

**BIONEUTRA GLOBAL CORPORATION**

(Unaudited)

Interim Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2020

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The Company's external auditors, RSM Alberta LLP, have not performed a review of these interim condensed consolidated financial statements.

**BIONEUTRA GLOBAL CORPORATION**

(Unaudited)

Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

Going Concern (Note 2)

|  | June 30, 2020        | December 31, 2019    |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current Assets                                       |                      |                      |
| Cash and cash equivalents                            | \$ 2,491,379         | \$ 523,102           |
| Accounts Receivable (Note 6)                         | 2,566,244            | 3,298,533            |
| Inventories (Note 7)                                 | 10,703,035           | 14,809,220           |
| Prepaid expenses and deposits                        | 628,770              | 2,006,392            |
|  | <u>16,389,428</u>    | <u>20,637,247</u>    |
| Property, plant and equipment                        | 12,199,243           | 12,260,270           |
| Intangible Assests                                   | 905,352              | 1,127,251            |
|  | <u>\$ 29,494,023</u> | <u>\$ 34,024,768</u> |
| <b>LIABILITIES</b>                                   |                      |                      |
| Current Liabilities                                  |                      |                      |
| Accounts Payable and accrued liabilities             | \$ 16,784,605        | \$ 20,261,342        |
| Claim settlement                                     | -                    | 694,064              |
| Accrual for lawsuit (Note 12)                        | 643,000              | 643,000              |
| Deferred revenue                                     | 15,276               | -                    |
| Current portion of repayable government contribution | 31,250               | 31,250               |
| Current portion of mortgage payable                  | 536,174              | 896,515              |
|  | <u>\$ 18,010,305</u> | <u>\$ 22,526,171</u> |
| Repayable government contribution                    | 31,250               | 62,500               |
| Mortgages payable                                    | 6,703,403            | 6,683,615            |
|  | <u>24,744,958</u>    | <u>29,272,286</u>    |
| <b>SHAREHOLDERS' EQUITY</b>                          |                      |                      |
| Share capital (Note 8)                               | 7,551,438            | 7,551,438            |
| Warrants   | 5,400                | 5,400                |
| Share-based compensation reserve                     | -                    | 177,013              |
| Contributed surplus                                  | 1,319,372            | 1,142,359            |
| Accumulated other comprehensive income               | 1,316,574            | 363,663              |
| Deficit  | (5,443,719)          | (4,487,391)          |
|  | <u>4,749,065</u>     | <u>4,752,482</u>     |
|  | <u>\$ 29,494,023</u> | <u>\$ 34,024,768</u> |

Contingencies and Provisions (Note12)

Subsequent Events (Note 13)

(signed) "Jianhua Zhu"

Director

(signed) "Jason Theiss"

Director

See accompanying notes to the interim condensed consolidated financial statements

**BIONEUTRA GLOBAL CORPORATION**

(Unaudited)

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

|  | June 30,<br>2020<br>(Three Months) | June 30,<br>2019<br>(Three Months) | June 30,<br>2020<br>(Six Months) | June 30,<br>2019<br>(Six Months) |
|--|------------------------------------|------------------------------------|----------------------------------|----------------------------------|
| <b>Sales</b>   | <b>\$6,338,567</b>                 | <b>\$9,022,745</b>                 | <b>\$13,504,929</b>              | <b>\$17,653,111</b>              |
| <b>Cost of sales</b>   | <b>4,191,511</b>                   | <b>9,311,593</b>                   | <b>9,589,812</b>                 | <b>15,569,546</b>                |
| <b>Gross profit</b>  | <b>2,147,056</b>                   | <b>(288,848)</b>                   | <b>3,915,117</b>                 | <b>2,083,565</b>                 |
| <b>Expenses</b>  |                                    |                                    |                                  |                                  |
| Salaries and benefits  | 638,261                            | 704,124                            | 1,353,641                        | 1,550,227                        |
| Warehouse costs  | 453,913                            | 380,484                            | 963,486                          | 646,794                          |
| General and administrative   | 364,176                            | 646,913                            | 564,145                          | 1,252,912                        |
| Depreciation of property, plant and equipment                        | 290,252                            | 22,228                             | 395,417                          | 55,022                           |
| Professional fees  | 225,144                            | 251,485                            | 250,961                          | 477,068                          |
| Amortization of intangible assets                                    | 149,198                            | 337,968                            | 299,363                          | 463,916                          |
| Interest on long-term debts  | 82,720                             | 134,908                            | 193,294                          | 227,764                          |
| Sales and marketing  | 78,711                             | 240,009                            | 163,055                          | 471,966                          |
| Research and development   | 67,480                             | 181,212                            | 183,824                          | 248,847                          |
| Interest and bank charges  | 16,791                             | 15,804                             | 35,147                           | 35,734                           |
| Bad Debt Expense   | -                                  | 829,985                            | -                                | 829,985                          |
| Foreign exchange loss (gain)   | (388,104)                          | 96,000                             | 536,772                          | 1,123,501                        |
|  | <b>1,978,543</b>                   | <b>3,841,120</b>                   | <b>4,939,107</b>                 | <b>7,383,736</b>                 |
| <b>Income (loss) before income taxes and other income (expenses)</b> | <b>168,512</b>                     | <b>(4,129,968)</b>                 | <b>(1,023,989)</b>               | <b>(5,300,171)</b>               |
| <b>Other income (expenses)</b>                                       |                                    |                                    |                                  |                                  |
| Grants   | -                                  | 74,457                             | -                                | 74,457                           |
| Interest and other   | 28                                 | (25,725)                           | 109                              | (41,216)                         |
| contingent loss  | -                                  | (947,427)                          | -                                | (947,427)                        |
| <b>Income before income taxes</b>                                    | <b>168,540</b>                     | <b>(5,028,663)</b>                 | <b>(1,023,880)</b>               | <b>(6,214,357)</b>               |
| <b>Income taxes (recovery)</b>                                       |                                    |                                    |                                  |                                  |
| - current  | -                                  | -                                  | (67,552)                         | -                                |
| - deferred   | -                                  | (368,045)                          | -                                | (422,900)                        |
|  | <b>-</b>                           | <b>(368,045)</b>                   | <b>(67,552)</b>                  | <b>(422,900)</b>                 |
| <b>Net income (loss)</b>   | <b>168,540</b>                     | <b>(4,660,618)</b>                 | <b>(956,328)</b>                 | <b>(5,791,457)</b>               |
| <b>Other comprehensive income (loss)</b>                             |                                    |                                    |                                  |                                  |
| Items that will be reclassified subsequently to profit or loss       |                                    |                                    |                                  |                                  |
| Gain (loss) on translation to presentation currency                  | (1,284,819)                        | 187,798                            | 952,911                          | (148,224)                        |
| <b>Comprehensive loss</b>  | <b>\$ (1,116,279)</b>              | <b>\$ (4,472,820)</b>              | <b>\$ (3,417)</b>                | <b>\$ (5,939,681)</b>            |
| <b>Earnings (loss) per share: (Note 9)</b>                           |                                    |                                    |                                  |                                  |
| Basic  | \$0.00                             | -\$0.10                            | -\$0.02                          | -\$0.13                          |
| Diluted  | \$0.00                             | -\$0.10                            | -\$0.02                          | -\$0.13                          |

See accompanying notes to the interim condensed consolidated financial statements



**BIONEUTRA GLOBAL CORPORATION**

(Unaudited)

**Interim Condensed Consolidated Statement of Changes in Equity**

For the Six Months Ended

(Expressed in Canadian Dollars)

|                            | Share Capital<br>(Note 8) |             | Share Based<br>Compensation |           | Warrants    | Contributed<br>Surplus | Accumulated Other<br>Comprehensive<br>Income (Loss) | Retained Earnings<br>(Deficit) | Total        |
|----------------------------|---------------------------|-------------|-----------------------------|-----------|-------------|------------------------|---|--------------------------------|--------------|
|                            | Number                    | Amount      |                             | Reserve   |             |                        |   |                                |              |
| Balance, December 31, 2018 | 45,949,787                | \$7,301,938 | \$358,038                   | \$961,334 | -           | -                      | \$1,481,486   | \$7,955,923                    | \$18,058,719 |
| Options expired            |                           | -           | -                           | (740,068) | 740,068     | -                      | -   | -                              | -            |
| Warrants expired           |                           | -           | (301,678)                   | -         | 301,678     | -                      | -   | -                              | -            |
| Warrants exercised         | 499,000                   | 249,500     | (56,360)                    | -         | 56,360      | -                      | -   | -                              | 249,500      |
| Comprehensive loss         |                           | -           | -                           | -         | -           | (148,224)              | -   | -                              | (148,224)    |
| Net Loss for the period    |                           | -           | -                           | -         | -           | -                      | (5,791,457)   | (5,791,457)                    |              |
| Balance June 30 , 2019     | 46,448,787                | \$7,551,438 | -                           | \$221,266 | \$1,098,106 | \$1,333,262            | \$2,164,466   | \$12,368,538                   |              |
| Balance, December 31, 2019 | 46,448,787                | \$7,551,438 | \$5,400                     | \$177,013 | \$1,142,359 | \$363,663              | (4,487,391)   | \$4,752,482                    |              |
| Options expired            |                           | -           | -                           | (177,013) | 177,013     | -                      | -   | -                              | -            |
| Comprehensive income       |                           | -           | -                           | -         | -           | 952,911                | -   | -                              | 952,911      |
| Net Loss for the period    |                           | -           | -                           | -         | -           | -                      | (956,328)   | (956,328)                      |              |
| Balance June 30 , 2020     | 46,448,787                | \$7,551,438 | \$5,400                     | -         | \$1,319,372 | \$1,316,574            | (5,443,719)   | \$4,749,065                    |              |

See accompanying notes to the interim condensed consolidated financial statements

**BIONEUTRA GLOBAL CORPORATION**

(Unaudited)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended

(Expressed in Canadian Dollars)

|   | June 30, 2020 | June 30, 2019  |
|---|---------------|----------------|
| Cash Provided by (Used in):                           |               |                |
| Operating Activities                                  |               |                |
| Net loss  | \$ (956,328)  | \$ (5,791,457) |
| Interest and financial fee amortized                  | 183,824       | 263,499        |
| Items not affecting cash:                             |               |                |
| Inventory writedown                                   | -             | 1,088,276      |
| Depreciation of property, plant and equipment         | 632,645       | 55,022         |
| Amortization of intangible assets                     | 299,363       | 463,916        |
| Contingent loss                                       | -             | 947,427        |
| Deferred income taxes                                 | -             | (422,900)      |
| Change in non-cash working capital balances (Note 10) | 2,363,404     | 3,809,903      |
| Net cash flow provided by operating activities        | 2,522,908     | \$ 413,686     |
| Investing Activities                                  |               |                |
| Purchase of property, plant and equipment             | (13,088)      | (56,635)       |
| Purchase of intangible assets                         | (24,701)      | (26,621)       |
| Net cash flow used by investing activities            | (37,789)      | (83,256)       |
| Financing Activities                                  |               |                |
| Repayment of mortgages                                | (340,553)     | (425,528)      |
| Interest paid   | (182,259)     | (263,498)      |
| Proceeds from share issuance                          | -             | 249,500        |
| Repayment of government contribution                  | (31,250)      | (31,327)       |
| Net cash flow used by financing activities            | (554,062)     | (470,853)      |
| Increase (decrease) in cash and cash equivalents      | 1,931,057     | (140,423)      |
| Effect of foreign exchange                            | 37,221        | 131,454        |
| Cash and cash equivalents, beginning of period        | 523,102       | 1,497,580      |
| Cash and cash equivalents, end of period              | \$2,491,379   | \$1,488,611    |
| Cash and cash equivalents consist of:                 |               |                |
| Cash on deposits                                      | \$2,491,379   | \$2,173,335    |
| Bank indebtedness                                     | -             | (684,724)      |
|   | \$2,491,379   | \$1,488,611    |

See accompanying notes to the interim condensed consolidated financial statements

# **BIONEUTRA GLOBAL CORPOATION**

## **Notes to the interim condensed consolidated financial statements**

June 30, 2020

(Expressed in Canadian Dollars)

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### **1. Description of Business**

BioNeutra Global Corporation (the "Company") was incorporated under the Alberta Business Corporations Act on March 8, 1996. Through its subsidiaries, the Company is involved in the research and development, production and commercialization of food ingredients for nutraceuticals, functional and mainstream foods, with a focus on oligosaccharides. The Company's registered office is located at 9608 – 25 Avenue, Edmonton, Alberta, T6N 1J4, Canada. The Company's common shares are listed on the TSX Venture Exchange under the symbol "BGA".

These interim condensed consolidated financial statements were approved by the Board of Directors on August 24, 2020.

### **2. Going Concern Assumption**

These consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business for the foreseeable future.

During the year ended 2019, the Company incurred a significant loss from operations. Several one time costs contributed to this loss including the bankruptcy of a major customer and the resulting write down of an accounts receivable, the settlement of litigation with a customer over a labelling issue, and supply chain problems that caused a significant decline in the gross margin for 2019 when compared to historical standards. As a result, the Company exited 2019 with a significantly weakened balance sheet and this situation remains at June 30, 2020.

The Company has historically relied on profitable operations and debt financing to fund its operating and capital expenditures, supplemented by some common share equity offerings and government grants. At June 30, 2020, the Company's working capital deficiency was (\$1,620,877). The Company is reliant on the return to profitable operations, the continued support of its operating credit line lender (Note 5), and the continued support of its mortgage debt creditors. The Company may attempt to improve liquidity by raising capital through a single or multiple equity offerings, but there is significant risk in the current market environment, including the influences of COVID-19 on the capital markets, that funds may not be available to the extent they are required or at all.

The Company has undertaken changes to return its operations to profitability. This includes significant head count reductions, new senior management additions with significant experience in the Company's industrial sector, new independent board members, and a new operational focus prioritizing the Company's core strengths and most attractive growth opportunities. The Company continues to have full access to their credit facilities and provides monthly financial reporting information to its financial institution partners. This has obtained COVID-19 principal deferrals from the mortgage holders on the land, building, and equipment, and recently renewed the line of credit more fully described in Note 5 on substantially the same terms. While the Company is confident in the actions it has taken to restore



## **BIONEUTRA GLOBAL CORPOATION**

### **Notes to the interim condensed consolidated financial statements**

June 30, 2020

(Expressed in Canadian Dollars)

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#### **2. Going Concern Assumption (Continued)**

profitability there is a significant risk in the current environment that its sales will be negatively impacted by the COVID-19 pandemic and recent regulatory pronouncements in the USA regarding fiber claims for the Company's products.

The above noted conditions indicate the existence of material uncertainties that may cast significant doubt regarding the Company's ability to continue as a going concern and otherwise execute on its business strategies. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

#### **3. Basis of Presentation**

##### **a) Statement of Compliance**

These interim condensed consolidated financial statements have been prepared in accordance and compliance with International Accounting Standard 34 ("IAS 34"). Accordingly, certain financial information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. The disclosure herein is incremental to the disclosure included in the annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2019.

Certain comparative figures have been reclassified to conform to the current year presentation.

##### **b) Impact of COVID 19**

In March 2020, COVID-19 was declared a global pandemic by the World Health Organization. Countries around the world have had to enact emergency measures and drastic actions to slow the spread of the virus. This has included locking down economies and restricting travel and these two factors have impacted the Company's business. While the Company is unable to quantify the duration and magnitude of the impact on its operations, it has noted several observations.

1. 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. While the Company is unaware of any customers cancelling orders outright, it has noted some orders have been rescheduled to a future month. This has the potential to increase variability and volatility of quarterly earnings report.
2. Year to date and second quarter sales in the EU have been negatively impacted by the COVID-19 pandemic. The EU was one of the earlier regions to implement economic shutdowns and our customers indicated this impacted their ability to produce product. Recent reopenings are a positive sign that sales have the potential to improve in the second half of 2020.

## **BIONEUTRA GLOBAL CORPOATION**

### **Notes to the interim condensed consolidated financial statements**

June 30, 2020

(Expressed in Canadian Dollars)

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3. Global travel restrictions have led to trade show cancellations and restricted the ability to visit customers and potential customers. This has resulted in payments for tradeshow being reclassified to prepaid expenses and a reduction of travel costs. These expenses are expected to be significantly lower in 2020 than 2019.
4. The Company has not yet experienced any supply chain interruptions as a result of the COVID-19 pandemic.
5. Within Canada, the Company has been able to continue all of its operations to date, including its Edmonton manufacturing plant, and introduced changes to ensure the operations are maintained while ensuring the safety of its employees and all key stakeholders. Employees mostly worked remotely in the second quarter and have now returned to work in the office. The Company believes it can adjust to operate remotely if it was required to do so again.
6. The Company monitors each month its eligibility for wage subsidies under the Canadian government CEWS program. It has received \$229,947 for the first six months of 2020. Future amounts will be claimed where the monthly calculations shows the Company is eligible. Such amounts, if any, cannot be determined at this time.
7. Overall, the Company is unable to determine the impact that the COVID-19 may have on its operations and profitability in 2020 and beyond. The Company also expects that the negative impact of COVID-19 on the capital markets will make the option of raising equity financing difficult should the Company wish to pursue this option.

#### **4. Summary of Significant Accounting Policies**

##### **Recently Adopted Accounting Pronouncements**

The accounting policies applied by the Company in the interim condensed consolidated financial statements are the same as those applied by the Company in its audited financial statements for the year ended December 31, 2019 except for the adoption of the following standards effective January 1, 2020.

The International Accounting Standards Board (IASB) has issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The adoption of this amendment did not have a material impact on the Company's interim condensed consolidated financial statements.

## **BIONEUTRA GLOBAL CORPOATION**

### **Notes to the interim condensed consolidated financial statements**

**June 30, 2020**

**(Expressed in Canadian Dollars)**

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#### **4. Summary of Significant Accounting Policies (Continued)**

The International Accounting Standards Board (IASB) has issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. This adoption of this amendment did not have a material impact on the Company's interim condensed consolidated financial statements.

#### **Standards Issued but not yet Effective**

On January 23, 2020, the IASB issued "Classification of Liabilities as Current or Non-Current (Amendments to IAS1) proving a more general approach to the classification of liabilities under IAS 1 based on contractual arrangements in place at the reporting date. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

#### **5. Line of Credit**

The Company has a credit facility with a maximum funding limit of \$2,000,000 to assist with working capital needs that is due on demand, bears interest at prime plus 1.50% per annum and is secured by a first charge on accounts receivable and inventories more fully described in Notes 6 and . The maximum funding limit is determined as the lesser of \$2,000,000 or the Borrowing Base Calculation. The Borrowing Base Calculation is calculated based on the value of 90% of accounts that are insured by a third party and lagged up to 90 days, plus an additional amount on the value of North American accounts that are non-insured accounts aged up to 90 days. As of June 30, 2020, the Company has drawn \$nil (June 30, 2019 - \$684,724) against this facility. This amount has been netted against the cash on the statement of financial position.

At June 30, 2020, the credit limit determined by the Borrowing Base Calculation was \$1,374,003.

The facility has a covenant requiring debt service coverage of 120%. The calculation is tested annually using the annual audited financial statements. For the year end December 31, 2019, the Company was not compliant with this covenant. The Company's financial institution has continued to allow the Company to have access to its credit facility and monitors the account each month based on detailed reporting provided by the Company.



**BIONEUTRA GLOBAL CORPOATION**

## Notes to the interim condensed consolidated financial statements

June 30, 2020

(Expressed in Canadian Dollars)

**6. Accounts Receivable**

|                           | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|---------------------------|----------------------|--------------------------|
| Trade receivables         | \$3,223,950          | \$4,143,920              |
| Expected credit loss      | (904,154)            | (904,154)                |
| Miscellaneous receivables | 246,448              | \$58,767                 |
|                           | <u>\$2,566,244</u>   | <u>\$3,298,533</u>       |

The trade receivables have been pledged as security for the credit facility more fully described in Note 5.

**7. Inventories**

|                  | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|------------------|----------------------|--------------------------|
| Raw materials    | \$657,618            | \$659,846                |
| Work in progress | 3,510                | 110,800                  |
| Finished goods   | 10,041,907           | 14,038,574               |
|                  | <u>\$10,703,035</u>  | <u>\$14,809,220</u>      |

Inventories recognized as cost of sales during the period are \$ 9,589,812 (June 30, 2019 - \$15,569,546) which included total inventory writedown charges of \$nil (June 30, 2019- \$1,088,276).

The inventory has been pledged a security for the credit facility more fully described in Note 5.

**8. Share Capital**

The company is authorized to issue:

Unlimited common voting shares and

Unlimited redeemable, retractable, non-voting preferred shares

As of June 30, 2020, the Company has 46,448,787 (December 31, 2019 – 46,448,787) common shares issued and outstanding.

**BIONEUTRA GLOBAL CORPOATION**

## Notes to the interim condensed consolidated financial statements

June 30, 2020

(Expressed in Canadian Dollars)

**8. Share Capital (Continued)**

The Company has a stock option plan whereby the maximum number of shares reserved for issuance shall not exceed 10% of the issued and outstanding common shares of the Company. Stock options may be

granted to directors, employees, management company employees and consultants. The exercise price of the options granted shall be determined by the Board of Directors in accordance with the policies of the TSX Venture Exchange. No single participant may be issued options representing greater than 5% of the number of outstanding shares in any 12 month period unless the Company has obtained disinterested shareholder approval. The number of shares reserved for issuance to any one consultant of the Company may not exceed 2% of the number of outstanding shares in any 12 month period. The aggregate number of options granted to persons employed in investor relation activities must not exceed 1% of the outstanding shares in any 12 month period. Options issued to consultants providing investor relations services must vest in stages over 12 months with no more than one quarter of the options vesting in any three month period. The exercise price per common share for an option shall not be less than the greater of the closing market price of the common shares on (i) the trading day prior to the date of the grant of the option and (ii) the date of the grant of the option. Every option shall have a term not exceeding and shall therefore expire no later than 10 years after the date of grant. Terms of vesting of the options, the eligibility of directors, officers, employees, management company employees and consultants to receive options and the number of options issued to each participant shall be determined at the discretion of the Board of Directors, subject to the policies of the TSX Venture Exchange.

The activity related to stock options and the balance that are outstanding and exercisable at June 30, 2020 and June 30, 2019 are as follows:

|                            | <b><u>Number of Options</u></b> | <b><u>Exercise Price</u></b> |
|----------------------------|---------------------------------|------------------------------|
| Balance, December 31, 2018 | 2,670,000                       | 0.55                         |
| Options granted            | -                               | -                            |
| Options expired            | <u>(2,170,000)</u>              | <u>0.41</u>                  |
| Balance, June 30, 2019     | <u>500,000</u>                  | <u>0.55</u>                  |
| <br>                       |                                 |                              |
| Balance, December 31, 2019 | 390,000                         | 0.55                         |
| Options granted            | -                               | -                            |
| Options expired            | <u>(390,000)</u>                | <u>0.55</u>                  |
| Balance, June 30, 2020     | <u>-</u>                        | <u>\$ -</u>                  |



**BIONEUTRA GLOBAL CORPOATION**

## Notes to the interim condensed consolidated financial statements

June 30, 2020

(Expressed in Canadian Dollars)

**8. Share Capital (Continued)****Warrants**

The activity related to warrants and the balance that are outstanding and exercisable at June 30, 2020 is as follows:

|                                       | <u>Number of Warrants</u> | <u>Exercise Price</u> |
|---------------------------------------|---------------------------|-----------------------|
| Balance, December 31, 2018            | 3,170,000                 | \$ 0.50               |
| Warrants exercised                    | (499,000)                 | 0.50                  |
| Warrants expired                      | <u>(2,671,000)</u>        | <u>0.50</u>           |
| Balance, June 30, 2019                | <u>-</u>                  | <u>\$ -</u>           |
| <br><b>Balance, December 31, 2019</b> | <br><b>200,000</b>        | <br><b>\$ 0.40</b>    |
| <b>Balance, June 30, 2020</b>         | <b><u>200,000</u></b>     | <b><u>\$ 0.40</u></b> |

**9. Earnings (Loss) per Share**

The basic earnings loss per share is based on the weighted average number of common shares outstanding for the year ended June 30, 2020 of 46,448,787 (June 30, 2019 – 46,448,787). The diluted earnings (loss) per share is based on the weighted average number of common shares outstanding for period ended June 30, 2020 of 46,448,787 (June 30, 2019 – 46,448,787) taking into effect all potentially dilutive securities. The effects of potentially dilutive instruments on the loss per shares for the six months ended June 30, 2020 are anti-dilutive and therefore have been excluded from the calculation of diluted loss per share.

**10. Changes in Non-Cash Working Capital Balance**

|  | <u>June 30, 2020</u>      | <u>June 30, 2019</u>      |
|--|---------------------------|---------------------------|
| Accounts receivable                      | <b>\$732,289</b>          | \$500,975                 |
| Prepaid expense and deposits             | <b>1,378,109</b>          | 110,081                   |
| Inventories                              | <b>4,408,530</b>          | 2,748,135                 |
| Accounts payable and accrued liabilities | <b>(3,476,736)</b>        | 456,139                   |
| Claim settlement                         | <b>(694,064)</b>          | -                         |
| Deferred revenue                         | <b>15,276</b>             | (5,427)                   |
|  | <b><u>\$2,363,404</u></b> | <b><u>\$3,809,903</u></b> |

**BIONEUTRA GLOBAL CORPOATION**

## Notes to the interim condensed consolidated financial statements

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**11. Financial Instruments and Risk Management****Fair Value of Financial Instruments**

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

|                                   | June 30, 2020   |     |            | December 31, 2019 |     |            |
|-----------------------------------|-----------------|-----|------------|-------------------|-----|------------|
|                                   | Carrying Amount |     | Fair Value | Carrying Amount   |     | Fair Value |
| Cash and cash equivalents         | 2,491,379       | (A) | 2,491,379  | 523,102           | (A) | 523,102    |
| Accounts receivable               | 2,566,244       | (A) | 2,566,244  | 3,298,533         | (A) | 3,298,533  |
| payable and accrued liabilities   | 16,784,605      | (A) | 16,784,605 | 20,261,342        | (A) | 20,261,342 |
| Claim settlement                  | -               | (A) | -          | 694,064           | (A) | 694,064    |
| Repayable government contribution | 62,500          | (B) | n/a        | 93,750            | (B) | n/a        |
| Mortgages payable                 | 7,239,577       | (C) | 7,239,577  | 7,580,130         | (C) | 7,580,130  |

- (A) The fair values of cash, accounts receivable, accounts payable and accrued liabilities, and claim settlement approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.
- (B) The fair value of repayable government contribution cannot be determined as there is no market for financial instruments which bear no interest.
- (C) The fair value of mortgages payable is determined by discounting the future contractual cash flows under the current financing arrangements at a discount rate that represents an approximation to the borrowing rates presently available to the Company for debts with similar terms to maturity. The fair value of mortgage payable is measured at fair value-Level 2.

For the three and six months period ended June 30, 2020 there were no transfers between levels.

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Notes to the interim condensed consolidated financial statements

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### **11. Financial Instruments and Risk Management (Continued)**

#### **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 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 June 30, 2020, the Company was holding net cash of \$2,491,379 (December 31, 2019 - \$523,102), accounts receivable of \$2,566,244 (December 31, 2019 - \$3,298,533) and had a working deficiency of \$1,620,877 (December 31, 2019 - working capital deficiency of \$1,928,672) (see Going Concern- note 2). Non-derivative financial liabilities of \$18,010,305 (December 31, 2019 - \$22,526,171) 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 total value of the financial assets. There is no significant amount considered past due or impaired as at June 30, 2020 other than a single account which has a provision for loss established.

#### **Concentration of Risk**

The Company is exposed to credit risk on the accounts receivable from its customers. As at June 30, 2020, approximately 69% (December 31, 2019 – 43% from two customers) of the trade accounts receivable balance are owed from five customers. The Company continually attempts to minimize 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.



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### Notes to the interim condensed consolidated financial statements

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#### 11. Financial Instruments and Risk Management (Continued)

##### 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 denominated in U.S. dollars and accounts receivable denominated in Euro. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

##### Sensitivity Analysis

As a result of the Company's assets and liabilities being denominated in the U.S. dollar, which is different to the presentation currency of the Company, the profit or loss and equity of the Company could be affected by the movements between the functional currency and the presentation currency. The table below indicates the foreign currency to which the Company has exposure as at June 30, 2020 and December 31, 2019 in Canadian dollar terms. The table also illustrates the potential impact to the Company's net equity and net income as at June 30, 2020 and December 31, 2019 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 |                     |
|-------------------------|------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
|                         | June 30,<br>2020 | December 31<br>2019 | June 30,<br>2020     | December<br>31 2019 | June 30,<br>2020     | December<br>31 2019 |
| U.S dollar              | \$ 5,973,110     | \$ 4,964,765        | \$ 298,656           | \$ 472,510          | \$ 298,656           | \$ 472,510          |
| As a % of net equity    | 125.77%          | 190.53%             | 6.29%                | 9.52%               |                      |                     |
| As a % of net income    |                  |                     |                      |                     | -31%                 | -4%                 |
| As a % of comprehensive |                  |                     |                      |                     | 8740%                | -3%                 |

##### 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 which bears a fixed interest rate, and interest rate cash flow risk on its floating rate line of credit and mortgage payable. A one-percent (1%) increase or decrease in interest rates would not have a material effect on the Company's operating results.

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### **11. Financial Instruments and Risk Management (Continued)**

#### **Capital Management**

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include the continuing operations of the business. The Company includes shareholders' equity of \$4,749,065 (December 31, 2019 - \$4,752,482) and mortgages payable of \$7,239,577 (December 31, 2019 - \$7,650,838) in the definition of capital.

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

The Company is subject to debt covenants more fully described in Note 5.

### **12. Contingencies and Provisions**

a) Vita US Inc. has filed an originating application against BioNeutra seeking the following:

- A declaration that agency agreements between the parties are binding upon BioNeutra;
- An order requiring BioNeutra 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 readily determined. The total amount of the claim is \$75,000

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**12. Contingencies and Provisions (Continued)**

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 seeking damages of \$670,000. The company has accrued a provision of \$643,000 for this potential liability. BioNeutra has filed a Statement of Defense and a counterclaim in this matter. The counterclaim was filed for amounts totalling \$2,100,000 for losses suffered because of various actions undertaken by the plaintiffs. 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.