

## **TERRANUEVA CORPORATION**

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The objective of this Management's Discussion and Analysis Report ("MD&A") released by Terranueva Corporation. Formlery Axe Exploration Inc., (the "Company" or "Terranueva") has been prepared by the management as at February 21, 2019 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three-month period ended December 31, 2018 and the accompanying notes as well as the audited financial statements for the year ended September 30, 2018 and the accompanying notes prepared under International Financial Reporting Standards ("IFRS"). Unless otherwise indicated, all amounts are expressed in Canadian dollars. Additional information about Terranueva is available on SEDAR ([www.sedar.com](http://www.sedar.com)) and the Company's website ([www.terraneuva.ca](http://www.terraneuva.ca)). This report was approved by the Board of Directors of the Company on February 21, 2019.

### **FORWARD-LOOKING STATEMENT**

Statements made in this report about Company or management objectives, forecasts, estimates, expectations, or predictions of the future may constitute "forward-looking statements", which can be identified by the use of conditional or future tenses or by the use of such verbs as "believe", "expect", "may", "will", "should", "estimate", "anticipate", "project", "plan", and words of similar import, including variations thereof and negative forms.

The management's report contains forward-looking statements that reflect, as of the management report date, the Company's expectations, estimates and projections about its operations, the cannabis industry and the economic environment in which it operates.

Statements in this report that are not supported by historical fact are forward-looking statements, meaning they involve risk, uncertainty and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, undue reliance should not be placed on these statements, which apply only at the time of writing of this report. The Company disclaims any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except to the extent required by securities legislation.

### **COMPANY OVERVIEW**

The Company was incorporated under the Canada Business Corporations Act. The Company intends to become a major producer of cannabis, for medical and recreational purposes. Terranueva Pharma Corporation based in Québec is wholly-owned by the Company.

Since December 17, 2018, Terranueva, a public company, is listed on the CSE under the symbol TEQ. The Company's head office is 255 Curé-Labelle, suite 204, Laval, Québec.

## HIGHLIGHTS

- The Company completed a consolidation of its common shares on a 16:1 basis with related adjustments to its outstanding purchase options;
- The Company changed its name from Axe Exploration Inc. to Terranueva Corporation;
- On December 14, 2018, Terranueva acquired all the outstanding common shares of Terranueva Pharma Corporation for a consideration of \$10,930,000 paid by the issuance of 21,860,000 common shares. For accounting purposes, the transaction is considered a reverse takeover of Terranueva by Terranueva Pharma Corporation;
- On the same day, Terranueva issued 4,620,000 units at a price of \$0.50 per unit. A unit is comprised of one common share and ½ warrant. A full warrant entitles the owner to buy one common share of the Company at a price of \$0.65 for a period of 18 months following the closing date;
- Application for the culture and transformation licence was submitted to Health Canada;
- Construction of the plant is completed.

## SELECTED FINANCIAL INFORMATION

	<b>Q1-2019</b>	<b>Q1-2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	\$	\$
Revenue	-	-
Net Loss and comprehensive loss	2,725,420	11,224
Loss per share (basic and diluted)	(0.09)	(0.12)
	<b>As at December</b>	<b>As at September</b>
	<b>31, 2018</b>	<b>30, 2018</b>
	<b>(unaudited)</b>	<b>(audited)</b>
	\$	\$
Total assets	7,229,536	4,680,574
Current liabilities	353,029	1,197,682
Non-current liabilities	3,604,913	3,891,237
Shareholders' equity (deficiency)	3,271,594	(408,345)

## REVERSE TAKEOVER

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 3,933,293 post-consolidation shares of the Corporation 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 ½ 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. The Corporation paid a finder fee of \$38,150 in connection with this private placement.

The Corporation acquired all of the common shares of Pharma for \$10,930,000 paid by the issuance of 21,860,000 common shares. 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 the Corporation. Consequently, the financial statements reflect only the assets, liabilities, operations and cash flows of Pharma for dates and periods prior to 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 acquisition has been accounted for as follows:

Consideration paid	\$
3,933,293 common shares presumed issued to existing shareholders of Corporation (1)	1,966,645
1,250,000 common shares issued as finder fees	625,000
400,000 options to purchase common shares deemed issued to existing Corporation's shareholders (2)	113,675
Transaction costs paid in cash	259,246
	<u>2,964,566</u>
Net assets of Corporation	589,223
Listing expenses	<u>2,375,343</u>

## RESULTS OF OPERATIONS

For the three-month period ended December 31, 2018, the net loss amounted to \$2,727,420 (\$0.09 per share) compared to \$11,224 in Q1-2018 (\$0.12 per share).

There was no revenue or production during Q1-2019 and Q1-2018.

For the three-month period ended December 31, 2018, expenses amounted to \$2,726,036 compared to \$11,224 for the comparative period. They included:

	Q1-2019 (unaudited)	Q1-2018 (unaudited)
Professional fees	\$119,677	\$2,400
Salaries	\$97,170	\$-
Depreciation and Amortization	\$15,605	\$-
General and administrative	\$26,895	\$8,784
Financial expenses	\$91,346	\$40
Listing expenses	\$2,375,343	\$-

Most expenses in Q1-2019 were in connection with obtaining the required licences to operate a cannabis business. Professional fees are comprised of audit fees, legal fees to incorporate the Company and the work towards starting its business and to the convertible debentures as well as management fees. Financial expenses include the interest on convertible debentures and bank fees. Listing expenses result from the reverse takeover transaction described above. In Q1-2018, expenses were mainly general and administrative expenses.

## **LIQUIDITY AND FINANCING SOURCES**

As at December 31, 2018, cash and cash equivalents totaled \$2,215,337 (\$1,002,942 as at September 30, 2018) and working capital amounted to \$3,332,951 (\$375,350 as at September 30, 2018).

Cash flows used in operating activities during the three-month period ended December 31, 2018, was \$397,398 (\$11,284 for Q1-2018). Cash flows used in investing activities was \$708,107 (\$- in Q1-2018) of which \$725,000 were advances and \$407,802 for property, plant and equipment. Cash flows provided by financing activities was \$2,317,900 provided mainly by the share issuance of \$2,310,000 (\$9 in Q1-2018) and debenture issuances for \$107,500 (\$100,000 in Q1-2018). Nominal value of \$1,466,666 of convertible debentures have been converted in shares.

Even though Terranueva has started to invest resources to develop a cannabis business for medical purposes, there is no guarantee that a production license will be delivered to the Company neither as when such a license will be delivered.

As of today, Terranueva has no revenue and is considered to be in a start-up mode. The Company's ability to continue as a going concern depends on its ability to realize its assets and to obtain additional financing. While it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

The condensed interim consolidated non audited financial statements do not reflect the adjustments to the carrying value of assets and liabilities, the reported amounts of revenues and expenses and the classification of statement of financial position items if the going concern assumption was deemed inappropriate, and these adjustments could be material. Management did not take these adjustments into account as it believes in the validity of the going concern assumption.

## **CAPITAL STRUCTURE**

The capital structure as at February 21, 2019, is as follows:

Common shares	32,396,625	(including 15,929,872 held in escrow)
Options	2,625,000	
Warrants	2,310,000	
Broker warrants	78,080	

## **OFF-BALANCE SHEET AGREEMENT**

There is no off-balance sheet agreement.

## **RELATED PARTY TRANSACTIONS**

For the three-month period ended December 31, 2018, management fees of \$4,963 (\$8,048 in Q1-2018) were paid to a company controlled by a director, money paid for services rendered as self-employed. An amount of \$113,720 (\$2,400 in Q1-2018) was paid to senior management and directors, either to companies controlled by them or directly to an individual. These transactions are in the normal course of operations and are measured at the exchange value and the amount of consideration established and agreed to by the related parties which approximates the arm's length equivalent value.

As at December 31, 2018, there is no amount payable to a related party.

## **BASIS OF PRESENTATION AND GOING CONCERN**

The unaudited condensed interim financial statements were prepared on a going concern basis.

The Company's ability to continue as a going concern depends on its ability to realize its assets and to obtain additional financing. While it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. The application of International Financial Reporting Standards ("IFRS") on a going concern basis may be inappropriate, since there is a doubt as to the appropriateness of the going concern assumption.

The unaudited condensed interim financial statements do not reflect the adjustments to the carrying value of assets and liabilities, the reported amounts of revenues and expenses and the classification of statement of financial position items if the going concern assumption was deemed inappropriate, and these adjustments could be material. Management did not take these adjustments into account as it believes in the validity of the going concern assumption.

## **RISKS AND UNCERTAINTIES**

There are numerous and various risks, known and unknown, that may prevent Terranueva from achieving its goals.

### **Liquidity Risk**

Liquidity risk is the risk that Terranueva will not have enough cash resources to meet its financial obligations as they come due. Terranueva liquidity and operating results may be adversely affected if Terranueva's access to the capital markets is hindered, whether because of a downturn in stock market conditions generally or related to matters specific to Terranueva. Until it will have its first sale, Terranueva generates all its cash flow from its financing activities. Terranueva's approach to managing liquidity risk is to ensure that it will have enough liquidity to meet liabilities when due. As at December 31, 2018, Terranueva had working capital of \$3,332,951.

### **Facility is not Licensed**

Terranueva's ability to cultivate, store and sell medical or recreational cannabis in Canada is dependent on Licenses, granted by Health Canada and a CRA Licenses to be granted by the Canada Revenue Agency. Terranueva has applied to become a Licensed Producer for the facility. Terranueva has not yet received a License for the Facility. However, Terranueva is currently in the Detailed Review and Initiation of the Security Clearance Process stage of the licensing process. There can be no assurance that Terranueva will obtain such a License for the Facility.

### **Reliance on Licenses**

Failure to comply with the requirements of any License or CRA License, once obtained by, or transferred to, Terranueva, or any failure to maintain any License or a CRA License would have a material adverse impact on the business, financial condition and operating results of Terranueva. Although Terranueva believes it will meet the requirements to obtain the License and the CRA License, there can be no guarantee that Health Canada will grant the Licenses or approve their transfer or that the Canada Revenue Agency will grant a CRA License or approve its transfer. Should Health Canada not grant any License or its transfer or should it grant the License on different terms or should the Canada Revenue Agency not grant a CRA License, the business, financial condition and results of the operation of Terranueva would be materially and adversely affected.

### **Reliance on the Facility**

To date, Terranueva's activities and resources have been primarily focused on its proposed unlicensed Facility located in L'Assomption, Québec. Adverse changes or developments affecting this facility may have a material and adverse effect on Terranueva's ability to produce medical cannabis, business, financial condition and prospects.

### Licensing Requirements

The market for cannabis (including medical marijuana) in Canada is regulated by the applicable Cannabis Laws. Health Canada is the primary regulator of the industry. The applicable Cannabis Laws aims to treat cannabis like any other narcotic used for medical purposes by creating conditions for a new commercial industry that is responsible for its production and distribution.

Any applicant seeking to become a Licensed Producer is subject to stringent Health Canada licensing requirements.

### Facility Lease Risk

The Facility is located on property that is not owned by Terranueva. Such property is subject to a long-term Lease and similar arrangements in which the underlying land is owned by a third party and leased to Terranueva with rights to buy back. Under the terms of a typical lease, the lessee must pay rent for the use of the land and is generally responsible for all costs and expenses associated with the building and improvements. Unless the Lease term is extended, the land, together with all improvements made, will revert to the owner of the land upon the expiration of the Lease term. In addition, an event of default by Terranueva under the terms of the Lease could also result in a loss of the property should the default not be rectified in a reasonable period. The reversion or loss of such properties could have a material adverse effect on Terranueva's operations and results.

### Limited Operating History

Terranueva anticipates entering the medical cannabis business. Terranueva's Facility's application to become a Licensed Producer under the former legal regime was submitted to Health Canada before October 17, 2018. Terranueva is therefore subject to many of the risks common to early-stage enterprises, including limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that Terranueva will be successful in achieving a return on its shareholders' investments and the likelihood of success must be considered considering its early stage of operations.

These risks may include:

- risks that it may not have enough capital to achieve its growth strategy;
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements;
- risks that its growth strategy may not be successful;
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

### Management of Growth

Terranueva may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Terranueva to manage growth effectively will require continued implementation and improvement of its operational and financial systems and to expand, train and manage its employee base. The inability of Terranueva to deal with growth may have a material adverse effect on its business, financial condition, results of operations and prospects.

### Reliance on Management

The success of Terranueva is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements and incentive programs are customarily used as primary methods of retaining the services of key employees, these agreements and incentive programs cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Terranueva's business, operating results or financial condition.

### Conflicts of Interest

Terranueva may be subject to various potential conflicts of interest because some of its officers and directors may be engaged in a range of business activities. In addition, Terranueva's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to Terranueva, as applicable. External business interests may require significant time and attention of

Terranueva's executive officers and directors. In some cases, executive officers and directors may have fiduciary obligations associated with external business interests that may interfere with their abilities to devote time to Terranueva's business and affairs, as applicable, and this could adversely affect Terranueva's operations.

In addition, Terranueva may also become involved in transactions that conflict with the interests of its respective directors and the officers, who may from time to time deal with persons, firms, institutions or corporations with which Terranueva may be dealing, or which may be seeking investments like those desired by it. The interests of these persons, firms, institutions or corporations could conflict with those of Terranueva. In addition, from time to time, these persons, firms, institutions or corporations may be competing with Terranueva for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under the applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of Terranueva's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with the applicable laws, the directors of Terranueva are required to act honestly, in good faith and in the best interests of Terranueva.

#### Litigation

Terranueva may become party to litigation from time to time in the ordinary course of its business which could adversely affect its operations. Should any litigation in which Terranueva becomes involved be determined against it, such a decision may adversely affect Terranueva's ability to continue operating and use significant resources. Even if Terranueva is involved in litigation and succeeds, litigation can redirect significant company resources. Litigation may also create a negative perception of Terranueva brand, and ultimately the Corporation's brand.

#### Regulatory Risks

Terranueva operates in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements. Terranueva's ability to grow, store and sell medical cannabis in Canada with respect to the Facility is dependent on obtaining the License from Health Canada and a CRA License and the need to maintain them in good standing. Failure to: (i) comply with applicable requirements; and (ii) maintain the Licenses and a CRA License would have a material adverse impact on the business, financial condition and operating results of .

Terranueva will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of our operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Terranueva's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of Terranueva.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the Terranueva's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Terranueva's earnings and could make future capital investments or the Terranueva's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

#### Product Liability

As a manufacturer and distributor of products designed to be ingested or inhaled by humans, Terranueva faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of products involve the risk of injury or loss to consumers due to tampering by unauthorized third parties, product contamination, unauthorized use by consumers or other third parties. Previously unknown adverse reactions resulting from human consumption of Terranueva's products alone or in combination with other medications or substances could occur. Terranueva may be subject to various product liability claims, including, among others, that Terranueva's products caused injury,

illness or loss, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Terranueva could result in increased costs, adversely affect Terranueva's reputation with its respective clients and consumers generally, and adversely affect the results of operations and financial conditions of Terranueva.

#### Product Recalls

Manufacturers and distributors of products may be subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of Terranueva's products are recalled due to an alleged product defect or for any other reason, Terranueva could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Terranueva may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention.

#### Operating Risk and Insurance Coverage

Terranueva has insurance to protect its assets, operations and employees. While Terranueva believes its insurance coverage addresses all material risks to which they are exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which Terranueva is exposed. However, Terranueva may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Terranueva might also become subject to liability for pollution or other hazards which may not be insured against or which Terranueva may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Terranuevato incur significant costs that could have a material adverse effect upon Terranueva's financial performance and results of operations.

### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION**

The unaudited condensed interim consolidated financial statements for the three-month period ended December 31, 2018 and other financial information contained in this MD&A are the responsibility of the Company's management and have been approved by the Board of Directors on February 21, 2019.

(s) Pierre Ayotte  
Chief Executive Officer

(s) Pierre Monet  
Chief Financial Officer