TERRACE INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019
AND
THE PERIOD FROM AUGUST 28, 2018 (INCEPTION DATE) TO SEPTEMBER 30, 2018

(EXPRESSED IN CANADIAN DOLLARS)

TERRACE INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2019

Financial Statements (Unaudited)

TERRACE INC.
Condensed Interim Consolidated Statements of Financial Position (Unaudited)
(Expressed in Canadian Dollars)

	September 30, 2019 $	December 31, 2018 $
ASSETS		
Current		
Cash	**1,627,593**	2,726,741
Restricted cash (Note 11)	**16,549,923**	—
Advance payment to suppliers (Note 13a)	**111,117**	248,895
Prepaids	**206,064**	45,116
Inventory (Note 7)	**284,551**	—
Subscription receivable	-	174,475
Other receivables	**109,794**	—
Interest receivable	**39,867**	1,749
	18,928,909	3,196,976
Non-Current		
Due from related parties (Note 5)	**1,468,563**	430,261
Unallocated goodwill (Note 6)	**2,233,907**	—
Right-of-use assets (Note 8)	**177,501**	—
Property and equipment (Note 9)	**586,582**	19,099
Total assets	**23,395,462**	3,646,336
LIABILITIES		
Current		
Accounts payables	**1,758,933**	49,221
Provisions (Note 13a)	**39,491**	—
Accrued and other liabilities	**299,255**	323,307
Due to related parties (Note 5)	**1,481,083**	416,985
Advances from customers (Note 13a)	**232,166**	—
Lease obligations (Note 8)	**68,139**	—
Subscription receipts (Note 11)	**15,691,724**	—
	19,570,791	789,513
Non-Current		
Lease obligations (Note 8)	**92,276**	—
Total liabilities	**19,663,067**	789,513
SHAREHOLDERS' EQUITY		
Share Capital (Note 10)	**7,090,618**	3,156,187
Warrants reserve	**213,384**	—
Shares to be issued	—	174,475
Accumulated other comprehensive income (loss)	**9,421**	(7,019)
Accumulated deficit	**(3,581,028)**	(466,820)
Total equity	**3,732,395**	2,856,823
Total liabilities and shareholders' equity	**23,395,462**	3,646,336

See accompanying notes to the condensed interim consolidated financial statements.

Nature of operations (Note 1) *Contingencies (Note 13)* *Subsequent events (Note 16)*

Approved and authorized on behalf of the Board of Directors

"Dennis Mills"
Director (Signed)

"Vincent Gasparro"
Director (Signed)

TERRACE INC.
Condensed Interim Consolidated Statement of Loss and Comprehensive Loss (Unaudited)
(Expressed in Canadian Dollars)

	For the Three Months Ended September 30, 2019 $	For the Nine Months Ended September 30, 2019 $	From August 28, 2018 (Inception Date) to September 30, 2018 $
Changes in fair value of biological assets (Note 7)	6,994	71,457	—
Production costs	1,559	(68,053)	—
Gross margin	8,553	3,404	
Expenses			
Pre-operational agricultural cost	35,327	167,314	21,508
Professional fees	519,699	1,042,623	490
Referral commision (Note 6)	—	909,380	—
Filing expenses	16,270	36,299	—
Advisory fee	221,238	353,743	—
Selling and marketing	133,860	133,860	—
Insurance expense	9,527	28,169	—
Travel expenses	153,706	193,923	—
Office rent	17,865	38,205	3,357
Salaries	4,106	23,936	—
Depreciation expense	22,271	44,243	—
General and office expense	32,127	130,395	2,240
Total expenses	1,165,996	3,102,090	27,595
Net loss from operations	(1,157,443)	(3,098,686)	(27,595)
Other expenses (income)			
Interest expense, net	4,637	9,065	—
Other income	(16,863)	(38,120)	—
Other expense	2,969	7,279	—
Exchange gain - net	37,718	37,298	—
Total other expenses	28,461	15,522	—
Income tax (recovery) expense	—	—	—
Net loss	(1,185,904)	(3,114,208)	(27,595)
Effect of foreign currency translation	6,206	16,440	—
Net loss and comprehensive loss	(1,179,698)	(3,097,768)	(27,595)
Loss per common share - basic and diluted	(0.009)	(0.026)	(0.001)
Weighted average number of common shares - basic and diluted	125,256,780	121,349,067	54,545,455

See accompanying notes to the condensed interim consolidated financial statements.

TERRACE INC.
Condensed Interim Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
(Expressed in Canadian Dollars)

	Common shares		Shares to be issued	Warrants reserve	Accumulated other comprehensive (loss)/ income	Accumulated deficit	Total Equity
	Shares	Amount					
	#	$	$	$	$	$	$
As at December 31, 2018	**112,740,000**	**3,156,187**	**174,475**	—	**(7,019)**	**(466,820)**	**2,856,823**
Issuance of shares (Note 10)	15,840,956	3,960,620	(174,475)	—	—	—	**3,786,145**
Issuance cost	—	(26,189)	—	—	—	—	**(26,189)**
Warrants issued (Note 11)	—	—	—	213,384	—	—	**213,384**
Net loss for the period	—	—	—	—	—	(3,114,208)	**(3,114,208)**
Effect of foreign currency translation	—	—	—	—	16,440	—	**16,440**
As at September 30, 2019	**128,580,956**	**7,090,618**	—	**213,384**	**9,421**	**(3,581,028)**	**3,732,395**
As at August 28, 2018	—	—	—	—	—	—	—
Opening Equity balance - Oransur (Note 1)	—	1,604	—	—	(13,420)	—	**(11,816)**
Issuance of shares (Note 10)	100,000,000	9,400	—	—	—	—	**9,400**
Net loss for the period	—	—	—	—	—	(27,595)	**(27,595)**
Effect of foreign currency translation	—	—	—	—	—	802	**802**
As at September 30, 2018	**100,000,000**	**11,004**	—	—	**(13,420)**	**(26,793)**	**(29,209)**

See accompanying notes to the condensed interim consolidated financial statements.

TERRACE INC.
Condensed Interim Consolidated Statement of Cash Flows (Unaudited)
(Expressed in Canadian Dollars)

	For the Nine Months Ended September 30, 2019 $	From August 28, 2018 (Inception Date) to September 30, 2018 $
Operating activities		
Net loss for the period	**(3,114,208)**	(27,595)
Adjustments for items not affecting cash:		
Depreciation	**53,837**	—
Changes in working capital items:		
Advance payment to suppliers	**357,087**	—
Inventory	**(242,476)**	—
Prepaids	**(160,948)**	(5,436)
Other receivables	**(60,038)**	(1,276)
Accounts payables, net of issuance costs payable	**1,057,847**	—
Accrued and other liabilities	**(172,720)**	(12,160)
Advances from customers	**(83,934)**	—
Provisions	**(22,402)**	—
Cash used in operating activities	**(2,387,955)**	(46,467)
Investing activities		
Lease payments	**(63,970)**	—
Purchase of property and equipment	**(589,778)**	—
Due from related parties	**(1,038,302)**	46,467
Business combinations, purchase consideration net of cash acquir	**(622,584)**	—
Cash used in investing activities	**(2,314,634)**	46,467
Financing activities		
Due to related parties	**919,010**	—
Proceeds from issuance of common shares	**2,684,431**	9,400
Cash provided by financing activities	**3,603,441**	9,400
Net increase in cash	**(1,099,148)**	9,400
Cash and cash equivalents, beginning of period	**2,726,741**	—
Cash and cash equivalents, end of period	**1,627,593**	9,400

See accompanying notes to the condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS

References in this document to the "**Company**" or "**Terrace**" are intended to mean Terrace Inc., individually, or as the context requires, collectively with its affiliate on a consolidated basis and also along with its wholly owned subsidiary.

Terrace was incorporated pursuant to the provisions of the *Business Corporation Act* (Ontario) on August 28, 2018 with its head office located at 1133 Yonge Street, Toronto, Ontario. Terrace is a Canadian company focused on the development and acquisition of international cannabis assets.

The condensed interim consolidated financial statements include the financial results of Oransur, S.A. ("**Oransur**"), Pharmabinoide S.L. ("**Pharmabinoide**"), and Terra Nova Produção e Comercialização de Produtos Naturais e Farmacêuticos, LDA ("**Terra Nova Portugal**").

Oransur was incorporated on September 26, 2014 in Uruguay and currently holds a Uruguayan hemp cultivation license. On August 30, 2018, the Company entered into a call option agreement, which was amended on June 28, 2019 (as amended, the "**Call Option Agreement**"), whereby the Company obtained an option to acquire all of the issued and outstanding shares in the capital of Oransur and Faises, S.A. ("**Faises**") held by Inception Investment Corp. ("**Inception**"). Faises is a Uruguayan corporation operating under a recreational cannabis production license. Inception holds 100% of the issued and outstanding shares in the capital of Oransur and 33.75% of the issued and outstanding shares in the capital of Faises. In connection with the Call Option Agreement, the Company has also entered into a secured loan agreement with Inception to finance the operations of Oransur (Note 5). Terrace is considered to have control over Oransur, and as a result the opening deficit of Oransur of $11,814 has been included in the Condensed Interim Consolidated Statement of Changes in Shareholders' Equity.

Pharmabinoide was incorporated on February 9, 2018 under the laws of Spain. Terrace acquired all of the issued and outstanding securities in the capital of Pharmabinoide pursuant to a share purchase agreement dated February 11, 2019 between Terrace and Mr. Francisco Javier Gutiérrez Rivas. Pharmabinoide's operations primarily involve the cultivation of hemp plants in Spain (Note 6).

On May 17, 2019, Terrace acquired all of the issued and outstanding shares of Terra Nova Business Holdings Inc. ("**Terra Nova**") pursuant to a share purchase agreement. Terra Nova was incorporated pursuant to the laws of the British Virgin Islands on January 31, 2017. Terra Nova owns all of the issued and outstanding quotas of Terra Nova Portugal. Terra Nova Portugal has applied for a license to cultivate, import, and export cannabis at its site in Portugal (Note 6).

2. BASIS OF PRESENTATION

2.1 Statement of compliance

The notes presented in these condensed interim consolidated financial statements include only significant events and transactions and are not fully inclusive of all matters normally disclosed in the annual audited consolidated financial statements; thus, these condensed interim consolidated financial statements are referred to as condensed. These condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the period ended December 31, 2018 available on SEDAR at www.sedar.com.

These condensed interim consolidated financial statements comply with International Accounting Standard 34, Interim Financial Reporting of the International Financial Reporting Standards, as issued by the International Accounting Standards Board ("**IFRS-IASB**") and reflect all adjustments which are necessary for a fair statement of the results for the interim periods presented.

2.2 Basis of presentation

These condensed interim consolidated financial statements of the Company are as at and for the three and nine months ended September 30, 2019 and the period from August 28, 2018 to September 30, 2018. These condensed interim consolidated financial statements were authorized by the Company's Board of Directors for issuance on November 28, 2019.

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The condensed interim consolidated financial statements are presented in Canadian dollars which is the functional currency of Terrace.

Foreign currency transactions are recorded at the exchange rate as at the date of the transaction. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities in foreign currencies other than the functional currency are translated using the historical rate. All gains and losses on translation of these foreign currency transactions are included in the profit and loss.

The functional currency of Oransur is the United States dollar (US$) while that of Pharmabinoide and Terra Nova Portugal is the Euro (€). Assets and liabilities of subsidiaries whose functional currencies are not the Canadian dollar are translated at the rate of exchange prevailing at the reporting date and revenues and expenses at average rates during the period. Effect of translation differences are accumulated and presented as a component of equity under accumulated other comprehensive income (loss).

2.3 Basis of consolidation

The condensed interim consolidated financial statements include the financial results of Terrace and its subsidiaries, which are the entities over which the Company has control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee. The financial statements of the subsidiaries have been prepared for the same reporting period as the Company, using consistent accounting policies. Non-controlling interests, if any, are included as a component of members' equity. All significant intercompany balances and transactions were eliminated on consolidation.

Terrace was incorporated with the intention of acquiring the investment in Oransur and Faises from Inception through the Call Option Agreement (Note 1). Terrace has control over Oransur primarily through:

- Potential voting rights conferred by the Call Option Agreement;
- Dependence on Terrace to fund significant portions of its operations; and
- Ability of Terrace to exercise its Call Option for a nominal price of $5,000.

As such, the results of Oransur have been consolidated with the Company from August 30, 2018. Due to the fact that financial information relating to Faises cannot be obtained from the majority shareholders of Faises, the call option to acquire the 33.75% of Faises has been valued at $Nil.

During the nine months ended September 30, 2019, the Company acquired all of the issued and outstanding securities in the capital of Pharmabinoide and Terra Nova (Note 1 & 6). The results of Pharmabinoide and Terra Nova have been consolidated from the date of their respective acquisitions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All significant accounting policies have been included in the annual consolidated financial statements for the period ended December 31, 2018 with the exception of new accounting policies as described below.

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, in the weighted average number of common shares outstanding during the year, if dilutive.

3.1 Business Combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash), liabilities incurred by the Company on behalf of the acquiree, the fair value of any contingent consideration, and equity interests issued by the Company. Transaction costs incurred by the Company in connection with a business combination, other than those associated with the issuance of debt or equity securities are expensed as incurred.

3.2 Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Inventories of harvested hemp are transferred from biological assets into inventory at their fair value at harvest less costs to sell, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. Packaging and supplies are initially valued at cost.

3.3 Biological assets

Biological assets are living plants managed by the Company for sale, as agricultural produce, or as biological assets. Biological assets include hemp crops, which are to be harvested as agricultural produce.

The Company distinguishes between consumable and bearer biological assets, and between mature and immature biological assets. ‘Consumable’ biological assets are those assets that may be harvested as agricultural produce or sold as biological assets. ‘Bearer’ biological assets are those assets capable of producing more than one harvest. ‘Mature’ biological assets are those that have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets). ‘Immature’ biological assets are those biological assets other than mature biological assets. Consumable biological assets are classified as current or non-current depending on their period of maturity. Bearer biological assets are generally classified as non-current.

Expenses relating to the agricultural activity include planting, harvesting, weeding, seedlings, irrigation, agrochemicals, fertilizers and others. The Company elected to expense all such costs when incurred and include them within ‘Cost of production’ in the statement of profit or loss and other comprehensive income. Therefore, ‘Cost of production’ represents the costs expensed whilst the biological assets are growing.

Biological assets are measured at fair value less costs of disposal on initial recognition and at each statement of financial position date, except where fair value cannot be reliably measured.

Expected future sale prices for all biological assets are determined by reference to observable data in the relevant market. Costs expected to arise throughout the life of the biological assets are estimated based on statistical data.

The gain or loss arising from initial recognition of a biological asset at fair value less costs of disposal and from a change in fair value less costs of disposal of a biological asset is recognized in profit or loss in the period in which they are incurred.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of new IFRS standards

IFRS 16: Leases

Effective in the first quarter of 2019, the Company adopted IFRS 16 – Leases ("**IFRS 16**"), issued in January 2016 and related consequential amendments. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company transitioned to IFRS 16 in accordance with the modified retrospective approach, with the cumulative effect of initially applying the new standard recognized in retained earnings on January 1, 2019. The prior year figures were not adjusted (Note 7).

5. RELATED PARTY TRANSACTIONS AND BALANCES

"**Related parties**" are defined as management, directors, and principal shareholders of the Company and/or members of their immediate family and/or other companies and/or entities in which a principal shareholder, director or senior officer is a principal owner or senior executive. For the three and nine months ended September 30, 2019, $185,581 and $283,498 of fees respectively were incurred for advisory and consulting services provided by certain directors and officers of the Company (August 28, 2018 to September 2018: $Nil). As of September 30, 2019, $10,055 of the fees were outstanding and included in accounts payable (December 31, 2018: $18,642).

The Company entered into the Call Option Agreement (Note 1) on August 30, 2018, as amended on June 28, 2019, with Inception, a company wholly owned by an officer who is also a director and shareholder of the Company. The exercise price under the call option is $5,000 to acquire the shares of Oransur shares and $5,000 to acquire the shares of Faises.

In connection with the Call Option Agreement, the Company has entered into a secured loan agreement for up to $4,500,000 with Inception as the borrower (the "**Inception Loan**") to fund the operations of Oransur. The Inception Loan bears interest at five percent (5%) per annum, is due on demand, and secured by the shares of Oransur and Faises owned by Inception. As at September 30, 2019, the Company has not exercised the above call option and the balance due from Inception was $1,468,563 (December 31, 2018: $430,261) and included as a non-current asset. In addition, interest receivable from Inception as at September 30, 2019 was $39,867 (December 31, 2018: $1,749) and included as a current asset. The interest income earned on the Inception loan for the three and nine months ended September 30, 2019 were $16,863 and $38,120, respectively.

(Expressed in Canadian Dollars)

As at September 30, 2019, the balance due from Oransur to Inception amounted to $1,342,383 (December 31, 2018: $416,985). These advances are short term, unsecured, interest free and repayable on demand.

As at September 30, 2019, $138,700 were due from Terra Nova Portugal to an entity owned and controlled by an officer who is also a director and shareholder of the Company. These advances are short term, unsecured, interest free and repayable on demand and were used to fund the operations of Terra Nova Portugal.

6. BUSINESS COMBINATIONS

Terra Nova

On May 17, 2019, Terrace entered into a share purchase agreement with an entity owned and controlled by a director and shareholder of Terrace for the acquisition of all the issued and outstanding quotas of Terra Nova in exchange for the issuance of 5,000,000 common shares in the capital of Terrace at a recent private placement price of $0.25 per share.

Terra Nova Portugal has applied for a license to cultivate, import and export cannabis at its site in Pinhal Novo, Palmela, Portugal. In December 2018, INFARMED I.P. ("**INFARMED**"), the governing regulatory body in Portugal, issued a declaration to Terra Nova Portugal confirming the compliance with the applicable law concerning the construction of up to a 350,000 sq. ft. greenhouse and 2.5 acres of outdoor cultivation. Terra Nova Portugal has commenced the process to obtain the appropriate municipal and federal permits and expects to complete construction of the greenhouse in the third quarter of 2020. The final license is to be issued upon final inspection by INFARMED of Terra Nova Portugal's facilities.

The transaction was accounted for as a business combination, as the operations of Terra Nova met the definition of a business. No transaction costs were incurred and expensed as a result of the acquisition. The goodwill resulting from the allocation of the purchase price to the total fair value of net assets represented the expected future growth potential of Terra Nova. None of the goodwill recognized is expected to be deductible for income tax purposes.

The consideration transferred was allocated on a preliminary basis to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the fair values assigned to the net assets acquired are preliminary and may be revised by the Company within twelve months from the date of acquisition as additional information is received.

The fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

	$
Cash	5,881
Advances to suppliers	1,812
Other receivables	11,758
Right-of-use assets	119,687
Accrued and other liabilities	(106,560)
Due to related party	(145,088)
Lease liability	(120,092)
Net liabilities assumed	**(232,602)**

(Expressed in Canadian Dollars)

Goodwill was recognized as a result of the acquisition as follows:

	$
Total consideration	1,250,000
Add: Net liabilities assumed	232,602
Unallocated goodwill	**1,482,602**

Pharmabinoide

On February 11, 2019, the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares in the capital of Pharmabinoide. The acquisition cost for the transaction was $636,760 (€ 400,000) which was paid upon closing on February 14, 2019. Pharmabinoide holds a permit, granted by the Spanish Ministry of Agriculture, Fishing and Food, to produce, harvest and sell hemp in Spain. Pharmabinoide is currently exploring the path to obtaining a license for the cultivation of cannabis for medicinal use, extraction of cannabinoids and sale of cannabinoid derivative products.

On February 12, 2019, the Company entered into a Finder Fee Agreement with Taskmaster Corp. ("**Taskmaster**") whereby Taskmaster pursuant to which Taskmaster is entitled to a finder fee for introducing the Company to Pharmabinoide of $909,380 (€ 600,000), of which $156,100 (€ 100,000) was paid upon the closing of the share purchase agreement. As at September 30, 2019, included in accounts payable, are amounts due to Taskmaster $750,100 (€ 500,000) payable upon the earlier of the closing of Terrace's previously announced reverse takeover transaction and six months from the date of Finder Fee Agreement. The amount is overdue as at the date of the approval of these condensed interim consolidated financial statements, however, Taskmaster has informally agreed to defer the receipt of the payment of the outstanding balance after the reverse takeover transaction without any penalty.

The acquisition of Pharmabinoide was accounted for as a business combination, as the operations of Pharmabinoide met the definition of a business. As the transaction was accounted for as a business combination, transaction costs of $909,380 were expensed. The goodwill resulting from the allocation of the purchase price to the total fair value of net assets represented the future growth potential of Pharmabinoide. None of the of the goodwill recognized is expected to be deductible for income tax purposes.

The consideration transferred was allocated on a preliminary basis to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the fair values assigned to the net assets acquired are preliminary and may be revised by the Company within twelve months from the date of acquisition as additional information is received.

(Expressed in Canadian Dollars)

The fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

	$
Cash	8,295
Other receivables	36,049
Advance payment to suppliers	217,497
Inventory	42,075
Equipment	3,444
Right-of-use assets	53,920
Other asset	1,949
Advances from customers	(316,100)
Accrued and other liabilities	(42,108)
Lease liability	(57,673)
Provisions	(61,893)
Net liabilities assumed	**(114,545)**

Goodwill was recognized as a result of the acquisition as follows:

	$
Total consideration	636,760
Add: Net liabilities assumed	114,545
Unallocated goodwill	**751,305**

7. BIOLOGICAL ASSETS AND AGRICULTURAL INVENTORIES

BIOLOGICAL ASSETS

	$
Balance at January 1, 2019	-
Initial recognition and changes in fair value of biological assets	71,457
Transferred to inventory upon harvest	(71,457)
Balance at September 30, 2019	-

In determining the fair value of biological assets, management is required to make a number of estimates, including the expected cost required to grow the hemp up to the point of harvest, harvesting costs, selling costs, sales price, and expected yields for the hemp plant. These estimates are subject to a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future years.

The significant assumptions used in determining the fair value of hemp plants are as follows:

- yield by plant; and,
- percentage of costs incurred for each stage of plant growth.

(Expressed in Canadian Dollars)

As at September 30, 2019, all biological assets previously recognized have been harvested and transferred to inventory. The fair value of the biological assets at the point of harvest was determined based on an estimated production of 15 tonnes of finished goods and a selling price according to the applicable contract is $25,988 (€18,000) per tonne.

INVENTORY

	As at September 30, 2019	As at December 31, 2018
	$	$
Harvested hemp and inventory-in-process	132,837	-
Finished goods	40,510	
Finished goods acquired for resale at cost	111,204	-
Balance at September 30, 2019	**284,551**	-

As at September 30, 2019, inventory-in-process includes $64,040 of post-harvest production costs that have been capitalized.

8. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

	Right-of-use assets	**Lease obligations**
	$	$
Net book value at January 1, 2019	31,495	(29,748)
Acquired on business acquisition	173,607	(177,764)
Assets acquired post business acquisition	24,598	(24,598)
Depreciation and repayment	(44,523)	63,970
Effect of foreign currency exchange differences	(7,676)	7,725
Net book value at September 30, 2019	**177,501**	**(160,415)**

The current and long-term lease obligations as at September 30, 2019 were $68,139 and $92,276, respectively.

Upon adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which have previously been classified as operating leases under the principles of IAS 17. These liabilities are measured at the present value of the remaining fixed lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in these condensed interim consolidated statements of financial position on January 1, 2019 ranges between 4.50 to 6.96 percent.

For the nine months ended September 30, 2019, $10,064 of depreciation on right-of-use assets have been capitalized as inventory-in-process.

(Expressed in Canadian Dollars)

9. PROPERTY AND EQUIPMENT

	Irrigation system	Agricultural equipment	Office equipment	Vehicle	Total
	$	$	$	$	$
Cost					
As at December 31, 2018	**19,099**	—	—	—	**19,099**
Assets acquired	—	—	3,444	—	**3,444**
Additions	—	570,388	—	15,946	**586,334**
Effect of foreign currency exchange differences	(614)	—	—	—	**(614)**
As at September 30, 2019	**18,485**	**570,388**	**3,444**	**15,946**	**608,263**
Depreciation					
As at December 31, 2018	—	—	—	—	—
Charge during the period	1,233	19,629	819	—	**21,681**
As at September 30, 2019	**1,233**	**19,629**	**819**	—	**21,681**
Net Book Value					
As at December 31, 2018	**19,099**	—	—	—	**19,099**
As at September 30, 2019	**17,252**	**550,759**	**2,625**	**15,946**	**586,582**

As at September 30, 2019, $112,160 of the equipment have not been depreciated as the equipment were not put in use during the period.

10. SHARE CAPITAL

Authorized shares

Unlimited common shares without par value.

Common Stock - Issued and Outstanding

	Number of common shares	Amount
	#	$
Balance as at August 28, 2018	—	—
Shares issued	112,740,000	3,195,000
Less: Issuance costs	—	(40,417)
Add: Oransur equity balance	—	1,604
Balance as at December 31, 2018	112,740,000	3,156,187
Shares issued under private placements	10,840,956	2,710,620
Shares issued to acquire Terra Nova (Note 6)	5,000,000	1,250,000
Less: Issuance costs	—	(26,189)
Balance as at September 30, 2019	**128,580,956**	**7,090,618**

In September 2018, the Company issued 100,000,000 shares to the founding shareholders of the Company in consideration of $10,000 and incurred $600 in issuance costs.

During October and November 2018, the Company issued 12,740,000 shares at $0.25 per share in connection with a private placement transaction for gross proceeds of $3,185,000 and incurred $39,817 of costs, mostly related to professional fees.

During January and February 2019, the Company issued 840,956 common shares to multiple investors through a private placement at a price of $0.25 per share for gross proceeds of $210,620 and incurred $26,189 of costs, mostly related to professional fees.

On May 17, 2019, the Company issued 5,000,000 common shares at $0.25 per share, or $1,250,000, as consideration for the acquisition of Terra Nova (Note 6).

On May 24, 2019, Terrace completed a non-brokered private placement, under which Terrace issued 10,000,000 common shares at $0.25 per share in exchange for a consideration of $2,500,000.

11. SUBSCRIPTION RECEIPTS

In June 2019, the Company received subscription proceeds from three investors in the aggregate amount of $420,000 in exchange for 840,000 subscription receipts (the "**Subscription Receipts**"), which were issued in July 2019. During the three months ended September 30, 2019, the Company completed two additional tranches of the Subscription Receipt financing by issuing a total of 34,000,000 Subscription Receipts at $0.50 per Subscription Receipt for gross proceeds of $17,000,000 (inclusive of the $420,000 received in June 2019). All of the subscription proceeds from this private placement of Subscription Receipts were held in escrow as at September 30, 2019, in the amount of $16,549,923, net of broker fees and interest earned.

In connection with the Subscription Receipts financing, the Company issued 754,200 share purchase warrants on July 19, 2019 to the agents as part of the agents' commission. Each warrant is exercisable into one common share of the Company at $0.50 per warrant and has a term of five years from date of issuance. The fair value of the warrants issued was estimated to be $213,384 (approximately $0.28 per warrant) and recorded as a reserve in the Condensed Interim Consolidated Statement of Changes in Shareholders' Equity. The fair value of the warrants was determined using the Black-Scholes option pricing model with the following input assumptions: i) share price of $0.50 per share based on the most recent Subscription Receipts financing; ii) estimated life of two years; iii) volatility of 108.94%; iv) risk free rate of 1.51%; and v) dividend yield of 0.00%.

On November 14, 2019, upon satisfaction of certain escrow release conditions, including the completion of a reverse takeover transaction (Note 16), each Subscription Receipt was automatically exchanged for one common share of the Company and the subscription proceeds were released from escrow to the Company.

12. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The shareholders have not established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its shareholders' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. As at September 30, 2019, the working capital of the Company was negative $641,882 (December 31, 2018: $2,407,463).

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the shareholders of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

13. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Pursuant to advisory agreements with the members of the International Advisory Board established by the Company, the Company agreed to issue 300,000 options upon completion of the announced reverse takeover transaction between the Company (Note 16) subject to the terms and conditions of the Company's stock option plan.

During the period ended December 31, 2018, Pharmabinoide signed a contract to provide 20 tonnes of dry flower hemp valued between €11,000 and €20,350 per tonne to a customer. Pharmabinoide expects to provide these goods by the end of fiscal 2019. At the period ended September 30, 2019, Pharmabinoide has received an advance from the client in the amount of $232,166. Pharmabinoide has also signed a contract with a supplier that will provide a portion of these goods at €18,000 per tonne, and has given the supplier a cash advance of $111,117 as at September 30, 2019.

The Company has estimated that the costs to be incurred to satisfy the hemp supply contract described above are expected to be in excess of the total selling price. As such, the Company has recorded a provision for this onerous contract in the amount of $39,491 (Euros 27,352) as of September 30, 2019 (December 31, 2018: $Nil). At the date hereof, the Company was in negotiation with its dry flower hemp customer to revise the terms of its initial hemp sale agreement.

(b) Contingencies and claims

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At September 30, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

14. FINANCIAL RISK FACTORS

The Company's financial instruments mainly comprise of cash, restricted cash, advance payment to suppliers, due to and from related parties, interest and other receivable, trade payables, accrued and other liabilities, advances from customers and lease obligations.

(a) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

(Expressed in Canadian Dollars)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the condensed interim consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values			
Financial assets	**FVTPL**	**FVTOCI**	**Amortized cost**	**Total**
September 30, 2019	**$**	**$**	**$**	**$**
Cash	**1,627,593**	**—**	**—**	**1,627,593**
Restricted cash	**16,549,923**	**—**	**—**	**16,549,923**
Advance payment to suppliers	**111,117**	**—**	**—**	**111,117**
Other receivables	**25,894**	**—**	**—**	**25,894**
Due from related parties	**—**	**—**	**1,468,563**	**1,468,563**
Interest receivable	**39,867**	**—**	**—**	**39,867**
	18,354,394	**—**	**1,468,563**	**19,822,957**
December 31, 2018	**$**	**$**	**$**	**$**
Cash	2,726,741	—	—	2,726,741
Advance payment to suppliers	248,895	—	—	248,895
Due from related parties	—	—	430,261	430,261
Interest receivable	1,749	—	—	1,749
	2,977,385	—	430,261	3,407,646

(Expressed in Canadian Dollars)

	Carrying values			
Financial liabilities	**FVTPL**	**FVTOCI**	**Amortized cost**	**Total**
September 30, 2019		**$**	**$**	**$**
Accounts payables		**—**	**1,758,933**	**1,758,933**
Accrued and other liabilities		**—**	**299,255**	**299,255**
Due to related parties		**—**	**1,481,083**	**1,481,083**
Advances from customers		**—**	**232,166**	**232,166**
Lease obligations		**—**	**160,415**	**160,415**
Provisions		**—**	**39,491**	**39,491**
		—	**3,971,343**	**3,971,343**
December 31, 2018		**$**	**$**	**$**
Accounts payables		—	49,221	49,221
Accrued and other liabilities		—	323,307	323,307
Due to related parties		—	416,985	416,985
		—	789,513	789,513

The Company's only financial instrument as at September 30, 2019 that is classified as Level 1 is cash and cash equivalents. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit and liquidity risks. The Company's management oversees the management of these risks. The Company`s management is supported by the shareholders that advise on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company's policies and Company's risk appetite.

(b) Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consists of cash, restricted cash and due from related parties. The Company's cash and cash equivalents consist mainly of chequing and operating accounts while restricted cash is held in escrow by a third-party transfer agent. As at September 30, 2019 the maximum amount exposed to credit risks was $1,627,593 (December 31, 2018: $2,726,741).

(c) Foreign Currency Risk

Currency risk is the risk that the future cash flows or fair value of the Company's financial instruments that are denominated in a currency that is not the Company's functional currency will fluctuate due to the change in foreign exchange rate. The financial risk to the Company's operations arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Net financial liabilities of Oransur denominated in US dollars as at September 30, 2019 were US$ 998,311 ($1,322,062). A 10% change in the CAD-US exchange rate would result in a change in comprehensive loss of $132,206.

Net financial liabilities of Pharmabinoide denominated in Euros as at September 30, 2019 were €396,538 ($572,523). A 10% change in the EUR-CAD exchange rate would result in a change in comprehensive loss of $57,252

Net financial liabilities of Terra Nova denominated in Euros as at September 30, 2019 were €286,486 ($413,627). A 10% change in the EUR-CAD exchange rate would result in a change in comprehensive loss of $41,363.

(d) Liquidity Risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash or its equivalents in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its shareholders. As at September 30, 2019, all trade payables are due within a year. The Company considers all balances which are outstanding over six months as past due. There are no balances which are past due.

(e) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as it has no interest-bearing debt.

15. SEGMENTED INFORMATION

(a) Operating segments

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and
- for which discrete financial information is available.

At September 30, 2019 the Company's operations comprise a single reporting operating engaged in the development and acquisition of international cannabis assets.

(b) Geographic segments

The Company operates in four countries with the head office located in Canada and operating activities in Uruguay, Spain and Portugal. The geographical segmented information on the condensed interim consolidated statement of loss and comprehensive loss for the period ended September 30, 2019 are as below:

(Expressed in Canadian Dollars)

	For the Nine Months Ended September 30, 2019	From August 28, 2018 (Inception date) to September 30, 2018
Net loss		
Canada	2,367,389	—
Uruguay	496,715	27,595
Spain	164,160	—
Portugal	85,944	—
	3,114,208	**27,595**

The geographical segmented information on the condensed interim consolidated statement of financial position items is given below:

As of September 30, 2019						
	Canada	**Uruguay**	**Spain**	**Portugal**	**Adjustments**	**Total**
Current assets	18,079,087	148,961	643,337	57,524	—	**18,928,909**
Non-current assets	3,936,457	556,703	99,870	107,510	(233,987)	**4,466,553**
Total assets	22,015,544	705,664	743,207	165,034	(233,987)	**23,395,462**
Current liabilities	17,448,415	1,357,027	966,460	380,023	(581,134)	**19,570,791**
Non-current liabilities	—	—	1,148	91,128	—	**92,276**
Equity	4,567,129	(651,363)	(224,401)	(306,117)	347,147	**3,732,395**
Total liabilities	22,015,544	705,664	743,207	165,034	(233,987)	**23,395,462**

As of December 31, 2018			
	Canada	**Uruguay**	**Total**
Current assets	3,365,222	262,015	**3,627,237**
Non-current assets	-	19,099	**19,099**
Total assets	3,365,222	281,114	**3,646,336**
Current liabilities	356,794	432,719	**789,513**
Equity	3,008,427	(151,604)	**2,856,823**
Total liabilities	3,365,221	281,115	**3,646,336**

16. SUBSEQUENT EVENTS

Completion of Qualifying Transaction

On November 14, 2019, the Company completed the previously announced reverse takeover transaction (the "**Qualifying Transaction**") with Apolo II Acquisition Corp. ("**Apolo**"). Pursuant to the terms of the Qualifying Transaction, Apolo acquired all of the issued and outstanding shares of the Company (the "**Terrace Shares**") with the former shareholders of the Company receiving one newly issued common share of Apolo for each Terrace Share held. Immediately prior to the closing of the Qualifying Transaction, Apolo consolidated its shares on a 2.5-for-one basis and changed its name to Terrace Global Inc. ("**Terrace Global**"). The Company subsequently amalgamated with a wholly-owned subsidiary of Terrace Global.

Concurrent with the completion of the Qualifying Transaction, each of the 34,000,000 Subscription Receipts outstanding (Note 11) was automatically exchanged for one common share of the Company and the net proceeds from the Subscription Receipts financing of $16,331,242 were released from escrow to the Company.

Upon completion of the Qualifying Transaction, the former shareholders of Terrace now owned approximately 97.2% of the 167,340,956 issued and outstanding shares of Terrace Global (on a non-diluted basis). In addition, there are an aggregate of 476,000 options, 754,200 broker warrants, and 200,000 agent options to purchase common shares of Terrace Global.