BioNeutra Global Corporation

TSXV:BGA

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended
December 31,2019 and 2018

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") for BioNeutra Global Corporation ("BioNeutra" or the "Company"), prepared as of June 13, 2020, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 and the notes thereto Readers are encouraged to read the "Forward-Looking Information" contained in this document.

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("ISAB"). The Company'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 of Directors provide an oversight role with respect to the Company's accounting and audit procedures and its public disclosures. The Audit Committee and Board of Directors have reviewed and approved this MD&A and the accompanying audited consolidated financial statements.

Additional information on the Company, including its annual audited consolidated financial statements, is available on SEDAR (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") , BioNeutra International Limited ("BioNeutra International"), and BioNeutra Hong Kong Inc. ("BioNeutra Hong Kong") 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 production processes that naturally transform starch molecules from agriculture cereal crops including tapioca, field pea or corn 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 in Canada, the U.S.A, Europe, Australia and Southeast 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, the SEDAR website at www.sedar.com and on the TSXV website at www.tsx.com.

FINANCIAL HIGHLIGHTS

Q4 2019 and YTD HIGHLIGHTS

BioNeutra enjoyed strong sales growth in the fourth quarter of 2019 with sales increasing 33% over the comparable quarter in 2018. Research and development work on new products that will target the USA market for soluble fiber content are being tested by several of our larger clients in anticipation of significant growth in demand. The demand for newly developed products is expected to be a strong driver for 2020 sales. During 2019, BioNeutra negotiated agreements with IMO contract manufacturing facilities to provide products and this will help ensure stability and security of supply for the products that it sells .

The Company was also able to achieve an amiable settlement of an outstanding recall claim from a key customer. This allowed the Company to maintain a solid customer relationship and is it now experiencing increasing sales from the customer.

Certain inventory items are overstocked or expired, largely due to a rapid change in customer preferences in the type of IMO they prefer to use, and the Company has recorded 2019 writedowns totalling $7,169,000 to reduce the carrying value of items that will expire or require reworking to extend the shelf life. The Company will also investigate potential refund claims from its suppliers for certain batch lots of IMO that expired before date represented by the manufacturer.

BioNeutra's Canadian manufacturing plant is now in production, and the Company is now positioned to provide high quality ingredient and retail products from the Canadian facility. The Canadian plant positions us as the only IMO supplier that can provide North American products from local feedstock as well as the mitigation of risk from possible future adverse events that may arise in other contracted plants at other locations. In 2019 the practical capacity could not be achieved resulting in high production costs and writedowns of product value to net realizable value. Current indications in 2020 are that there are multiple products that customers want to buy and the plant will scale up to running at or near capacity, bringing the expected cost of production down to profitable levels.

Sales for the three months ended Dec 31, 2019 were $9,675,000 compared to sales of $7,280,000 for the same period of 2018 an increase of $2,395,000 or 33%. Sales for 2019 were $37,700,000 and consistent when compared to $37,717,000 for the 2018. Management is optimistic that new products and market opportunities in 2020 will contribute to sales and help mitigate the challenges in the upcoming year from a difficult economy due to the Covid 19 pandemic.

BioNeutra had a working capital deficit of $(1,928,672) at December 31, 2019 compared to $9,328,968 at December 31, 2018. The decrease in working capital is due to operating losses that occurred in 2019, the writeoff of a major accounts receivable due to the bankruptcy of a large customer, the settlement of a labelling claim with a long time customer, the provision for potential litigation exposure, and a major writedown in inventory. For all these reasons, 2019 turned out to be the most difficult year since BioNeutra became a public company.

The Company's products are becoming more and more diversified, from original corn derived VitaFiber powder and syrup to alternate feedstock sources including tapioca and pea, and products that have organic certification to penetrate the fast growing organic market. The Company expects to launch additional new products in 2020, with all planned launches supported by customer requests and purchase orders. The Company's sales regions and countries are continually expanding to more countries in the world, with new regions including India, Thailand, Indonesia, Malaysia, Vietnam, Cambodia, Philippines, Australia & New Zealand, Turkey, Israel and Brazil.

OUTLOOK

Management has taken proactive steps to respond to the results of a very difficult 2019. New supply agreements were negotiated and the Company is most excited to be launching new products from its Edmonton facility. It is expected that in the second half of 2020 the Edmonton facility will operate at or near practical capacity. The Edmonton facility is the first North American IMO facility and will capture demand from the growing market trend to sourcing products made in North America.

The Company has continued to invest in research and development in support commitment to our quality and our market leadership position. New products that build on our established brand, utilize Canadian agriculture crops, and exploit market opportunities will make 2020 an exciting year. The online sales of the retail product are showing strong growth in 2020 and the Company will be pursuing multiple opportunities to get wide spread distribution of Vitafiber and its health benefits to consumers..

Industry trends in health and wellness and plant-based products will strongly support the continued growth and demand for our product. A key feature of the VitaFiber IMO family of products 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 ingredient food and beverage markets, as well as retail markets targeting consumers seeking a healthy sweetener or prebiotic fiber. The superior functional attributes of Vitafiber IMO, together with its extensive regulatory approvals, represents excellent value for food and beverage manufacturers. They are also available as a certified organic product to address the rapid growth in this market.

SUMMARY OF CONSOLIDATED FINANCIAL RESULTS

Revenue

	Three Months Ended				**Twelve months Ended**			
	December 31		Change		December 31		Change	
(in 000's)	**2019**	2018	$	%	**2019**	2018	$	%
Sales	$9,675	$7,280	$2,395	33%	$37,701	$37,717	-$16	0%

Sales were $9,675,000 for the three months ended December 31, 2019, representing increase of $2,395,000 or 33% compared to the three months ended Dec 31, 2018 sales which were $7,280,000. The strong fourth quarter sales allowed the company to post sales very similar to last year, $37,701,000 compared with $37,717,000 in 2018, despite several major challenges including new tariffs in the United States that raised the cost of some products, customer apprehensions around FDA regulations for fiber, and the bankruptcy of a major customer.

The Company's customer base continues to grow as mainstream functional, health food and beverage manufacturers and nutraceutical companies are creating products incorporating VitaFiber™ IMO. The Company continues to grow its customer base by 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 were relaunched in Q3 2019 and initial feedback and results have been promising. With current production in our Canadian plant now being targeted to new products and the retail market, the Company will look to launch new products expand its retail offering while at the same time providing superior customer service to our existing and growing base of commercial clients.

Gross Profit

	Three Months ended				**Twelve months ended**			
	December 31		Change		December 31		Change	
(in 000's)	**2019**	2018	$	%	**2019**	2018	$	%
Gross Margin	-$2,277	$1,016	-$3,293	-324%	$638	$10,403	-$9,765	-94%
% of Sales	-24%	14%			2%	28%		

The Company recorded a gross profit for the three and twelve months ended December 31, 2019 of $(2,227,000) and $638,000 respectively compared to gross profit of $1,016,000 and $10,403,000 for the same comparable periods of 2018. Gross profit as a percentage of sales in Q4 2019 decreased to -24% compared to 14 % for the same period in 2018. The main factor that lead to the decrease of gross margin in the quarter was year end writedowns of $3,867,000 to expired inventory that was deemed to be not saleable. The decrease in year-end margins was attributable to writedowns for the year in the amount of $7,169,000 as well as increased costs due to supply chain disruptions in the second quarter that required the Company to fill orders with much higher cost products. In addition, the production line in Edmonton ran at well below capacity resulting in very high production costs.

Management has implemented many changes for improving the manufacturing process, promoting a higher yield rate from raw material to finish goods, more efficient use of raw materials, and the better cost control in 2020 and beyond. Overstock and expired inventory have been written down in 2019 so 2020 is expected to show a more reasonable level of stock and better management of inventory.

Expenses

	Three Months Ended				Twelve Months Ended			
	December 31		Change		December 31		Change	
(in 000's)	**2019**	**2018**	**$**	**%**	**2,019**	2,018	$	%
Salaries and benefits	**711**	661	50	8%	**2,984**	2,434	550	23%
Foreign exchange loss (gain)	**27**	-753	780	-303%	**1,088**	-1,612	2,700	-167%
General and administrative	**323**	169	154	91%	**2,016**	1,228	748	64%
Warehouse costs	**491**	326	165	51%	**1,292**	1,129	164	15%
Professional fees	**345**	126	219	175%	**1,109**	686	423	62%
Claim settlement (Note 20)	**1,050**	0	1,050	0%	**1,050**	0	1,050	0%
Bad debts expense	**64**	0	64	0%	**894**	0	894	0%
Sales and marketing	**66**	320	-253	-79%	**811**	1,145	-333	-29%
Amortization of intangible assets	**107**	189	-82	-43%	**746**	818	-72	-9%
Provision for Lawsuit(Note 19)	**643**	0	643	0%	**643**	0	643	0%
Interest on long term debts	**131**	133	-2	-2%	**521**	493	28	6%
Research and development	**185**	11	174	1651%	**440**	477	-36	-8%
Depreciation of property, plant and equipment	**21**	-529	550	-104%	**97**	158	-61	-39%
	4,164	**651**	**3,512**	**639%**	**13,690**	6,955	6,735	197%

Salaries and benefits were $711,000 in the fourth quarter and $2,984,000 for year ended December 31, 2019 compared to $661,000 for the fourth quarter and $2,434,000 for the year ended December 31, 2018. The 8% and 23% increases relate to increases in salaries for employees, bonuses paid in the first quarter, along with additional personnel in the Edmonton production line due to production runs to make products. The Company employed 51 employees at December 31, 2019 compared to 40 employees at December 31, 2018.

General and administration expenses were $323,000 in the fourth quarter and were $2,016,000 for the year ended December 31, 2019 compared to $169,000 and $1,228,000 for the same periods in 2018. These increases related to expenses for new business opportunities, increased use of consulting services, increased insurance premium as well as prepaid expense adjustments for licenses and membership fees.

The bad expense is related to a customer's insolvency in USA market. The Company believes the receivable is covered partially by insurance, and has written down the receivable to net realizable value. The Company expects to settle the insurance claim in 2020.

BioNeutra reached a claim settlement agreement with one customer seeking for various compensation and damages resulting from alleged mislabeling caused by the Company. BioNeutra has agreed to pay 750,000 USD or $1,050,000 Cdn. to settle the lawsuit. It is expected to be repaid fully in June 2020.

Warehouse costs increased by 51% to 491,000 for the three months ended December 31, 2019 compared to $326,000 for the same period in 2018. Total warehouse expenditures were $1,292,000 for 2019 compared to $1,129,000 for the same period of 2018, which represents 15% increase. The overstock, expiry, and slow movement for certain products due to changes in customer preferences increased the warehouse cost.

Sales and marketing expenses decreased 79% to 66,000 and 29% to 811,000 for the quarter and year to date when compared to the same period and year to date of 2018. BioNeutra took measures to control the marketing expense in 2019 and was able to still maintain a consistent sales volume. A sales and marketing grant of $74,000 also reduced costs. BioNeutra will take further steps to control the sales expense but will maintain all necessary expense to promote new products and market in 2020.

Professional fees were $345,000 and $1,109,000 for the three and twelve months ended December 31, 2019 compared to $126,000 and $686,000 for the same periods in 2018, increases of 175% and 62% respectively. Year over year the increase relates to additional legal fees paid for responses to the legal issues identified and the protection of intellectual property in Europe and Asia. In addition, the Company paid additional audit fees for quarterly reviews and increased fees for the 2019 year end audit. BioNeutra expects to reduce these costs significantly in 2020.

Research and development expenses increased to 185,000 from $11,000 for the three months ended December 31, 2019 and decreased to $440,000 from $477,000 for December 31, 2019. The changes relate to the receipt and timing of SR&ED credits during the current year versus the previous year. A SR&ED previously refunded to the Company was audited in the fourth quarter and a portion of the refund was repaid and charged back to research and development costs.

Interest on long-term debt was $131,000 for the three months ended December 31, 2019 while it was $521,000for the year compared to interest of $133,000 and $493,000 for the same comparable periods of 2018.

Depreciation of property, plant and equipment was $21,000 and $97,000 for the three and twelve months ended December 31, 2019 compared to $(529,499) and $157,976 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 and inventory in 2019. Amortization of intangible assets was $107,000 for the fourth quarter and $746,000 for the year ended December 31, 2019, decreases of 43% and 9% respectively compared to the same comparative periods in 2018.

Other Income (Expenses)

Other income (expenses) consists interest income and in 2018, a gain on the extinguishment of a liability.

SUMMARY OF QUARTERLY RESULTS

	2019				2018			
(in 000's)	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Consolidated								
Total Revenue	$9,675	$10,373	$9,023	$8,630	$7,281	$8,390	$12,194	$9,853
Gross Profit	-2,277	831	-289	2,372	1,048	2,379	3,982	3,025
Net (Loss)/income	-5,769	-913	-4,661	-1,131	1,712	-839	604	1,625
Current assets	20,637	20,565	19,810	22,366	23,178	22,797	21,954	17,468
Non-Current Assets	13,388	14,606	15,005	15,887	16,808	16,634	17,527	17,291
Total Assets	34,025	35,171	34,815	38,253	39,986	39,431	39,481	34,759
Current liabilities	22,566	17,234	15,257	13,641	13,849	14,036	13,035	10,696
Non-Current Liabilities	6,746	6,967	7,189	7,771	8,078	9,749	9,689	8,147
Total liabilities	29,312	24,201	22,446	21,412	21,927	23,785	22,724	18,843
Shareholders' Equity	4,713	10,970	12,369	16,841	18,059	15,646	16,757	15,916
Cash	523	1,825	1,489	1,610	1,498	3,838	5,004	590
Working Capital	-1,928	3,331	4,553	8,726	9,329	8,761	8,919	6,772

The table above presents the Company's financial performance. Over the past twelve months, the general trend of the Company's revenues has been stable and gross profits has been negative due mainly to write-downs of inventory and high costs of production at the Edmonton facility . The Q4 2019 results are discussed above.

BioNeutra continues to develop, protect and exploit its worldwide distribution rights for VitaFiber™ IMO. International sales are currently 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 retailers such as Amazon.com and Shopify.com. The Company will expand its product offerings in future quarters as well as increase production capacity at its offshore and domestic facilities.

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. 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 debt financing. There are no assurances that funds will be made available to the Company when required.

(in 000's)	**December 31, 2019**	December 31, 2018
Current Assets	20,637	23,178
Current Liabilities	22,565	13,849
Working Capital	-1,928	9,329

As at December 31, 2019, the Company had working capital deficit of $1,928,000 compared to positive working capital of $9,329,000 at December 31, 2018. BioNeutra is currently reviewing potential options to reduce current liabilities.

(in 000's)	**December 31, 2019**	December 31, 2018
Operating activities	**$717**	$2,906
Investing activities	**278**	-823
Financing activities	**-1,659**	-1,645
Change in cash position	**-972**	112

For the twelve months ended December 31, 2019, $717,000 cash was generated by operating activities compared to cash generated of $2,906,000 for the same period last year. The decrease was due to increased operating costs, credit losses, claim settlements, and inventory writedowns as the Company has a difficult year. In addition, the Company purchased more inventory on anticipated demand increases. Cash generated from investing activities was $278,000 for the period ended December 31, 2019 compared to cash used of $823,000 for the same period in 2018, mainly due to the redemption of a term deposit. Cash used in financing activities was $1,659,000 for the period ended December 31, 2019 compared to cash used of $1,645,100 for the same period in 2018. . The Company repaid $1,375,000 of mortgages during 2019 compared to $1,445,000 of mortgage repayment 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

For the three-month period ended December 31, 2019, the Company had a weighted average of 46,448,787 common shares outstanding with no dilutive options for a fully diluted weighted average share count of 46,448,787.

For the twelve-month period ended December 31, 2018, the Company had a weighted average of 46,448,787. common shares outstanding with no dilutive options for a fully diluted weighted average share count of 45,948,787.

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 on contract manufacturers to produce its products, however that risk will be partially mitigated by the production capacity of our 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 VitaFiberTM 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 of 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 and sales departments, 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 increased revenues and market share in North America, Europe, Australia/New Zealand and Southeast 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.

Recent pronouncements in early 2020 by the US Food and Drug Administration have denied petitions to have IMO classified as fiber. This is an adverse event which may negatively impact sales.

The Company’s senior management team monitors regulatory changes daily and will attempt 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 historically is cash generated from its operations and debt financing. It is expected that funds from profitable operations are essential to 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 through any debt or equity options that may be available.

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 consolidated financial statements as the outcome of this matter cannot be determined and the amount of the loss cannot be readily determined. The total amount of the claim is $75,000

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. The Company has accrued $643,000 as a provision for this potential claim. BioNeutra has files a statement of defence and counterclaims totaling $2,100,000 for losses incurred as a result of actions by the plaintiff. No amount has been accrued in the Company's consolidated financial statements for the counterclaim, however the amount of the damage award, if any, on the counterclaim would be offset against the amount of a damage award, if any, to the plaintiffs.

Subsequent Events

a. Subsequent to the year end, the company renegotiated the terms of mortgage payable on its land and building. The mortgage holder has agreed to allow interest only payment for the months of May 2020, June 2020, and July 2020 and to extend the end date of the mortgage to July 15, 2043. This will result in lower repayments of $23,929 plus interest commencing August 15, 2020 versus the current repayment of $26,738 plus interest.

b. Subsequent to the year end, the company renegotiated the terms of the mortgage payable on its manufacturing equipment. The mortgage holder has agreed to allow interest only payment for six months commencing June 1, 2020 with principal and interest payments recommencing on December 1, 2020. The ending amortization date was also extended to July 1, 2022 resulting in a monthly payment of $36,289, a reduction from the current repayment of $50,097.

c. Early in 2020, the global economy was severely impacted by the Covid 19 pandemic. The Company generates most of its sales in the United States, the country most severely impacted by Covid 19 in terms of confirmed cases and deaths. The Company has been able to continue all of its operations to date and introduced changes to ensure the operations are maintained while ensuring the safety of its employees and all key stakeholders. The Company is however unable to determine the impact, if any, that the Covid 19 may have on its operations and profitability in 2020 and beyond.

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 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. New agreements were negotiated in 2019. 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 and capability.

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 the 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, claim settlements, mortgages payable, and repayable government contribution.

Financial risk management

The Company's activities are exposed to a variety of financial risks: credit risk, concentration 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 obligations or raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital and cash flows. As at December 31, 2019, the Company was holding net cash of $523,102 (2018 - $1,497,580), accounts receivable of $3,298,533 (2018 - $4,543,507) and had a working deficit of 1,888,925 (2018 – working capital $9,328,968). Non-derivative financial liabilities of $22,526,172 (2018 - $13,849,412) will be settled within one year.

Credit risk

The Company's exposure to credit risk that relates to cash and accounts receivable 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 balances to the extent possible with a third-party insurance company. The trade receivables are generally due for settlement within 60 days subsequent to the sales activities. An allowance for doubtful accounts is established based upon Expected Credit Loss Model. The Company's maximum exposure to credit risk is equal to the carrying value of the financial assets. There is no significant amount considered past due or impaired as at December 31, 2019 other than a single account which has a provision for loss established. It is management's opinion that the level of credit risk is low due to the credit-worthiness of the counterparties involved.

Concentration risk

The Company is exposed to credit risk on the accounts receivable from its customers. As at December 31, 2019, approximately 43% of the trade accounts receivable balance is owed from three customers (December 31, 2018 – 46% from two customers). The Company minimizes its exposure to the concentration of risk by developing a larger client base.

The Company obtains inventory from companies in Asia 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 the continued ramp up of its own manufacturing facility.

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, inventory, accounts payable and accrued liabilities and its provision for legal claim 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 December 31, 2019 and December 31, 2018 in Canadian dollar terms. The table also illustrates the potential impact to the Company's net equity as at December 31, 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.

	Total Exposure		**Impact on Net Equity**		**Impact on Net Income**	
(in 000's)	**December 31, 2019**	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
U.S dollar	**4,965**	18,059	**473**	904	**473**	904
As a % of net equity	**190.53%**	100.10%	**9.52%**	5.01%		
As a % of net income					**-4%**	29

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 operating line and a mortgage payable and which bear floating interest rate, and interest rate cash flow risk on its floating rate mortgage payable. Management does not believe this risk is significant.