



MEDCOLCANNA ORGANICS INC.

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

June 30, 2020

NOTICE OF NO AUDITORS' REVIEW OF INTERIM FINANCIAL STATEMENTS

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

MEDCOLCANNA ORGANICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, expressed in Canadian Dollars)

June 30, 2020

December 31, 2019

Assets

Current Assets

Cash and cash equivalents	423,873	2,800,665
Accounts receivable (Note 6)	101,415	86,613
Due from related parties (Note 23)	-	9,324
Inventory (Note 7)	339,079	58,021
Biological assets (Note 8)	115,789	-
Prepays	420,562	265,921

1,400,718 3,220,544

Non-Current Assets

Advances towards property, plant, and equipment	399,721	68,547
Property, plant and equipment (Note 9)	2,121,217	1,655,462
Right-of-use assets (Note 10)	876,768	472,224
Intangible assets (Note 11)	1,150,811	1,150,811

Total Assets 5,949,235 6,567,588

Liabilities

Current Liabilities

Accounts payable and accrued liabilities	882,034	575,221
Due to related parties (Note 23)	5,119	-
Unearned revenue	29,880	6,043
Current portion of lease liabilities (Note 10)	104,127	84,817

1,021,160 666,081

Non-Current Liabilities

Lease liabilities (Note 10)	810,575	403,633
Advances received on transactions (Note 12)	64,908	-

Total Liabilities 1,896,643 1,069,714

Shareholders' Equity

Share capital (Note 13(a))	10,917,131	10,863,131
Shares to be issued (Note 13(b))	30,000	84,000
Purchase warrants (Note 14)	1,334,987	1,334,987
Compensation options (Note 15)	189,039	189,039
Contributed surplus (Note 16)	1,150,502	851,521
Deficit	(9,198,775)	(7,752,950)
Accumulated other comprehensive loss	(350,818)	(71,854)

Total equity attributable to Medcolcanna shareholders 4,072,066 5,497,874

Non-Controlling Interests (19,474) -

Total Shareholders' Equity 4,052,592 5,497,874

Total Liabilities and Shareholders' Equity 5,949,235 6,567,588

Going concern (Note 2)

Related party transactions (Note 23)

Commitments (Note 24)

Subsequent events (Note 27)

See accompanying notes to the condensed interim consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three and six months ended June 30

<i>(Unaudited, expressed in Canadian Dollars)</i>	Three months ended		Six months ended	
	2020	2019	2020	2019
Revenue				
Product sales	5,834	-	32,791	-
Revenue from earn-in agreement (Note 17)	1,187,086	-	1,187,086	-
Total revenue	1,192,920	-	1,219,877	-
Cost of goods sold	12,273	-	31,862	-
Gross profit before fair value adjustments	1,180,647	-	1,188,015	-
Changes in fair value of inventory sold	-	-	-	-
Unrealized gain on changes in fair value of biological assets (Note 8)	73,359	-	73,359	-
Gross profit	1,254,006	-	1,261,374	-
Expenses				
Operating expenses (Note 18)	157,224	63,915	413,602	110,115
General and administrative (Note 19)	768,990	744,929	1,744,669	1,171,048
Selling, marketing and promotion	22,764	-	27,963	-
Listing expense (Note 5)	-	2,232,149	-	2,232,149
Transaction costs relating to the RTO (Note 5)	-	99,572	-	202,874
Business development	-	40,756	-	42,899
Research and development	97,847	-	114,646	-
Depreciation and amortization (Note 9 and 10)	33,305	33,244	99,153	54,640
Share-based compensation (Note 16)	144,260	500,201	298,981	500,201
Finance expense (income) (Note 20)	39,267	7,355	59,548	10,703
Foreign exchange loss (gain)	(27,802)	56,561	(29,416)	57,894
	1,235,855	3,778,682	2,729,146	4,382,523
Income (loss) before income taxes	18,151	(3,778,682)	(1,467,772)	(4,382,523)
Current and deferred income tax	-	-	-	-
Net income (loss)	18,151	(3,778,682)	(1,467,772)	(4,382,523)
Other comprehensive income (loss)				
Foreign currency translation adjustment	(64)	19,849	(278,684)	20,315
Comprehensive income (loss)	18,087	(3,758,833)	(1,746,456)	(4,362,208)
Net income (loss) attributable to:				
Medcolcanna Organics Inc.	31,282	(3,778,682)	(1,445,825)	(4,382,523)
Non-Controlling Interest	(13,131)	-	(21,947)	-
Comprehensive income (loss) attributable to:				
Medcolcanna Organics Inc.	30,938	(3,758,833)	(1,724,789)	(4,362,208)
Non-Controlling Interest	(12,851)	-	(21,667)	-
Loss per share - basic and diluted (Note 21)	0.00	(0.06)	(0.02)	(0.08)
Weighted average number of shares outstanding	90,841,216	63,464,907	90,595,942	52,512,408

See accompanying notes to the condensed interim consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(Unaudited, expressed in Canadian Dollars)</i>	Common Shares	Share Capital (Note 13(a))	Subscription Receipts (Note 13(a))	Shares to be issued (Note 13(b))	Purchase Warrants (Note 14)	Compensation Options (Note 15)	Contributed Surplus (Note 16)	Deficit	AOCL ⁽¹⁾	NCI ⁽²⁾	Total
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
NCI on incorporation of Medicina Nueva SAS										2,193	2,193
Shares issued to executive officer	720,000	54,000		(54,000)							-
Share-based compensation							298,981				298,981
Net loss for the period								(1,445,825)		(21,947)	(1,467,772)
Other comprehensive income (loss)									(278,964)	280	(278,684)
Balance at June 30, 2020	91,070,667	10,917,131	-	30,000	1,334,987	189,039	1,150,502	(9,198,775)	(350,818)	(19,474)	4,052,592

⁽¹⁾ Accumulated Other Comprehensive Loss

⁽²⁾ Non-Controlling Interest

See accompanying notes to the condensed interim consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30

(Unaudited, expressed in Canadian Dollars)

2020

2019

Operating activities

Net loss	(1,467,772)	(4,382,523)
Adjustments for:		
Listing expense	-	2,232,149
Depreciation and amortization	142,819	54,640
Unrealized gain on fair value of biological assets	(73,359)	-
Accrued interest on leases	6,949	43
Share-based compensation	298,981	500,201
Unrealized foreign exchange loss	11,261	26,334
Change in non-cash working capital (Note 25)	(165,405)	(4,790)
Cash used in operating activities	(1,246,526)	(1,573,946)

Investing activities

Advances towards property, plant and equipment	(344,358)	-
Expenditures on property, plant & equipment	(702,892)	(714,794)
Advances received on transactions	64,908	-
Cash acquired from RTO Transaction	-	208,604
Cash used in investing activities	(982,342)	(506,190)

Financing activities

Issue common shares, net of cash issuance costs	-	3,481,310
Funds received from short-term loan	-	496,933
Receipt of funds from September 2018 private placement	-	18,000
Funds received from short-term loan	-	730,000
Change in restricted cash	-	3,178,260
Principal portion of lease payments	(41,757)	(46,964)
Cash used in financing activities	(41,757)	7,857,539

Net decrease in cash	(2,270,625)	5,777,403
Effects of variation in the exchange rate on cash	(106,167)	(26,656)
Cash, beginning of period	2,800,665	628,618
Cash, end of period	423,873	6,379,365

Cash interest paid	40,708	17,357
Cash interest received	2,317	15,109

See accompanying notes to the condensed interim consolidated financial statements.

MEDCOLCANN ORGANICS INC.

Notes to the condensed interim consolidated financial statements
For the periods ended June 30, 2020 and 2019
(unaudited and expressed in Canadian dollars unless otherwise stated)



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 5 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. Medcolcanna’s common shares are listed on the TSX Venture Exchange (“TSXV”) under the symbol “MCCN”. The common shares are also listed on the Frankfurt Stock Exchange (“FSE”) under the symbol “MO2”.

2. GOING CONCERN

These condensed interim 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 six months ended June 30, 2020, the Company incurred a net loss of \$1,467,772 and used \$1,246,526 in operating activities. As at June 30, 2020, the Company had working capital of \$379,558. While current working capital is sufficient to meet its current obligations as they come due and to cover the upcoming commitments disclosed in Note 24, 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.

In addition, during the six months ended June 30, 2020, the global outbreak of coronavirus disease (“COVID-19”), was declared a pandemic by the World Health Organization. Governments worldwide, including those in Canada, Colombia, Switzerland, and the Netherlands have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruptions to businesses globally resulting in an economic downturn. As a result

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of COVID-19 Medcolcanna experienced some disruptions in its own business activities including temporarily shutting down its Swiss operations and delays in receiving imported capital equipment in Colombia. While operations are returning to normal, COVID-19 related lockdowns and travel restrictions may cause reduced customer demand and supply chain disruptions, which may negatively impact the Company's business and financial condition.

Management believes that the going concern assumption is appropriate for these condensed interim 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 and finance offerings to source funds and maintain its operations. As outlined in Note 27, subsequent to the six months ended June 30, 2020, the Company issued 10,000,000 common shares to Greenstein Capital Ltd ("Greenstein") at price of \$0.08 per share for total proceeds of \$800,000. Additionally, Greenstein also subscribed for \$800,000 worth of convertible secured debentures. In August, the Company closed its first tranche of its convertible debenture financing, raising an additional \$997,000.

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 condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting.

These condensed interim consolidated financial statements follow the same accounting policies and method of computation as the Company's annual audited consolidated financial statements for the year ended December 31, 2019, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2019.

These condensed interim consolidated financial statements have been approved and authorized for issuance by the Company's Board of Directors on October 13, 2020.

Basis of measurement

The condensed interim consolidated financial statements have been prepared on a historical cost convention except for certain assets, liabilities, or equity instruments measured at fair value. The methods used to measure fair value are consistent with the Company's year ended December 31, 2019 audited consolidated financial statements. Estimates and judgements made by management in the preparation of these financial statements are subject to a higher degree of measurement uncertainty due to the impacts of COVID-19.

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For the periods ended June 30, 2020 and 2019
(unaudited and expressed in Canadian dollars unless otherwise stated)



Significant accounting policies

The Company's significant accounting policies can be read in Note 4 to the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2019.

New standards adopted on January 1, 2020

IFRS 3 "Business Combinations" was amended to narrow and clarify the definition of a 'business'. The amendment permits a simplified assessment of whether an acquisition is a group of assets rather than a business. The adoption of this amendment did not have an impact on the Company's condensed interim consolidated financial statements.

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 June 30, 2020, 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)
Extralia Labs SAS	Colombia	100%	Colombian Peso (COP)
Medicina Nueva SAS	Colombia	50.01%	Colombian Peso (COP)
Innovative CBD Products B.V.	Netherlands	100%	Euro
MCCN SA	Switzerland	100%	Swiss Franc (CHF)

4. CORPORATE TRANSACTIONS

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

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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.

5. 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 14 and Note 15. 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 13(a) and 14).

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 15). 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 16). With the issuance of shares, purchase warrants, and compensation options, the total consideration paid on the RTO Transaction was \$3,137,242.

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 (unaudited and expressed in Canadian dollars unless otherwise stated)



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

6. ACCOUNTS RECEIVABLE

Accounts receivable, as of June 30, 2020 and December 31, 2019, is comprised of the following:

	2020	2019
Product sales receivable	6,692	683
Value added tax receivable	88,682	77,238
Other receivables	6,041	8,692
Total	101,415	86,613

7. INVENTORY

Inventory, as of June 30, 2020 and December 31, 2019, is comprised of the following:

	2020	2019
Raw materials and supplies	56,435	32,810
Work-in-progress	249,803	-
Finished goods	32,841	25,211
Total	339,079	58,021

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Notes to the condensed interim consolidated financial statements
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**8. BIOLOGICAL ASSETS**

As at June 30, 2020, the Company's biological assets consist of cannabis plants, measured at their fair value less costs to sell. The Company utilizes an income approach to determine the fair value less cost to sell at a specific measurement date. The fair value measurements for biological assets have been categorized as Level 3 in the IFRS fair value hierarchy based on the inputs to the valuation technique utilized.

The changes in the carrying value of biological assets during the period are as follows:

Balance at December 31, 2019	-
Production costs capitalized	260,035
Gain in fair value less costs to sell due to biological transformation	73,359
Transfer to inventory upon harvest	(215,061)
Foreign currency translation	(2,544)
Balance at June 30, 2020	115,789

As at June 30, 2020, the Company calculated the fair value less costs to sell to be \$0.09 per gram of dry cannabis flower. The significant estimates and inputs used to assess the fair value of biological assets include the following:

- Selling prices – selling prices are based on the Company's expected selling price per gram of CBD oil based on internal data and current market conditions. A selling price of \$1.41 per gram of CBD oil was used in the fair value calculation.
- Post-harvest costs – post-harvest costs are based on actual and expected costs incurred for drying, trimming, extracting, and packaging finished products. Post-harvest costs of \$0.67 per gram of CBD oil was used in the fair value calculation.
- Stage of growth – the stage of plant growth is determined on a linear basis using the initial planting date, period end reporting date, and the anticipated number of weeks to harvest in the production cycle. As at June 30, 2020, the weighted average stage of growth for the biological assets was 39%.
- Expected yield – the expected yield per plant is based on the Company's historical yield results. Expected yield of 58 grams of dried flower per plant is expected and utilized within the Company's fair value calculations.

The following table highlights the sensitivities and impact of changes in significant assumptions on the fair value of biological assets. No comparative information is presented as the Company did not recognize biological assets at June 30, 2019.

Significant estimates and assumptions	Inputs	10% sensitivity adjustment	Impact on fair value (\$)
Selling price of CBD oil per gram (\$/gram)	1.41	0.14	19,261
Post-harvest cost per gram of CBD oil (\$/gram)	0.67	0.07	9,631
Growth cycle (number of days)	93	9	9,980
Yield of dry flower per plant (grams per plant)	58	6	10,255

The Company's estimates are, by their nature, subject to change, and differences from the expectations used in the fair value model. Any input changes will be reflected in the gain or loss on biological assets in future periods.

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 (unaudited and expressed in Canadian dollars unless otherwise stated)

**9. 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	Other Equipment	Total
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
Capital additions	180,406	456,464	38,372	20,204	7,444	702,890
Foreign currency translation	(70,432)	(25,073)	(15,979)	(49,917)	(160)	(161,561)
Balance at June 30, 2020	899,465	612,402	202,167	557,282	7,284	2,278,600

b) Accumulated depreciation

	Agricultural Facilities	Laboratory Equipment	Computer & Office Equipment	Leasehold Improvements	Other Equipment	Total
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)
Depreciation	(24,870)	(13,321)	(17,835)	(28,105)	(151)	(84,282)
Foreign currency translation	2,345	785	1,368	4,207	3	8,708
Balance at June 30, 2020	(44,002)	(18,451)	(28,143)	(66,639)	(148)	(157,383)

c) Net book value

	Agricultural Facilities	Laboratory Equipment	Computer & Office Equipment	Leasehold Improvements	Other Equipment	Total
Balance at December 31, 2019	768,014	175,096	168,098	544,254	-	1,655,462
Balance at June 30, 2020	855,463	593,951	174,023	490,644	7,136	2,121,217

During three and six months ended June 30, 2020, \$30,631 (three and six months ended June 30, 2019 – nil) of PP&E depreciation was capitalized to biological assets and inventory.

10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

As at June 30, 2020, Medcolcanna had lease agreements for commercial-use office space and for rural cannabis farm property. The rural farm property and office lease in Colombia pays a fixed monthly rate which is increased annually for inflation. 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 farm property.

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A continuity of right-of-use assets and lease liabilities is presented below.

Right-of-use assets

	Property	Office	Total
Balance at December 31, 2018	-	-	-
IFRS 16 adoption	255,960	-	255,960
Additions	-	155,241	155,241
Remeasurement adjustment	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
Additions	475,797	-	475,797
Remeasurement adjustment	17,061	9,705	26,766
Depreciation	(30,003)	(28,537)	(58,540)
Foreign currency translation	(33,032)	(6,447)	(39,479)
Balance at June 30, 2020	798,893	77,875	876,768

During three and six months ended June 30, 2020, \$12,423 (three and six months ended June 30, 2019 – nil) of right-of-use asset depreciation was capitalized to biological assets and inventory.

Lease liabilities

	Property	Office	Total
Balance at December 31, 2018	-	-	-
IFRS 16 adoption	255,960	-	255,960
Additions	-	155,241	155,241
Remeasurement adjustment	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
Additions	475,797	-	475,797
Remeasurement adjustment	17,061	9,705	26,766
Interest expense	41,553	6,105	47,658
Payments	(48,906)	(33,558)	(82,464)
Foreign currency translation	(34,871)	(6,634)	(41,505)
Balance at June 30, 2020	835,734	78,968	914,702

During the period ended June 30, 2020, \$22,327 (June 30, 2019 – nil) was expensed and \$15,223 (June 30, 2019 – nil) recognized as cash outflows in relation to short-term leases.

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Current vs non-current lease liabilities

The current portion of lease liabilities as at June 30, 2020 and December 31, 2019, is presented in the table below:

	2020	2019
Current portion	104,127	84,817
Non-current portion	810,575	403,633
Total	914,702	488,450

11. INTANGIBLE ASSETS

Medcolcanna has been granted licenses to produce, manufacture, market and export cannabis derivatives and products in Colombia. The licenses are recorded as assets on the condensed interim consolidated financial statements at a value \$148,868 (December 31, 2019 - \$148,868). These assets 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 4). 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.

12. ADVANCES RECEIVED ON TRANSACTIONS

In February 2020, Medcolcanna signed a Letter of Intent ("LOI") with Dona Blanca Limited, an unlisted Australian corporation with operations in Colombia ("Dona Blanca"). Pursuant to the LOI, Dona Blanca will invest \$1,500,000 USD (\$2,040,000 CAD) for a 15% ownership stake in Extralia Labs SAS ("Extralia"), Medcolcanna's wholly-owned subsidiary. As at June 30, 2020, Dona Blanca provided a non-refundable deposit of \$47,500 USD (\$64,908 CAD) for the 15% ownership stake in Extralia, which is recorded as an advance received on transactions within these financial statements. The deadline for Dona Blanca to provide the remaining minimum investment has been extended by Medcolcanna to December 15, 2020.

13. SHARE CAPITAL

(a) Common shares

As at June 30, 2020, 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.

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Common shares issued and outstanding are as follows:

	Common shares	Amount (\$)
Balance at December 31, 2018	41,362,659	1,102,584
Shares issued for subscription in March 2019 ⁽¹⁾	400,000	36,000
Share issuance costs		(3,187)
Share pursuant to the RTO Transaction (Note 5)	12,899,968	2,708,993
Fair value of units attributed to common shares ⁽²⁾	30,986,800	6,770,990
Share issuance costs of units attributed to common shares		(739,509)
Shares issued to acquire ICP (Note 4)	4,701,240	987,260
Balance at December 31, 2019	90,350,667	10,863,131
Shares issued to employee ⁽³⁾	720,000	54,000
Balance at June 30, 2020	91,070,667	10,917,131

(1) 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.

(2) 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 and a net value of \$6,900,627 after issuance costs. The \$6,900,627 was held as restricted cash at the RTO date 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.

(3) In November 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 officially issued to the officer in April 2020.

(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 in the year 2019. It was agreed that payment would be issued in the form of shares of the Company. As at June 30, 2020, the shares have not officially been issued.

14. PURCHASE WARRANTS

The following tables summarizes changes in the number of warrants:

	Purchase warrants	Amount (\$) (net of issuance costs)
Balance at December 31, 2018	4,681,330	79,729
Warrants issued pursuant to RTO (Note 5) ⁽¹⁾	6,450,000	404,569
Warrants issued from subscription units (Note 5) ⁽¹⁾	15,493,400	869,146
Warrants expired	(3,681,330)	(18,457)
Balance at December 31, 2019 & June 30, 2020	22,943,400	1,334,987

(1) In May 2019, Pursuant to the RTO Transaction, 6,450,000 settlement warrants in IES were converted to

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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 June 30, 2020:

Exercise price (\$)	Number of warrants outstanding	Weighted average term to expiry (years)	Number of warrants exercisable
0.40	22,943,400	0.86	22,943,400

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

	Purchase Warrants issued in 2018	Purchase Warrants issued in 2019
Risk-free interest rate	1.90%	1.64%
Expected dividend yield	0%	0%
Expected stock price volatility	85.3%	86.6%
Expected warrant life (years)	2.0	2.0
Fair value of warrants granted	\$0.0617	\$0.0630

15. COMPENSATION OPTIONS

Pursuant to the closing of subscription receipts (Note 13(a)), compensation options were awarded to agents of the subscription offering accumulating to 6% of the number of subscription units sold. During the year ended December 31, 2019, 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 5) were converted to Medcolcanna compensation options.

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 June 30, 2020:

	Compensation options	Amount (\$)
Balance at December 31, 2018	348,960	30,554
Compensation options issued pursuant to the RTO (Note 5)	267,656	23,680
Compensation options issued	1,510,248	134,805
Balance at December 31, 2019 & June 30, 2020	2,126,864	189,039

The following table summarizes information about the Compensation Options outstanding as at June 30, 2020:

Exercise price (\$)	Number of compensation options outstanding	Weighted average term to expiry (years)	Number of compensation options exercisable
0.25	2,126,864	0.59	2,126,864

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The compensation options were allocated a fair value using the Black-Scholes option pricing model using the following weighted average assumptions:

	Compensation Options issued in 2018	Compensation Options issued in 2019
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

16. 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.

The following table summarizes information about the changes in stock options. As at June 30, 2020, a total of 7,875,000 options were outstanding under this plan.

	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 & June 30, 2020	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 June 30, 2020:

Exercise price (\$)	Number of stock outstanding	Weighted average term to expiry (years)	Number of stock options exercisable
0.40	7,875,000	3.91	5,016,664

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The stock options were allocated a fair value using the Black-Scholes option pricing model using 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

During the three and six months ended June 30, 2020, share-based compensation expense relating to the vesting of stock options was recorded for \$144,260 (June 2019 - \$500,201) and \$298,981 (June 2019 - \$500,201) respectively.

17. REVENUE FROM EARN-IN AGREEMENT

During the three and six months ended June 30, 2020, the Company recognized \$855,008 USD (\$1,187,086 CAD) as revenue for funds received as part of an earn-in agreement with Dona Blanca. The Company signed this definitive agreement with Dona Blanca for the sale of up to 70% working interest in the economic rights of two hectares of land. Dona Blanca must provide funds over stages to earn the full 70%: stage 1 where Dona Blanca will invest \$516,678 USD (\$712,351 CAD), to earn a 35% working interest or 0.7 net hectares; stage 2 where Dona Blanca will invest \$290,000 USD (\$408,610 CAD) to earn an additional 20% working interest or an aggregated 55% working interest, or 1.1 net hectares; and stage 3 where Dona Blanca will invest an additional \$193,000 USD (\$274,000 CAD) to earn an additional 15% working interest for a total working interest percentage of 70% and total proceeds received by Medcolcanna of \$1,000,000 USD (\$1,360,000). The total funds received as at June 30, 2020, equate to the total value recognized in revenue. As stipulated in the agreement, Medcolcanna had only one performance obligation, which was to make available properly licensed hectares of land, which it has fulfilled by June 30, 2020.

18. OPERATING EXPENSES

Included in operating expenses are costs associated with pre-operational agricultural activities, costs incurred for the development of 2 hectares of land relating to the earn-in agreement with Dona Blanca (Note 17), pre-operational extraction and processing costs, and vape operational expenses in Switzerland. A summary of these activities is presented below.

	For the three months ended		For the six months ended	
	2020	June 30 2019	2020	June 30 2019
Agricultural ⁽¹⁾	58,936	63,915	314,021	110,115
Dona Blanca agreement	36,769	-	36,769	-
Extraction and processing	61,181	-	61,181	-
Vaping	338	-	1,631	-
Total	157,224	63,915	413,602	110,115

(1) Agricultural operating costs include cultivation and production activities prior to receiving final approval for commercial cultivation of biological assets.

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**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 three months ended		For the six months ended	
	2020	2019	2020	2019
Salary, wages, and benefits	402,474	146,334	914,397	265,237
Professional fees	187,155	177,446	374,812	288,321
Legal fees	52,667	140,245	116,189	222,164
Director fees	26,321	6,747	52,809	6,747
Insurance	23,896	-	52,540	-
Investor relations	28,093	65,130	46,030	98,130
General office ⁽¹⁾	-	55,728	40,814	86,485
Travel	106	44,960	35,522	56,321
Transfer agent and filing fees	15,679	77,075	28,157	96,215
Software and IT expenses	3,974	-	18,133	-
Business registration and license fees	11,115	-	11,115	-
Other	17,510	31,264	54,151	51,428
Total	768,990	744,929	1,744,669	1,171,048

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

20. FINANCE EXPENSE (INCOME)

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

	For the three months ended		For the six months ended	
	2020	2019	2020	2019
Interest income	(298)	(7,218)	(2,317)	(15,109)
Lease interest expense (Note 10)	32,496	13,441	47,658	16,781
Bank charges	7,069	1,132	14,207	9,031
Total	39,267	7,355	59,548	10,703

21. BASIC AND DILUTED LOSS PER SHARE

During the three and six months ended June 30, 2020, the basic and diluted loss per share was \$0.00 (June 30, 2019 - \$0.06) and \$0.02 (June 30, 2019 - \$0.08) respectively. Stock options, warrants, and compensation options have been excluded from the six months ended June 30, 2020 diluted loss per share calculation as they have anti-dilutive effects.

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22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

As of June 30, 2020, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, due to related parties, 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, accounts payable and accrued liabilities, and due to related parties 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 June 30, 2020, the Company's financial liabilities consist of accounts payable and accrued liabilities, due to related parties, and lease liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it has sufficient cash resources in order to finance operations, funds capital expenditures, and to repay financial liabilities. The Company manages its liquidity risk by preparing and monitoring operating budgets, reviewing capital requirements, and coordinating and authorizing project expenditures. As at June 30, 2020, the Company had a working capital surplus of \$379,558.

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 and accounts receivables. All of the Company's cash and cash equivalents are held at reputable financial institutions. As of June 30, 2020, the Company's accounts receivable balance consists mainly of sales tax receivables (Note 6) that the Company expects to receive from the Government of Canada.

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.

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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 June 30, 2020, 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 June 30, 2020 would not have had a significant impact on cash and cash equivalents.

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.

	June 30, 2020	December 31, 2019
Shareholders' equity	4,072,066	5,497,874
Cash	423,873	2,800,665
Working capital	379,558	2,554,463

23. RELATED PARTY TRANSACTIONS

The following are related party transactions included in these condensed interim consolidated financial statements:

- a) During the period ended June 30, 2020, 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. As at June 30, 2020, the balance switched to a net liability of \$5,119.
- b) During the three and six months ended June 30, 2020, Medcolcanna incurred accounting consulting fees of \$63,559 (June 30, 2020 - \$6,739) and \$108,559 (June 30, 2019 - \$6,739) respectively to a firm affiliated with an officer of the Company. Fees are based on services rendered at prevailing market rates. The amounts have been recorded as professional fees within general and administrative expense.

24. COMMITMENTS

The Company has 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 10).

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The following table summarizes the contractual commitments as at June 30, 2020:

Commitments	2020	2021	2022	2023 and thereafter	Total
Property Lease	74,876	149,753	149,753	324,463	698,845
Office Leases	25,857	51,714	-	-	77,571
Capital constructions	195,486	-	-	-	195,486
Total	296,219	201,467	149,753	324,463	971,902

25. SUPPLEMENTAL CASHFLOW INFORMATION

For the six months ended June 30	2020	2019
Accounts receivable	(13,593)	(78,826)
Inventory	(169,509)	-
Biological assets	(161,156)	-
Prepays	(174,562)	(22,976)
Accounts payable and accrued liabilities	336,198	388,054
Due to/from related parties	(7,664)	(257,531)
unearned revenue	24,881	-
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	(165,405)	(4,790)

26. 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. 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 three and six months ended June 30, 2020 and 2019

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For the three months ended June 30, 2020	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Product sales	4,751	1,083	-	-	5,834
Revenue from earn-in agreement	1,187,086	-	-	-	1,187,086
Total revenue	1,191,837	1,083	-	-	1,192,920
Cost of sales	11,626	647	-	-	12,273
Gross profit before fair value adjustments	1,180,211	436	-	-	1,180,647
Unrealized gain on changes in fair value of biological assets	73,359	-	-	-	73,359
Gross profit	1,253,570	436	-	-	1,254,006
Expenses:					
Operating expenses	156,886	338	-	-	157,224
General and administrative	351,921	27,909	-	389,160	768,990
Selling, marketing and promotion	15,102	3,602	-	4,060	22,764
Research and development	57,143	2,014	-	38,690	97,847
Depreciation and amortization	29,702	3,603	-	-	33,305
Share-based compensation	-	-	-	144,260	144,260
Finance expense (income)	38,256	287	-	724	39,267
Foreign exchange loss (gain)	(1,256)	(704)	-	(25,842)	(27,802)
Net loss (Income)	(605,816)	36,613	-	551,052	(18,151)

For the six months ended June 30, 2020	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Product sales	22,545	10,246	-	-	32,791
Revenue from earn-in agreement	1,187,086	-	-	-	1,187,086
Total revenue	1,209,631	10,246	-	-	1,219,877
Cost of sales	27,288	4,574	-	-	31,862
Gross profit before fair value adjustments	1,182,343	5,672	-	-	1,188,015
Unrealized gain on changes in fair value of biological assets	73,359	-	-	-	73,359
Gross profit	1,255,702	5,672	-	-	1,261,374
Expenses:					
Operating expenses	411,971	1,631	-	-	413,602
General and administrative	897,760	65,981	-	780,928	1,744,669
Selling, marketing and promotion	16,877	7,026	-	4,060	27,963
Research and development	69,368	6,588	-	38,690	114,646
Depreciation and amortization	92,066	7,087	-	-	99,153
Share-based compensation	-	-	-	298,981	298,981
Finance expense (income)	57,620	591	156	1,181	59,548
Foreign exchange loss (gain)	(1,071)	(515)	-	(27,830)	(29,416)
Net loss	288,889	82,717	156	1,096,010	1,467,772

Assets at June 30, 2020	4,410,218	93,426	1,001,943	443,648	5,949,235
Liabilities at June 30, 2020	1,485,107	32,280	160	379,096	1,896,643

MEDCOLCANNA ORGANICS INC.

Notes to the condensed interim consolidated financial statements
 For the periods ended June 30, 2020 and 2019
 (unaudited and expressed in Canadian dollars unless otherwise stated)



For the three months ended June 30, 2019	Colombia	Switzerland	Netherlands	Corporate	Total
Expenses:					
Operating expenses	63,915	-	-	-	63,915
General and administrative	312,512	-	-	432,417	744,929
Listing expense	-	-	-	2,232,149	2,232,149
Transaction costs relating to the RTO	-	-	-	99,572	99,572
Business development	-	-	-	40,756	40,756
Depreciation and amortization	33,244	-	-	-	33,244
Share based compensation	-	-	-	500,201	500,201
Finance expense (income)	16,239	-	-	(8,884)	7,355
Foreign exchange loss (gain)	107	-	-	56,454	56,561
Net Loss	426,017	-	-	3,352,665	3,778,682

For the six months ended June 30, 2019	Colombia	Switzerland	Netherlands	Corporate	Total
Expenses:					
Operating expenses	110,115	-	-	-	110,115
General and administrative	508,278	-	-	662,770	1,171,048
Listing expense	-	-	-	2,232,149	2,232,149
Transaction costs relating to the RTO	-	-	-	202,874	202,874
Business development	-	-	-	42,899	42,899
Depreciation and amortization	54,640	-	-	-	54,640
Share based compensation	-	-	-	500,201	500,201
Finance expense (income)	24,538	-	-	(13,835)	10,703
Foreign exchange loss (gain)	(194)	-	-	58,088	57,894
Net Loss	697,377	-	-	3,685,146	4,382,523
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

27. SUBSEQUENT EVENTS

- a) In July 2020, Medcolcanna issued 10,000,000 common shares at a value of \$0.08 per share to Greenstein for total proceeds of \$800,000. Additionally, Greenstein subscribed for \$800,000 worth of convertible secured debentures. The debentures will be convertible into common shares at a price of \$0.20 per share and will have a term of two (2) years from the date of issuance, with interest payable at expiration date of fourteen percent (14%) per annum (simple not compounded), payable in cash or shares. The debentures will be subject to earlier redemption by the Company in the event the common shares are trading on the facilities of the TSXV (or such other stock exchange on which the common shares may then be trading) at a volume weighted average trading price at or above \$0.40 per share for a period of not less than ten (10) consecutive trading days. The debentures include five common share purchase warrants for every one dollar of principal amount of debentures subscribed for, with each warrant exercisable at a price of \$0.20 to purchase one common share for a period of 24 months from the date of issuance. The debentures will be convertible into common shares. The warrants will have a forced conversion feature whereby the Company will have the option to force the conversion of warrants upon the common shares trading on the facilities of the TSXV (or such other stock exchange on which the common shares may then be trading) at a volume weighted average trading price at or above \$0.40 per share for a period of not less than ten (10)

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consecutive trading days.

- b) In August 2020, Medcolcanna closed the first tranche of its convertible debenture financing raising approximately \$997,000 and announced the upsizing of the offering to a maximum size of \$1.25 million. The debenture terms are the same as outlined in the Greenstein subscribed debentures noted above.
- c) In September 2020, Medcolcanna received further proceeds of \$47,500 USD (\$64,600 CAD) from Dona Blanca in relation to the \$1,000,000 USD earn-in agreement discussed in Note 17, leaving a remaining amount to be received of \$97,492 USD (\$132,600 CAD).
- d) In September 2020, Medcolcanna subscribed for 1,000,000 shares of Dona Blanca at a price of \$0.10 AUD for a total value of \$100,000 AUD (\$95,960 CAD). The subscription consideration was applied against the \$1,500,000 USD (\$2,040,000 CAD) Extralia Labs investment owed by Dona Blanca to the Company as described in Note 12.
- e) In September 2020, the Company entered into a joint venture agreement for the development and commercialization of cannabis-based pharmaceutical products with Grupo Curativa SAS (“Curativa”), an interdisciplinary group of physicians and scientists, internationally recognized for their development and commercialization of various carefully researched products with varying ratios of THC, CBD and other cannabinoids across human and veterinary populations.
- f) In September 2020, the Company announced that it has received final approval to have the common shares of the Company listed on the Neo Exchange Inc. (“NEO”). The Company’s common shares will begin trading on the NEO on October 14, 2020. Consequently, the Company has received approval to voluntarily delist its common shares from the TSXV, effective at the close of business on October 13, 2020.