TERRACE GLOBAL INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019
AND
THE PERIOD FROM AUGUST 28, 2018 (INCEPTION DATE) TO DECEMBER 31, 2018

(Expressed in Canadian Dollars)

TERRACE GLOBAL INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Terrace Global Inc. (the "**Company**"):

The consolidated financial statements of the Company and the accompanying notes were prepared by management and were reviewed and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These consolidated financial statements have been audited by the Company's auditors, MNP LLP, and their report is presented herein.

April 29, 2020

"Francisco Ortiz von Bismarck" (signed)	*"John Chou"* (signed)
Chief Executive Officer	Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Terrace Global Inc.:

Opinion

We have audited the consolidated financial statements of Terrace Global Inc. and its subsidiaries (the "**Company**"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2019 and for the period from August 28, 2018 (incorporation date) to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2019 and for the period from August 28, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ahlan Veerasamy.

MNP LLP

Toronto, Ontario
April 29, 2020

Chartered Professional Accountants
Licensed Public Accountants

MNP

TERRACE GLOBAL INC.
Consolidated Statement of Financial Position

(Expressed in Canadian Dollars)	December 31, 2019 $	December 31, 2018 $
ASSETS		
Current		
Cash	16,768,460	2,726,741
Advance payment to suppliers (Note 13a)	100,946	248,895
Prepaids	176,120	45,116
Inventory (Note 7)	294,561	—
Other receivables	520,536	—
Other assets	1,896	—
Subscription receivable	—	174,475
Interest receivable	—	1,749
	17,862,519	**3,196,976**
Non-Current		
Property and equipment (Note 9)	403,165	19,099
Right-of-use assets (Note 8)	103,867	—
Intangible assets (Note 6b)	653,800	—
Goodwill (Note 6, 10)	975,818	—
Due from related parties (Note 5)	—	430,261
Total assets	**19,999,169**	**3,646,336**
LIABILITIES		
Current		
Accounts payable	1,235,068	49,221
Accrued and other liabilities	468,307	323,307
Current portion of lease obligations (Note 8)	57,125	—
Advances from customers (Note 13a)	234,495	—
Referral commission payable (Note 6c)	751,260	—
Due to related parties (Note 5)	140,023	416,985
	2,886,278	**789,513**
Non-Current		
Lease obligations (Note 8)	87,558	—
Deferred tax liability (Note 14)	147,015	—
Total liabilities	**3,120,851**	**789,513**
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	25,360,675	3,156,187
Reserve (Note 11)	444,669	—
Shares to be issued	—	174,475
Accumulated other comprehensive income (loss)	32,448	(7,019)
Deficit	(8,959,474)	(466,820)
Total shareholders' equity	**16,878,318**	**2,856,823**
Total liabilities and shareholders' equity	**19,999,169**	**3,646,336**

See accompanying notes to the consolidated financial statements.
Contingencies (Note 13)
Subsequent events (Note 17)

Approved and authorized on behalf of the Board of Directors

"Dennis Mills"
Director (Signed)

"Vincent Gasparro"
Director (Signed)

TERRACE GLOBAL INC.
Consolidated Statement of Loss and Comprehensive Loss

(Expressed in Canadian Dollars, except share amounts)	**For the year ended December 31, 2019** **$**	**August 28, 2018 (inception date) to December 31 2018** **$**
Changes in fair value of biological assets (Note 7)	71,457	—
Production costs	(232,707)	—
Gross loss	**(161,250)**	—
Expenses		
Pre-operational agricultural costs	486,412	105,478
Impairment (Note 10)	1,067,607	—
Listing expense (Note 6a)	2,724,158	—
Professional fees	1,051,159	102,906
Management and advisory fees	925,435	197,970
Referral commision (Note 6c)	909,380	—
Shareholder services	97,235	—
Consulting fees	179,165	—
Selling and marketing	211,891	—
Insurance expense	57,782	5,178
Travel expenses	389,233	38,553
Office rent	46,753	—
Depreciation expense	11,466	—
General and office expense	143,704	3,622
Total expenses	**8,301,380**	**453,707**
Net loss from operations	**(8,462,630)**	**(453,707)**
Other expenses (income)		
Interest income, net	(69,407)	(1,749)
Exchange loss	99,431	1,444
Total other expenses (income)	**30,024**	**(305)**
Net loss before income tax	**(8,492,654)**	**(453,402)**
Current income tax expense	—	—
Deferred income tax recovery	—	—
Net loss	**(8,492,654)**	**(453,402)**
Effect of foreign currency translation	39,467	(7,019)
Comprehensive loss	**(8,453,187)**	**(460,421)**
Net loss per common share - basic and diluted	**(0.07)**	**(0.00)**
Weighted average number of common shares - basic and diluted	**128,181,632**	**93,600,000**

See accompanying notes to the consolidated financial statements.

TERRACE GLOBAL INC.
Consolidated Statement of Changes in Shareholders' Equity

(Expressed in Canadian Dollars, except share amounts)	Common shares Shares #	 Amount $	Shares to be issued $	Reserve $	Accumulated other comprehensive income (loss) $	Deficit $	Total $
As at December 31, 2018	**112,740,000**	**3,156,187**	**174,475**	**—**	**(7,019)**	**(466,820)**	**2,856,823**
Issuance of shares (Note 11)	54,600,956	23,340,620	(174,475)	—	—	—	**23,166,145**
Issuance costs	—	(1,134,528)	—	—	—	—	**(1,134,528)**
Stock options (Note 11)	—	—	—	179,923	—	—	**179,923**
Warrants (Note 11)	—	—	—	264,746	—	—	**264,746**
Exercise of Oransur option (Note 11)	—	(1,604)	—	—	—	—	**(1,604)**
Net loss for the year	—	—	—	—	—	(8,492,654)	**(8,492,654)**
Effect of foreign currency translation	—	—	—	—	39,467	—	**39,467**
As at December 31, 2019	**167,340,956**	**25,360,675**	**—**	**444,669**	**32,448**	**(8,959,474)**	**16,878,318**
As at August 28, 2018	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Equity of Oransur (Note 2.3)	—	1,604	—	—	—	(13,418)	**(11,814)**
Issuance of shares (Note 11)	112,740,000	3,195,000	—	—	—	—	**3,195,000**
Shares to be issued	—	—	181,375	—	—	—	**181,375**
Issuance cost	—	(40,417)	(6,900)	—	—	—	**(47,317)**
Net loss for the period	—	—	—	—	—	(453,402)	**(453,402)**
Effect of foreign currency translation	—	—	—	—	(7,019)	—	**(7,019)**
As at December 31, 2018	**112,740,000**	**3,156,187**	**174,475**	**—**	**(7,019)**	**(466,820)**	**2,856,823**

See accompanying notes to the consolidated financial statements.

TERRACE GLOBAL INC.
Consolidated Statement of Cash Flows

(Expressed in Canadian Dollars)	For the year ended December 31, 2019 $	August 28, 2018 (inception date) to December 31 2018 $
Operating activities		
Net loss	(8,492,654)	(453,402)
Adjustments for items not affecting cash:		
Listing expense (Note 6)	1,912,505	-
Depreciation	86,295	-
Impairment (Note 10)	1,067,607	-
Fair value change of biological assets (Note 7)	(71,457)	-
Inventory provision (Note 7)	204,633	-
Foreign exchange	43,833	(7,019)
Interest expense	-	(1,749)
Other	3,396	-
Changes in working capital items:		
Advance payment to suppliers	248,957	(248,895)
Inventory	(247,315)	-
Prepaids	(130,950)	(43,885)
Other receivables	(470,980)	-
Accounts payables	1,125,060	36,176
Referral commision payable (Note 6c)	751,260	-
Accrued and other liabilities	(3,667)	323,307
Advances from customers	(81,605)	-
Provisions	(61,893)	-
Cash used in operating activities	**(4,116,974)**	**(395,467)**
Investing activities		
Purchase of property and equipment	(680,111)	(19,099)
Acquisition of Pharmabinoide and Terra Nova, net of cash acquired (Note 6c)	(622,584)	-
Due from related parties	-	(430,261)
Exercise of purchase option on Oransur	(5,000)	-
Cash used in investing activities	**(1,307,695)**	**(449,360)**
Financing activities		
Proceeds from issuance of common shares, net of issuance costs (Note 11)	18,850,262	3,154,583
Cash acquired on reverse acquisition (Note 6a)	698,780	-
Lease payments	(82,654)	-
Due to related parties	-	416,985
Cash provided by financing activities	**19,466,388**	**3,571,568**
Net increase in cash and cash equivalents	14,041,719	2,726,741
Cash and cash equivalents, beginning of year	2,726,741	-
Cash and cash equivalents, end of year	**16,768,460**	**2,726,741**

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS

Terrace Global Inc. ("**Terrace**" or the "**Company**"), formerly known as Apolo II Acquisition Corp. ("**Apolo**"), is a Canadian publicly listed company focused on the development and acquisition of international cannabis assets. Apolo was incorporated under the Ontario Business Corporations Act on December 15, 2017, and classified as a capital pool company ("**CPC**"), as defined in Policy 2.4 of the TSX Venture Exchange (the "**Exchange**"). The principal business of Apolo as a CPC was to identify and evaluate assets or businesses with a view to completing an acquisition (the "**Qualifying Transaction**").

On November 14, 2019, Apolo completed the previously announced Qualifying Transaction with Terrace Inc. Terrace Inc. was a Canadian incorporated company that held, through its subsidiaries, cannabis licenses and cultivation operations in Uruguay, Spain, and Portugal. Pursuant to the terms of the Qualifying Transaction, Apolo acquired all the issued and outstanding shares of Terrace Inc. from its former shareholders, in exchange for the same number of newly issued common shares of Apolo. 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. Concurrent with the completion of the Qualifying Transaction, the Company also completed a private placement for aggregate gross proceeds of $17 million at a price of $0.50 per subscription receipt ("**Subscription Receipt**"), which were exchanged for 34 million newly issued common shares of the Company. The shares of Terrace began trading on the Exchange on November 18, 2019 under the symbol "TRCE".

Upon completion of the Qualifying Transaction and the Subscription Receipt financing, the former shareholders of Terrace Inc. owned approximately 76.8% of the 167,340,956 issued and outstanding shares of the Company on a non-diluted basis. As a result, the transaction is accounted for as a reverse acquisition where Terrace Inc. is considered to be the acquirer and the Company is considered to be the acquiree (Note 6a).

2. BASIS OF PRESENTATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**") and Interpretations of the International Financial Reporting Interpretations Committee ("**IFRIC**").

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on April 29, 2020.

2.2 Basis of presentation

These consolidated financial statements of the Company are for the year ended December 31, 2019 and the period from August 28, 2018 to December 31, 2018. These 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 consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company.

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 the Company's subsidiary in Uruguay is the United States dollar (US$) and the Euro (€) for the subsidiaries in Spain and Portugal. 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

These 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 intercompany balances and transactions were eliminated on consolidation. The Company's subsidiaries for which the results have been consolidated are described below.

Uruguay

Oransur, S.A. ("**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. At the time, Inception held 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 also entered into a secured loan agreement with Inception to finance the operations of Oransur.

Terrace was determined to have control over Oransur primarily due to:

- Potential voting rights conferred by the Call Option Agreement;
- Dependence by Oransur 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, with the opening deficit of Oransur of $11,814 being included in the equity of the Company.

On November 28, 2019, the Company exercised the option on Oransur and acquired all the issued and outstanding shares in the capital of Oransur for cash consideration of $5,000 pursuant to the Call Option Agreement.

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.

Spain

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

Portugal

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Business Combination

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date on which the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Acquisition costs are expensed to profit or loss.

Contingent consideration, if any, is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates with the corresponding gain or loss being recognized in profit or loss.

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.

3.2 Cash and cash equivalents

The Company considers all investments with original maturities of three months or less, that are highly liquid and readily convertible into cash, to be cash equivalents. Cash is held in banks and the trust fund of the Company's lawyer.

3.3 Related party transactions

A party is related to an entity if the party directly or indirectly controls, is controlled by or is under common control with the entity; or if it has an interest in the entity that gives it significant influence over the entity; or if it has joint control over the entity or is an associate or a joint venture of the entity. In addition, members and dependents of the key management personnel of the entity (Board of Directors and Executive Management Board) are also considered related parties.

3.4 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.

3.5 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.

3.6 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of equipment, less their estimated residual value, using the straight-line method over the following expected useful lives:

- Irrigation system – 10 years
- Agricultural equipment – 4 to 10 years
- Office equipment – 4 years
- Vehicle – 10 years

An item of property and equipment is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of operations.

Right of use assets are amortized according to their asset category.

Assets in process are transferred to the appropriate asset class when available for use and depreciation of the assets commences at that point of time.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for equipment and any changes arising from the assessment are applied by the Company prospectively.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

3.7 Intangible assets and goodwill

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, definite-life intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Following initial recognition, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

Goodwill

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 at the acquisition date. Goodwill is allocated to the cash generating unit ("**CGU**" or "**CGUs**") to which it relates.

3.8 Taxation

The income tax payable is based on taxable income (loss) for the year. Taxable income differs from "income (loss) before taxes" as reported in the statement of Operations and because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible.

Current income tax represents the expected income taxes recoverable (or payable) on taxable income for the period using income tax rates enacted or substantively enacted at the end of the reporting period and taking into account any adjustments arising from prior years.

Deferred income taxes are accounted for using the liability method. Under this method, deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the consolidated financial statements and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in earnings in the period that includes the substantive enactment date. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be subsequently reduced, if necessary, to the extent that it is probable that future taxable profits will be available. A deferred tax expense or benefit is recognized in other comprehensive income or otherwise directly in equity to the extent that it relates to items that are recognized in other comprehensive income or directly in equity in the same or a different period.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

3.9 Equity

Common shares are classified as equity. Costs, such as commissions, professional fees and regulatory fees directly attributable to common shares issuances are deducted from the proceeds of the offering. Proceeds from unit offerings are allocated to shares.

3.10 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

If the entity has a contract of an onerous nature, the present obligations that derive from it must be recognized and measured, in the financial statements, such as provisions. for the purpose to make provisions a contract of a onerous nature is defined as a contract in which the parties the unavoidable costs of complying with the obligations it entails, exceed the economic benefits expected from it. The unavoidable costs of the contract will reflect the lower net costs of resolving the same, or what is the same, the lower of the cost of complying with its clauses and the amount of the clauses, compensations or fines for non-compliance.

Before proceeding to set aside an independent provision on account of a contract for onerous character, the entity shall recognise any impairment losses. which correspond to the assets dedicated to fulfilling the obligations derived from the contract.

3.11 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year, respectively. 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.

3.12 Financial instruments

Recognition and initial measurement

Financial assets and financial liabilities, including derivatives, are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as Fair Value Through Profit or Loss ("**FVTPL**"), are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net loss.

Classification and subsequent measurement

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories:

a) amortized cost
b) fair value through profit or loss FVTPL, and
c) fair value through other comprehensive income ("**FVTOCI**").

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL: a) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the asset is derecognized or impaired. All financial assets not classified as amortized cost as described above are measured at FVTPL or FVTOCI depending on the business model and cash flow characteristics. The Company has no financial assets measured at FVTOCI.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL.

Financial instruments are classified into one of the following categories: FVTPL; financial assets at amortized cost, financial liabilities at amortized cost, and financial assets at FVTOCI.

Impairment of financial instruments

For accounts receivable, trade, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable, trade based on the Company's historical default rates over the expected life of the accounts receivable, trade and is adjusted for forward-looking estimates. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

All individually significant loan receivables are assessed for impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for impairment. Loans receivables not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the statements of comprehensive loss.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of comprehensive loss.

3.13 Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its long-lived assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the assets belong.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income (loss), unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

3.14 Share-based payments

(a) Share-based payment transactions

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted, using an appropriate valuation model.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "**vesting date**"). For cash settled share-based compensation, the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled.

The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of loss.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification. Where an award is cancelled by the Company or the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

(b) Warrants

The Company measures the fair value of warrants issued using the Black-Scholes option pricing model. The fair value of each warrant is estimated based on their respective issuance dates taking into account volatility, expected life, the dividend rate, and the risk-free interest rate. The fair value of warrants issued to agents in conjunction with an offering is charged to share issue costs with an offsetting amount recorded to warrant reserve.

3.15 Significant accounting judgments and estimates

The application of the Company's accounting policies requires management to use estimates and judgments that can have significant effect on the revenues, expenses, assets and liabilities recognized and disclosures made in the financial statements.

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used.

Management's budget and strategic plans are fundamental information used as a basis for estimates necessary to prepare financial information. Management tracks performance as compared to the budget and significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following areas require management to make significant estimates and judgments:

(a) Income taxes

The Company computes an income tax provision in accordance with the applicable income tax laws. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

The income tax provision is based on estimates of full-year earnings by jurisdiction. The average annual effective income tax rates are re-estimated at the end of each reporting period. To the extent that forecasts differ from actual results, adjustments are recorded in subsequent periods.

(b) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These consolidated financial statements have been prepared on the basis of the accounting principles applicable to a going concern, which assumes the Company's ability to continue in the normal course of operations for the foreseeable future and to realize its assets and discharge its liabilities in the normal course of operations.

(c) Consolidation and controlled entities

The assessment of the Company's ability to exercise control and consolidate an entity in accordance with IFRS 10 involves judgment to determine whether the Company has control due to the following:

(i) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) exposure, or rights, to variable returns from its involvement with the investee; and
(iii) the ability to use its power over the investee to affect its returns.

Prior to November 28, 2019 (Note 2.3), the Company had control over Oransur without having an equity ownership in the capital of Oransur, primarily due to the following:

(i) A call option to acquire Oransur for a nominal value and the intention to exercise the option;
(ii) That there were no barriers for the Company to exercise its call option to acquire Oransur;
(iii) The loans given to fund Oransur and the collateral on those loans being 100% of the common shares of Oransur;
(iv) The fact that management of the Company controlled the activities of Oransur;
(v) Oransur had no activities prior to the Company providing financing to fund the operations; and
(vi) The legal approvals required to exercise the call option was purely administrative in nature.

(d) Valuation and impairment of intangible assets and goodwill

Management used significant judgment in valuing the fair value of intangible assets and goodwill, estimating the useful lives and impairment. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

The Company uses judgment in determining the grouping of assets by identifying CGUs for purposes of testing for impairment of goodwill and intangible assets. The Company's estimate of the recoverable amount based on value in use for a CGU or a group of CGUs involves estimating future cash flows. Future cash flows are estimated based on multi-year extrapolation of the most recent historical actual results, if available, and budgets calculated by discounting the final year in perpetuity.

(e) Inventory

The net realizable value of inventories represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. The determination of net realizable value requires significant judgment, including consideration of factors such as shrinkage, the aging of and future demand for inventory, expected future selling price the Company expects to realize by selling the inventory, and the contractual arrangements with customers. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecasts and net realizable value. The estimates are judgmental in nature and are made at a point in time, using available information, expected business plans, and expected market conditions. As a result, the actual amount received on sale could differ from the estimated value of inventory. Periodic reviews are performed on the inventory balance. The impact of changes in inventory reserves is reflected in cost of goods sold.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of new IFRS standards

<u>IFRS 16: Leases</u>

Effective January 1, 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 8).

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 year ended December 31, 2019, $690,049 of fees were incurred for advisory and consulting services provided by certain directors and officers of the Company (2018: $23,170). As of December 31, 2019, $393,537 of the fees were outstanding and included in accounts payable (December 31, 2018: $18,642).

The Company entered into the Call Option Agreement (Note 2.3) 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. On November 28, 2019, the Company exercised the option under the Call Option Agreement to acquire all the issued and outstanding shares of Oransur; the exercise price of $5,000 payable to Inception was outstanding as at December 31, 2019 and included in accounts payable.

In connection with the Call Option Agreement, the Company had 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. Subsequent to the completion of the Qualifying Transaction and the exercise of the call option on the shares of Oransur by the Company, the balance due under the Inception Loan as at December 31, 2019, being $1,470,051 (US$1,131,853), was fully set off against the balance due to Inception from Oransur.

As at December 31, 2019, $140,023 were due by the Company's subsidiary Terra Nova 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 start-up operations of Terra Nova.

6. BUSINESS COMBINATIONS

(a) Completion of reverse takeover of Apolo

On November 14, 2019, Apolo completed its Qualifying Transaction whereby it acquired all the issued and outstanding shares of Terrace Inc. through a three-cornered amalgamation, and changed its name to "Terrace Global Inc." (Note 1). The Qualifying Transaction was determined to be a reverse acquisition of Apolo by Terrace Inc. and has been accounted for in accordance with IFRS 2 *Share-based Payments*. The transaction has been accounted for at the fair value of the equity instruments issued by the Company to the holders of the common shares, options, and warrants of Apolo. The difference between the total fair value of the equity instruments issued and the net assets acquired has been recognized as a listing expense in the consolidated statements of loss for the year ended December 31, 2019. Additionally, legal and other professional fees of $811,653 that were incurred to complete the Qualifying Transaction were also expensed as listing expense.

(Expressed in Canadian Dollars)

The fair value of the consideration transferred and the net assets acquired are summarized below:

	$
Fair value of common shares (4,760,000 shares at $0.50 per share)	2,380,000
Fair value of stock options (476,000 options at $0.38 per option)	179,923
Fair value of warrants (200,000 warrants at $0.26 per warrant)	51,362
Total consideration transferred	2,611,285
Net assets acquired (cash)	698,780
Excess attributed to cost of listing	1,912,505
Legal and other professional fees	811,653
Total listing expense	**2,724,158**

The options and warrants transferred were valued using the Black-Scholes pricing model, based on the following inputs:

	Stock options	**Warrants**
Risk free interest rate	1.56%	1.56%
Expected life in years	4.16	0.31
Expected volatility	87.50%	87.50%
Dividend yield	-	-

<u>(b) Terra Nova</u>

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 shares 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.

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 Company has finalized the allocation of the purchase price for the acquisition of Terra Nova and the fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

(Expressed in Canadian Dollars)

	$
Consideration transferred	
Issuance of common shares (5,000,000)	**1,250,000**
Assets acquired and liabilities assumed	
Cash	5,881
Advances to suppliers	1,812
Other receivables	11,758
Right-of-use assets	119,687
Intangible asset	653,800
Accrued and other liabilities	(106,560)
Due to related party	(145,088)
Lease liability	(120,092)
Deferred tax liability	(147,015)
	274,182
Goodwill	975,818
Total net assets acquired	**1,250,000**

The intangible asset represents the fair value of the pre-approval obtained from INFARMED concerning the construction of the greenhouse facility and outdoor cultivation. 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. No transaction costs were incurred in connection with the acquisition.

Since the date of acquisition, Terra Nova has contributed a net loss of $136,375 to the continuing operations of the Company. Had the acquisition of Terra Nova occurred on January 1, 2019, the net loss of the Company for the year ended December 31, 2019 would have been $8,427,327.

<u>(c) Pharmabinoide</u>

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. Pharmabinoide holds a permit, granted by the Spanish Ministry of Agriculture, Fishing and Food, to produce, harvest and sell hemp in Spain.

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 December 31, 2019, included in accounts payable, are amounts due to Taskmaster of $751,260 (€500,000) payable at the earlier of the closing of the Qualifying Transaction (Note 6a) and six months from the date of Finder Fee Agreement. The amount is overdue as at the date of the approval of these consolidated financial statements, however, Taskmaster has informally agreed to defer the receipt of the payment of the outstanding balance without any penalty and the Company is negotiating the settlement of this amount..

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, the transaction cost related to the finder fee of $909,380 was expensed. The Company has finalized the allocation of the purchase price for the acquisition of Pharmabinoide and the fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

(Expressed in Canadian Dollars)

	$
Consideration transferred	
Cash consideration (€400,000)	**636,760**
Assets acquired and liabilities assumed	
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)
	(114,545)
Goodwill	751,305
Total net assets acquired	**636,760**

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 at the time of the acquisition. None of the of the goodwill recognized is expected to be deductible for income tax purposes. As at December 31, 2019, the goodwill recognized has been fully impaired (Note 10).

Since the date of acquisition, Pharmabinoide has contributed a net loss of $423,701 to the continuing operations of the Company. Had the acquisition of Pharmabinoide occurred on January 1, 2019, the net loss of the Company for the year ended December 31, 2019 would have been $8,402,316.

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 December 31, 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.

(Expressed in Canadian Dollars)

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.

As at December 31, 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

	December 31, 2019 $	December 31, 2018 $
Harvested hemp and inventory-in-process	267,375	-
Finished goods	113,963	-
Finished goods acquired for resale at cost	112,321	-
Supplies	5,064	-
Inventory provision	(204,633)	-
Effect of foreign currency exchange differences	471	
Balance at December 31, 2019	**294,561**	-

As at December 30, 2019, inventory includes $270,932 of post-harvest production costs incurred in 2019 that have been capitalized.

The Company has determined that the net realizable value of its harvested hemp and finished goods as at December 31, 2019 was lower than the carrying amount. As such, the Company has recorded an inventory provision of $204,633 as of December 31, 2019 with a corresponding expense through production costs.

(Expressed in Canadian Dollars)

8. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

	Right-of-use assets	Lease obligations
	$	$
Net book value at January 1, 2019	31,495	31,495
Acquired on business acquisitions	173,607	177,765
Acquired during the year	24,310	24,310
Depreciation and repayment	(63,814)	(82,654)
Impairment (Note 10)	(55,740)	-
Effect of foreign currency exchange differences	(5,991)	(6,233)
As at December 31, 2019	**103,867**	**144,683**

The current and long-term lease obligations as at December 31, 2019 were $57,125 and $87,558, respectively.

Upon adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under 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 consolidated statements of financial position on January 1, 2019 ranges between 4.50 to 6.96 percent.

For the year ended December 31, 2019, $20,001 of depreciation on right-of-use assets have been capitalized as inventory-in-process.

9. PROPERTY AND EQUIPMENT

	Irrigation system	Agricultural equipment	Office equipment	Vehicle	Total
	$	$	$	$	$
Cost					
As at August 28, 2018	—	—	—	—	—
Additions	19,099	—	—	—	**19,099**
As at December 31, 2018	**19,099**	—	—	—	**19,099**
Assets acquired through business combinations	—	—	3,444	—	**3,444**
Additions	—	627,723	36,749	15,639	**680,111**
Effect of foreign currency exchange differences	(162)	—	148	—	**(14)**
As at December 31, 2019	**18,937**	**627,723**	**40,341**	**15,639**	**702,640**
Depreciation					
As at August 28 and December 31, 2018	—	—	—	—	—
Depreciation	**1,702**	**39,309**	**1,116**	**399**	**42,526**
Impairment (Note 10)	**6,715**	**246,528**	**2,382**	**4,937**	**260,562**
Effect of foreign currency exchange differences	**(108)**	**(3,420)**	**(6)**	**(79)**	**(3,613)**
As at December 31, 2019	**8,309**	**282,417**	**3,492**	**5,257**	**299,475**
Net Book Value					
As at December 31, 2018	**19,099**	—	—	—	**19,099**
As at December 31, 2019	**10,628**	**345,306**	**36,849**	**10,382**	**403,165**

(Expressed in Canadian Dollars)

10. GOODWILL & IMPAIRMENT

The change in goodwill during the year is summarized below:

	$
As at January 1, 2019	-
Acquisition of Terra Nova (Note 6b)	975,818
Acquisition of Pharmabinoide (Note 6c)	751,305
Impairment	(751,305)
As at December 31, 2019	**975,818**

During the fourth quarter of 2019, the Company determined that the decline in market prices for hemp and the overall decrease in market capitalization of peer companies engaged in cannabis cultivation were indications that the recoverable amount of the Company's non-financial assets may be lower than the carrying amount. As a result, the Company has performed tests of impairment at the level of the Company's CGUs, being Uruguay, Spain, and Portugal. In performing the tests of impairment, the Company has estimated the fair value less costs of disposal and value in use. The Company concluded that the recoverable amounts of the Uruguay CGU and the Spain CGU, as determined based on the fair value less costs of disposal, were lower than their respective carrying amounts. As such, the Company has recorded the following impairment as at December 31, 2019: (1) $260,562 against property and equipment; (2) $55,740 against right-of-use assets; and (3) $751,305 against goodwill.

The Company estimated that the recoverable amount of goodwill for the Portugal CGU was higher than the carrying amount as at December 31, 2019, and therefore, no impairment loss was recognized. To estimate the recoverable amount of goodwill, the Company utilized the value in use method. The key assumptions used in the calculation of the recoverable amount include management's projections of future cash flows for a five-year period and after projections end, a growth rate of 0.0%, an inflation rate of 2.0%, and a discount rate of 34.4% with variability within the range based on the risk associated with the CGU. If the growth rate and discount rate were to be increased or decreased by 5%, the recoverable amount of goodwill would still be higher than the carrying amounts.

11. SHARE CAPITAL

Authorized shares

Unlimited common shares without par value.

(Expressed in Canadian Dollars)

	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	44,840,956	19,710,620
Shares issued under reverse acquisition (Note 6a)	4,760,000	2,380,000
Shares issued to acquire Terra Nova (Note 6b)	5,000,000	1,250,000
Exercise of Oransur option (Note 5)	—	(1,604)
Less: issuance costs	—	(1,134,528)
Balance as at December 31, 2019	**167,340,956**	**25,360,675**

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 between $0,0001 and $0.25 per share in connection with a private placement transaction for gross proceeds of $3,195,000 and incurred $40,417 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 6b).

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.

On November 14, 2019, the Company completed the Subscription Receipt financing concurrent with the Qualifying Transaction (Note 6a), culminating in the issuance of 34,000,000 common shares at $0.50 per share for gross proceeds of $17,000,000. A total of $1,108,339 in share issuance costs were incurred, most of which related to broker commissions and professional fees. In addition, upon completion of the Qualifying Transaction, the shareholders of Apolo received 4,760,000 common shares in the Company, valued at $2,380,000 (Note 6a).

Warrants

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 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%.

As part of the Qualifying Transaction, the holders of 200,000 Apolo warrants received an equal number of warrants to purchase common shares of the Company. Each warrant is exercisable into one common share of the Company at $0.25 per share and expires on March 5, 2020. The fair value of the warrants was determined to be $51,362 (Note 6a) and recorded as a reserve in the Consolidated Statement of Changes in Shareholders' Equity.

Stock options

As part of the Qualifying Transaction, the holders of 476,000 Apolo options received an equal number of options to purchase common shares of the Company. Each option is exercisable into one common share of the Company at $0.25 per share, has a term of ten years from the date of issuance, and expires on March 5, 2028. The fair value of the options was determined to be $179,923 (Note 6a) and recorded as a reserve in the Consolidated Statement of Changes in Shareholders' Equity.

12. CAPITAL MANAGEMENT

The Company defines capital to include its shareholders' equity. 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's principal objectives in managing capital are: (i) to ensure there is sufficient liquidity to fund its operations and capital projects; (ii) to be flexible to take advantage of opportunities that are expected to provide satisfactory returns; (iii) to maintain a strong capital base to ensure access to debt and capital markets on an as-needed basis; (iv) to provide an adequate rate of return to its shareholders.

The Company manages and adjusts its capital structure considering changes in economic conditions. To maintain or adjust its capital structure, the Company may issue debt or new shares. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets and economic conditions at the time of the transaction. 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

During 2018, Pharmabinoide signed a contract to provide 20 tonnes of hemp biomass valued between €11,000 and €18,000 per tonne to a customer. As at December 31, 2019, Pharmabinoide has received an advance from the customer in the amount of $234,495. Pharmabinoide has also entered into a contract with a third-party supplier that will provide a portion of the hemp supply contract at €18,000 per tonne, and has advanced the supplier $99,196 as at December 31, 2019. As of December 31, 2019, the customer has not picked up any portion of the contracted volume. Pharmabinoide expects to provide these goods during 2020. At the time when the Company acquired Pharmabinoide (Note 6c), the Company determined that the costs to be incurred to satisfy the hemp supply contract were expected to be in excess of the total selling price. As such, the Company recorded a provision for onerous contract in the amount of $61,893 on the date of acquisition of Pharmabinoide. As of December 31, 2019, the Company has determined that the total expected cost to fulfill the hemp supply is no longer in excess of the total selling price, and as such has reversed the provision for onerous contract with a corresponding decrease to production costs.

(Expressed in Canadian Dollars)

(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 December 31, 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. INCOME TAX

A reconciliation between income tax recovery and the expected income tax recovery is provided below:

	For the year Ended December 31, 2019	August 28, 2018 (inception date) to December 31, 2018
	$	$
Net loss before income tax	**(8,492,654)**	**(453,402)**
Statutory tax rate	26.50%	26.50%
Income tax recovery at combined statutory rates	(2,250,553)	(120,152)
Difference in foreign tax rates	22,460	1,901
Non-deductible expenses	975,483	1,609
Deductible share issuance costs	(293,710)	(10,710)
Other	7,248	(1,725)
Change in tax benefits not recognized	1,539,072	129,077
Income tax expense	-	-
Current income tax expense	-	-
Deferred income tax recovery	-	-
Income tax expense	-	-

A summary of the components of deferred income tax is as follows:

	December 31, 2019	December 31, 2018
	$	$
Deferred tax assets		
Lease obligations	33,041	-
Tax losses	(9,355)	-
Deferred tax liabilities		
Right-of-use assets	(23,370)	-
Intangible assets	(147,331)	-
Total deferred tax liability	**(147,015)**	-

A summary of the movement in deferred tax liability is provided below:

(Expressed in Canadian Dollars)

	2019	**2018**
	$	**$**
Balance at beginning of year	-	-
Assumed on business combinations	147,015	-
Balance at end of year	**147,015**	-

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset. Deferred tax assets are recognized for the losses carried forward to the extent that it is probable that taxable profits will be available against which the unused tax losses can be utilized. Deferred tax assets have not been recognized in respect of the following deductible temporary differences.

	December 31, 2019	**December 31, 2018**
	$	**$**
Property and equipment	215,046	-
Share issuance costs	1,187,277	147,566
Non-capital losses carried forward - Canada	3,696,335	199,086
Non-capital losses carried forward - Spain	457,718	-
Non-capital losses carried forward - Uruguay	770,602	139,317
Other temporary differences	47,746	-
Net deferred tax assets	**6,374,724**	**485,969**

As at December 31, 2019, the Company has approximately $3.7 million of non-capital losses in respect of the Canadian head office that expire in the years 2038 and 2039 for which no tax benefits have been recognized.

15. 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, and advances from customers.

(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.

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.

(Expressed in Canadian Dollars)

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 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			Fair values
Financial assets	**FVTPL**	**FVTOCI**	**Amortized cost**	**Total**
December 31, 2019	**$**	**$**	**$**	**$**
Cash	16,768,460	—	—	16,768,460
Advance payment to suppliers	100,946	—	—	100,946
Other receivables and other assets	522,432	—	—	522,432
	17,391,838	**—**	**—**	**17,391,838**
December 31, 2018	**$**	**$**	**$**	**$**
Cash	2,726,741	—	—	2,726,741
Advance payment to suppliers	248,895	—	—	248,895
Subscription receivable	174,475	—	—	174,475
Due from related parties	—	—	430,261	430,261
Interest receivable	1,749	—	—	1,749
	3,151,860	**—**	**430,261**	**3,582,121**

	Carrying values			Fair values
Financial liabilities	**FVTPL**	**FVTOCI**	**Amortized cost**	**Total**
December 31, 2019		**$**	**$**	**$**
Accounts payables	—	—	1,235,068	1,235,068
Accrued and other liabilities	—	—	468,307	468,307
Due to related parties	—	—	140,023	140,023
Advances from customers	—	—	234,495	234,495
Referral commission payable	—	—	751,260	751,260
	—	**—**	**2,829,153**	**2,829,153**
December 31, 2018		**$**	**$**	**$**
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 December 31, 2019 that is classified as Level 1 is cash and cash equivalents. The fair value of the other financial assets and liabilities approximate their carrying value due to the short-term nature of the instruments. 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. The Company conducts a review for all advances to suppliers and records a provision for expected credit loss when deemed uncollectable. As at December 31, 2019 the maximum amount exposed to credit risks was $16,768,460 (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.

The Company's net financial assets denominated in US dollars as at December 31, 2019 were $90,200, and a 10% change in the CAD-US exchange rate would result in an exchange gain or loss of $9,020.

The Company's net financial liabilities denominated in Euros as at December 31, 2019 were $156,838, and a 10% change in the CAD-EUR exchange rate would result in an exchange gain or loss of $15,684.

(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 December 31, 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.

16. 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 December 30, 2019 the Company's operations comprise of a single reporting segment 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 consolidated statement of loss are as below:

	For the year Ended December 31, 2019	**From August 28, 2018 (inception date) to December 31, 2018**
Net loss	**$**	**$**
Canada	6,292,732	320,631
Uruguay	879,541	132,771
Portugal	136,375	-
Spain	1,184,006	-
Total net loss	**8,492,654**	**453,402**

(Expressed in Canadian Dollars)

The geographical segmented information for the consolidated statement of financial position is as follows:

As of December 31, 2019					
	Canada	**Uruguay**	**Portugal**	**Spain**	**Total**
	$	**$**	**$**	**$**	**$**
Current assets	17,130,958	112,820	101,890	516,851	**17,862,519**
Non-current assets	—	337,727	1,770,234	28,689	**2,136,650**
Total assets	17,130,958	450,547	1,872,124	545,540	**19,999,169**
Current liabilities	2,177,533	22,620	229,154	456,971	**2,886,278**
Non-current liabilities	—	—	234,573	—	**234,573**
Total liabilities	2,177,533	22,620	463,727	456,971	**3,120,851**

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**
Total liabilities	356,794	281,115	**789,513**

17. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, the outbreak of the novel strain of coronavirus identified as COVID-19 has resulted in a widespread health crisis that has affected economies and financial markets around the world. The full impact of the COVID-19 pandemic continues to evolve as of the date of this report. Management is actively monitoring the global situation and its effects on the sector and the Company's financial position and operations. As of the date hereof, the Company does not envision the COVID-19 crisis to materially impact its operations and the Company has sufficient capital to support its current ongoing beyond the fiscal year 2020. If the pandemic continues for a prolonged period of time, it may have a material adverse effect on the Company's future capital projects and operations.