TERRACE ENERGY CORP.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited and Expressed in United States Dollars)

FOR THE SIX MONTHS ENDED JULY 31, 2019 AND 2018

TERRACE ENERGY CORP.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Vancouver, Canada

September 19, 2019

TERRACE ENERGY CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
UNAUDITED – PREPARED BY MANAGEMENT
(Expressed in United States Dollars)

As at		July 31, 2019		January 31, 2019
ASSETS				
Current assets				
Cash	$	1,605,004	$	1,765,776
Accounts receivable		3,550		3,819
Prepaids		16,472		17,292
Assets held for sale (Note 4)		4,668,469		4,724,508
Total current assets		6,293,495		6,511,395
Total assets	$	6,293,495	$	6,511,395
LIABILITIES AND SHAREHOLDERS' DEFICIT				
Current liabilities				
Accounts payable and accrued liabilities (Note 9)	$	575,458	$	595,692
Total current liabilities		575,458		595,692
Non-current liabilities				
Convertible notes (Notes 6 and 9)		19,962,125		18,076,882
Total liabilities		20,537,583		18,672,574
Shareholders' deficit				
Capital stock (Note 7)		49,787,045		49,787,045
Convertible notes – equity component (Note 6)		1,875,987		1,875,987
Translation reserve		(2,885,192)		(1,872,427)
Deficit		(63,021,928)		(61,951,784)
Total shareholders' deficit		(14,244,88)		(12,161,179)
Total liabilities and shareholders' deficit	$	6,293,495	$	6,511,395

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

TERRACE ENERGY CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
UNAUDITED – PREPARED BY MANAGEMENT
(Expressed in United States Dollars)

	For the six months ended July 31, 2019	For the six months ended July 31, 2018	For the three months ended July 31, 2019	For the three months ended July 31, 2018
EXPENSES				
Administrative	$ 36,350	$ 156,803	$10,064	$ 63,151
Depreciation	-	18,223	-	9,340
Foreign exchange (gain) loss	(996,775)	(1,341,397)	10,838	(310,415)
Financing (Note 8)	1,868,993	1,958,813	974,438	1,123,273
Professional	43,961	42,537	-	16,480
Salaries and benefits (Note 10)	48,429	225,633	24,551	108,955
Transfer agent and filing fees	13,147	14,387	4,853	6,992
	1,014,105	1,074,999	1,024,744	1,017,776
Other Items				
Finder’s fee	-	(1,000,000)	-	(1,000,000)
Net loss from continuing operations for the period	(1,014,105)	(74,999)	(1,024,744)	(17,776)
Net loss from discontinued operations for the period (Note 4)	(56,039)	(72,872)	(29,655)	(35,702)
Net loss for the period	(1,070,144)	(147,871)	(1,054,399)	(53,478)
Other comprehensive loss				
Translation adjustment	1,012,765	(545,972)	1,640,149	(252,444
Comprehensive loss for the period	$ (57,379)	$ (693,843)	$ 585,750	$ (305,922)
Basic and diluted income (loss) per share	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.00)
Weighted average number of common shares outstanding	93,960,821	89,100,421	93,860,821	89,127,843

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

TERRACE ENERGY CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
UNAUDITED – PREPARED BY MANAGEMENT
(Expressed in United States Dollars)

	Capital Stock		Convertible Notes – Equity Component	Translation Reserve	Deficit	Total Shareholders' Deficit
	Shares	Amount				
Balance – January 31, 2018	**88,494,821**	**$ 47,689,739**	**$ 2,003,196**	**$(1,645,699)**	**$(59,660,144)**	**$ (11,612,908)**
Conversion of convertible notes	1,536,000	636,122	(37,078)			599,044
Cumulative translation adjustment	-	-	-	(545,972)	-	(545,972)
Net loss for the period	-	-	-	-	(147,871)	(147,871)
Balance – July 31, 2018	**90,030,821**	**$ 48,325,861**	**$ 1,966,118**	**$(2,191,671)**	**$(59,808,015)**	**$ (11,707,707)**
Balance – January 31, 2019	**93,960,821**	**$ 49,787,045**	**$ 1,875,987**	**$(1,872,427)**	**$(61,951,784)**	**$ (12,161,179)**
Cumulative translation adjustment	-	-	-	(1,012,765)	-	(1,012,765)
Net loss for the period	-	-	-		(1,070,144)	(1,070,144)
Balance – July 31, 2019	**93,960,821**	**$ 49,787,045**	**$ 1,875,987**	**$(2,885,192)**	**$(63,021,928)**	**$ (14,244,088)**

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

TERRACE ENERGY CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
UNAUDITED – PREPARED BY MANAGEMENT
For the six months ended July 31
(Expressed in United States Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) from continuing operations	$ (1,014,105)	$ (74,999)
Items not involving cash:		
Accretion of convertible notes	1,868,993	1,958,813
Depreciation and depletion	-	18,223
Unrealized gain on foreign exchange	(995,875)	(1,365,781)
Changes in non-cash working capital items:		
Accounts receivable	269	(999,262)
Prepaids	820	54,467
Accounts payable and accrued liabilities	(20,234)	(53,623)
Operating cash flows from continuing operations	(160,132)	(462,162)
Operating cash flows from discontinued operations (Note 4)	-	-
Net cash used in operating activities	(160,132)	(462,162)
Foreign exchange effect on cash	(640)	760
Change in cash for the period	(160,772)	(461,402)
Cash, beginning of the period	1,765,776	1,421,810
Cash, end of the period	$ 1,605,004	$ 960,408

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Terrace Energy Corp. (the "Company" or "Terrace") was incorporated on July 6, 2006 under the *Business Corporations Act* (British Columbia) and previously named Terrace Resources Inc. The Company is in the business of acquiring, exploring for and developing conventional onshore oil and gas properties in the United States.

The Company's head office is located at 25511 Budde Road, Suite 601, The Woodlands, Texas 77380. The registered and records office is located at Suite 1000 – 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5.

The Company had negative cash flow from its continuing operating activities for the six months ended July 31, 2019 and has a limited history of production or profitability and its financial resources will not be sufficient to fund its debt obligations and ongoing activities beyond the near term (see Capital disclosures described in Note 9). These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The Company will need to raise additional capital or seek other strategic alternatives to meet its debt obligations and to carry out its future oil and gas acquisition, exploration and development activities. There are no guarantees that the Company will be able to raise such additional capital when needed.

These condensed consolidated interim statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Management believes that the going concern assumption is appropriate for these condensed consolidated interim financial statements since management continues to seek and evaluate strategic alternatives and financial options to enable the Company to meet its debt obligations and to carry out its future oil and gas acquisition, exploration and development activities. These condensed consolidated interim financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments could be material.

2. BASIS OF PRESENTATION

Statement of compliance

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The accounting policies used in the preparation of these condensed consolidated interim financial statements are the same as those applied in the Company's most recent consolidated annual financial statements for the year ended January 31, 2019. These condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated annual financial statements for the year ended January 31, 2019. The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and outstanding as of February 1, 2019.

The Board of Directors approved the unaudited condensed consolidated interim financial statements on September 19, 2019.

Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. BASIS OF PRESENTATION (Continued)

Functional and presentation currency

The functional currency of the Company is the Canadian dollar ("CAD"), as it is presently reliant upon the Canadian capital markets to fund its activities. The functional currencies of the Company's foreign subsidiaries are the CAD dollar. These condensed consolidated interim financial statements are presented in the United States dollar ("USD"), as substantially all of the Company's assets and operations are situated in the USA. Assets and liabilities are translated into the presentation currency using the exchange rate in effect on the condensed consolidated interim statement of financial position date, shareholders' deficit accounts are translated into the presentation currency using the historical exchange rate, and revenues and expenses are translated at the average rate for the period, which approximates the exchange rate in effect on the transaction date. Exchange gains and losses on translation are included as a separate component in shareholders' deficit as "translation reserve".

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate prevailing at the date of the transaction. Non-monetary items that are measured based on historical cost are translated using the exchange rate in effect at the date of the translation.

Foreign currency differences arising on translation are recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

Use of judgments and estimates

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, revenues and expenses. Actual results may differ from these estimates.

Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

Assets held for sale and discontinued operations

Judgment is required in determining whether an asset meets the criteria for classification as "assets held for sale" in the condensed consolidated interim statements of financial position. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the expected timeframe of the completion of the anticipated sale and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this financial position category as appropriate. In addition, there is a requirement to periodically evaluate and record assets held for sale at the lower of their carrying value and fair value less costs to sell.

Judgment is applied in determining whether disposal groups represent a component of the entity, the results of which should be recorded as discontinued operations in the condensed consolidated interim statements of operations and comprehensive income (loss).

3, SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of judgments and estimates (Continued)

Joint arrangements

Judgment is required to determine when the Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess their rights and obligations arising from the arrangement including whether the arrangement is structured through a separate vehicle, in which case, judgment is also required to assess the rights and obligations arising from the legal form of the separate vehicle, terms of the contractual arrangement and other relevant facts and circumstances. This assessment often requires significant judgment, and a different conclusion on joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting. Management has assessed the investment in partnership as a joint venture.

Convertible debenture

In accordance with the substance of the contractual arrangement, convertible debentures are compound financial instruments that are accounted for separately by their components: a financial liability and an equity instrument.

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount factors, and the presence of any derivative financial instruments.

Functional currency

The determination of the functional currency for the Company and each of its subsidiaries was based on management's judgment of the underlying transactions, events and conditions relevant to each entity.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Principles of consolidation

The condensed consolidated interim financial statements include the financial statements of the Company and its controlled subsidiaries. All intercompany transactions, balances, revenues and expenses are eliminated in full on consolidation.

Name of subsidiary	Place of Incorporation	Percentage ownership
Terrace US Holdings Inc.	USA	100%
Terrace Investment Holdings, Inc.	USA	100%
TEC Olmos, LLC	USA	100%

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new accounting standards and amendments

IFRS 16 *Leases*

The Company adopted IFRS 16 *Leases* ("IFRS 16") effective February 1, 2019. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease. The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Financial instruments

Financial assets

Recognition and measurement of financial assets
The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

Classification of financial assets
The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

(i) Financial assets measured at amortized cost
A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

(ii) Financial assets measured at fair value through other comprehensive income ("FVTOCI")

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included in other comprehensive income.

(iii) Financial assets measured at fair value through profit or loss ("FVTPL")
A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

Derecognition of financial assets
The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities

Recognition and measurement of financial liabilities
The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

Classification of financial liabilities
The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

(i) Financial liabilities measured at amortized cost
A financial liability at amortized cost is initially measured at fair value less transaction costs directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

(ii) Financial liabilities measured at fair value through profit or loss
A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

Derecognition of financial liabilities
The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial

recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statement of income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – Inputs for the asset or liability that are not based on observable market data.

Property and equipment

Depletion and depreciation

The calculation of depletion and depreciation of production equipment is based on total capitalized costs less the estimated net realizable value of production equipment and facilities after the proved developed reserves are fully depleted.

Depreciation of other equipment is provided for on a 14% to 20% straight-line basis. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment

Exploration and evaluation assets are grouped together with the Company's CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances, as well as upon their eventual reclassification to producing assets (oil and gas properties).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of goodwill, if any, allocated to the units and then to reduce carrying amounts of other assets in the unit (group of units) on a pro rata basis.

Fair value less costs to sell is determined to be the amount for which the asset could be sold in an arm's length transaction. Fair value less costs to sell can be determined by using an observable market or by using discounted future net cash flows of proved and probable reserves using forecasted prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depletion and depreciation or amortization, if no impairment loss had been recognized.

4. DISCONTINUED OPERATIONS

The Company has determined that it is in its best interest to pursue divestiture of its partnership interest in Blackbrush Terrace LP ("BTLP") (Note 5). Consequently, the Company has classified its partnership interest in the BTLP as an Asset Held for Sale. The financial performance of the partnership for the current and comparative periods have been presented separately as discontinued operations in the condensed consolidated interim statements of operations and comprehensive income (loss) and cash flows.

The reported net loss from the discontinued operations is comprised of the following:

	2019	2018
Equity loss in partnership	$ (56,039)	$ (72,872)
Net loss from discontinued operations, net of tax	$ (56,039)	$ (72,872)

The reported cash flows from the discontinued operations for the years ended July 31 are as follows:

	2019	2018
Net loss from discontinued operations, net of tax	$ (56,039)	$ (72,872)
Operating cash flows from discontinued operations	56,039	$ 72,872
Net cash from operating activities	$ -	$ -

5. INVESTMENT IN PARTNERSHIP

The Company and its partner, BlackBrush Oil & Gas, LP ("BlackBrush") organized a special purpose limited partnership, the BlackBrush Terrace LP ("BTLP"), to acquire a 50% operated working interest (the "WI") in certain oil and gas leases covering approximately 147,000 gross mineral acres in Maverick County, Texas, USA (the "Maverick County Project") from SWEPI LP ("Shell Oil"). The acreage to be acquired includes potential reserves in the Eagle Ford Shale, Buda Limestone and several other intervals of Cretaceous age formations including the newly emerging Pearsall Shale Trend, which have been proven productive on a regional basis. The agreement allows BTLP to secure the WI through a combination of cash payments, which have been made, and drilling obligations.

5. INVESTMENT IN PARTNERSHIP (Continued)

During the year ended January 31, 2016, the Company sought and came to an agreement with BlackBrush wherein to preserve capital, the Company would not contribute its share of costs to drill and complete additional wells. As a result, the Company's 50% ownership interest in the BTLP was reduced to approximately 38% at October 31, 2017 and further reduced to approximately 28% at November 1, 2018. In accordance with the provisions of the BTLP agreement, the Company is not entitled to any revenue and expense allocations or distribution of revenue proceeds from such additional wells.

As at July 31, 2019, the Company is still in discussions with a potential buyer for the interest in BTLP and accordingly the interest in BTLP is classified as an asset held for sale.

The carrying value of $4,668,469 at July 31, 2019 (2019 - $4,724,508), which includes $24,483,125 in advances and capital contributions and represent the Company's share of costs to organize, acquire and fund certain agreed-upon exploration and evaluation activities to date plus the Company's share of the cumulative net loss of the BTLP of $19,814,656 for the period ended July 31, 2019 (2018 - $19,905,472). Revenues and expenses attributable to the sole risk operations conducted by BlackBrush totaling a loss of $56,039 for the six months ended July 31, 2019 (2018 – 72,872) are excluded from income and allocated to the partner before allocations of income to the partners in accordance with their ownership percentages.

During the year ended January 31, 2018, management made the decision to sell its investment in BTLP, which is currently being marketed for sale (Note 4). The financial performance of BTLP for the current and comparative periods have been presented separately as discontinued operations in the consolidated statements of operations and comprehensive loss and cash flows.

Summary of financial information of the BTLP

As at July 31,		**2019**		**2018**
Assets				
Cash	$	523,571	$	582,855
Other current assets		935,615		483,410
Property and equipment		27,951,739		28,413,156
	$	29,410,925	$	29,479,421
Liabilities				
Current liabilities	$	605,113	$	516,807
Decommissioning obligations		107,510		159,776
	$	712,623	$	676,583

For the quarter ended July 31,		**2019**		**2018**
Revenue	$	160,655	$	2,292,537
Direct operating costs				
Production and operating		(117,816)		(723,604)
Depreciation and depletion		(58,840)		(1,259,981)
Operating income (loss)		(16,001)		308,952
Other expenses		(10,210)		(106,467)
Net income (loss) for the period	$	(26,211)	$	202,485

6. CONVERTIBLE NOTES

During the year ended January 31, 2017, the Company proposed a plan of arrangement (the "Arrangement") under the *Business Corporations Act* (British Columbia) pursuant to which all of 8% unsecured notes of the Company due April 2, 2018 with a conversion price of CAD $2.00 (the "Existing Notes") would be exchanged for new convertible secured notes of the Company (the "New Notes") due April 2, 2021 (the "Maturity Date"), which are governed by a new trust indenture.

While the Existing Notes were unsecured, the New Notes are a secured obligation of the Company, guaranteed by a general security agreement against all of the Company's assets, which includes the shares of the two United States holding companies, Terrace US Holdings LLC and Terrace Investment Holdings, Inc., but not the assets of these subsidiaries. Additionally, the New Notes are interest-free, but subject to a maturity bonus equal to 5% of the aggregate total principal amount of the New Notes payable on the Maturity Date (the "Maturity Bonus"). If the New Notes are redeemed in accordance with their terms at any time within 180 days prior to the Maturity Date, one-half of the Maturity Bonus will be payable.

Carrying value of secured assets at July 31, 2019:

Cash	$	1,605,004
Accounts receivable		3,550
Prepaids		16,472
	$	1,625,026

The Maturity Bonus will be payable, at the Company's election, in cash or through the issuance of common shares of the Company at a price equal to the volume weighted average of the Company's common shares on its principal stock exchange for the ten trading days prior to any such issuance.

The Company has the right to convert all or part of the New Notes into common shares at any time if the market price of the common shares on the Exchange trades at CAD $0.70 or higher for a period of 30 consecutive trading days. Holders of the New Notes may convert all or part of the outstanding principal amount of their convertible notes at a conversion price of CAD $0.50 at any time during the term of the convertible notes.

At July 31, 2019, CAD $35,532,000 of notes were outstanding and convertible into 71,064,000 shares (January 31, 2019 - CAD $35,532,000).

The following table reconciles the carrying amount of the New Notes from January 31, 2018 through July 31, 2019:

	Liability	Equity	Total
Balance, January 31, 2018	**$ 17,328,649**	**$ 2,003,196**	**$ 19,331,845**
Conversion of notes	(1,970,097)	(127,209)	(2,097,306)
Accretion of discount	3,846,254	-	3,846,254
Effect of changes in foreign exchange rates	(1,127,924)	-	(1,127,924)
Balance, January 31, 2019	**$ 18,076,882**	**$ 1,875,987**	**$ 19,952,869**
Accretion of discount	1,868,993	-	1,868,993
Effect of changes in foreign exchange rates	16,250	-	16,250
Balance, July 31, 2019	**$ 19,962,125**	**$ 1,875,987**	**$ 21,838,112**

7. CAPITAL STOCK

The Company has unlimited authorized common shares without par value. At July 31, 2019, the Company has 93,960,821 (January 31, 2019 – 93,960,821) shares outstanding.

Share issues

During the six months ended July 31, 2019, the Company did not issue any common shares.

Restricted share units

The Company has a restricted share unit plan (the "RSU Plan") that permits the issuance of an aggregate of 3,682,182 RSUs to eligible participants, as described in the RSU Plan. RSUs do not confer on the holder any right to vote at a meeting of the shareholders of the Company. Common shares reserved for issuance under outstanding RSUs must be included in the calculation of common shares remaining available for reservation pursuant to options granted under the 10% rolling option plan. The number of common shares reserved for issuance, together with any other compensation arrangements, to any one person in any twelve-month period will not exceed 5% of the issued and outstanding common shares. The number of common shares reserved for issuance together with any other compensation arrangements granted to all technical consultants will not exceed 2% of the issued and outstanding common shares. The number of RSUs granted to any one person cannot exceed 5% of the issued and outstanding common shares.

As at July 31, 2019, the Company has 350,000 (January 31, 2019 – 350,000) RSUs outstanding with a grant date fair value of CAD $2,742,208 based on the stock prices at the time of grant. Each RSU, upon vesting, gives the holder the right to receive one common share. Unless otherwise approved by the Company's Board of Directors, all of the RSUs will vest upon the occurrence of a "change of control transaction", as such term is defined in the RSU award agreements. In the absence of a change of control transaction or other acceleration of vesting by the Company's Board of Directors, unvested RSUs will expire ten years from the date of grant. Vested RSUs will be settled, at the election of the Company, by way of: (i) issuance of common shares from treasury; (ii) payment to the RSU holder of an amount of cash equal to the market price of the common shares on the vesting date; or (iii) any combination thereof.

The Company recognizes compensation expense for the expected number of RSUs expected to vest over the vesting period. As of July 31, 2019, there are no contemplated transactions that would give rise to vesting; therefore, no compensation expense has been recognized.

Stock options

The Company has an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with Exchange requirements, grant to directors, officers, employees and technical consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. The number of common shares reserved for issuance pursuant to options granted to all technical consultants will not exceed 2% of the issued and outstanding common shares. The number of options granted to any one person cannot exceed 5% of the issued and outstanding common shares. Such options may be exercisable for a period of up to ten years from the date of grant. Vesting terms vary and will be determined at the time of grant by the Board of Directors.

Outstanding stock options and warrants

At July 31, 2019 and January 31, 2019, there were no options and warrants outstanding.

8. FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

Fair value

The carrying values of cash and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to its cash. The credit risk associated with cash is mitigated since the cash is held at major financial institutions with high credit ratings. At July 31, 2019 and January 31, 2019, the Company has no trade receivables, and therefore is no longer exposed to credit risk from these financial assets.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market prices. Market risk is comprised of three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company was exposed to interest rate risk on its credit facility whereby interest was based on LIBOR and its convertible notes, which had a fixed interest rate. During fiscal 2017, the Credit Facility was settled and the convertible notes were exchanged to interest-free notes, accordingly, the Company is no longer exposed to significant interest rate risk.

(ii) Foreign currency risk

Foreign currency risk is the risk that the future cash flow of financial instruments will fluctuate as a result of changes in foreign exchange rates. The Company's functional currency is CAD and its subsidiaries' functional currencies are CAD and USD. Transactions relating to its oil and gas properties are in USD. Therefore, the Company is impacted by changes in the exchange rate between Canadian and US dollars.

The assets and liabilities with exposure to foreign currency risk are those that are denominated in a different currency than the currency determined to the functional currency of the respective entity as of the end of the period.

The following assets and liabilities represent the Company's exposure to foreign currency risk:

8. FINANCIAL INSTRUMENTS (Continued)

		July 31, 2019		January 31, 2019
Cash	$	1,605,004	$	1,147,066
Accounts receivable		3,555		-
Accounts payable and accrued liabilities		(575,458)		(530,357)
Net	$	1,033,096	$	616,709

Based on the above net exposure as at, a 5% change in the Canadian/US exchange rate would impact the Company's net loss and comprehensive loss by approximately $51,655 (January 31, 2019 - $59,649).

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages liquidity risk through maintaining sufficient cash on hand to meet its obligations as they become due. As at July 31, 2019, the Company had cash of $1,605,004 (January 31, 2019 - $1,765,776), accounts receivable of $3,550 (January 31, 2019 - $3,819), and current liabilities of $575,458 (January 31, 2019 - $595,692). Current liabilities of $75,458 are due within three months of July 31, 2019. The remaining $500,000 balance relates to a contingent liability recorded for provision of the asserted liquidated damages (see Note 9).

The Convertible Notes of the Company (Note 6) represent a long-term debt obligation that will mature in 2021. The Company's business approach is focused on acquiring and managing assets to meet this obligation. There are; however, no assurances that the Company's plans will produce sufficient net revenues to pay out this debt.

The Company through its investment in BTLP, owns varying interests in oil and gas properties subject to joint operating agreements and other agreements, which provide, among other things, that the Company make advance payments from time to time to fund its share of estimated exploration and evaluation costs. The Company has working capital and available resources combined with future cash flow from operations will not be sufficient to fund its share of the agreed-upon estimated costs of proposed future development activities. As a consequence, the Company will have to secure new sources of capital, which is not assured, to maintain its interests in such proposed development and there is no assurance such capital could be obtained.

8. FINANCIAL INSTRUMENTS (Continued)

Classification of financial instruments

The following table sets forth the Company's financial assets and financial liabilities measured at fair value by level within the fair value hierarchy as at July 31, 2019.

	Level 1	Level 2	Level 3
Cash	$ 1,605,004	$ -	$ -
Convertible notes	(135,123)	-	-
	$ 1,469,881	$ -	$ -

The following table sets forth the Company's financial assets and financial liabilities measured at fair value by level within the fair value hierarchy as at January 31, 2019.

	Level 1	Level 2	Level 3
Cash	$ 1,765,776	$ -	$ -
Convertible notes	(270,329)	-	-
	$ 1,495,447	$ -	$ -

9. CAPITAL DISCLOSURES

The Company considers its capital under management to be shareholders' deficit and convertible notes. The Company's capital management objectives are to ensure the Company continues as a going concern, as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Board of Directors does not establish quantitative criteria for management, but rather relies on management expertise to sustain future development. Management will adjust the capital structure as necessary to achieve the objectives.

The Company's capital management strategy has not changed from January 31, 2019. As at July 31, 2019, the Company is not subject to any externally imposed capital requirements.

The Company has a commitment to make monthly rental payments pursuant to an office rental agreement in Vancouver, British Columbia expiring in June 2020. The lease requires total annual payments of CAD $58,875 per year.

Total rent expense net of sublease payments included in the consolidated statements of operations and comprehensive loss for the six months ended July 31, 2019 amounted to $6,870 (2018 - $19,428). At July 31, 2019, the Company had convertible notes outstanding in the face amount of CAD $35,532,000 that do not pay interest and are due April 2, 2021 (Note 6).

During March 2019, BTLP and its lessee amended the Farm-out Agreement with Shell. Under the amendment, BTLP is required to make at least $24 million in minimum expenditures on the lease during 2019 and spend the remaining commitment by December 31, 2020 or pay liquidated damages to the lessee in an amount not to exceed $5 million for 2019 and $3 million for 2020. The amended Farm-out Agreement includes specifications for certain expenditures. BTLP is also required to transfer 50% ownership interest in certain facilities including its pipeline facilities.

9. CAPITAL DISCLOSURES (Continued)

During April 2015, the Company entered into an agreement, through a wholly owned subsidiary, to earn a 75% working interest and a 52.5% net revenue interest, as to the Olmos formation only, in certain leases covering initially 640 gross mineral acres in LaSalle County, Texas. Under the terms of this agreement, the Company was required to commence drilling a well (paying 100% of the cost) on this acreage by late September 2015 or pay liquidated damages of $500,000. Due to the severe drop in commodity prices, the Company declared the agreement to be in a state of *force majeure* in accordance with the applicable terms of the agreement, effectively placing its obligations on hold until market conditions improve sufficiently to allow for economic development of the acreage. The farmor disputed this declaration and filed suit to enforce the liquidated damages clause of the agreement. In June 2016 the court upheld the farmor's motion for summary judgment against the wholly owned subsidiary. The Company has recorded a provision in the amount of the asserted liquidated damages of $500,000, included in accounts payable and accrued liabilities. The Company will continue to vigorously defend its position. The Company has appealed the court ruling including a counterclaim against the farmor for damages relating to breach of contract. The Company has filed affidavits with the courts as to the financial condition of the subsidiary which blocks any further attempts at collection on the judgement. The appeal and counter-claim processes are still pending in the court system.

10. RELATED PARTY TRANSACTIONS

Key management personnel include executive officers and directors of the Company. Compensation of the Company's key management personnel is comprised of the following:

	Six months ended July 31,	
	2019	**2018**
Short-term compensation	$ 29,396	$ 225,590
Recoveries from consulting and management services revenue	-	(69,856)
	$ 29,396	$ 183,734

The Company established a third party consulting practice to cover salaries for technical personnel in prior years which were curtailed in April 2018. . Prior to discontinuing this activity, the Company had recovered $69,856 in 2018. There were no offsetting recoveries in 2019.

Included in accounts payable and accrued liabilities as at July 31, 2019 are amounts payable to key management personnel totalling $4,149 (January 31, 2019 - $4,070).

At July 31, 2019, convertible notes held by key management personnel and their close family members totalled CAD $3,230,000 (January 31, 2019 - CAD $3,230,000). No interest was paid on these convertible notes in during the period ended July 31, 2019 and 2018.

All related party amounts included in accounts payable and accrued liabilities are due on demand.

11. SEGMENTED INFORMATION

The Company has one operating segment, which is the acquisition, exploration and development of oil and gas properties. Geographic segmentation of the Company's non-current assets comprise solely of assets held for sale located in USA of $4,668,469 at July 31, 2019 and $4,724,508 January 31, 2019.