

**Neptra Foods INC.**  
**Management Discussion and Analysis**  
**For the six months ended June 30, 2021**  
**(expressed in Canadian Dollars)**

**August 30, 2021**

This MD&A should be read in conjunction with the consolidated interim financial statements for the three and six month period ended June 30, 2021 and the related notes thereto. Those financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). All currency amounts are expressed in Canadian dollars, unless otherwise noted.

Neptra Foods INC. is classified as a “venture issuer” for the purposes of National Instrument 51-102.

**Disclaimer**

Certain statements in this report are forward-looking statements which reflect management’s expectations regarding future growth, results of operations, performance, business prospects and opportunities such as intended work programs on existing properties, the Company’s ability to meet financial commitments and its ability to raise funds when required. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations, or intentions regarding the future. Such statements are subject to risks and uncertainties that may cause actual results, performance, or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits the Company will obtain from them. These forward-looking statements reflect management’s current views and are based on certain assumptions and speak only as of the date of this report. These assumptions, which include management’s current expectations, the global economic environment, and the Company’s ability to manage its operating costs, may prove to be incorrect. Several risks and uncertainties could cause actual results to differ materially from those expressed or implied by the forward-looking statements; these risks are outlined substantially in the Neptra Foods, Inc. prospectus.

There is a significant risk that such forward-looking statements will not prove to be accurate. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Actual performance, achievement or other realities could differ materially from those expressed in, or implied by, any forward-looking statements or information in this MD&A and, accordingly, investors should not place undue reliance on any such forward-looking statements or information. Further, any forward-looking statement or information speaks only as of the date on which such statement is made, and the Company does not undertake any obligation to update any forward-looking statements or information to reflect information, events, results, circumstances, realities or otherwise after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by law, including securities laws. All forward-looking statements and information contained in this MD&A

and other documents of the Company are qualified by such cautionary statements. New factors emerge from time to time, and it is not possible for management to predict all such factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual realities to differ materially from those contained in any forward-looking statements.

In addition, forward-looking statements, and information herein, including financial information, is based on certain assumptions relating to the business and operations of the Company. Although the Company has attempted to identify important factors that could cause actual actions, events, or results to differ materially from those described in forward-looking statements and forward-looking information in this MD&A, and the documents incorporated by reference herein, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There is no assurance that such statements and information will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements or information. Accordingly, readers should not place undue reliance on forward-looking statements and forward-looking information contained in this MD&A.

This MD&A is current as of August 30, 2021 and was approved by the Board of Directors on August 30, 2021.

## Nature of Business

Neptra Foods, INC. ("Neptra" or the "Company") was incorporated on November 27, 2020 under the provisions of the under the British Columbia Business Corporations Act. The Company operates as a vertically integrated healthy plant-based food and speciality ingredient company supporting allergen free and functional food brands. The Company's head office is located at 7025 S. Revere Parkway, Unit 100, Centennial, Colorado, USA 80112. The Company's registered and records office is located at Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

On April 16, 2021, the Company completed the reverse take over ("RTO") of Neptra Foods, Ltd ("Neptra US"). Neptra US was incorporated as a limited liability company ("LLC") on August 15, 2019 under the provisions of the Colorado Revised Status and on November 1, 2020, Neptra US converted from a LLC to a corporation. These consolidated financial statements are presented as a continuation of Neptra US as the deemed acquirer.

The Company's wholly owned subsidiaries include, Neptra Foods, Ltd., incorporated August 15, 2019, Gluten Free Baking Solutions, LLC ("GFBS"), incorporated on August 10, 2016, and Total Blending Solutions, Ltd. ("TBS"), incorporated on November 25, 2019.

On June 30, 2020, the Company completed a reorganization with GFBS and GFSM - related companies under common ownership. The Company issued 189,999 membership units to the members of GFBS and GFSM, in exchange for all the membership units in GFBS and GFSM, resulting in GFBS and GFSM becoming wholly owned subsidiaries of the Company.

The Company operates as a vertically integrated healthy plant-based food and speciality ingredient company supporting allergen free and functional food brands.

During the six months ended June 30, 2021, the Company focused on its sale and processing of specialty ingredients.

## Overall Performance

The key factors pertaining to the Company's overall performance for the six months ended June 30, 2021 are as follows:

The Company recorded sales revenue of \$3,060,820 for the six months ended June 30, 2021, as compared to revenue of \$1,091,494 for the six months ended June 30, 2020. The increase in processing and sale of specialty can be attributed to new customers and a higher volume of specialty ingredients sold. Revenue from consulting increased from \$50,480 for the six months ended June 30, 2020 to \$129,678 for the six months ended June 30, 2021 due to more consulting engagements.

The net loss for the six months ended June 30, 2021 was \$1,542,566 compared to a net income of \$71,752 for the six months ended June 30, 2020. The net loss increased by \$1,614,318 due to increases in all expense categories. The Company began aggressively on a path to working on a listing on the CSE which incurred significant professional fees of \$470,673 compared to \$1,260 in the prior period. The Company is embarking on an aggressive growth strategy and has incurred additional costs in all of the categories as it ramps up development.

The Company has negative operating cash flow, and its level of operations has been determined by the availability of capital resources. Cash used in operating activities increased by \$1,324,281 due to the significant increase in working capital required to support the growth of the business. Inventory outflows increased by \$690,243 and accounts receivable increased by \$494,242 as the Company used the proceeds from financings in December and Q1 to grow the business.

Working capital deficit increased as at June 30, 2021 to a deficit of \$1,410,143 from \$324,656 as at December 31, 2020. Working capital deficit increased by \$1,085,487 because the Company issued convertible notes equivalent to \$1,049,519. These notes will convert into common shares upon the Company's completion of its Initial Public Offering (IPO).

## Going Concern

As at June 30, 2021, the Company had a net working capital deficit of \$1,410,143. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to raise financing and generate profits and positive cash flows from operations in order to cover its operating costs. From time to time, the Company generates working capital to fund its operations by raising additional capital through equity or debt financing. However, there is no assurance it will be able to continue to do so in the future. The accompanying combined financial statements do not give effect to any adjustments required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying combined financial statements. If the going concern assumption was not appropriate for the accompanying financial statements, adjustments would be necessary to the statement of financial position classifications used. Such adjustments could be material. Additional funds will be required to enable the Company to pursue its initiatives, and the Company may be unable to obtain such financing on terms which are satisfactory to it. Furthermore, there is no assurance that the business will be profitable. These factors indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going

concern. Should the Company be unable to complete these plans to obtain additional financing and be unable to continue as a going concern, the Company may be forced to cease operations.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

## Results of Operations for the six months ended June 30, 2021

### *Revenue*

For the six months ended June 30, 2021, the Company generated total revenues of \$3,190,498 compared to revenue of \$1,141,974 for the six months ended June 30, 2020. Revenue generated for the six months ended June 30, 2021 consisted of the processing and sale of specialty ingredients, as well as consulting to support allergen free and functional food brands. The revenue from the processing and sale of specialty ingredients increased to \$3,060,820 from \$1,091,494 during the six months ended June 30, 2021 and can be attributed to increased inventory purchases that have been financed in the quarter. Revenue from consulting increased to \$129,678 during the six months ended June 30, 2021 from \$50,480 during the six months ended June 30, 2020 due to more consulting engagements.

### *Cost of sales and gross profit*

For the six months ended June 30, 2021, the Company's costs of sales and gross profit were \$2,566,851 and \$623,647 respectively, compared to \$887,342 and \$254,632 respectively, for the six months ended June 30, 2020. Gross profit margin was comparable at 20% quarter over quarter.

The increase in the Company's gross profit margin can be attributed to the 15% increased revenues during the nine months ended September 30, 2020 as compared to the comparative period, offset against only a 10% increase in cost of sales during the six months ended June 30, 2021 as compared to the comparative period.

### *General and administrative costs*

General and administrative costs for the six months ended June 30, 2021 and 2020 can be summarized as follows (in Canadian Dollars):

| <b>For the six months ended June 30,</b> | <b>2021</b>       | <b>2020</b>      | <b>Change \$</b>  | <b>Change %</b> |
|--|-------------------|------------------|-------------------|-----------------|
| Advertising and promotion                | \$ 22,765         | \$ 1,420         | \$ 21,345         | 1503%           |
| Insurance expense                        | 22,357            | 9,118            | 13,239            | 145%            |
| Meals and entertainment                  | 2,059             | 1,252            | 807               | 64%             |
| Office expense                           | 74,949            | 2,274            | 72,675            | 3196%           |
| Rent                                     | 138,490           | -                | 138,490           | 100%            |
| Subscription and dues                    | 33,476            | 1,913            | 31,563            | 1650%           |
| Utilities                                | 7,612             | -                | 7,612             | 100%            |
| <b>Total G&amp;A</b>                     | <b>\$ 301,708</b> | <b>\$ 15,977</b> | <b>\$ 285,731</b> | <b>1788%</b>    |

Total general and administrative expenses increased by \$285,713 compared to the six months ended June 30, 2020. This is mainly due to an increase in office expenses of \$72,675, as the Company entered into a lease agreement for an office space and building beginning in January 1, 2021. Expenses relate to setting up the office and building space. Advertising and promotion increased by \$21,345 due to expenses related to the Company's branding and website developments.

Consulting fees increased by \$54,105 from \$3,936 during the six months ended June 30, 2020 to \$58,041 for the six months ended June 30, 2021. The increase in consulting expenses relates mainly to costs incurred related to the Company's intended IPO.

Research and development costs increased by \$45,964 from \$14,873 during the six months ended June 30, 2020 to \$60,837 for the six months ended June 30, 2021. The increase can be attributed to the Company creating more new product mix and process for the six months ended June 30, 2021 as compared to 2020, and therefore, requiring more research and development costs.

## Summary of Quarterly Results

The following financial data was derived from the seven most recently completed financial quarters:

|   | <b>June 30,<br/>2021</b> | <b>March 31,<br/>2021</b> | <b>December 31,<br/>2020</b> | <b>September 30,<br/>2020</b> |
|---|--------------------------|---------------------------|------------------------------|-------------------------------|
| Revenue                                       | \$1,750,160              | \$1,440,338               | \$1,022,213                  | \$696,686                     |
| Income (Loss) for the period                  | (\$627,713)              | (\$914,853)               | (\$595,198)                  | \$49,390                      |
| Income (Loss) per share - basic and diluted   | (\$0.04)                 | (\$0.13)                  | (\$1.43)                     | \$0.23                        |
| Weighted average number of shares outstanding | 14,926,676               | 7,205,947                 | 417,497                      | 218,265                       |

|   | <b>June 30,<br/>2020</b> | <b>March 31,<br/>2020</b> | <b>December 31,<br/>2019</b> | <b>September<br/>31, 2019</b> |
|---|--------------------------|---------------------------|------------------------------|-------------------------------|
| Revenue                                       | \$551,884                | \$590,090                 | \$40,868                     | \$629,058                     |
| Income/Loss for the period                    | \$78,959                 | (\$7,207)                 | (\$139,229)                  | (\$2,356)                     |
| Income (Loss) per share - basic and diluted   | \$0.07                   | (\$0.01)                  | (\$0.73)                     | (\$0.01)                      |
| Weighted average number of shares outstanding | 1,170,282                | 1,170,282                 | 190,000                      | 190,000                       |

Revenue increased for the three months ended June 30, 2021 from \$1,440,338 for the three months ended March 31, 2021 to \$1,750,160. The increase in revenue is attributable to increases in sales of processed products in the period. Net loss decreased from the prior quarter from \$914,853 to \$627,713. The decrease in net loss is attributable to an increase in gross profit in the period of \$49,034, as well as a decrease in the change in fair value of convertible debentures of \$229,262.

Revenue increased for the three months ended March 31, 2021 from \$1,022,213 from the three months ended December 31, 2020 to \$1,440,338. The increase in revenue is attributable to increases in consulting income, and also increased inventory purchases as financed in the period. Net loss increased from the prior quarter from \$595,198 to \$914,853. The increase in net loss is attributable to the loss from change in fair value of convertible debentures of \$253,299. The Company also had an increase in salaries as the Company hired additional employees.

The factors that have caused variations in results over the quarters are mostly related to seasonal demands, new customers, and the timing of when orders were placed and products were shipped. The Company had higher revenue during the quarter ended December 31, 2020 due to more orders, new customers, and new products beginning to be sold, including hemp heart flour. Other variations from quarter to quarter were impacted by the acquisition of new customers and the timing of when existing customers re-ordered and when products were shipped. The loss for the quarter ended December 31, 2020 was greater than in prior quarters due to share-based compensation of \$435,538 being issued during this time period, as well as accounting work beginning for the 2018 and 2019 fiscal years beginning during this quarter. The audit accrual for the 2020 fiscal year audit was also accrued during this period.

## Liquidity and Capital Resources

As at June 30, 2021, the Company had a working capital deficit of \$1,410,143 as compared to \$324,656 as at December 31, 2020, an increase in working capital deficit of \$1,085,487. The working capital deficit increase can be attributed to an increase in the Company's convertible debentures from a financing of \$1,049,519 (USD\$866,000). The Company also had an increase in accounts payables and accrued liabilities of \$826,976. These were offset by an increase in inventory of \$690,243 related to finished goods products as the Company had more capital to fund purchases.

## Cash Flows

A summary of cash flows for the six months ended June 30, 2021 and 2020 is as follows (in Canadian Dollars):

| <b>For the six months ended June</b> | <b>2021</b>         | <b>2020</b>      | <b>\$ Change</b>    |
|--------------------------------------|---------------------|------------------|---------------------|
| Operating activities                 | \$ (1,514,666)      | \$ (190,386)     | \$ (1,324,280)      |
| Investing activities                 | (172,153)           | -                | (172,153)           |
| Financing activities                 | 1,413,516           | 201,784          | 1,211,732           |
| <b>Change in cash</b>                | <b>\$ (273,303)</b> | <b>\$ 11,398</b> | <b>\$ (284,701)</b> |

The net cash used in operating activities related to net loss from continued operations incurred for the six months ended June 30, 2021 was \$1,514,666 as compared to cash provided by operating activities of \$190,386 for the six months ended June 30, 2020. Cash used in operating activities increased by \$1,324,280 mainly due to increase in total inventory purchases during the six months ended June 30, 2021 of \$690,243, including \$1,225,733 remaining in inventory at June 30, 2021 compared to \$535,490 in inventory at December 31, 2020. This was partially offset by an increase in the Company's accounts payable and accrued liabilities by \$826,976.

During the six months ended June 30, 2021, the Company's cash flows used in investing activities increased by \$172,153 compared to the six months ended June 30, 2020. The increase can mainly be attributed to the purchase of warehouse equipment such as pressing machines used to convert inventory.

During the six months ended June 30, 2021, the Company's cash flows from financing activities increased by \$1,211,732 compared to the six months ended June 30, 2020. The increase can mainly be attributed to convertible debenture financing completed for proceeds of \$1,049,519. The Company also completed a private placement financing for proceeds of \$443,278.

## Related Party Disclosures

### *a) Due to related parties*

As at June 30, 2021, included in due from related parties is \$9,194 (2020 - \$8,688) due from Marc Olmstead, director of the Company. The amount is unsecured, non-interest bearing and due on demand.

As at March 31, 2021, included in due from related parties is \$2,960 (2020 - \$Nil) due from Chadwick White of the Company. The amount is unsecured, non-interest bearing and due on demand.

As at March 31, 2021, included in accounts and other receivables is \$65,466 (2020 - \$Nil) due RG Wood, a company controlled by David Wood, a director of the Company. The amount is unsecured, non-interest bearing and due on demand.

As at June 30, 2021, included in prepaids and deposits is \$Nil (2020 - \$9,557) for a salary advance paid to Chadwick White, a director of the Company. The amount is unsecured, non-interest bearing and due on demand.

As at June 30, 2021, included in accounts payable and accrued liabilities is \$Nil (2020 – \$41,939) due to Chadwick White, a director of the Company. The amount consists of expenses charged to a personal credit card of a director of the Company and is unsecured, non-interest bearing and due on demand.

As at June 30, 2021, included in accounts payable and accrued liabilities is \$125,074 (2020 – \$28,338) due to ACM Management, a company controlled by Alex McAulay, CFO of the Company. The amount consists of accounting fees charged and is unsecured, non-interest bearing and due on demand.

As at June 30, 2021, included in accounts payable and accrued liabilities is \$28,354 (2020 – \$29,150) due to a LLC controlled by a director of the Company. The amount consists of lease payments due for a building previously occupied by the Company and is unsecured, non-interest bearing and due on demand.

As at June 30, 2021, included in accounts payable and accrued liabilities is \$Nil (2020 – \$19,115) due David Wood, CEO and Director of the Company. The amount consists of salary owed and is unsecured, non-interest bearing and due on demand.

As at June 30, 2021, included in accounts payable and accrued liabilities is \$167,221 (2020 – \$19,115) due to Robert Hopp, President and COO of the Company. The amount consists of salary owed and is unsecured, non-interest bearing and due on demand.

During the six months June 30, 2021, the Company had outstanding revolving loans from Robert G. Wood and Company Inc. (“RG Wood”), a company controlled by the David Wood and includes interest charged on the promissory note. The loans are unsecured, bear interest at 6% per annum, and are due on demand. The balance payable as of June 30, 2021 was \$5,499 (2020 - \$8,185).

As at June 30, 2021, the Company had an outstanding promissory note of USD \$160,000 with RG Wood. The promissory note is unsecured, bears interest at a rate of 10% per annum, and matures on June 30, 2021. The balance payable as of June 30, 2021 was \$198,319 (2020 - \$203,888). Interest of \$19,956 (2020 – 10,983) for the promissory note was charged and included in the revolving loan balance above. Interest charged on the revolving loan during the six months ended June 30, 2021 was \$9,734 (2020 - \$Nil).

*b) Related party transactions*

Key management consists of the directors and officers who are responsible for planning, directing, and controlling the activities of the Company. The Company incurred charges with related parties recorded at their exchange amounts as agreed upon by transacting parties as follows:

| <b>For the six months ended June 30,</b> | <b>2021</b> |                | <b>2020</b> |               |
|--|-------------|----------------|-------------|---------------|
| Salaries and benefits                    | \$          | 399,305        | \$          | 24,469        |
|  | <b>\$</b>   | <b>399,305</b> | <b>\$</b>   | <b>24,469</b> |

During the six months ended June 30, 2021 and 2020, USD \$135,000 (CAD\$167,332) was accrued for termination benefits of key management personnel.

*Other transactions*

During the six months ended June 30, 2021, the Company settled debt owing to ACM Management Inc. a company controlled by the CFO Alex McAulay of \$39,361 in exchange for 17,651 common shares of the Company.

During the six months ended June 30, 2021, the Company was charged USD\$6,264 (CAD\$7,764) (2020 – USD\$3,132 or CAD\$4,156) in lease payments for equipment , to RG Wood, a company controlled by David Wood, CEO and Director.



## Use of Judgments, Estimates and Assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. These financial statements do not include any accounts that require significant estimates as the basis for determining the stated amounts.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include the assessment of the Company's ability to continue as a going concern and the valuation allowance for income tax and impairment.

## Significant Accounting Policies

The significant accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with the accounting policies disclosed in Note 3 of the audited consolidated financial statements for the year ended December 31, 2020.

## Changes in Accounting Policies including Initial Adoption

### Initial adoption of new accounting standards

Adoption of new accounting standards have been disclosed in Note 3 of the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021.

### Future accounting standards issued but not yet in effect

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Pronouncements that may have a significant impact to the Company have been disclosed in Note 3 of the Company's unaudited condensed consolidated interim financial statements for the three months ended June 30, 2021.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

## Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements and does not contemplate having them in the foreseeable future.

## Proposed Transactions

There are no proposed transactions as at the date of this MD&A.

## Financial Instruments and Other Instruments

### Basis of Fair Value

|   | Level | June 30, 2021       | December 31, 2020   |
|---|-------|---------------------|---------------------|
| <b>FINANCIAL ASSETS</b>                     |       |                     |                     |
| <b>FVTPL</b>                                |       |                     |                     |
| Cash  | 1     | \$ 178,007          | \$ 492,976          |
| <b>Other assets, at amortized cost</b>      |       |                     |                     |
| Accounts and other receivable               |       | 637,103             | 142,861             |
| Long-term deposit                           |       | 99,928              | 148,340             |
| Due from related party                      |       | 9,194               | 8,689               |
| <b>Total financial assets</b>               |       | <b>\$ 924,232</b>   | <b>\$ 792,866</b>   |
| <b>FINANCIAL LIABILITIES</b>                |       |                     |                     |
| <b>FVTPL</b>                                |       |                     |                     |
| Convertible notes                           | 3     | 1,875,531           | 844,632             |
| <b>Other liabilities, at amortized cost</b> |       |                     |                     |
| Accounts payable and accrued liabilities    |       | 1,352,572           | 525,596             |
| Loans payable                               |       | 191,869             | 211,826             |
| Lease liability                             |       | 2,493,035           | 26,641              |
| Promissory note payable                     |       | 198,320             | 203,888             |
| Due to related parties                      |       | 5,499               | -                   |
| <b>Total financial liabilities</b>          |       | <b>\$ 6,116,826</b> | <b>\$ 1,812,583</b> |

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in

Levels 1 to 3 based on the degree to which the fair value is observable:

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

The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

The carrying value of the Company's financial instruments approximate their fair values due to their short-term maturities. Cash is measured at fair value on a recurring basis.

## Risk Management

The Company is exposed, through its operations, to the following financial risks:

- a) Market Risk
- b) Credit Risk
- c) Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies, and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

General Objectives, Policies, and Processes:

The directors and officers have overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The directors and officers review the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous reported periods unless otherwise stated in the note.

The overall objective of the directors and officers is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

**a) Market Risk**

Market risk is the risk of loss that may arise from changes in market factors such as foreign currency exchange, interest rates, and equity price risk.

**(i) Foreign Currency Risk:**

The Company's functional currency is the United States dollar and major purchases and sales are transacted in United States dollars. As a result, management believes the Company's exposure to foreign currency risk is minimal.

**(ii) Interest Rate Risk:**

Interest rate risk is the risk that future cash flows will fluctuate because of changes in market interest rates. The interest earned on cash is insignificant, and the Company does not rely on interest to fund its operations. The Company's outstanding promissory note, loans payable, and convertible notes bear interest at fixed rates. As a result, at March 31, 2021, management believes that the Company is not exposed to any significant interest rate risk.

**(iii) Equity Price Risk**

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impacts on the Company's earnings due to movements in individual equities or the general movements in the level of the stock market. The Company's common shares are not yet publicly traded, and the Company does not hold equity investments in other entities. As a result, the Company is not at a significant risk to fluctuating equity prices.

**b) Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's cash, due from related party and accounts receivables are exposed to credit risk. The Company limits its exposure to credit loss on cash by placing its cash with a high-quality financial institution. The Company has concentrations of credit risk with respect to accounts receivable as large amounts of its accounts receivable are concentrated amongst a small number of customers. The Company performs credit evaluations of its customers but generally does not require collateral to support accounts receivable.

The Company has certain amounts of aged receivables that are not deemed impaired as follows:

|                                      | June 30, 2021     | December 31, 2020 |
|--------------------------------------|-------------------|-------------------|
| 1 – 60 days                          | \$ 591,659        | \$ 96,343         |
| 61 - 90 days (past due)              | 437               | 34,289            |
| Over 90 days (past due)              | 46,867            | 14,239            |
| Provision for expected credit losses | (1,860)           | (2,010)           |
| <b>Total</b>                         | <b>\$ 637,103</b> | <b>\$ 142,861</b> |

The Company is exposed to increased credit risk due to major customers that comprise 10% or more of revenue. For the six months ended June 30 2021, and 2020, the following revenue was recorded from major customers:

| Amount of revenue from major customers | June 30, 2021 | June 30, 2020 |
|--|---------------|---------------|
| Customer A                             | \$ 1,119,929  | \$ 350,936    |
| Customer B                             | \$ 1,001,862  | \$ 297,147    |
| Customer C                             | \$ -          | \$ 249,725    |

Due from related party consists of advances made to a director of the Company and is believed to be credit worthy.

### **c) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. Historically, the Company's sources of funding has been loans from a company controlled by the CEO and director, secured government loans, a secured equipment loan, and convertible notes. The Company's access to financing is uncertain. There can be no assurance of continued access to significant debt or equity funding.

|  | <b>Within one<br/>year</b> | <b>Between one<br/>and five years</b> | <b>More than five<br/>years</b> |
|--|----------------------------|---------------------------------------|---------------------------------|
| Accounts payable and accrued liabilities | \$ 1,352,572               | \$ -                                  | \$ -                            |
| Loans payable                            | 14,674                     | 177,195                               | -                               |
| Lease liability                          | 39,187                     | 1,551,079                             | 2,233,891                       |
| Promissory note payable                  | 198,320                    | -                                     | -                               |
| Convertible notes                        | 1,875,531                  | -                                     | -                               |
| Due to related parties                   | 5,499                      | -                                     | -                               |
|  | \$ 3,486,783               | \$ 1,728,274                          | \$ 2,233,891                    |

## Risks

The material risk factors involved with the Company include, but are not limited to, the following:

### Dependence on Key Personnel and Consultants

The success of the Company will be largely dependent upon the performance of its management and key employees. Failure by the Company to retain or to attract and retain additional key employees with necessary skills could have a materially adverse impact upon the Company's growth and profitability. These individuals, and the contributions they will make, are important to the future operations and success of the Company. The unexpected loss or departure of any of the key officers, employees or consultants of the Company could be detrimental to the Company's future operations. The Company's success will depend in part on its ability to attract and retain qualified personnel, as they are needed. The competition for highly skilled technical, management, sales and other employees is high in the Company's industry and the cost of hiring and retaining such personnel has been increasing. There can be no assurance that the Company will be able to engage the services of such personnel or retain the Company's current personnel.

### Limited Operating History

The Company has had a limited history of operations and is in the early stage of development and must be considered a start-up. As such, the Company will be subject to many risks common to such enterprises, including start-up losses, lack and uncertainty of revenues, markets and profitability, under-capitalization, cash shortages, and limitations with respect to personnel, financial and other resources. The Company has a limited history of earnings and its limited operating history makes it difficult to predict how its business will develop and its future operating results. There is no assurance that any future products will generate earnings, operate profitably, or provide a return on investment in the future and the likelihood of success and any potential return on a shareholder's investment must be considered in light of the Company's early stage of operations.

**Disruption of Trade, Suppliers, and Facilities**

The Company imports specialty ingredients from Thailand and is at risk should there be changes in government policies or international shipping disruptions. The Company does not control the operations at the third-party facilities, including any third-party warehouses. All these facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, terrorist attacks, power losses, telecommunications failures, and similar events. They also could be subject to break-ins, computer viruses, denial of service attacks, sabotage, intentional acts of vandalism and other misconduct. The occurrence of a natural disaster or an act of terrorism, a decision to close the third-party facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in the Company's operations.

**Other MD&A Requirements****Outstanding Share Data**

As at the date of this report, the Nepra Foods, Ltd. had 14,653,208 common shares issued and outstanding.