Sunora Foods Inc.

Consolidated Financial Statements

For the Three-Month Periods Ended March 31, 2018 and 2017

Sunora Foods Inc.
Consolidated Balance Sheet
(amounts in Canadian dollars)

Assets		**March 31, 2018**		**December 31, 2017**
Current assets				
Cash	$	3,118,936	$	3,214,699
Accounts receivable *(note 10 (c))*		1,798,422		1,304,280
Inventory *(note 5)*		265,555		426,631
Prepaid expenses and accrued interest		21,035		31,285
GST recoverable		9,770		10,620
Income tax recoverable		72,915		116,407
		5,286,633		5,103,922
Deferred tax asset *(note 6)*		153,834		159,545
	$	5,440,467	$	5,263,467
Liabilities				
Accounts payable and accrued liabilities	$	1,311,140	$	1,256,855
Customer deposits		87,704		72,502
		1,398,844		1,329,357
Shareholders' Equity				
Share capital *(note 7)*		1,400,816		1,400,816
Contributed surplus *(note 9)*		771,858		770,475
Retained earnings		1,868,949		1,762,819
		4,041,623		3,934,110
	$	5,440,467	$	5,263,467

Commitment (note 14)

See accompanying notes to the consolidated financial statements.

Sunora Foods Inc.
Consolidated Statement of Income and Comprehensive Income
(amounts in Canadian dollars)

		Three-Month Period March 31, 2018		Three-Month Period March 31, 2017
Sales	$	3,936,012		3,480,230
Cost of sales		3,654,250		3,247,496
Gross margin		281,762		232,734
Other				
General and administrative		134,285		128,722
Marketing and promotion		8,214		11,886
Bank charges and interest		2,623		2,966
Foreign exchange		(11,807)		(10,833)
Stock-based compensation *(note 6)*		1,383		13,864
		134,698		146,605
Income from operations		147,064		86,129
Interest income		8,270		5,049
Income before income taxes		155,334		91,178
Income tax expense *(note 4)*		43,493		24,618
Deferred income tax adjustment		5,711		-
		49,204		24,618
Net income and comprehensive income	$	106,130	$	66,560
Earnings (loss) per share (note 5)				
Basic and diluted	$	0.002	$	0.002

See accompanying notes to the consolidated financial statements.

Sunora Foods Inc.
Consolidated Statements of Changes in Equity
(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	736,735	1,884,455	$ 4,022,006
Stock-based compensation	-	-	33,740	-	33,740
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
Net income and comprehensive income	-	-	-	106,130	106,130
Balance at March 31, 2018	42,254,332	$1,400,816	$ 771,858	$ 1,868,949	$ 4,041,623

See accompanying notes to the consolidated financial statements.

Sunora Foods Inc.
Consolidated Statement of Cash Flows
(amounts in Canadian dollars)

	Three-Month Period March 31, 2018	Three-Month Period March 31, 2017
Net cash inflow (outflow) related to:		
Operating activities		
Net Income (loss)	$ 106,130	$ 66,560
Items not affecting cash		
Stock-based compensation	1,383	13,864
Deferred income tax expense	5,711	-
Change in unrealized foreign exchange on US dollar cash	48,638	(13,352)
	161,862	67,072
Changes in non-cash working capital		
Accounts receivable	(494,142)	(304,431)
Income tax recoverable (payable)	49,248	(7,673)
GST recoverable	851	478
Inventory	138,624	(95,559)
Prepaid expenses and accrued interest	10,250	7,485
Accounts payable and accrued liabilities	56,185	130,765
Customer deposits	15,202	(31,490)
	(223,782)	(300,425)
Net cash inflow (outflow)	(61,920)	(233,353)
Cash, beginning of period	3,214,699	3,353,921
Effect of exchange fluctuations on US dollar cash	(48,638)	13,352
Cash, end of period	$ 3,104,141	$ 3,133,920
Cash is comprised of:		
Cash held in Canadian dollars	3,068,546	2,770,572
Cash held in US dollars stated in Canadian dollars	50,390	363,348
	$ 3,118,936	$ 3,133,920

See accompanying notes to the consolidated financial statements.

1. General business description

Sunora Foods Inc. ("Sunora" or the "Corporation"), formerly Thoroughbred Capital Inc. ("Thoroughbred"), is a trader and supplier of canola, olive, other food oils and related commodities 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 consolidated 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 consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 25, 2018.

(b) Basis of measurement

These consolidated financial statements have been prepared on an historical cost basis, except for certain financial assets and financial liabilities, which are measured at fair value (note 10(b)).

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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.

3. Inventory and cost of sales

The cost of inventory and direct costs recognized during the quarter as cost of sales was $3,654,250 (March 31, 2017 - $3,247,496). The inventory on hand consists of bulk oil, packaging materials and finished goods.

4. Income taxes

(a) Income tax provision is computed by applying the combined effective Canadian federal and provincial income tax rates of 28% (March 31, 2017 - 27%) to income or loss before income taxes.

(b) The Corporation's deferred income tax assets comprise non-capital losses and cumulative eligible capital.

(amounts in Canadian dollars)

(c) The Corporation has available non-capital losses of $305,053 which expire over the years 2030 to 2035.

5. Share capital and warrants

(a) Authorized

Unlimited number of common shares
Unlimited number of preferred shares (issuable in series)

(b) Issued

	Number	**Stated Value**
Common shares		
Balance at March 31, 2018 and December 31, 2017	42,254,332	$ 1,400,816

(c) Earnings (loss) per share

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

	March 31 2018	**December 31, 2017**
Basic	42,254,332	42,254,332
Effect of dilutive instruments:		
Common share options	405,556	405,556
Diluted	42,659,888	42,659,888

For the three-month period ended March 31, 2018, the potential effect of the issuance of common shares upon the exercise of 2,175,000 options is dilutive and has, therefore, been considered in the calculation of diluted earnings (loss) per share.

(d) Shares in escrow and Warrants

At March 31, 2018 and 2017, no common shares were held in escrow nor were there any outstanding warrants.

(amounts in Canadian dollars)

6. 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.

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.

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 with the following assumptions:

Risk-free interest rate	0.50%
Expected volatility	114%
Expected life	5 years
Expected dividend yield	0.00%
Estimated forfeiture rate	7.00%
Stock price	$0.14
Exercise price	$0.15
Fair value per option	$0.12

During the three-month period ended March 31, 2018, the Corporation recognized $1,383 (March 31, 2017 - $13,664) of share-based compensation.

The following is a summary of the Corporation's outstanding stock options at March 31, 2018 and at 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	
Exercisable at March 31, 2018	2,175,000	$0.15	

(amounts in Canadian dollars)

7. Contributed surplus

The following summarizes changes in the Corporation's contributed surplus:

	March 31 2018	**December 31, 2017**
Balance, beginning of period	$ 770,475	$ 736,735
Stock-based compensation	1,383	33,740
Balance, end of period	$ 771,858	$ 770,475

8. 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.

(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.

Accounts receivable, accounts payable and accrued liabilities are measured at fair value based on their Level 2 designations.

(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 to certain accounts, historical trends and other relevant information. Management believes the risk is often mitigated by the size and reputation of the companies to which they extend credit.

(amounts in Canadian dollars)

As at March 31, 2018, the Corporation's maximum exposure to credit risk for accounts receivable is $1,798,422 (December 31, 2017 - $1,304,280).

	March 31 2018		December 31 2017	
Current	$	1,790,525	$	1,304,280
Accounts receivable	$	1,790,525	$	1,304,280

During the three-month period ended March 31, 2018, sales to three customers (March 31, 2017 – two) represented 48% of the Corporation's total sales (March 31, 2017 – 43%).

At March 31, 2018, the accounts receivable balance is widely diversified with the exception of two customers (December 31, 2017 – three) which represent 34% and 21% of the accounts receivable balance (December 31, 2017 – 33%, 20% and 13%).

The Corporation manages the credit exposure of $3,118,936 (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 March 31, 2018, the Corporation had cash and cash equivalents of $3,118,936 (December 31, 2017- $3,214,699) available to settle accounts payable and accrued liabilities of $1,311,140 (December 31, 2017 - $1,256,855). 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. 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.

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

	Foreign Currency		**March 31 2018**		**December 31, 2017**
Cash bank balance	USD	$	195,590	$	523,494
Accounts receivable	USD	$	1,173,077	$	859,894
Accounts receivable	SGD	$	91,917	$	183,668
Accounts payable	USD	$	(730,524)	$	(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 quarters ended March 31, 2018 and 2017 nor does it currently have any derivative financial contracts.

(f) Capital management

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. The working capital ratio at March 31, 2018 was 3.8:1 (December 31, 2017 – 3.8:1). 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.

9. 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.

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

(amounts in Canadian dollars)

	Three-Month Period March 31, 2018	Three-Month Period March 31, 2017
Sales		
USA	$ 2,705,934	$ 2,701,689
Canada	319,556	252,384
International	910,522	526,157
	$ 3,936,012	$ 3,480,230

	March 31 2018	December 31, 2017
Accounts receivable		
USA	$ 1,591,186	$ 1,131,310
Canada	116,826	561
International	90,410	172,409
	$ 1,798,422	$ 1,304,280
Inventory		
USA	$ 206,146	$ 203,500
Canada	59,409	33,795
In transit	-	189,336
	$ 265,555	$ 426,631

10. Employee and executive compensation

Total employee wages and bonuses recognized in general and administrative expenses for the quarter ended March 31, 2018 were $87,513 (March 31, 2017 - $87,877).

The Corporation considers its key management personnel to be its Chief Executive Officer and non-executive directors. The compensation paid to the key management personnel consisted of wages and bonuses of $16,527 (March 31, 2017 - $25,516) and stock-based compensation of $1,383 (March 31, 2017 - $13,863).

11. 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.