MEDCOLCANNA ORGANICS INC.

(FORMERLY INTEGRATED ENERGY STORAGE CORP.)

ANNUAL AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

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

March 31, 2021
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, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, 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, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended 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 during the year ended December 31, 2020. 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.

MNP

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

Toronto, Ontario
March 31, 2021

Chartered Professional Accountants
Licensed Public Accountants

MNP

MEDCOLCANNA ORGANICS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian Dollars)	**December 31, 2020**	December 31, 2019
Assets		
Current Assets		
Cash and cash equivalents	**276,762**	2,800,665
Accounts receivable (Note 8)	**49,489**	86,613
Due from related parties (Note 30)	**-**	9,324
Inventory and biological assets (Note 9)	**252,969**	58,021
Prepaids (Note 10)	**486,183**	265,921
	1,065,403	3,220,544
Non-Current Assets		
Advances towards property, plant, and equipment (Note 11)	**101,057**	68,547
Property, plant and equipment (Note 11)	**2,671,064**	1,655,462
Right-of-use assets (Note 12)	**1,112,731**	472,224
Investment - Dona Blanca (Note 13)	**100,246**	-
Intangible assets (Note 14)	**1,146,398**	1,150,811
Total Assets	**6,196,899**	6,567,588
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 15)	**2,045,390**	575,221
Due to related parties (Note 30)	**281,003**	-
Advances received on transactions (Note 16)	**1,556,622**	-
Unearned revenue	**56,386**	6,043
Current portion of lease liabilities (Note 12)	**144,866**	84,817
	4,084,267	666,081
Non-Current Liabilities		
Lease liabilities (Note 12)	**1,034,111**	403,633
Convertible debentures (Note 17)	**1,820,901**	-
Total Liabilities	**6,939,279**	1,069,714
Shareholders' Equity		
Share capital (Note 18(a))	**11,711,298**	10,863,131
Shares to be issued (Note 18(b))	**30,000**	84,000
Purchase warrants (Note 19)	**1,476,064**	1,334,987
Compensation options (Note 20)	**127,612**	189,039
Contributed surplus (Note 21)	**1,381,139**	851,521
Equity component of convertible debentures (Note 17)	**24,974**	-
Deficit	**(15,025,546)**	(7,752,950)
Accumulated other comprehensive loss	**(379,629)**	(71,854)
Total equity attributable to Medcolcanna shareholders	**(654,088)**	5,497,874
Non-Controlling Interests (Note 22)	**(88,292)**	-
Total Shareholders' Equity	**(742,380)**	5,497,874
Total Liabilities and Shareholders' Equity	**6,196,899**	6,567,588

Going concern (Note 2)

Related party transactions (Note 29)

Commitments (Note 30)

Subsequent events (Note 33)

See accompanying notes to the audited annual consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31

(expressed in Canadian Dollars)	**2020**	2019
Revenue		
Product sales	**95,774**	1,582
Total revenue	**95,774**	1,582
Cost of sales - Cannabis products (Note 9)	**74,120**	636
Impairment of inventory (Note 9)	**96,075**	4,711
Gross loss before fair value adjustments	**(74,421)**	(3,765)
Changes in fair value of inventory sold	**-**	-
Unrealized loss on changes in fair value of biological assets (Note 9)	**(787,773)**	-
Gross loss	**(862,194)**	(3,765)
Operating, selling, general and administrative expenses		
Operating expenses (Note 23)	**944,760**	746,669
General and administrative (Note 24)	**4,009,363**	2,551,550
Selling, marketing and promotion	**113,143**	20,351
Listing expense (Note 7)	**-**	2,232,149
Transaction costs relating to the RTO (Note 7)	**-**	202,874
Business development	**-**	59,347
Research and development	**357,489**	169,052
Depreciation and amortization (Note 11, 12 and 14)	**166,016**	179,884
Impairment of property, plant, and equipment (Note 11)	**320,738**	-
Share-based compensation (Note 21)	**406,919**	917,064
Finance expense (income) (Note 25)	**297,900**	56,785
Other expenses (income)	**(17,553)**	-
Foreign exchange loss (gain)	**(30,573)**	74,978
	6,568,202	7,210,703
Net loss before income taxes	**(7,430,396)**	(7,214,468)
Current income tax	**-**	**-**
Deferred tax recovery (Note 17)	**69,395**	**-**
Net loss	**(7,361,001)**	(7,214,468)
Other comprehensive loss		
Foreign currency translation adjustment	**(309,856)**	(70,570)
Comprehensive loss	**(7,670,857)**	(7,285,038)
Net loss attributable to:		
Medcolcanna Organics Inc.	**(7,272,596)**	(7,214,468)
Non-Controlling Interest	**(88,405)**	-
Comprehensive loss attributable to:		
Medcolcanna Organics Inc.	**(7,580,371)**	(7,285,038)
Non-Controlling Interest	**(90,486)**	-
Loss per share - basic and diluted (Note 27)	**(0.08)**	(0.10)
Weighted average number of shares outstanding	**95,424,765**	71,535,517

See accompanying notes to the audited annual consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(expressed in Canadian Dollars)	**2020**	2019
Operating activities		
Net loss	**(7,361,001)**	(7,214,468)
Adjustments for:		
Listing expense	**-**	2,232,149
Deferred tax recovery	**(69,395)**	-
Depreciation and amortization	**166,016**	179,884
Impairment of inventory	**96,075**	4,711
Impairment of property, plant, and equipment	**320,738**	-
Unrealized loss on fair value of biological assets	**787,773**	-
Accrued interest on leases	**7,273**	6,502
Accrued interest on convertible debentures	**100,164**	-
Accretion on convertible debentures	**53,795**	-
Share-based compensation	**406,919**	917,064
Unrealized gain on investments	**(4,282)**	-
Unrealized foreign exchange loss	**10,978**	11,458
Change in non-cash working capital (Note 31)	**1,780,185**	(190,566)
Cash used in operating activities	**(3,704,762)**	(4,053,266)
Investing activities		
Expenditures on intangible assets	**(12,452)**	-
Advances towards property, plant & equipment	**(98,918)**	(70,050)
Expenditures on property, plant & equipment	**(1,574,642)**	(1,627,208)
Advances received on transactions	**68,928**	-
Transaction costs on acquisition of ICP	**-**	(14,682)
Cash acquired from RTO Transaction	**-**	208,604
Cash used in investing activities	**(1,617,084)**	(1,503,336)
Financing activities		
Loan received from a related party	**277,974**	-
Issue common shares, net of cash issuance costs	**794,167**	3,481,310
Issue warrants, net of cash issuance costs	**202,349**	496,933
Proceeds on convertible debentures, net of transaction costs	**1,810,141**	-
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	**(63,878)**	(86,176)
Cash generated from financing activities	**3,020,753**	7,818,327
Net decrease in cash	**(2,301,093)**	2,261,725
Effects of variation in the exchange rate on cash	**(222,810)**	(89,678)
Cash, beginning of period	**2,800,665**	628,618
Cash, end of period	**276,762**	2,800,665
Cash interest paid	110,065	44,003
Cash interest received	2,742	20,786

See accompanying notes to the audited annual consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2020 and 2019

(expressed in Canadian Dollars)	**Common Shares**	**Share Capital** (Note 18(a))	**Subscription Receipts** (Note 18(a))	**Shares to be issued** (Note 18(b))	**Purchase Warrants** (Note 19)	**Compensation Options** (Note 20)	**Contributed Surplus** (Note 21)	**ECCD[1]** (Note 17)	**Deficit**	**AOCI[2]**	**NCI[3]** (Note 22)	**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 income (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											2,195	2,195
Shares issued to executive officer	720,000	54,000		(54,000)								-
Shares issued through private placement	10,000,000	800,000										800,000
Share issuance costs		(5,833)										(5,833)
Warrants issued with convertible debentures					205,660							205,660
Warrant issuance costs					(3,311)							(3,311)
Warrants expired					(61,272)		61,272					-
Compensation options expired						(61,427)	61,427					-
Issuance of convertible debentures								96,056				96,056
Transaction costs on convertible debenture								(1,687)				(1,687)
Deferred tax recovery on convertible debenture								(69,395)				(69,395)
Share-based compensation							406,919					406,919
Net loss for the period									(7,272,596)		(88,405)	(7,361,001)
Other comprehensive income (loss)										(307,775)	(2,082)	(309,857)
Balance at December 31, 2020	**101,070,667**	**11,711,298**	**-**	**30,000**	**1,476,064**	**127,612**	**1,381,139**	**24,974**	**(15,025,546)**	**(379,629)**	**(88,292)**	**(742,380)**

[1] *Equity component of convertible debentures*

[2] *Accumulated other comprehensive income (loss)*

[3] *Non-controlling interest*

See accompanying notes to the audited 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 Medcolcanna'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 providing extraction services through its wholly owned subsidiary Extralia Labs SAS and is involved 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 Company's corporate office address is Suite 800, 400 – 5th Avenue SW, Calgary, AB, T2P 0L6. Medcolcanna's common shares are listed on the Neo Exchange ("NEO") under the symbol "MCCN". The common shares are also listed on the Frankfurt Stock Exchange ("FSE") under the symbol "MO2".

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, 2020, the Company incurred a net loss of $7,361,001 and used $3,704,761 of cash flow in its operating activities. As at December 31, 2020, the Company had a working capital deficit of $3,018,864. 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 may cast 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 33, subsequent to the year ended December 31, 2020, the Company closed its bridge loan financing and settled liabilities through the issuance of shares in the Company.

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 favorable 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 March 31, 2021.

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, 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 S.A.S	Colombia	50.01%	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 dried cannabis, cannabis oil, CBD isolate, vaping liquids and devices, and raw materials and supplies. Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost of the inventory. Subsequent costs include materials, overhead, amortization and labour involved in packaging and quality assurance. The identified capitalized direct and indirect costs related to inventory are subsequently recorded within "cost of goods sold" on the statement of loss and comprehensive loss at the time the product is sold.

Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price less estimated costs to completion and estimated selling costs. Any write-downs of inventories to net realizable value 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 cannabis plants and are measured at fair value less cost to sell up to the point of harvest using the income approach. 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. Production costs are capitalized to biological assets and include all direct and indirect costs relating to biological transformation.

Prior to April 2020, the Company expensed all agricultural costs as operating expenses, as these represent pre-commercial expenditures incurred at the agricultural facilities of Medcolcanna. Once the Company obtained the full commercial cannabis licenses, biological assets were recognized, and all direct and indirect costs were capitalized to biological assets.

Property, Plant & Equipment (“PP&E”)

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. 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
Production and medical 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. Definite life intangible assets are amortized through the consolidated statement of loss on a straight-line basis over their estimated useful lives. The Company's definite life intangible assets consist of Colombian cannabis licenses and software.

No amortization expense is recorded for indefinite life intangible assets. 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. The Company's indefinite life intangible assets consists of formulations acquired through a corporate acquisition.

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
- Accounts receivable – classified at amortized costs and measured at amortized cost
- Investment in Dona Blanca – classified as fair value through profit and loss ("FVTPL") and measured at fair value
- 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
- Lease liabilities – classified at amortized costs and measured at amortized cost
- Convertible debentures – 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, amended and future IFRS pronouncements

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

Amendment to IFRS 3: Definition of a Business
In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)" (the "IFRS 3 Amendment"). The IFRS 3 Amendment clarifies the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The IFRS 3 Amendment provides an assessment framework to determine when a series of integrated activities is not a business. The IFRS 3 Amendment is effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, however early application is permitted. The adoption of the amendments had no impact on the Company's consolidated financial statements.

IAS 1: Presentation of Financial Statements & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
In October 2018, the IASB issued "Definition of Material", an amendment to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, to clarify the definition of material and to align the definition used in the Conceptual Framework and the standards themselves. Materiality is defined as "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." This amendment is effective for the annual period beginning January 1, 2020.

The following is a brief summary of the new standards issued but not yet effective:

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current ("Amendments to IAS 1"). The Amendments to IAS 1 aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The Amendments to IAS 1 include clarifying the classification requirements for debt a company might settle by converting it into equity. The Amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract ("Amendments to IAS 37") amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022.

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.

Convertible debentures

Convertible debentures are compound financial instruments that contain a debt and equity component, which must be measured separately on the financial statements. The fair value of the liability component is determined using a discounted cash flow model with an estimated market interest rate of equivalent debt without a conversion feature. The Company estimates an appropriate interest rate to use through reviewing market data and performing internal calculations to arrive at an appropriate rate. The residual difference between the proceeds received from issuing convertible debentures and the calculated fair value on the debentures is allocated to the equity component of the convertible debentures.

COVID-19 Estimation Uncertainty

In March 2020, the global outbreak of COVID-19 (coronavirus) 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 disruption to businesses globally resulting in an economic downturn. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence and may result in changes in estimates in the Company's financial statements. 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.

The Company has received financial support from the Swiss government in the amount of $13,045 during the year ended December 31, 2020. The support received was specifically to assist the Company with Swiss payroll obligations during the year.

6. CORPORATE TRANSACTIONS

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 19 and Note 20. 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 18(a) and 19).

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 19). 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 20). 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	**2020**	2019
Product sales receivable	**9,119**	683
Value added tax receivable	**35,926**	77,238
Other receivables	**4,444**	8,692
Total	**49,489**	86,613

9. INVENTORY

As at December 31, 2020 and 2019, inventory is comprised of the following:

For the years ended December 31	2020	2019
Raw materials and supplies	**86,942**	32,810
Work-in-progress	**77,673**	-
Finished goods	**88,354**	25,211
Total	**252,969**	58,021

During the year ended December 31, 2020, the Company recognized $74,120 (December 31, 2019 - $636) in cost of sales associated with inventory.

In December 2020, a fire occurred at the Company's post-harvest extraction facility, resulting in inventory valued at $6,741 (December 31, 2019 – nil) being damaged and considered obsolete. This inventory was written off by the Company and recorded in the consolidated statement of loss and comprehensive loss as impairment of inventory. Additionally, a further $89,334 of inventory was written down to net realizable value during the year ended December 31, 2020 (December 31, 2019 - $4,711), resulting in total impairment of inventory of $96,075 (December 31, 2019 - $4,711).

BIOLOGICAL ASSETS

The Company's biological assets consist of 170,296 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.

During the year ended December 31, 2020, the Company incurred $787,773 in production costs towards its biological assets (December 31, 2019 - $nil). Currently, all the Company's biological assets are located in Colombia, where the sale and export of cannabis flower is prohibited. As such, based on current global CBD isolate pricing and the prohibition to sell dried flower, the Company measured its biological assets at fair value less cost to sell of $nil (December 31, 2019 - $nil) and recorded an unrealized loss on changes in fair value of biological assets of $787,773 on the consolidated statement of loss and comprehensive loss.

10. PREPAIDS

The Company's prepaids consist of the following:

For the years ended December 31	2020	2019
Prepaid insurance	**45,411**	54,317
Prepaid materials and supplies	**27,942**	-
Deposit	**27,190**	7,095
Prepaid professional fees and other expenses	**385,640**	204,509
Total	**486,183**	265,921

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

The components of the Company's property, plant and equipment assets are as follows:

a) COST

	Agricultural & extraction facilities	Production & medical equipment	Computer & office equipment	Leasehold improvements	Construction in progress	Total
Balance at December 31, 2018	50,384	-	-	-	-	50,384
Capital additions	495,116	184,979	183,716	599,864	263,336	1,727,011
Foreign currency translation	(12,628)	(3,968)	(3,942)	(12,869)	(6,717)	(40,124)
Balance at December 31, 2019	532,872	181,011	179,774	586,995	256,619	1,737,271
Capital additions	442,439	473,348	104,171	389,229	228,885	1,638,072
Transfers from construction in progress	110,083	545	-	299,128	(409,756)	-
Impairment	(158,894)	(167,861)	(10,760)	-	-	(337,515)
Foreign currency translation	(32,395)	1,755	(8,632)	(22,023)	(18,823)	(80,118)
Balance at December 31, 2020	**894,105**	**488,798**	**264,553**	**1,253,329**	**56,925**	**2,957,710**

b) ACCUMULATED DEPRECIATION

	Agricultural & extraction facilities	Production & medical equipment	Computer & office equipment	Leasehold improvements	Construction in progress	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	(64,153)	(45,073)	(42,111)	(70,909)	-	(222,246)
Impairment	4,181	9,961	2,635	-	-	16,777
Foreign currency translation	35	(392)	(128)	1,117	-	632
Balance at December 31, 2020	**(81,414)**	**(41,419)**	**(51,280)**	**(112,533)**	**-**	**(286,646)**

c) NET BOOK VALUE

	Agricultural & extraction facilities	Production & medical equipment	Computer & office equipment	Leasehold improvements	Construction in progress	Total
Balance at December 31, 2019	511,395	175,096	168,098	544,254	256,619	1,655,462
Balance at December 31, 2020	**812,692**	**447,378**	**213,272**	**1,140,797**	**56,925**	**2,671,064**

During the year ended December 31, 2020, depreciation on PP&E of $142,084 (December 31, 2019 – $nil) was capitalized to the Company's biological assets and inventory.

As at December 31, 2020, the Company had advanced $101,057 (December 31, 2019 - $68,547) to vendors for PP&E it has not yet received. This amount has been recorded as Advances towards property, plant, and equipment on the consolidated statement of financial position.

In December 2020, a fire occurred at the Company's post-harvest extraction facility, resulting in PP&E with gross value of $337,515 (December 31, 2019 – $nil) and accumulated depreciation of $16,777 (December 31, 2019 – $nil) being damaged and impaired. The net amount of $320,738 (December 31, 2019 – $nil) has been recorded as impairment of property, plant, and equipment within the consolidated statement of loss and comprehensive loss.

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

As at December 31, 2020, the Company had commercial-use property and 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 December 31, 2018	-	-	-
IFRS 16 adoption	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
Additions	581,081	-	581,081
Remeasurement adjustment(1)	180,159	23,955	204,114
Depreciation	(81,171)	(56,753)	(137,924)
Foreign currency translation	(1,694)	(5,070)	(6,764)
Balance at December 31, 2020	**1,047,445**	**65,286**	**1,112,731**

During the year ended December 31, 2020, right-of-use asset depreciation of $63,773 (December 31, 2019 – $nil) 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(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
Additions	581,081	-	581,081
Remeasurement adjustment(1)	180,159	23,955	204,114
Interest expense	106,990	10,347	117,337
Payments	(139,119)	(66,064)	(205,183)
Foreign currency translation	(1,627)	(5,195)	(6,822)
Balance at December 31, 2020	**1,112,584**	**66,393**	**1,178,977**

(1) During the years ended December 31, 2020 and 2019, the property lease term was reassessed based on expectations to exercise options 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, 2020, $47,593 was expensed and $46,316 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:

	2020	2019
Current portion	144,866	84,817
Non-current portion	1,034,111	403,633
Total	**1,178,977**	**488,450**

13. INVESTMENT IN DONA BLANCA

During the year ended December 31, 2020, Dona Blanca Limited, an private Australian corporation with operations in Colombia ("Dona Blanca") issued 1,000,000 units to Medcolcanna as a non-refundable payment towards Dona Blanca's investment in Extralia Labs SAS ("Extralia"). Refer to Note 16 for details regarding the Extralia investment. Each unit consists of one common share and one half of one option, resulting in Medolcanna receiving 1,000,000 common shares and 500,000 options in total. Each option entitles the Company to purchase one common share of Dona Blanca at a price of $0.25 AUD per share until July 30, 2022.

At initial recognition the shares issued by Dona Blanca were assessed a value of $95,570 AUD ($91,713 CAD) and the options were valued at $4,430 AUD ($4,252 CAD) for total consideration received of $100,000 AUD ($95,965 CAD). The options value was determined using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.16%
Expected dividend yield	0%
Expected stock price volatility	85.6%
Expected optionlife (years)	1.83
Fair value of options granted	$0.017

As at December 31, 2020, the shares have been valued at $90,174 (December 31, 20219 - $nil), resulting in an unrealized loss of $1,539 (December 31, 20219 - $nil) recorded in other expenses (income) on the statement of loss and comprehensive loss. The options have been revalued to $10,072 (December 31, 20219 - $nil) using the Black-Scholes option pricing model. The unrealized gain associated with the options of $5,821 (December 31, 20219 - $nil) has been included in other expenses (income) on the statement of loss and comprehensive loss. The assumptions used in the Black-Scholes option pricing model are as follows:

Risk-free interest rate	0.08%
Expected dividend yield	0%
Expected stock price volatility	99.9%
Expected optionlife (years)	1.58
Fair value of options granted	$0.021

14. INTANGIBLE ASSETS

	Licenses	Formulations[1]	Software	Total
Balance at December 31, 2018	148,868	-	-	148,868
Additions	-	1,001,943	-	1,001,943
Amortization	-	-	-	-
Foreign Currency translation	-	-	-	-
Balance at December 31, 2019	148,868	1,001,943	-	1,150,811
Additions	-	-	12,452	12,452
Amortization	(16,010)	-	(1,038)	(17,048)
Foreign Currency translation	(64)	-	247	183
Balance at December 31, 2020	**132,794**	**1,001,943**	**11,661**	**1,146,398**

(1) The formulations 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.

As of December 31, 2020, the Company performed impairment tests on its indefinite life assets and determined the assets carrying value does not exceed the recoverable amount. Thus, no impairment has been recorded for these assets. The recoverable amount of the indefinite life assets was determined based on the assets' value in use, using an income approach with level 2 and level 3 inputs and assumptions.

The significant assumptions applied in the determination of the recoverable amount are described as follows:

a) Cash flows: Estimated cash flows were projected based on actual operating results from internal sources as well as industry and market trends. The forecasts were extended to a total of four years (with a terminal year thereafter) based on the relative immaturity of the industry.
b) Terminal value growth rate: The terminal growth rate was based on historical and projected consumer price inflation, historical and projected economic indicators, and projected industry growth. The Company used 4% as terminal value growth.
c) Post-tax discount rate: The post-tax discount rate is reflective of the CGUs Weighted Average Cost of Capital ("WACC"). A WACC of 25% was used based on the estimated risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a direct comparison approach, an unsystematic risk premium, and after-tax cost of debt based on corporate bond yields.; and
d) Tax rate: The tax rates used in determining the future cash flows were those effectively enacted based on jurisdiction at the respective valuation date.

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities is comprised of the following:

For the years ended December 31	2020	2019
Trade payables	**1,276,297**	359,860
Accrued liabilities	**254,613**	98,121
Payroll related liabilities	**375,971**	85,524
Interest payable on convertible debentures (Note 17)	**48,831**	-
Other liabilities	**89,678**	31,716
Total	**2,045,390**	575,221

16. ADVANCES RECEIVED ON TRANSACTIONS

(a) Extralia Labs investment

In February 2020, Medcolcanna signed a Letter of Intent ("LOI") with Dona Blanca in which Dona Blanca would invest $1,500,000 USD ($1,909,800 CAD) for a 15% ownership stake in Extralia, Medcolcanna's wholly-owned subsidiary. During the year ended December 31, 2020, the initial LOI was amended to allow Dona Blanca the option to increase its ownership stake in Extralia Labs to 25% for an additional $1,000,000 USD ($1,273,200 CAD). As at December 31, 2020, Medcolcanna had received a non-refundable cash deposits of $50,558 USD ($68,928 CAD) from Dona Blanca towards its investment in Extralia Labs. Additionally, as outlined in Note 13, Dona Blanca issued shares and options to Medcolcanna to be applied as payment toward the Extralia investment. The shares and options were valued at $95,964 CAD as consideration received towards the Extralia Labs investment.

(b) Earn-in agreement

During the year ended December 31, 2020, the Company recognized $1,000,000 USD ($1,391,730 CAD) as advances received from funds provided by Dona Blanca (December 31, 2019 – $nil) in relation to an earn-in agreement for the sale of 70% working interest in the economic rights of two hectares of land. Dona Blanca was required to provide funds in stages to earn the full 70%: stage 1 where Dona Blanca invested $516,678 USD ($719,075 CAD), to earn a 35% working interest or 0.7 net hectares; stage 2 where Dona Blanca invested $290,000 USD ($404,055 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 invested an additional $193,322 USD ($268,600 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 ($1,391,730 CAD).

As at December 31, 2020, the agreement with Dona Blanca was being revised and amended and as such the total proceeds received have been recorded as an advance received on the statement of financial position. Once signed, the new amended agreement will dictate the accounting treatment for the $1,000,000 USD ($1,391,730 CAD).

17. CONVERTIBLE DEBENTURES

During 2020, the Company completed a non-brokered private placement of senior secured convertible debenture units. The debentures closed in three separate tranches in July, August, and December. Total proceeds received from the debentures equate to $2,046,915. The debentures mature two years from the date of issuance and are convertible into common shares of the Company, at the option of the holder, at any time prior to the maturity date, at a price of $0.20 per share. For the debentures issued in July, interest is payable on the maturity date at a rate of fourteen percent (14%) per annum (simple not compounded), payable in cash or shares. Interest for the August and December issued debentures is payable semi-annually, at the end of June and December, at a rate 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 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.

As the debenture units contain purchase warrants and a conversion feature, the equity and debt components of the debenture are required to be bifurcated to record the value of the debt and equity separately. The fair value of the liability was determined using a discounted cash flow model with an estimated market interest rate of equivalent debt without a conversion feature and purchase warrants of 23%. At initial recognition, the fair value of the debentures was calculated to be $1,745,199 with $205,660 allocated to the purchase warrants (Note 19) using the

Black-Scholes pricing model valuation technique and the residual amount of $96,056 allocated to the conversion feature recorded as the equity component of the convertible debenture. Transaction costs totaled $34,425, of which $29,427 was allocated to the convertible debenture liability, $3,311 to the purchase warrants (Note 19), and $1,687 to the equity component of the convertible debenture. Additionally, as the accounting base and the tax base of the convertible debenture differs, a deferred tax recovery has been recorded in the amount of $69,395 on the statement of loss and comprehensive loss with the offset recorded in equity against the equity component of the convertible debenture. Subsequent to initial recognition, the convertible debenture liability is measured using the effective interest method, with the charge recorded as accretion expense in finance expense (income) in the consolidated statement of loss on the financial statements of the Company.

A summary of the Company's convertible debentures as at December 31, 2020 is presented in the table below:

	July 2020	August 2020	December 2020	Total
Balance at December 31, 2019	-	-		-
Proceeds received	800,000	996,915	250,000	2,046,915
Value allocated to warrants	(87,575)	(96,265)	(21,820)	(205,660)
Equity component of convertible debenture	(35,579)	(46,496)	(13,981)	(96,056)
Transaction costs	(5,336)	(15,398)	(8,692)	(29,426)
Accrued interest	51,333	48,053	778	100,164
Accretion	31,264	22,147	384	53,795
Balance at December 31, 2020	754,107	908,956	206,669	1,869,732
Current accrued interest payable included in accounts payable and accrued liabilities	-	(48,053)	(778)	(48,831)
Non-current convertible debenture liability	**754,107**	**860,903**	**205,891**	**1,820,901**

18. SHARE CAPITAL

(a) Common shares

As at December 31, 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.

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 7)	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 6)	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
Shares issued for subscription in July 2020(4)	10,000,000	800,000
Share issuance costs		(5,833)
Balance at December 31, 2020	**101,070,667**	**11,711,298**

(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.

(4) In July 2020, the Company completed a non-brokered private placement of 10,000,000 common shares at a price of $0.08 per share for gross proceeds of $800,000. Issuance costs totaling $5,833 has been recognized in share capital in connection with the placement.

(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 December 31, 2020, the shares have not officially been issued.

19. PURCHASE WARRANTS

The following tables summarizes changes in the number of warrants:

	Purchase warrants	Amount ($)
Balance at December 31, 2018	4,681,330	79,729
Warrants issued pursuant to RTO (Note 7)(1)	6,450,000	405,450
Warrant issuance costs		(881)
Warrants issued from subscription units (Note 7)(1)	15,493,400	975,710
Warrant issuance costs		(106,564)
Warrants expired	(3,681,330)	(18,457)
Balance at December 31, 2019	22,943,400	1,334,987
Warrants issued with convertible debentures (Note 17)(2)	10,234,575	205,660
Warrant issuance costs		(3,311)
Warrants expired	(1,000,000)	(61,272)
Balance at December 31, 2020	**32,177,975**	**1,476,064**

(1) 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.

(2) As outlined in Note 17, Medcolcanna completed a non-brokered private placement of senior secured convertible debentures. 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. In total 10,234,575 warrants were issued with the convertible debentures. The warrants have a forced conversion feature whereby the Company will have the option to force the conversion of warrants upon the common shares trading at a volume weighted average price at or above $0.40 per share for a period of not less than ten (10) consecutive trading days.

The following table summarizes information about the warrants outstanding as at December 31, 2020:

Exercise price ($)	Number of warrants outstanding	Weighted average term to expiry (years)	Number of warrants exercisable
0.34	32,177,975	0.78	32,177,975

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

	Purchase Warrants issued in 2020	Purchase Warrants issued in 2019
Risk-free interest rate	0.24%	1.64%
Expected dividend yield	0%	0%
Expected stock price volatility	95.11%	86.60%
Expected warrant life (years)	2	2
Fair value of warrants granted	$0.0202	$0.0630

20. COMPENSATION OPTIONS

Pursuant to the closing of subscription receipts (Note 18(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, 2020:

	Compensation options	Amount ($)
Balance at December 31, 2018	348,960	30,554
Compensation options issued pursuant to the RTO (Note 7)	267,656	23,680
Compensation options issued	1,510,248	134,805
Balance at December 31, 2019	2,126,864	189,039
Compensation options expired	(697,920)	(61,427)
Balance at December 31, 2020	**1,428,944**	**127,612**

The following table summarizes information about the Compensation Options outstanding as at December 31, 2020:

Exercise price ($)	Number of compensation options outstanding	Weighted average term to expiry (years)	Number of compensation options exercisable (1)
0.25	1,428,944	0.14	1,428,944

(1) By March 2021, all compensation options issued and outstanding in the table above expired and are no longer exercisable.

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

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

21. 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, 2020, a total of 7,875,000 (December 31, 2019 – 7,875,000) options were issued and outstanding under this plan.

The following table summarizes information about the changes in stock options as at December 31, 2020:

	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 & 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 December 31, 2020:

Exercise price ($)	Number of stock outstanding	Weighted average term to expiry (years)	Number of stock options exercisable
0.40	7,875,000	3.41	5,250,000

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

During the year ended December 31, 2020 $406,919 in share-based compensation expense (December 31, 2019 – $833,064) was recorded in relation to the Company's stock options.

22. NON-CONTROLLNG INTERESTS

In February 2020, with an initial investment of $2,195, the Company incorporated Medicina Nueva SAS ("Medicina") an entity organized and existing within the laws of Colombia.

As at December 31, 2020, the Company held a 50.01% ownership interest (December 31, 2019 – 0%) in Medicina. The following table presents the summarized financial information for Medicina before intercompany eliminations:

For the years ended December 31	2020
Current assets	6,479
Non-current assets	8,225
Current liabilities	191,767
Non-current liabilities	-
Net loss for the year ended	(176,775)

23. OPERATING EXPENSES

Included in operating expenses are costs associated with operating agricultural activities, pre-operational extraction and processing costs, and vape operational expenses in Switzerland. A summary of these activities is presented below.

For the years ended December 31	2020	2019
Agricultural[1]	**550,025**	743,081
Extraction and processing	**392,581**	-
Vaping	**2,154**	3,588
Total	**944,760**	746,669

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

24. 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	2020	2019
Salary, wages, and benefits	**1,874,416**	889,106
Professional fees	**970,777**	605,196
Legal fees	**249,664**	344,357
Travel	**52,305**	148,545
Investor relations	**216,438**	145,245
General office[1]	**132,503**	133,142
Business registration and licenses fees	**33,551**	-
Transfer agent and filing fees	**70,969**	119,136
Director fees	**102,876**	43,942
Software and IT expenses	**52,650**	40,657
Insurance	**92,568**	35,233
Other	**160,646**	46,991
Total	**4,009,363**	2,551,550

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

25. FINANCE EXPENSE (INCOME)

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

For the years ended December 31	2020	2019
Interest income	(2,755)	(20,786)
Lease interest expense (Note 12)	117,337	50,689
Bank charges	29,359	26,882
Accrued interest on convertible debentures (Note 17)	100,164	-
Accretion on convertible debentures (Note 17)	53,795	-
Total	**297,900**	56,785

26. INCOME TAX

Reconciliation of effective tax rate

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 24% (2019 – 26.5%) to the effective tax rate is as follows:

For the years ended December 31	2020	2019
Net loss before taxes	(7,430,396)	(7,214,468)
Tax rate	24.00%	26.50%
Computed expected income taxes	(1,783,295)	(1,911,834)
Increase (decrease) in taxes:		
Difference in foreign tax rates	(280,312)	61,911
Tax rate changes and other adjustments	116,985	69,988
Share-based compensation and non-deductible expenses	495,563	876,568
Share issuance cost booked in equity	(2,103)	-
Change in tax benefits not recognized	1,383,767	903,367
Total tax expense (recovery)	**(69,395)**	-

The Company's income tax (recovery) is allocated as follows:		
Current tax (recovery) expense	-	-
Deferred tax (recovery) expense	(69,395)	-

Deferred tax

The following table summarizes the components of deferred tax:

Deferred tax assets	**2020**	2019
Investment - Dona Blanca	**154**	-
Non-capital losses carried forward	**64,306**	-
Lease liabilities - Colombia	**354,441**	-
Lease liabilities - Switzerland	**3,547**	-
Tax losses - Colombia	**39,440**	17,305
Tax losses - Switzerland	**-**	193
Deferred tax liabilities		
Property, plant and equipment	**-**	(17,305)
Investment - Dona Blanca	**(670)**	-
Convertible debenture	**(63,790)**	-
ROU asset and lease obligation - Switzerland	**(3,547)**	(193)
ROU asset and lease obligation - Colombia	**(336,108)**	-
Unrealized foreign exchange - Colombia	**(57,773)**	-
Net deferred tax asset	**-**	-

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax liabilities

	2020	2019
Balance at the beginning of the year	**-**	-
Recognized in profit/loss	**(69,395)**	-
Recognized in equity	**69,395**	-
Balance at the end of the year	**-**	-

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	2020	2019
Property, plant and equipment - Colombia	**506,569**	-
ROU asset and lease liability	**-**	17,574
Share issuance costs - 20(1)(e)	**79,560**	63,818
Tax losses - Colombia	**4,073,874**	2,149,398
Tax losses - Switzerland	**203,347**	78,196
Tax losses - Netherlands	**153**	150
Unrealized gain/loss on inventory - Colombia	**893,249**	-
Unrealized gain/loss on inventory - Switzerland	**2,625**	-
Non-capital losses carried forward	**2,900,371**	1,122,389
Other temporary differences	**446**	-
Total	**8,660,194**	3,431,525

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:

2037	36,226
2038	141,177
2039	693,622
2040	2,029,347
Total	**2,900,372**

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

Year of expiry	Amount
2030	12,642
2031	1,854,986
2032	2,206,246
Total	**4,073,874**

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

Year of expiry	Amount
2026	84,432
2027	118,915
Total	**203,347**

27. BASIC AND DILUTED LOSS PER SHARE

For the year ended December 31, 2020, the basic and diluted loss per share was $0.08 (December 31, 2019 - $0.10). 32,177,975 purchase warrants (December 31, 2019 – 22,943,400), 1,428,944 compensation options (December 31, 2019 – 2,126,864), 10,234,575 convertible debentures (December 31, 2019 – 18,262,070) and 7,875,000 stock options (December 31, 2019 – 7,875,000) have been excluded from the calculation as they have an anti-dilutive effect on the loss per share.

28. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

As of December 31, 2020, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, investments in Dona Blanca, accounts payable and accrued liabilities, due to related parties, convertible debentures, 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 investments in Dona Blanca which is composed of shares and warrants held by Medcolcanna are measured using a Black Scholes option pricing model based on level 3 inputs. 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. The carrying amount of the convertibles debentures approximate its fair value as it is the present value calculated using a market rate that was determined during the year ended December 31, 2020.

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, 2020, the Company's financial liabilities consist of accounts payable and accrued liabilities, due to related parties, convertible debentures, 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 December 31, 2020, the Company had a working capital deficit of $3,018,864.

The following table details the contractual maturities of Medcolcanna's financial liabilities as at December 31, 2020 and 2019:

For the year ended December 31, 2020:	<1 Year	1 to 3 Years	3+ Years	Total
Accounts payable and accrued liabilities	2,045,390	-	-	2,045,390
Due to related parties	281,003	-	-	281,003
Lease liabilities(1)	283,182	440,930	255,008	979,120
Convertible debentures	-	2,046,915	-	2,046,915
Total	**2,609,575**	**2,487,845**	**255,008**	**5,352,428**

For the year ended December 31, 2019:	<1 Year	1 to 3 Years	3+ Years	Total
Accounts payable and accrued liabilities	575,221	-	-	575,221
Lease liabilities(1)	128,478	249,200	-	377,678
Total	**703,699**	**249,200**	**-**	**952,899**

(1) These amounts include the notional principal and interest payments for the contractual lease term and does not consider the Company's options to extend or renew its leases or terminate them before the contractual lease ending date.

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, 2020, the majority of the Company's accounts receivable balance relates to GST receivables 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.

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, 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 December 31, 2020 would not have had a significant impact on cash and cash equivalents.

Furthermore, the Company is not currently exposed to interest rate risk on its interest-bearing debentures given these debt instruments are all subject to fixed interest rates.

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.

	December 31, 2020	December 31, 2019
Convertible debentures - liability	**1,820,901**	-
Shareholders' equity	**(742,380)**	5,497,874
Cash	**276,762**	2,800,665
Working capital	**(3,018,864)**	2,554,463

29. RELATED PARTY TRANSACTIONS

Related party transactions during the years ended December 31, 2020 and 2019 are as follows:

a) During the year ended December 31, 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 December 31, 2020, the balance switched to a net liability of $2,423.

b) During the year ended December 31, 2020, Medcolcanna incurred accounting consulting fees of $237,886 (December 31, 2019 – $96,739) 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.

c) As outlined in Note 17, Medcolcanna issued convertible debentures during the year ended December 31, 2020. One of the convertible debenture holders is a firm affiliated with an officer of the Company and have provided a combined $183,500 in proceeds to Medcolcanna for the debentures and was issued 917,500 purchase warrants in conjunction with the convertible debenture offering. Additionally, a Director of the Company also participated in the convertible debenture offering, providing $10,000 in gross proceeds, and received 50,000 purchase warrants.

d) During the year ended December 31, 2020, certain executive officer of Medcolcanna provided $281,003 (December 31, 2019 – $nil) in loans. The loans are zero interest bearing and are payable on demand.

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	2020	2019
Salaries, consulting fees, and benefits	**909,259**	580,448
Director fees	**102,876**	43,942
Share based compensation	**311,649**	668,675
Total	**1,323,784**	1,293,065

30. COMMITMENTS

As of December 31, 2020 the Company had outstanding lease commitments (Note 12). The following table summarizes the contractual commitments:

Commitments	2021	2022	2023	2024 and thereafter	Total
Property Lease	218,608	218,608	218,608	255,008	910,832
Property leases not yet commenced	26,835	26,835	26,835	46,962	127,467
Office Leases	64,574	3,774	-	-	68,348
Total	**310,017**	**249,217**	**245,443**	**301,970**	**1,106,647**

31. SUPPLEMENTAL CASHFLOW INFORMATION

For the year ended December 31	2020	2019
Accounts receivable	38,543	(86,794)
Prepaids	(228,351)	(266,924)
Due from (to) related parties	10,934	9,132
Inventory and biological assets	(865,296)	(62,901)
Accounts payable and accrued liabilities	1,382,976	244,256
Advances received on transactions	1,391,730	-
Unearned revenue	49,649	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	**1,780,185**	**(190,566)**

32. 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 years ended December 31, 2020 and 2019.

For the year ended December 31, 2020	**Colombia**	**Switzerland**	**Netherlands**	**Corporate**	**Total**
Revenue:					
Product sales	33,265	62,509	-	-	95,774
Total revenue	**33,265**	**62,509**	**-**	**-**	**95,774**
Cost of sales - products	37,693	36,427	-	-	74,120
Impairment of inventory	93,450	2,625	-	-	96,075
Gross profit before fair value adjustments	**(97,878)**	**23,457**	**-**	**-**	**(74,421)**
Unrealized gain on changes in fair value of biological assets	(787,773)	-	-	-	(787,773)
Gross profit	**(885,651)**	**23,457**	**-**	**-**	**(862,194)**
Expenses:					
Operating expenses	942,857	1,903	-	-	944,760
General and administrative	1,974,449	107,254	-	1,927,659	4,009,362
Selling, marketing and promotion	86,704	14,999	-	11,440	113,143
Research and development	270,379	6,010	-	81,100	357,489
Depreciation and amortization	151,732	14,284	-	-	166,016
Impairment of PP&E	320,738	-	-	-	320,738
Share-based compensation	-	-	-	406,919	406,919
Finance expense (income)	140,341	1,447	157	155,956	297,901
Other expenses (income)	(13,271)	-	-	(4,282)	(17,553)
Foreign exchange loss (gain)	2,127	(194)	-	(32,506)	(30,573)
Net loss before tax	**4,761,707**	**122,246**	**157**	**2,546,286**	**7,430,396**
Deferred tax recovery	-	-	-	(69,395)	(69,395)
Net loss	**4,761,707**	**122,246**	**157**	**2,476,891**	**7,361,001**
Assets at December 31, 2020	**4,761,157**	**115,497**	**1,001,943**	**318,302**	**6,196,899**
Liabilities at December 31, 2020	**4,115,939**	**49,545**	**160**	**2,773,635**	**6,939,279**

For the year ended December 31, 2019	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Vape products	-	1,582	-	-	1,582
Total revenue	**-**	**1,582**	**-**	**-**	**1,582**
Cost of sales	-	636	-	-	636
Impairment of inventory	-	4,711	-	-	4,711
Gross Profit (loss)	**-**	**(3,765)**	**-**	**-**	**(3,765)**
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
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**	**73,335**	**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**

33. SUBSEQUENT EVENTS

a) In January 2021, Medcolcanna issued an aggregate of 813,850 common shares in the capital of the Company as interest payment for the outstanding December 31, 2020 convertible debenture interest payable amount of $48,831.

b) In March 2021, Medcolcanna issued an aggregate of 3,837,440 common shares in the capital of the Company with certain trade creditors, employees and members of the board of directors in exchange for the forgiveness of a total amount of $456,725 worth of liabilities owed to such creditors.

c) In March 2021, Medcolcanna announced that it has closed a bridge loan with certain executive officers of the Company. Under the terms of loan, the lenders provided a total of $750,000 for a two-year term at an annual interest rate of 7.85% with interest payments completed quarterly and with amortization of the same commencing fifteen months from the date of the loan. Payments of the bridge loan are deferred until fifteen months after the commencement of the bridge loan, unless certain financing events or positive cash flow milestones are achieved by the Company wherein repayment of the loan would be accelerated.

   As part of the bridge loan, 11,250,000 warrants with an exercise price of $0.10 over a two-year term were issued to the lenders.

d) By March 31, 2021, the date of these financial statements, all of the compensation options issued and outstanding as outlined in Note 20 expired and are no longer exercisable.