

GTEC

— CANNABIS CO. —

July 29, 2020

Management's Discussion & Analysis

For the Three and Six
Month Period Ended
May 31, 2020

(Expressed in Canadian Dollars)



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Introduction

This Management's Discussion and Analysis ("MD&A") dated July 29, 2020 should be read in conjunction with the condensed interim consolidated financial statements (the "Interim Financial Statements") of GTEC Holdings Ltd. (the "Company" or "GTEC") for the three and six months ended May 31, 2020 ("second quarter of 2020" or "Q2 2020") and the audited consolidated financial statements for the year ended November 30, 2019 (the "Annual Financial Statements"), including the accompanying notes thereto.

Financial data in this MD&A is based on the Interim Financial Statements of the Company for the three and six months ended May 31, 2020, is expressed in thousands of Canadian dollars ("C\$"), except for share and per share calculations, references to \$ millions, per gram ("g") or kilogram ("kg") of dried flower, and is prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), unless otherwise stated.

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.

Cautionary Statement Regarding Forward-Looking Information

Inherent in forward-looking statements involve known and unknown risks, and factors may include, but are not limited to: unavailability of financing, changes in government regulation, general economic condition, general business conditions, limited time being devoted to business by directors, escalating professional fees, escalating transaction costs, competition, fluctuation in foreign exchange rates, competition, stock market volatility, unanticipated operating events and liabilities inherent in industry.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such factors include, but are not limited to: general business, economic, competitive, political and social uncertainties; delay or failure to receive board, shareholder or regulatory approvals, where applicable and the state of the capital markets. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. For instance and among other things, the risk that the COVID-19 pandemic may disrupt the Company's operations and those of the Company's suppliers and distribution channels and negatively impact the use of the Company's products; and there can be no assurance that the Company will sustain its growth trajectory; that the Company will maintain adequate capital resources and liquidity, including but not limited to, availability of sufficient cash flow, to execute the Company's business plan (either within the expected timeframe or at all); or assurances regarding potential effects of judicial or other proceedings on the Company's business, financial condition, results of operations and cash flows; volatility in and/or degradation of general economic, market, industry or business conditions; compliance with applicable environmental, economic, health and safety, energy and other policies and regulations and in particular health concerns with respect to the use of cannabis; the anticipated effects of actions of third parties such as competitors, activist investors or federal, provincial, territorial or local regulatory authorities, self-regulatory organizations, plaintiffs in litigation or persons threatening litigation; changes in regulatory requirements in relation to the Company's business and products. Forward-looking information contained herein is made as of the date of this MD&A and, other than as required by law, the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Readers are cautioned that the foregoing list of important factors and assumptions is not exhaustive. Accordingly, readers should not place undue reliance on forward-looking information.

The global pandemic related to an outbreak of the novel coronavirus disease ("COVID-19") has cast uncertainty on each of these assumptions. There can be no assurance that they continue to be valid. Given the rapid pace of change, it is premature to make further assumptions about these matters. The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on our business is not known at this time. These impacts could include, amongst others, an impact on our ability to obtain debt or equity financing, increased credit risk on receivables, impairment of investments, impairments in the value of our long-lived assets, or potential future decreases in revenue or profitability of our ongoing operations. See "Risk Factors".

Forward-looking statements are not guarantees of future performance. Events or circumstances could cause the Company's actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information or future events or otherwise, except as may be required under applicable laws. The forward-looking statements contained herein are based on information available as of July 29, 2020.

Company Overview

GTEC Holdings Ltd. (“GTEC”, “the Company”) is a consolidated entity under the laws of the province of British Columbia with the principal business activity in pursuing opportunities in the Canadian cannabis industry. The Company is a publicly traded company listed on the TSX Venture Exchange (“TSXV”) under the symbol “GTEC”. The Company’s head office is located in Kelowna, British Columbia.

Key Financial Highlights of the Second Quarter of 2020

- Revenue of \$1.5 million for the second quarter of 2020 compared to \$2.4 million in the previous first quarter of 2020, representing a decrease of 36%, from the sale of 183 kilograms (“KG”) of cannabis. This decrease was a result of the Company experiencing packaging bottlenecks as it shifted its focus to consumer packaged goods (“CPG”). The Company is confident that these packaging bottlenecks have now been substantially resolved. For the comparative second quarter of 2019, revenue was \$109,000.
- Gross margin before fair value adjustments was \$873,000 (net of excise tax), or 70% for the second quarter of 2020 compared to \$965,000 in the previous first quarter of 2020, or 41%. The comparative first quarter of 2019, gross margin was \$75,000, or 69%. The increase in gross margin was due to the Company transitioning to recreational CPG sales with a combined increase in the total weighted average selling price.
- Recreational cannabis sales accounted for 83% of total sales during the second quarter of 2020, compared to 50% of total sales in the previous first quarter of 2020.
- Overall weighted average selling price increased by 25% or \$1.59 to \$7.83 per gram (with recreational cannabis average being \$9.01) compared to the first quarter of 2020 being \$6.24 per gram. For the comparative second quarter of 2019, the overall weighted average selling price was \$5.85 per gram.
- Cash cost of production decreased 28% or \$0.63 to \$1.59 compared to the first quarter of 2020 (excluding depreciation and amortization, packaging and freight). For the comparative second quarter of 2019, the cash cost of production was \$1.89 per gram.
- Production increased by 55% to 776 KG of cannabis compared to the first quarter of 2020. For the comparative second quarter of 2019, 118 KG of cannabis was produced.
- Operating expenses increased 21% for the second quarter of 2020 compared to the previous first quarter of 2020, as the Company had an increase in professional fees related to its annual audit, and due diligence costs related to financing initiatives. Operating expenses decreased by 52% compared to the comparative second quarter of 2019 (excluding non-cash items such as depreciation, amortization and share based payments).
- Net loss from operations for the second quarter of 2020 was \$197,000 compared to \$815,000 in the previous first quarter of 2020. The comparative second quarter of 2019 net loss from operations was \$1.8 million.
- Adjusted EBITDA for the second quarter of 2020 was negative \$406,000, compared to adjusted EBITDA of \$5,000 in the previous first quarter of 2020 and negative adjusted EBITDA of \$2.6 million in the comparative second quarter of 2019.

Key Operating Highlights of the Second Quarter of 2020

- During the second quarter of 2020, the Company focused on the adult-use recreational sales channel and continued to experience significant demand for its products from Provincial buyers. Accordingly, the Company was able to promptly sell the vast majority of its packaged cannabis output.
- The Company received a large purchase order from one of its Provincial buyers, which was only partially filled during the quarter, due to packaging bottlenecks and other measures implemented by the Company to mitigate the risks associated with the COVID-19 pandemic. The balance of this purchase order was fulfilled subsequent to the end of the quarter.
- Products launched during the second quarter of 2020 consisted of the following:
 - BLK MKT™ - Alien SinMint Cookies
 - Tenzo™ - Watermelon Mojito Zkittlez and Double Purple Pie
 - 7 gram format in both BLK MKT and Tenzo
- 3PL Ventures Inc. (“3PL”) is in the final stages of completing construction and is in the process of preparing the evidence package for a Standard Cultivation licence from Health Canada. The 3PL facility is a purpose-built indoor cultivation facility located in Vernon, B.C., and is approximately 60,000 sq. ft.

Key Subsequent Events of the Second Quarter of 2020

- Closed a non-brokered senior secured debt financing of \$3,950,000 with NFS Leasing Canada Ltd. Proceeds from the financing were used to repay MMCAP Canadian Fund LP, the existing senior secured convertible debenture.
- Secured five listings with the Ontario Cannabis Store (OCS), with the first purchase orders expected before the end of July 2020.
- Entered into a non-binding agreement to divest its last remaining retail asset for total proceeds of \$2 million.
- Established a partnership with a nursery licence holder to facilitate the launch of two strains of Pristine™ branded cannabis seeds.
- Tumbleweed Farms submitted an 'Application to Amend a Licence to Add Sale of Classes of Cannabis' to Health Canada in June in order to facilitate direct sales of dried cannabis to provincial liquor boards.
- Grey Bruce Farms submitted an 'Application to Amend a Licence to Add Sale of Classes of Cannabis' to Health Canada in July in order to facilitate direct sales of dried cannabis to provincial liquor boards.

Liquidity and Capital Resources

As at the date of this MD&A, the Company had a cash balance of approximately \$460,000. The Company previously reported that it had sufficient financial resources to fulfil all debt obligations due in the second half of fiscal 2020, without further equity financing or assuming additional debt obligations. However, cash flows from operations have been negatively impacted by longer receivable collection periods on revenue; as well as lower than anticipated production during the ramp up periods. As a result, the Company entered into a new senior secured debt financing in the amount of \$3,950,000 with NFS Leasing Canada Ltd. to repay its senior secured convertible debentures that matured on June 10, 2020.

As previously announced, the Company has taken a strategic review of non-core / non-operational assets in order to strengthen the balance sheet and reduce expenditures. As a result, the Company entered into a non-binding letter of intent with a party interested in purchasing 1203648 BC Ltd. The primary asset being a 4,000 square foot leased retail space. As at the date of this MD&A, the agreement is still in negotiations. Additionally, the Company has listed commercial real estate for sale of a commercial building and land, which is currently not being utilized by operations.

The Company had anticipated completing construction at Greentec Bio-Pharmaceuticals ("GBP") during the fourth quarter of 2019. However, after completing a financial and strategic review process, the Company has temporarily suspended construction, in order to conserve capital for other priorities. The Company has the flexibility to adjust its development schedules based on available cash flows and may further defer development if required.

The Company will continue to review its non-performing assets and investments; while exploring strategic opportunities with the objective to utilize its cash flow to re-invest in near term accretive assets.

Outlook and Strategy for the 2020 year

The Company's objective to produce, market and distribute premium quality indoor cannabis is being accomplished through the determination and execution of the GTEC team. The Company commenced with the development of five cultivation facilities across Canada, of which three are now licenced and operational.

The Company has three licensed facilities, with production and sales increasing quarter-over-quarter as its facilities operated by Grey Bruce Farms Incorporated ("Grey Bruce") and Tumbleweed Farms Corp. ("Tumbleweed") enter into full production. The Company is expecting a current annualized flower output of 4,000 kg ^(A) from the existing facilities.

The Company has divested various non-core / non-operational assets and continues to divest the remaining non-core assets to strengthen its balance sheet, while focusing the organization's resources on the cultivation of premium indoor flower and its derivatives, with the mandate to establish long-term brand equity and consumer loyalty by distributing premium quality cannabis products.

The Company's objective for the 2020 year is to achieve full production capacity utilization at its Alberta Craft Cannabis Inc. ("ACC"), Grey Bruce and Tumbleweed operations and to bring 3PL Ventures Inc. ("3PL") into production by the end of fiscal 2020 or early 2021.

Note (A): This estimate is consistent with historical output based on an output of 200 to 235 grams per square foot of canopy space on an annualized basis (or approximately two pounds per light each harvest).

Overview of Business

GTEC Holdings Ltd. is a specialized cannabis company which produces and distributes premium cannabis products in Canada. The Company has four licensed and operational assets and is currently distributing cannabis through medical and recreational sales channels.

GTEC's exclusive cultivar collection includes rare and unique phenotypes, which are not currently available from other Licenced Producers. GTEC's premium product portfolio includes; BLK MKT™, Tenzo™, GreenTec™, Cognöscente™ and Treehugger™.

The Company wholly owns operations in BC, Alberta and Ontario, and is licensed by Health Canada for the following: sales into recreational supply chains, direct sales to medical patients, bulk sales to other Licenced Producers, extraction, and analytical testing.

GTEC is a publicly traded corporation, listed on the TSX Venture Exchange (GTEC), OTCQB Venture Market (GGTTF) and Frankfurt Stock Exchange (1BUP). The Company's headquarters is based out of Kelowna, British Columbia.

Cultivation Facilities

	GTEC CONSOLIDATED	ACC	GREY BRUCE	TUMBLEWEED	GBP	3PL
Location	Canada	Alberta	Ontario	BC	BC	BC
Total Size (Sq ft)	119,000	14,000	15,000	10,000	20,000	60,000
Production Output (g)	12.1 million ¹	1.3 million	1.64 million	1 million	2.15 million	6 million
Est Completion		Complete	Complete	Complete	On hold	2020
Licence(s)		Cultivation, Processing, Sales (Medical)	Cultivation	Cultivation Processing, Sales (Medical)	-	-
Expansion Potential (Sq ft)	840,000	NIL	500,000	100,000	60,000	180,000

Note (1) Total production output from all operating facilities is 12.1 million grams. This estimate is consistent with historical output based on an output of 200 to 236 grams per square foot of canopy space on an annualized basis (or approximately two pounds per light each harvest). The Company's share of the total output is 9.03 million grams, due to the Company's 49% ownership in 3PL.

Alberta Craft Cannabis Inc. ("ACC")

Alberta Craft Cannabis Inc. received its updated license from Health Canada under the Cannabis Act, permitting business-to-Business ("B2B") cannabis sales on November 28, 2018. ACC received its Standard Processing License and Medical Sales License, issued by Health Canada on July 26, 2019. The Standard Processing License authorizes the sale of cannabis plants, cannabis plant seeds, fresh cannabis and dried cannabis products. The Medical Sales License authorizes the sale of cannabis for medical purposes. This provides ACC with the ability to sell into provincial recreational supply chains and facilitates direct sales to medical cannabis clients.

ACC has a fully built and operational 14,000 square foot cannabis production facility capable of producing 1.3 million grams of dried cannabis flower annually.

ACC is located in Edmonton, Alberta.

Grey Bruce Farms Incorporated (“Grey Bruce”)

Grey Bruce Farms Incorporated received its Standard Cultivation License pursuant to the *Cannabis Act and Regulations* by Health Canada on July 5, 2019. Grey Bruce has a fully built and operational 15,000 square foot cannabis production facility capable of producing 1.64 million grams of dried cannabis annually.

Grey Bruce is located in Kincardine, Ontario and the property sits on 6 acres of land with significant future expansion capabilities.

Subsequent to the period ended May 31, 2020, Grey Bruce Farms submitted an ‘*Application to Amend a Licence to Add Sale of Classes of Cannabis*’ to Health Canada, in order to facilitate direct sales of dried cannabis to provincial liquor boards.

Tumbleweed Farms Corp. (“Tumbleweed”)

Tumbleweed Farms Corp. received its Standard Cultivation, Standard Processing and Medical Sales Licenses, pursuant to the *Cannabis Act and Regulations* by Health Canada on August 16, 2019. Tumbleweed has a fully built and operational 10,000 square foot cannabis production facility which is currently producing approximately 1 million grams of dried cannabis flower annually. Tumbleweed is located in Chase, British Columbia and the property sits on 23 acres of land with significant future expansion capabilities.

Subsequent to the period ended May 31, 2020, on June 24, 2020 Tumbleweed submitted an ‘*Application to Amend a Licence to Add Sale of Classes of Cannabis*’ to Health Canada. The purpose of this request was to allow Tumbleweed sell packaged dried cannabis directly to provincial liquor boards. On July 8, 2020 Health Canada confirmed that Tumbleweed’s application had been received, screened, and moved to the review queue to be assigned to an officer.

GreenTec Bio-Pharmaceuticals Inc. (“GBP”)

The GBP facility has a total capacity of 80,000 square feet and will be developed in phases with the first phase of development to be 20,000 square feet (“GBP Phase One”). The facility is located in Kelowna, British Columbia and will serve as GTEC’s flagship cultivation facility. GBP Phase one is expected to produce 2.15 million grams of cannabis annually, and upon completing the facility expansion, can produce up to 10 million grams of cannabis annually.

The Company has spent \$3.8 million as at the period ended May 31, 2020.

Previously, the Company had anticipated completing the facility during the fourth quarter of 2019; however, after completing an extensive financial review, the Company has temporarily suspended construction, in order to conserve capital for other priorities. The Company has the flexibility to adjust its development schedules based on available cash flows and may further defer development if required.

3PL Ventures Inc. (“3PL”)

The Company is in a joint venture with 3PL Ventures Inc., a privately-owned corporation incorporated in British Columbia. The Company owns 49% of 3PL, which is in development to be a Licensed Producer, under Health Canada’s Cannabis Act, with a phase one 60,000 square foot building currently being retrofitted with room for significant expansion. 3PL is projected to produce 6 million grams of cannabis annually.

The facility is approximately 85% complete and is expected to be completed during the third and fourth quarter of 2020 and commence the licensing process. The Company is expected to spend \$1 million in the third or fourth quarter of 2020 upon completion of construction to earn its 49% share of production.

Lab and Extraction Facilities

Zenalytic Laboratories Ltd. (“Zen Labs”)

Zenalytic Laboratories Ltd. is a full-service chemical and microbiological diagnostics laboratory for soil, water, and cannabis. On July 13, 2018, Zen Labs received its Dealers License from Health Canada under the Narcotic Control Regulations. Additionally, on September 6, 2018, Zen Labs received approval from Health Canada to expand the scope of its license to include authorization to process cannabis flower into cannabis oil for the Company’s subsidiaries.

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Zen Labs conducts the following tests; Cannabinoids (THC, CBD, CBN, CBG); metals; residual solvents and terpenes; and Aflatoxins and Mycotoxin. Zen Labs utilizes the following equipment to test for the above-mentioned; HPLC (High Performance Liquid Chromatography); ICP-MS (Inductively Coupled Plasma Mass Spectrometry); GC-MS (Gas Chromatography-Mass Spectrometry); and LC-MS (Liquid Chromatography-Mass Spectrometry)

In addition to cannabis testing, Zen Labs will offer analytical testing services for non-cannabis clients. These packages can include, among other things, basic water quality testing, microbial testing, metals screening, agricultural contamination screening, organic contaminant testing, soil fertility testing, metals and heavy metals testing, and manure and compost testing.

Zen Labs was developed to be an internal on-demand resource for the Company; however, it also has the capabilities to offer commercialized services to other cannabis and non-cannabis related operations. Zen Labs is currently revenue generating.

Spectre Labs Inc. (“Spectre”)

Spectre Labs Inc. was originally intended to be a cannabis extraction and processing facility. This would have allowed the Company to create various value-added cannabis products, upon licensing.

Spectre Labs’ Acceptance of Application for a Controlled Drugs and Substances Dealer’s License was received by Health Canada on July 7, 2018 and accepted for review on July 17, 2018. The application is still pending with Health Canada.

As at the date of this MD&A, the previously disclosed contract of sale for commercial real estate had been terminated and the asset is recorded as assets held for sale, within the condensed interim consolidated financial statements.

Retail and Distribution

The Company has divested non-core / non-operational assets to strengthen its balance sheet, while focusing the organization’s resources on the cultivation and extraction of premium indoor flower and its derivatives, with the mandate to establish long-term brand equity and consumer loyalty by marketing its premium quality cannabis products.

Following a strategic review, management concluded that the Company cannot generate adequate risk-adjusted returns in its retail cannabis operations. Moreover, the Company does not believe that it can achieve sustainable competitive advantage in the retail cannabis space, competing against larger competitors with a stronger presence in this sector. Accordingly, management has divested its retail assets.

1203648 B.C. Ltd. – 100% Ownership

In May 2019, the Company completed its acquisition of 1203648 B.C. Ltd. for an aggregate purchase price of \$2,113,000. The primary asset of 1203648 B.C. Ltd. is a 4,000 square foot leased retail space, which was designed specifically for cannabis retail and located in an affluent and diverse neighborhood in Vancouver, B.C.

The Company has entered into a non-binding letter of intent with a party interested in purchasing 1203648 BC Ltd. As at the date of this MD&A, the agreement is still in negotiations and the lease asset and liability have been recorded as assets held for sale, within the condensed interim consolidated financial statements.

GreenTec Retail SK Inc. (“GTEC Sask”) - 75% Ownership

On November 29, 2019, the Company sold 100% of its interest in GreenTec Retail SK Inc. for total proceeds of \$365,000, of which \$66,700 was received in cash and \$298,300 was settled through the issuance of a promissory note receivable due on March 1, 2020.

During the period ended May 31, 2020, \$290,000 was received in full satisfaction of the promissory note and a corresponding adjustment was made to the final purchase price to account for working capital adjustments after the close of the sale.

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SELECTED FINANCIAL INFORMATION

Quarterly Trend Analysis

The following table presents financial information for the second quarter of 2020, compared to the previous first quarter of 2020 and the prior year comparative quarter of 2019.

	Q2 20	Q1 20	Change %	Q2 19	Change %
Revenue	\$ 1,507	\$ 2,354	-36%	\$ 109	1,283%
Excise taxes	(261)	(23)	-	-	-
Net Revenue	1,246	2,331	-47%	109	1,043%
Cost of sales	(373)	(1,366)	-73%	(34)	997%
Gross margin before fair value adjustments	873	965	-10%	75	1,064%
Unrealized loss on changes in fair value of biological assets	654	(122)		1,120	
Gross margin	1,527	843	81%	1,195	28%
Operation expenses					
Administration and general	223	149	50%	135	65%
Business fees and licenses	114	122	-7%	169	-33%
Consulting fees	-	-	-	574	-100%
Depreciation and amortization	199	216	-8%	29	586%
Depreciation, right-of-use	136	106	28%	-	-
Management fees	61	57	7%	320	-81%
Marketing and advertising	19	111	-83%	304	-94%
Professional fees	354	110	222%	254	39%
Salaries and wages	501	472	6%	781	-36%
Share based payments	110	275	-60%	313	-65%
Travel	7	40	-83%	120	-94%
	1,724	1,658	4%	2,999	-43%
Net loss from operations	\$ (197)	\$ (815)	76%	\$ (1,804)	89%

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Three Month and Fiscal Operating Results

The following table presents financial information for the three and six months ended May 31, 2020 compared to May 31, 2019.

	Three months ended May 31		Six months ended May 31	
	2020	2019	2020	2019
Revenue	\$ 1,507	\$ 109	\$ 3,862	\$ 202
Excise taxes	(261)	-	(284)	-
Net revenue	1,246	109	3,578	202
Cost of sales	373	34	1,739	63
Gross margin before fair value changes	873	75	1,839	139
Changes in fair value of biological assets	654	1,120	532	1,349
Gross margin	1,527	1,195	2,371	1,488
Operating expenses				
Administration and general	223	135	372	478
Business fees and licenses	114	169	237	192
Consulting fees	-	574	-	704
Depreciation and amortization	199	29	415	212
Depreciation, right-of-use asset	136	-	242	-
Management fees	61	320	118	450
Marketing and advertising	19	304	130	480
Professional fees	354	254	465	658
Salaries and wages	501	781	973	1,175
Share based payments	110	313	385	1,075
Travel	7	120	47	225
	1,724	2,999	3,384	5,649
Net loss from operations	(197)	(1,804)	(1,013)	(4,161)
Other income (expense)				
Equity loss on investment in associate	(76)	(190)	(164)	(225)
Financing costs	(87)	-	(156)	-
Interest and accretion	(418)	(322)	(743)	(634)
Loss on sale of asset	-	(1)	-	(109)
Gain on investments	-	-	261	-
Net loss before income tax	(778)	(2,317)	(1,815)	(5,129)
Deferred income tax	-	-	-	(54)
Net loss from continuing operations	(778)	(2,317)	(1,815)	(5,183)
Net loss from discontinued operations	-	-	(143)	-
Net loss and comprehensive loss	(778)	(2,317)	(1,958)	(5,183)
Net loss per common share				
Basic and fully diluted	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.05)

Revenue and Gross Margin

The Company recognized a gross margin before fair value adjustments of \$873,000, or 70% of net revenue for the second quarter of 2020 compared to \$965,000, or 41% for the first quarter of 2020. For the comparative second quarter of 2019, the Company recognized a gross margin before fair value adjustments of \$75,000, or 69% of net revenue. The increase in gross margin is due to the Company's increase in weighted average selling price.

During the three month period ended May 31, 2020, 183 KG of cannabis was sold at a weighted average selling price of \$7.83 per gram compared to a weighted average selling price of \$6.24 per gram during the previous first quarter of 2020. Of the total sales, 139 KG was sold into the recreational supply chain at a weighted average selling price of \$9.01 per gram and 44 KG was sold to wholesale customers or other licenced producers at a weighted average selling price of \$4.16 per gram.

Cost of Sales

During the three month period ended May 31, 2020, cost of sales decreased to \$2.03 per gram sold compared to \$3.49 in the previous quarter of 2020. The weighted average cash cost of production decreased to \$1.59 per gram (excluding depreciation and amortization, packaging and freight) compared to \$2.22 in the previous quarter of 2020. This decrease is primarily due to the increase in production and decrease in expenditures. Cannabis operations cost of sales are comprised of the purchase of materials, testing, packaging, freight, wages and salaries including benefits, and an allocation of other operating expenses including facility overhead and depreciation costs. For the comparative second quarter of 2019, cost of sales was \$1.89 per gram sold. The increase in cost of sales over the prior year comparative quarter is due to prior year sales only consisting of wholesale customers and other licenced producers, whereby various expenditures such as packaging, freight and wages and salaries of additional employees related to recreation cannabis sales were not incurred.

Operating Expenses

For the three month period ended May 31, 2020, operating and corporate expenses decreased by 52% over the comparative second quarter of 2019 (excluding depreciation, amortization and share based payments). Management has made significant efforts to decrease operating and corporate expenses in order to achieve profitability. The changes in operating expenses during the second quarter of 2020 over the comparative second quarter of 2019, details as follows:

- Administration and general increased by \$88,000 as the Company had additional administration expenses at the operating facilities that were not in operations in the prior year;
- Business fees and licences decreased by \$55,000 as the Company had reduced licensing and insurance requirements for its subsidiaries, as the prior year included various retail licensing fees;
- Consulting fees decreased by \$574,000 to \$nil due to the Company's discontinued reliance on third party consultants;
- Depreciation and amortization increased by \$170,000 as additional assets at operating facilities became available for use upon receiving licences;
- Depreciation, right-of-use asset increased by \$136,000 as the Company adopted IFRS 16, which resulted in the recognition of a right-of-use asset and corresponding depreciation over the term of the lease;
- Management fees decreased by \$259,000 due to the Company's continued increase in operational management positions, which are now included under salaries and wages;
- Corporate marketing and advertising expenses decreased by \$285,000 as the Company focused its efforts on production, sales and consumer marketing. Prior year expenses related to one-time corporate marketing initiatives;
- Professional fees increased by \$100,000 as the current period consisted of due diligence costs related to the financing, which closed subsequent to the period end, as well as, annual audit fees related to the audit of the year end financial statements;
- Salaries and wages decreased by \$280,000 due to facility salaries and wages being capitalized as part of inventory and cost of goods sold. The net effect of capitalizing facility salaries and wages was offset by an increase in the number of corporate head office salaried employees;
- Share based payments decreased by \$203,000 due to a decrease in stock-based compensation grants and payment; and
- Travel decreased by \$113,000 as the prior year expenses related to the operations team travelling between facilities during construction, as well as, certain travel related to M&A and related financings. As well, current period travel was substantially reduced due to travel restrictions around the global pandemic of COVID-19.

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Other Income and Expense

Other income and expenses were directly related to the Company's debt instruments and investments, as well as one-time non-reoccurring transactions, as follows:

- Equity loss on investment in associate, relates to the Company's 49% ownership over 3PL;
- Financing costs relates to the Company adopting IFRS 16, which resulted in the recognition of lease liabilities and corresponding interest expense (financing costs);
- Interest and accretion relate to the \$3.7 million Convertible Debenture and accrued interest on the \$2.5 million Convertible Debenture (see note 15 of the condensed interim consolidated financial statements for the period ended May 31, 2020);

Quarterly Results

The following table presents certain financial information for each of the previous nine quarters up to and including the quarter ended May 31, 2020. The information has been derived from the Company's unaudited condensed interim consolidated financial statements for each of the below quarters:

	Q2 20	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19	Q4 18	Q3 18	Q2 18
Revenue	\$ 1,507	\$ 2,354	\$ 1,149	\$ 1,031	\$ 109	\$ 93	\$ 58	\$ -	\$ -
Excise tax	(261)	(23)	(21)	-	-	-	-	-	-
Net Revenue	1,246	2,331	1,128	1,031	109	93	58	-	-
Cost of sales	373	1,366	838	392	34	68	42	-	-
Gross margin before fair value adjustments	873	965	290	639	75	25	16	-	-
Unrealized gain (loss) on changes in fair value of biological assets	654	(122)	(989)	(106)	1,120	520	(67)	228	-
Gross margin	1,527	843	(699)	533	1,195	545	(51)	228	-
Operating expenses	1,724	1,658	1,872	2,100	2,999	2,902	2,753	2,515	1,490
Net loss from operations	(197)	(815)	(2,571)	(1,567)	(1,804)	(2,357)	(2,804)	(2,287)	(1,490)
Other income (expense)	(581)	(222)	361	(687)	(513)	(455)	(2,906)	(191)	2
Net loss before income tax	(778)	(1,037)	(2,210)	(2,254)	(2,317)	(2,812)	(5,710)	(2,478)	(1,488)
Deferred income tax	-	-	74	-	-	(54)	2,414	-	-
Net loss from continuing operations	(778)	(1,037)	(2,136)	(2,254)	(2,317)	(2,866)	(3,296)	(2,478)	(1,488)

LIQUIDITY AND CAPITAL RESOURCES

The following table provides a summary of the Company's cash flows for the three and six months ended May 31, 2020 and May 31, 2019.

	Three months ended May 31		Six months ended May 31	
	2020	2019	2020	2019
Cash used in operating activities				
- Before changes in non-cash working capital items	\$ (113)	\$ (2,278)	\$ (133)	\$ (4,301)
- After changes in non-cash working capital items	319	(3,822)	(810)	(6,317)
Cash flows from / used for investing activities	232	(4,041)	14	(4,409)
Cash flows from / used in financing activities	(659)	5,724	(783)	12,041
Net cash (outflows) inflows	\$ (108)	\$ (2,139)	\$ (1,579)	\$ 1,315
Cash and cash equivalents balance	\$ 390	\$ 2,233	\$ 390	\$ 2,233

Management intends to finance operating costs over the next twelve months with current cash on hand, cash flow from operations, proceeds from the exercise of warrants and stock options, and potentially raising additional capital and/or entering into a financing. There is no assurance that the Company will be successful in raising additional capital or securing a financing on commercially reasonable terms or at all. See "Risks Factors".

Operating activities

Net cash received in operating activities for the three month period ended May 31, 2020, was \$319,000 as a result of the net loss recognized during the period, partially offset by non-cash expenses related to share based payments, depreciation and amortization, accretion and interest and other various non-cash items.

During the comparative period for the three months ended May 31, 2019, net cash used in operating activities was \$3,822,000, as a result of the net loss recognized during the period, partially offset by non-cash expenses related to share based payments, depreciation and amortization, accretion and interest and other various non-cash items.

The decrease in cash used in operating activities over the comparative period is related to the increase in revenues and decrease in operating expenses for the period ended May 31, 2020.

Investing activities

Net cash received in investing activities for the three month period ended May 31, 2020, was \$232,000 as a result of receiving a promissory note in the amount of \$290,000 from the sale of GTEC Sask. Cash used under investing activities was from the acquisition of property, plant and equipment in the amount of \$45,000 and \$13,000 paid in connection with milestone payments to the vendors of Grey Bruce. During the comparative three months ended May 31, 2019, the net cash used was \$4 million as a result of the acquisition of property, plant and equipment in the amount of \$2,431,000, promissory notes advanced of \$1,040,000, deposit of \$273,000 and cash paid in connection with milestone payments in the amount of \$298,000 (see Note 22 in the Condensed Interim Consolidated Financial Statements).

Financing activities

Net cash used in financing activities for the three month period ended May 31, 2020 was \$659,000 as a result of a \$500,000 payment towards the convertible debenture (see Note 15 in the Condensed Interim Consolidated Financial Statements), share issuance costs of \$2,000 and lease liability payments of \$157,000. During the comparative three months ended May 31, 2019, the net cash received from financing activities was \$5,727,000 as a result of proceeds received from the issuance of common shares for \$6,365,000, reimbursement from the exercise of options for \$51,000, proceeds from the exercise of warrants for \$50,000, share issuance costs of \$632,000 and payments of \$5,000 to a related party.

Capital recourses

The Company manages its capital structure and adjusts it based on the funds available to the Company in order to maintain operations. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as shareholders' equity. The Company has historically relied on the equity markets to fund its activities. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

ADJUSTED EBITDA (non-IFRS measure)

This is a non-IFRS measure and the Company calculated adjusted EBITDA from continuing operations as net income (loss) before interest expense, income taxes, depreciation and amortization, unrealized gain (loss) on changes in fair value of biological assets, equity loss on investment in associate, loss on sale of assets, investment loss, share based payments and certain one-time or non-operating expenses.

Management determined that the exclusion of the fair value adjustment is an alternative representation of performance. The fair value adjustment is a non-cash gain (loss) and is based on fair market value less cost to sell. The most directly comparable measure to adjusted EBITDA (excluding fair value adjustment to biological assets and inventory) calculated in accordance with IFRS is net income (loss) from continuing operations.

The following table provides a summary of the Company's adjusted EBITDA for the quarter ended May 31, 2020, compared to the previous first quarter of 2020 and the comparative quarter May 31, 2019.

	Q2 20	Q1 20	Q2 19
Net loss before income tax and discontinued operations	\$ (778)	\$ (1,037)	\$ (2,317)
Adjustments:			
Depreciation and amortization	199	317	29
Depreciation, right-of-use asset	136	106	-
Equity loss on investment in associate	76	88	190
Financing costs	87	70	-
(Gain) loss on sale of assets or investments	-	(261)	-
Interest and accretion	418	325	322
Share based payments	110	275	313
Unrealized (gain) loss on changes in fair value of biological assets	(654)	122	(1,120)
Unrealized loss on investments	-	-	-
Adjusted EBITDA	\$ (406)	\$ 5	\$ (2,583)

FINANCIAL POSITION

The following table provides a summary of the Company's financial position as at May 31, 2020 and May 31, 2019.

	2020	2019
Total assets	\$ 45,404	\$ 48,402
Total liabilities	10,536	7,642
Share capital	67,994	66,137
Deficit	(33,126)	(25,377)

PROPERTY, PLANT AND EQUIPMENT – SEGMENTED

The following table provides a summary of the Company's segmented property, plant and equipment as at May 31, 2020:

	ACC	Grey Bruce	Tumbleweed	GBP	Corporate	Laboratory	TOTAL
Land	-	195	160	19	1,452	-	1,826
Buildings	-	4,310	4,174	-	389	-	8,873
Growing & processing equipment	1,158	1,227	562	1,139	25	270	4,381
Other	637	21	41	-	130	34	863
Construction in process	-	-	-	2,590	-	-	2,590
Reclassification to Assets held for sale	-	-	-	-	(883)	-	(883)
	\$ 1,795	\$ 5,753	\$ 4,937	\$ 3,748	\$ 1,121	\$ 304	\$ 17,650

SHAREHOLDERS' EQUITY

As of the date of this MD&A, the Company has 137,918,926 common shares issued and outstanding; 35,583,392 share purchase warrants and 10,587,189 share options vested and exercisable into common shares.

Escrow shares

As at May 31, 2020, there were 18,570,048 common shares held in escrow. The following is a summary of escrow shares to be released:

Escrow release date	Escrow shares released (000's)	Balance (000's)
June 18, 2020	2,668	15,902
August 28, 2020	3,750	12,152
December 18, 2020	2,628	9,524
June 18, 2021	6,176	3,348

Of the common shares held in escrow summarized in the table above, as at May 31, 2020 there were:

- i. 1,719,167 common shares held in escrow pursuant to the share purchase agreement described in Note 5 of the consolidated financial statements for the year ended November 30, 2019, which will be released contingent upon the occurrence of future events. Subsequent to the period ended May 31, 2020, the Company cancelled and returned to treasury 1,719,167 common shares. The shares were cancelled pursuant to the terms of an escrow agreement entered into on the closing of the Acquisition of 1203648 B.C. Ltd.
- ii. 1,628,571 common shares held in escrow pursuant to an agreement with a consulting firm to facilitate the acquisition and cultivation of cannabis genetics, which will be released contingent upon the occurrence of future events.
- iii. 3,750,000 common shares held in escrow pursuant to the amended agreement with the vendors of Tumbleweed described in Note 22 of the condensed interim consolidated financial statements for the period ended May 31, 2020. The shares will be released August 28, 2020.

Share purchase warrants

At May 31, 2020, the following share purchase warrants were outstanding:

Number of share purchase warrants (000's)	Exercise price per share	Expiry date
252	1.50	June 11, 2020
1,110	2.50	June 11, 2020
9,032	1.20	September 8, 2020
2,650	1.20	November 20, 2020
9,939	1.20	January 19, 2021
167	1.50	May 9, 2021
598	0.90	May 31, 2021
5,563	0.90	May 31, 2021
507	0.90	March 21, 2021
5,791	0.90	March 21, 2021
35,609	1.14	

Stock options

At May 31, 2020, the following stock options were outstanding:

Number of shares (000's)	Vested (000's)	Exercise price per share C\$	Expiry date
1,825	1,825	0.20	Sep-Nov 2020
5,824	5,824	0.60 – 1.07	Jan-Nov 2021
350	250	0.30	Dec 2021
950	950	0.60	Jan 2022
60	30	0.16	Feb 2022
423	423	0.57 – 0.70	Mar-Apr 2022
2,306	875	0.34	Aug-Sept 2024
820	410	0.30	Oct 2024
12,558	10,587		

RELATED PARTY TRANSACTIONS

Key management compensation

All transactions with related parties have occurred in the normal course of operations. Key management is comprised of directors and executive officers.

Key management compensation for the three and six months ended May 31, 2020 and May 31, 2019 consists of the following:

	Three months ended May 31		Six months ended May 31	
	2020	2019	2020	2019
Salaries, management and consulting fees	194	214	353	304
Share-based payments	-	-	-	120
Cash and cash equivalents balance	194	214	353	424

Related party balances

As at May 31, 2020, \$30,000 (May 31, 2019: \$Nil) was due to the Company's Vice President and Director, Mr. Michael Blady ("Mr. Blady") in connection with unpaid salary costs.

As at May 31, 2020, \$30,000 (May 31, 2019: \$Nil) was due to Directors of the Company in connection with director's fees.

Related party transactions

Refer to Note 22 of the condensed interim financial statements for a summary of related party transactions related to outstanding commitments. Refer to Note 20 of the consolidated financial statements for the year ended November 30, 2019 for a summary of related party transactions.

COMMITMENTS

The Company has the following outstanding commitments based on achieving certain milestones.

Grey Bruce Farms

During the period ended May 31, 2020, the Company entered into an amending agreement dated March 13, 2020, amending certain terms and conditions of the definitive share purchase agreement, dated September 15, 2017, which have been replaced by the following achievement of certain milestones.

Trigger event	
Upon Grey Bruce's first harvest having passed quality assurance and quality control tests as set out by Health Canada (Completed)	105
Upon Grey Bruce's second harvest having passed quality assurance and quality control tests as set out by Health Canada (Completed)	105
Upon Grey Bruce's third harvest having passed quality assurance and quality control tests as set out by Health Canada (Completed)	105
Upon Grey Bruce's fourth harvest having passed quality assurance and quality control tests as set out by Health Canada (Completed)	105
Upon Grey Bruce's fifth harvest having passed quality assurance and quality control tests as set out by Health Canada, but no earlier than June 30, 2020	105
Upon Grey Bruce obtaining either a sales license (medical) or a processing license (standard), but no earlier than December 31, 2020	437.5
Upon Grey Bruce having sold 1,500 kg of dry cannabis	1,000
	\$ 1,962.5

During the period ended May 31, 2020, Grey Bruce has completed five harvests that have passed quality assurance and quality control tests as set out by Health Canada, thereby triggering the contingent consideration which became payable at period end. The Company has issued 763,636 common shares valued at \$420,000 in satisfaction with the above mentioned four harvests. Subsequent to the period ended May 31, 2020, the Company issued 190,909 common shares valued at \$105,000 in satisfaction with the above mentioned fifth harvest.

Additionally, the Company intends to issue the Company's Chief Executive Officer and Director, Mr. Norton Singhavon ("Mr. Singhavon") such number of common shares equivalent to a value of \$1,000,000, upon the sale of 1,500 kg of dry cannabis, in lieu of the original entitlement of \$1,787,500. This reduces the amount owing as Mr. Singhavon was owed approximately 65% of the remaining contingent consideration.

In connection with the achievement of certain milestones under the original agreement, the Company paid \$250,000 to the vendors of Grey Bruce on May 6, 2019, and also issued 2,222,222 common shares valued \$1,000,000 on July 8, 2019.

In addition to the above, the amending agreement raised the floor price of the common shares in the capital of the Company to be issued to the vendors of Grey Bruce Farms (excluding Mr. Singhavon).

The number of common shares issuable upon the occurrence of future events are to be based on the greater of (A) the then ten-day volume-weighted average trading price of the Company's common share and (B) the last commercial financing undertaken by the Company, currently \$0.55 per common share of the Company. Mr. Singhavon has also agreed to raise the floor price of the Common Shares to be issued in connection with the Cannabis Sales Milestone to a deemed price per share equal to the greater of (A) the 10-day volume-weighted average trading price of the Common Shares, and (B) \$1.00. In consideration for entering into the Amending agreement the Company has agreed to pay the vendors a one-time cash payment of \$25,010 of which Mr. Singhavon will receive \$10.

GreenTec Bio-Pharmaceuticals Inc.

As at May 31, 2020, the Company has committed to issue common shares valued at \$2,500,000 contingent on future events as follows:

Trigger event	
Completion of GBP construction of a Health Canada approved cannabis production facility in compliance with the CA&R	500
GBP obtaining a license to sell cannabis under the CA&R	500
GBP having sold an aggregate of 3,000 kg of dried cannabis	750
GBP completing construction of an expansion to its production facility to increase production by at least 8,500 kg per annum and receiving an amendment to its production and sales licenses	750
	\$ 2,500

During the period ended May 31, 2020, on March 13, 2020, the Company entered into an amending agreement with the vendors of GBP amending certain terms and conditions of the definitive share purchase agreement, dated November 15, 2017.

The vendors of GBP agreed to reduce their entitlement to a portion of the purchase price such that the remaining payment obligations of the Company in connection with the acquisition of GBP are reduced by \$5,750,000. In addition to reducing the milestone payments, the vendors of GBP agreed to restructure the remaining milestones, as shown in the above table and raise the floor price of the Common Shares to be issued in connection with the new milestones to a deemed price per share equal to the greater of (A) the 10-day volume-weighted average trading price of the Company's common shares, and (B) \$1.00. Of the \$5,750,000 reduction to the Company's payment obligations, \$5,615,000 of the remaining milestone payments was waived by Mr. Singhavon.

1118157 B.C. Ltd. ("1118 BC") and Tumbleweed Farms Corp. ("Tumbleweed")

During the period ended May 31, 2020, the Company entered into an amending agreement dated March 13, 2020, amending certain terms and conditions of the definitive share purchase agreement, dated November 22, 2017. As such, the Vendors of 1118157 B.C. Ltd. ("1118 BC"), Mr. Blady and Mr. Singhavon have agreed to waive all entitlement to the remaining milestone payments, which totalled \$500,000 in common shares based on future events.

In connection with the share purchase agreement, the Company assumed certain commitments of 1118 BC through its acquisition of Tumbleweed, consisting of the following:

On March 4, 2019, the Company entered into an agreement with the vendors (the "Amending Agreement"), amending certain terms and conditions of the definitive share purchase agreement, dated August 12, 2017, as amended. In connection with the Amending Agreement, on March 22, 2019 the Company issued an aggregate of 3,759,319 common shares valued at \$2,250,000 and paid \$250,000 in satisfaction of achieving certain milestones to the vendors of Tumbleweed.

On February 4, 2020, the Company entered into a further amending agreement, amending certain terms and conditions of the definitive share purchase agreement, dated August 12, 2017. As such, the Company issued 7,500,000 common shares valued at \$1,350,000 in satisfaction of achieving certain milestones, of which 3,750,000 are held in escrow and are due from release on August 28, 2020. As per the amended terms, the revised milestone payments for each of the first four harvests were valued at \$300,000 each and the milestone payment for the fifth harvest was valued at \$150,000. The issuance of these shares will be the final share issuance relating to milestone payments for the Tumbleweed acquisition and there will be no further payments, whether in cash or shares.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make certain estimates and apply judgment affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the reporting period.

The areas involving higher degrees of judgement, or areas where assumptions and estimates are significant to the financial statements are:

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

Estimated useful lives and impairment considerations

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. In determining the allocation of the purchase price in a business combination, including any acquisition related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Investments in associates

Management exercises judgment in determining whether the Company has acquired significant influence over an entity. An assessment of significant influence is performed at the inception of a relationship between any entity and the Company. When performing this assessment, the Company considers all facts and circumstances, and it must reassess whether it still has significant influence over an investee if facts and circumstances indicate there are changes to one or more of the conditions of significant influence.

Share-based compensation and warrants

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used. In calculating the fair value of the warrants, the Company includes key estimates such as the volatility of the Company's stock price, the value of the common share, and the risk-free interest rate.

Deferred tax assets and liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assess whether it is probably that some or all of the deferred income tax assets and liabilities will be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

Discount rate used for convertible debentures

The carrying value of the convertible debentures is subject to management's estimates in determining an appropriate discount rate based on similar instruments with no conversion features.

Going concern

Management applies judgment in its evaluation of the Company's ability to continue as a going concern.

ADOPTION OF NEW ACCOUNTING POLICIES

Adoption of IFRS 16 Leases (“IFRS 16”)

Effective January 1, 2019 IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. For leases where the Company is the lessee, it recognizes a right-of-use asset and a lease liability for its office premises leases previously classified as operating leases.

The Company chose to adopt the modified retrospective approach on transition to IFRS 16 on January 1, 2019 and has chosen not to restate comparative information in accordance with the transitional provisions in IFRS16. As a result, the comparative information continues to be presented in accordance with the Company’s previous accounting policies.

The adoption of IFRS 16 resulted in the recognition of a right-of-use asset and a lease liability measured at the present value of the future lease payments on the consolidated statements of financial position. An amortization expense on the right-of-use asset and an interest expense on the lease liability has replaced the operating lease expense. IFRS 16 has changed the presentation of cash flows relating to leases in the Company’s unaudited condensed consolidated interim statements of cash flows, however, it does not cause a difference in the amount of cash transferred between the parties of the lease. In accordance with the transition of IFRS 16, as at December 1, 2019 the Company recognized the right-of-use asset of \$1,851,180 and lease liabilities of \$1,851,180. When measuring lease liabilities, the Company incremental borrowing rate applied was 18% per annum.

Operating lease commitments as at November 30, 2019	\$	2,592
Discount of future commitments as at December 1, 2019		(741)
Lease liabilities recognized as at December 1, 2019	\$	1,851

Lease Agreements

As at May 31, 2020, the minimum lease payments for the lease liabilities are as follows:

Year ending:		
2020	\$	212
2021		404
2022		421
2023		304
2024		31
		1,372
Less: Interest expense on lease liabilities		(331)
Total present value of minimum lease payments	\$	1,041

GTEC HOLDINGS LTD.
Management Discussion and Analysis

As at May 31, 2020, the minimum lease payments for the lease liabilities, assets held for sale are as follows:

Year ending:		
2020	\$	110
2021		225
2022		231
2023		238
2024		101
		905
Less: Interest expense on lease liabilities		(253)
Total present value of minimum lease payments	\$	652

From time to time, the Company enters into contracts for services in the normal course of operations. The Company's current contractual commitments vary in terms and can be terminated upon sufficient notice.

FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, foreign currency risk and commodity and equity price risk).

The Company's management team carries out risk management with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

The Company's financial instruments consist of cash, receivable and accounts payable. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values.

Market Risk

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

Foreign Currency Risk

The Company operates primarily in Canadian dollars and as such is not affected by the fluctuations of the Canadian dollar with other currencies.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's current policy is to invest excess cash in certificates of deposit or interest-bearing accounts of major Canadian chartered banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its financial institutions.

Cash is subject to floating interest rates. Sensitivity to a plus or minus 1% change in interest rates would not have a material impact on the reported consolidated net loss and comprehensive consolidated net loss for the period.

Commodity Price Risk

The Company is exposed to price risk with respect to commodity prices of medical cannabis. As a result, commodity price risk may affect the Company's ability to operate profitably, completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash. At present, the Company holds its cash in Canadian rated financial institutions and will only consider investment of excess cash in highly rated government and corporate debt securities or guaranteed certificates from Canadian chartered banks. The Company has established guidelines, including diversification, credit ratings and maturities, to ensure safety and liquidity of its cash.

GTEC HOLDINGS LTD.
Management Discussion and Analysis

As at May 31, 2020, the Company's exposure is the carrying value of the financial instruments. The Company's maximum exposure to credit risk is the carrying value of its financial assets.

Currency Risk

The Company operates primarily in Canadian dollars and as such is not affected by the fluctuations of the Canadian dollar with other currencies.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the Board of Directors considers securing additional funds through issuances of equity and debt or partnering transactions. The Board of Directors approves any material transactions outside the ordinary course of business. Management regularly reviews the Company's operating and capital budgets and maintains short-term cash flow forecasts.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

Maturity Risk

- 1) The Company's cash and cash equivalents balance at May 31, 2020 was in the amount of \$389,657. At May 31, 2020, the Company had accounts receivable of \$1,883,891, accounts payable and accrued liabilities of \$2,528,041, current lease liabilities of \$249,633, current lease liabilities, assets held for sale \$651,705 interest and short-term debt payable of \$6,314,536 and long term lease liabilities of \$792,104. All accounts payable and accrued liabilities are current.
- 2) As at May 31, 2020, the Company did not have derivative financial liabilities with contractual maturities.
- 3) Management of liquidity risk: Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses and commitments in (1) and (2) for a period of 90 days. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on exploration projects to further manage expenditure.

The following table summarizes the maturities of the Company's financial liabilities as at May 31, 2020 based on the undiscounted contractual cash flows:

	Carrying value	Principal amount	Less than 1 year	1 - 5 years
Accounts payable	\$ 2,528	\$ 2,528	\$ 2,528	\$ -
Lease liabilities	1,041	1,373	410	963
Lease liabilities, assets available for sale	652	905	221	684
Short-term payable	6,315	6,422	6,422	-
	\$ 10,536	\$ 11,228	\$ 9,581	\$ 1,647

NON-IFRS PERFORMANCE MEASUREMENT

The financial information in this MD&A contains certain financial performance measures that are not defined by and do not have any standardized meaning under IFRS; and are used by management to assess the financial and operational performance of the Company. These include, but are not limited to, the following:

- Yield per plant (in grams)
- Target production capacity
- Cost of cultivation or production (both "cash" and "all-in")
- Adjusted gross margin (excluding fair value adjustments)
- Adjusted EBITDA

Cash cost of production is a financial performance measure used by the Company, which is not defined by and does not have any standardized meaning under IFRS. Cash costs to produce dried cannabis per gram is equal to production costs of dried cannabis less amortization, packaging costs and distribution costs divided by gram equivalents of cannabis produced in the quarter. Management believes this measure provides useful information as it removes noncash amortization and packaging costs and provides a benchmark of the Company against its competitors.

The Company believe that these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate the Company's operating results, underlying performance and prospects in a similar manner to the Company's management.

As there are no standardized methods of calculating these non-IFRS measures, the Company's approaches may differ from those used by others, and accordingly, the use of these measures may not be directly comparable. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

RISK FACTORS

This section discusses factors relating to the business of the Company that should be considered by both existing and potential investors. The information in this section is intended to serve as an overview and should not be considered comprehensive and the Company may face risks and uncertainties not discussed in this section, or not currently known to us, or that we deem to be immaterial. All risks to the Company's business have the potential to influence its operations in a materially adverse manner.

COVID-19

The Company's business is dependent on a number of key supply chains which could be adversely disrupted by a number of factors including, among others, major health issues or pandemic. In particular, major health issues and pandemics, such as the global impact of COVID-19. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the impact of the COVID-19 outbreak on the Company's business, which may be adversely affected or cause disruption. These risk factors are out of the Company's control.

Liquidity and Additional Financing

The Company has limited financial resources and revenues. There can be no assurance that additional funding will be available to it for further development of its assets or to fulfill its obligations under applicable agreements. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could cause the Company to reduce or terminate its operations.

Reliance on Licenses

The Company's ability to grow, store cannabis in Canada is dependent on maintaining its license with Health Canada. All licenses are, or will be, subject to ongoing compliance and reporting requirements. Failure to comply with the requirements of the licenses, to maintain its licenses, and to renew the licenses after their expiry dates would have a material adverse impact on the business, financial condition and operating results of the Company.

Although the Company believes that it will meet the requirements of the CA&R for future extensions or renewals of any required licenses, there can be no assurance that Health Canada will extend or renew the licenses or, if extended or renewed, that it will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew existing licenses should it renew existing license on different terms, or should it refuse applications for new licenses, the business, financial condition and operating results of the Company would be materially adversely affected.

Regulatory Risks

The activities of the Company are subject to regulation by governmental authorities, particularly Health Canada. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the future sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the Company's business, results of operations and financial condition.

Change in Laws, Regulations and Guidelines

The Company's business is subject to particular laws, regulations, and guidelines. The production and distribution of cannabis is a highly regulated field, and although the Company intends to comply with all laws and regulations, any changes to such

laws, regulations, guidelines and policies due to matters beyond the control of the Company may cause adverse effects to its operations.

Limited Operating History, History of Losses, and No Assurance of Profitability

The Company was incorporated and began operations in June 2017 and as of the date of this MD&A had not generated material revenue from the sale of its products or services. The Company is subject to all of the business risks and uncertainties associated with any early-staged enterprise, including under-capitalization, cash shortages, limitation with respect to personnel, financial and other resources, and lack of revenues.

The Company has incurred operating losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable. There is no assurance that the Company will be successful in achieving a return on shareholders' investments and the likelihood of success must be considered in light of the early stage of operations.

Unfavourable Publicity or Consumer Perception

The success of the cannabis industry may be significantly influenced by the public's perception of cannabis's medicinal and recreational applications. Cannabis is a controversial topic, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to cannabis will be favourable. The cannabis industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for cannabis is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion relating to the consumption of cannabis may have a material adverse effect on our operational results, consumer base and financial results.

Competition

The market for the Company's product does appear to be sizeable and Health Canada has only issued a limited number of licenses under the CA&R to produce and sell cannabis. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. A large number of companies appear to be applying for production licenses, some of which may have significantly greater financial, technical, marketing and other resources, may be able to devote greater resources to the development, promotion, sale and support of their products and services, and may have more extensive customer bases and broader customer relationships.

Should the size of the cannabis market increase as projected, the demand for product will increase as well, and in order for the Company to be competitive, it will need to invest significantly in research and development, marketing, production expansion, new client identification, and client support. If the Company is not successful in achieving sufficient resources to invest in these areas, the Company's ability to compete in the market may be adversely affected, which could materially and adversely affect the Company's business, its financial condition and operations.

The Canadian Federal Government legalized recreational cannabis in Canada on October 17, 2018. This regulatory change and access for recreational use may not be implemented in a timely fashion. The introduction of a recreational model for cannabis production and distribution may impact the medical cannabis market. The impact of this potential development may be negative for the Company and could result in increased levels of competition in the existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates. There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better-financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

Uninsured or Uninsurable Risk

The Company may become subject to liability for risks against which it cannot insure or against which the Company may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for the Company's usual business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on the Company's financial position and operations.

Key Personnel

The Company's success will depend on its directors' and officers' ability to develop and execute on the Company's business strategies and manage its ongoing operations, and on the Company's ability to attract and retain key quality assurance, scientific, sales, public relations and marketing staff or consultants. The loss of any key personnel or the inability to find and retain new key persons could have a material adverse effect on the Company's business. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that the Company will be able to attract or retain key personnel in the future, which may adversely impact the Company's operations.

Conflicts of Interest

Certain of the Company's directors and officers are also directors and operators in other companies. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers' conflict with or diverge from the Company interests. Directors who have a material interest in any person who is a party to a material contract or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract.

In addition, the directors and the officers are required to act honestly and in good faith with a view to the Company's best interests. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company.

Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to the Company.

Litigation

The Company may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business, which could adversely affect its business. Monitoring and defending against legal actions, whether or not meritorious, can be time-consuming, divert management's attention and resources and cause the Company to incur significant expenses. In addition, legal fees and costs incurred in connection with such activities may be significant and we could, in the future, be subject to judgments or enter into settlements of claims for significant monetary damages.

While the Company has insurance that may cover the costs and awards of certain types of litigation, the amount of insurance may not be sufficient to cover any costs or awards. Substantial litigation costs or an adverse result in any litigation may adversely impact the Company's business, operating results or financial condition.

Agricultural Operations

Since the Company's business will revolve mainly around the growth of agricultural products, the risks inherent with agricultural businesses will apply. Such risks may include disease and insect pests, among others. Although the Company expects to grow its product in climate controlled, monitored, indoor locations, there is no guarantee that changes in outside weather and climate will not adversely affect production.

Transportation Disruptions

The Company will depend on fast, cost-effective and efficient transportation services to distribute its product. Any prolonged disruption of these services could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with transportation services used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably.

Fluctuating Prices of Raw Materials

The Company revenues, if any, are expected to be in large part derived from the production, sale and distribution of agricultural products or products related to the growth of such agricultural products. The price of production, sale and distribution of these products will fluctuate widely and is affected by numerous factors beyond the Company's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new production and distribution developments and improved production and distribution methods. The effect of these factors on the price of product produced by the Company and, therefore, the economic viability of any of the Company's business, cannot accurately be predicted.

Environmental and Employee Health and Safety Regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water and air, the handling and disposal of hazardous and nonhazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to obtain required environmental approvals or otherwise comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Political and Economic Instability

The Company may be affected by possible political or economic instability. The risks include, but are not limited to, terrorism, military repression, extreme fluctuations in currency exchange rates and high rates of inflation. Changes in medicine and agriculture development or investment policies or shifts in political attitude in certain countries may adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to restrictions

on production, distribution, price controls, export controls, income taxes, expropriation of property, maintenance of assets, environmental legislation, land use, land claims of local people and water use. The effect of these factors cannot be accurately predicted.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

In accordance with National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the establishment and maintenance of Disclosure Controls and Procedures ("DCP") and Internal Control Over Financial Reporting ("ICFR") is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

NI 52-109 requires the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") to certify that they are responsible for establishing and maintaining ICFR for the Company and that those internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to the Company's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Proposed Transactions

There are currently no significant proposed transactions except as otherwise disclosed in this MD&A. Confidentiality agreements and non-binding agreements may be entered into from time to time, with independent entities to allow for discussions of the potential acquisition and/or development of potential business relationships.

Approval

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors. The Board of Directors of the Company has approved the financial statements and the disclosure contained in this MD&A.

Other Requirements

Additional disclosure of the Company's material change reports, news releases and other information can be obtained on SEDAR at www.sedar.com.