MEDCOLCANNA ORGANICS INC.

(FORMERLY INTEGRATED ENERGY STORAGE CORP.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 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)	**September 30, 2021**	December 31, 2020
Assets		
Current Assets		
Cash and cash equivalents	**114,668**	276,762
Accounts receivable (Note 4)	**154,866**	49,489
Inventory and biological assets (Note 5)	**329,242**	252,969
Prepaids (Note 6)	**514,224**	486,183
	1,113,000	1,065,403
Non-Current Assets		
Advances towards property, plant, and equipment (Note 7)	**159,958**	101,057
Property, plant and equipment (Note 7)	**2,198,042**	2,671,064
Right-of-use assets (Note 8)	**867,373**	1,112,731
Investment - Dona Blanca (Note 9)	**-**	100,246
Intangible assets (Note 10)	**111,576**	1,146,398
Total Assets	**4,449,949**	6,196,899
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**3,139,008**	2,045,390
Due to related parties (Note 24)	**295,480**	281,003
Advances received on transactions (Note 11)	**-**	1,556,622
Advances of loan proceeds (Note 14)	**225,000**	-
Unearned revenue	**60,520**	56,386
Current portion of lease liabilities (Note 8)	**128,350**	144,866
Current portion of convertible debentures (Note 12)	**1,800,201**	-
	5,648,560	4,084,267
Non-Current Liabilities		
Lease liabilities (Note 8)	**833,406**	1,034,111
Convertible debentures (Note 12)	**220,042**	1,820,901
Bridge loans (Note 13)	**819,897**	-
Total Liabilities	**7,521,905**	6,939,279
Shareholders' Equity		
Share capital (Note 15(a))	**12,302,557**	11,711,298
Shares to be issued (Note 15(b))	**30,000**	30,000
Purchase warrants (Note 16)	**549,898**	1,476,064
Compensation options (Note 17)	**-**	127,612
Contributed surplus (Note 18)	**2,898,032**	1,381,139
Equity component of convertible debentures (Note 12)	**24,974**	24,974
Deficit	**(18,140,733)**	(15,025,546)
Accumulated other comprehensive loss	**(606,087)**	(379,629)
Total equity attributable to Medcolcanna shareholders	**(2,941,359)**	(654,088)
Non-Controlling Interests	**(130,597)**	(88,292)
Total Shareholders' Equity	**(3,071,956)**	(742,380)
Total Liabilities and Shareholders' Equity	**4,449,949**	6,196,899

Going concern (Note 2)

Related party transactions (Note 24)

Legal matters (Note 25)

Commitments (Note 26)

Subsequent events (Note 29)

See accompanying notes to the condensed interim consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited, expressed in Canadian Dollars)	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Revenue				
Product sales	**108,351**	51,992	**257,574**	84,783
Service revenue	**48,041**	-	**48,041**	-
Total revenue	**156,392**	51,992	**305,615**	84,783
Cost of sales (Note 5)	**86,478**	111,524	**416,857**	143,386
Impairment of inventory (Note 5)	**14,088**	-	**138,238**	-
Gross profit (loss) before fair value adjustments	**55,826**	(59,532)	**(249,480)**	(58,603)
Changes in fair value of inventory sold	**29,838**	-	**270,720**	-
Unrealized (loss) gain on changes in fair value of biological assets (Note 5)	**(180,632)**	114,718	**(658,682)**	188,077
Gross profit (loss)	**(94,968)**	55,186	**(637,442)**	129,474
Operating, selling, general and administrative expenses				
Operating expenses (Note 19)	**38,304**	156,694	**167,417**	570,296
General and administrative (Note 20)	**605,875**	1,073,154	**1,925,184**	2,817,823
Selling, marketing and promotion	**-**	21,687	**26,762**	49,650
Research and development	**36,497**	80,742	**126,352**	195,388
Depreciation and amortization (Note 7, 8 and 10)	**23,844**	33,451	**78,061**	132,604
Impairment of licenses (Note 10)	**1,001,943**	-	**1,001,943**	-
Share-based compensation (Note 18)	**2,885**	55,749	**115,566**	354,730
Finance expense (income) (Note 21)	**219,958**	90,173	**603,145**	149,721
Other expenses (income) (Note 7, 9, 11, and 24)	**98,631**	(14,000)	**(1,552,916)**	(14,000)
Foreign exchange loss (gain)	**14,502**	(14,079)	**15,642**	(43,495)
	2,042,439	1,483,571	**2,507,156**	4,212,717
Net income (loss) before income taxes	**(2,137,407)**	(1,428,385)	**(3,144,598)**	(4,083,243)
Current and deferred income tax	**-**	**-**	**-**	**-**
Net income (loss)	**(2,137,407)**	(1,428,385)	**(3,144,598)**	(4,083,243)
Other comprehensive Income (loss)				
Foreign currency translation adjustment	**(107,952)**	(162,832)	**(239,352)**	(441,516)
Comprehensive Income (loss)	**(2,245,359)**	(1,591,217)	**(3,383,950)**	(4,524,759)
Net income (loss) attributable to:				
Medcolcanna Organics Inc.	**(2,125,827)**	(1,400,517)	**(3,115,187)**	(4,033,428)
Non-Controlling Interest	**(11,580)**	(27,868)	**(29,411)**	(49,815)
Comprehensive income (loss) attributable to:				
Medcolcanna Organics Inc.	**(2,227,425)**	(1,565,753)	**(3,341,645)**	(4,477,628)
Non-Controlling Interest	**(17,934)**	(25,464)	**(42,305)**	(47,131)
Earning (loss) per share - basic and diluted (Note 22)	**(0.02)**	(0.01)	**(0.03)**	(0.04)
Weighted average number of shares outstanding	**102,638,135**	99,331,537	**104,703,074**	93,531,689

See accompanying notes to the condensed interim consolidated financial statements.

MEDCOLCANNA ORGANICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine months ended September 30, 2021 and 2020

(unaudited, expressed in Canadian Dollars)	Common Shares	Share Capital (Note 15(a))	Shares to be issued (Note 15(b))	Purchase Warrants (Note 16)	Compensation Options (Note 17)	Contributed Surplus (Note 18)	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 execituve officer	720,000	54,000	(54,000)								-
Shares issued through placement	10,000,000	800,000									800,000
Share issuance costs		(5,833)									(5,833)
Warrants issued with convertible debentures				183,840							183,840
Warrant issuance costs				(2,426)							(2,426)
Issuance of convertible debentures							82,075				82,075
Transaction costs on convertible debenture							(1,119)				(1,119)
Share-based compensation						354,730					354,730
Net loss for the period								(4,033,428)		(49,815)	(4,083,243)
Other comprehensive income (loss)									(444,200)	2,684	(441,516)
Balance at September 30, 2020	**101,070,667**	**11,711,298**	**30,000**	**1,516,401**	**189,039**	**1,206,251**	**80,956**	**(11,786,378)**	**(516,054)**	**(44,938)**	**2,386,575**

	Common Shares	Share Capital (Note 15(a))	Shares to be issued (Note 15(b))	Purchase Warrants (Note 16)	Compensation Options (Note 17)	Contributed Surplus (Note 18)	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						115,566					115,566
Warrants expired				(1,273,715)		1,273,715					
Net loss for the period								(3,115,187)		(29,411)	(3,144,598)
Other comprehensive income (loss)									(226,458)	(12,894)	(239,352)
Balance at September 30, 2021	**105,721,957**	**12,302,557**	**30,000**	**549,898**	**-**	**2,898,032**	**24,974**	**(18,140,733)**	**(606,087)**	**(130,597)**	**(3,071,956)**

[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 nine months ended September 30

(unaudited, expressed in Canadian Dollars)	**2021**	2020
Operating activities		
Net loss	**(3,144,598)**	(4,083,243)
Adjustments for:		-
Depreciation, amortization, and impairment	**1,080,004**	240,058
Impairment of inventory	**138,238**	-
Changes in fair value of inventory sold	**(270,720)**	-
Unrealized loss (gain) on fair value of biological assets	**658,682**	(188,077)
Interest on loans, leases, and convertible debentures	**369,634**	27,547
Accretion on convertible debentures and bridge loans	**214,726**	16,281
Gain on termination of lease	**(2,771)**	-
Share-based compensation	**115,566**	354,730
Prior year advances recognized in income	**(164,892)**	-
Loss on shares issued for debt	**99,703**	-
Unrealized gain on investments	**100,246**	-
Unrealized foreign exchange loss	**(4,883)**	10,978
Change in non-cash working capital (Note 27)	**(213,458)**	914,702
Cash used in operating activities	**(1,024,523)**	(2,707,024)
Investing activities		
Advances towards property, plant & equipment	**(58,901)**	(230,565)
Expenditures on property, plant & equipment	**(41,840)**	(1,203,074)
Advances received on transactions	**-**	64,908
Cash used in investing activities	**(100,741)**	(1,368,731)
Financing activities		
Advances on loan and bridge loan proceeds received, net of financing costs	**425,491**	-
Transaction costs on issuing shares for debt	**(14,000)**	-
Issue common shares, net of cash issuance costs	**-**	794,167
Issue warrants, net of cash issuance costs	**347,549**	181,414
Proceeds on convertible debentures, net of transaction costs	**-**	1,591,222
Funds received from related parties	**550,962**	-
Funds paid to related parties	**(58,214)**	-
Principal portion of lease payments	**(199,570)**	(76,708)
Cash generated from financing activities	**1,052,218**	2,490,095
Net decrease in cash	**(73,046)**	(1,585,660)
Effects of variation in the exchange rate on cash	**(89,047)**	(180,475)
Cash, beginning of period	**276,762**	2,800,665
Cash, end of period	**114,668**	1,034,530
Cash interest paid	76,145	73,844
Cash interest received	38	2,699

See accompanying notes to the condensed interim consolidated financial statements.

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 distribution and 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 nine months ended September 30, 2021, the Company incurred a net loss of $3,144,598 and used $1,024,523 in cash flow in its operating activities. As at September 30, 2021, the Company had a working capital deficit of $4,535,560. 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 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 and 14, during the nine months ended September 30, 2021, the Company closed its bridge loan financing and received advances of loan proceeds. The Company also settled liabilities through the issuance of common shares in the Company as outlined in Note 15.

The Company may need to seek further financing in the future to maintain its current level of activity. 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 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 November 15, 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 September 30, 2021, Medcolcanna had the following subsidiaries:

(unaudited and expressed in Canadian dollars unless otherwise stated)

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)

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.

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	September 30, 2021	December 31, 2020
Product sales receivable	**86,885**	9,119
Value added tax receivable	**59,096**	35,926
Other receivables	**8,885**	4,444
Total	**154,866**	49,489

5. INVENTORY

Inventory is comprised of the following:

	September 30, 2021	December 31, 2020
Raw materials and supplies	**92,888**	86,942
Work-in-progress	**190,663**	77,673
Finished goods	**45,691**	88,354
Total	**329,242**	252,969

(unaudited and expressed in Canadian dollars unless otherwise stated)

During the three and nine months ended September 30, 2021, the company incurred $86,478 and $416,857 in cost of goods sold respectively (three and nine months ended September 30, 2020 - $111,524 and $143,386 respectively). The Company also recognized a three and nine months ended September 30, 2021 inventory write down of $14,088 and $138,238 respectively (three and nine months ended September 30, 2020 - $nil), and recorded a change in fair value of inventory sold of $29,838 and $270,720 respectively (three and nine months ended September 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 hierarchy based on the inputs to the valuation technique utilized.

During the nine months ended September 30, 2021, the Company incurred $658,682 in production costs towards its biological assets (September 30, 2020 - $188,077). 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 $180,632 and $658,682 during the three and nine months ended September 30, 2021 respectively (three and nine months ended September 30, 2020 - $114,718 and 188,077 unrealized gain respectively).

6. PREPAIDS

The Company's prepaids consist of the following:

	September 30, 2021	December 31, 2020
Prepaid insurance	**-**	45,411
Prepaid materials and supplies	**68,345**	27,942
Deposit	**-**	27,190
Prepaid professional fees and other expenses	**445,879**	385,640
Total	**514,224**	486,183

(unaudited and expressed in Canadian dollars unless otherwise stated)

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	24,527	5,739	3,868	7,706	-	41,840
Transfers from construction in progress	7,765	-	-	-	(7,765)	-
Foreign currency translation	(99,701)	(53,857)	(29,166)	(137,928)	(5,403)	(326,055)
Balance at September 30, 2021	**826,696**	**440,680**	**239,255**	**1,123,107**	**43,757**	**2,673,495**

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	(65,626)	(34,215)	(41,534)	(84,294)	-	(225,669)
Foreign currency translation	10,506	5,301	6,622	14,433	-	36,862
Balance at September 30, 2021	**(136,534)**	**(70,333)**	**(86,192)**	**(182,394)**	**-**	**(475,453)**

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 September 30, 2021	**690,162**	**370,347**	**153,063**	**940,713**	**43,757**	**2,198,042**

During the three and nine months ended September 30, 2021, depreciation on PP&E of $59,842 and $199,091 respectively (three and nine months ended September 30, 2020 – $43,189 and $73,820 respectively) was capitalized to the Company's biological assets and inventory.

(unaudited and expressed in Canadian dollars unless otherwise stated)

As at September 30, 2021, the Company had advanced $159,958 (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 nine months ended September 30, 2021, the Company received a payment of $178,824 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.

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

As at September 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)]	-	(13,682)	(13,682)
Additions	109,496	-	109,496
Termination of lease agreements	(77,462)	(6,220)	(83,682)
Depreciation	(94,493)	(32,655)	(127,148)
Foreign currency translation	(126,152)	(4,190)	(130,342)
Balance at September 30, 2021	**858,834**	**8,539**	**867,373**

(unaudited and expressed in Canadian dollars unless otherwise stated)

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	109,496	-	109,496
Termination of lease agreements	(79,389)	(7,064)	(86,453)
Remeasurement adjustment(2)	-	(13,682)	(13,682)
Interest expense	108,447	3,140	111,587
Payments	(165,397)	(34,173)	(199,570)
Foreign currency translation	(134,233)	(4,366)	(138,599)
Balance at September 30, 2021	**951,508**	**10,248**	**961,756**

(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 nine months ended September 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 nine months ended September 30, 2021, $22,861 (September 30, 2020 - $35,726) was expensed and $5,953 (September 30, 2020 – $32,000) 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:

	September 30, 2021	December 31, 2020
Current portion	**128,350**	144,866
Non-current portion	**833,406**	1,034,111
Total	**961,756**	1,178,977

9. INVESTMENT IN DONA BLANCA

During the year ended December 31, 2020, Dona Blanca Limited, a 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 11 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).

(unaudited and expressed in Canadian dollars unless otherwise stated)

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 September 30, 2021, the shares of Dona Blanca held by Medcolcanna have been written down to a value of $nil (December 31, 2020 - $90,174), resulting in a three and nine months ended unrealized loss of $87,544 and $90,174 respectively (three and nine months ended September 30, 2020 - $nil) recorded in other expenses (income) on the statement of loss and comprehensive loss. The options have also been written down to a value of $nil (December 31, 2020 - $10,072) for which the Company recognized a three and nine months ended September 30, 2021 unrealized loss of $14,063 and $10,072 respectively (three and nine months ended September 30, 2020 - $nil), which has been included in other expenses (income) on the statement of loss and comprehensive loss.

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	(24,056)	-	(2,900)	(26,956)
Impairment	-	(1,001,943)	-	(1,001,943)
Foreign Currency translation	(4,711)	-	(1,212)	(5,923)
Balance at September 30, 2021	**104,027**	**-**	**7,549**	**111,576**

(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.

During the three and nine months ended September 30, 2021, the Company recorded impairment expense of $1,001,943 to write down the formulation intangible assets to $nil. The formulations are considered to be impaired given the Company currently does not have the capacity to pursue the development of products using the formulations.

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

September 30, 2021, the LOI has expired without any extension in its place. As a result, during the nine months ended September 30, 2021, the Company recognized the compensation received from Dona Blanca in other expenses (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 nine months ended September 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 nine months ended September 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 expenses (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 16) 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 16), 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.

(unaudited and expressed in Canadian dollars unless otherwise stated)

A summary of the Company's convertible debentures as at September 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	83,689	103,553	25,472	212,714
Accretion	46,691	54,811	14,151	115,653
Balance at September 30, 2021	884,487	1,019,267	245,514	2,149,268
Current accrued interest payable included in accounts payable and accrued liabilities	-	(103,553)	(25,472)	(129,025)
Convertible debenture liability	**884,487**	**915,714**	**220,042**	**2,020,243**
Current portion of debenture liability	(884,487)	(915,714)	-	(1,800,201)
Non-current convertible debenture liability	**-**	**-**	**220,042**	**220,042**

13. BRIDGE LOANS

During the nine months ended September 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 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 16). Transaction costs totaled $14,564, of which $11,205 was allocated to the loan liability and $5,755 to the purchase warrants (Note 16).

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	45,333
Accretion	99,073
Balance at September 30, 2021	**819,897**

(unaudited and expressed in Canadian dollars unless otherwise stated)

14. ADVANCES OF LOAN PROCEEDS

During the nine months ended September 30, 2021, Medcolcanna received $225,000 in advance of closing a loan financing arrangement. The funds received are currently payable on demand and zero interest bearing until such time the loan financing arrangement is closed and finalized. Upon closing the loan financing, the advances on loan proceeds will be subject to the terms and conditions of the loan agreement, which matures two years from the closing date, with the option to extend the maturity date at the discretion of the lender. The loan agreement will carry an annual interest rate of 7.85%, with interest payments completed quarterly. Interest is payable in either cash or in common shares in the capital of the Company, at the option of the Company subject to applicable regulatory approval, including the approval of any stock exchange on which such common shares may then be listed and posted for trading. Principal payments on the loan are deferred until fifteen months after the commencement of the loan, unless certain financing events or positive cash flow milestones are achieved by the Company wherein repayment of the loan would be accelerated.

15. SHARE CAPITAL

(a) Common shares

As at September 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 September 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.

(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 2021, 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 statement

(unaudited and expressed in Canadian dollars unless otherwise stated)

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 nine months ended September 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 September 30, 2021, the shares have not officially been issued.

16. 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 on bridge loans (2)	14,150,000	353,304
Warrant issuance costs		(5,755)
Warrants expired	(21,943,400)	(1,273,715)
Balance at September 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 nine months ended September 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 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.

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

Exercise price ($)	Number of warrants outstanding	Weighted average term to expiry (years)	Number of warrants exercisable
0.14	24,384,575	1.19	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	2
Fair value of warrants granted	$0.0397	$0.0202

17. 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 September 30, 2021. As at September 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 September 30, 2021	-	-

18. CONTRIBUTED SURPLUS

On May 16, 2019, Medcolcanna adopted the Incentive Stock Option Plan (the "Plan"). 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 September 30, 2021, a total of 5,825,000 (December 31, 2020 – 7,875,000) options were issued and outstanding under this plan.

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The following table summarizes information about the changes in stock options as at September 30, 2021:

	Stock options	Exercise price ($)
Balance at December 31, 2019 & 2020	7,875,000	0.40
Options issued	-	-
Options forfeited	(2,050,000)	0.40
Expired options	-	-
Balance at September 30, 2021	**5,825,000**	**0.40**

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

Exercise price ($)	Number of stock outstanding	Weighted average term to expiry (years)	Number of stock options exercisable
0.40	5,825,000	2.67	5,825,000

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 nine months ended September 30, 2021, $2,885 and $115,566 respectively was recognized as share-based compensation expense (three and nine months ended September 30, 2020 – $55,749 and $354,730 respectively) in relation to the Company's stock options.

19. 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 September 30		For the nine months ended September 30	
	2021	2020	**2021**	2020
Agricultural[(1)]	**24,216**	409	**58,035**	314,430
Dona Blanca agreement	**3,099**	12,121	**85,941**	48,890
Extraction and processing	**8,673**	144,164	**19,263**	205,345
Vaping	**2,316**	-	**4,178**	1,631
Total	**38,304**	156,694	**167,417**	570,296

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

(unaudited and expressed in Canadian dollars unless otherwise stated)

20. 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 September 30		For the nine months ended September 30	
	2021	2020	**2021**	2020
Salary, wages, and benefits	**291,737**	475,547	**1,024,202**	1,389,944
Professional fees	**120,275**	258,066	**342,778**	632,878
Legal fees	**5,916**	75,247	**98,083**	191,436
Transfer agent and filing fees	**17,402**	38,624	**97,257**	66,781
Director fees	**23,940**	25,310	**71,402**	78,119
Investor relations	**16,828**	122,083	**61,297**	168,113
Insurance	**27,870**	20,850	**56,009**	73,390
Software and IT expenses	**7,526**	9,889	**36,283**	28,022
General office(1)	**-**	14,554	**25,865**	55,368
Travel	**-**	994	**7,450**	36,516
Business registration and license fees	**1,105**	17,237	**5,048**	28,352
Other	**93,276**	14,753	**99,510**	68,904
Total	**605,875**	1,073,154	**1,925,184**	2,817,823

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

21. FINANCE EXPENSE (INCOME)

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

	For the three months ended September 30		For the nine months ended September 30	
	2021	2020	**2021**	2020
Interest (income) expense	**(448)**	(381)	**1,417**	(2,698)
Lease interest expense (Note 8)	**35,441**	30,712	**111,586**	78,368
Bank charges	**380**	7,752	**12,958**	21,961
Accrued interest on convertible debentures (Note 12)	**69,901**	35,809	**212,714**	35,809
Accretion on convertible debentures (Note 12)	**41,483**	16,281	**115,653**	16,281
Accrued interest on Bridge loan (Note 13)	**22,012**	-	**45,333**	-
Accretion on Bridge loan (Note 13)	**46,778**	-	**99,073**	-
Other	**4,411**	-	**4,411**	-
Total	**219,958**	90,173	**603,145**	149,721

22. BASIC AND DILUTED LOSS PER SHARE

For the three months ended September 30, 2021, the basic and diluted loss per share was $0.02 (September 30, 2020 – $0.01 loss per share), for the nine months ended September 30, 2021 the basic and diluted loss per share was $0.03 (September 30, 2020 – $0.04 loss per share). 24,384,575 purchase warrants (September 30, 2020 – 31,927,975), nil compensation options (September 30, 2020 – 2,126,864), 10,234,575 convertible debentures (September 30, 2020 – nil) and 5,825,000 stock options (September 30, 2020 – 7,875,000) have been excluded from the calculation of the nine months ended September 30, 2021 as they have an anti-dilutive effect on the loss per share.

23. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

As of September 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 September 30, 2021, the Company's financial liabilities consist of accounts payable and accrued liabilities, due to related parties, advances of loan proceeds, 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 manages its liquidity risk by preparing and monitoring operating budgets, reviewing capital requirements, and coordinating and authorizing project expenditures. As at September 30, 2021, the Company had a working capital deficit of $4,535,560.

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The following table details the contractual maturities of Medcolcanna's financial liabilities as at December 31, 2020 and September 30, 2021:

For the nine months ended September 30, 2021:	<1 Year	1 to 3 Years	3+ Years	Total
Accounts payable and accrued liabilities	3,139,008	-	-	3,139,008
Due to related parties	295,480	-	-	295,480
Lease liabilities(1)	212,392	403,640	102,788	718,820
Convertible debentures	1,800,201	220,042	-	2,020,243
Total	**5,447,081**	**623,682**	**102,788**	**6,173,551**

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	659,598	51,992	994,772
Convertible debentures	-	1,820,901	-	1,820,901
Total	**2,609,575**	**2,480,499**	**51,992**	**5,142,066**

(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 and accounts receivables. All of the Company's cash and cash equivalents are held at reputable financial institutions. As of September 30, 2021, product sales receivables are for recent transactions owed from reputable businesses in the cannabis industry. For this reason, credit risk is considered to be low.

Market Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's functional and reporting currency is the Canadian dollar but is exposed to foreign currency risk with respect to the expenditures incurred by its foreign subsidiaries. As at September 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 September 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.

(unaudited and expressed in Canadian dollars unless otherwise stated)

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.

	September 30 2021	December 31 2020
Convertible debentures - liability	**2,020,243**	1,820,901
Advances of loan proceeds	**225,000**	-
Bridge loans	**819,897**	-
Shareholders' equity	**(3,071,956)**	(742,380)
Cash	**114,668**	276,762
Working capital	**(4,535,560)**	(3,018,864)

24. 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 nine months ended September 30, 2021 discussed in Note 13 of these financial statements. Additionally, during the nine months ended September 30, 2021, the Company received a further $325,962 from certain executive officers of the Company and repaid $58,214 of the loans back during the same period. The loans are zero interest bearing and are payable on demand. As at September 30, 2021, a balance of $293,018 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 nine months ended September 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 15(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 nine months ended September 30, 2021, the director was issued 7,972 common shares of the Company to satisfy interest accrued on the convertible debenture of $478 (Note 15(a)).

c) During the nine months ended September 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 September 30, 2021, a net liability of $2,462 existed as a result of these transactions (December 31, 2020 - $2,423).

d) During the three and nine months ended September 30, 2021, Medcolcanna incurred accounting and corporate secretarial service fees of $64,700 (September 30, 2020 - $64,981) and $215,625 (September 30, 2020 - $173,540) 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.

(unaudited and expressed in Canadian dollars unless otherwise stated)

e) During the three and nine months ended September 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 nine months ended September 30, 2021, a total of $3,969 (September 30, 2020 - $nil) and $9,475 (September 30, 2020 - $nil) had been received and recorded as other expenses (income) on the statement of loss and comprehensive loss.

25. LEGAL MATTERS

During the nine months ended September 30, 2021, certain vendors and former employees of the Company filed legal claims against Medcolcanna SAS for payment of outstanding invoices and salary owed to them. The total value of these claims amounts to $19,506, which has been included in accounts payable and accrued liabilities on the Company's statement of financial position.

Medcolcanna continues to evaluate the lawsuits and intends to settle the amounts claimed where appropriate and feasible for the betterment of the Company. The claims against the Company could result in further interest and damages awarded to the vendors and former employees, which would result in an increased amount owed by the Company. At this time, it is not determinable if additional interest and damages will be awarded, or, if awarded, the amount of interest and damages that Medcolcanna would have to pay.

26. COMMITMENTS

As of September 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	201,820	201,820	201,820	102,788	708,248
Office Leases	10,572	-	-	-	10,572
Total	**212,392**	**201,820**	**201,820**	**102,788**	**718,820**

27. SUPPLEMENTAL CASHFLOW INFORMATION

For the nine months ended September 30	**2021**	**2020**
Accounts receivable	(109,643)	(61,396)
Prepaids	(71,314)	(266,612)
Due from (to) related parties	-	(164,002)
Inventory and biological assets	(292,297)	(740,786)
Advances received from Dona Blanca	(1,391,730)	1,257,676
Accounts payable and accrued liabilities	1,647,392	851,889
Unearned revenue	4,134	37,933
Change in non-cash working capital	**(213,458)**	**914,702**

(unaudited and expressed in Canadian dollars unless otherwise stated)

28. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in the growth, cultivation, and development of medicinal cannabis and medicinal cannabis products through its Colombian and Netherland subsidiaries. The Company is also engaged in the cannabis vaping industry through its Swiss subsidiary. 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 nine months ended September 30, 2021 and 2020.

For the three months ended September 30, 2021	**Colombia**	**Switzerland**	**Netherlands**	**Corporate**	**Total**
Revenue:					
Product sales	91,998	16,353	-	-	108,351
Service revenue	48,041	-	-	-	48,041
Total revenue	**140,039**	**16,353**	**-**	**-**	**156,392**
Cost of sales - products	78,531	7,947	-	-	86,478
Impairment of inventory	14,088	-	-	-	14,088
Gross profit (loss) before fair value adjustments	**47,420**	**8,406**	**-**	**-**	**55,826**
Change in fair value of inventory sold	29,838	-	-	-	29,838
Unrealized loss on changes in fair value of biological assets	(180,632)	-	-	-	(180,632)
Gross profit (loss)	**(103,374)**	**8,406**	**-**	**-**	**(94,968)**
Expenses:					
Operating expenses	35,988	2,316	-	-	38,304
General and administrative	282,518	20,187	-	303,170	605,875
Research and development	29,333	7,164	-	-	36,497
Depreciation and amortization	20,719	3,125	-	-	23,844
Impairment of licenses	-	-	1,001,943	-	1,001,943
Share-based compensation	-	-	-	2,885	2,885
Finance expense (income)	40,835	219	-	178,904	219,958
Other expenses (income)	(2,130)	(848)	-	101,609	98,631
Foreign exchange loss (gain)	(564)	1,312	-	13,754	14,502
Net loss before tax	**(510,073)**	**(25,069)**	**(1,001,943)**	**(600,322)**	**(2,137,407)**
Current and deferred income tax	-	-	-		-
Net income (loss)	**(510,073)**	**(25,069)**	**(1,001,943)**	**(600,322)**	**(2,137,407)**

(unaudited and expressed in Canadian dollars unless otherwise stated)

For the nine months ended September 30, 2021	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Product sales	139,826	117,748	-	-	257,574
Service revenue	48,041	-	-	-	48,041
Total revenue	**187,867**	**117,748**	**-**	**-**	**305,615**
Cost of sales - products	(313,869)	(102,988)	-	-	(416,857)
Impairment of inventory	(127,513)	(10,725)	-	-	(138,238)
Gross profit (loss) before fair value adjustments	**(253,515)**	**4,035**	**-**	**-**	**(249,480)**
Change in fair value of inventory sold	270,720	-	-	-	270,720
Unrealized loss on changes in fair value of biological assets	(658,682)	-	-	-	(658,682)
Gross profit (loss)	**(641,477)**	**4,035**	**-**	**-**	**(637,442)**
Expenses:					
Operating expenses	163,239	4,178	-	-	167,417
General and administrative	890,017	50,367	-	984,800	1,925,184
Selling, marketing and promotion	15,500	9,922	-	1,340	26,762
Research and development	118,945	7,407	-	-	126,352
Depreciation and amortization	68,412	9,649	-	-	78,061
Impairment of licenses	-	-	1,001,943	-	1,001,943
Share-based compensation	-	-	-	115,566	115,566
Finance expense (income)	127,958	1,274	-	473,913	603,145
Other expenses (income)	(1,587,126)	(848)	-	35,058	(1,552,916)
Foreign exchange loss (gain)	11	1,918	-	13,713	15,642
Net income (loss) before tax	**(438,433)**	**(79,832)**	**(1,001,943)**	**(1,624,390)**	**(3,144,598)**
current and deferred income tax	-	-	-	-	-
Net income (loss)	**(438,433)**	**(79,832)**	**(1,001,943)**	**(1,624,390)**	**(3,144,598)**
Assets at September 30, 2021	**4,157,458**	**78,002**	**-**	**214,489**	**4,449,949**
Liabilities at September 30, 2021	**3,125,323**	**32,785**	**-**	**4,363,797**	**7,521,905**

(unaudited and expressed in Canadian dollars unless otherwise stated)

For the three months ended September 30, 2020	**Colombia**	**Switzerland**	**Netherlands**	**Corporate**	**Total**
Revenue:					
Product sales	21,499	30,493	-	-	51,992
Total revenue	**21,499**	**30,493**	**-**	**-**	**51,992**
Cost of sales	94,547	16,977	-	-	111,524
Gross profit (loss) before fair value adjustments	**(73,048)**	**13,516**	**-**	**-**	**(59,532)**
Unrealized gain on changes in fair value of biological assets	114,718	-	-	-	114,718
Gross profit	**41,670**	**13,516**	**-**	**-**	**55,186**
Expenses:					
Operating expenses	156,694	-	-	-	156,694
General and administrative	541,248	16,865	-	515,041	1,073,154
Selling, marketing and promotion	14,204	5,486	-	1,997	21,687
Research and development	11,368	(1,072)	-	70,446	80,742
Depreciation and amortization	68,011	4,130	-	(38,690)	33,451
Share-based compensation	-	-	-	55,749	55,749
Finance expense (income)	37,590	203	-	52,380	90,173
Other expenses (income)	(14,000)	-	-	-	(14,000)
Foreign exchange loss (gain)	3,406	257	-	(17,742)	(14,079)
Net loss	**(776,851)**	**(12,353)**	**-**	**(639,181)**	**(1,428,385)**

(unaudited and expressed in Canadian dollars unless otherwise stated)

For the nine months ended September 30, 2020	Colombia	Switzerland	Netherlands	Corporate	Total
Revenue:					
Product sales	44,044	40,739	-	-	84,783
Total revenue	**44,044**	**40,739**	**-**	**-**	**84,783**
Cost of sales	121,835	21,551	-	-	143,386
Gross profit (loss) before fair value adjustments	**(77,791)**	**19,188**	**-**	**-**	**(58,603)**
Unrealized gain on changes in fair value of biological assets	188,077	-	-	-	188,077
Gross profit	**110,286**	**19,188**	**-**	**-**	**129,474**
Expenses:					
Operating expenses	568,665	1,631	-	-	570,296
General and administrative	1,439,008	82,846	-	1,295,969	2,817,823
Selling, marketing and promotion	31,081	12,512	-	6,057	49,650
Research and development	118,927	6,015	-	70,446	195,388
Depreciation and amortization	121,886	10,718	-	-	132,604
Share-based compensation	-	-	-	354,730	354,730
Finance expense (income)	95,210	794	156	53,561	149,721
Other expenses (income)	(14,000)	-	-	-	(14,000)
Foreign exchange loss (gain)	2,335	(258)	-	(45,572)	(43,495)
Net loss	**(2,252,826)**	**(95,070)**	**(156)**	**(1,735,191)**	**(4,083,243)**
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**

29. SUBSEQUENT EVENTS

a) Subsequent to September 30, 2021, the Company announced its intention to complete a non-brokered offering of up to 10,000,000 common shares in the capital of the Company at a price of $0.05 per share for gross proceeds of up to $500,000. As at the date of these financial statements, 7,100,000 common shares have been issued pursuant to this offering.

b) Subsequent to September 30, 2021, the Company issued 2,332,036 common shares in the capital of the Company, at a deemed price of $0.085 per share, to certain trade creditors and members of the board of directors in exchange for the forgiveness of a total amount of approximately $198,223 worth of debt owed to such creditors. The common shares are subject to a four month and a day hold period under applicable securities laws from the issuance date, with such hold expiring on March 4, 2022.

c) Subsequent to September 30, 2021, the Company issued 231,468 common shares in exchange for interest owing on the bridge loan discussed in Note 13. A total of 58,306 common shares were issued at a deemed price of $0.115 per share to extinguish approximately $6,700 worth of interest owing for the period of January 2021 to March 2021, and 173,162 common shares issued at a deemed price of $0.085 per share to extinguish approximately $14,718 worth of interest owing for the period of April 2021 to June 2021. The common shares issued are subject to a four month and a day hold period under applicable securities laws from the date of issuance, with such hold expiring on March 4, 2022.

d) Subsequent to September 30, 2021, the Company issued a total of 1,021,328 common shares to settle interest owing on the convertible debentures of $86,813. See Note 12 for more details regarding the convertible debentures. Per the terms of the convertible debentures, the common shares were issued at a deemed price of $0.085 per share, such price being based on the sixty-day volume weighted average trading price of the common shares on the facilities of the NEO up to June 30, 2021.