

Management Discussion and Analysis For the Three Months ended March 31, 2016

This Management Discussion and Analysis ("MD&A") for the three months ended March 31, 2016 is derived from, and should be read in conjunction with the condensed interim consolidated financial statements of Sunora Foods Inc. ("Sunora" or the "Company") for the three months ended March 31, 2016. This MD&A is effective May 20, 2016 and provides information on the operating activities, performance and financial position of the Company and is intended to assist in understanding the dynamics of the Company's business and key factors underlying its financial results.

FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "believes" or variation (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or to be achieved. Forward-looking statements are based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions, expected developments and other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

DESCRIPTION OF BUSINESS

Sunora Foods Ltd. ("Sunora Foods") is a Calgary-based trader and supplier of canola, soybean, corn, olive and other food oils. Currently, the Company is a relatively modestly-sized player participating in an international business populated by some of the largest companies in the world. It has successfully maintained a niche position that has been achieved by building strong relationships with its suppliers and customers through a history of reliable and responsive service. While the Company regularly cooperates with many of these companies, it also occasionally competes with companies that have far greater resources. Sunora Foods has achieved a measure of success for over twenty years and has weathered both economic upturns and downturns by remaining true to its commitment to its industry, its customers and suppliers, with a coherent long-term business vision. Sunora Foods operations comprise of receiving orders from its customers in the food oil processing, retail and food services markets. The Company contracts with food oil processing facilities ("Seed Crushers") where food oil

seeds are crushed to produce food oils including canola, soybean and corn oils. Sunora Foods sales are conducted through its experienced sales agents located across North America, South America, Africa, Asia, the Middle East, Eastern Russia, Australia and New Zealand. Sunora Foods prides itself on its quality food oil products and intends to continue its global expansion as well as enhance its position as a supplier of food oil to the health food industry.

HIGHLIGHTS

The following highlights are from the condensed interim consolidated balance sheet as at March 31, 2016 and as at March 31, 2015, and the statements of operations for the three months ended March 31, 2016 and the three months ended March 31, 2015, respectively:

	3 months ended March 31, 2016	3 months ended March 31, 2015
Sales	\$ 2,687,379	\$ 2,743,967
Net income (loss) and comprehensive income (loss)	\$ 24,971	\$ 240,238
Earnings per share - basic and diluted	0.00	0.00
Total assets	\$ 4,744,888	\$ 4,494,917
Shareholders' equity	\$ 3,696,206	\$ 3,066,411

Sunora had lower than expected sales for the three-month period ended March 31, 2016. Sales were somewhat adversely impacted by delayed deliveries from a major co-packer.

The \$24,971 of net income and comprehensive income in the three months ended March 31, 2016 was lower than the same quarter of 2015. This was primarily as a result of a foreign exchange loss of \$82,655, as opposed to a foreign exchange gained \$131,013 in the prior year. In addition, sales were slightly lower, and the gross margin declined from the prior year as a result of delivery issues with a co-packer.

FINANCIAL POSITION

	March 31, 2016	December 31, 2015 <i>(audited)</i>
Assets		
Current assets		
Cash	\$ 2,981,812	\$ 2,620,566
Accounts receivable	989,160	920,001
Inventory	607,523	497,798
Prepaid expenses	18,419	32,826
	<u>4,596,914</u>	<u>4,071,191</u>
Deferred tax asset	147,974	147,974
	<u>\$ 4,744,888</u>	<u>\$ 4,219,165</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 936,008	\$ 468,226
Income tax payable	48,940	66,638
Customer deposits	63,734	13,066
	<u>1,048,682</u>	<u>547,930</u>
Shareholders' Equity		
Share capital	1,400,816	1,400,816
Contributed surplus	668,758	668,758
Retained earnings	1,626,632	1,601,661
	<u>3,696,206</u>	<u>3,671,235</u>
	<u>\$ 4,744,888</u>	<u>\$ 4,219,165</u>

Current assets

Sunora's current assets consist of cash, accounts receivable, prepaid expenses and inventory. Cash is held for working capital requirements and to fund expansion costs for new markets and customers. A policy of conserving cash is rigorously followed by management in order to sustain operations and not hamper its marketing strategies. Accounts receivable is in a comparable range to that of December 31, 2015, due to continuing efforts by management to control the Company's credit and collections. The increase in inventory is due to increased bulk oil purchases in anticipation of future sales.

Current liabilities

Sunora's current liabilities consist of accounts payable and accrued liabilities, income tax payable and customer deposits. Accounts payable increased by \$467,782 since December 31, 2015, due to increased bulk of oil purchases at the end of this quarter. Nevertheless, Sunora is committed to its policy to manage its trade payables on a current basis and maintain its excellent credit standing.

Working capital

The Company's target Working Capital Ratio (Current Assets divided by Current Liabilities, which is an indicator of its ability to finance its on-going operations) is 2:1. Current Assets comprise cash, accounts receivable, prepaid expenses and inventory; current liabilities include accounts payable, accrued liabilities and income taxes payable. The amounts of accounts receivable, inventory and accounts payable and accrued liabilities at a point in time are the direct result of sales and purchases and how the Company manages collections, supplier credit and inventory levels, which in turn is manifested in the available cash. At March 31, 2016, the Working Capital Ratio has declined to 4.4:1 compared to 6.75:1 at December 31, 2015. The Company's business has been managed with a strong working capital position which has enabled the Company to operate without debt. Additionally, the current nature of Sunora's operations has enabled it to expand without making capital investments. Therefore, the Company believes it is in a very favourable position to expand in the future.

OPERATIONS

	Three month Period Ended March 31, 2016	Three-month Period Ended March 31, 2015
Sales	\$ 2,687,379	2,743,967
Cost of sales	<u>2,434,957</u>	<u>2,438,792</u>
Gross margin	<u>252,422</u>	<u>305,175</u>
Other		
General and administrative expenses	122,566	97,535
Marketing and promotion	11,576	16,811
Bank charges and interest	2,330	1,904
Foreign exchange gains and losses	<u>82,655</u>	<u>(131,013)</u>
	<u>219,127</u>	<u>- 14,763</u>
Income (loss) before income taxes	33,295	319,938
Income tax expense (recovery)		
Current income tax expense (recovery)	<u>8,324</u>	<u>79,700</u>
	<u>8,324</u>	<u>79,700</u>
Net income and comprehensive income	\$ <u>24,971</u>	\$ <u>240,238</u>
Earnings (loss) per share		
Basic and diluted	\$ <u>0.00</u>	\$ <u>0.00</u>

DISCUSSION OF OPERATIONS

Sales

The Company operates in the single segment of food oil. Competition is always a significant factor in the food oil industry. The Company determines the geographic location of revenues based on the location of its customers. The geographic categories presented are the United States, Canada and Other; other comprises various regions in South America, Africa, Asia, the Middle East, Eastern Russia, Australia and New Zealand.

The Company's revenues were earned as follows:

	3 months ended March 31, 2016	3 months ended March 31, 2015
USA	\$ 2,167,415	\$ 1,785,591
Canada	235,713	275,451
International	284,251	682,925
	<u>\$ 2,687,379</u>	<u>\$ 2,743,967</u>

The Company had an economic dependence on one customer. During the three months ended March 31, 2016 and the three month period ended March 31, 2015, sales to this customer represented approximately 21% and 13% of the Company's total sales, respectively.

Sunora's sales to the United States have recently trended higher in proportion of sales in Canada. Overseas markets are generally continuing to grow and provide greater long term stability to sales. The growth of sales in emerging markets, where awareness of healthy food choices is growing as a result of the expanding middle classes, is a positive trend for Sunora.

Cost of sales

Cost of sales consists of purchases of crude and refined oil, freight and custom duties. Sunora achieved a gross margin of 9.4 % in the three months ended March 31, 2016, which varied due to delivery issues with co- packers, compared to 11% in the three months ended March 31, 2015. These margins were within an expected range.

General and administration

General and administrative expenses increased by \$25,031 in the quarter compared to the same quarter of 2015 due to various items. G&A consists of salaries, commissions, rent, travel, and various other miscellaneous office overhead expenses.

Marketing and promotion

A direct correlation to Sunora's increased sales has been its marketing efforts. Over the years, Sunora has established good relationships with its sale staff, given them more flexibility and autonomy as mutual trust has developed in these relationships. In North America, Sunora has worked with commissioned brokers who have introduced new customers to the Company. Many of these brokers now provide services on a more committed basis, as agents, servicing customers primarily for Sunora. Sales to independent distributors have also grown, mostly in overseas countries, which have given Sunora entry into many foreign markets. Product sold to foreign distributors and for other customers, is final and not returnable.

Foreign exchange

The foreign exchange gain or loss is primarily a result of inventory purchases and sales, which are denominated in US currency.

QUARTERLY RESULTS

	Three months ended March 31 2016	Three months ended December 31, 2015	Three months ended September 30, 2015	Three months ended June 30, 2015	Three months ended March 31, 2015
Sales	\$ 2,687,379	2,386,519	\$ 2,451,477	\$ 3,233,996	\$ 2,743,967
Cost of sales	2,434,957	2,150,708	2,134,505	2,934,022	2,438,792
Gross margin	<u>252,422</u>	<u>235,811</u>	<u>316,972</u>	<u>299,974</u>	<u>305,175</u>
Other					
General and administrative expenses	122,566	235,685	99,365	113,158	97,535
Marketing and promotion	11,576	8,367	5,778	11,577	16,811
Bank charges and interest	2,330	298	3,318	4,639	1,904
Foreign exchange gains and losses	82,655	(38,936)	(62,626)	28,410	(131,013)
Stock-based compensation		102,580	-	-	-
	<u>219,127</u>	<u>307,994</u>	<u>45,835</u>	<u>157,784</u>	<u>(14,763)</u>
Income before income taxes	33,295	(72,183)	271,137	142,190	319,938
Income tax expense					
Current income tax (recovery)	8,324	(26,504)	72,366	31,250	79,700
Deferred income tax		2,088	-	-	-
Net income (loss) and comprehensive income (loss)	\$ <u>24,971</u>	\$ <u>(47,767)</u>	\$ <u>198,771</u>	\$ <u>110,940</u>	\$ <u>240,238</u>
Earnings per share - basic and diluted	0.001	(0.001)	0.005	0.003	0.006

Sales for the first quarter of 2016 were 12.6 % higher than the fourth quarter of 2015. Sales for the fourth quarter of 2015 were 2.6% lower than the third quarter of 2015 due to the decrease in overseas sales. Third quarter sales were 24% lower than the second quarter. Second quarter sales were 18% higher than first quarter.

Cost of sales in the first quarter of 2016 was 13.2% higher than fourth quarter of 2015. Cost of sales in the fourth quarter of 2015 was consistent with third quarter. Third quarter cost of sales was 27% lower than the second quarter due to a 24% decrease in sales. Second quarter cost of sales was 20% higher than the first quarter due to an 18% increase in sales.

Gross margin for the first quarter of 2016 was 9.4%, 0.5% lower than fourth quarter of 2015. Gross margin for the fourth quarter of 2015 was 9.9% compared to 12.9% for the third quarter. Second quarter gross margin was 9.3% compared to 11.1% for the first quarter ended March 31, 2015.

General and administrative expenses were lower in first quarter of 2016 compared to fourth quarter of 2015. General and administration expenses were higher in the fourth quarter of 2015 due to various charges recorded at year end, such as audit and accounting fees, profit sharing bonus and bad debts.

CASH FLOWS

The Corporation's cash flows are in line with expectations given the operations for the period.

The following is the Company's Statement of Cash Flows for the three-month periods ending March 31, 2016 and March 31, 2015; Sunora's cash flows arose only from operations during these periods.

	Three-month Period Ended March 31, 2016	Three-month Period Ended March 31, 2015
Net cash inflow (outflow) related to:		
Operating activities		
Net Income	\$ 24,971	\$ 240,238
Items not affecting cash		
Stock-based compensation	-	
Change in unrealized foreign exchange on US dollar cash	-	(120,583)
	<u>24,971</u>	<u>119,655</u>
Changes in non-cash working capital		
Accounts receivable	(69,159)	(154,451)
Income tax recoverable (payable)	(17,698)	73,073
Inventory	(109,725)	390,376
Prepaid expenses	14,407	
Accounts payable and accrued liabilities	467,782	54,875
Customer deposits	50,668	(12,678)
	<u>336,275</u>	<u>351,195</u>
Increase in cash flow	361,246	470,850
Cash, beginning of period	2,620,566	1,784,147
Effect of exchange fluctuations on US dollar cash	-	120,583
Cash, end of period	\$ <u><u>2,981,812</u></u>	\$ <u><u>2,375,580</u></u>
Cash is comprised of:		
Cash held in Canadian dollars	2,394,320	1,752,560
Cash held in US dollars	587,492	623,020
	\$ <u><u>2,981,812</u></u>	\$ <u><u>2,375,580</u></u>

Sunora's cash balances increased \$361,246 in the three months ended March 31, 2016. This increase since December 31, 2015 resulted primarily from income for the quarter, the reduction of inventory and an increase in accounts payable and accrued liabilities offset partly by an increase in accounts receivables during that period. Sunora's cash balance increased during the three months ended March

31, 2015 primarily due to a decrease in inventory offset by a decrease accounts payable and accrued liabilities and a decrease in accounts receivable during that period.

OUTLOOK

Sunora maintains strong relationships with strategically located customers in North America and overseas. These relationships continue to drive demand for food oil products from Canada, with Sunora well positioned to meet existing and additional demand. Management has focused on increasing visibility in emerging markets, with a specific focus on the economies in Asia, with a view to meet this increased demand for Canadian manufactured food oil products. Sunora's operations are impacted by geopolitical situations that may hold up deliveries as was experienced in the last quarter of 2015. As the middle class in these emerging economies demands higher quality and healthier foods, Sunora is well positioned to meet additional demand.

Management is actively identifying and analyzing operations that might increase gross margins for the Company. Prospective businesses considered include packagers and suppliers in the food oil industry. With each operation identified, a detailed review and analysis is undertaken by management. Specific focus is currently on packagers with operations in Canada that are looking for a strategic partner to expand international operations.

Management is also actively considering possible new products that may benefit from new domestic and international markets.

With the continuing improvement in the United States economy and new customers being added in Asia Sunora is well placed to improve its profitability and financial position.

OTHER SELECTED FINANCIAL INFORMATION

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Assets	\$ 4,744,888	\$ 4,219,165
Liabilities	\$ 1,048,682	\$ 547,930
Shareholders' equity	\$ 3,696,206	\$ 3,671,235

Total assets of Sunora as at March 31, 2016 comprised primarily of cash, accounts receivable, inventory and deferred tax asset. The increase in assets from December 31, 2015 to March 31, 2016 is primarily due to an increase in cash as a result of increased accounts payable, customer deposits and positive net income.

Sunora's current liabilities consist primarily of accounts payable and accrued liabilities. Accounts payable and accrued liabilities increased by \$467,782 since December 31, 2015 due to temporary timing in payments for purchases towards the end of the quarter. However, the Company's strong working capital position continues to allow management to keep current on balances owing.

OFF-BALANCE SHEET TRANSACTIONS

The Company is not a party to any off balance sheet arrangements or transactions.

LIQUIDITY, FINANCING ACTIVITY AND CAPITAL RESOURCES

The financial position of the Company is strong relative to its financial requirements and commitments. Management maintains a conservative approach to day-to-day operations, monitoring the timing of its inventory turnover and meeting its obligations to suppliers within their credit facilities. Collections from customers were stringently managed as all receivables at March 31, 2016 were less than 60 days old. Sunora's Current Ratio (Current Assets divided by Current Liabilities) target as set by management is 2.0:1. Including its cash balance of \$2,981,812 at March 31, 2016, Sunora's Current Ratio at March 31, 2016 was 4.4:1. The Company has continued to have a strong working capital position. Additionally, the Company has neither debt nor any financial obligations other than to fund its operations.

Sunora has only one long term contractual obligation of a lease on its office facilities in the Provident Professional Building in Calgary, Alberta. This lease for 1,038 square feet of office space terminates on August 31, 2017, and has an early termination clause with nine months' notice during the last two years. The rates in the lease are deemed to be fair market rates. Sunora has independent agents working in many parts of the world including the United States. In Canada, the United States and overseas, Sunora has wholesale customers who purchase canola oil from Sunora for redistribution, these sales are final and not returnable.

The Company has no property, plant and equipment (other than office furniture and equipment carried at no book value) and it has no short or long-term loans. Aside from funding its operations, turning over and maintaining adequate inventory levels, the Company has no minimum working capital requirements that are externally imposed.

The Company engages in commodity trading for its purchases, as opposed to speculation. Price changes have limited impact on its operations for the period ended March 31, 2016. As previously noted a major world economic downturn would adversely impact Sunora due to its reliance on markets outside of Canada.

The total number of common shares outstanding as at March 31, 2016 and May 28, 2016 is 42,254,332.

FINANCIAL INSTRUMENTS

Risk management

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note sets out the Corporation's exposure to each of the under-noted risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. The Corporation employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Corporation's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation's risk management framework, Sunora's management has the responsibility to administer and monitor these risks.

Fair value of financial instruments

The fair values of accounts receivable and accounts payable and accrued liabilities and customer deposits approximate their carrying values due to the short-term maturity of those instruments.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly, and are based on valuation models and techniques where the inputs are derived from quoted indices. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Cash is measured at fair value based on its Level 1 designation.

Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on credit risk applicable to certain accounts, historical trends and other relevant information. Management believes the risk is often mitigated by requiring a down payment from the companies to which they extend credit.

As at March 31, 2016, the Corporation's maximum exposure to credit risk for accounts receivable is \$989,160.

	March 31, 2016	December 31, 2015
Current	\$ 989,160	\$ 814,899
Past due greater than 60 days	<u>-</u>	<u>105,102</u>
Accounts receivable	<u>\$ 989,160</u>	<u>\$ 920,001</u>

During the period ended March 31, 2016, sales to one customer represented 21 % of the Corporation's total sales (2015- 17%).

The accounts receivable balance is widely diversified with the exception of two customers (December 31, 2015 – four customers) that represent 30% and 17% of the accounts receivable balance at March 31, 2016 (December 31, 2015 – 23%, 16%, 13% and 10%).

Bad debt expense for the period ended March 31, 2016 was nil (December 31, 2015 - \$13,805) which is included in general and administrative expenses. At March 31, 2016, the Corporation had allowance for doubtful accounts of nil (December 31, 2015 - nil).

The Corporation manages the credit exposure of \$2,981,812 related to cash and cash equivalents by selecting financial institutions with high credit ratings and monitors all short-term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Corporation's ongoing liquidity is impacted by various external events and conditions, including global economic conditions.

As at March 31, 2016, the Corporation had cash and cash equivalents of \$2,981,812 to settle current liabilities of \$1,048,682. The majority of the Corporation's financial liabilities have contractual maturities of less than 60 days and all are subject to normal trade terms.

The financial liabilities on the consolidated balance sheet consist of accounts payable and accrued liabilities and customer deposits. The Corporation manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements.

Market risk

Market risk is the risk that changes in market prices, foreign exchange rates and interest rates will affect the Corporation's net earnings or the value of financial instruments and are largely outside the control of the Corporation. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Primary market risks are as follows:

(i) Foreign currency risk

The Corporation is exposed to currency price risk on sales and purchases denominated in U.S. dollars ("USD") and Singapore dollars ("SGD") to the extent the U.S. and Singapore denominated accounts receivable and accounts payable and accrued liabilities are subject to fluctuations in the related foreign exchange rate.

The carrying amounts of the Corporation's monetary assets and liabilities denominated in foreign currency at March 31, 2016 and December 31, 2015 are as follows:

	Foreign Currency	March 31, 2016	December 31, 2015
Cash	USD	540,327	216,336
Accounts receivable	USD	670,432	517,914
Accounts receivable	SGD	-	88,052
Accounts payable	USD	(406,880)	(77,428)

A \$0.01 increase in the U.S. to Canadian dollar exchange rate would have resulted in an increase of \$2,814 to net income for the period ended March 31, 2016. A \$0.01 increase in the Singapore to

Canadian dollar exchange rate would not have a significant impact on the net income for the year ended December 31, 2015 or 2014.

(ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is not exposed to significant interest rate risk due to the short term maturity of its monetary assets and liabilities

(iii) Commodity price risk

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Commodity prices for canola oil are impacted by global economic and political events that dictate the levels of supply and demand. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when it deems appropriate. The Corporation did not enter into any derivative financial contracts related to commodity prices during the period ended March 31, 2016 and December 31 2015 nor does it currently have any derivative financial contracts.

Capital Management

The Corporation's target Working Capital Ratio (Current Assets divided by Current Liabilities, which is an indicator of its ability to finance its on-going operations) is 2:1. The working capital ratio of March 31, 2016w was 4.4:1 (2015 – 6.75:1) The Corporation's business has been managed with a strong working capital position which has enabled the Corporation to operate without debt. Additionally, the current nature of Sunora's operations has enabled it to expand without making capital investments.

The Corporation optimizes its capital structure with a view to ensure a strong financial position to support potential acquisition strategies. Sunora considers its capital structure to include shareholders' equity, and the Corporation strives to maximize the value associated with share capital.

Sunora's share capital could be used as a basis to raise additional capital to pursue acquisitions. The Corporation's ability to raise additional equity financing is impacted by external factors, including global economic conditions. The Corporation is not subject to externally imposed capital requirements and the capital management policy has not changed during the period ended March 31, 2016 or the year ended December 31 2015.

CRITICAL ACCOUNTING ESTIMATES

Note 2 to Sunora's March 31, 2016 financial statements describes Sunora's basis of presentation of financial statement and note 3 describes the significant accounting policies. The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates, judgements and assumptions in preparation of the consolidated financial statements.

Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts based on late payments, client relationships and default history.

Valuation of inventory

The Corporation evaluates its inventory to ensure it is carried at the lower of average cost and net realizable value. Costs include all expenses to bring the goods to sale. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Share-based compensation

There was no stock-based compensation in the three months ended March 31, 2016. In the previous quarter, the amounts recorded relating to the fair value of stock options and warrants issued are based on estimates using a Black- Scholes option pricing model which considers the future volatility of the Corporation's share price, market price of the Corporation's shares at grant date, expected lives of the options and warrants, expected forfeiture rates, expected dividends and other relevant assumptions. These estimates affect the amount recognized as stock-based compensation expense in the consolidated statement of income and comprehensive income.

Current and deferred taxes

Provisions for current taxes are made using the best estimate of the amount expected to be paid based on a review of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation operates are subject to change. As such, income taxes are subject to estimation uncertainty. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

Foreign currency translation and operations

The functional currency of the Corporation is determined based on management's assessment of the currency of the primary economic environment in which the entity operates. As functional currency determines how income and expense items and liabilities denominated in foreign currencies are translated and where exchange differences are recognized, a change in the functional currency could have a significant effect on the amounts recorded in the financial statements.

Contingencies

Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

NEW ACCOUNTING STANDARDS

(i) Future accounting policies

The Company is currently assessing the impact of adopting the following recent standards issued by the IASB:

Financial instruments

IFRS 9 – Financial Instruments provides a comprehensive new standard for accounting for all aspects of financial instruments. It includes a logical model for classification and measurement, a single, forward-looking “expected-loss” impairment model and a substantially reformed approach to hedge accounting. The new standard is effective for years beginning on or after January 1, 2018.

Revenue recognition

IFRS 15 – “Revenue from contracts with customers” provides a comprehensive new standard on revenue recognition. It specifies how and when to recognize revenue as well as requiring entities to provide more information and relevant disclosure. The new standard is effective for years beginning on or after January 1, 2018.

IFRS 16 – “Leases” which provides for a single recognition and measurement model for leases, with required recognition of assets and liabilities for most leases. The new standard is effective for annual reporting periods beginning on or after January 1, 2019.