MANAGEMENT'S DISCUSSION AND ANALYSIS

The objective of this Management's Discussion and Analysis Report ("MD&A") released by Terranueva Corporation, formerly Axe Exploration Inc., (the "Company" or "Terranueva") has been prepared by the management as of August 27, 2019 and should be read in conjunction with the unaudited interim[PM1] consolidated financial statements for the three and nine months period ended June 30, 2019 and the accompanying notes as well as the audited financial statements for the year ended September 30, 2018 and the accompanying notes. The financial statements have been 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) and the Company's website (www.terranueva.ca). This report was approved by the Board of Directors of the Company on August 27, 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.

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.

COMPANY OVERVIEW

Terranueva was licensed by Health Canada to grow, process and sell (medical) under the new Cannabis Act regulations (the “Licences”) on February 22, 2019. This significant milestone was achieved just two months after the documents were submitted to Health Canada on time and on budget.

Obtaining these rights allows Terranueva to grow, process and sell seeds and plants to wholesalers, distributors supplying provincial and territorial cannabis retailers and individuals who have registered to obtain cannabis products for medical purposes (registered patients). To date, only three licensed producers hold these three licences in Quebec. Terranueva may engage in related activities such as possession, transportation, destruction, research and development, and the sale of cannabis in bulk to other federal licensees.

The target market is estimated at $7 billion in 2021. Chronic pain, migraines, sleeping disorders and anxiety account for over 80% of the Canadian cannabis market (medical and recreational).

Cannabis production began at the end of March in the Certification, Research and Development Unit (UCRD). The products will be developed according to the highest standards of quality, productivity and homogeneity thanks to best practices of cultivation in the UCRD which is equipped with clean rooms.

Under the letter of intent with the Société québécois du cannabis (SQDC), Terranueva will supply the SQDC with recreational cannabis for distribution and sale in the province of Quebec. Under the terms of the agreement, Terranueva will supply up to 128 kg of products, or more than 90% of the projected 2019 production from its UCRD. Six different products from two strains are planned.

STRATEGY

Terranueva is well on its way to completing Phase 2 of its business plan to design and build the first modular production units on its 130,000 square-foot property. Construction of the first modular production unit is expected to begin by the end of 2019.

The Corporation aims to produce strains that target the main motivations of consumers. As such, Terranueva wants to become the production leader of the medical market in Quebec. To achieve this, research and development is an important driver for Terranueva. A significant percentage of sales will be allocated to it. This research will be carried out in collaboration with experts in the field to innovate and improve the supply of value.

Production and management processes will be efficient and modern. Intelligent modular production units (“IMPU”) will be implemented with automation and digitization. A detailed traceability of each gram produced and sold will be available

HIGHLIGHTS

- Corporation completed its first harvest in its Certification, Research and Development (“UCRD”) unit;
- Terranueva has signed a letter of intent with the SQDC (Société québécoise du cannabis) under which it will supply recreational cannabis to the SQDC for distribution and sale in the province of Quebec;
- Terranueva has initiated engineering for the construction of its modular production unit (“MPU”);
- Corporation continued its development plan by securing purchase options on land with an area of more than 280,000 square feet adjacent to its UCRD and on the building adjacent to the UCRD as well as a 30,000 square feet adjacent land to this building;

SELECTED FINANCIAL INFORMATION

	Q3-2019 (unaudited) $	Q3-2018 (unaudited) $
Revenue	-	-
Net Loss and comprehensive loss	625,790	105,657
Loss per share (basic and diluted)	(0.02)	(0.01)
	As at June 30, 2019 (unaudited) $	**As at September 30, 2018 (audited) $**
Total assets	6,341,780	4,680,574
Current liabilities	401,568	1,197,682
Non-current liabilities	3,229,423	3,891,237
Shareholders' equity (deficiency)	2,710,789	(408,345)

QUARTERLY RESULTS

	2019			2018		
	Q3	Q2	Q1	Q3	Q2	Q1
	$	$	$	$	$	$
Income	-	-	-	-	-	-
Net loss	625,790	869,185	2,725,420	105,657	80,614	11,224
Loss per share, basic and	(0.02)	(0.03)	(0.09)	(0.01)	(0.01)	(0.12)

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 a 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 shared deemed issued to existing Corporation's shareholders (2)	113,675
Transaction costs paid in cash	259,246
	2,964,566
Net assets of Corporation	589,223
Listing expenses	2,375,343

RESULTS OF OPERATIONS

Cost of production

The cost of production includes the direct and indirect costs of the materials as well as the related labour of the products sold. The variation in the value of biological assets represents the change in the fair value of plants during the growing period net of expected costs for completion and sale. It is based on certain estimates made by management.

The cost of production for the quarter and the nine-months period ended June 30, 2019 were $120,286 and were nil for Q3-2018.

Fair value variation of biologicals assets were $19,963.

Expenses

	Q3-2019 (unaudited)	Q3-2018 (unaudited)
Professional fees	$109,997	$70,562
Salaries	$228,470	$-
Amortization of rights of use	$15,127	$-
Depreciation and Amortization	$478	$-
General and administrative	$79,518	$34,935
Financial expenses	$76,729	$160
Total	$630,605	$105,657

Professional fees are comprised of legal fees audit and management fees.

There were no salaries in Q3-2018

General and administrative expenses include the company's general expenses such as insurance, office, communications, investor relations, supplies and IT. The increase is due to a rise in the company's level of operations in 2019.

Financial expenses included interest on convertible debentures and bank fees.

BIOLOGICALS ASSETS-Fair value adjustment

As at June 30 2019, the variation of the net value of the biologicals assets were as follow:

	June 30, 2019 $	**September 30, 2018 $**
Opening net book value	-	-
Production costs capitalized	25,994	-
Net increase in fair value due to biological transformation less cost to sell	16,963	-
Closing net book value	45,957	-

As at June 30, 2019, the fair value of biological assets included $479 in seeds and $45,478 in cannabis plants (nil in 2018). The significant estimates used in determining the fair value of cannabis plants are as follows:

- yield by plant;
- stage of growth estimated as the percentage of costs incurred as a percentage of total cost as applied to the estimated total fair value per gram (less fulfilment costs) to arrive at an in-process fair value for estimated biological assets, which have not yet been harvested;
- percentage of costs incurred for each stage of plant growth.
- fair value selling price per gram less cost to complete and cost to sell.
- destruction/wastage of plants during the harvesting and processing process

All biological assets are classified as current assets in the statement of financial position and are considered Level 3 fair value estimates. As at June 30, 2019, it is expected that the Company's biological assets will yield approximately 45 kilograms of cannabis (nil in 2018). The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the fair values of biological assets.

The valuation of biological assets is based on an income approach in which the fair value at the point of harvesting is estimated based on selling prices less the costs to sell. For in process biological assets, the fair value at point of harvest is adjusted based on the stage of growth at period end. Stage of growth is determined by reference to the cost incurred as a percentage of total cost as applied to estimated total fair value per gram (less fulfilment costs) to arrive at an in-process fair value for estimated biological assets, which have not yet been harvested.

Management's identified significant unobservable inputs, their range of values and sensitivity analysis are presented in the tables below. The following table summarizes the unobservable inputs for the period ended June 30, 2019:

Unobservable inputs	Input values	Sensitivity analysis
Average selling price Obtained through actual retail prices on a per strain basis.	$4 per dried gram	An increase or decrease of 5% applied to the average selling price would result in a change of approximately $9,160 $ to the valuation.
Yield per plant Obtained through historical harvest cycle results on a per strain basis.	92 to 184 grams per plant.	An increase or decrease of 5% applied to the average yield per plant would result in a change up to approximately $9,160 in valuation
Stage of growth Obtained through the estimates of stage of completion within the harvest cycle.	Average of 80 % completion.	An increase or decrease of 5% applied to the average stage of growth per plant would result in a change of approximately $11,335 in valuation.
Wastage Obtained through the estimates of wastage within the cultivation and production cycle.	3 %- 30 % dependent upon the stage within the harvest cycle.	An increase or decrease of 5% applied to the wastage expectation would result in a change of approximately $9,160 in valuation.

As this is the first harvest of the Company, there is no unobservable data for 2018.

LIQUIDITY AND FINANCING SOURCES

Current

As at June 30, 2019, cash and cash equivalents totaled $1,121,219 ($1,002,942 as at September 30, 2018) and working capital amounted to $2,087,487 ($375,350 as at September 30, 2018).

Interest-free advances and maturities amounted to $1,061,491 as at June 30, 2019 ($500,000 as at September 30, 2018). Biologicals assets amounted to $45,957 (nil as at Sepember 30,2018).Sale taxes recoverable totalled $208,512 compared to $66,310 as of September 30, 2018.

Construction in progress and assets

Construction in progress and property, plant and equipment were $313,695 and $692,316 respectively at June 30, 2019 ($214,444 and nil respectively at September 30, 2018).

Rights of use

The rights of use amounted to $2,846,717 as of June 30, 2019 ($2,892,098 as of September 30, 2018).

Liabilities

Current liabilities were $401,568 at June 30, 2019 ($1,197,682 at September 30, 2018). The reduction is mainly due to the conversion of debentures into common shares.

Lease obligation amounted to $2,923,765 as of June 30, 2019 compared to $2,938,222 at September 30, 2019.

Debentures were $305,658$ at June 30, 2019 compared to $953,015. The reduction is mainly due to the conversion of debenture during the nine months period.

Equity

At June 30, 2019, equity amounted to $2,710,789 compared to a shortfall of $408,345 at September 30, 2018. The increase comes from:

	$
Issuance of shares	7,131,736
Stock-base compensation	245,000
Loss and comprensive loss of the period	- 4, 779,622
Others	113,675
	2,710,789

LIQUIDITY AND SOURCES OF FUNDING

Liquidity

To date, Terranueva has no revenue and is considered in start-up mode. The Corporation's ability to sustain its operations depends on the realization of its assets and the provision of new funds.Despite the fact that it has managed in the past to obtain the necessary funds and expects capital financing in the future, there is no guarantee of success in the future.

These financial statements do not take into account adjustments that should be made to the carrying amount of assets and liabilities, the amounts presented for income and expenses and the classification of items in the Statement of Financial Position if the business continuity assumption was not substantiated, and these adjustments could be significant.Management did not consider these adjustments because it believes in the business continuity assumption.

Cashflow

Cash used in operating activities amounted to $496,949 compared to $105,657 in Q3-2018.For the nine-months period ended on June 30, 2019, cash flows from operating activities amounted $4,260,003 compared to $197,496 for the corresponding period. The increase is due to an increase in the company's level of operations in 2019.

Cash flows from investment activities are $188,533 in Q3-2019 (nil in Q3-2018). They were used for the acquisition of property, plant and equipment.

For the period of nine-months ended on June 30, 2019, the cash flow from investment activities amounted to $844,977 (nil for the corresponding period). They were for the acquisition of Property, plant and equipment ($748,181), obtain advances of $561,491 and $424,695 acquired from the acquisition of Axe Exploration Inc.

During Q3-2019, cash flows used for financing activities of $21,499 for the lease obligation ($67,499) and the issuance of common shares provided for $6,400. During Q3-2018, the cash flows related to financing activities amounted to $600,000 came from the issuance of debentures.

For the nine-months period ended June 30, 2019, cash flow from financing activities amounted to $2,506,549 ($700,009 for the corresponding period) . They came from the issuance of common shares ($2,356,000) and the issuance fees of $39,600, right exercise ($278,743), convertibles debentures($66,627) and $155,221 were for lease obligations. For the corresponding period, $700,000 came from the issuance of convertibles debentures.

CAPITAL STRUCTURE

The capital structure as at August 27, 2019, is as follows:

Common shares	32,844,961	(including 13,274,898 held in escrow)
Options	2,625,000	
Warrants	2,310,000	
Broker warrants	65,280	

Fiducie Castillo, Francisco Perez Junior and GMTN Inc. jointly hold 39% of the outstanding common shares.

OFF-BALANCE SHEET AGREEMENT

There is no off-balance sheet agreement.

CONTRACTUAL OBLIGATION

Terranueva holds user rights on land and real property held under a long-term lease under which Corporation has call options that can be exercised at any time. Under this contractual obligation, the expected minimum annual payments over the next five years are as follows:

2019	$135,000
2020	$270,000
2021	$270,000
2022	$270,000
2023	$290,000

RELATED PARTY TRANSACTIONS

	Q3 June 30,2019 $	**Q3 June 30,2018 $**	**Q2 March 31, 2019 $**	**Q2 March 31, 2018 $**	**Q1 December 31, 2018 $**	**Q1 December 31, 2018 $**
Salaries & fees	154,985	70,562	135,780	42,176	113,720	2,400
General administrative expenses	-	5,050	-	22,194	4,963	8,048

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 June 30,2019 and as at June 30,2018 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.

COMPLIANCE WITH IFRS

The summary interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards in effect as of June 30, 2019.

MODIFICATIONS IN THE ACCOUNTING METHODS

BIOLOGICALS ASSETS

The Company measures biological assets consisting of cannabis plants using the income approach at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, depreciation, overhead, stock-based compensation of applicable employees, quality and testing costs. The identified capitalized direct and indirect costs of biological assets are subsequently recorded within the line item 'costs of goods sold' on the statement of loss and comprehensive loss in the period that the related product is sold. Seeds are measured at fair value. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations and presented on a separate line of statement of comprehensive loss of the related period.

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 June 30, 2019, Terranueva had working capital of $2,087,487.

Facility does not have a Licensed for recreational sales.
The facility is in the process to obtain a license for recreational sales.Terranueva's ability to sell recreational cannabis in Canada is dependent on a License granted by Health Canada and a License to be granted by the Canada Revenue Agency for the excise tax. There can be no assurance that Terranueva will obtain such Licenses.

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 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.

Competition

Some competitors migh have access to more significant financial resources than 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.

OUTLOOK

Terranueva has harvested its first two crops and hosted a first official inspection by Health Canada . We are awaiting their report of the Health Canada and are in the process of correcting findings verbally reported during the inspection. We are awaiting the independent laboratory report on the crops.

As mentioned in the previous quarter, Terranueva has started detailed engineering for the construction of the first modular production unit (MPU) . We expect construction will start this autumn. This scalable approach helps to manage the risks of industrialization and ensures optimization of production costs. Terranueva aims for an accelerated deployment of large-scale production to meet the needs of a growing cannabis market. Terranueva estimates that its production capacity will exceed 21 metric tons per year of dried cannabis when the site is built to capacity.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The unaudited condensed interim consolidated financial statements for the three-month period ended June 30, 2019 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 August 27, 2019.

(s) Pierre Ayotte	(s) Pierre Monet
Chief Executive Officer	Chief Financial Officer