



# **BioNeutra Global Corporation**

**TSXV:BGA**

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

For the three-month and six-month  
period ended June 30, 2019

## **INTRODUCTION**

The following Management's Discussion and Analysis ("MD&A") for BioNeutra Global Corporation ("BioNeutra" or the "Company"), prepared as of August 2, 2019 for the three and six months ended June 30, 2019 and should be read in conjunction with the Company's June 30, 2019 interim condensed consolidated financial statements.

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 is responsible for the information disclosed in this MD&A and is also responsible for ensuring procedures and controls exist within the Company that will 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 provide an oversight role 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 interim condensed consolidated financial statements noted by committee.

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 involve risk and uncertainties, reflect the Company's current beliefs and are based on information currently available to the Company and on assumptions the Company believes are reasonable. These assumptions include, but are not limited to, demand for the Company's products, meeting budgets and forecasts and 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 forward-looking statements, there may be other factors that cause results not to 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 operates a business consisting of research, development, production and commercialization 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, is generally regarded as safe (GRAS) by the U.S. Food & Drug Administration and is European Food Safety Authority and Health Canada approved. VitaFiber™ IMO is naturally sweet and lower in calories than sugar and is 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 agriculture cereal crops including corn, tapioca, or field pea into the functional health molecules of isomaltoligosaccharide (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 in Canada, the U.S.A, Europe, and SE Asia. VitaFiber™ IMO is also available for retail purchase across the globe through Amazon.com and Shopify.com.

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).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*For the three-month period and six-month period ended June 30, 2019*

### FINANCIAL HIGHLIGHTS

(in 000's except per share amounts)	Three months ended				Six months ended			
	June 30 2019	June 30 2018	Change \$	Change %	June 30 2019	June 30 2018	Change \$	Change %
Sales	\$ 9,023	\$ 12,194	\$ (3,171)	(26%)	\$ 17,653	\$ 22,047	-\$ 4,394	(20%)
Adjusted EBITDA <sup>(1)</sup>	324	2,590	(2,266)	(87%)	(447)	4,928	(5,375)	(109%)
Adjusted EBITDA as a % of revenue	4%	21%		(18%)	(3%)	22%		(25%)
Adjusted (loss)/income <sup>(1)</sup>	324	604	(280)	(46%)	(806)	2,230	(3,036)	(136%)
Net (loss)/income	\$ (4,661)	\$ 604	\$ (5,265)	(872%)	\$ (5,791)	\$ 2,230	\$(8,021)	(360%)
Diluted per share								
Adjusted EBITDA	\$ 0.01	\$ 0.06	(0.05)	(87%)	\$ (0.01)	\$ 0.11	(0.12)	(109%)
Adjusted (loss)/income	\$ -	\$ 0.01	(0.01)	(100%)	\$ (0.02)	\$ 0.05	(0.07)	(140%)
Net (loss)/income	\$ (0.10)	\$ 0.01	(0.11)	(1100%)	\$ (0.13)	\$ 0.05	(0.18)	(360%)
Total Assets					\$ 34,815	\$ 39,481		
Working Capital					4,553	8,919		
Long-term debt					7,189	9,689		
Shareholders Equity					12,369	16,757		

(1) Refer to the "Non-IFRS Measures" section for a definition of non-GAAP terms as well as reconciliations for Adjusted EBITDA, Adjusted operating (loss)/income, and Adjusted (Loss)/income.

### Q2 2019 and YTD HIGHLIGHTS

BioNeutra continued its market penetration obtaining new distribution agreements and further expanded its product offering geographically. Despite this effort, the Company was faced with a series of challenges that impact sales, gross profit and EBITDA during the quarter. Supply chain shortages, product warranty claim, inventory impairment provision, increased tariff charges all negatively impacted the Company's profitability for the second quarter of 2019.

BioNeutra Canadian manufacturing plant is presently commissioned, licensed and in production. As a result, we are now positioned to provide high quality retail products from the Canadian facility. In addition, the Canadian plant positions us to help offset possible future adverse events that may arise in other contracted plants at other locations. The plant has not yet reached full capacity and as such costs per kilo in quarter 2 were considerably higher than budgeted. Management has taken steps to increase production and lower costs for the second half of 2019.

Sales for the three-month period June 30, 2019 were \$9,022,745, compared to sales of \$12,193,507 for the same period of 2018 a decrease of \$3,170,672 or 26%. Sales for the six-month period ended June 30, 2019 were \$17,653,111, compared to \$22,046,553, for the first half of 2018, a decrease of \$4,393,442 or 20%. The decrease primarily relates to one customer curtailing purchases as they adjusted for their new packaging and labeling requirements.

Adjusted EBITDA for the second quarter was \$124,000 compared to \$2,589,000 in the comparable period in 2018. This 95% decrease was due to lower margins as the Company ran into a product manufacturing shortage from one of our contract manufacturing resulting in us substituting a higher costed ingredient and selling that product below cost. In addition, the Company recorded an inventory impairment of \$ 1,376,176, a bad debt allowance of \$829,985 and contingent liability for product warranty claims for \$947,427.

The Company recorded an adjusted net loss of \$19,000 and \$1,149,000 or \$0.00 and negative \$0.03 diluted loss per share for the three and six months ended June 30, 2019.

BioNeutra had working capital of \$4,553,012 compared to \$8,919,230 at June 30, 2018, a decrease of 49%. This was due to the increase in inventory based on increased demand for product and the Company increasing its infrastructure costs to ensure it can meet demand requirements.

The Company's products that are being sold are becoming more and more diversified, from original basic VitaFiber

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powder and syrup to current organic, DP3, organic DP3, VitaSweet, DexiFiber, Beta Glucan, BetaFiber powder and syrup, as well as retail products. The Company's sales regions and countries are continually further expanded to more countries in the world, new regions recently explored include India, Thailand, Indonesia, Malaysia, Vietnam, Cambodia, Philippines, Australia & New Zealand, Turkey, Israel and Brazil.

### OUTLOOK

Management has taken proactive steps to respond to the critical shortage of supply from contract manufacturers by initiating new contract agreements and developing plans to expand capacity of manufacturing that would be owned by BioNeutra. As noted, this critical outage of supply means that margins in the second quarter for several of our main products were severely suppressed or even at times at a negative percentage. BioNeutra chose to protect our customers from shortages by substituting high cost product. We believe that this situation will occur to some degree into the third quarter.

BioNeutra is continuing its path to obtain market share in regions where it currently provides products, namely North America, Europe, India and South East Asia. Our retail products are being revamped and are planning a new launch in September of this year. Our ability to produce quality products at traditional gross profit is currently dependent on our contracting manufacturing and we will seek to have multiple contracts to minimize supply chain risk.

The Company has continued to invest in research and development as a commitment to our quality, but also to create new products that can complement our existing product offering.

Industry trends in health and wellness, plant-based products, fiber and sugar all strongly support continued growth and demand for our product. A key feature of VitaFiber IMO is their versatility. Few competitive products, and none manufactured in North America, possess the full functionality of these products. Its unique combination of health attributes allows BioNeutra to enter several segments within both mainstream and functional food and beverage markets and retail businesses. Coupled with superior functional attributes and extensive regulatory approvals, VitaFiber IMO represents excellent value for food and beverage manufacturers. They are also available as a certified organic product.

### SUMMARY OF CONSOLIDATED FINANCIAL RESULTS

#### Revenue

(in 000's except per share amounts)	Three months ended				Six months ended			
	June 30	June 30	Change		June 30	June 30	Change	
	2019	2018	\$	%	2019	2018	\$	%
Sales	\$ 9,023	\$ 12,194	-\$ 3,171	-26%	\$ 17,653	\$ 22,047	-\$ 4,394	-20%

Sales were \$9,022,745 for the three months ended June 30, 2019, representing a decrease of \$3,170,762 or 26% compared to Q2 2018 sales which were \$12,193,507. Sales decreased for the first half of 2019 compared the same period in 2018 by \$4,393,442 or 20%. The decrease in the quarter and for the first half of 2019 relate to one high value client that has reduced their purchases year over year in anticipation of a change in their label requirements which was out of their control. This customer continues to purchase product from the Company and management believes that the Company will be able to recover this decreased volume in the back of half of 2019.

The Company's customer base continues to grow as mainstream functional and health food and beverage manufacturers and nutraceutical companies are creating products incorporating VitaFiber™ IMO. The Company continues to grow its customer base focusing on functional and health food markets. The Company continues to establish worldwide distribution channels in India, Australia, Asia and Europe. The Company's retail products are being revamped and we are planning a new launch in late Q3 2019. The Company is pursuing new avenues of supply chain to ensure shortages that occurred during the quarter do not happen in the future.

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### Gross Profit

(in 000's except per share amounts)	Three months ended				Six months ended			
	June 30	June 30	Change		June 30	June 30	Change	
	2019	2018	\$	%	2019	2018	\$	%
Gross Margin	\$ (289)	\$ 3,982	\$ (4,271)	(107%)	\$ 2,084	\$ 7,008	\$ (4,924)	(70%)
% of sales	(3.2%)	32.7%		(36%)	11.8%	31.8%		(20%)

The Company recorded net profit of (\$288,848) for the three months ended June 30, 2019 compared to gross profit of \$3,982,345 for the same comparable period of 2018. Gross profit as a percentage of sales fell to negative 3.2% compared to 32.7% for the same period in 2018. This significant drop was the result of selling a product below cost as a result of a supply chain disruption. This disruption caused an 8 week delay in one product. In order to meet the delivery timelines, the Company fulfilled the order with a higher costed, organic product. In addition, the Company also incurred a significant increase on transportation of this product to meet delivery timelines. These costs were not passed through to the customer. New tariffs were introduced during the quarter that resulted in higher cost of goods. The Company has been unable to pass all of these tariffs through to its customers at this time. In addition, a number of one time rework issues were experienced while commissioning of the new plant which resulted in a higher cost of goods sold for this product of an additional \$383,800.

The Company's current systems for management, including costing of inventory and goods manufacturing in progress is not keeping up with the demands being placed on it. As a result, the Company recorded a \$1,376,167 impairment of inventory. A comprehensive review of the system is underway and management will determine the steps moving forward to ensure there a more robust system in place to manage the significant demand we foresee in future periods.

Adjusting for these one-time, unusual items gross profit would have been \$2,909,829 and \$5,282,242 for the three and six months ended June 30, 2019 and 32.2% and 29.9% respectively as a percentage of sales. The Company anticipates margins will improve in the back half of 2019 as supplier shortages have been resolved and management is taking steps to more prudently manage its inventory which will result in more accurate costing and improved profits.

### Expenses

(in 000's)	Three months ended				Six months ended			
	June 30	June 30	Change		June 30	June 30	Change	
	2019	2018	\$	%	2019	2018	\$	%
Salaries and benefits	\$ 704	\$ 623	\$ 81	13%	\$ 1,550	\$ 1,156	\$ 394	34%
General and administration	647	366	281	77%	1,253	639	614	96%
Warehouse costs	380	248	132	53%	647	514	133	26%
Sales and marketing	240	236	4	2%	472	455	17	4%
Professional fees	251	202	49	24%	477	412	65	16%
Research and development	181	92	89	97%	249	163	86	53%
	\$ 2,403	\$ 1,767	\$ 636	36%	\$ 4,648	\$ 3,339	\$ 1,309	39%
Bad Debt	830	-	830	100%	830	-	830	100%
<b>Total Expenses</b>	<b>\$ 3,233</b>	<b>\$ 1,767</b>	<b>\$ 1,466</b>	<b>83%</b>	<b>\$ 5,478</b>	<b>\$ 3,339</b>	<b>\$ 2,139</b>	<b>64%</b>

Total expenses increased by 83% to \$3,234,213 for the three months ended June 30, 2019 compared to \$1,766,963 for the same comparable period in 2018, while total expenses were \$5,477,799 for the six months ended June 30, 2019 compared to \$3,340,446 for the same comparable period of 2018. The increase primarily related to a provision for a potential uncollectible accounts receivable that was recorded during the quarter. In addition, the Company continued its research and development on new products and had a number of memberships come for renewal during the period.

Salaries and benefits were \$704,124 and \$1,550,227 for the three and six months ended June 30, 2019 compared

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period and six-month period ended June 30, 2019

to \$622,710 and \$1,156,110 for the same comparable periods of 2018. The 13% and 34% increases relate to increase salaries for employees along with additional personnel in the areas of the Canadian production line due to increase production demands. The Company employed 17 employees at June 30, 2019 compared to 12 employees at June 30, 2018.

General and administration expenses were \$646,913 for the three months ended June 30, 2019 and were \$1,252,912 for the first half of 2019 compared to expenses of \$366,400 and \$639,413 for the same comparable periods in 2018. These increases related to a one-time adjustment relative to the prepaid expenses on licenses, memberships, and insurance.

Warehouse costs increased by 53% and 26% respectively to \$380,484 and \$646,794 for the three and six months ended June 30, 2019 compared to costs of \$247,890 and \$514,157 respectively for the same comparable periods in 2018. These increases related to the expansion of the Global distribution and marketing network.

Sales and marketing expenses have remained relatively consistent for the quarter and year to date when compared to the same period and year to date of 2018. There were no significant changes with the sales approach which resulted in consistent expenses year over year.

Professional fees were \$251,485 and \$477,068 for the three and six months ended June 30, 2019 compared to \$201,518 and \$412,498 for the same comparable periods in 2018, increases of 24% and 16% respectively. The increase during the quarter was the result of increased audit fees for the completion of the 2018 audit and quarterly reviews. Year over year the increase also relates to additional legal fees paid for responses to the legal issues identified and the protection of intellectual property in Europe.

Research and development expenses increased to \$181,213 from \$92,375 for the three months ended June 30, 2019 while the same expenses increased to \$248,847 from \$163,384 for the six months ended June 30, 2019. These increases relate to increased research work being conducted on new formulations throughout 2019 to expand the Company's product offering.

Bad debts increased during the quarter as one of the Company's customers was unable to pay outstanding amounts owed to the Company. While the Company maintains insurance over customer balances, it is limited to set dollar amount of outstanding amount. As a result, the Company has set up a provision for a doubtful account on the amount not covered by insurance.

### Amortization and Interest on Long-term debts

(in 000's)	Three months ended				Six months ended			
	June 30 2019	June 30 2018	Change		June 30 2019	June 30 2018	Change	
			\$	%			\$	%
Amortization of property, plant and equipment	\$ 22	\$ 164	\$ (142)	(87%)	\$ 55	\$ 234	\$ (179)	(76%)
Amortization of intangible assets	338	122	216	177%	464	222	242	109%
	\$ 360	\$ 286	\$ 74	26%	\$ 519	\$ 456	\$ 63	14%

Amortization on property, plant and equipment was \$22,228 and \$55,022 for the three and six months ended June 30, 2019 compared to \$164,245 and \$233,660 for the same comparable periods in 2018. The decrease was due to amortization on production assets now in use being recorded in cost of goods sold in 2019. Amortization of intangible assets was \$337,968 and \$463,916 for the three and six months ended June 30, 2019, increases of 177% and 109% respectively compared to the same comparative periods in 2018. These increases relate to larger balances that now being amortized.

Interest on long-term debt was \$150,712 for the three months ended June 30, 2019 while interest was \$263,498 for the first half of 2019 compared to interest of \$122,089 and \$222,090 for the same comparable periods of 2018. These increases relate to larger loan balances where interest was being charged for the full period in 2019.

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### Other Income (Expenses)

(in 000's)	Three months ended				Six months ended			
	June 30	June 30	Change		June 30	June 30	Change	
	2019	2018	\$	%	2019	2018	\$	%
Other income/(expense)	\$ (995)	\$ 375	\$(1,370)	(365%)	\$ (2,038)	\$ 1,260	\$(3,298)	(262%)

Other income/(expenses) consist of grant proceeds, interest income, contingent gains/losses as well as foreign exchange gains/losses. During the three and six months ended June 30, 2019 the Company reported other losses of \$994,695 and \$2,037,686 compared to other income of \$374,721 and \$1,260,360 for the same comparable periods of 2018. During the second quarter of 2019 the Company recorded a contingent loss of \$947,427 on a product warranty claim. It is still undetermined at this time as to the potential settlement; however, management has made a provision based on the amount of product purchased by the customer. The customer remains a customer of the Company. In addition, for the first half of 2019, the Company recorded a foreign exchange loss of \$1,123,501 in relation to customers, and vendors transactions in foreign currencies. Management is currently working on a detailed review of transactions and the impact foreign currencies have these transactions in and in effort to minimize the impact of future fluctuations where possible.

### Adjusted EBITDA and Net (loss)/income

(in 000's)	Three months ended				Six months ended			
	June 30	June 30	Change		June 30	June 30	Change	
	2019	2018	\$	%	2019	2018	\$	%
Adjusted EBITDA	\$ 467	\$ 2,589	\$(2,122)	(82%)	\$ (447)	\$ 4,928	\$(5,375)	(109%)
As a % of sales	5%	21%			(3%)	22%		
Net (loss)/income	\$ (4,661)	\$ 604	(5,265)	(872%)	\$ (5,791)	2,230	(8,021)	(360%)
As a % of sales	(52%)	5%			(33%)	10%		

The Company recorded a net loss of \$4,660,618 for the three-month period end June 30, 2019 as compared with a net income of \$604,339 for the three-month period ended June 30, 2018. The Company's net loss in the three month period ended June 30, 2019 is the result of increased operating and management expenses with a decrease of sales and gross profit. The Company recorded a net loss of \$5,791,456 for the six months ended June 30, 2019 compared to net income of \$2,229,671 for the six months ended June 30, 2018.

**SUMMARY OF QUARTERLY RESULTS**

(in 000's)	2019			2018			2017		
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	
<b>Consolidated</b>									
Total Revenue	\$ 9,023	\$ 8,630	\$ 7,281	\$ 8,390	\$ 12,194	\$ 9,853	\$ 8,031	\$ 7,869	
Gross Profit	(289)	2,372	1,048	2,347	3,982	3,025	2,519	1,193	
Net (loss)/income	(4,661)	(1,131)	1,712	(839)	604	1,625	(680)	(1,214)	
Current assets	19,810	22,366	23,178	22,797	21,954	17,468	14,272	13,201	
Non-current assets	15,005	15,887	16,808	16,634	17,527	17,291	16,699	16,239	
Total assets	34,815	38,253	39,986	39,431	39,481	34,759	30,971	29,440	
Current liabilities	15,257	13,641	13,849	14,036	13,035	10,696	8,838	8,977	
Non-current liabilities	7,189	7,771	8,078	9,749	9,689	8,147	8,176	7,749	
Total liabilities	22,446	21,412	21,927	23,785	22,724	18,843	17,014	16,725	
Shareholders' Equity	12,369	16,841	18,059	15,646	16,757	15,916	13,957	12,715	
Cash	1,489	1,610	1,498	3,838	5,004	590	1,386	1,054	
Working Capital	4,553	8,726	9,329	8,761	8,919	6,772	5,434	4,222	

The table above presents the Company's financial performance. Over the past several quarters, the general trend of the Company's revenues and gross profits has been positive. The Q2 2019 results are discussed above. Gross margins in the quarters were impacted to inventory impairments and the Company having to sell one its products below cost due to a supply chain shortage.

BioNeutra continues to develop, protect and exploit its worldwide distribution rights for VitaFiber™ IMO. International sales are supported by warehousing facilities in the U.S. (Port Reading, NJ; Fontana, CA; Youngwood, PA) Europe, Amsterdam, Canada (Brampton, Quebec, & Edmonton), Australia - Melbourne, and India - Arshiya.

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 channels, including from prominent global online retailer such as Amazon.com and Shopify.com.

**FINANCIAL CONDITION & LIQUIDITY**

The Company's primary liquidity needs are to fund ongoing operations, service existing debt obligations, fund capital expenditures, and finance growth opportunities. In addition, the Company must service its debt, including principal and interest payments and finance its working capital needs. The Company relies on cash from operations, bank indebtedness, long-term debt and equity financing. In managing capital, the Company estimates its future cash requirements by preparing a budget which establishes the activities for the upcoming year and provides estimates of the costs associated with these activities. Historically, funding for the Company's plan 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 000's)	June 30 2019	December 31 2018
Current assets	\$ 19,810	\$ 23,178
Current liabilities	15,257	13,849
Working capital	\$ 4,553	\$ 9,329

As at June 30, 2019, the Company had working capital of \$4,553,012 compared to \$9,328,968 at December 31, 2018. The Company's current ratio (defined as current assets divided by current liabilities) was 1.30 to 1 compared to 1.67 to 1 as at December 31, 2018.

(in 000's)	June 30 2019	June 30 2018
Operating activities	\$ 414	\$ 5,388
Investing activities	(83)	(799)
Financing activities	(471)	(454)
Change in cash position	-\$ 140	\$ 4,135

For the six months ended June 30, 2019, \$413,686 cash was generated by operating activities compared to cash generated of \$5,388,100 for the same period last year. The decrease was mainly due to decrease in working capital as the Company used cash to build inventories and while carrying more accounts receivable. In addition, the Company ramped up operating infrastructure as demand is anticipated to increase. Cash used in financing activities was \$83,256 for the period ended June 30, 2019 compared to cash used of \$798,969 for the same comparable period. The decrease was the result of the Company spending less money on property, plant and equipment as the Company is fully operational and did not require significant expenditures. Cash used in investing activities were \$470,853 for the period ended June 30, 2019 compared to cash used of \$454,176 for the period in 2018. Financing activities include net proceeds/repayments of mortgages, interest paid on debts, and capital leases as well as repayment of government grants.

**SHARE DATA**

As at June 30, 2019, the Company had 46,448,787 common shares outstanding with 36,886 dilutive options for a fully diluted share count of 46,485,673. The Company had 500,000 stock options outstanding at June 30, 2019.

**RISK FACTORS AND UNCERTAINTIES**

The Company is exposed to a number of risks and uncertainties that may affect the operations and success of the Company. Management and the Board work to identify and manage these risks on an ongoing basis. Risk management is carried out by financial management in conjunction with overall corporate governance. 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, results of operations and cash flows.

***Dependence on Third Parties***

The Company relies in part on contract manufacturers to produce its products, however that risk is partially mitigated by the production capacity of our new Canadian plant.

The Company's management has long-term relationships with multiple contract 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 its VitaFiber™ IMO using its own patent-protected processes, it can effectively control the quality of the IMO that is produced using these patent-protected processes.

***Competition***

The functional food and beverage industry is characterized by competition and ongoing product development in all its phases. The Company competes with numerous other organizations in the development and sales of functional food and beverage ingredient products, including companies that have significant financial resources, marketing, sales, staff and facilities. The Company's ability to remain viable in the future will depend on its ability to develop, maintain and exploit its intellectual property, remain cost effective, and develop markets for its products. Competitive factors in the manufacture and sales 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 this regard, its future growth may be negatively impacted.

***Key Personnel***

The success of BioNeutra depends upon the efforts of its senior management. The Company has in place a qualified and experienced senior management team that has successfully led the Company to increase revenues and expand market share in North America, Europe, Australia/NZ and SE Asia.

***Regulation***

BioNeutra, its subsidiaries and the products it sells are subject to a variety of laws and regulations, such as those enforced by Health Canada, the US-FDA, the European EFSA and others, and may become subject to additional laws, regulations and guidelines in the future. The financial and managerial resources necessary to ensure such compliance 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 changes in the regulatory framework may occur that 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 will require licenses from various governmental authorities. There can be no assurance that the Company and its subsidiaries will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

The Company's senior management team monitors regulatory changes daily and is qualified and prepared to adjust to any significant regulatory changes to ensure that the operations of the Company will not be adversely affected.

***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 existing business levels. The Company intends to raise capital for its future business development.

***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, related to personal injuries, property damage, property tax, and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may not be determined in the Company's favor.

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

results of operations.

- a. Vita US Inc. has filed an originating application against BioNeutra seeking the followings:
- A declaration that agency agreements between the parties are binding upon the Defendants;
  - An order requiring the Defendants to disclose all records they have with their dealings with leads provided to them by Vita US Inc.;
  - Costs of the application; and
  - Such other relief as the court deems just

No amount has been accrued in the Company's financial statements as the outcome of this matter cannot be determined and the amount of the loss cannot be reliably determined.

- b. A claim has been made by Mohammad Hassan Qureshi and Pak-Alberta Consultant Inc. as the plaintiff, against BioNeutra North America Inc. The action was filed March 17, 2017. BioNeutra has filed a Statement of Defense and a counterclaim in this matter. No amount has been accrued in the Company's financial statements as the outcome of this matter cannot be determined and the amount of the loss cannot be reliably determined.
- c. A claim has been made by one of the customers, seeking for various compensations and damages resulting from alleged mislabeling caused by the Company. The Company is currently negotiating a settlement regarding this claim and has recorded a contingent liability of \$947,427. The Company is looking at alternatives to mitigate the damages of this claim which may include future price concessions on products ordered.

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

The Company has implemented a stringent quality control program with its manufacturers. In the event of a product recall or product liability claim, the Company has in place products' liability 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 can materially impact the business, operating results and financial condition of the Company's subsidiaries and 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 purchase the same amount of the Company's products as in the past, or that purchases may not be on similar terms. To mitigate customer-based risks, the Company's management works continually to increase 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, the Company's management has developed long-term relationships with multiple contract manufacturers, dating back to 1998. The Company works closely on an ongoing basis with these manufacturers to nurture mutually beneficial relationships. In addition, the Company reduced this risk when it began operating its own production plant in 2018. This production line has been steadily increasing its efficiency.

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

The Company intends to continue efforts to increase its international operations beyond the U.S. 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 of administering business and compliance abroad, compliance with domestic and foreign laws, costs related to localizing products for foreign markets, translating and distributing products in a timely manner. International sales may also expose the Company to risk from 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 by more than one jurisdiction.

Management is confident that regulatory approvals received from Health Canada, the US FDA, and the European Food Safety Authority (EFSA) 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. As with all intellectual property, a risk exists that the Company's intellectual property could be challenged or struck out.

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.

BioNeutra has made and will continue to make significant investments in research and development, production and commercialization of food and beverage ingredients, product development and related product opportunities. The Company donated its pilot plant equipment to University of Alberta and partnered with the university 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, sufficient 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 not receive regulatory approval, and even if they do receive regulatory approval, they may not be profitable.

In order to ensure that the Company makes informed decisions in allocating its research and development efforts, the Company's Board has implemented a Scientific Advancement Committee. The primary functions of this Committee are to advise the Board and management on scientific matters involving the Company's research and development programs, to interact with academic and other outside research organizations, and to help the Company stay ahead of the curve and anticipate emerging concepts and trends in the functional food and beverage ingredient industry.

***Cyber Security***

BioNeutra has implemented various IT technology provisions, processes and practices designed to protect 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, investment, accounts payable and accrued liabilities, note payable, mortgages payable, capital lease and repayable government contribution.

***Financial risk management***

The Company's activities are exposed to a variety of financial risks: 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 results. Risk management is carried out by financial management in conjunction with overall corporate governance.

**Liquidity risk**

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable, purchasing commitments and obligation or raising funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital and cash flows. As at June 30, 2019 the Company had a cash balance of \$1,488,611 (December 31, 2018 – 1,497,580), accounts receivable of \$4,042,532 (December 31, 2018 - \$4,543,507), and had a working capital balance of \$4,553,012 (December 31, 2018 - \$9,328,968). Current financial liabilities of \$15,257,208 (December 31, 2018 - \$13,849,412) that will be settled within one year.

**Credit risk**

The Company's exposure to credit risk relates to cash, accounts receivable and investment arises from the possibility that the third party does not satisfy its 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 Expected Credit Loss (simplified approach) Model of IFRS, historical trends and other information.

**Concentration of credit risk**

The Company is exposed to credit risk on the accounts receivable from its customers. As at June 30, 2019, approximately 55% (December 31, 2018 – 46% from two customers) of the trade accounts receivable balance is owed from three customers. The Company minimizes its exposure to the concentration of risk by developing a larger client base.

The Company obtains inventory from contract manufacturer and is dependent 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 viable operations could be maintained through obtaining inventory from other manufacturers and until the production line in Edmonton, Alberta produce mass of qualified products.

**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 currency to which the Company had exposure as at June 30, 2019 and December 31, 2018 in Canadian dollar terms. The table also illustrates the potential impact to the Company's net equity as at June 30, 2019 and December 31, 2018 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.

(in 000's)	Total Exposure		Impact on Net Equity	
	June 30	December 31	June 30	December 31
	2019	2018	2019	2018
US Dollar	\$ 12,000	\$ 18,059	\$ 937	\$ 904
As a % of Net Equity	106.59%	100.10%	5.33%	5.01%

**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.

**NON-IFRS MEASURES**

The Company uses certain measures in this MD&A which do not have standardized meaning as prescribed by IFRS. These measures, which are derived from information reported in the annual consolidated financial statements, may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company. These non-IFRS measures are identified and defined as follows:

**Adjusted Net (loss)/income and Adjusted EBITDA**

Adjusted net (loss)/income are defined as net (loss)/income before non-recurring events, net of corporate income taxes ("Adjusted Net (loss)/income"). Management believes that in addition to net (loss)/income, Adjusted net (loss)/income is a useful supplemental measure that represents normalized net income from the business so that financial statement users can make insightful comparisons between current period and historical results. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment charges, share-based payments and non-recurring events ("Adjusted EBITDA"). Management believes that in addition to net income, Adjusted EBITDA is a useful supplemental measure of operating performance that normalizes financing, depreciation, income taxes and other non-recurring charges which are not controlled at the operating level. The following table provides a reconciliation of net (loss)/income under IFRS, as disclosed in the interim consolidated financial statements to Adjusted Net (loss)/income and Adjusted EBITDA:

(in 000's)	Three months ended		Six months ended	
	June 30 2019	June 30 2018	June 30 2019	June 30 2018
Net (loss)/income	\$ (4,661)	\$ 604	\$ (5,791)	\$ 2,230
Add:				
Lost profit on one-time product sales	1,832	-	1,832	-
Impairment on inventory	1,376	-	1,376	-
Contingent liability	947	-	947	-
One-time bad debt allowance	830	-	830	-
Adjusted net (loss)/income	324	604	(806)	2,230
Add:				
Interest	151	122	263	222
Income tax (recovery)/expense	(368)	1,489	(423)	1,827
Depreciation and amortization	360	374	519	649
Adjusted EBITDA	\$ 467	\$ 2,589	\$ (447)	\$ 4,928

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

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