Sunora Foods Inc.

Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

Tel: 403 266 5608
Fax: 403 233 7833
www.bdo.ca

BDO Canada LLP
903 – 8th Avenue SW, Suite 620
Calgary AB T2P 0P7
Canada

Independent Auditor's Report

To the Shareholders of Sunora Foods Inc.

Opinion

We have audited the consolidated financial statements of Sunora Foods Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2018, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements for the year ended December 31, 2017 were audited by the firm of Calvista LLP, whose practice not operates under BDO Canada LLP, who expressed an unmodified opinion on the those consolidated financial statements on April 25, 2018.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activites of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Abdur Sharjeel.

BDO Canada LLP

Chartered Professional Accountants

620, 903 – 8th Avenue SW
Calgary, Alberta
T2P 0P7
April 29, 2019

Sunora Foods Inc.
Consolidated Balance Sheet
As at December 31, 2018 and 2017
(amounts in Canadian dollars)

Assets		**December 31, 2018**		**December 31, 2017**
Current assets				
Cash *(note 4)*	$	3,535,161	$	3,214,699
Accounts receivable *(note 10 (c))*		1,070,121		1,304,280
Inventory *(note 5)*		243,374		426,631
Prepaid expenses and accrued interest		57,935		31,285
GST recoverable		13,535		10,620
Income tax recoverable		-		116,407
		4,920,126		5,103,922
Deferred tax asset *(note 6 (b))*		67,734		159,545
	$	4,987,860	$	5,263,467
Liabilities				
Accounts payable and accrued liabilities	$	946,137	$	1,257,325
Customer deposits		58,039		72,032
		1,004,176		1,329,357
Shareholders' Equity				
Share capital *(note 7)*		1,190,751		1,400,816
Contributed surplus *(note 9)*		771,858		770,475
Retained earnings		2,021,075		1,762,819
		3,983,684		3,934,110
	$	4,987,860	$	5,263,467

Commitment (note 14)

See accompanying notes to the financial statements.

APPROVED BY THE BOARD

Sunora Foods Inc.
Consolidated Statement of Income and Comprehensive Income (Loss)
For the Years Ended December 31, 2018 and 2017
(amounts in Canadian dollars)

		Year Ended December 31 2018		Year Ended December 31 2017
Sales	$	14,515,352	$	13,935,676
Cost of sales		13,597,626		12,991,136
Gross margin		917,726		944,540
Other				
General and administrative		537,139		533,085
Marketing and promotion		42,679		70,999
Bank charges and interest		10,210		8,642
Stock-based compensation *(note 8)*		1,383		33,739
Foreign exchange		(16,180)		60,010
Interest income		(37,233)		(23,801)
		537,998		682,674
Income from operations		379,728		261,866
Claim settlement *(note 15)*		-		434,684
Income (loss) before income taxes		379,728		(172,818)
Income tax expense (recovery) - Current *(note 6 (a))*		29,661		(51,182)
Deferred income tax expense *(note 6 (a))*		91,811		-
		121,472		(51,182)
Net income (loss) and comprehensive income (loss)	$	258,256	$	(121,636)
Earnings per share				
Basic and diluted	$	0.006	$	(0.003)

See accompanying notes to the financial statements.

Sunora Foods Inc.
Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2018 and 2017
(amounts in Canadian dollars)

	Number of Common Shares	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at December 31, 2016	42,254,332	1,400,816	736,736	1,884,455	$ 4,022,007
Stock-based compensation	-	-	33,739	-	33,739
Net income (loss) and comprehensive income (loss)	-	-	-	(121,636)	(121,636)
Balance at December 31, 2017	42,254,332	1,400,816	770,475	1,762,819	$ 3,934,110
Stock-based compensation *(note 8)*	-	-	1,383	-	1,383
Share buy back *(note 7(b)))*	(1,584,500)	(210,065)	-	-	(210,065)
Net income and comprehensive income	-	-	-	258,256	258,256
Balance at December 31, 2018	40,669,832	$1,190,751	$ 771,858	$ 2,021,075	$ 3,983,684

See accompanying notes to the financial statements.

Sunora Foods Inc.

Consolidated Statement of Cash Flows

For the Years Ended December 31, 2018 and 2017

(amounts in Canadian dollars)

	Year ended December 31, 2018	Year ended December 31, 2017
Net cash inflow (outflow) related to:		
Operating activities		
Net Income (loss)	$ 258,256	$ (121,636)
Items not affecting cash		
Stock-based compensation	1,383	33,739
Deferred income tax expense	91,811	-
Change in unrealized foreign exchange on US dollar cash	15,818	(31,009)
	367,268	(118,906)
Changes in non-cash working capital		
Accounts receivable	234,159	(354,464)
Income tax recoverable (payable)	116,407	(5,950)
GST recoverable	(2,915)	404
Inventory	183,257	11,433
Prepaid expenses and accrued interest	(26,650)	(6,503)
Accounts payable and accrued liabilities	(311,188)	302,763
Customer deposits	(13,993)	992
	179,077	(51,325)
Cash flow from (used in) operations	546,345	(170,231)
Financing activities		
Re-purchase of Corporation's shares *(note 7(b))*	(210,065)	-
Cash flow used for financing	(210,065)	-
Increase (decrease) in cash flow	336,280	(170,231)
Cash, beginning of period	3,214,699	3,353,921
Effect of exchange fluctuations on US dollar cash	(15,818)	31,009
Cash, end of period	$ 3,535,161	$ 3,214,699
Cash, in Canadian dollars, is comprised of:		
Cash held in Canadian dollars	3,317,438	2,919,110
Cash held in US dollars	217,723	295,589
	$ 3,535,161	$ 3,214,699

See accompanying notes to the financial statements.

1. General business description

Sunora Foods Inc. ("Sunora" or the "Corporation"), is a trader and supplier of canola, olive and other food oils across Canada, the United States and internationally. Sunora is a publicly traded corporation, incorporated in Canada. The head office is located at 4616 Valiant Drive N.W., Calgary, Alberta, Canada, T3A 0X9.

The shares of Sunora are traded on the TSX Venture Exchange under the symbol SNF.

2. Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements were approved and authorized for issuance by the Board of Directors on April 29, 2019.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in note 3. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Adoption New Accounting Standards

The adoption of the following new standards, interpretations and amendments where included in the financial statements for the year beginning January 1, 2018.

IFRS 9 Financial Instruments (“IFRS 9”) – In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9’s key changes include but are not limited to eliminating the previous IAS 39 categories for financial assets of held to maturity, loans and receivables, and available for sale and (ii) replacing IAS 39’s incurred loss model with the expected credit loss model in evaluating certain financial assets for impairment.

Expected credit losses associated with accounts receivable requires management to assess certain forward looking and macroeconomic factors to determine whether there is a significant increase in credit risk as well as expected provisions on the balance outstanding at year-end as further described in Note 9 (c). The impact of applying IFRS 9 was not material for this year.

In implementing IFRS 9, the Corporation updated the financial instrument classifications within its accounting policy as follows:

	IAS 39	**IFRS 9**
Cash & Cash Equivalents	Measured at amortized cost	Amortized cost
Amounts receivable	Loans and Receivables, measured at amortized cost	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	Financial liabilities at amortized cost

IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) – In May 2014, the IASB issued IFRS 15, which covers principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. In implementing IFRS 15, the Corporation converted its revenue recognition policy into a five-step model to recognize revenue upon satisfying performance obligations and transferring control of its inventory to its customers. The following is the new accounting policy for revenue recognition under IFRS 15: The five-step model is summarized as follows:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Prior to the adoption of IFRS 15, the Corporation has historically earned revenue from the sale of canola food oil products shipped to its customers, sold at a sales price negotiated with each sale. After the adoption of IFRS 15, the Corporation recognizes revenue when it transfers control of the product to the customer, which generally occurs upon shipment of the product. Payment is receivable on the date of transfer of control. There was no material impact on the Corporation’s financial statements upon adoption of this standard.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional presentation currency of the Corporation and its wholly-owned subsidiary.

(d) Use of estimates and judgments

The preparation of financial statements 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. By their nature, estimates are subject to estimation uncertainty.

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 financial statements:

Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of the recoverable amount, after allowing for expected credit losses predicated upon on-going 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

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 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 measurement uncertainty. Deferred income 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 assets and liabilities denominated in foreign currencies are translated and where exchange differences are recognized, a change in the functional currency could have as 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.

3. Significant accounting policies

(a) Basis of presentation

Subsidiary

Sunora Foods Ltd. was the only subsidiary of the Corporation and it was wholly-owned. All the operations were carried out by the subsidiary. On July 4, 2018, Sunora Foods Ltd. was amalgamated with the Corporation.

The financial statements include the accounts of the Corporation and its wholly-owned subsidiary from January 1, 2018 up to July 4, 2018 when it was amalgamated with the Corporation, and the accounts of the amalgamated Corporation from July 5, 2018 to December 31, 2018.

(b) Foreign currency translation

Monetary assets and liabilities, which are denominated in foreign currencies, are translated to the Corporation's functional currency at period end exchange rates, and transactions included in the statement of income and other comprehensive income are translated at average rates prevailing during the period. Non-monetary assets and liabilities are measured at the exchange rate in effect at the transaction date and are not retranslated. Exchange gains and losses resulting from the translation of these amounts are included in the statement of income and other comprehensive income.

(c) Cash and cash equivalents

Cash and cash equivalents consist of amounts held in current bank accounts and highly liquid short-term investments, including those with maturities of less than three months.

(d) Inventory

Inventory is carried at the lower of average cost and net realizable value. Cost is determined using the average cost method or a specific item basis depending on the nature of the product inventory. Inventory consists of bulk oils, packaging materials and finished goods comprised of food oils. 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. Allowances are made against obsolete or damaged inventories and charged to the cost of sales. The reversal of any write-down of inventory arising from an increase in net realizable value is recognized as a reduction in cost of sales in the period in which the reversal occurred. This policy has been in effect during 2017 and 2018.

(e) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, less sales taxes or duty.

The Corporation derives revenue from sale of food oil products. Revenue from each sale is recognized when control passes to the customer, which occurs upon shipment.

(f) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of income and comprehensive income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(g) Stock-based compensation

Stock options granted to directors, officers and employees of the Corporation are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model.

The Corporation measures stock-based payments to non-employees, if applicable, at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options granted will be measured using the Black-Scholes option-pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(h) Provisions and contingent liabilities

Provisions are recognized by the Corporation when it has legal or constructive obligation as a result of past events, or if it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(i) Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that would occur if in-the-money stock options and warrants were exercised. The Corporation uses the treasury stock method for outstanding stock options and warrants which basis assumes that all outstanding stock options with exercise prices below average market prices are exercised and assumed proceeds plus the unamortized portion of stock-based compensation are used to purchase the Corporation's common shares at the average market price during the period.

(j) Financial instruments

i. Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following three categories: amortized cost, fair value through profit or loss, or fair value through other comprehensive income. The Corporation’s financial assets: cash and cash deposits and receivables are measured at amortized cost.

ii. Amortized cost

These assets arise principally from the provision of goods and services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely the payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issues, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

During the process of reviewing accounts receivable for impairment, the probability of the non-payment of the trade receivable is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognized within operating expenses in the statement of comprehensive loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

(amounts in Canadian dollars)

iii. Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception into one of the following two categories: fair value through profit and loss or amortized cost. Accounts payable and accrued expenses are stated at amortized. The Corporation has not designated any financial liability at fair value through profit or loss.

(l) New accounting standards

At the date of authorization of these financial statements, the IASB and IFRIC had issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Corporation has not early adopted. The Corporation is still assessing the impact of the application of these standards will have on the financial statements of the Corporation.

Leases

IFRS 16 Leases ("IFRS 16"), was issued in January 2016 and it replaces IAS 17 Leases. IFRS 16 requires entities to recognize lease assets and lease obligations on the balance sheet. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead leases are "capitalized" by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligations to make future lease payments. IFRS 16 is effective for fiscal periods beginning on or after January 1, 2019.

As the Corporation only has a lease for its premises, it does not expect the adoption of the standard to have a significant impact on the Corporation's financial statements.

4. Cash and cash equivalents

Cash and cash equivalents include guaranteed investment certificates of $2,500,000 as at December 31, 2018 (2017- $2,250,000) bearing at a weighted average rate of 1.66% (2017- 1.50%) per annum with maturity dates ranging from January 14, 2019 to March 21, 2019.

5. Inventory and cost of sales

The cost of inventory and direct costs recognized during the year as cost of sales was $13,597,626 (2017 - $12,991,136). The inventory on hand consists of bulk oil and finished goods, as follows:

	December 31, 2018	December 31, 2017
Bulk olive and canola oil	$ 123,423	$ 136,478
Packaged products - olive and canola oil	119,951	290,153
	$ 243,374	$ 426,631

(amounts in Canadian dollars)

6. Income taxes

(a) Income tax recovery differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 28% (2017 - 27%) to income or loss before income taxes as follows:

	December 31, 2018	December 31, 2017
Net income (loss) before tax	$ 379,728	(172,818)
Expected income tax expense (recovery)	106,324	(46,661)
Stock-based compensation	373	10,190
Rate changes and other	14,775	(14,711)
Income tax expense (recovery)	$ 121,472	(51,182)
Total income tax expense (recovery) comprises:		
Current income tax expense	$ 29,661	(51,182)
Deferred income tax expense	91,811	-
	$ 121,472	-$ 51,182

(b) The components of the Corporation's deferred income tax assets and associated movements are as follows:

	December 31, 2017	Recognized in profit or loss	December 31, 2018
Deferred tax assets:			
Non-capital losses carried forward	$ 100,705	84,480	$ 16,225
Share issuance costs	8,685	8,685	-
Undepreciated capital cost tax pool	50,155	(1,354)	$ 51,509
	$ 159,545	$ 91,811	$ 67,734

	December 31, 2016	Recognized in profit or loss	December 31, 2017
Deferred tax assets:			
Non-capital losses carried forward	$ 100,705		$ 100,705
Share issuance costs	8,685		8,685
Undepreciated capital cost tax pool	50,155		50,155
	$ 159,545	$ -	$ 159,545

(amounts in Canadian dollars)

(c) The Corporation's unused non-capital losses with expiry dates as follows:

Year of expiry	Amount
2033	23,706
2034	25,422
2035	10,962
	60,090

7. Share capital

(a) Authorized

Unlimited number of common shares

Unlimited number of preferred shares (issuable in series)

(b) Issued

	Number	Stated Value
Common shares		
Balance at December 31, 2016 and 2017	42,254,332	$ 1,400,816
Re-purchased for cancellation	(1,584,500)	(210,065)
Balance at December 31, 2018	40,669,832	1,190,751

During the year, the Corporation paid $210,065 to repurchased 1,584,500 common shares. In January 2019, an additional 122,000 shares were repurchased for $16,490. The 1,706,500 common shares, being all the repurchased shares, have not yet been cancelled.

(c) The weighted average number of common shares used in the calculation of earnings per share is as follows:

	December 31, 2018	December 31, 2017
Basic weighted average	42,028,443	42,254,332
Effect of dilutive instruments:		
Common share options	386,910	405,556
Diluted	42,415,353	42,659,888

For the year ended December 31, 2018, the potential effect of the issuance of common shares upon the exercise of 2,075,000 options is dilutive and has, therefore, been considered in the calculation of diluted earnings (loss) per share.

(d) Shares in escrow

At December 31, 2018 and 2017, no common shares were held in escrow.

8. Stock-based compensation

The Corporation has a stock option plan for officers, directors, employees and consultants and has authorized a pool of options to acquire common shares, not to exceed 10% of issued and outstanding common shares. Under the plan, the Board of Directors set the exercise price and expiry date for each option grant.

(amounts in Canadian dollars)

On March 23, 2015, the Corporation granted 1,485,000 stock options to certain directors, officers, employees and consultants of the Corporation. The options expire on March 23, 2020 and one-third vest on each 6-month anniversary of the grant date. During 2018, 100,000 options were cancelled upon an employee leaving the Corporation.

On August 1, 2016, the Corporation granted 690,000 stock options to certain employees and consultants of the Corporation. The options expire on August 1, 2021 and one-third vest on each 6-month anniversary of the grant date.

The fair value of the options was determined using the Black-Scholes option pricing model.

During the year ended December 31, 2018, the Corporation recognized $1,383 (2017 - $33,739) of share-based compensation.

The Corporation's expected volatility is based on management's expectation of future stock price fluctuations, based on the Corporation's historical stock prices.

The Corporation's forfeiture rate is management's expectation of the value of stock options cancelled before reaching vesting requirements. This is estimated based on the likelihood of directors, officers, employees and consultants leaving the Corporation prior to that time.

The following is a summary of the Corporation's outstanding stock options for the year ended December 31, 2018 and the year ended December 31, 2017:

	Number of options	**Weighted Average Exercise Price**	**Expiry date**
Outstanding at December 31, 2015	1,485,000	$0.15	March 23, 2020
Issued	690,000	$0.15	August 1, 2021
Outstanding at December 31, 2016 and 2017	2,175,000	$0.15	
Forfeited upon termination of employment	(100,000)	$0.15	March 23, 2020
Outstanding at December 31, 2018	2,075,000	$0.15	

9. Financial instruments

(a) Risk management

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Corporation's exposure to each of the above 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 polices 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.

(amounts in Canadian dollars)

There have been no changes from the prior year in the Corporation's exposure or responses to financial risks.

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities 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.

(c) 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. Management believes the risk is often mitigated by the size and reputation of the companies to which they extend credit.

Expected credit losses associated with accounts receivable requires management to assess certain forward looking and macroeconomic factors to determine whether there is a significant increase in credit risk as well as expected provisions on the balance outstanding at year-end as further described in Note 2 (c).

As at December 31, 2018, the Corporation's maximum exposure to credit risk for accounts receivable is $1,070,121 (2017 - 1,304,280). Accounts receivable include no amounts that are past due at the end of the reporting period.

	December 31 2018	December 31 2017
Current	$ 1,070,121	$ 1,304,280
Accounts receivable	$ 1,070,121	$ 1,304,280

During the year ended December 31, 2018, sales to two customers (2017 – two) represented 42.2% of the Corporation's total sales (December 31, 2017 –39.4%).

The accounts receivable balance has four customers (2017 – three) which represent 28%, 20%, 19% and 10% of the accounts receivable balance at December 31, 2018 (December 31, 2017 -33%, 20% and 13%). Bad debt expense for the year ended December 31, 2018 was nil (2017 - nil). At December 31, 2018, the Corporation had no allowance for doubtful accounts (2017 - nil).

The Corporation manages the credit exposure of $3,535,161 (December 31, 2017- $3,214,699) 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.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are 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.

At December 31, 2018, the Corporation had cash and cash equivalents of $3,535,161 (2017- $3,214,699) available to settle accounts payable and accrued liabilities of $ 946,137 (2017 - $1,257,325). The majority of the Corporation’s financial liabilities mature in within 60 days and all are subject to normal trade terms.

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

(e) 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 denominated in U.S. dollars (“USD”) and Singapore dollars (“SGD”) to the extent that the receipt of payment of the U.S. and Singapore denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. This risk is partly off-set by accounts payable denominated in USD.

(amounts in Canadian dollars)

The carrying amounts of the Corporation's monetary assets and liabilities denominated in foreign currency are as follows:

	Foreign Currency		December 31, 2018		December 31, 2017
Cash at bank	USD	$	159,568	$	235,623
Accounts receivable	USD	$	625,371	$	859,894
Accounts receivable	SGD	$	-	$	183,668
Accounts payable	USD	$	(487,475)	$	(644,045)

(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 years ended December 31, 2018 and 2017 nor does it currently have any derivative financial contracts.

(f) Capital management

The Corporation's minimum desired 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 for December 31, 2018 was 4.9:1 (2017 – 3.7:1). The Corporation's business has been managed with a 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 take advantage of new opportunities. Sunora considers its capital structure to include shareholders' equity and the Corporation strives to maximize the value associated to share capital.

Sunora has the ability to issue share capital 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 years ended December 31, 2018 or December 31, 2017.

10. Segmented information

The Corporation operates in one business segment in multiple locations. Although the Corporation derives its revenues globally, all sales are attributed to the Canadian head office. The Corporation determines the geographic location of revenues based on the location of its customers. The same products are offered for sale in all geographic regions at approximately the same average gross margins.

(amounts in Canadian dollars)

The Corporation's sales, accounts receivable and inventory were attributed to the regions as follows:

	December 31, 2018	December 31, 2017
Sales		
USA	$ 10,100,624	$ 10,288,738
Canada	432,218	1,032,144
International	3,982,510	2,614,794
	$ 14,515,352	$ 13,935,676
Accounts receivable		
USA	$ 647,664	$ 1,131,310
Canada	4,553	561
International	417,904	172,409
	$ 1,070,121	$ 1,304,280
Inventory		
USA	$ 114,704	$ 203,500
Canada	128,670	33,795
In transit	-	189,336
	$ 243,374	$ 426,631

All sales are of a single product packaged according to the requirements of individual customers.

11. Employee and executive compensation

Total employee and management wages and bonuses recognized in general and administrative expenses for the year ended December 31, 2018 were $292,991 (2017 - $293,133).

The Corporation considers its key management personnel to be its Chief Executive Officer, Vice-President and non-executive directors. The compensation paid to the key management personnel consisted of wages and bonuses of $113,325 (2017 - $62,712) and stock-based compensation of $1,383 (2017 - $33,740).

12. Related party transactions

During the year, the Corporation had transactions with one customer in China which is controlled by the father of Vice-President of the Corporation; his father is a major shareholder of the Corporation, holding 8,058,400 common shares, representing 19.74% of the shares in issue. Sales to this related party in 2018 amounted to $673,396, representing 4.6% of total sales.

13. Commitments

(a) Rent commitment

Sunora is committed to its office premises lease for three years to August 31, 2020. Annual rent payments, excluding operating costs, are $19,204, $20,242 and $22,280.

(b) Investor Relations commitment

The Corporation is committed to monthly payments of $2,500 to an investor relations firm.

14. Claim settlement in 2017

On December 31, 2015, a statement of claim was filed against the Corporation by one of its vendors who alleged that Sunora wilfully did not accept deliveries of soybean oil pursuant to a contractual arrangement. The vendor claimed USD $506,798 in damages relating to losses allegedly suffered. Sunora denied any responsibility for such a claim. However, subsequent to June 30, 2017, on the recommendation of legal counsel, management settled the claim for CDN $390,000 which was in late August 2017. The claim settlement comprises a full provision for the claim including already incurred and expected legal fees which have been accrued in the financial statements for the quarter ended June 30, 2017 and is reflected in the year ended December 31, 2017.