



# **BioNeutra Global Corporation**

**TSXV:BGA**

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

For the six-month period  
ended June 30, 2018

## INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") for BioNeutra Global Corporation ("BioNeutra" or the "Company"), prepared as of August 28, 2018, should be read in conjunction with the interim unaudited consolidated financial statements for the six months ended June 30, 2018 and the accompanying notes.

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("ISAB"). BioNeutra's management team ("Management") is responsible for the information disclosed in this MD&A as well as for ensuring procedures and controls exist within the Company to provide reasonable assurances regarding the reliability of the Company's financial reporting and its compliance with IFRS.

In addition, the Company's Audit Committee and Board of Directors (the "Board") provide oversight with respect to the Company's accounting and audit procedures and its public disclosures. The Audit Committee and Board have reviewed and approved this MD&A and the accompanying audited consolidated financial statements.

Additional information on the Company, including its interim unaudited consolidated financial statements, is available on SEDAR ([www.sedar.com](http://www.sedar.com)).

### **Forward-Looking Information**

This MD&A may contain "forward-looking statements" within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact, included herein may be forward-looking statements. Generally, forward-looking statements may be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "proposed", "is expected", "budgets", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved.

These forward-looking statements reflect the Company's current beliefs and are based on information currently available to the Company and assumptions the Company believes are reasonable. These assumptions include, but are not limited to, the demand for the Company's products, the Company's ability to meet budgets and forecasts, and that future costs and expenses being based on historical costs and expenses, adjusted for inflation. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from any future results, level of activity, performance, or achievements expressed or implied by such forward-looking statements. Such risks and other factors may include but are not limited to: the stage of development of the Company's products; general business, economic, competitive, political and social uncertainties; the customer base for the Company's products; competition; delay or failure to receive regulatory approvals; changes in laws and regulations affecting the Company; timing and availability of external financing on acceptable terms; intellectual property risks; and loss of key individuals.

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those described in the forward-looking statements, there may be other factors that could also cause results to not be as anticipated, estimated or intended. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements, except in accordance with applicable securities laws. Please see the section titled "Risk Factors and Uncertainties" below for a discussion of the risks, uncertainties and assumptions used to develop our forward-looking statements.



## **OVERVIEW OF THE BUSINESS**

Through its wholly-owned subsidiaries, BioNeutra North America Inc. ("BioNeutra North America") and BioNeutra International Limited ("BioNeutra International"), the Company engages in the business of research and development, production and commercialization and of ingredients for nutraceutical, functional and mainstream foods and beverages, with a focus on oligosaccharides. The company is listed on the TSX Venture Exchange (the "TSXV") under the symbol "BGA".

The Company's lead product, VitaFiber™ IMO is an advanced functional and health food ingredient naturally derived from agricultural products and is approved by the European Food Safety Authority and Health Canada and is generally regarded as safe (GRAS) by the U.S. Food & Drug Administration (the "FDA"). VitaFiber™ IMO is naturally sweet and lower in calories than regular sugar. It is also a natural source of dietary fiber as it provides low calorie soluble prebiotic fiber for human digestive health.

The Company produces VitaFiber™ IMO using its patented processes that naturally transform starch molecules from cereal crops including corn, wheat, barley, potato, tapioca, or pea into the functional health molecules of isomalto-oligosaccharide (IMO). The VitaFiber™ IMO manufacturing process is based upon a natural enzymatic conversion of starch molecules without any chemical additives, making VitaFiber™ IMO a natural food ingredient. VitaFiber™ IMO is also non-GMO, vegan-friendly, gluten-free, Kosher and Halal certified and available as certified organic.

The Company's customers include a mix of small and medium enterprises and a number of high-profile food manufacturers globally. VitaFiber™ IMO is also available for retail purchase across the globe through Amazon.com and other direct-to-consumer retailers.

Further information about BioNeutra is available on the Company's website at [www.bioneutra.ca](http://www.bioneutra.ca), the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the TSXV website at [www.tsx.com](http://www.tsx.com).

## **FUTURE PLANS AND OUTLOOK**

BioNeutra is committed to maximizing its opportunities in North America, the EU and non-EU European countries, Oceania and SE Asia including India. We are expanding into key emerging markets globally on a region by region basis to promote VitaFiber™ IMO as a healthy functional food and beverage ingredient. Consumers worldwide are now recognizing the positive lifestyle and health benefits of VitaFiber™ IMO. To satisfy the demands of the growing global middle class for functional and health food and beverage product ingredients, the Company continues to focus and expand its research and development efforts to create innovative IMO based products to broaden its portfolio and generate additional revenue.



**HIGHLIGHTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018**

BioNeutra continued to increase market share in the second quarter of 2018 after significant growth in sales in the first quarter. Sales for the three months ended June 30, 2018 were \$12,193,507, for the six months ended June 30, 2018 were \$22,046,553. This represents an increase of \$3,303,818 over sales of \$8,889,689 for the three-month period ended June 30, 2017, or \$5,804,175 over sales of \$16,242,378 for the six-month period ended June 30, 2017.

BioNeutra's Canadian production facility has been certified for production license and produced since May 31. The expansion and growth of production workers are in a healthy and orderly manner.

- The Company is fruitful on the market development, two distributors signed the distribution agreement in the second quarter, one distributor in Australia also signed the distribution agreement.
- The Company's cash value was significant \$5,004,004 for the six-month ended June 30, 2018 as compared to \$1,385,689 for the year ended December 31, 2017.
- The Company had foreign exchange gain of \$1,153,451 for the six months ended June 30, 2018, or \$374,721 for the three months ended June 30, 2018 due to the strong U.S. dollar.
- Comprehensive income was \$2,800,374 for the six months ended June 30, 2018, as compared to comprehensive loss of \$1,647,209 for the six-month period ended June 30, 2017, or \$841,327 for the three months ended June 30, 2018 as compared to comprehensive loss of \$1,643,505 for the three-month period ended June 30, 2017. Net income was \$2,229,671 for the six months ended June 30, 2018, as compared to net loss of \$1,202,105 for the six-month period ended June 30, 2017, or \$604,339 for the three months ended June 30, 2018 as compared to net loss of \$1,314,996 for the three-month period ended June 30, 2017.

BioNeutra continues to be a leader in its industry with VitaFiber™ IMO having been approved by the world's top three regulators – Health Canada, FDA and the European Food Safety Authority – for sale in 30 countries. BioNeutra's sales territories are expanding further to India, Southeast Asia, Australia, New Zealand and South America.



## SUMMARY OF QUARTERLY RESULTS

### For the Fiscal Quarters Ended:

	FY 2018		FY 2017		FY 2016			
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
<b>Consolidated</b>								
Total revenue	12,193,507	9,853,046	8,031,267	7,868,787	8,885,299	7,352,690	6,935,244	8,130,203
Cost of sales	8,211,162	6,827,693	5,512,642	6,675,847	5,746,546	4,933,591	4,779,780	5,784,011
Gross profit	3,982,345	3,025,353	2,518,625	1,192,940	3,138,753	2,419,099	2,155,464	2,346,192
Net income (loss)	604,339	1,625,332	-679,995	-1,214,142	620,384	112,856	377,197	18,581
Comprehensive income (loss)	841,327	1,959,037	-636,577	-1,662,704	234,966	-3,709	585,490	88,983
Current assets	21,953,839	17,467,821	14,272,051	13,201,417	17,608,128	18,113,598	19,642,953	21,104,845
Non-current assets	17,526,706	17,290,548	16,698,674	16,239,495	16,135,059	16,728,037	16,955,338	17,232,469
Total assets	39,480,545	34,758,369	30,970,725	29,440,912	33,743,187	34,814,635	36,598,291	38,337,314
Current liabilities	13,034,609	10,695,633	8,837,804	8,976,776	8,424,795	10,008,701	11,861,486	13,550,671
Non-current liabilities	9,688,920	8,147,047	8,176,279	7,749,384	9,062,468	9,053,245	8,980,407	9,088,735
Total liabilities	22,723,529	18,842,680	17,014,084	16,726,160	17,487,263	19,061,946	20,841,893	22,639,406
Cash and cash equivalents	5,004,004	590,205	1,385,689	1,054,202	1,324,658	685,025	591,705	1,903,913
Working capital	8,919,230	6,772,188	5,434,247	4,224,641	9,183,333	7,984,897	7,781,467	7,554,174
Equity	16,757,016	15,915,689	13,955,642	12,714,752	16,255,924	15,779,689	15,783,398	15,697,909
Net income per share								
Basic	0.01 <sup>1</sup>	0.04 <sup>1</sup>	-0.01 <sup>1</sup>	-0.03 <sup>1</sup>	0.01 <sup>1</sup>	0.00 <sup>1</sup>	0.01 <sup>1</sup>	0.00 <sup>1</sup>
Diluted	0.01	0.04	-0.01	-0.03	0.01	0.00	0.01	0.00

Notes:

- For the net income per share for quarter ended September 30 2016 to June 30, 2018, weighted average number of share of 45,949,787 was used.

Over the past eight quarters, the general trends of the Company's revenues and gross profits have been positive. The Company's sales for the three months ended and the six months ended June 30, 2018 are both the highest in history for same period.

The Company has increased its sales globally. International sales are supported by the Company's widespread warehousing facilities in Edison, Los Angeles, Pittsburgh, Amsterdam, Toronto, Montreal and Edmonton.



Consumers worldwide are recognizing the health benefits of VitaFiber™ IMO and its positive effects on their lives, and the Company is taking advantage of the increasing demand for functional and health food and beverage ingredient products on both business-to-business and business-to-consumer levels.

Consumers around the globe are now purchasing VitaFiber™ IMO from numerous direct-to-consumer retail outlets, including prominent global online retailer, Amazon.com. The Company continues to add new retail clients in Europe.

In the six-month period ended June 30, 2018, the Company recorded a net income of \$2,229,671, as compared to a net loss of \$1,202,105 for the six-month period ended June 30, 2017; and the Company recorded a net income of \$604,339, as compared to a net loss of \$1,314,966 for the three-month period ended June 30, 2017. The Company's 2018 Q2 net income was attributable to (a) increased gross profit of \$3,478,119 and decreased operating expenses of \$187,293, as compared to the same period of 2017, and (b) increased other income of \$1,614,982, including gain on settlement of liabilities \$105,986 and foreign exchange gain \$1,153,451.

## SUMMARY OF CONSOLIDATED FINANCIAL RESULTS

### Revenue

	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended
	30-Jun-18	30-Jun-17	30-Jun-18	30-Jun-17
Sales	\$12,193,507	\$8,889,689	\$22,046,553	\$16,242,378

Total sales were \$12,193,507 for the three-month period ended June 30, 2018, this represents an increase of \$3,308,818 over sales of \$8,889,689 for the three months ended June 30, 2017 or an increase of \$5,804,175 over sales of \$16,242,378 for the six-month period ended June 30, 2017. Sales have increased in each quarter over the last eight quarters, and in Q2 2018 we set another all-time record for gross sales.

The Company continues to break into new markets, selling its VitaFiber™IMO products to food and beverage manufacturers, targeting functional and health food markets. The Company continues to establish worldwide distribution channels for VitaFiber™ IMO, signing new distributor agreements for India and the EU in Q2. International sales are supported by the Company's ever-expanding warehouse and logistics network. Consumers worldwide are recognizing the positive lifestyle and health benefits of VitaFiber™ IMO, and the Company is taking advantage of increasing market demand for functional and health food and beverage ingredient products on both business-to-business and business-to-consumer levels. Consumers around the globe are now purchasing VitaFiber™ IMO from numerous direct-to-consumer retail outlets, including from the prominent global online retailer.

### Gross Profit

	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended
	30-Jun-18	30-Jun-17	30-Jun-18	30-Jun-17
Sales	\$12,193,507	\$8,889,689	\$22,046,553	\$16,242,378
Cost of sales	8,211,162	7,779,208	15,038,855	12,712,799
Gross profit	3,982,345	1,110,481	7,007,698	3,529,579



The Company's gross profit was \$3,982,345 for the three-month period ended June 30, 2018, as compared to \$1,110,481 for the three-month period ended June 30, 2017.

The Company's gross profit was \$7,007,698 for the six-month period ended June 30, 2018, as compared to 3,529,579 for the six-month period ended June 30, 2017.

**Expenses**

	<b>Three Months Ended 30-Jun-18</b>	Three Months Ended 30-Jun-17	<b>Six Months Ended 30-Jun-18</b>	Six Months Ended 30-Jun-17
Salaries and benefits	<b>622,710</b>	666,985	<b>1,156,110</b>	1,298,954
General and administrative	<b>351,432</b>	301,101	<b>615,423</b>	604,882
Warehouse costs	<b>247,890</b>	247,008	<b>514,157</b>	615,362
Sales and marketing	<b>236,070</b>	31,941	<b>454,884</b>	154,807
Amortization of intangible assets	<b>210,120</b>	219,916	<b>415,227</b>	435,151
Professional fees	<b>201,518</b>	144,929	<b>412,498</b>	245,063
Interest on long-term debts	<b>122,089</b>	132,991	<b>222,090</b>	258,586
Depreciation of property, plant and equipment	<b>164,245</b>	73,772	<b>233,660</b>	146,070
Research and development	<b>92,375</b>	49,909	<b>163,384</b>	86,922
Interest and bank charges	<b>14,968</b>	12,918	<b>23,990</b>	21,867
Share-based compensation	---	241,268	---	241,268
Commissions	---	138,220	---	289,784
	<b>2,263,417</b>	2,260,958	<b>4,211,423</b>	4,398,716

Total expenses were \$4,211,423 for the six-month period ended June 30, 2018, decreasing from \$4,398,716 for the six-month period ended June 30, 2017. The decreases were attributable to:

1. a decrease in warehousing costs of \$101,205,
2. a decrease in commissions and share-based compensation of \$531,052,
3. a decrease in salaries and benefits of \$142,844, and
4. a decrease in interest on long-term debts of \$36,496.



Increased expenses were: sales and marketing of \$300,077, professional fees of \$167,435, depreciation of \$87,590 and research and development of \$76,462

Total expenses were \$2,263,417 for the three-month period ended June 30, 2018, very close to the three-month period ended June 30, 2017.

**Other Income (Expenses)**

	<b>Three Months Ended 30-Jun-18</b>	Three Months Ended 30-Jun-17	<b>Six Months Ended 30-Jun-18</b>	Six Months Ended 30-Jun-17
Grants	---	18,360	---	26,678
Interest and other	---	12	<b>923</b>	7,877
Debt forgiveness	---	393,034	---	393,034
Gain on settlement of liabilities	---	---	<b>105,986</b>	---
Foreign exchange gain (loss)	<b>374,721</b>	(704,795)	<b>1,153,451</b>	(782,211)
<b>Total other income (expenses)</b>	<b>374,721</b>	(293,389)	<b>1,260,360</b>	(354,622)

The increase in other income for the six-month period ended June 30, 2018 is mainly due to foreign currency exchange gain of \$1,153,451. The loss for the same period in 2017 was \$782,211.

The increase in other income for the three-month period ended June 30, 2018 is from foreign currency exchange gain of \$374,721. The loss for the same period in 2017 was \$704,795.

**Net Income (loss)**

	<b>Three Months Ended 30-Jun-18</b>	Three Months Ended 30-Jun-17	<b>Six Months Ended 30-Jun-18</b>	Six Months Ended 30-Jun-17
Net income (loss)	604,339	(1,314,966)	<b>2,229,671</b>	(1,202,105)

The Company recorded a net income of \$2,229,671 for the six-month period ended June 30, 2018, as compared to a net loss of \$1,202,105 for the six-month period ended June 30, 2017.

The Company recorded a net income of \$604,339 for the three-month period ended June 30, 2018, as compared to a net loss of \$1,314,966 for the three-month period ended June 30, 2017.



The Company's net income in 2018 Q2 is the result of sales growth (due to do diligence, extra effort, and public recognition), controls of operating expenditures, and the pulling from other income, especially from the foreign exchange gain.

**FINANCIAL CONDITION & LIQUIDITY**

<b>Cash provided by:</b>	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
<b>Operating Activities</b>		
Net income (loss)	\$2,229,671	\$(1,202,105)
Interest and financing fee amortized	222,090	258,586
Items not affecting cash		
Depreciation of property, plant & equipment	233,660	146,070
Amortization of intangible assets	415,227	435,151
Deferred income taxes	1,826,964	(21,654)
Gain on sale of assets	---	(6,300)
Interest income on investment	---	(1,567)
Inventory write-down	---	1,990,969
Share based compensation	---	241,268
Debt forgiveness	---	(393,034)
Gain on settlement of liabilities	(105,986)	---
Change in non-cash working capital balances	566,474	(685,270)
	5,388,100	762,114
<b>Investing Activities</b>		
Purchase of property, plant & equipment	(792,394)	(306,141)
Proceeds on sales of assets	---	6,300
Purchase of intangible assets	(6,575)	(37,331)
	(798,969)	(337,172)
<b>Financing Activities</b>		
Proceed from mortgages	265,628	592,438
Repayment of mortgages	(439,942)	(294,340)
Financing fee paid	---	(4,000)
Interest paid	(212,582)	(245,331)
Repayment of government contribution	(31,250)	(31,250)
Repayment of capital leases	(36,030)	(28,161)
	(454,176)	(10,644)
<b>Effect of foreign exchange</b>	(516,640)	318,655
<b>Increase in cash</b>	3,618,315	732,953
<b>Cash, beginning of year</b>	1,385,689	591,705



<b>Cash, end of year</b>	\$5,004,004	\$1,324,658
--------------------------	-------------	-------------

On June 30, 2018, the Company had a working capital of \$8,919,230, as compared to \$9,183,333 on June 30, 2017.

Cash generated in operating activities during the six-month period ended June 30, 2018 was \$5,388,010, as compared to \$762,114 in the six-month period ended June 30, 2017.

The Company has a demand credit facility of \$2,000,000 to assist with working capital needs that bears interest at prime plus 1.50% per annum and is secured by a first charge on accounts receivable and inventories. The Company also has a revolving facility of \$500,000 to assist with the acquisition of equipment and/or leasehold improvements. As at June 30, 2018, no amounts were outstanding on these facilities.

On June 30, 2018, the Company had very healthy working capital and Management is confident that the increasing consumer demand for functional and health food product ingredients like VitaFiber™ IMO will not only result in recurring sales but will also continue to increase the revenues and profitability of the Company. The Company is committed to incorporating VitaFiber™ IMO in the development of new and healthy functional food products that the market and consumers are demanding from food manufacturers.

#### **Total Assets**

The total assets of the Company were \$39,480,545 on June 30, 2018, as compared to \$30,970,725 on June 30, 2017.

The Company's inventories increased from \$9,894,448 on December 31, 2017 to \$9,966,006 on June 30, 2018.

The Company's property, plant and equipment increased to a net book value of \$14,834,484 as of June 30, 2018, as compared to \$13,596,242 as at December 31, 2017. The Company's property, plant and equipment is made up primarily of land, buildings, laboratory equipment, production equipment, and furniture and office equipment.

#### **Total Liabilities**

As of June 30, 2018, the total liabilities of the Company were \$22,723,529, as compared to \$17,014,083 on June 30, 2017. Total non-current liabilities of the Company were \$9,688,920, as compared to \$9,062,468 on June 30, 2017.

In 2010, the Company executed an agreement for funding with the federal Government of Canada. As of December 31, 2014, the Company has received \$250,000 under that agreement. This funding is a repayable contribution to fund activity for the period from November 24, 2009 to December 31, 2014. The Company is required to repay the contributions in annual installments of \$31,250 from 2015 to 2022. Four repayments totaling \$125,000 have been paid as of June 30, 2018.

#### **Off-Balance Sheet Arrangements**

The Company did not enter into any off-balance sheet arrangements during the three-month period ended June 30, 2018.

#### **Related Party Transactions**

During the three and six months ended June 30, 2018, the Company had no management fees paid to Pak-Alberta Consultant Inc., a company owned by a member of management (six months ended June 30, 2017 - \$22,080).



**Key management personal compensation**

Key management includes all persons named or performing the duties of Chief Executive Officer, Chief Financial Officer, President, Vice-President and Directors of the Company. The compensation paid to key management for services is shown below:

	<u>June 30,</u> <u>2018</u>	<u>June 30,</u> <u>2017</u>
Key Management Salaries	\$470,337	\$407,955
Directors fees	\$33,976	\$43,500
Share-based compensation	---	\$187,514

**SHARE DATA**

As of June 30, 2018, BioNeutra had 45,949,787 common shares issued and outstanding and purchase warrants exercisable for 3,170,000 common shares.

**SHARE CAPITAL (COMMON SHARES)**

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Issued and Outstanding	45,949,787	45,949,787

**WARRANTS**

	<u>Number of Warrants</u>	<u>Exercise Price</u>
Balance, December 31, 2017, and 2018 Q2	3,170,000	\$0.50

The outstanding common share purchase warrants of 3,170,000 were issued as part of a private placement of units that closed March 27, 2015. Each warrant entitles the holder to purchase one additional common share at a price of \$0.50 per common share for a period of 48 months following the date of closing, provided that if after four months and one day following the closing date the closing price of the common shares is equal to or exceeds \$1.00 for 20 consecutive trading days, the warrants shall accelerate to expire on the date which is 30 days following the date a press release is issued by BioNeutra announcing the reduced warrant term or the date that written notice has been given to the warrant holder.

**Stock Options**

As of June 30, 2018, the Company had stock options outstanding and exercisable for 3,585,000 common shares at a weighted average exercise price of \$0.44 per common share pursuant to the Company's stock option plan.



**STOCK OPTIONS**

	<u>Number of Options</u>	<u>Exercise Price</u>
Balance, December 31, 2017 and June 30, 2018	3,585,000	\$0.44

The Company uses the Black-Scholes option pricing model to estimate the fair value of the stock options. There were 965,000 stock option granted during the year ended December 31, 2017.

**RISK FACTORS AND UNCERTAINTIES**

The Company is exposed to a number of risks and uncertainties. Management and the Board work to identify and manage these risks on an ongoing basis. Several of the most important risks facing the Company at the present time are as follows:

***Economic Conditions***

Changes in economic conditions, including without limitation, recessionary or inflationary trends, commodity prices, equity market levels, consumer credit availability, interest rates, consumers' disposable income and spending levels, unemployment, and overall consumer confidence can have a material adverse effect on the Company's business, financial condition, operations and cash flows.

***Dependence on Third Parties***

The Company's operations, including without limitation, the manufacturing, production and commercialization of the Company's products, rely on arrangements with third parties. Therefore, the Company's revenues are dependent on the successful efforts of these third parties. Management has long-term relationships with multiple offshore manufacturers dating back to 1998. The Company works closely on an ongoing basis with these manufacturers to establish and enhance their quality control systems and improve synergies with the Company's demands and operations. Since the Company produces VitaFiber™ IMO using its own patent-protected processes, it can establish effective controls with respect to the quality of the IMO produced.

***Competition***

The functional food and beverage industry is characterized by competition and ongoing product development in all its stages, BioNeutra is experiencing more competition, which may be a positive indication that more people are now aware of the product. The Company competes with numerous other organizations in the development and sale of functional food and beverage ingredient products, including companies that have significant financial resources, marketing and sales efforts, human capital and facilities. The Company's ability to remain viable and competitive in the future will depend on its ability to develop, maintain and leverage its intellectual property, remain cost effective, and develop additional markets for its products. Factors that enhance the Company's competitive advantage in the manufacture and sale of functional food and beverage product ingredients include price, methods of production, and the ability to deliver products to market. If the Company is not able to compete effectively in these regards, its future growth may be negatively impacted.



**Key Personnel**

The success of BioNeutra is dependent on the personal efforts of members of Management. The Company has in place a qualified and experienced management team that has successfully led the company to increase its revenues and expand its market share globally.

**Regulation**

BioNeutra, its subsidiaries, and the products they produce are subject to a variety of laws and regulations, including those enforced by Health Canada, the FDA, the European EFSA and others organizations, and may become subject to additional laws, regulations and guidelines in the future. The financial and managerial resources necessary to ensure compliance with the applicable laws, regulations, and guidelines could escalate in the future which could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

Legal, tax and regulatory changes may occur and could adversely affect the Company, its subsidiaries and/or the shareholders of the Company. There can be no assurance that income tax, securities laws and other laws will not be changed in a manner which adversely affects the Company, its subsidiaries and/or the shareholders of the Company.

In order to manufacture and sell functional food and beverage product ingredients, the Company and its subsidiaries require licenses from various governmental authorities. There is no assurance that the Company and its subsidiaries will be able to obtain all of the required licenses and permits to conduct their operations in the future.

**Future Financing**

BioNeutra's principal source of funds is cash generated from its subsidiaries. It is expected that funds from these sources will provide it with sufficient liquidity and capital resources to meet its current and future financial obligations at the current levels.

**Litigation**

In the normal course of the Company's operations, or the operations of its wholly-owned subsidiaries, the Company may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings, and legal actions involving personal injuries, property damage, property tax, and contract disputes. The outcome of any such proceedings cannot be predicted with certainty and may not be determined in the Company's favor.

Currently, BioNeutra North America is party to an ongoing litigation matters in Canada which could result in an adverse outcome for BioNeutra North America and such adverse outcome could have a material adverse effect on the Company's assets, liabilities, business, financial condition, and results of operations.

Vita US Inc. has filed an originating application, against BioNeutra seeking the followings:

- a declaration that the agency agreements between the parties are binding upon the Defendants;
- an order requiring the Defendants to disclose all records they have with respect to their dealings with clients, provided to them by Vita US Inc.; and
- costs of the application and such other relief as the court deems just.



No amount has been accounted for in the Company's financial statements with respect to the application commenced by Vita US Inc. as the outcome of this matter cannot be determined at this time and the amount of potential loss cannot be reliably determined.

A claim has been made by Mohammad Hassan Qureshi and Pak-Alberta Consultant Inc. against BioNeutra North America. The action was commenced March 17, 2017. BioNeutra North America has filed a Statement of Defense and Counterclaim in this matter. No amount has been accounted for in the Company's financial statements as the outcome of this matter cannot be determined at this time and the potential amount of the loss cannot be reliably determined.

### ***Product Liability Claims***

The Company has implemented a stringent quality control program and has never initiated a product recall or received any product liability claim. In the event of a product recall or product liability claim, the Company has in place insurance to cover such risks.

### ***Financial Risk***

The Company may become exposed to a variety of financial risks, including but not limited to, credit risk, concentration of risk, foreign currency risk, interest rate risk, and liquidity risk.

### ***Adverse Weather Conditions, Natural Disasters, and Environmental Factors***

Adverse weather conditions, natural disasters, and environmental factors for prolonged periods of time can materially impact the business, operations, operating results, and financial conditions of the Company and its subsidiaries, as well as the operations of third parties collaborating with the Company. As a result, the revenues and operating results of the Company may be adversely and negatively affected.

### ***Customers***

There is a risk that the Company's customers may not continue to purchase the same amount of the Company's products as they did in the past or that purchases may not be on similar terms. To mitigate customer-based risks, Management continuously work to expand the breadth and depth of the Company's customer base on both business-to-business and business-to-consumer fronts.

### ***Suppliers***

There is a risk that a major unexpected change in the supply of the Company's products could have a material adverse effect on the Company's business and financial condition. To mitigate supplier-based risks, Management has developed long-term relationships with multiple offshore manufacturers, dating back to 1998. The Company works closely on an ongoing basis with these manufacturers to maintain these mutually beneficial relationships. In addition, the Company will minimize its supplier-based risks by having its own production plant ready in 2018.

### ***Exposure to Business Risks Associated with International Operations***

The Company intends to continue efforts to increase its international operations beyond the United States and Europe and anticipates that international sales will continue to account for a significant portion of the Company's revenue. The Company's international operations are subject to certain risks and costs, including the difficulty and expense involved of conducting business abroad and ensuring that it complies with applicable laws, the costs related to localizing products for foreign markets, the translation and distribution of products in a timely manner. International sales may also expose the Company to risk related to political and economic instability, unexpected changes in



governmental policies concerning import and export of goods, regulatory requirements, tariffs and other trade barriers. International earnings may be subject to taxation in more than one jurisdiction.

Management is confident that regulatory approvals received from Health Canada, the FDA, and the European Food Safety Authority will aid and facilitate the Company's entry into new international markets. Additionally, Management of the Company has extensive experience with international business and a keen understanding of the risks associated with international expansion and operations.

### ***Intellectual Property***

The Company's competitive advantage is dependent on its intellectual property, including its patents and trademarks. One new patent application is in the process. As with all intellectual property, a risk exists that the Company's intellectual property could be challenged or expunged. In light of such intellectual property risks, the Company vigorously monitors and defends against any infringement of its patents or trademarks. Additionally, the Company is involved in continuous research and development to grow and diversify its intellectual property asset base.

### ***Investment in Research and Development***

BioNeutra has made and will continue to make significant investments in research and development, production and commercialization of food and beverage ingredients, and product development and related product opportunities. The Company donated its pilot plant equipment to University of Alberta and partnered with the University of Alberta in innovative projects to develop a number of oligosaccharide related products. Commercial success of such efforts depends on many factors including the degree of innovation of the products developed, support from our strategic partners, and effective distribution and marketing. Significant revenue from new product and service investments may not be achieved for a number of years, if at all. Moreover, new products and services may or may not receive regulatory approval. Even if regulatory approval is obtained, the profitability of new products remains uncertain.

### ***Cyber Security***

BioNeutra has implemented various IT technology provisions, processes and practices designed to protect its corporate networks, computers, programs and data from attack, damage or unauthorized access. This includes on-site, off-site aspects of IT systems and physical security of all aspect of the Company's business operations.

## **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, accounts receivable, investments, accounts payable and accrued liabilities, mortgages payable, capital lease(s) and repayable government contribution.

### **Financial risk management**

The Company's activities are exposed to a variety of financial risks including credit risk, concentration of risk, foreign currency risk, interest rate risk, and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by Senior management in conjunction with the CFO.

### **Fair value**

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:



- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); an
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

As of June 30, 2018, the Company had cash, classified as "fair value through profit or loss", measured at fair value - Level 1. All other financial instruments are measured at amortized cost using the effective interest rate method.

The carrying amounts and fair values of the Company's financial instruments are presented in the table below:

	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets:</b>				
Cash	\$ 5,004,004 (A)	\$ 5,004,004	\$ 1,385,689 (A)	\$ 1,385,689
Accounts receivable	6,844,526 (A)	6,844,526	2,954,719 (A)	2,954,719
Investment	508,069 (A)	508,069	508,069 (A)	508,069
<b>Financial Liabilities:</b>				
Accounts payable and accrued liabilities	10,839,525 (A)	10,839,525	6,605,430 (A)	6,605,430
Repayable government contribution	125,000 (B)	N/A	156,250 (B)	N/A
Mortgages payable	9,941,342 (C)	9,920,301	10,115,656 (C)	10,031,596
Capital lease	--- (C)	---	49,818 (C)	49,818

(A) The fair value of accounts receivable, investments and accounts payable and accrued liabilities, approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

(B) The fair value of repayable government contribution cannot be determined as there is no market for financial instruments which bear no interest.

(C) The fair value of mortgages payable and capital lease(s) is determined by discounting the future contractual cash flows under the current financing arrangements at a discount rate that represents an approximation to the borrowing rates presently available to the Company for debts with similar terms to maturity. The fair value of mortgage payable and capital lease(s) is measured at fair value-Level 2.



### Liquidity risk

The Company's exposure to liquidity risk is dependent the ability to collect its accounts receivable, purchasing commitments and obligations and to raise funds to meet the Company's commitments and sustain its operations. The Company controls liquidity risk through managing working capital and cash flows. As of June 30, 2018, the Company was holding:

- a) cash of \$5,004,004, as compared to \$1,385,689 on December 31, 2017,
- b) accounts receivable of \$6,931,190, as compared to \$2,985,537 on December 31, 2017,
- c) working capital of \$8,919,230, as compared to \$5,434,247 on December 31, 2017,
- d) non-derivative financial liabilities of \$13,033,426, as compared to \$8,837,804 on December 31, 2017 (non-derivative financial liabilities will be settled within one year).

### Credit risk

The Company's exposure to credit risk relates to cash, accounts receivable and investments and stems from the potential non-performance of third parties in relation to their contractual obligations. The Company minimizes its exposure to credit risk by keeping the majority of its cash with major chartered banks, reviewing new customers' credit history before extending credit, conducting regular reviews of its existing customers' credit performance and insuring the receivable amount with a third- party insurance company. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Company's maximum exposure to credit risk is equal to the carrying value of the financial assets. It is Management's opinion that the level of credit risk is low due to the credit-worthiness of the counterparties involved.

### Concentration of risk

The Company is exposed to credit risk on the accounts receivable from its customers. As of June 30, 2018, approximately 62% of the trade accounts receivable balance was owed from four customers, as compared to 53% of the trade accounts receivable balance owing on December 31, 2017 being from four customers. Sales to the Company's three largest customers represent 52% of the Company's total sales for the six months ended June 30, 2018, as compared to 47% for the year ended December 31, 2017. The Company minimizes its exposure to the concentration of risk by continuously expanding its client base.

The Company obtains inventory from companies in Asia and depend on them to supply substantially all its inventory for resale. Should these suppliers substantially change their dealings with the Company, Management is of the opinion that continued operations could be maintained through sourcing inventory from other manufacturers and until the construction of the full-scale facility is complete.

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of a change in foreign exchange rates. The Company is exposed to foreign currency risk on cash, accounts receivable and accounts payable held in U.S. dollars and accounts receivable held in Euro. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The table below indicates the foreign currencies in which the Company had exposure as at June 30, 2018 and December 31, 2017, as well as the amount of exposure in terms of Canadian dollar. The table also illustrates



the potential impact to the Company's net equity as at June 30, 2018 and December 31, 2017 if the Company's presentation currency had strengthened or weakened by 5% in relation to the U.S. dollar, with all other variables held constant. In practice, the actual result may differ materially from this sensitivity analysis.

	Total Exposure		Impact on Net Equity	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
U.S. dollar	\$ 16,532,885	\$ 13,645,121	\$ 826,644	\$ 682,256
As a % of Net Equity	98.66%	97.77%	4.93%	4.89%

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate price risk on its mortgages payable and capital lease which bear a fixed interest rate and interest rate cash flow risk on its floating rate mortgage payable. Management does not believe this risk is significant.

**CAPITAL MANAGEMENT**

The Company's objective, when managing capital is to maintain adequate cash resources to support planned activities which include the continuing operation of the business. The Company has shareholders' equity of \$16,757,016 compared to \$13,956,642 on December 31, 2017 and mortgages payable of \$9,941,342, as compared to \$10,115,656 on December 31, 2017, in the definition of capital.

In managing its capital, the Company estimates its future cash requirements by preparing a budget annually. The budget establishes the activities for the upcoming year and estimates the costs associated with these activities.

Historically, funding for the Company's plans was primarily managed through the cash generated from operations and through obtaining financing. There are no assurances that funds will be made available to the Company when required in the future.

The company is not subject to externally imposed capital requirements.

**CONCLUSION**

The second quarter results for BGA expressed the final completion of our IMO factory here in Edmonton, AB that is now certified and producing product. We are continually trying new sources of Starch, to achieve the best value for our clients. We are working now to extend our product offering with Pea Starch that not only has excellent values, but is available from the USA, using Canadian peas, which is very beneficial.

The outlook for the next two quarters appears to be very promising based on the new developments with Distributors in Asia, Europe, Australia and New Zealand. The Indian market which is vast and the Government's Concern for their citizens health, opens great opportunities for BioNeutra's product, "VitaFiber".



BioNeutra expects to launch its retail products before the end of 2018, and the launch will be first in the USA and in 5 states. This is our VitaFiber syrup that will be presented and offered for sale in retail stores in those states.

BioNeutra, continues to research new products and is continuing with research and development partnering with Universities and formulators in both the USA and Canada. It is our long-term plans to have many additional products available in the coming years.

BioNeutra is cognizant of the possible changes to regulations that may have an impact the company's products and they are aware of the continuing need to develop new products. We are fortunate to have 5 doctorates experienced in the development of new products both for Retail and Commercial business.

BioNeutra had a 35% increase in sales over the same 6 months of 2017, a substantial amount due to the recognition of the product and the continuing concern people have about using products that have a reduction in sugar and are healthier for the consumer.

We will continue our commitment to producing healthy products for consumers and invest along with the support of Government agencies to assist in the financing of these new products.

Corporate Offices:  
9608 – 25th Avenue NW  
Edmonton, AB T6N 1J4

Further information about BioNeutra is available on the Company's website at [www.bioneutra.ca](http://www.bioneutra.ca) and the SEDAR website at [www.sedar.com](http://www.sedar.com).

