

# **Terranueva Pharma Corporation**

Financial Statements

**September 30, 2018**

(expressed in Canadian dollars)



January 24, 2019

## **Independent Auditor's Report**

### **To the Shareholders of Terranueva Pharma Corporation**

We have audited the accompanying financial statements of Terranueva Pharma Corporation, which comprise the statement of financial position as at September 30, 2018 and the statements of changes in deficiency, loss and comprehensive loss and cash flows for the 10-month period then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

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

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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\*PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Terranueva Pharma Corporation as at September 30, 2018 and its financial performance and its cash flows for the 10-month period then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to note 2 in the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Terranueva Pharma Corporation's ability to continue as a going concern.

*PricewaterhouseCoopers LLP<sup>1</sup>*

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A110416

# Terranueva Pharma Corporation

## Statement of Financial Position

As at September 30, 2018

(expressed in Canadian dollars)

	Note	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	4	1,002,942
Advances, no interest or maturity		500,000
Prepaid expenses		3,780
Sales taxes recoverable		<u>66,310</u>
		<u>1,573,032</u>
<b>Non-current assets</b>		
Construction in progress	5	215,444
Rights of use	6	<u>2,892,098</u>
		<u>3,107,542</u>
		<u>4,680,574</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities		170,299
Lease obligation	6	22,081
Convertible debentures	7	<u>1,005,302</u>
		<u>1,197,682</u>
<b>Non-current liabilities</b>		
Lease obligation	6	2,938,222
Convertible debentures	7	<u>953,015</u>
		<u>3,891,237</u>
<b>Shareholders' Deficiency</b>		
<b>Share capital</b>	8	9
<b>Conversion options</b>		150,865
<b>Deficit</b>		<u>(559,219)</u>
		<u>(408,345)</u>
		<u>4,680,574</u>
<b>Going concern</b>	2	

Approved by the Board of Directors

(Signed) Pierre Ayotte \_\_\_\_\_ Director (Signed) Marc-André Aubé \_\_\_\_\_ Director

The accompanying notes are an integral part of these financial statements.

**Terranueva Pharma Corporation**  
**Statement of Changes in Deficiency**  
**For the 10-month period ended September 30, 2018**

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(expressed in Canadian dollars)

	<b>Common shares \$</b>	<b>Conversion options \$</b>	<b>Deficit \$</b>	<b>Total \$</b>
<b>Loss and comprehensive loss for the period</b>	-	-	(559,219)	(559,219)
Share issuance	9	-	-	9
Equity component of convertible debentures, net of future income taxes of \$54,300	-	150,865	-	150,865
<b>Shareholders' equity (deficiency) as at September 30, 2018</b>	<b>9</b>	<b>150,865</b>	<b>(559,219)</b>	<b>(408,435)</b>

The accompanying notes are an integral part of these financial statements.

**Terranueva Pharma Corporation**  
Statement of Loss and Comprehensive Loss  
For the 10-month period ended September 30, 2018

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(expressed in Canadian dollars)

	Note	\$
<b>Expenses</b>		
Professional fees		283,680
Marketing and promotion		2,759
Amortization of rights of use		25,212
General and administrative expenses		123,309
Financing cost	11	<u>178,559</u>
<b>Loss before deferred tax</b>		(613,519)
<b>Deferred tax</b>		<u>54,300</u>
<b>Loss and comprehensive loss for the period</b>		<u>(559,219)</u>
<b>Loss per share, basic and diluted</b>	12	<u>(6.09)</u>

The accompanying notes are an integral part of these financial statements.

**Terranueva Pharma Corporation**  
**Statement of Cash Flows**  
**For the 10-month period ended September 30, 2018**

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(expressed in Canadian dollars)

	Note	\$
<b>Cash flows provided by (used in)</b>		
<b>Operating activities</b>		
Loss and comprehensive loss for the period		(559,219)
Adjustments for		
Interest on lease obligation and convertible debentures		116,727
Deferred tax		(54,300)
Amortization of rights of use		<u>25,212</u>
		(471,580)
Change in non-cash working capital items	10	<u>100,209</u>
		<u>(371,371)</u>
<b>Investing activities</b>		
Increase in advances		(500,000)
Increase in construction in progress		<u>(215,444)</u>
		<u>(715,444)</u>
<b>Financing activities</b>		
Share issuance		9
Convertible debenture issuance		<u>2,089,748</u>
		<u>2,089,757</u>
<b>Net change in cash during the period and cash – End of period</b>		<u><u>1,002,942</u></u>

The accompanying notes are an integral part of these financial statements.

# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

### **1 Description of operations**

Terranueva Pharma Corporation (the “Corporation”) was incorporated under the Canada Business Corporations Act on November 28, 2017. Its head office is located at 3030 Le Carrefour Blvd., Suite 1002, Laval, Quebec, Canada. The Corporation aims to become a producer of cannabis for medical and recreational purposes.

### **2 Basis of presentation and going concern**

These financial statements have been prepared on a going concern basis.

Although the Corporation has started to invest resources to develop a medicinal and recreational cannabis company, there is no assurance that a Licence to Produce will be granted to the Corporation, nor is there a time frame for when such a licence will be granted.

To date, the Corporation has not generated any income, accumulating a deficit of \$559,219, and is considered to be in start-up phase. The Corporation’s ability to continue as a going concern depends on whether it can realize its assets and obtain new funds. Even though it has managed in the past to obtain the necessary funds by issuing debentures, and expects to use capital funding in the future (note 17(a)), there is no assurance it will be successful in the future. The application of International Financial Reporting Standards (IFRS) on a going concern basis may be inappropriate, as there is significant doubt about the validity of the assumption.

These financial statements do not take into account the adjustments that should be made to the carrying amount of the assets and liabilities, the amounts reported as revenues and expenses, and the classification of the items on the statement of financial position if the going concern basis was not valid, and such adjustments could be significant. Management did not take these adjustments into account, as it believes in the validity of the going concern assumption.

The Corporation uses judgments and estimates involving critical accounting policies. It also requires management to exercise judgment in applying the accounting policies used by the Corporation, as set out in note 3.

The significant accounting policies used to prepare these financial statements are summarized in note 3.

The publication of the Corporation’s financial statements was approved and authorized by the Board of Directors on January 24, 2019.



# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

### 3 Significant accounting policies

#### Statement of compliance

These financial statements have been prepared in accordance with the IFRS, as issued by the International Accounting Standards Board (IASB).

#### Cash

Cash is composed of cash on hand and cash held in trust.

#### Financial instruments

The Corporation has early adopted IFRS 9, Financial Instruments.

The financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive the cash flows have expired or were transferred and when the Corporation has transferred substantially all the risks and rewards of ownership of the transferred asset.

Financial assets and financial liabilities are offset and the net balance is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and an intention either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

All financial instruments must be initially recognized at fair value, which is based on market prices unless the financial instruments have not been traded in an active market. In such case, fair value is determined using valuation techniques like the Black-Scholes pricing model or other valuation techniques.

Measurement after initial recognition depends on the classification of the financial instrument. The Corporation has classified its financial instruments in the following categories, depending on the purposes for which the instruments were acquired and on their characteristics.

i) Financial assets

Debt securities

Debt security investments are subsequently measured at amortized cost when the asset is held within a business model whose objective is to hold these assets in order to collect contractual cash flows and when 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.

# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

Investments in debt securities are subsequently measured at fair value when they do not qualify for measurement at amortized cost. Financial instruments subsequently measured at fair value may be recognized at fair value with changes in fair value recognized in profit or loss, unless they are held within a business model whose objective is to hold these assets in order to collect contractual cash flows or to sell the assets and when 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, in which case unrealized gains and losses are initially recognized in other comprehensive income and subsequently reclassified in profit or loss through the amortization of premiums and discounts, impairment losses or reversal of any previously recognized impairment.

ii) Financial liabilities

Financial liabilities are subsequently measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value.

The Corporation has classified its financial instruments as follows:

<b>Category</b>	<b>Financial instruments</b>
Financial assets at amortized cost	Cash
Financial liabilities at amortized cost	Accounts payable and accrued liabilities
	Convertible debentures

### Construction in progress

Construction in progress is not depreciated during the construction period. It will be depreciated when the asset becomes available for its intended use.

### Leases

The Corporation has decided to early adopt IFRS 16, Leases.

Leases are classified as right-of-use assets and lease obligations and are recognized when the underlying asset is made available to the Corporation. The rights of use are amortized to the earlier of the end of the useful life of the right-of-use asset or the lease term unless the Corporation is expected to become the owner of the assets, in which case only the useful life of the asset is taken into account. Each lease payment is apportioned between the lease obligation and the financing cost. The financing cost is recorded as an expense during the lease term so as to produce a constant periodic interest expense on the remaining balance of the lease obligation in each period.

# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

Lease assets and liabilities are measured initially on a discounted basis. The lease obligation includes the present value of the following payments:

- fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected by the Corporation to be payable under residual value guarantees;
- the exercise price of the purchase option if the Corporation is reasonably certain that it will need to pay it; and
- payments of penalties for terminating the lease, if the lease term reflects the Corporation exercising an option to terminate the lease.

Lease payments are discounted at the lease implied interest rate, if that rate can be determined, or at the Corporation's incremental borrowing rate.

The right-of-use assets are measured at cost and comprise:

- the initial amount of the lease obligation;
- any lease payments made at or before the commencement date of the lease, less any lease incentives;
- any initial direct costs incurred by the lessee; and
- an estimate of costs for dismantling the asset and restoring the site.

Payments associated with short-term leases or leases of low-value assets are recognized as an expense on a straight-line basis. A short-term lease is a lease with a term of less than 12 months. Low-value assets include computer equipment and small furniture items.

Critical judgment in determining the term of the lease

In order to determine the lease term, management considers all facts and circumstances that create an economic incentive to exercise an option to extend the lease, an option to terminate the lease or an option to purchase. Such options are taken into account if it is reasonably certain that they will be exercised. As described in note 6, the Corporation expects to exercise the option to purchase on the property leased in April 2020.

A reassessment will be made upon the occurrence of significant events or changes in circumstances that would affect this assessment and are within the Corporation's control.

# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

### **Income taxes**

Tax expense comprises current tax and deferred tax. Taxes are recognized in the statement of loss unless they relate to items reported in other comprehensive loss or directly in deficiency.

#### Current tax

The current tax assets or liabilities include the amounts expected to be paid to or recovered from the taxation authorities for the current and prior periods, and which have not been settled at the end of the reporting period. The current tax expense is based on income for the period after adjustments for non-taxable or non-deductible items. Current tax is calculated using the tax rates and tax laws enacted or substantially enacted by the end of the reporting period. Management assesses on a regular basis the positions taken in tax returns regarding cases in which the applicable tax law is subject to interpretation.

#### Deferred tax

Deferred tax is accounted for using the liability method, applicable to temporary differences between the tax bases of the assets and liabilities and their reported carrying value in the statement of financial position. Deferred tax assets and liabilities are calculated without discounting, using tax rates expected to be applied during the period in which they are realized if such rates have been enacted or substantially enacted by the end of the reporting period.

#### Deferred tax liabilities

In general, deferred tax liabilities are recognized for all taxable temporary differences.

#### Deferred tax assets

Deferred tax assets are accounted for to the extent that it is probable that they will allow a future taxable profit to be offset. They are examined at the end of the reporting period and reduced if it is not certain that the taxable profit will be sufficient to recover all or part of the deferred tax assets; in such cases the assets must be reduced.

Deferred tax assets and liabilities are not recognized for temporary differences arising at the initial recognition of assets and liabilities acquired in a context other than a business combination.

Deferred tax assets and liabilities are offset only if the Corporation has a right and intends to offset the current tax assets and liabilities arising from the same taxation authorities.

Changes in deferred tax assets and liabilities are accounted for as a tax expense or income, unless they relate to items recognized in other comprehensive loss or directly in deficiency, in which case the corresponding deferred taxes are also recognized in other comprehensive loss or in deficiency, respectively.

# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

### Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Corporation has a legal or constructive present obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is equivalent to the best estimate of the expenditure required to settle the present obligation at the end of each reporting period, taking into account the obligation's risks and uncertainties, its carrying amount and the present value of its cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### Earnings per share

The calculation of earnings per share (EPS) is based on the weighted average number of shares outstanding for each period. The basic EPS is calculated by dividing profit or loss attributable to common equity holders of the Corporation by the weighted average number of common shares outstanding during the period.

The computation of diluted EPS assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the earnings per share. The if-converted method is used to determine the dilutive effect of convertible debentures. When the Corporation reports a loss, the diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of the convertible debentures.

## 4 Treasury

	\$
Cash on hand	15,120
Cash held in trust	<u>987,822</u>
	<u>1,002,942</u>

## 5 Construction in progress

Construction in progress comprises engineering and architecture expenses incurred in relation to leasehold improvements and equipment.

# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

### 6 Rights of use and lease obligation

- i) Amounts recognized on the statement of financial position

The statement of financial position presents the following amounts relative to leases:

	\$
<b>Rights of use</b>	
Land	799,486
Building	<u>2,092,612</u>
	<u>2,892,098</u>
<b>Lease obligation</b>	
Current liabilities	22,081
Non-current liabilities	<u>2,938,222</u>
	<u>2,960,303</u>

- ii) Amounts recognized on the statement of loss and comprehensive loss

The statement of loss and comprehensive loss presents the following amounts relative to leases:

	\$
Amortization expense for rights to use building	<u>25,212</u>
Interest expense for lease obligation	<u>99,992</u>

- iii) Operations and recognition of leases

The rights of use reflect rights to use land and a building held under a lease for a 10-year term under which the Corporation has purchase options that may be exercised at any time since the signing of the lease, options that the Corporation intends to exercise during fiscal 2020. In this regard, the rights to use the land are not amortized, while the rights to use the building are amortized over an estimated life of 35 years.

Lease obligation is calculated at an interest rate of 8.20% for a period initially estimated at 24 months, ending April 30, 2020, the intended date for the exercise of the option to purchase.

# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

### 7 Convertible debentures

	\$
Par value of \$100,000, bearing interest at an annual rate of 10%, maturing in October 2018 <sup>(1)</sup>	100,000
Par value of \$892,500, bearing interest at an annual rate of 10%, convertible at the holder's option into 20,081 common shares, maturing in November 2018 <sup>(2)</sup>	905,302
Par value of \$1,100,000, bearing interest at an annual rate of 7%, maturing in January 2020 <sup>(3)</sup>	<u>953,015</u>
	1,958,317
Current portion	<u>1,005,302</u>
	<u>953,015</u>

- (1) Debentures retractable at any time at the Corporation's option at par value plus accrued interest. These debentures are convertible into 2,250 common shares at the holder's option only in the event of default by the Corporation or if the Corporation exercises its right of retraction. These debentures are unsecured.
- (2) The liabilities are discounted at a rate of 20%. These debentures are secured by present and future assets.
- (3) One third of the par value will be automatically converted into 8,250 common shares when the Corporation is listed on a recognized stock exchange, and one third of the par value will be convertible into 8,250 common shares at the holder's option for 60 days following the Corporation's listing on a recognized stock exchange. The last third is not convertible. The liabilities are discounted at a rate of 21%. These debentures are unsecured.

The Corporation did not incur any significant transaction costs for the issuance of these convertible debentures.

### 8 Share capital

Authorized

Unlimited number of common shares

When it was formed, the Corporation issued 91,750 common shares at a price of \$0.0001 per share for gross cash proceeds of \$9.

# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

### 9 Income taxes

Income tax expense differs from the amount that would be calculated by applying the federal and provincial tax rates to the operating loss before income taxes, as indicated below:

Expected tax rate	26.9%
Expected tax recovery due to the loss	\$159,217
Deferred tax loss not recognized	\$(104,917)
Income tax recovery	\$(54,300)

The Corporation has an approximate amount of losses, other than capital losses, to reduce federal and provincial taxable income in future years. The amount of \$559,219 will expire in 2038.

### 10 Changes in non-cash working capital items

	\$
Prepaid expenses	(3,780)
Sales taxes recoverable	(66,310)
Accounts payable and accrued liabilities	<u>170,299</u>
	<u>100,209</u>

### 11 Financing cost

	\$
Interest on convertible debentures	78,567
Interest on lease obligation	<u>99,992</u>
	<u>178,559</u>



# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

### 12 Loss per share

	\$
Loss attributable to the Corporation's shareholders	(559,219)
Basic weighted average number of common shares outstanding	91,750
Dilutive effect of convertible debentures*	-
Diluted weighted average number of common shares	91,750
Loss per share attributable to the Corporation's shareholders Basic and diluted	(6.09)

\* For the 10-month period ended September 30, 2018, 28,331 common shares underlying the convertible debentures were excluded from the calculation of the diluted loss per share because their effect would have been anti-dilutive.

### 13 Related party disclosures

#### Remuneration of key management personnel

The key management personnel consist of the four individuals with authority and responsibility, direct or indirect, for the planning, orientation and control of the Corporation's operations. They include the senior executives and directors of the Corporation.

The remuneration given to the key management personnel is as follows:

	\$
Professional fees	<u>178,003</u>

These transactions are in the normal course of business and are measured at the exchange amount, which is the consideration established and agreed upon by the related parties.

During the 10-month period ended September 30, 2018, the Corporation paid general and administrative expenses totalling \$45,223 to a company controlled by a director. These transactions are in the normal course of business and are measured at the exchange amount, which is the consideration established and agreed upon by the related parties.

# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

### 14 Financial instruments

#### Management of financial risk

Due to its operations, the Corporation is exposed to various financial risks, such as market risk, which includes currency risk and interest rate risk, credit risk and liquidity risk.

The Corporation, through its financial instruments, is exposed to various risks, without being exposed to concentrations of risk.

#### Market risk

##### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Since the Corporation does not have any foreign-currency-denominated assets or liabilities, currency risk is not considered significant.

##### 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.

Since the Corporation's assets and liabilities, except for convertible debentures (notes 7 and 17(b)), are classified mainly as current assets or liabilities or do not bear interest, they have little exposure to interest rate risk.

#### Liquidity risk

Liquidity risk is the risk that the Corporation would be unable to honour its financial obligations when they fall due. The Corporation manages its liquidity risk by closely monitoring its capital requirements. As at September 30, 2018, the Corporation's cash amounted to \$1,002,942. Contractual cash flows related to the Corporation's liabilities, including interest, were as follows:

<b>Contractual maturities</b>	<b>Less than 6 months \$</b>	<b>From 6 to 12 months \$</b>	<b>Over 12 months \$</b>	<b>Total of contractual cash flows \$</b>
Accounts payable and accrued liabilities	170,299	-	-	170,299
Lease obligation	127,500	135,000	3,057,500	3,320,000
Convertible debentures	1,005,302	-	953,015	1,958,317
	<u>1,303,101</u>	<u>135,000</u>	<u>4,010,515</u>	<u>5,448,616</u>

# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

The amount of the lease obligation due in more than 12 months reflects the minimum lease term of 10 years and consequently does not reflect the intended exercise of the option to purchase in the amount of \$2,900,000 in 2020 (note 6). The lease obligation also excludes non-lease components such as operating expenses and variable lease payments, including taxes and insurance, which are all paid by the Corporation.

### Changes in financial liabilities

Financial liabilities recorded the following changes during the period:

	<b>Convertible debentures</b>	<b>Lease obligation</b>	<b>Total</b>
	\$	\$	\$
New borrowings	1,884,583	-	1,884,583
New lease	-	2,917,310	2,917,310
Unwinding of the discount	73,734	42,993	116,727
	<u>1,958,317</u>	<u>2,960,303</u>	<u>4,918,620</u>

### Fair value

The carrying amount of cash and accounts payable and accrued liabilities approximates fair value because of their short-term maturities. The carrying amount of the convertible debentures approximates fair value because of their recent issuance.

## 15 Capital management

The Corporation's objective is to maintain sufficient capital to ensure the confidence of investors and creditors as well as to support the Corporation's future development. Management defines capital as the Corporation's deficiency. The Board of Directors has not established any quantitative criteria for return on equity for management purposes. The Corporation has not paid any dividends to its investors and is not subject to any external capital requirements.

## 16 Segmented information

The Corporation operates in only one sector of activity. All its tangible and intangible assets are located in Canada.

# Terranueva Pharma Corporation

## Notes to Financial Statements

September 30, 2018

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(expressed in Canadian dollars)

### 17 Subsequent events

- a) Subsequent to the end of the period, the Corporation issued convertible debentures bearing interest at the rate of 10% per annum and having a par value of \$157,500. On October 19, 2018, a debenture bearing interest at the rate of 10% with a par value of \$100,000 was converted into 2,250 common shares. On November 23, 2018, convertible debentures bearing interest at the rate of 10% with a par value of \$1,050,000 were converted into 22,250 common shares. Also on November 23, 2018, one third of the debentures bearing interest at the rate of 7% with a par value of \$1,100,000 were converted into 8,250 common shares.
  
- b) On December 14, 2018, Corporation Terranueva (formerly Axe Exploration Inc. (Axe)), a company listed on the Canadian Securities Exchange, acquired all the outstanding shares and securities of the Corporation in what constitutes a reverse takeover under which the Corporation would be deemed to be acquiring Axe. Axe has agreed to acquire the shares of the Corporation for consideration of \$10,930,000 payable through the issuance of 21,860,000 common shares at a deemed price of \$0.50 per share. A finder's fee consisting in the issuance of 1,250,000 common shares was paid to an arm's-length party. Following this transaction, the shareholders of the Corporation controlled Axe. Hence, this operation will be accounted as a reverse takeover of Axe by the Corporation, which is identified as the acquiror.

In parallel with the purchase of the Corporation, Axe raised of \$2,310,000 through a private placement with several investors.

