capital management

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity, and flexibility to fund the Company's operations, growth, and ongoing developmental activities. 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 as outlined below.

For the year ended December 31	**2019**	2018
Shareholders' equity	**5,497,874**	3,763,103
Cash	**2,800,665**	628,618
Working capital	**2,554,463**	3,563,851

25. RELATED PARTY TRANSACTIONS

Related party transactions during the years ended December 31, 2019 and 2018 are as follows:

a) On account of the acquisition of Medcolcanna S.A.S. in July 2018 (Note 6), a promissory note of US$50,000 was issued to the selling party, which was subsequently paid in full in September 2018. The selling party with whom the acquisition relates to is a Colombian corporation controlled by an office of the Company and therefore a related party.

b) During the periods ended December 31, 2019 and 2018, certain expenses were paid by members of management. Periodically advances were made to management in anticipation of expenses that they will be paying on behalf of the Company. From time to time, the amount may result in a net receivable position. As at December 31, 2019, a net receivable of $9,324 existed as a result of these transactions (December 31, 2018 - $22,533). This was presented on the statement of financial position as an asset.

c) During the year ended December 31, 2019, Medcolcanna incurred accounting consulting fees of $96,739 (December 31, 2018 – nil) to a firm affiliated with an officer of the Company. Fees are based on services rendered at prevailing market rates. The amount has been recorded as professional fees within general and administrative expense.

Compensation of Key Management

The Company considers its directors and officers to be the key management personnel. Compensation expenses paid to key management personnel were as follows:

For the years ended December 31	2019	2018
Salaries, consulting fees, and benefits	**580,448**	132,253
Director fees	**43,942**	-
Share based compensation	**668,675**	-
Total	**1,293,065**	132,253

26. COMMITMENTS

(a) Lease and other

Throughout the year ended December 31, 2019, the Company entered into various agreements with different vendors relating to the construction and improvement of its agricultural facilities. The remaining construction work is expected to be completed and paid within the year 2020. The Company also had property and office lease commitments outstanding which have been recorded as lease liabilities on the financial statements (Note 12).

The following table summarizes the contractual commitments as at December 31, 2019:

Commitments	2020	2021	2022	2023 and thereafter	Total
Property Lease	75,101	75,101	75,101	425,574	650,877
Office Leases	67,795	52,206	-	-	120,001
Capital constructions	68,000	-	-	-	68,000
Total	**210,896**	**127,307**	**75,101**	**425,574**	**838,878**

(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	(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. 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.

27. SUPPLEMENTAL CASHFLOW INFORMATION

For the year ended December 31, 2019 and for the period from July 10, 2018 (Date of incorporation) to December 31 2018	2019	2018
Accounts receivable	(86,794)	77,355
Prepaids	(266,924)	(3,413)
Due from related parties	9,132	(22,533)
Inventory	(58,190)	-
Accounts payable and accrued liabilities	244,255	280,585
Unearned revenue	6,176	-
Working capital adjustment for acquired receivables relating to the RTO Transaction	15,942	-
Working capital adjustment for acquired payables relating to the RTO Transaction	(49,453)	-
Change in non-cash working capital	**(185,856)**	**331,994**

28. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in the growth, cultivation, and development of medicinal cannabis and medicinal cannabis products through its Colombian and Netherland subsidiaries. The Company is also engaged in the cannabis vaping industry through its Swiss subsidiary, however currently this segment is not material. Management has defined the operating segments of the Company based on geographical areas, identifying operations held in Colombia, Switzerland, and the Netherlands as separate reporting segments. The Corporate segment reflects balances and expenses related to all Company operations outside of Colombia, Switzerland, and the Netherlands which collectively represent the corporate operations of the Company.

The following tables show information regarding the Company's segments for the years ended December 31, 2019 and 2018.

For the year ended December 31, 2019	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Vape products	-	(1,582)	-	-	(1,582)
Cost of sales	-	636	-	-	636
Gross Profit	**-**	**(946)**	**-**	**-**	**(946)**
Expenses:					
Operating expenses	743,081	3,588	-	-	746,669
General and administrative	1,085,876	53,436	-	1,412,238	2,551,550
Selling, marketing and promotion	10,784	5,442	-	4,125	20,351
Inventory write-off	-	4,711	-	-	4,711
Listing expense	-	-	-	2,232,149	2,232,149
Transaction costs relating to the RTO	-	-	-	202,874	202,874
Depreciation and amortization	175,973	3,911	-	-	179,884
Business development	-	-	-	59,347	59,347
Research and development	4,691	8,585	-	155,776	169,052
Share-based compensation	-	-	-	917,064	917,064
Finance expense (income)	68,543	1,248	150	(13,156)	56,785
Foreign exchange loss (gain)	363	890	-	73,725	74,978
Net Loss	**2,089,311**	**80,865**	**150**	**5,044,142**	**7,214,468**
Assets at December 31, 2019	**2,108,017**	**88,438**	**1,001,943**	**3,369,190**	**6,567,588**
Liabilities at December 31, 2019	**791,125**	**32,631**	**150**	**245,808**	**1,069,714**

For the period from July 10, 2018 (incorporation date) to December 31, 2018	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Exclusivity fee	-	-	-	(32,750)	(32,750)
Cost of sales	-	-	-	-	-
Gross Profit	**-**	**-**	**-**	**(32,750)**	**(32,750)**
Expenses:					
Operating expenses	27,666	-	-	-	27,666
General and administrative	170,043	-	-	386,858	556,901
Finance expense (income)	-	-	-	(290)	(290)
Foreign exchange loss (gain)	-	-	-	(13,045)	(13,045)
Net Loss	**197,709**	**-**	**-**	**340,773**	**538,482**
Assets at December 31, 2018	**225,198**	**-**	**-**	**3,824,878**	**4,050,076**
Liabilities at December 31, 2018	**54,816**	**-**	**-**	**232,157**	**286,973**

29. SUBSEQUENT EVENTS

a) Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, Colombian, and Switzerland governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on Medcolcanna as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by countries throughout the world to fight the virus. While the extent of the impact is unknown, it is possible this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

b) In February 2020, the Corporation announced the signing of two (2) separate letters of intent ("LOIs") with Dona Blanca Limited ("Dona Blanca"), an Australian based cannabis company with operations in Colombia. Pursuant to the first LOI, Dona Blanca will invest approximately $1,000,000 USD ($1,420,000 CAD), to build an additional two (2) hectares of greenhouses on Medcolcanna's fully licensed cultivation property to earn a 70% working interest of economic rights in the output from such greenhouses. Pursuant to the second LOI, Dona Blanca will invest $1,500,000 USD ($2,130,000 CAD) for a 15% ownership stake in Extralia Labs S.A.S. ("Extralia Labs"), Medcolcanna's wholly-owned subsidiary established in 2020, designed to have annualized extraction capacity of 300,000 kilograms of dried flower in Colombia and its operations include providing services for MCCN, Dona Blanca and third parties. In February 2020, Dona Blanca paid a non-refundable deposit of $25,000 USD ($35,500 CAD) to Medcolcanna as an advance on this arrangement.

c) In March 2020, the Corporation signed a definitive agreement with Dona Blanca and an extension to the LOI with Dona Blanca, MCCN and Extralia Labs. Pursuant to the definitive agreement, Dona Blanca will invest up to $1,000,000 USD ($1,420,000 CAD), to build up to an additional two (2) hectares of greenhouses on Medcolcanna's fully licensed cultivation property which would earn Dona Blanca a 70% working interest ("WI") in the economic rights to the output from such greenhouses. Dona Blanca will earn into the project in 3 stages, stage 1 which has been fully funded by Dona Blanca with an investment of $517,000 USD ($734,000 CAD), to earn a 35% WI or 0.7 net hectares; stage 2 where Dona Blanca will invest $290,000 USD ($412,000 CAD) by May, 15, 2020 to earn an additional 20% WI or an aggregated 55% WI, or 1.1 net hectares in the aggregate; and stage 3 where Dona Blanca will invest an additional $193,000 USD ($275,000 CAD) to earn an additional 15% WI or net 1.4 hectares in the aggregate. By May 2020, Medcolcanna had received $806,876 USD ($1,145,700 CAD) from Dona Blanca as investments to complete stage 2 of the agreement. Pursuant to the revised LOI, Dona Blanca has amended the period to invest $1,500,000 USD ($2,130,000 CAD) for a 15% ownership stake in Extralia Labs to October 15, 2020 in consideration for an additional non-refundable deposit of $22,500 USD ($32,000 CAD). The additional non-refundable deposit was received from Dona Blanca in April 2020. Pursuant to the LOI, Dona Blanca also has an additional option to invest an additional $1,000,000 USD (1,420,000 CAD) for a total equity ownership of 25% in Extralia Labs (Medcolcanna's wholly-owned subsidiary), which is designed to have annualized extraction capacity of 300,000 kilograms of dried flower in Colombia with operations that include providing services for Medcolcanna, Dona Blanca and third parties.

d) In April 2020, Medcolcanna received final approval for commercial production of certain strains of cannabis from its Colombian operations.

e) In April 2020, the Company issued the 720,000 shares outlined in Note 15(b) to the new executive officer of the Company.