TERRACE GLOBAL INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three and Nine months Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

These unaudited Interim Condensed Consolidated Financial Statements have not been reviewed by the auditors of Terrace Global Inc. This notice is being provided in accordance with Section 4.3(3)(a) of National Instrument 51- 102 *Continuous Disclosure Obligations*.

TERRACE GLOBAL INC.
Interim Condensed Consolidated Statements of Financial Position

(Unaudited; expressed in Canadian Dollars)	September 30, 2020 $	December 31, 2019 $
ASSETS		
Current		
Cash and cash equivalents	8,732,533	16,768,460
Restricted cash (Note 9)	15,000,000	—
Advance payment to suppliers	116,941	100,946
Prepaids	120,763	176,120
Inventory (Note 6)	363,134	294,561
Investments (Note 5)	2,982,919	—
Other receivables	1,103,528	520,536
Other assets	2,032	1,896
	28,421,850	**17,862,519**
Non-Current		
Property and equipment (Note 8)	360,739	403,165
Right-of-use assets (Note 7)	96,150	103,867
Intangible assets (Note 4b)	676,657	653,800
Goodwill (Note 4)	1,009,932	975,818
Total assets	**30,565,328**	**19,999,169**
LIABILITIES		
Current		
Accounts payable	673,544	1,235,068
Accrued and other liabilities	330,918	468,307
Current portion of lease obligations (Note 7)	20,723	57,125
Advances from customers	251,346	234,495
Referral commission payable (Note 4c)	781,550	751,260
Due to related parties (Note 10)	—	140,023
Subscription receipts (Note 9)	14,900,060	—
	16,958,141	**2,886,278**
Non-Current		
Lease obligations (Note 7)	79,180	87,558
Deferred tax liability	152,154	147,015
Total liabilities	**17,189,475**	**3,120,851**
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	25,360,675	25,360,675
Reserve	444,669	444,669
Accumulated other comprehensive (loss) income	(20,496)	32,448
Deficit	(12,408,995)	(8,959,474)
Total shareholders' equity	**13,375,853**	**16,878,318**
Total liabilities and shareholders' equity	**30,565,328**	**19,999,169**

See accompanying notes to the interim condensed consolidated financial statements.
Contingencies (Note 12) *Subsequent events (Note 15)*

Approved and authorized on behalf of the Board of Directors

"Dennis Mills" *"Vincent Gasparro"*

Director (Signed) Director (Signed)

TERRACE GLOBAL INC.
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
(Unaudited; expressed in Canadian Dollars, except share amounts)	$	$	$	$
Changes in fair value of biological assets	—	6,994	—	71,457
Production costs	—	1,559	—	(68,053)
Gross profit	**—**	**8,553**	**—**	**3,404**
Operating expenses				
Pre-operational agricultural costs	303,861	35,327	439,421	167,314
Professional fees	162,908	519,699	369,477	1,042,623
Management and advisory fees	477,742	221,238	1,458,522	353,743
Referral commision (Note 4c)	—	—	—	909,380
Shareholder services	30,312	16,270	70,333	36,299
Consulting fees	159,407	—	443,657	—
Selling and marketing	1,026	133,860	1,026	133,860
Insurance	50,320	9,527	150,960	28,169
Travel	103,137	153,706	195,895	193,923
Rent	20,334	17,865	31,363	38,205
Depreciation	9,545	22,271	27,657	44,243
Impairment reversal (Note 8)	(6,213)	—	(19,602)	—
General and office	11,759	36,233	115,301	154,331
Total operating expenses	**1,324,138**	**1,165,996**	**3,284,010**	**3,102,090**
Other (income) expenses				
Interest (income) expense , net	(32,947)	4,637	(106,310)	9,065
Other income	(3,705)	(13,894)	(3,705)	(30,841)
Change in fair value of investments (Note 5)	303,605	—	335,681	—
Gain from sale of fixed assets	—	—	(9,905)	—
Foreign exchange	33,158	37,718	(50,250)	37,298
Total other income	**300,111**	**28,461**	**165,511**	**15,522**
Net loss before income tax	**(1,624,249)**	**(1,185,904)**	**(3,449,521)**	**(3,114,208)**
Income tax	—	—	—	—
Net loss	**(1,624,249)**	**(1,185,904)**	**(3,449,521)**	**(3,114,208)**
Effect of foreign currency translation	27,529	6,206	(52,944)	16,440
Comprehensive loss	**(1,596,720)**	**(1,179,698)**	**(3,502,465)**	**(3,097,768)**
Net loss per common share - basic and diluted	**(0.01)**	**(0.01)**	**(0.02)**	**(0.03)**
Weighted average number of common shares - basic and diluted	**167,340,956**	**125,256,780**	**167,340,956**	**121,349,067**

See accompanying notes to the interim condensed consolidated financial statements.

TERRACE GLOBAL INC.
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(Unaudited; expressed in Canadian Dollars, except share amounts)	Common shares Shares #	Common shares Amount $	Shares to be issued $	Reserve $	Accumulated other comprehensive income (loss) $	Deficit $	Total $
As at December 31, 2019	**167,340,956**	**25,360,675**	**—**	**444,669**	**32,448**	**(8,959,474)**	**16,878,318**
Net loss for the period	—	—	—	—	—	(3,449,521)	**(3,449,521)**
Effect of foreign currency translation	—	—	—	—	(52,944)	—	**(52,944)**
As at September 30, 2020	**167,340,956**	**25,360,675**	**—**	**444,669**	**(20,496)**	**(12,408,995)**	**13,375,853**
As at December 31, 2018	**112,740,000**	**3,156,187**	**174,475**	**—**	**(7,019)**	**(466,820)**	**2,856,823**
Issuance of shares (Note 9)	15,840,956	3,960,620	(174,475)	—	—	—	**3,786,145**
Issuance cost	—	(26,189)	—	—	—	—	**(26,189)**
Warrant issued	—	—	—	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**

See accompanying notes to the interim condensed consolidated financial statements.

TERRACE GLOBAL INC.
Interim Condensed Consolidated Statements of Cash Flows

	For the nine months ended September 30,	
	2020	2019
(Unaudited; expressed in Canadian Dollars)	$	$
Operating activities		
Net loss	(3,449,521)	(3,114,208)
Adjustments for items not affecting cash:		
Depreciation (Note 8)	15,551	53,837
Impairment (Note 8)	(19,379)	—
Inventory provision	—	(22,402)
Unrealized foreign exchange gain	(70,243)	—
Gain from sale of fixed assets	(9,905)	—
Change in fair value of investments (Note 5)	335,681	—
Changes in working capital items:		
Advance payment to suppliers	(15,675)	357,087
Inventory	(67,020)	(242,476)
Prepaids	50,223	(160,948)
Other receivables	(583,122)	(60,038)
Accounts payables	(670,902)	1,057,847
Accrued and other liabilities	(137,389)	(172,720)
Advances from customers	16,096	(83,934)
Cash used in operating activities	**(4,605,605)**	**(2,387,955)**
Investing activities		
Purchase of property and equipment	(21,551)	(589,778)
Disposal of property and equipment	59,240	—
Investment in Flowr (Note 5)	(3,318,600)	—
Due to related parties	—	(1,038,302)
Business combination, purchase consideration net of cash acquired	—	(622,584)
Cash used in investing activities	**(3,280,911)**	**(2,250,664)**
Financing activities		
Proceeds from issuance of common shares, net of issuance costs (Note 9)	—	2,684,431
Lease payments	(23,269)	(63,970)
Due to related parties (Note 10)	(146,934)	919,010
Cash provided by financing activities	**(170,203)**	**3,539,471**
Effect of foreign currency translation	20,792	—
Net decrease in cash and cash equivalents	(8,056,719)	(1,099,148)
Cash and cash equivalents, beginning of period	16,768,460	2,726,741
Cash and cash equivalents, end of period	**8,732,533**	**1,627,593**

See accompanying notes to the interim condensed 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 "**TSXV**"). 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, all of which were exchanged for 34 million newly issued common shares of the Company. The shares of Terrace began trading on the TSXV on November 18, 2019 under the symbol "TRCE".

Upon completion of the Qualifying Transaction and the concurrent 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 was accounted for as a reverse acquisition where Terrace Inc. was considered to be the acquirer and the Company the acquiree (Note 5a).

2. BASIS OF PRESENTATION

2.1 Statement of compliance

The notes presented in these 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 interim consolidated financial statements are referred to as condensed. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 available on SEDAR at www.sedar.com.

These interim condensed consolidated financial statements comply with International Accounting Standard ("**IAS**") 34, Interim Financial Reporting of the International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board ("**IASB**") and Interpretations of the International Financial Reporting Interpretations Committee ("**IFRIC**").

These interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on November 30, 2020.

2.2 Basis of presentation

These interim condensed consolidated financial statements of the Company are for the three and nine months ended September 30, 2020 and 2019. These interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments as listed below, which are measured at fair value:

- financial instruments at fair value through profit or loss ("**FVTPL**"); and
- initial recognition of assets acquired and liabilities assumed in a business combination.

The interim condensed 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 profit and loss.

The functional currency of the Company's subsidiary in Uruguay is the United States dollar (US$) and the functional currency of the subsidiaries in Spain and 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. Effects of translation differences are accumulated and presented as a component of equity under accumulated other comprehensive loss. On the disposal of a foreign operation, or the loss of control, the component of accumulated other comprehensive income relating to that foreign operations is reclassified to net income.

2.3 Basis of consolidation

These interim condensed 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. 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 (Note 5c). 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 5b). 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

All significant accounting policies have been included in the annual consolidated financial statements for the year ended December 31, 2019.

Significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to use judgment in applying its accounting policies and estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Judgments and estimates are continuously evaluated and are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ significantly from the amounts included in the financial statements. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

4. BUSINESS COMBINATIONS

<u>(a) Completion of reverse takeover of Apolo</u>

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

(Unaudited; expressed in Canadian Dollars)

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.

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	-	-

(b) 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 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:

(Unaudited; expressed in Canadian Dollars)

	$
Consideration transferred	
Issuance of common shares (5,000,000)	**1,250,000**
Assets acquired and liabilities assumed	
Cash and cash equivalents	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.

Intangible asset and goodwill as at September 30, 2020 were $662,544 and $988,869 respectively based on the closing foreign exchange rate.

(c) 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, for cash consideration of $636,760 (€ 400,000). Pharmabinoide holds a permit, granted by the Spanish Ministry of Agriculture, Fishing and Food, to produce, harvest and sell hemp in Spain.

In connection with the share purchase agreement, the Company entered into a finder fee agreement with Taskmaster Corp. ("**Taskmaster**") pursuant to which Taskmaster is entitled to a referral commission of $909,380 (€ 600,000) for introducing the Company to Pharmabinoide, of which $156,100 (€ 100,000) were paid upon the closing of the share purchase agreement and the remainder payable at the earlier of the closing of the Qualifying Transaction (Note 5a) and six months from the date of Finder Fee Agreement. As at September 30, 2020, the referral commission payable of $765,250 is overdue. The Company is negotiating the settlement of this amount.

(Unaudited; expressed in Canadian Dollars)

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 in the three months ended March 31, 2019. 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:

	$
Consideration transferred	
Cash consideration (€400,000)	**636,760**
Assets acquired and liabilities assumed	
Cash and cash equivalents	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)
Deferred tax liability	—
	(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 goodwill recognized is expected to be deductible for income tax purposes. As at December 31, 2019, the goodwill recognized has been fully impaired.

5. INVESTMENTS AND JOINT OPERATION

On May 12, 2020, the Company entered into an equity line and profit-sharing agreement (the "**JV Agreement**") with The Flowr Corporation ("**Flowr**") for the purpose of jointly developing an outdoor medical cannabis project in Portugal (the "**Project**"). Under the terms of the agreement, a Technical Committee comprised of two representatives from the Company and two representatives from Flowr was established to oversee the Project, including the establishment and approval of cultivation plans and budgets. All decisions of the Technical Committee would require unanimous approval. Upon approval by the Technical Committee of the budget and funding milestones, the Company will fund certain operating and capital expenditures in exchange for the issuance of: (1) common shares of Flowr at the volume weighted average trading price of the shares on the day prior to such subscription less the maximum applicable discount available under the TSXV subject to a minimum price of $0.52 per share (the "**Flowr Shares**"); and (2) warrants at an exercise price equal to the greater of $0.76 and the minimum exercise price permitted under the TSXV rules (the "**Flowr Warrants**"). The Flowr Shares and Flowr Warrants received by the Company are subject to a customary four-month hold period from the date on which they are issued.

(Unaudited; expressed in Canadian Dollars)

In addition, the Company will be entitled to 25% of the net proceeds resulting from the Project, which may be reduced to 20% if the total funding by the Company to the Project is less than $3,000,000. The Company also has a renewal option to cultivate at the same site during the 2021 season at its sole discretion in exchange for a 50% share of net proceeds from the sale of any medical cannabis derived from that season's operations. On September 23, 2020, the JV Agreement was amended such that the Company's share of the Project's net proceeds from the 2020 season would be increased by 2.5% for every $200,000 funded in excess of $3,000,000, up to a maximum of 50% of net proceeds.

Under the JV Agreement, the Company will also contribute certain genetics, agricultural equipment, and its personnel to the Project. Flowr will make available to the Project its licensed facilities and machinery in Portugal, as well as contribute certain genetics and cultivation and processing personnel. The Company has determined that the Project represents a joint operation and as such will continue to recognize its fixed assets being used in the Project and the liabilities and expenditures incurred in relation to the Company's contributions to the Project.

For the three and nine months ended September 2020, the Company has funded $1,553,000 and $2,318,600 respectively pursuant to the JV Agreement and received 2,986,538 and 4,458,846 Flowr Shares and equal numbers of Flowr Warrants in exchange. On September 30, 2020, the Company funded an additional $1,000,000 under the JV Agreement for which the corresponding Flowr Shares and Flowr Warrants were issued on October 9, 2020. The company has determined that the Flowr Shares and Flowr Warrants represent financial assets that are classified as fair value through profit or loss (FVTPL). The fair value of the Flowr Shares and Flowr Warrants as at September 30, 2020 are summarized below.

	Number of securities	**Carrying amount**
	#	**$**
Flowr Shares	4,458,846	1,443,207
Flowr Warrants	4,458,846	539,712
Funds advanced pending issuance of shares and warrants	-	1,000,000
As at September 30, 2020		**2,982,919**

The Flowr Shares are valued using the quoted market price, less the discount related to the holding period, and less the day-one gain on initial recognition that has been deferred from being recognized in accordance with IFRS 9. During the three and nine months ended September 30, 2020, the Company recorded gains of $39,043 and $30,270 respectively in the statement of loss related to the change in fair value of the Flowr Shares.

The fair value of the Flowr Warrants was determined using the Black-Scholes option pricing model less the day-one gain on initial recognition that has been deferred from being recognized in accordance with IFRS 9. The Black-Scholes value was estimated using the following input assumptions: dividend yield 0%; risk-free interest rate of 0.22%; expected volatility of 94%; and an expected life of three years. During the three and nine months ended September 30, 2020, the Company recorded losses of $342,648 and $365,951 respectively in the statement of loss related to the change in fair value of the Flowr Warrants.

(Unaudited; expressed in Canadian Dollars)

6. INVENTORY

	September 30, 2020 $	December 31, 2019 $
Harvested hemp and inventory-in-process	194,559	267,375
Finished goods	261,815	113,963
Finished goods acquired for resale at cost	120,393	112,321
Supplies	5,201	5,535
Inventory provision	(218,834)	(204,633)
Balance	**363,134**	**294,561**

For the nine months ended September 30, 2020, $47,479 of post-harvest production costs have been capitalized as finished goods inventory.

7. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

	Right-of-use assets $
Cost	
As at December 31, 2019	**115,565**
Effect of foreign currency exchange differences	8,306
As at September 30, 2020	**123,871**
Depreciation	
As at December 31, 2019	**11,698**
Depreciation	14,778
Effect of foreign currency exchange differences	1,245
As at September 30, 2020	**27,721**
Net book value	
As at December 31, 2019	**103,867**
As at September 30, 2020	**96,150**

	Lease obligations $
As at December 31, 2019	144,683
Interest accretion	4,145
Repayment	(58,092)
Effect of foreign currency exchange differences	9,167
As at September 30, 2020	**99,903**
Current	20,723
Non-current	79,180
Total as at September 30, 2020	**99,903**

(Unaudited; expressed in Canadian Dollars)

8. PROPERTY AND EQUIPMENT

	Irrigation system	Agricultural equipment	Office equipment	Vehicle	Total
	$	$	$	$	$
Cost					
As at December 31, 2019	**18,937**	**627,723**	**40,341**	**15,639**	**702,640**
Additions	—	21,493	—	—	21,493
Disposals	—	(59,865)	—	(16,034)	(75,899)
Effect of foreign currency exchange differences	(262)	14,626	2,641	395	17,400
As at September 30, 2020	**18,675**	**603,977**	**42,982**	**—**	**665,634**
Depreciation					
As at December 31, 2019	**8,309**	**282,417**	**3,492**	**5,257**	**299,475**
Depreciation	1,398	41,010	—	667	43,075
Disposals	—	(21,476)	—	(6,048)	(27,524)
Impairment	(559)	(18,820)	—	—	(19,379)
Effect of foreign currency exchange differences	190	8,834	100	124	9,248
As at September 30, 2020	**9,338**	**291,965**	**3,592**	**—**	**304,895**
Net book value					
As at December 31, 2019	**10,628**	**345,306**	**36,849**	**10,382**	**403,165**
As at September 30, 2020	**9,337**	**312,012**	**39,390**	**—**	**360,739**

9. SHARE CAPITAL

Authorized shares

Unlimited common shares without par value.

	Number of common shares	Amount
	#	$
As at December 31, 2019 and September 30, 2020	**167,340,956**	**25,360,675**

Warrants

The Company has the following share purchase warrants outstanding as at September 30, 2020.

Expiry date	Outstanding	Remaining contractual life	Exercise price
	#	Years	$
July 19, 2024	754,200	3.8	0.25

(Unaudited; expressed in Canadian Dollars)

Stock options

The Company has the following stock options outstanding as at September 30, 2020.

Expiry date	Outstanding	Remaining contractual life	Exercise price
	#	Years	$
March 5, 2028	476,000	7.54	0.25

2020 Subscription Receipts

On September 9, 2020, the Company completed a non-brokered private placement (the "**2020 Private Placement**") of 120,000,000 subscription receipts (the "**2020 Subscription Receipts**") at an issue price of $0.125 per Subscription Receipt (the "**Issue Price**") for aggregate gross proceeds of $15,000,000. Each 2020 Subscription Receipt will, in connection with the satisfaction of certain escrow release conditions (the "**Escrow Release Conditions**"), including, among others, the entering into a definitive agreement with respect to the acquisition of a Canadian licensed producer of cannabis and/or in connection with certain other merger, acquisition or disposition transactions, entitle the holder to receive, without the payment of additional consideration or taking of further action, one common share in the capital of the Company. Pursuant to the Subscription Receipt Agreement, the gross proceeds from the 2020 Private Placement (the "**Escrowed Funds**") will be held in escrow pending satisfaction of the Escrow Release Conditions. If the Escrow Release Conditions have not been satisfied on or prior to March 9, 2021, the holders of the 2020 Subscription Receipts will receive a cash amount equal to the Issue Price plus any interest that has been earned on the Escrowed Funds. All securities issued pursuant to the private placement will be subject to a four month hold period.

As at September 30, 2020, the Escrowed Funds in the amount of $15,000,000 are recorded as restricted cash with a corresponding liability on the interim condensed consolidated statements of financial position.

10. RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2020, the Company repaid in full the promissory note of €96,066 ($146,934) due by Terra Nova to an entity owned and controlled by an officer who is also a director and shareholder of the Company. The promissory note was non-interest bearing and related to advances that were made to fund the start-up operations of Terra Nova prior to its acquisition by the Company (Note 5b).

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. This exercise price was paid during the nine months ended September 30, 2020.

11. 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.

12. CONTINGENCIES

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, 2020, 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.

13. FINANCIAL RISK FACTORS

The Company's financial instruments mainly comprise of cash and cash equivalents, advance payment to suppliers, due to and from related parties 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.

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 interim condensed 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.

(Unaudited; expressed in Canadian Dollars)

- 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**
September 30, 2020	**$**	**$**	**$**	**$**
Cash and cash equivalents	8,732,533	-	-	8,732,533
Restricted cash	15,000,000	-	-	15,000,000
Advance payment to suppliers	116,941	-	-	116,941
Investments (Note 5)	2,982,919	-	-	2,982,919
Other receivables and other assets	1,105,560	-	-	1,105,560
	27,937,953	**-**	**-**	**27,937,953**
December 31, 2019	**$**	**$**	**$**	**$**
Cash and cash equivalents	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**

		Carrying values		Fair values
Financial liabilities	**FVTPL**	**FVTOCI**	**Amortized cost**	**Total**
September 30, 2020	**$**	**$**	**$**	**$**
Accounts payables	-	-	673,544	673,544
Accrued and other liabilities	-	-	330,918	330,918
Advances from customers	-	-	251,346	251,346
Referral commission payable	-	-	781,550	781,550
Subscription receipts	-	-	14,900,060	14,900,060
	-	**-**	**16,937,418**	**16,937,418**
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**

The Company's financial instrument as at September 30, 2020 that are classified as Level 1 included cash and cash equivalents and restricted cash. Investments in Flowr Shares and Flowr Warrants are classified as Level 2 due their fair values were determined using the share prices as well as other observable inputs such as risk-free interest rates and implied volatility. 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 advances to suppliers and other receivables. Advances to suppliers consist of deposits for the purchase of hemp biomass for resale. Other receivables consist primarily of HST and VAT refundable. The Company conducts a review for all advances to suppliers and records a provision for expected credit loss when deemed uncollectable. As at September 30, 2020, the maximum amount exposed to credit risks was $1,220,469 (December 31, 2019: $621,482).

(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 changes in foreign exchange 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 September 30, 2020 were $127,589 and a 10% change in the CAD-US exchange rate would result in an exchange gain or loss of $12,759. The Company's net financial assets denominated in Euros as at September 30, 2020 were $155,166, and a 10% change in the CAD-EUR exchange rate would result in an exchange gain or loss of $15,517.

(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, 2020, all trade payables are due within a year. The Company considers all balances which are outstanding over nine months as past due. There are no balances which are past due, except for $781,550 of referral commission payable for which the Company is negotiating the final settlement (Note 5c).

(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.

(Unaudited; expressed in Canadian Dollars)

14. 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, 2020, 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 Company's net loss by geographical segment is summarized below:

	For the nine Months ended September 30, 2020	**For the nine Months ended September 30, 2019**
Net loss	**$**	**$**
Canada	2,368,852	2,367,389
Uruguay	180,150	496,715
Portugal	826,286	164,160
Spain	74,233	85,944
Total net loss	**3,449,521**	**3,114,208**

The table below summarizes the Company's financial position by geographical segment:

	As of September 30, 2020				
	Canada	**Uruguay**	**Portugal**	**Spain**	**Total**
	$	**$**	**$**	**$**	**$**
Current assets	27,252,720	134,192	466,483	568,455	**28,421,850**
Non-current assets	18,598	61,003	2,038,280	25,597	**2,143,478**
Total assets	27,271,318	195,195	2,504,763	594,052	**30,565,328**
Current liabilities	16,152,981	6,601	263,511	535,048	**16,958,141**
Non-current liabilities	—	—	231,334	—	**231,334**
Total liabilities	16,152,981	6,601	494,845	535,048	**17,189,475**

	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**

15. SUBSEQUENT EVENTS

a) Arrangement Agreement with Flowr

On October 20, 2020, the Company announced it has entered into a definitive arrangement agreement (the "**Agreement**") pursuant to which Flowr will acquire all of the issued and outstanding common shares in the capital of the Company (the "**Transaction**"). The transaction will be affected by way of a court approved plan of arrangement under the *Business Corporations Act* (Ontario) (the "**Arrangement**").

Under the terms of the Agreement, holders of Terrace common shares (the "**Terrace Shareholders**") will receive 0.4973 of a common share of Flowr for each Terrace common share held ("**Terrace Shares**"). Upon completion of the Transaction, existing Flowr and Terrace shareholders would own approximately 60.9% and 39.1% of the pro forma company respectively, on a fully diluted in-the-money basis (including the conversion of $11.9 million of Flowr convertible debentures).

The Transaction is subject to the approval of the Ontario Superior Court of Justice (Commercial List). The Transaction will also require the approval at a special meeting of Terrace Shareholders (the "**Terrace Special Meeting**") of not less than two-thirds (66 2/3%) of the votes validly cast by Terrace Shareholders, present in person or by proxy at the meeting, and, by a majority of the minority votes validly cast by Terrace Shareholders, present in person or by proxy at the meeting, as required pursuant to Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*.

All of the directors and senior officers of the Company and other certain shareholders of the Company (who hold in the aggregate approximately 66% of the issued and outstanding Terrace Shares on a non-diluted basis) have entered into a support agreement with Flowr to, among other things, support the Transaction and vote their Terrace Shares in favour of the Transaction.

The Agreement provides for, among other things, the board of directors of the Company being able to consider a superior proposal in certain circumstances. The Agreement also provides for the payment by Terrace of a termination fee of up to $3,000,000 in favour of Flowr in certain circumstances. In addition, the Agreement provides that, under certain circumstances, where the Transaction is not completed because of the failure of Flowr to obtain certain approvals or consents, Flowr would be required to reimburse Terrace's expenses up to $500,000.

The Transaction is conditional upon certain customary conditions precedent, including the following: (i) the amendment of the existing indenture governing the 10% subordinated secured debentures issued by Flowr in the aggregate principal amount of $21.6 million to enable the early conversion of approximately $11.9 million of debentures held by insiders of Flowr; and (ii) certain amendments to the senior secured credit facility from a syndicate of lenders led by ATB Financial, including a future basket for the issuance of up to at least $11.9 million subordinated secured debentures on substantially similar terms to the existing debentures as well as the improvement of certain credit covenants. The Transaction remains subject to certain other closing conditions including the receipt of certain approvals and the satisfaction of certain customary closing conditions. The parties do not anticipate requiring an approval of shareholders of Flowr to complete the Transaction.

Subject to receipt of all regulatory, court, shareholder and other approvals, and the satisfaction or waiver of all conditions, the Transaction is expected to be completed in the fourth quarter of 2020.

Immediately upon completion of Transaction, it is expected that the Escrow Release Conditions on the proceeds from the 2020 Private Placement (Note 10) will have been met and the Escrowed Funds will be released to the Company.

b) JV Agreement Funding

Subsequent to September 30, 2020, the Company funded an additional $2,500,000 in total under the JV Agreement (Note 5) in exchange for 4,807,692 newly issued Flowr Shares and an equal number of Flowr Warrants expiring in October 2023.