



MEDCOLCANNA ORGANICS INC.

(FORMERLY INTEGRATED ENERGY STORAGE CORP.)

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

June 30, 2021

NOTICE OF NO AUDITORS' REVIEW OF INTERIM FINANCIAL STATEMENTS

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

MEDCOLCANNA ORGANICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, expressed in Canadian Dollars)

June 30, 2021

December 31, 2020

Assets

Current Assets

Cash and cash equivalents	67,778	276,762
Accounts receivable (Note 4)	94,996	49,489
Inventory and biological assets (Note 5)	301,022	252,969
Prepays (Note 6)	437,201	486,183

900,996 1,065,403

Non-Current Assets

Advances towards property, plant, and equipment (Note 7)	151,033	101,057
Property, plant and equipment (Note 7)	2,263,051	2,671,064
Right-of-use assets (Note 8)	909,141	1,112,731
Investment - Dona Blanca (Note 9)	101,607	100,246
Intangible assets (Note 10)	1,122,425	1,146,398

Total Assets 5,448,252 6,196,899

Liabilities

Current Liabilities

Accounts payable and accrued liabilities	2,456,910	2,045,390
Due to related parties (Note 23)	48,068	281,003
Advances received on transactions (Note 11)	-	1,556,622
Unearned revenue	75,703	56,386
Current portion of lease liabilities (Note 8)	110,186	144,866

2,690,868 4,084,267

Non-Current Liabilities

Lease liabilities (Note 8)	883,087	1,034,111
Convertible debentures (Note 12)	1,951,071	1,820,901
Bridge loans (Note 13)	752,709	-

Total Liabilities 6,277,734 6,939,279

Shareholders' Equity

Share capital (Note 14(a))	12,302,557	11,711,298
Shares to be issued (Note 14(b))	30,000	30,000
Purchase warrants (Note 15)	549,898	1,476,064
Compensation options (Note 16)	-	127,612
Contributed surplus (Note 17)	2,895,147	1,381,139
Equity component of convertible debentures (Note 12)	24,974	24,974
Deficit	(16,014,906)	(15,025,546)
Accumulated other comprehensive loss	(504,489)	(379,629)

Total equity attributable to Medcolcanna shareholders (716,819) (654,088)

Non-Controlling Interests (112,663) (88,292)

Total Shareholders' Equity (829,482) (742,380)

Total Liabilities and Shareholders' Equity 5,448,253 6,196,899

Going concern (Note 2)

Related party transactions (Note 23)

Commitments (Note 24)

Subsequent events (Note 27)

See accompanying notes to the condensed interim consolidated financial statements.

MEDCOLCANN ORGANICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

<i>(Unaudited, expressed in Canadian Dollars)</i>	Three months ended		Six months ended	
	June 30		June 30	
	2021	2020	2021	2020
Revenue				
Product sales	103,155	5,834	149,223	32,791
Total revenue	103,155	5,834	149,223	32,791
Cost of sales - Cannabis products (Note 5)	123,134	12,273	330,379	31,862
Impairment of inventory (Note 5)	-	-	124,150	-
Gross profit (loss) before fair value adjustments	(19,979)	(6,439)	(305,306)	929
Changes in fair value of inventory sold	76,600	-	240,882	-
Unrealized loss on changes in fair value of biological assets (Note 5)	(368,036)	73,359	(478,050)	73,359
Gross profit (loss)	(311,415)	66,920	(542,474)	74,288
Operating, selling, general and administrative expenses				
Operating expenses (Note 18)	69,636	157,224	129,113	413,602
General and administrative (Note 19)	440,011	768,990	1,319,309	1,744,669
Selling, marketing and promotion	-	22,764	26,762	27,963
Research and development	44,365	97,847	89,855	114,646
Depreciation and amortization (Note 7, 8 and 10)	23,497	33,305	54,217	99,153
Share-based compensation (Note 17)	61,627	144,260	112,681	298,981
Finance expense (income) (Note 20)	230,342	39,267	383,187	59,548
Other expenses (income) (Note 7, 9, 11, and 23)	(1,747,508)	-	(1,651,547)	-
Foreign exchange loss (gain)	(8,554)	(27,802)	1,140	(29,416)
	(886,584)	1,235,855	464,717	2,729,146
Net income (loss) before income taxes	575,169	(1,168,935)	(1,007,191)	(2,654,858)
Current and deferred income tax	-	-	-	-
Net income (loss)	575,169	(1,168,935)	(1,007,191)	(2,654,858)
Other comprehensive Income (loss)				
Foreign currency translation adjustment	13,823	(64)	(131,400)	(278,684)
Comprehensive Income (loss)	588,992	(1,168,999)	(1,138,591)	(2,933,542)
Net income (loss) attributable to:				
Medcolcanna Organics Inc.	584,107	(1,155,804)	(989,360)	(2,632,911)
Non-Controlling Interest	(8,938)	(13,131)	(17,831)	(21,947)
Comprehensive income (loss) attributable to:				
Medcolcanna Organics Inc.	599,863	(1,156,148)	(1,114,220)	(2,911,875)
Non-Controlling Interest	(10,871)	(12,851)	(24,371)	(21,667)
Earning (loss) per share - basic and diluted (Note 21)	0.01	(0.01)	(0.01)	(0.03)
Weighted average number of shares outstanding	103,409,161	90,841,216	104,185,188	90,595,942

See accompanying notes to the condensed interim consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended June, 2021 and 2020

(unaudited, expressed in Canadian Dollars)

	Common Shares	Share Capital (Note 14(a))	Shares to be issued (Note 14(b))	Purchase Warrants (Note 15)	Compensation Options (Note 16)	Contributed Surplus (Note 17)	ECCD ⁽¹⁾ (Note 12)	Deficit	AOCI ⁽²⁾	NCI ⁽³⁾	Total
Balance at December 31, 2019	90,350,667	10,863,131	84,000	1,334,987	189,039	851,521	-	(7,752,950)	(71,854)	-	5,497,874
NCI on incorporation of Medicina Nueva SAS										2,193	2,193
Shares issued to executive officer	720,000	54,000	(54,000)								-
Share-based compensation						298,981					298,981
Net loss for the period								(2,632,911)		(21,947)	(2,654,858)
Other comprehensive income (loss)									(278,964)	280	(278,684)
Balance at June 30, 2020	91,070,667	10,917,131	30,000	1,334,987	189,039	1,150,502	-	(10,385,861)	(350,818)	(19,474)	2,865,506

	Common Shares	Share Capital (Note 14(a))	Shares to be issued (Note 14(b))	Purchase Warrants (Note 15)	Compensation Options (Note 16)	Contributed Surplus (Note 17)	ECCD ⁽¹⁾ (Note 12)	Deficit	AOCI ⁽²⁾	NCI ⁽³⁾	Total
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)
Extinguishing of Financial Liabilities	3,837,440	556,428									556,428
Share issuance costs		(7,000)									(7,000)
Debenture interest paid in shares	813,850	48,831									48,831
Share issuance costs		(7,000)									(7,000)
Compensation options expired					(127,612)	127,612					-
Warrants issuance				353,304							353,304
Transaction costs on warrants issuance				(5,755)							(5,755)
Share-based compensation						112,681					112,681
Warrants expired				(1,273,715)		1,273,715					
Net loss for the period								(989,360)		(17,831)	(1,007,191)
Other comprehensive income (loss)									(124,860)	(6,540)	(131,400)
Balance at June 30, 2021	105,721,957	12,302,557	30,000	549,898	-	2,895,147	24,974	(16,014,906)	(504,489)	(112,663)	(829,481)

⁽¹⁾ Equity component of convertible debentures

⁽²⁾ Accumulated other comprehensive income (loss)

⁽³⁾ Non-controlling interest

See accompanying notes to the condensed interim consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30

(unaudited, expressed in Canadian Dollars)

2021

2020

Operating activities

Net loss	(1,007,191)	(2,654,858)
Adjustments for:		-
Depreciation and amortization	54,218	142,819
Impairment of inventory	124,150	-
Changes in fair value of inventory sold	(240,882)	-
Unrealized loss (gain) on fair value of biological assets	478,050	(73,359)
Interest on loans, leases, and convertible debentures	243,881	6,949
Accretion on convertible debentures and bridge loans	126,465	-
Gain on termination of lease	(2,310)	-
Share-based compensation	112,681	298,981
Prior year advances recognized in income	(164,892)	-
Loss on shares issued for debt	99,703	-
Unrealized gain on investments	(1,361)	-
Unrealized foreign exchange loss	(884)	11,261
Change in non-cash working capital (Note 25)	(480,114)	(165,405)
Cash used in operating activities	(658,487)	(2,433,612)

Investing activities

Advances towards property, plant & equipment	(49,976)	(344,358)
Expenditures on property, plant & equipment	(38,265)	(702,892)
Advances received on transactions	-	1,251,994
Cash used in investing activities	(88,240)	204,744

Financing activities

Loan proceeds received, net of financing costs	425,491	-
Transaction costs on issuing shares for debt	(14,000)	-
Issue warrants, net of cash issuance costs	347,549	-
Funds received from related parties	76,197	-
Funds paid to related parties	(55,793)	-
Principal portion of lease payments	(134,569)	(41,757)
Cash generated from (used in) financing activities	644,875	(41,757)

Net decrease in cash	(101,852)	(2,270,625)
Effects of variation in the exchange rate on cash	(107,132)	(106,167)
Cash, beginning of period	276,762	2,800,665
Cash, end of period	67,778	423,873

Cash interest paid	76,145	40,708
Cash interest received	1,865	2,317

See accompanying notes to the condensed interim consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

Notes to the condensed interim consolidated financial statements

For the periods ended June 30, 2021 and 2020

(unaudited and expressed in Canadian dollars unless otherwise stated)



1. NATURE OF OPERATIONS

Medcolcanna Organics Inc. (“Medcolcanna” or “MCCN” or the “Company”), 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). Pursuant to a transaction with Medcolcanna (BVI), Inc., the Company was continued into the province of British Columbia under the Business Corporations Act (British Columbia).

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 in the cannabis vaping industry through its Switzerland subsidiary MCCN SA.

The Company’s corporate office address is 1620, 444 5th Avenue SW, Calgary, AB, T2P 2T8. 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 condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of operations for the foreseeable future.

During the six months ended June 30, 2021, the Company incurred a net loss of \$1,007,191 and used \$658,487 in cash flow in its operating activities. As at June 30, 2021, the Company had a working capital deficit of \$1,789,871. 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.

Furthermore, in March 2020, the global outbreak of COVID-19 (coronavirus) was declared a pandemic by the World Health Organization. Governments worldwide have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, and social distancing, have caused material disruptions to businesses globally. As a result of COVID-19, Medcolcanna has experienced minor supply chain and logistics delays in receiving supplies inventory and delivering finished goods to customers. While these delays have not been significant, and therefore have not impaired the Company’s ability to continue operations, as a precaution Medcolcanna has been reducing costs and preserving cash. While the full extent of the impact of COVID-19 on the Company is still unknown, it is possible this outbreak may yet cause reduced customer demand, further supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company’s business.

Management believes that the going concern assumption is appropriate for these condensed interim consolidated financial statements and that the Company will be able to meet its budgeted administrative and development costs during the upcoming year and beyond when considering the Company’s current financial forecast. Medcolcanna continues to enter into strategic agreements, joint ventures, and relationships to source funds and maintain its operations. As outlined in Note 13, during the six months ended June 30, 2021, the Company closed its bridge loan financing and settled liabilities through the issuance of shares in the Company as outlined in Note 14 (a).

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

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Notes to the condensed interim consolidated financial statements
For the periods ended June 30, 2021 and 2020
(unaudited and expressed in Canadian dollars unless otherwise stated)



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 condensed interim consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities.

3. BASIS OF PREPARATION

Statement of compliance

The Company applies IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting.

These condensed interim consolidated financial statements follow the same accounting policies and method of computation as the Company's annual audited consolidated financial statements for the year ended December 31, 2020, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2020.

These consolidated financial statements have been approved and authorized for issuance by the Company's Board of Directors on August 16, 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

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For the periods ended June 30, 2021 and 2020

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from the date of acquisition up to the date of disposition or loss of control. All intercompany balances and transactions are eliminated upon consolidation in preparing the financial statements. As at June 30, 2021, 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. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	June 30, 2021	December 31, 2020
Product sales receivable	27,302	9,119
Value added tax receivable	53,200	35,926
Other receivables	14,494	4,444
Total	94,996	49,489

5. INVENTORY

Inventory is comprised of the following:

	June 30, 2021	December 31, 2020
Raw materials and supplies	82,593	86,942
Work-in-progress	128,371	77,673
Finished goods	90,058	88,354
Total	301,022	252,969

During the three and six months ended June 30, 2021, the company incurred \$123,134 and \$330,379 in cost of goods sold respectively (three and six months ended June 30, 2020 - \$12,273 and \$31,862 respectively). The Company also recognized a three and six months ended June 30, 2021 inventory write down of \$nil and \$124,150 respectively (three and six months ended June 30, 2020 - \$nil), and recorded a change in fair value of inventory sold of \$76,600 and \$240,882 respectively (three and six months ended June 30, 2020 - \$nil).

BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis and hemp 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

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hierarchy based on the inputs to the valuation technique utilized.

During the six months ended June 30, 2021, the Company incurred \$478,050 in production costs towards its biological assets (June 30, 2020 - \$260,035). 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, 2020 - \$nil) and recorded an unrealized loss on changes in fair value of biological assets of \$368,036 and \$478,050 during the three and six months ended June 30, 2021 respectively (three and six months ended June 30, 2020 - \$73,359 unrealized gain).

6. PREPAIDS

The Company's prepaids consist of the following:

	June 30, 2020	December 31, 2019
Prepaid insurance	-	45,411
Prepaid materials and supplies	59,622	27,942
Deposit	7,074	27,190
Prepaid professional fees and other expenses	370,505	385,640
Total	437,201	486,183

7. 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, 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
Capital additions	24,942	6,325	3,214	3,785	-	38,266
Foreign currency translation	(101,097)	(54,961)	(29,738)	(140,402)	(6,370)	(332,568)
Balance at June 30, 2021	817,950	440,162	238,029	1,116,712	50,555	2,663,408

MEDCOLCANNA ORGANICS INC.

Notes to the condensed interim consolidated financial statements

For the periods ended June 30, 2021 and 2020

(unaudited and expressed in Canadian dollars unless otherwise stated)

**b) ACCUMULATED DEPRECIATION**

	Agricultural & extraction facilities	Production & medical equipment	Computer & office equipment	Leasehold improvements	Construction in progress	Total
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)
Depreciation	(44,011)	(23,083)	(28,091)	(57,008)	-	(152,193)
Foreign currency translation	10,963	5,542	6,990	14,987	-	38,482
Balance at June 30, 2021	(114,462)	(58,960)	(72,381)	(154,554)	-	(400,357)

c) NET BOOK VALUE

	Agricultural & extraction facilities	Production & medical equipment	Computer & office equipment	Leasehold improvements	Construction in progress	Total
Balance at December 31, 2020	812,692	447,378	213,272	1,140,797	56,925	2,671,064
Balance at June 30, 2021	703,488	381,202	165,648	962,158	50,555	2,263,051

During the three and six months ended June 30, 2021, depreciation on PP&E of \$72,903 and \$139,249 respectively (three and six months ended June 30, 2020 – \$30,631) was capitalized to the Company's biological assets and inventory.

As at June 30, 2021, the Company had advanced \$151,033 (December 31, 2020 - \$101,057) 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 and accumulated depreciation of \$16,777 being damaged and impaired. The net amount of \$320,738 has been recorded as impairment of property, plant, and equipment within the year ended December 31, 2020 audited annual consolidated financial statements. During the three and six months ended June 30, 2021, the Company received a payment of \$181,700 from its insurance provider for the fire damage claim filed by the Company. The payment received has been included in other expenses (income) on the Company's statement of loss and comprehensive loss.

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(unaudited and expressed in Canadian dollars unless otherwise stated)

**8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES**

As at June 30, 2021, 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, 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
Remeasurement adjustment ⁽²⁾	-	(12,755)	(12,755)
Additions	101,518	-	101,518
Disposals	(81,983)	-	(81,983)
Depreciation	(66,687)	(23,247)	(89,934)
Foreign currency translation	(115,218)	(5,218)	(120,436)
Balance at June 30, 2021	885,075	24,066	909,141

Lease liabilities

	Property	Office	Total
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
Additions	101,518	-	101,518
Disposals	(84,292)	-	(84,292)
Remeasurement adjustment ⁽²⁾	-	(12,756)	(12,756)
Interest expense	73,871	2,274	76,145
Payments	(113,531)	(21,038)	(134,569)
Foreign currency translation	(123,636)	(8,114)	(131,750)
Balance at June 30, 2021	966,514	26,759	993,273

(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.

(2) During the six months ended June 30, 2021 certain lease payments in Switzerland and Colombia were reduced for a period of time by the lessor to provide rent relief to the Company as a result of COVID-19. The Company has remeasured the lease liabilities and right-of-use assets corresponding to the rent relief provided.

During the period ended \$13,716 (June 30, 2020 - \$22,327) was expensed and \$20,341 (June 30, 2020 - 15,223) recognized as cash outflows in relation to short-term leases.

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Notes to the condensed interim consolidated financial statements
 For the periods ended June 30, 2021 and 2020
 (unaudited and expressed in Canadian dollars unless otherwise stated)

**Current vs non-current lease liabilities**

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

	June 30, 2021	December 31, 2020
Current portion	100,186	144,866
Non-current portion	883,087	1,034,111
Total	983,273	1,178,977

9. 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 Medcolcanna 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 June 30, 2021, the shares have been valued at \$87,544 (December 31, 2020 - \$90,174), resulting in a three and six months ended unrealized loss of \$219 and \$2,630 respectively (three and six months ended June 30, 2020 - \$nil) recorded in other expenses (income) on the statement of loss and comprehensive loss. The options have been revalued to \$14,063 (December 31, 2020 - \$10,072) using the Black-Scholes option pricing model. The Company recognized a three and six months ended June 30, 2021 unrealized gain associated with the options of \$313 and \$3,991 respectively (three and six months ended June 30, 2020 - \$nil) which 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	128.5%
Expected optionlife (years)	1.33
Fair value of options granted	\$0.029

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**10. INTANGIBLE ASSETS**

	Licenses	Formulations⁽¹⁾	Software	Total
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
Amortization	(16,061)	-	(1,966)	(18,027)
Foreign Currency translation	(4,725)	-	(1,221)	(5,946)
Balance at June 30, 2021	112,008	1,001,943	8,474	1,122,425

(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.

11. ADVANCES RECEIVED ON TRANSACTIONS**(a) Extralia Labs investment**

During the year ended December 31, 2020, Medcolcanna signed a Letter of Intent ("LOI") with Dona Blanca in which Dona Blanca could invest up to \$2,500,000 USD (\$3,183,000 CAD) for a 25% ownership stake in Extralia, Medcolcanna's wholly-owned subsidiary. As part of the agreement, Dona Blanca provided a series of non-refundable cash advances to Medcolcanna amounting to \$50,558 USD (\$68,928 CAD). Additionally, as outlined in Note 9, Dona Blanca issued shares and options to Medcolcanna to be applied as payment toward the Extralia investment. The shares and options were initially valued at \$95,964 CAD as consideration received towards the Extralia Labs investment. As at December 31, 2020 the non-refundable cash advances, and value of the Dona Blanca shares and options were recorded on the financial statements of the Company as advances received on transactions. By June 30, 2021, the LOI has expired without any extension in its place. As a result, during the six months ended June 30, 2021, the Company recognized the compensation received from Dona Blanca in other expense (income) on the statement of loss and comprehensive loss.

(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 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).

During the prior period six months ended June 30, 2020, Medcolcanna initially recognized the funds received from Dona Blanca as income on the statement of loss and comprehensive loss. However, by December 31, 2020, the agreement was being revised and amended resulting in Medcolcanna reclassifying the amounts received as advances received on transactions on the statement of financial position.

During the six months ended June 30, 2021, Dona Blanca and Medcolcanna revised the agreement, and as such, the total proceeds received of \$1,000,000 USD (\$1,391,730 CAD) have now been recorded in other income on the statement of loss and comprehensive loss.

12. CONVERTIBLE DEBENTURES

In 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 15) 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 15), 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 impact was recorded in the amount of \$69,395 which was offset 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 June 30, 2021 is presented in the table below:

	July 2020	August 2020	December 2020	Total
Balance at December 31, 2020	754,107	860,903	205,891	1,820,901
Accrued interest	56,000	69,410	17,403	142,813
Accretion	29,679	35,376	9,115	74,170
Balance at June 30, 2021	839,786	965,689	232,409	2,037,884
Current accrued interest payable included in accounts payable and accrued liabilities	-	(69,410)	(17,403)	(86,813)
Non-current convertible debenture liability	839,786	896,279	215,006	1,951,071

13. BRIDGE LOANS

During the six months ended June 30, 2021, Medcolcanna entered into two bridge loans with certain executive officers of the Company. Per the terms of the agreement, the lenders provided \$1,040,000 for a two-year term at an annual interest rate of 7.85%, with interest payments completed quarterly. Principal payments on the bridge loan are deferred until fifteen months after the commencement of each bridge loan, unless certain financing events or

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positive cash flow milestones are achieved by the Company wherein repayment of the bridge loan would be accelerated. As part of the bridge loan arrangement, 14,150,000 warrants with an exercise price of \$0.10 over a two-year term were issued to the lenders. The equity and debt components of the bridge loan 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 an equity feature of 35%. At initial recognition, the fair value of the liability was calculated to be \$686,696 with \$353,304 allocated to the purchase warrants (Note 15). Transaction costs totaled \$14,564, of which \$11,205 was allocated to the loan liability and \$5,755 to the purchase warrants (Note 15).

Additionally, as part of the loan arrangement, the Company can borrow up to an additional \$460,000 ("Override Amount"). If the full override amount is provided to Medcolcanna, the Company must issue an additional 4,600,000 warrants with an exercise price of \$0.10 over a two-year term to the lenders.

The following tables summarizes the liability portion of the bridge loans:

	Total
Balance at December 31, 2020	-
Additions	686,696
Transaction costs	(11,205)
Accrued interest	24,923
Accretion	52,295
Balance at June 30, 2021	752,709

14. SHARE CAPITAL**(a) Common shares**

As at June 30, 2021 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:

	Number of common shares	Amount (\$)
Balance at December 31, 2019	90,350,667	10,863,131
Shares issued to employee ⁽¹⁾	720,000	54,000
Shares issued for subscription in July 2020 ⁽²⁾	10,000,000	800,000
Share issuance costs		(5,833)
Balance at December 31, 2020	101,070,667	11,711,298
Shares issued for debt extinguishment ⁽³⁾	3,837,440	556,428
Share issuance costs		(7,000)
Shares issued for convertible debentures ⁽⁴⁾	813,850	48,831
Share issuance costs		(7,000)
Balance at June 30, 2021	105,721,957	12,302,557

(1) 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.

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- (2) 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.
- (3) In March 2020, the Company issued an aggregate 3,837,440 shares in the capital of the Company to certain trade creditors, employees, and members of the board of directors in exchange for the forgiveness of a total amount of approximately \$456,725 worth of debt owed to such creditors. On the issuance date, the shares were assessed a value of \$556,429, resulting in a \$99,704 loss recorded in other expenses (income) on the statements of loss and comprehensive loss. The Company incurred transaction costs of \$7,000 for the issuance of these shares.
- (4) Pursuant to the convertible debenture agreements, during the six months ended June 30, 2021, the Company issued 813,850 shares to pay interest owed to debenture holders. The Company incurred transaction costs of \$7,000 for the issuance of these shares.

(b) Shares to be issued

Included in equity is \$30,000 of shares to be issued relating to the value of services provided by an external consultant in the year 2019. It was agreed that payment would be issued in the form of shares of the Company. As at June 30, 2021, the shares have not officially been issued.

15. PURCHASE WARRANTS

The following tables summarizes changes in the number of warrants:

	Number of purchase warrants	Amount (\$)
Balance at December 31, 2019	22,943,400	1,334,987
Warrants issued with convertible debentures ⁽¹⁾	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
Warrants issued for First Bridge loan ⁽²⁾	14,150,000	353,304
Warrant issuance costs		(5,755)
Warrants expired	(21,943,400)	(1,273,715)
Balance at June 30, 2021	24,384,575	549,898

- (1) During the year ended December 31, 2020, 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.
- (2) During the six months ended June 30, 2021, Medcolcanna entered into two bridge loans with certain executive officers of the Company. Per the terms of the agreement, the lenders provided \$1,040,000 for a two-year term loan at an annual interest rate of 7.85%, with interest payments completed quarterly (See Note 13). As part of

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the bridge loan arrangement, 14,150,000 warrants with an exercise price of \$0.10 were issued to the lenders. The equity and debt components of the bridge loan have been bifurcated to record the value of the debt and equity separately. A total amount of \$353,304 has been attributed to the value of the warrants along with \$5,755 worth of issuance costs. The warrants expire two years from the date of issuance.

The following table summarizes information about the warrants outstanding as at June 30, 2021:

Exercise price (\$)	Number of warrants outstanding	Weighted average term to expiry (years)	Number of warrants exercisable
0.31	24,384,575	1.17	24,384,575

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

	Bridge loan Warrants Issued in 2021	Purchase Warrants issued in 2020
Risk-free interest rate	0.22%	0.24%
Expected dividend yield	0%	0%
Expected stock price volatility	101.3%	95.11%
Expected warrant life (years)	2.0	2
Fair value of warrants granted	\$0.0397	\$0.0202

16. COMPENSATION OPTIONS

Pursuant to the reverse takeover transaction in 2019, the Company issued compensation options to agents of the subscription offering accumulating to 6% of the number of subscription units sold pursuant to the agency agreement. Each compensation option entitled 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 reverse takeover transaction.

The following tables summarizes changes in the number of compensation options as at June 30, 2021. As at June 30, 2021, all compensation options have expired:

	Compensation options	Amount (\$)
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
Compensation options expired	(1,428,944)	(127,612)
Balance at June 30, 2021	-	-

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**17. CONTRIBUTED SURPLUS**

Throughout the year ended December 31, 2020 and the six months ended June 30, 2021, there have been no new issuances, forfeitures, or expirations of stock options.

As at June 30, 2021, a total of 7,875,000 (December 31, 2020 – 7,875,000) options were issued and outstanding under the Company's incentive stock option plan. Each option entitles the holder thereof, upon exercise, to receive one common share of the Company.

The following summarizes information about stock options outstanding as at June 30, 2021:

Exercise price (\$)	Number of stock outstanding	Weighted average term to expiry (years)	Number of stock options exercisable
0.40	7,875,000	2.91	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 three and six months ended June 30, 2021, \$61,627 and \$112,681 respectively was recognized as share-based compensation expense (three and six months ended June 30, 2020 – \$144,260 and \$298,981) in relation to the Company's stock options.

18. OPERATING EXPENSES

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

	For the three months ended		For the six months ended	
	2021	June 30 2020	2021	June 30 2020
Agricultural ⁽¹⁾	15,157	58,936	33,819	314,021
Dona Blanca agreement	45,907	36,769	82,842	36,769
Extraction and processing	6,710	61,181	10,590	61,181
Vaping	1,862	338	1,862	1,631
Total	69,636	157,224	129,113	413,602

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

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**19. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE**

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

	For the three months ended June 30		For the six months ended June 30	
	2021	2020	2021	2020
Salary, wages, and benefits	344,776	402,474	732,465	914,397
Professional fees	(22,321)	187,155	222,503	374,812
Legal fees	52,654	52,667	92,167	116,189
Transfer agent and filing fees	16,330	15,679	79,855	28,157
Director fees	23,332	26,321	47,462	52,809
Investor relations	8,798	28,093	44,469	46,030
Software and IT expenses	10,210	3,974	28,757	18,133
Insurance	9,618	23,896	28,139	52,540
General office ⁽¹⁾	(14,988)	-	25,865	40,814
Travel	7,450	106	7,450	35,522
Business registration and license fees	3,943	11,115	3,943	11,115
Other	209	17,510	6,234	54,151
Total	440,011	768,990	1,319,309	1,744,669

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

20. FINANCE EXPENSE (INCOME)

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

	For the three months ended June 30		For the six months ended June 30	
	2021	2020	2021	2020
Interest (income) expense	25,875	(298)	(26)	(2,317)
Lease interest expense (Note 8)	34,578	32,496	76,145	47,658
Bank charges	9,992	7,069	12,024	14,207
Accrued interest on convertible debentures (Note 12)	71,545	-	142,813	-
Accretion on convertible debentures (Note 12)	38,108	-	74,170	-
Accrued interest on Bridge loan (Note 13)	13,475	-	24,923	-
Accretion on Bridge loan (Note 13)	35,926	-	52,295	-
Other	843	-	843	-
Total	230,342	39,267	383,187	59,548

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21. BASIC AND DILUTED LOSS PER SHARE

For the three months ended June 30, 2021, the basic and diluted earnings per share was \$0.01 (June 30, 2020 – \$0.01 loss per share), for the six months ended June 30, 2021 the basic and diluted loss per share was \$0.01 (June 30, 2020 – \$0.03 loss per share). 24,384,575 purchase warrants (June 30, 2020 – 22,943,400), nil compensation options (June 30, 2020 – 2,126,864), 10,234,575 convertible debentures (June 30, 2020 – nil) and 7,875,000 stock options (June 30, 2020 – 7,875,000) have been excluded from the calculation of the six months ended June 30, 2021 as they have an anti-dilutive effect on the loss per share.

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

As of June 30, 2021, 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, bridge loans 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 and bridge loans approximate its fair value as it is the present value calculated using a market rate.

Financial risk management

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. As at June 30, 2021, the Company's financial liabilities consist of accounts payable and accrued liabilities, due to related parties, convertible debentures, bridge loans, 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

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manages its liquidity risk by preparing and monitoring operating budgets, reviewing capital requirements, and coordinating and authorizing project expenditures. As at June 30, 2021, the Company had a working capital deficit of \$1,789,871.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its contractual obligations. Financial instruments subject to credit risk include cash and cash equivalents and accounts receivables. All of the Company's cash and cash equivalents are held at reputable financial institutions. As of June 30, 2021, 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 June 30, 2021, the Company had not entered into any foreign currency derivatives to manage its exposure to currency fluctuations.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk only on cash and cash equivalents. Fluctuations of interest rates for the period ending June 30, 2021 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.

	June 30 2021	December 31 2020
Convertible debentures - liability	1,951,071	1,820,901
Bridge loans	752,709	-
Shareholders' equity	(829,482)	(742,380)
Cash	67,778	276,762
Working capital	(1,789,871)	(3,018,864)

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23. RELATED PARTY TRANSACTIONS

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

- a) During the year ended December 31, 2020, certain executive officer of Medcolcanna provided \$281,003 in loans to the Company, of which \$250,000 was converted to the bridge loan during the six months ended June 30, 2021 discussed in Note 13 of these financial statements. Additionally, during the six months ended June 30, 2021, the Company received a further \$76,197 from certain executive officers of the Company and repaid \$55,793 of the loans back during the same period. The loans are zero interest bearing and are payable on demand. As at June 30, 2021, a balance of \$51,407 remains outstanding on these demand loans.
- b) As outlined in Note 12, 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 has provided \$183,500 in proceeds to Medcolcanna for the debentures and was issued 917,500 purchase warrants in conjunction with the convertible debenture offering. During the six months ended June 30, 2021, the firm affiliated with officer of the Company was issued 9,515 common shares of the Company to satisfy interest accrued on the convertible debenture of \$571 (Note 14(a)). 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. During the six months ended June 30, 2021, the director was issued 7,972 common shares of the Company to satisfy interest accrued on the convertible debenture of \$478 (Note 14(a)).
- c) During the six months ended June 30, 2020, certain expenses were paid by members of management. Periodically advances were made to management in anticipation of expenses that they will be paying on behalf of the Company. From time to time, the amount may result in a net receivable position. As at June 30, 2021, a net liability of \$2,456 existed as a result of these transactions (December 31, 2020 - \$2,423).
- d) During the three and six months ended June 30, 2021, Medcolcanna incurred accounting and corporate secretarial service fees of \$52,668 (June 30, 2020 - \$63,559) and \$150,925 (June 30, 2020 - \$108,559) respectively 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.
- e) During the three and six months ended June 30, 2021, the Company began subleasing a portion of its Colombia office space to the spouse of an executive officer of the company. During the three and six months ended June 30, 2021, a total of \$5,506 (June 30, 2020 - \$nil) had been received and recorded as other expenses (income) on the statement of loss and comprehensive loss.

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**24. COMMITMENTS**

As of June 30, 2021 the Company had outstanding lease commitments (Note 8). The following table summarizes the contractual commitments:

Commitments	2021	2022	2023	2024 and thereafter	Total
Property Lease	102,042	201,369	201,369	1,029,602	1,534,382
Office Leases	27,891	-	-	-	27,891
Total	129,933	201,369	201,369	1,029,602	1,562,273

25. SUPPLEMENTAL CASHFLOW INFORMATION

For the six months ended June 30	2021	2020
Accounts receivable	(106,123)	(13,593)
Prepays	7,281	(174,562)
Due from (to) related parties	-	(7,664)
Inventory and biological assets	(194,971)	(330,665)
Advances received from Dona Blanca	(1,391,730)	-
Accounts payable and accrued liabilities	1,186,112	336,198
Unearned revenue	19,317	24,881
Change in non-cash working capital	(480,114)	(165,405)

26. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in the growth, cultivation, and development of medicinal cannabis and medicinal cannabis products through its Colombian and Netherland subsidiaries. The Company is also engaged in the cannabis vaping industry through its Swiss subsidiary. Management has defined the operating segments of the Company based on geographical areas, identifying operations held in Colombia, Switzerland, and the Netherlands as separate reporting segments. The Corporate segment reflects balances and expenses related to all Company operations outside of Colombia, Switzerland, and the Netherlands which collectively represent the corporate operations of the Company.

The following tables show information regarding the Company's segments for the three and six months ended June 30, 2021 and 2020.

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For the three months ended June 30, 2021	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Product sales	44,682	58,473	-	-	103,155
Total revenue	44,682	58,473	-	-	103,155
Cost of sales - products	71,434	51,700	-	-	123,134
Impairment of inventory	-	-	-	-	-
Gross profit (loss) before fair value adjustments	(26,752)	6,773	-	-	(19,979)
Change in fair value of inventory sold	76,600	-	-	-	76,600
Unrealized loss on changes in fair value of biological assets	(368,036)	-	-	-	(368,036)
Gross profit (loss)	(318,188)	6,773	-	-	(311,415)
Expenses:					
Operating expenses	67,774	1,862	-	-	69,636
General and administrative	289,966	15,755	-	134,290	440,011
Selling, marketing and promotion	-	-	-	-	-
Research and development	42,843	243	1,279	-	44,365
Depreciation and amortization	13,318	2,674	-	7,505	23,497
Share-based compensation	-	-	-	61,627	61,627
Finance expense (income)	70,046	691	-	159,605	230,342
Other expenses (income)	(1,582,614)	-	-	(164,894)	(1,747,508)
Foreign exchange loss (gain)	(11,854)	190	-	3,110	(8,554)
Net loss before tax	792,333	(14,642)	(1,279)	(201,243)	575,169
Current and deferred income tax	-	-	-	-	-
Net income (loss)	792,333	(14,642)	(1,279)	(201,243)	575,169

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For the six months ended June 30, 2021	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Product sales	47,828	101,395	-	-	149,223
Total revenue	47,828	101,395	-	-	149,223
Cost of sales - products	235,338	95,041	-	-	330,379
Impairment of inventory	113,425	10,725	-	-	124,150
Gross profit (loss) before fair value adjustments	(300,935)	(4,371)	-	-	(305,306)
Change in fair value of inventory sold	240,882	-	-	-	240,882
Unrealized loss on changes in fair value of biological assets	(478,050)	-	-	-	(478,050)
Gross loss	(538,103)	(4,371)	-	-	(542,474)
Expenses:					
Operating expenses	127,251	1,862	-	-	129,113
General and administrative	607,499	30,180	-	681,630	1,319,309
Selling, marketing and promotion	18,961	6,472	-	1,329	26,762
Research and development	88,333	243	1,279	-	89,855
Depreciation and amortization	33,050	6,524	-	14,643	54,217
Share-based compensation	-	-	-	112,681	112,681
Finance expense (income)	87,123	1,055	-	295,009	383,187
Other expenses (income)	(1,584,996)	-	-	(66,551)	(1,651,547)
Foreign exchange loss (gain)	575	606	-	(41)	1,140
Net income (loss) before tax	84,101	(51,313)	(1,279)	(1,038,700)	(1,007,191)
current and deferred income tax	-	-	-	-	-
Net income (loss)	84,101	(51,313)	(1,279)	(1,038,700)	(1,007,191)
Assets at June 30, 2021	4,001,723	141,904	-	1,304,625	5,448,252
Liabilities at June 30, 2021	2,715,084	68,780	-	3,493,870	6,277,734

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For the three months ended June 30, 2020	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Product sales	4,751	1,083	-	-	5,834
Total revenue	4,751	1,083	-	-	5,834
Cost of sales	11,626	647	-	-	12,273
Gross profit (loss) before fair value adjustments					
	(6,875)	436	-	-	(6,439)
Unrealized gain on changes in fair value of biological assets	73,359	-	-	-	73,359
Gross profit	66,484	436	-	-	66,920
Expenses:					
Operating expenses	156,886	338	-	-	157,224
General and administrative	351,921	27,909	-	389,160	768,990
Selling, marketing and promotion	15,102	3,602	-	4,060	22,764
Research and development	57,143	2,014	-	38,690	97,847
Depreciation and amortization	29,702	3,603	-	-	33,305
Share-based compensation	-	-	-	144,260	144,260
Finance expense (income)	38,256	287	-	724	39,267
Foreign exchange loss (gain)	(1,256)	(704)	-	(25,842)	(27,802)
Net income (loss)	(581,270)	(36,613)	-	(551,052)	(1,168,935)

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For the six months ended June 30, 2020	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Product sales	22,545	10,246	-	-	32,791
Total revenue	22,545	10,246	-	-	32,791
Cost of sales	27,288	4,574	-	-	31,862
Gross profit (loss) before fair value adjustments					
	(4,743)	5,672	-	-	929
Unrealized gain on changes in fair value of biological assets	73,359	-	-	-	73,359
Gross profit	68,616	5,672	-	-	74,288
Expenses:					
Operating expenses	411,971	1,631	-	-	413,602
General and administrative	897,760	65,981	-	780,928	1,744,669
Selling, marketing and promotion	16,877	7,026	-	4,060	27,963
Research and development	69,368	6,588	-	38,690	114,646
Depreciation and amortization	92,066	7,087	-	-	99,153
Share-based compensation	-	-	-	298,981	298,981
Finance expense (income)	57,620	591	156	1,181	59,548
Foreign exchange loss (gain)	(1,071)	(515)	-	(27,830)	(29,416)
Net loss	(1,475,975)	(82,717)	(156)	(1,096,010)	(2,654,858)
Assets at June 30, 2020	4,410,218	93,426	1,001,943	443,648	5,949,235
Liabilities at June 30, 2020	2,672,193	32,280	160	379,096	3,083,729

27. SUBSEQUENT EVENTS

- a) Subsequent to June 30, 2021, certain executive officers voluntarily forfeited an aggregate amount of 2,050,000 stock options.
- b) In July 2021, an executive officer of the Company provided \$250,000 in loan proceeds. The amount received is to be included as a contribution on the Override Amount of the bridge loan disclosed in Note 13.