

Sunora Foods Inc.
Financial Statements
For the Three-Month Periods Ended March 31, 2021 and 2020
(unaudited)

Sunora Foods Inc.
Statements of Financial Position
As at March 31, 2021 and December 31, 2020
(amounts in Canadian dollars)

Assets	March 31, 2021	December 31, 2020
Current assets		
Cash (note 4)	\$ 3,846,496	\$ 3,317,475
Accounts receivable (note 9(c))	1,543,571	1,504,080
Inventory (note 5)	107,330	181,289
Prepaid expenses and accrued interest	18,741	25,853
GST recoverable	4,140	2,062
	<u>5,520,278</u>	<u>5,030,759</u>
Right-of-use asset (notes 3(d) and 14)	44,748	49,223
Deferred tax asset (note 6 (b))	45,100	46,835
	<u>\$ 5,610,126</u>	<u>\$ 5,126,817</u>
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,293,191	\$ 1,052,051
Customer deposits	204,947	76,551
Income taxes payable	64,040	35,315
Lease liability (note 14)	18,174	17,558
	<u>1,580,352</u>	<u>1,181,475</u>
Lease liability (note 14)	30,108	34,899
Shareholders' Equity		
Share capital (note 7)	1,170,251	1,170,251
Contributed surplus	771,858	771,858
Retained earnings	2,057,557	1,968,334
	<u>3,999,666</u>	<u>3,910,443</u>
	<u>\$ 5,610,126</u>	<u>\$ 5,126,817</u>
<i>Commitments (notes 13 and 14)</i>		

See accompanying notes to the financial statements.

APPROVED BY THE BOARD

Sunora Foods Inc.
Statements of Income and Comprehensive Income
For the Three-Month Periods Ended March 31, 2021 and 2020
(amounts in Canadian dollars)

	Three-Month Period Ended March 31 2021	Three-Month Period Ended March 31 2020
Sales	\$ 3,983,483	\$ 2,546,421
Cost of sales	<u>3,719,833</u>	<u>2,395,571</u>
Gross margin	<u>263,650</u>	<u>150,850</u>
Expenses		
General and administrative	117,033	109,259
Marketing and promotion	7,822	4,139
Bad debts	(3,684)	-
Bank charges and interest	5,896	6,070
Amortization <i>(notes 3(d) and 14)</i>	4,475	4,475
Foreign exchange	14,144	(82,472)
Interest income	<u>(1,719)</u>	<u>(10,714)</u>
	<u>143,967</u>	<u>30,757</u>
Income from operations before income taxes	119,683	120,093
Income tax expense - current <i>(note 6 (a))</i>	28,725	44,497
Deferred income tax expense <i>(note 6 (a))</i>	<u>1,735</u>	<u>1,105</u>
	<u>30,460</u>	<u>45,602</u>
Net income and comprehensive income	\$ <u>89,223</u>	\$ <u>74,491</u>
Earnings per share		
Basic and diluted	\$ <u>0.002</u>	\$ <u>0.002</u>

See accompanying notes to the financial statements.

Sunora Foods Inc.
Statements of Changes in Equity
For the Three-Month Period Ended March 31, 2021 and the Year Ended December 31, 2020
(amounts in Canadian dollars)

	Number of Common Shares	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance at December 31, 2019	40,515,332	1,170,251	771,858	2,138,331	\$ 4,080,440
Dividend paid	-	-	-	(162,061)	(162,061)
Net income and comprehensive income	-	-	-	(7,936)	(7,936)
Balance at December 31, 2020	40,515,332	1,170,251	771,858	1,968,334	\$ 3,910,443
Net income and comprehensive income	-	-	-	89,223	89,223
Balance at March 31, 2021	40,515,332	\$ 1,170,251	\$ 771,858	\$ 2,057,557	\$ 3,999,666

See accompanying notes to the financial statements.

Sunora Foods Inc.
Statements of Cash Flows
For the Three-Month Periods Ended March 31, 2021 and 2020
(amounts in Canadian dollars)

	Three-Month Period Ended March 31 2021	Three-Month Period Ended March 31 2020
Net cash inflow (outflow) related to:		
Operating activities		
Net income and comprehensive income	\$ 89,223	\$ 74,491
Items not affecting cash		
Amortization	4,475	4,475
Deferred income tax expense	1,735	1,105
Change in unrealized foreign exchange on US dollar cash	(40,843)	(39,634)
	<u>54,590</u>	<u>40,437</u>
Changes in non-cash working capital		
Accounts receivable	(39,491)	34,878
Inventory	73,959	17,008
Prepaid expenses and accrued interest	7,112	7,142
GST recoverable	(2,078)	(4,255)
Accounts payable and accrued liabilities	241,140	121,893
Customer deposits	128,396	74,433
Income taxes	28,725	6,749
	<u>437,763</u>	<u>257,848</u>
Cash flow from (used in) operations	492,353	298,285
Financing activities		
Lease payments	(4,175)	(4,353)
Cash flow used for financing	(4,175)	(4,353)
Increase (decrease) in cash flow	488,178	293,932
Cash, beginning of period	3,317,475	3,281,809
Effect of exchange fluctuations on US dollar cash	40,843	39,634
Cash, end of period	\$ <u>3,846,496</u>	\$ <u>3,615,375</u>
Cash, stated in Canadian dollars, is comprised of:		
Cash held in Canadian dollars	2,820,916	3,352,840
Cash held in US dollars	1,025,580	262,535
	\$ <u>3,846,496</u>	\$ <u>3,615,375</u>

See accompanying notes to the financial statements.

Sunora Foods Inc.

Notes to the Financial Statements

For the Three-Month Periods Ended March 31, 2021 and 2020

(amounts in Canadian dollars)

1. General business description

Sunora Foods Inc. (“Sunora” or the “Company”) 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 **May 25, 2021**.

(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 the statement of cash flows.

(c) Adoption of New Accounting Standards

New standards that have been adopted in the annual financial statements since the year ended 31 December 2020, but have not had a significant effect on the Company are:

- Definition of a Business (Amendments to IFRS 3);
- Interest Rate Benchmark Reform – IBOR ‘phase 2’ (Amendments to IFRS 9, IAS 39 and IFRS 7); and
- COVID-19-Related Rent Concessions (Amendments to IFRS 16).

New standards, interpretations, and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

Sunora Foods Inc.

Notes to the Financial Statements

For the Three-Month Periods Ended March 31, 2021 and 2020

(amounts in Canadian dollars)

(d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(e) 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 Company 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 Company's share price, market price of the Company'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 Company 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.

Sunora Foods Inc.

Notes to the Financial Statements

For the Three-Month Periods Ended March 31, 2021 and 2020

(amounts in Canadian dollars)

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company 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 Company 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 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. Management has not identified any specific contingencies at this time.

Recognition of lease liabilities

In the adoption of IFRS 16 – *Leases*, management has used the lease term including the renewal option to expire on August 31, 2023. The incremental borrowing rate applied to set up the right-of-use asset and lease liability was 8%.

3. Significant accounting policies

(a) Foreign currency translation

Monetary assets and liabilities, which are denominated in foreign currencies, are translated to the Company'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.

(b) 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.

Sunora Foods Inc.

Notes to the Financial Statements

For the Three-Month Periods Ended March 31, 2021 and 2020

(amounts in Canadian dollars)

(c) 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 a state ready for 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.

(d) Right-of-use asset

Right-of-use assets comprises the capitalized value of the lease of Sunora's office premises on basis of the discounted present value of future lease payments. Amortization is provided on a straight-line basis over the term of the lease. This carrying value of this assets is presented net of amortization to date.

(e) Lease liability

The lease liability represents the discounted present values of future lease payments. The carrying value of this liability is the remaining lease liability; it will be extinguished over the term of the lease. The interest component of the lease payments is included in the line item 'Bank charges and interest' in the Statement of Operations.

(f) Revenue recognition

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

The Company has a 5-step approach for determining revenue which can be 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.

The Company derives revenue from sale of food oil products. Revenue from each sale is recognized when control passes to the customer, which generally occurs upon shipment in 'freight on board' contracts (FOB) or, in the case of sales made with 'cost, insurance and freight' terms (CIF) when the product reaches port. Most of Sunora's sale contracts are CIF.

Sunora Foods Inc.

Notes to the Financial Statements

For the Three-Month Periods Ended March 31, 2021 and 2020

(amounts in Canadian dollars)

(g) 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.

(h) Stock-based compensation

Stock options granted to directors, officers and employees of the Company 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 Company 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.

Sunora Foods Inc.

Notes to the Financial Statements

For the Three-Month Periods Ended March 31, 2021 and 2020

(amounts in Canadian dollars)

(i) Provisions and contingent liabilities

Provisions are recognized by the Company 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.

(j) 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 Company uses the treasury stock method for outstanding stock options which basis assumes that all outstanding stock options with exercise prices below average market price are exercised and the proceeds plus the unamortized portion of stock-based compensation are used to purchase the Company's common shares at the average market price during the period.

(k) 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 Company's financial assets: cash and cash deposits and accounts 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 issue 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 accounts receivables. For trade accounts 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 accounts receivable will not be collectable, the gross carrying value of the asset is written down by the associated provision.

Sunora Foods Inc.

Notes to the Financial Statements

For the Three-Month Periods Ended March 31, 2021 and 2020

(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 cost. The Company has not designated any financial liability at fair value through profit or loss.

4. Cash

Cash includes short-term guaranteed investment certificates of \$1,750,000 at March 31, 2021 and December 31, 2020, bearing interest at the rate of 0.25% (December 31, 2020 - 0.40%) p.a. with maturity in April 5, and 7, 2021.

5. Inventory and cost of sales

The cost of inventory and direct costs recognized during the quarter as cost of sales was \$3,719,8363 (Quarter ended March 31, 2020 - \$2,395,571). The inventory on hand consists of bulk oil and finished goods, as follows:

	March 31, 2021	December 31, 2020
Bulk olive, canola and MCT oil	\$ 15,628	\$ 100,594
Packaged olive and canola oil	<u>91,702</u>	<u>80,695</u>
	<u>\$ 107,330</u>	<u>\$ 181,289</u>

Sunora Foods Inc.**Notes to the Financial Statements****For the Three-Month Periods Ended March 31, 2021 and 2020***(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 25% (2019 - 28%) to income or loss before income taxes.

	Three-Month Period Ended	
	March 31, 2021	March 31, 2020
Income from operations before income taxes	\$ 119,683	120,093
Expected income tax expense (recovery)	29,176	30,023
Capital cost allowance claimed	(451)	14,131
Rate changes and other	-	1,448
Income tax expense	<u>\$ 28,725</u>	<u>45,602</u>
Total income tax expense (recovery) comprises:		
Current income tax expense	\$ 28,725	44,497
Deferred income tax expense	1,735	1,105
	<u>\$ 30,460</u>	<u>\$ 45,602</u>

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

	December 31, 2020	Recognized in profit or loss	March 31, 2021
Deferred tax assets:			
Undepreciated capital cost tax pool	<u>\$ 46,835</u>	<u>1,735</u>	<u>\$ 45,100</u>

7. Share capital

(a) Authorized

Unlimited number of common shares

Unlimited number of preferred shares (issuable in series)

(b) Issued

During the quarter, no shares were re-purchased. (2019, the Company paid \$20,500 to repurchase 154,500 common shares which were cancelled).

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

Sunora Foods Inc.

Notes to the Financial Statements

For the Three-Month Periods Ended March 31, 2021 and 2020

(amounts in Canadian dollars)

Common shares	Number	Stated Value
Balance at December 31, 2020	<u>40,515,332</u>	<u>1,170,251</u>
Balance at March 31, 2021	<u>40,515,332</u>	<u>\$ 1,170,251</u>

(d) Shares in escrow

At March 31, 2021 and December 31, 2020, no common shares were held in escrow.

(e) Earnings per shares

The number of shares used in the calculation of Earnings Per Share was 40,515,323 (2020 - 40,515,323).

8. Stock-based compensation

The Company 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.

The following is a summary of the Company's outstanding stock options for the quarter ended March 31, 2021 and year ended December 31, 2020.

	Number of options	Exercise Price	Expiry date
Issued in 2017	<u>690,000</u>	\$0.15	August 1, 2021
Outstanding at December 31, 2020 and March 31, 2021	<u>690,000</u>		

9. Financial instruments

(a) Risk management

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

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

Sunora Foods Inc.

Notes to the Financial Statements

For the Three-Month Periods Ended March 31, 2021 and 2020

(amounts in Canadian dollars)

(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 not observable and significant to the overall fair value measurement.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company 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 March 31, 2021, the Company's maximum exposure to credit risk for accounts receivable is \$1,543,571 (December 31, 2020 - \$1,504,080). Accounts receivable includes amounts that are past due at March 31, 2021 and at December 31, 2020 as follows:

	March 31 2021	December 31 2020
Accounts receivable		
Current	\$ 1,521,831	\$ 1,385,408
Overdue less than 90 days	21,740	118,672
	<u>\$ 1,543,571</u>	<u>\$ 1,504,080</u>

During the three-month period ended March 31, 2021, sales to two customers (three-month period ended March 31, 2020 – two) represented 43.8% of the Company's total sales (three-month period ended March 31, 2020 – 45.1%).

The accounts receivable balance has two customers which represent 30% and 22.4% respectively of the accounts receivable balance at March 31, 2021 (December 31, 2020 – two customers, representing 60.7%). At March 31, 2021 and December 31, 2020, the Company had no allowance for doubtful accounts.

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For the Three-Month Periods Ended March 31, 2021 and 2020

(amounts in Canadian dollars)

The Company manages the credit exposure of \$3,846,496 (December 31, 2020- \$3,317,475) 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 Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including global economic conditions.

At March 31, 2021, the Company had cash and cash equivalents of \$3,846,496 (December 2020 - \$3,317,475) available to settle accounts payable and accrued liabilities and taxes of \$1,357,231 (December 2020 - \$1,087,366). The majority of the Company's financial liabilities mature 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 Company 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 Company's net earnings or the value of financial instruments and are largely outside the control of the Company. The objective of the Company 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 Company 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 offset by accounts payable denominated in USD.

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

	Foreign Currency	March 31, 2021	December 31, 2020
Cash at bank	USD	\$ 813,981	\$ 517,547
Accounts receivable	USD	\$ 1,227,492	\$ 1,098,382
Account payable	USD	\$ (757,843)	\$ (676,942)
Customer deposits	USD	\$ (161,866)	\$ (60,215)

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Notes to the Financial Statements

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(amounts in Canadian dollars)

(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 Company 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 Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for food oils 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 Company did not enter into any derivative financial contracts related to commodity prices during the three-month period ended March 31, 2021 and the year ended December 31, 2020 nor does it currently have any derivative financial contracts.

(f) Capital management

The Company'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 March 31, 2021 was 3.5:1 (December 31, 2020 – 4.3:1). The Company's business has been managed with a 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.

The Company 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 Company 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 Company's ability to raise additional equity financing is impacted by external factors, including global economic conditions. The Company is not subject to externally imposed capital requirements and the capital management policy has not changed during the quarter ended March 31, 2021 and the year ended December 31, 2020.

10. Employee and executive compensation

Total employee and management wages and bonuses recognized in general and administrative expenses for the three-month period ended March 31, 2021 was \$49,372 (three-month period ended March 31, 2020 - \$55,845).

The Company 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 \$12,279 for the three-month period ended March 31, 2021 (three-month period ended March 31, 2020 - \$20,706) and no stock-based compensation.

11. Related party transactions

The Company's only related party is a customer in China which is controlled by a major shareholder of the Company, holding 8,058,400 common shares (representing 19.9% of the shares issued). There were no sales to this related party in the three-month periods ended March 31, 2021 and 2020.

Sunora Foods Inc.**Notes to the Financial Statements****For the Three-Month Periods Ended March 31, 2021 and 2020***(amounts in Canadian dollars)*

12. Commitments

The Company is committed to monthly payments of \$2,500 to an investor relations firm. This arrangement can be changed or terminated at any time at the Company's option.

13. Segmented information

The Company operates in one business segment in multiple locations. Although the Company derives its revenues globally, all sales are attributed to the Canadian head office. The Company determines the geographic location of revenues based on the location of its customers. Many of the same products are offered for sale in all geographic regions at approximately the same average gross margins. The Company's sales, accounts receivable, inventory and non-current assets were attributed to the regions as follows:

	Three-Month Period Ended	
	March 31,	March 31,
	2021	2020
<u>Sales</u>		
USA	\$ 2,662,364	\$ 1,756,797
Canada	189,224	51,324
International	1,131,895	738,300
	<u>\$ 3,983,483</u>	<u>\$ 2,546,421</u>
	March 31,	December 31,
	2021	2020
<u>Accounts receivable</u>		
USA	\$ 1,543,571	\$ 1,472,924
Canada	-	31,156
International	-	-
	<u>\$ 1,543,571</u>	<u>\$ 1,504,080</u>
<u>Inventory</u>		
USA	\$ 44,584	\$ 80,695
Canada	62,746	100,594
International	-	-
	<u>\$ 107,330</u>	<u>\$ 181,289</u>
<u>Non-current assets</u>		
USA	\$ -	\$ -
Canada	89,848	96,058
International	-	-
	<u>\$ 89,848</u>	<u>\$ 96,058</u>

Sunora Foods Inc.**Notes to the Financial Statements****For the Three-Month Periods Ended March 31, 2021 and 2020***(amounts in Canadian dollars)*

14. Lease commitment and liability

The Company is committed to a lease of its office premises which terminates on August 31, 2023 with a 3-year renewal option on the same terms. The minimum annual rent payments due are \$20,643, \$20,643 and \$21,162 respectively.

	Right-of-Use Asset	Lease Liability
Carrying value at December 31, 2019	\$ 67,122	\$ 69,697
Amortization	(17,899)	-
Lease payments	-	(17,240)
Carrying value at December 31, 2020	49,223	52,457
Amortization	(4,475)	
Lease payments		(4,175)
Carrying value at March 31, 2021	<u>\$ 44,748</u>	<u>\$ 48,282</u>
Lease liability - current		18,174
Lease liability - long-term		30,108
		<u>\$ 48,282</u>

15. Significant event in progress

On January 19, 2021, the Company received an offer from an unrelated party for the purchase of a majority of its issued shares for \$0.17 per share, for a maximum sum of \$6,893,131.44. The purchaser has placed a \$100,000 deposit to be applied towards the purchase consideration, which is refundable if this arrangement is not completed.

On March 16, 2021, the Company entered into an agreement whereby the Company, through a statutory plan of arrangement under Section 193(1) of the Business Corporations Act (Alberta), will become a private company. At a Special Meeting of the shareholders of the Company held on May 10, 2021, the arrangement was approved as a special resolution of shareholders with 99.96 per cent of the votes cast in favour of the arrangement.

16. COVID-19

During 2020 and currently, the impact of COVID-19 in Canada and on the global economy increased significantly. Certain risks which may affect the Company include:

- changes in foreign currency exchange risks,
- supply chain disruptions,
- dealing with the suspension or termination of contracts,
- the introduction of government incentives and aid.

In addition, if the impacts of COVID-19 continue there could be further impact on the entity and its major customers,

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Notes to the Financial Statements

For the Three-Month Periods Ended March 31, 2021 and 2020

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suppliers and other third-party business associates that could impact the timing and amounts realized on the Company's assets and future profitability. At this time, the full potential impact of COVID-19 on the entity is not known.