

Terranueva Corporation

(formerly Axe Exploration Inc.)

Unaudited Condensed Interim Consolidated Financial
Statements

Three month ended December 31, 2018

(expressed in Canadian dollars)

The attached financial statements have been prepared by
Management of Terranueva Corporation and have not been
reviewed by the auditor

Terranueva Corporation
Interim Consolidated Statement of Financial Position
(unaudited)
As at December 31, 2018 and September 30, 2018

(expressed in Canadian dollars)

| | Note | December 31, 2018 Note | September 30, 2018 |
|--|------|------------------------------|-----------------------|
| Assets | | | |
| Current assets | | | |
| Cash | 6 | 2,215,337 | 1,002,942 |
| Advances, no interest or maturity | | 1,225,000 | 500,000 |
| Tax credits related to resources and mining tax credits receivable | | 2,786 | - |
| Prepaid expenses | | 9,146 | 3,780 |
| Sales taxes recoverable | | 233,711 | 66,310 |
| Total current assets | | <u>3,685,980</u> | <u>1,573,032</u> |
| Non-current assets | | | |
| Construction in progress | | 188,820 | 214,444 |
| Property, plant and equipment | 7 | 477,765 | - |
| Rights of use | 8 | 2,876,971 | 2,892,098 |
| Total non-current assets | | <u>3,543,556</u> | <u>3,107,542</u> |
| Total assets | | <u>7,229,536</u> | <u>4,680,574</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 330,948 | 170,299 |
| Lease obligation | 8 | 22,081 | 22,081 |
| Convertible debentures | 9 | - | 1,005,302 |
| Total current liabilities | | <u>353,029</u> | <u>1,197,682</u> |
| Non-current liabilities | | | |
| Lease obligation | 8 | 2,938,552 | 2,938,222 |
| Debentures | 9 | 666,361 | 953,015 |
| Total non-current liabilities | | <u>3,604,913</u> | <u>3,891,237</u> |
| Total liabilities | | <u>3,957,942</u> | <u>5,088,919</u> |
| Shareholders' Equity | | | |
| Share capital | | 6,373,983 | 9 |
| Conversion options | | 68,575 | 150,865 |
| Contributed surplus | | 113,675 | - |
| Deficit | | <u>(3,363,839)</u> | <u>(559,219)</u> |
| | | <u>3,271,594</u> | <u>(408,345)</u> |
| | | <u>7,229,536</u> | <u>4,680,574</u> |
| Going concern | 2 | | |

Terranueva Corporation

Interim Consolidated Statement of Changes in Equity

(unaudited)

For the three-month period ended December 31, 2018 and the 34-day period ended December 31, 2017

(expressed in Canadian dollars)

| | Number of shares | Common shares \$ | Conversion options \$ | Contributed surplus \$ | Deficit \$ | Total \$ |
|--|---------------------|------------------------|-----------------------------|------------------------------|---------------|-------------|
| Balance at beginning | | - | - | - | - | - |
| Loss and comprehensive loss for the period | | - | - | - | (11,224) | (11,224) |
| Share issuance | 16,077,395 | 9 | - | - | - | 9 |
| Balance as at December 31, 2017 | 16,077,395 | 9 | - | - | (11,224) | (11,215) |
| Balance at September 30, 2018 | 16,077,395 | 9 | 150,865 | - | (559,219) | (408,345) |
| Loss and comprehensive loss for the period | | - | - | - | (2,725,420) | (2,725,420) |
| Issuance of convertible debenture | | - | 501 | - | - | 501 |
| Issuance of shares as settlement of the convertible debentures | 5,782,605 25,581 | 1,511,929 | (82,791) | - | - | 1,429,138 |
| Deemed issuances to investors of Axe Exploration inc. as part of the Reverse Takeover (Note 5) | | | | | | |
| • Common shares | 3,933,293 | 1,966,645 | - | - | - | 1,966,645 |
| • Stock options | | - | - | 113,675 | - | 113,675 |
| Issuance of shares as finder fees (Note 5) | 1,250,000 | 625,000 | - | - | - | 625,000 |
| Issuance of shares under a concurrent private placement | 4,620,000 | 2,310,000 | - | - | - | 2,310,000 |
| Share issuance costs | | (39,600) | - | - | - | (39,600) |
| Balance as at December 31, 2018 | 31,663,293 | 6,373,983 | 68,575 | 113,675 | (3,284,639) | 3,271,594 |

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

Terranueva Corporation

Interim Consolidated Statement of Loss and Comprehensive Loss

(unaudited)

For the three-month period ended December 31, 2018 and the 34-day period ended December 31, 2017

(expressed in Canadian dollars)

| | Note | 2018 | 2017 |
|---|------|--------------------|-----------------|
| Expenses | | | |
| Professional fees | | 119,677 | 2,400 |
| Salaries & benefits | | 97,170 | - |
| Amortization of rights of use | | 15,127 | - |
| Depreciation of property, plant and equipment | | 478 | - |
| General and administrative expenses | | 26,895 | 8,784 |
| Financing cost | 11 | 91,346 | 40 |
| Listing expenses | 5 | <u>2,375,343</u> | <u>-</u> |
| Operating loss | | <u>(2,726,036)</u> | <u>(11,224)</u> |
| Interest income | | 616 | - |
| | | <u>(2,725,420)</u> | <u>(11,224)</u> |
| Loss and comprehensive loss for the period | | <u>(2,725,420)</u> | <u>(11,224)</u> |
| Loss per share, basic and diluted | | <u>(0.09)</u> | <u>(0.12)</u> |

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

Terranueva Corporation

Interim consolidated Statement of Cash Flows

(unaudited)

For the three-month period ended December 31, 2018 and the 34-day period ended December 31, 2017

(expressed in Canadian dollars)

| | Note | December 31, 2018 | December 31, 2017 |
|---|------|----------------------|----------------------|
| Cash flows provided by (used in) | | | |
| Operating activities | | | |
| Loss and comprehensive loss for the period | | (2,725,420) | (11,224) |
| Adjustments for | | | |
| Non-cash components of listing expenses | 5 | 2,209,518 | - |
| Interest on lease obligation and convertible debentures | | 90,513 | - |
| Depreciation of property, plant and equipment | 7 | 478 | - |
| Amortization of rights of use | 8 | 15,127 | - |
| | | <u>(409,784)</u> | <u>(11,284)</u> |
| Change in non-cash working capital items | 10 | <u>12,386</u> | <u>-</u> |
| | | <u>(397,398)</u> | <u>(11,284)</u> |
| Investing activities | | | |
| Cash acquired through the acquisition of Axe Exploration inc. | 5 | 424,695 | - |
| Increase in advances | | (725,000) | - |
| Acquisition of property, plant and equipment | | <u>(407,802)</u> | <u>-</u> |
| | | <u>(708,107)</u> | <u>-</u> |
| Financing activities | | | |
| Share issuance | 5 | 2,310,000 | 9 |
| Share issuance expenses | 5 | (39,600) | - |
| Leases payments | | (60,000) | - |
| Convertible debenture issuance | | 107,500 | 100,000 |
| | | <u>2,317,900</u> | <u>100,009</u> |
| Net change in cash | | <u>1,212,395</u> | <u>88,725</u> |
| Cash, beginning of the period | | <u>1,002,942</u> | <u>-</u> |
| Cash, end of period | | <u>2,215,337</u> | <u>88,725</u> |

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

Terranueva Corporation

Notes to unaudited condensed interim consolidated financial statements

December 31, 2018

(expressed in Canadian dollars)

1 Description of operations

Terranueva Corporation (formerly Axe Exploration Inc.) (the “Corporation”) was incorporated under the Canada Business Corporations Act on October 17, 2007. On December 14, 2018, in conjunction with a reverse takeover, the Corporation changed its name from Axe Exploration Inc. to Terranueva Corporation. Its head office is located at 255 Curé-Labelle, suite 204, 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 condensed interim consolidated financial statements (“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 \$3,363,839, 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 share issuance and expects to use capital funding in the future, 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.

Terranueva Corporation

Notes to unaudited condensed interim consolidated financial statements

December 31, 2018

(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) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, Interim Financial Reporting. Accordingly, the Financial statement do not include all of the information and footnotes required by IFRS for complete financial statements for the year-end purposes.

The Financial Statements were approved by the Corporation’s Board of Directors on February 21, 2019.

Basis of preparation

The Financial Statements should be read in conjunction with the financial statements for the initial 10-month period ended September 30, 2018 of Terranueva Pharma Corporation, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies, methods of computation and presentation applied in the Financial Statements are consistent with those of Terranueva Pharma Corporation’s previous financial statements for the initial 10-month period ended September 30, 2018, except for the policies described below.

a) Consolidation

The Financial Statements include the accounts of the Corporation since December 14, 2018 and those of its wholly-owned subsidiary Terranueva Pharma Corporation. All intra-group transactions, balances, income and expenses are eliminated during consolidation.

b) Issuance of units

Proceeds from unit placements are allocated between shares and warrants issued using the residual value to determine the value of warrants issued.

c) Equity-settled share-based compensation

The Corporation offers an equity settled share-based compensation plan for its eligible directors, officers, employees and consultants. Each award is considered a separate award with its own vesting periods and fair value. Fair value is measured at the date of grant using the Black-Scholes option pricing model.

Any consideration paid on exercise of share options is credited to share capital. None of the Corporation's plans feature any options for a cash settlement. The accumulated expenses resulting from stock options are transferred to share capital when the options are exercised.

All equity settled share-based compensation are ultimately recognized as an expense in the statement of income (loss) with a corresponding credit to stock options, in equity.

Terranueva Corporation

Notes to unaudited condensed interim consolidated financial statements

December 31, 2018

(expressed in Canadian dollars)

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options or warrants expected to vest. Non-market vesting conditions are included in assumptions about the instruments that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of instruments expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period.

4 Critical accounting estimates and judgements

The preparation of financial statement in accordance with IFRS requires the Corporation to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. The Corporation also makes estimates and assumptions concerning the future. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

In preparing the Financial Statements, the significant judgements made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Corporation's audited financial statement for the year ended September 30, 2018.

5 Reverse takeover and related transactions

On December 14, 2018, in connection with an agreement between the Corporation and Terranueva Pharma Corporation ("Pharma"):

- The Corporation completed a consolidation of its common share on a 16:1 basis with related adjustments to its outstanding share purchase options, following which 3,933,290 post-consolidation shares of the Company were outstanding;
- The Corporation completed a private placement for the aggregate gross proceeds of \$2,310,000. Under this private placement, the Corporation issued 4,620,000 units at a price of \$0.50 per unit. Each unit was comprised of one common share and $\frac{1}{2}$ common share purchase warrant, with each warrant being exercisable for 18 months from the closing date of the private placement at an exercise price of \$0.65. From the total proceeds received from the units, \$2,310,000 has been allocated to share capital and a value of nil was allocated to the warrants based on the residual value using the stock price at the closing date. The Corporation paid a finder fee of \$38,150 in connection with this private placement.

Terranueva Corporation

Notes to unaudited condensed interim consolidated financial statements

December 31, 2018

(expressed in Canadian dollars)

- The shareholders of Pharma received one post-consolidation common share of the Corporation in exchange for each one common share of Pharma held. Finder fees consisting of the issuance of 1,250,000 common shares was paid to an arm's-length party.

For accounting purposes, this transaction is considered to be a reverse takeover of the Corporation by Pharma, whereby Pharma acquired control of the Corporation through the issuance through the deemed issuance of 3,933,290 common shares (on a post consolidation basis) to the Corporation's shareholders based on the Corporation's net assets as at December 14, 2018. Consequently, these financial statements reflect only the assets, liabilities, operations and cash flows of Pharma for dates and periods prior to December 14, 2018 and include the Corporation's assets and liabilities since December 14, 2018.

The transaction and financing described above together constitute the Corporation's Qualifying Transaction within the meaning of the policies of the Canadian Stock Exchange.

The transaction constitutes a reverse takeover of the Corporation but does not meet the definition of a business combination under IFRS 3 Business Combinations. Accordingly, the reverse takeover transaction is accounted for in accordance with IFRS 2 Share-based payment.

In accordance with IFRS 2, equity instruments issued were recognized at fair value of net assets acquired and services received. Services received by the Corporation consist in the listing of the Corporation on the Exchange and are measured at the amount of the excess of the fair value of equity instruments issued by the Corporation at the time of the transaction over the Corporation's net assets acquired. The transaction with the Corporation is thus recognized in substance as if Pharma had proceeded to the issuance of shares and stock options to acquire the Corporation's net assets.

The acquisition has been accounted for as follows:

| Consideration paid | \$ |
|--|-------------------------|
| 3,933,290 common shares deemed issued to the Corporation's existing shareholders ⁽¹⁾ | 1,966,645 |
| 1,250,000 common shares issued as finders fees | 625,000 |
| 400,000 options for common share deemed issued to the Corporation's existing option holders ⁽²⁾ | 113,675 |
| Transaction costs paid in cash | <u>259,246</u> |
| | 2,964,566 |
| Net assets acquired | |
| Net assets of the Corporation as at December 14, 2018 | <u>589,223</u> |
| Listing expenses | <u>2,375,343</u> |

- (1) Based on the number of Corporation's outstanding common shares as at December 14, 2018. The price of the common shares was based on the pricing of the concurrent private placement.

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Notes to unaudited condensed interim consolidated financial statements

December 31, 2018

(expressed in Canadian dollars)

- (2) Based on the number of Corporation's outstanding stock options as at December 14, 2018. The fair value of the common share options was calculated using a Black & Scholes model using the following assumptions: risk-free interest average rate of 2.48%, expected dividend yield of 0%, expected volatility on the stock of 100% and expected life of approximately 3 to 10 years in line with the original maturity of the common shares options. The expected volatility was estimated by benchmarking comparable situations for companies that are similar to the Corporation.

6 Cash

| | December 31, 2018 \$ | September 30, 2018 \$ |
|--------------------|----------------------------|-----------------------------|
| Cash on hand | 670,376 | 15,120 |
| Cash held in trust | <u>1,544,961</u> | <u>987,822</u> |
| | <u>2,215,337</u> | <u>1,002,942</u> |

7 Property, plant and equipment

Quarter ended December 31, 2018

| | |
|--------------------------------------|----------------|
| Opening net book value | - |
| Additions | 478,243 |
| Amortization expense for the quarter | <u>(478)</u> |
| Closing net book value | <u>477,765</u> |
| As at December 31, 2018 | |
| Cost | 478,242 |
| Accumulated amortization | <u>(478)</u> |
| | <u>477,764</u> |

Terranueva Corporation

Notes to unaudited condensed interim consolidated financial statements

December 31, 2018

(expressed in Canadian dollars)

8 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:

| | December 31, 2018 | September 30, 2018 |
|-------------------------|----------------------|-----------------------|
| Rights of use | | |
| Land | 799,486 | 799,486 |
| Building | <u>2,077,485</u> | <u>2,092,612</u> |
| | <u>2,876,971</u> | <u>2,892,098</u> |
| Lease obligation | | |
| Current liabilities | 22,081 | 22,081 |
| Non-current liabilities | <u>2,938,552</u> | <u>2,938,222</u> |
| | <u>2,960,633</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:

| | December 31, 2018 | September 30, 2018 |
|---|----------------------|-----------------------|
| Amortization expense for rights to use building | <u>15,127</u> | <u>25,212</u> |
| Interest expense for lease obligation | <u>60,330</u> | <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 Corporation

Notes to unaudited condensed interim consolidated financial statements

December 31, 2018

(expressed in Canadian dollars)

9 Convertible debentures

| | December 31, 2018 \$ | September 30, 2018 \$ |
|---|----------------------------|-----------------------------|
| Par value of \$100,000, bearing interest at an annual rate of 10%, maturing in October 2018 ⁽¹⁾ | - | 100,000 |
| Par value of \$892,500, bearing interest at an annual rate of 10%, convertible at the holder's option into 21,081 common shares, maturing in November 2018 ⁽²⁾ | - | 905,302 |
| Par value of \$733,733 (\$1,100,000 as at September 30, 2018), bearing interest at an annual rate of 7%, maturing in January 2020 ⁽³⁾ | 666,361 | 953,015 |
| | <hr/> | <hr/> |
| Current portion | 666,361 | 1,958,317 |
| | <hr/> | <hr/> |
| | 666,361 | 953,015 |
| | <hr/> | <hr/> |

- (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. These debentures were converted on October 11, 2018.
- (2) The liabilities are discounted at a rate of 20%. These debentures are secured by present and future assets. These debentures, par value of \$1,000,000 were converted into 22,500 shares on November 23, 2018.
- (3) One third of the par value has been automatically converted into 8,250 common shares, which was converted on November 23, 2018, 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 transaction costs for the issuance of these convertible debentures.

Terranueva Corporation

Notes to unaudited condensed interim consolidated financial statements

December 31, 2018

(expressed in Canadian dollars)

10 Changes in non-cash working capital items

| | December 31, 2018 \$ | 34- day period ended December 31, 2018 \$ |
|--|----------------------------|---|
| Prepaid expenses | (603) | (3,780) |
| Amounts receivable | (166,276) | (66,310) |
| Accounts payable and accrued liabilities | 179,265 | 170,299 |
| | <u>12,386</u> | <u>100,209</u> |

11 Financing cost

| | Three-month period ended December 31, 2018 \$ | Three-month period ended September 30, 2018 \$ | 34 days period ended December 31, 2018 \$ |
|------------------------------------|---|--|---|
| Interest on convertible debentures | 31,016 | - | - |
| Interest on lease obligation | 60,330 | - | - |
| | <u>91,346</u> | <u>-</u> | <u>-</u> |

12 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:

| | Three-month period ended December 31, 2018 \$ | 34-days period ended December 30, 2017 \$ |
|-------------------|---|---|
| Professional fees | 113,720 | 10,448 |

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.

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December 31, 2018

(expressed in Canadian dollars)

During the three-month period ended December 31, 2018, the Corporation paid general and administrative expenses totalling \$4,963 (\$8,048 for the 34-days period ended December 31, 2017) 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.

13 Subsequent event

On February 14, 2019, debentures bearing interest at the rate of 7% amounting to \$366,667 were converted into 733,333 common shares.