TERRACE GLOBAL INC.

Management's Discussion and Analysis
(MD&A)

FOR THE YEAR ENDED DECEMBER 31, 2019
AND
THE PERIOD FROM AUGUST 28, 2018 (INCEPTION DATE) TO DECEMBER 31, 2018

(Expressed in Canadian Dollars)

April 29, 2020

TERRACE

Introduction

References in this document to the "**Company**" or "**Terrace**" are intended to mean Terrace Global Inc. and its subsidiaries Oransur (as defined herein), Pharmabinoide (as defined herein), and Terra Nova (as defined herein), or Terrace Global Inc., unless the context requires otherwise.

The following management's discussion and analysis ("**MD&A**") of performance, financial condition and future prospects should be read in conjunction with our annual audited consolidated financial statements and notes thereto for the year ended December 31, 2019. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations of the IFRS Interpretations Committee ("**IFRIC**"). All dollar amounts in this MD&A are expressed in Canadian dollars ("$") unless otherwise specified. This MD&A is provided as of April 29, 2020.

For the purposes of preparing this MD&A, management, in conjunction with the board of directors of the Company (the "**Board**"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity. This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 - *Continuous Disclosure Obligations* ("**NI 51-102**") of the Canadian Securities Administrators. Additional information regarding Terrace is available on our website at www.terraceglobal.ca or through the Company's SEDAR profile available at www.sedar.com.

Cautionary Statement on Forward Looking Statements

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. In particular, this MD&A contains forward-looking statements, short term objectives, potential acquisitions and strategic relationships, obtaining regulatory approvals and licenses to operate the business, ability to raise funds, acquisition of land and buildings, design and build out of required facilities, development of branding strategies, cultivation and harvest of cannabis and/or hemp, development of additional product lines and acquisition of required inventory.

Although the Company believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, except where required by applicable securities laws.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, which include:

- The Company's actual financial position and results of operations may differ materially from the expectations of the Company's management;
- The Company expects to incur significant ongoing costs and obligations relating to its investment in infrastructure, growth, regulatory compliance and operations;
- There are factors which may prevent the Company from the realization of growth targets;
- The Company is reliant on licenses to cultivate cannabis and/or hemp products in Uruguay, Spain and Portugal;
- Renewal or issuance of the Company's licenses is not guaranteed;
- The Company is subject to changes in Canadian, Uruguayan, Spanish and Portuguese laws, regulations and guidelines which could adversely affect the Company's future business, financial condition and results of operations;
- The Company's business plan involves a number of strategic partnerships. If these partnerships do not materialize, the Company may be unable to sell its products;
- There is no assurance that the Company will turn a profit or generate immediate revenues;
- The Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business;
- The Company may be unable to adequately protect its proprietary and intellectual property rights;
- The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights;
- The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations and financial condition;
- The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates;
- The Company faces competition from other companies where it will conduct business that may have a higher capitalization, more experienced management or may be more mature as a business;
- If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market;
- There is no assurance that the Company will obtain and retain any relevant licenses;
- Failure to successfully integrate acquired businesses, its products and other assets into the Company, or if integrated, failure to further the Company's business strategy, may result in the Company's inability to realize any benefit from such acquisition;
- The size of the Company's target market is difficult to quantify and investors will be reliant on their own estimates on the accuracy of market data;
- The Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition;

- The Company may continue to sell shares for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders;
- The Company currently has insurance coverage; however, because the Company operates within the cannabis industry, there are additional difficulties and complexities associated with such insurance coverage;
- The cultivation of cannabis and/or hemp includes risks inherent in an agricultural business including the risk of crop loss, sudden changes in environmental conditions, equipment failure, product recalls and others;
- The cultivation of cannabis and/or hemp involves a reliance on third party transportation which could result in supply delays, reliability of delivery and other related risks;
- The Company may be subject to product recalls for product defects self-imposed or imposed by regulators;
- The Company is reliant on key inputs, such as water and utilities, and any interruption of these services could have a material adverse effect on the Company's finances and operation results;
- The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company;
- The Company will be reliant on information technology systems and may be subject to damaging cyber-attacks;
- The Company may be subject to breaches of security at its facilities, or in respect of electronic documents and data storage, and may face risks related to breaches of applicable privacy laws;
- The Company's officers and directors may be engaged in a range of business activities resulting in conflicts of interest;
- In certain circumstances, the Company's reputation could be damaged;
- Enforcement of cannabis laws in the jurisdictions in which the Company operates may change;
- The cannabis industry is a new industry that may not succeed and the market for cannabis could decline due to regulatory changes;
- Regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital;
- The impact of the novel corona virus ("**COVID-19**") on the Company's operations, supply chains, customer demand and interactions with counterparties, as well as governmental responses in the jurisdictions in which the Company operates;
- The Company may have difficulty accessing the service of banks and processing credit card payments in the future, which may make it difficult for the Company to operate;
- The Company is subject to uncertainty regarding legal and regulatory status and changes;
- The Company does not anticipate paying cash dividends; and
- There is no guarantee on the use of available funds by the Company.

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in those forward-looking statements.

Except as may be expressly required by applicable law, the Company does not undertake any obligation to update publicly or revise any such forward looking statements, whether as a result of new information, future events or otherwise.

For a discussion of the risks faced by the Company, please refer to the Company's Final Long Form Prospectus dated November 7, 2019 available under the Company profile on SEDAR, at www.sedar.com.

Company Overview

Terrace Global Inc., formerly known as Apolo II Acquisition Corp. ("**Apolo**"), is a Canadian publicly listed company focused on the development and acquisition of international cannabis assets, with a focus on federally legal jurisdictions. The Company's existing asset platform consists of: (1) a 33.75% indirect equity interest in Faises, S.A. ("**Faises**"), one of the currently two recreational cannabis operations in Uruguay; (2) 100% of Oransur, S.A. ("**Oransur**"), a Uruguayan company producing high CBD hemp in Uruguay; (3) 100% of Terra Nova Produção e Comercialização de Produtos Natuis e Farmacêuticos, Lda ("**Terra Nova**"), a Portuguese company with a pre-license issued by INFARMED for the cultivation, importation, and exportation of medical cannabis in Portugal; and (4) 100% of Pharmabinoide S.L. ("**Pharmabinoide**"), a Spanish company producing and commercializing hemp in Spain.

Apolo was incorporated as a capital pool company ("**CPC**") as defined in Policy 2.4 of the TSX Venture Exchange (the "**Exchange**"). The principal business of Apolo as a CPC was to identify and evaluate assets or businesses with a view to completing an acquisition (the "**Qualifying Transaction**"). On November 14, 2019, Apolo completed the Qualifying Transaction with Terrace Inc. Terrace Inc. was a Canadian private entity incorporated on August 28, 2018 which held the interests in Oransur, Terra Nova, and Pharmabinoide. Pursuant to the terms of the Qualifying Transaction, Apolo acquired all the issued and outstanding shares of Terrace Inc. from its former shareholders, in exchange for the same number of newly issued common shares of Apolo. Immediately prior to the closing of the Qualifying Transaction, Apolo consolidated its shares on a 2.5-for-one basis and changed its name to Terrace Global Inc. Concurrent with the completion of the Qualifying Transaction, the Company also completed a private placement for aggregate gross proceeds of $17 million at a price of $0.50 per subscription receipt (the "**Subsequent Receipt Financing**").

The shares of the Company began trading on the Exchange on November 18, 2019 under the symbol "TRCE".

Corporate Highlights

- **Subscription Receipt Financing.** On November 14, 2019, the Company completed the Subscription Receipt Financing concurrent with the Qualifying Transaction, culminating in the issuance of 34,000,000 common shares at $0.50 per share for gross proceeds of $17,000,000. A total of $1,108,339 in share issuance costs were incurred, primarily consisting of broker commissions and professional fees. With the completion of the Subscript Receipt Financing, the Company is fully funded for the medical cannabis facility it is currently designing in Palmela, Portugal.

- **Cash balance of approximately $17 million.** As at December 31, 2019, the Company had a cash balance of approximately $17 million and net working capital of approximately $15 million.

- **Hemp harvest in Spain.** During the third quarter of 2019, Pharmabinoide successfully completed its second outdoor hemp harvest in Jaen, Spain. Pharmabiniode planted approximately 20 hectares of European certified hemp genetics in April 2019, which resulted in approximately 30 tonnes of biomass for extraction.

  On March 4, 2020, Pharmabinoide entered into a non-binding letter of intent (the "**LOI**") with Pharma Life Now S.L. ("**Pharma Life**") for the purchase and sale of up to 30 tonnes of hemp biomass for extraction at a price of €2.00 per kilogram per % of CBD. Given the current mandatory lock-down in Spain of non-essential services, the parties are in discussions with respect to completing the terms of the LOI.

- **Hemp cultivation in Uruguay.** During the fourth quarter of 2019 Oransur planted four varieties of hemp outdoors in Uruguay, including two high-CBD strains – Cherry Wine (10% CBD) and Cherry Blossom (15% CBD) in accordance with Good Agricultural and Collection Practices (GACP). These high-CBD strains were grown as seedlings and ultimately planted outdoors producing approximately 750 kilograms of high CBD biomass for extraction. The high CBD-strains results produced germination rates of between 88% and 95%, respectively. Oransur was also able to produce approximately 500 kilograms of high-CBD seeds which are in the process of being sold in the international markets pursuant to applicable import/export regulations.

- **President and Chief Operating Officer.** In February 2020, the Company appointed Stephen Lermer to the position of President and Chief Operating Officer. Mr. Lermer joined the Company to lead and manage the Company's international operations, including the build-out of its cultivation and processing facilities in Uruguay and Portugal. Previous to joining Terrace Global, Stephen was the Chief Operating Officer of Charlotte's Web Holdings Inc. (TSX: CWEB), one of the most prominent CBD producers in the United States.

COVID-19 Response

In response to the COVID-19 crisis, the board of directors of the Company has been monitoring the operations of the Company in Uruguay, Spain and Portugal with a view to ensuring the safety of all of the Company's personnel as well as maintaining the strength of the Company's balance sheet. The Company has suspended all non-essential operations and will continue to monitor the global outlook and continues to expect to break ground later this year on its medical cannabis greenhouse facilities in Portugal subject to applicable municipal and regulatory approvals. To date, the Company's operations have not been materially affected by the pandemic.

The Company is in communications with the municipalities in which it operates to determine how it can assist with the procurement of personal protective equipment ("**PPE**"). The Company expects to be in a position to provide certain PPE to the municipalities of Palmela and Constancia, Portugal, later this month as a way to support local front-line workers.

Selected Financial Information

(Expressed in Canadian dollars, except per share amounts)	2019 $	2018 $
Cash	16,768,460	2,726,741
Other current assets	1,094,059	470,235
Non-current assets	2,136,650	449,360
Total assets	**19,999,169**	**3,646,336**
Current liabilities	2,886,278	789,513
Non-current liabilities	234,573	—
Total liabilities	**3,120,851**	**789,513**
Shareholders' equity	**16,878,318**	**2,856,823**
Changes in fair value of biological assets	71,457	—
Production costs	(232,707)	—
Gross margin	**(161,250)**	**—**
Total expenses	(8,331,404)	(453,402)
Net loss	**(8,492,654)**	**(453,402)**
Basic and diluted loss per share	(0.07)	(0.00)

Total Assets and Liabilities

Total cash increased to $16,768,460 as at December 31, 2019 from $2,726,741 at the end of 2018. The increase in cash was contributed by the proceeds from the Subsequent Receipt Financing and the cash acquired from Apolo upon closing of the Qualifying Transaction, with both transactions occurring on November 14, 2019 (refer to "Corporate Overview" above).

Other current assets increased from $470,235 at the end of 2018 to $1,094,059 at December 31, 2019, primarily due to increases in VAT and other receivables.

Non-current assets increased to $2,136,650 at December 31, 2019 from $449,360 at the end of 2018, resulting from the recognition of intangible assets and goodwill totaling $1,629,618, and additions to property and equipment during the year.

Current liabilities increased to $2,886,278 at December 31, 2019 from $789,513 at the end of 2018 primarily due to increases in accounts payable and referral commission payable. Accounts payable increased from $49,221 at the end of 2018 to $1,235,068 at the end of 2019 as a result of increased operating activities and accounts payable related to professional fees incurred for the Qualifying Transaction and Subsequent Receipt Financing, which were paid subsequent to December 31, 2019. In February 2019, the Company recognized a referral commission expense in the amount of $909,380 related to the acquisition of Pharmabinoide (refer to "Business Acquisitions" below). $751,260 of the referral commission remains outstanding as at December 31, 2019; the Company is in discussion with Taskmaster regarding the settlement of this amount.

Non-current liabilities amounted to $219,333 compared with $Nil at the end of 2018. The increase in non-current liabilities was due to higher lease obligations of $87,558 and deferred tax liability of $131,775.

Results of Operations

	Q4 2019 $	Q4 2018 $	Full year 2019 $	August 28 to September 30, 2018 $
Changes in fair value of biological assets	—	—	71,457	—
Production costs	(164,654)	—	(232,707)	—
Gross margin	**(164,654)**	**—**	**(161,250)**	**—**
Expenses				
Pre-operational agricultural costs	319,098	83,970	486,412	105,478
Impairment	1,067,607	—	1,067,607	—
Listing expenses	2,724,158	—	2,724,158	—
Professional fees	8,536	102,416	1,051,159	102,906
Management and advisory fees	571,692	197,970	925,435	197,970
Referral commision	—	—	909,380	—
Other general and administrative	576,082	41,451	1,167,253	47,048
Income tax	—	—	—	—
Net loss	**(5,431,827)**	**(425,807)**	**(8,492,654)**	**(453,402)**

Changes in fair value of biological assets and production costs

Change in fair value of biological assets for the year ended December 31, 2019 was $71,457, compared with $Nil for period ended December 31, 2018. The biological assets related to the hemp that were planted in Spain in early 2019 and harvested in the third quarter of 2019, resulting in approximately 30 tonnes of hemp biomass for extraction. The fair value of the biological assets at the point of harvest was determined based on the expected selling price of the products and the expected total costs that will be required to be incurred to bring the hemp to final finished form.

Production costs for the fourth quarter and full year 2019 were $164,654 and $232,707 respectively, compared to $Nil for the fourth quarter 2018 and the period from inception to December 31, 2018. Costs related to cultivation prior to harvest are expensed as production costs. Post-harvest costs, such as trimming, drying, and other processing costs are capitalized to inventory as incurred. The production costs for the fourth quarter of 2019 include a charge for inventory provision of $204,633 due to the net realizable amount of hemp inventory at year end being lower than the carrying amount, offset by a gain of $39,979 arising from the derecognition of the provision for onerous contract related to a supply agreement.

Production costs for the year ended December 31, 2019 include the inventory provision and gain on reversal of provision for onerous contract as described above, and the hemp cultivation costs incurred in Spain prior to the harvest in the third quarter of 2019.

Pre-operational agricultural costs

Pre-operational agricultural costs for the fourth quarter and full year 2019 amounted to $319,098 and $486,412 respectively, compared with $83,970 for the fourth quarter 2018 and $105,478 for the period from inception to December 31, 2018. Pre-operational agricultural costs relate to the growing costs incurred by Oransur, as the cultivation activities in Uruguay are considered experimental in nature. The higher pre-operational agricultural costs incurred in the fourth quarter and full year 2019 compared with the same periods in 2018 are due to higher level of activities in 2019 (refer to *Corporate Highlights* for a description of the hemp cultivated in Uruguay).

Impairment

Impairment charge for the fourth quarter and full year 2019 was $1,067,607, compared with $Nil for the corresponding periods in 2018. As at December 31, 2019, the Company determined that the decline in market prices for hemp and the overall decrease in market capitalization of peer companies engaged in cannabis cultivation were indications that the recoverable amount of the Company's non-financial assets may be lower than the carrying amount. As a result, the Company has performed tests of impairment at the level of the Company's cash generating units ("CGUs"), being Uruguay, Spain and Portugal, and determined that the recoverable amounts of the Uruguay CGU and the Spain CGU were lower than their respective carrying amounts. As such, the Company has recorded the following impairment as at December 31, 2019: 1) $260,562 against property and equipment; 2) $55,740 against right-of-use assets; and 3) $751,305 against goodwill.

Listing expense

A total of $2,724,158 in listing expense was recognized in the fourth quarter of 2019 compared with $Nil for 2018. Listing expense includes the costs incurred with respect to the Qualifying Transaction, including: 1) $1,912,506 representing the excess of the fair value of common shares, share purchase warrants, and stock options issued to the previous shareholders of Apolo over the cash acquired from Apolo; and 2) professional fees of $811,653 consisting primarily of legal, audit, and accounting fees.

Professional fees

For the fourth quarter and full year 2019, the Company incurred professional fees of $8,536 and $1,067,607 respectively, compared with $102,416 and $102,906 in the corresponding periods in 2018. The increase in professional fees was due to higher legal and other fees incurred in 2019 relating to business development and other corporate activities, as well as fees expensed by Terra Nova and Pharmabinoide which were acquired in 2019.

Management and advisory

Management and advisory expenses were $571,692 and $925,435 for the fourth quarter and full year 2019 respectively, compared with $197,970 both the fourth quarter of 2018 and the period from August 28 to December 31, 2018. Management and advisory expenses related to remuneration for the Company's management and operating personnel and fees for the international advisors. Management and advisory expenses were higher in 2019 due to the short reporting period in 2018 and the growth in international operations.

Referral commission

Referral commission for the year ended December 31, 2019 related to the finder fee payable to Taskmaster in relation to the acquisition of Pharmabinoide (refer to "Business Acquisitions" below). As at December 31, 2019, the amount payable is $751,260 (€500,000). Taskmaster has informally agreed to defer the payment of the balance outstanding without any penalty, and the Company is negotiating the settlement of this amount.

Other general and administrative (G&A) expenses

	Q4 2019 $	Q4 2018 $	Full year 2019 $	August 28 to September 30, 2018 $
Shareholder services	60,936	—	97,235	—
Consulting fees	179,165	—	179,165	—
Selling and marketing	78,031	—	211,891	—
Insurance expense	29,613	5,178	57,782	5,178
Travel expenses	195,310	38,553	389,233	38,553
Office rent	8,548	(3,357)	46,753	—
Depreciation expense	5,961	—	11,466	—
General and office expense	4,016	1,382	143,704	3,622
Net finance expense	14,502	(305)	30,024	(305)
Total other G&A expenses	**576,082**	**41,451**	**1,167,253**	**47,048**

Total other G&A expenses for the fourth quarter and full year 2019 were $576,082 and $1,167,253 respectively, compared with $41,451 and $47,048 for the corresponding periods in 2018. The increase in other G&A expenses was primarily attributable to higher marketing and travel expenses due to the growth of the Company internationally, and increased corporate administrative activities as a result of the completion of Qualify Transaction and the Company becoming a publicly listed entity.

Income tax

The Company's effective tax rate differs significantly from the statutory rate of 26.50% due to the fact that the tax benefit associated with the Company's operating losses have not been recognized as at December 31, 2019. Refer to Note 14 of the consolidated financial statements for the year ended December 31, 2019 for a reconciliation between the expected tax recovery at the statutory rate and the actual tax recovery recorded.

Summarized Quarterly Financial Information

	Q4 2019 $	Q3 2019 $	Q2 2019 $	Q1 2019 $	Q4 2018 $	August 28 to September 30, 2018 $
Changes in fair value of biological assets	—	6,994	64,463	—	—	—
Production costs	(164,654)	1,559	(69,612)	—	—	—
Gross margin	**(164,654)**	**8,553**	**(5,149)**	**—**	**—**	**—**
Total expenses	(5,267,173)	(1,173,062)	(437,958)	(1,453,211)	(425,807)	(27,595)
Net loss	**(5,431,827)**	**(1,164,509)**	**(443,107)**	**(1,453,211)**	**(425,807)**	**(27,595)**
Basic and diluted loss per share	(0.04)	(0.01)	(0.00)	(0.01)	(0.00)	(0.00)

Business Acquisitions

Terra Nova

On May 17, 2019, Terrace entered into a share purchase agreement with an entity owned and controlled by a director and shareholder of Terrace for the acquisition of all the issued and outstanding quotas of Terra Nova in exchange for the issuance of 5,000,000 common shares in the capital of Terrace at a then recent private placement price of $0.25 per share.

The acquisition was accounted for as a business combination, as the operations of Terra Nova met the definition of a business. No transaction costs were incurred and expensed as a result of the acquisition. The Company has finalized the allocation of the purchase price for the acquisition of Terra Nova and the fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

	$
Consideration transferred	
Issuance of common shares (5,000,000)	**1,250,000**
Assets acquired and liabilities assumed	
Cash	5,881
Advances to suppliers	1,812
Other receivables	11,758
Right-of-use assets	119,687
Intangible asset	653,800
Accrued and other liabilities	(106,560)
Due to related party	(145,088)
Lease liability	(120,092)
Deferred tax liability	(147,015)
	274,182
Goodwill	975,818
Total net assets acquired	**1,250,000**

The intangible asset represents the fair value of the pre-approval obtained from INFARMED concerning the construction of the greenhouse facility and outdoor cultivation. The goodwill resulting from the allocation of the purchase price to the total fair value of net assets represented the expected future growth potential of Terra Nova. None of the goodwill recognized is expected to be deductible for income tax purposes.

Pharmabinoide

On February 11, 2019, the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares in the capital of Pharmabinoide. The acquisition cost for the transaction was $636,760 (€ 400,000) which was paid upon closing.

On February 12, 2019, the Company entered into a Finder Fee Agreement with Taskmaster Corp. ("**Taskmaster**") whereby Taskmaster pursuant to which Taskmaster is entitled to a finder fee for introducing the Company to Pharmabinoide of $909,380 (€ 600,000), of which $156,100 (€ 100,000) was paid upon the closing of the share purchase agreement. As at December 31, 2019, included in accounts payable, are amounts due to Taskmaster of $751,260 (€ 500,000) payable at the earlier of the closing of the Qualifying Transaction (Note 6a) and six months from the date of Finder Fee Agreement. The amount is overdue as at the date of this report, however, Taskmaster has informally agreed to defer the receipt of the payment of the outstanding balance without any penalty and the Company is negotiating the settlement of this amount.

The acquisition was accounted for as a business combination, as the operations of Pharmabinoide met the definition of a business. As the transaction was accounted for as a business combination, the transaction cost related to the finder fee of $909,380 was expensed. The Company has finalized the allocation of the purchase price for the acquisition of Pharmabinoide and the fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

	$
Consideration transferred	
Cash consideration (€400,000)	**636,760**
Assets acquired and liabilities assumed	
Cash	8,295
Other receivables	36,049
Advance payment to suppliers	217,497
Inventory	42,075
Equipment	3,444
Right-of-use assets	53,920
Other asset	1,949
Advances from customers	(316,100)
Accrued and other liabilities	(42,108)
Lease liability	(57,673)
Provisions	(61,893)
Deferred tax liability	—
	(114,545)
Goodwill	751,305
Total net assets acquired	**636,760**

The goodwill resulting from the allocation of the purchase price to the total fair value of net assets represented the future growth potential of Pharmabinoide at the time of the acquisition. None of the of the goodwill recognized is expected to be deductible for income tax purposes.

Liquidity and Capital Resources

The Company defines capital to include its shareholders' equity, which totaled $16,893,558 as of December 31, 2019. The Company's principal objectives in managing capital are: (i) to ensure there is sufficient liquidity to fund its operations and capital projects; (ii) to be flexible to take advantage of opportunities that are expected to provide satisfactory returns; (iii) to maintain a strong capital base to ensure access to debt and capital markets on an as-needed basis; (iv) to provide an adequate rate of return to its shareholders.

The Company is currently focused on allocating its capital towards countries where regulatory approvals are more imminent. As a result, Portuguese operations are in the process of expanding with cultivation facilities. The Company has not committed to any capital expenditures as of the date of this report. See "Risk Factors" below and "Caution Regarding Forward-Looking Statements" above.

As at December 31, 2019, the Company has not yet achieved profitable operations and had a net loss of $8,477,414. The Company had cash of $16,768,460 and a net working capital balance of $14,976,241 at December 31, 2019. With the cash balance at the end of 2019, the Company has sufficient liquidity to continue operations for at least the next twelve months, satisfy all commitments and repay its liabilities arising from normal business operations as they become due.

Share Capital

As of the date hereof, the Company has 167,340,956 common shares, 954,200 share purchase warrants, and 776,000 stock options outstanding. Refer to the annual consolidated financial statements for the year ended December 31, 2019 for the changes to the issued and outstanding common shares, warrants, and stock options during the year.

Risk Factors

Due to the nature of the Company's business, the legal and economic climate in which it operates and its present stage of development, the Company is subject to significant risks. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the business and operations. Factors that could cause actual results to differ materially from those set forth in forward-looking information include, but are not limited to: financial risks; inflationary risks; foreign exchange risks; international taxation risks; the Company's ability to obtain or maintain insurance at reasonable rates; product development, facility and technological risks; agricultural risks; changes to applicable laws or regulations; ability to obtain or maintain licences or certifications; product recall and product liability risks; import, export and transportation risks; expected number of medical cannabis users and the willingness of physicians to prescribe medical cannabis to patients in the markets in which the Company operates; ability to access financing on commercially attractive terms. For a discussion of the risks faced by the Company, please refer to the Company's Final Long Form Prospectus dated November 7, 2019 available under the Company profile on SEDAR, at www.sedar.com.

Off-Balance Sheet Arrangements

The entities have no off-balance sheet arrangements as at the date of this report.

Related Party Transactions

"**Related parties**" are defined as management, directors, and principal shareholders of the Company and/or members of their immediate family and/or other companies and/or entities in which a principal shareholder, director or senior officer is a principal owner or senior executive. For the year ended December 31, 2019, $690,049 of fees were incurred for advisory and consulting services provided by certain directors and officers of the Company (2018: $23,170). As of December 31, 2019, $393,537 of the fees were outstanding and included in accounts payable (December 31, 2018: $18,642).

The Company entered into a Call Option Agreement on August 30, 2018, as amended on June 28, 2019, with Inception Investment Corp. ("**Inception**") for 100% of the equity interest in Oransur and 33.75% of equity interest in Faises held by Inception. Inception is a company wholly owned by an officer who is also a director and shareholder of the Company. On November 28, 2019, the Company exercised the option to acquire all the issued and outstanding shares of Oransur under the Call Option Agreement; the exercise price of $5,000 payable to Inception was outstanding as at December 31, 2019 and included in accounts payable.

In connection with the Call Option Agreement, the Company had entered into a secured loan agreement for up to $4,500,000 with Inception as the borrower (the "**Inception Loan**") to fund the operations of Oransur. Subsequent to the completion of the Qualifying Transaction and the exercise of the call option on the shares of Oransur by the Company, the balance due under the Inception Loan as at December 31, 2019, being $1,470,051 (US$1,131,853), was fully set off against the balance due to Inception from Oransur.

As at December 31, 2019, $140,023 were due by the Company's subsidiary Terra Nova to an entity owned and controlled by an officer who is also a director and shareholder of the Company. These advances are short term, unsecured, interest free and repayable on demand and were used to fund the start-up operations of Terra Nova.

Critical Accounting Estimates, Assumptions and Judgements

The critical judgment and estimates applied in the preparation of the Company's consolidated financial statements are disclosed in Note 3.13 to the consolidated financial statements for the year ended December 31, 2019. They include judgement and estimated applied in determining the following:

- Income taxes;
- Consolidation and controlled entities; and
- Impairment of non-financial assets.

Adoption of New IFRS Standards in 2019

<u>IFRS 16: Leases</u>

Effective in the first quarter of 2019, the Company adopted IFRS 16 issued in January 2016 and related consequential amendments. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company transitioned to IFRS 16 in accordance with the modified retrospective approach, with the cumulative effect of initially applying the new standard recognized in retained earnings on January 1, 2019. The prior year figures were not adjusted.

Controls and Procedures

Evaluation of disclosure controls and procedures:

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting ("**ICFR**") as defined under National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**"). At December 31, 2019, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

The Corporation's Chief Executive Officer and Chief Financial Officer are responsible for designing and maintaining internal controls over financial reporting as defined under NI 52-109. At December 31, 2019, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these internal controls and procedures was effective in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") in Internal Control – Integrated Framework.

The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the period ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect the Corporation's ICFR. No such changes were identified through their evaluation.

Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The board of directors of the Company mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash and cash equivalents. The cash consist mainly of checking and operating accounts. The Company does not have significant credit risk with respect to customers.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

Market Risk

Currency Risk

The operating results and financial position of the Company are reported in Canadian dollars. Some of the Company's affiliates financial transactions are denominated in currencies other than the Canadian dollar. The results of the Company's operations are subject to currency transaction and translation risks.

The Company has no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company does not have significant exposure to interest rate risk.