Sunora Foods Inc.

Consolidated Financial Statements

For the Nine-Month Periods Ended September 30, 2018 and 2017

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

Assets		**September 30, 2018**		**December 31, 2017**
Current assets				
Cash	$	3,410,772	$	3,214,699
Accounts receivable *(note 8 (c))*		1,160,994		1,304,280
Inventory *(note 3)*		260,796		426,631
Prepaid expenses and accrued interest		7,281		31,285
GST recoverable		10,361		10,620
Income tax recoverable		-		116,407
		4,850,204		5,103,922
Deferred tax asset *(note 4 (b))*		95,415		159,545
	$	4,945,619	$	5,263,467
Liabilities				
Accounts payable and accrued liabilities	$	815,665	$	1,256,855
Customer deposits		26,263		72,502
Income tax payable		-		-
		841,928		1,329,357
Shareholders' Equity				
Share capital *(note 5)*		1,316,391		1,400,816
Contributed surplus *(note 7)*		771,858		770,475
Retained earnings		2,015,442		1,762,819
		4,103,691		3,934,110
	$	4,945,619	$	5,263,467

Commitment (note 12)

See accompanying notes to the consolidated financial statements.

Sunora Foods Inc.

Condensed Interim Consolidated Statement of Income and Comprehensive Income

(amounts in Canadian dollars)

(Unaudited)

	Three-month Period Ended September 30, 2018	Three-month Period Ended September 30, 2017	Nine-month Period Ended September 30, 2018	Nine-month Period Ended September 30 2017
Sales	$ 3,926,619	$ 3,396,872	11,547,324	$ 10,041,788
Cost of sales	3,633,756	3,181,049	10,802,534	9,339,583
Gross margin	292,863	215,823	744,790	702,205
Other				
General and administrative	118,156	123,332	384,321	373,496
Marketing and promotion	10,396	29,946	26,330	58,260
Bank charges and interest	1,941	1,792	8,263	6,950
Stock-based compensation	-	6,055	1,383	29,764
Foreign exchange	19,594	32,528	4,934	48,197
Interest income	(9,586)	(5,772)	(26,855)	(16,105)
	140,501	187,881	398,376	500,562
Income from operations	152,362	27,942	346,414	201,643
Claim settlement (note 13)	-	-	-	434,684
Income before income taxes	152,362	27,942	346,414	(233,041)
Income tax expense (recovery) - Current (note 4 (c))	-	7,824	29,661	(76,542)
Deferred Income tax expensed (note 4 (c))	52,708	-	64,130	-
	52,708	7,824	93,791	(76,542)
Net income (loss) and comprehensive income (loss)	$ 99,654	20,118	$ 252,623	$ (156,499)
Earnings per share				
Basic and diluted	$ 0.002	0.000	$ 0.006	$ (0.004)

See accompanying notes to the condensed interim consolidated financial statements.

Sunora Foods Inc.
Consolidated Statements of Changes in Equity
(amounts in Canadian dollars)
(Unaudited)

	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 6)	-	-	1,383	-	1,383
Share buy back (note 5 (b))	(662,000)	(84,425)	-	-	(84,425)
Net income and comprehensive income	-	-	-	252,623	252,623
Balance at September 30, 2018	$ 41,592,332	$1,316,391	$ 771,858	$ 2,015,442	$ 4,103,691

See accompanying notes to the consolidated financial statements.

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

	Nine-month Period Ended September 30, 2018	Nine-month Period Ended September 30, 2017
Net cash inflow (outflow) related to:		
Operating activities:		
Net Income (loss)	$ 252,623	$ (156,499)
Items not affecting cash		
Stock-based compensation	1,383	29,764
Deferred income tax adjustment	64,130	-
Change in unrealized foreign exchange on US dollar cash	(9,996)	32,659
	308,140	(94,076)
Changes in non-cash working capital		
Accounts receivable	143,286	(42,856)
Income tax recoverable (payable)	116,407	86,087
GST recoverable	259	10,863
Inventory	165,835	3,692
Prepaid expenses and accrued interest	24,004	(31,310)
Accounts payable and accrued liabilities	(441,190)	(101,507)
Customer deposits	(46,239)	(15,182)
	(37,638)	(90,213)
Cash inflow (outflow) from Operatimg activities	270,502	(184,289)
Financing activities:		
Re-purchase of shares (note 5(b))	(84,425)	-
Cash inflow (outflow) from Financing activities	(84,425)	-
Net cash inflow (outflow)	186,077	(184,289)
Cash, beginning of period	3,214,699	3,356,829
Effect of exchange fluctuations on US dollar cash	9,996	(32,659)
Cash, end of period	$ 3,410,772	$ 3,139,881
Cash is comprised of:		
Cash held in Canadian dollars	3,202,760	2,577,806
Cash held in US dollars stated in Canadian dollars	208,012	562,075
	$ 3,410,772	$ 3,139,881

See accompanying notes to the consolidated financial statements.

1. General business description

Sunora Foods Inc. ("Sunora" or the "Corporation"), 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.

On July 4, 2018, the Corporation was amalgamated with its wholly-owned subsidiary, Sunora Foods Ltd., through which it carried out its operating activities. This event has no impact on these financial statements.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 26, 2018.

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”).

(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 recognized as an expense during this nine-month period and included in cost of sales was $10,802,534 (nine-month period ended September 30, 2017 - $9,339,583). The inventory on hand consists of finished goods including product available for sale in bulk as well as packaged product available for sale.

4. Income taxes

(a) Income tax provision is computed by applying the combined effective Canadian federal and provincial income tax rates of 27% (September 30, 2017 - 27%) to income or loss before income taxes.

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

(c) The Corporation has available non-capital losses of $131,310 which expire over the years 2033 to 2038.

(d) The current and deferred incomes taxes for the nine-month periods ended September 30, 2018 and 2017, calculated at 27%, are represented as follows:

	Nine-month Period Ended September 30 2018	Nine-month Period Ended September 30 2017
Net income (loss) before tax	$ 346,414	201,643
Expected income tax expense	93,532	54,444
Stock-based compensation	373	8,036
Claim settlement	-	(117,365)
Rate changes and other	15,850	(21,657)
Unrealized foreign exchange gain	(15,964)	(23,509)
Income tax expense (recovery)	$ 93,791	(76,542)
Total income tax expense (recovery) is comprised of:		
Current income tax expense (recovery)	$ 29,661	(76,542)
Deferred income tax expense	64,130	-
	$ 93,791	(76,542)

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 December 31, 2017	42,254,332	$ 1,400,816
Shares re-purchased	(662,000)	(84,425)
Balance at September 30, 2018	41,592,332	$ 1,316,391

(c) Earnings (loss) per share

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

	September 30 2018	December 31, 2017
Basic	42,220,383	42,254,332
Effect of dilutive instruments:		
Common share options	405,556	405,556
Diluted	42,625,939	42,659,888

For the mime-month period ended September 30, 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 and Warrants

At September 30, 2018 and December 30, 2017, no common shares were held in escrow nor were there any outstanding warrants.

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	$0.125
Exercise price	$0.15
Fair value per option	$0.12

During the nine-month period ended September 30, 2018, the Corporation recognized $1,383 (September 30, 2017 - $29,764) of share-based compensation.

The following is a summary of the Corporation's outstanding stock options at September 30, 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	
Expired	100,000		
Outstanding and exercisable at September 30, 20018	2,075,000	$0.15	

7. Contributed surplus

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

	September 30 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.

As at September 30, 2018, the Corporation's maximum exposure to credit risk for accounts receivable is $1,160,994 (December 31, 2017 - $1,304,280).

	September 30 2018	December 31 2017
Current	$ 1,160,994	$ 1,304,280
Accounts receivable	$ 1,160,994	$ 1,304,280

During the nine-month period ended September 30, 2018, sales to four customers (nine-month period ended September30, 2017 – two) represented 53% of the Corporation's total sales (nine-month period ended September 30, 2017 - 38%).

At September 30, 2018, the accounts receivable balance is widely diversified except for four customers (December 31, 2017 – three) which represent 49.7%,16.3% and 11.7% respectively of the accounts receivable balance (December 31, 2017 – 33%, 20% and 13%).

The Corporation manages the credit exposure of $3,410,772 (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 September 30, 2018, the Corporation had cash and cash equivalents of $3,410,772 (December 31, 2017- $3,214,699) available to settle accounts payable and accrued liabilities of $841,928 (December 31, 2017 - $1,329,357). 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 Corporation manages this risk by monitoring budgeted and projected operations 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 and presented here in foreign currency are as follows:

	Foreign Currency		September 30 2018		December 31, 2017
Cash bank balance	USD	$	160,689	$	523,494
Accounts receivable	USD	$	794,031	$	859,894
Accounts receivable	SGD	$	89,016	$	183,668
Accounts payable	USD	$	(484,770)	$	(644,045)
Customer deposits	USD	$	(12,744)	$	(44,302)

(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 regularly monitors commodity prices and may consider instruments to manage exposure to these risks when appropriate. The Corporation did not enter into any derivative financial contracts related to commodity prices during the nine months ended September 30, 2018 and nine months ended June 30, 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 September 30, 2018 was 5.8:1 (December 31, 2017 – 3.8:1). The Company has managed a strong working capital position which has enabled the Company to operate without debt. Additionally, the current nature of its 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:

	Three-Month Period September 30 2018	Three-Month Period September 30 2017	Nine-Month Period September 30 2018	Nine-Month Period September 30 2017
Sales				
USA	$ 2,771,335	$ 2,371,814	$ 8,007,697	$ 7,447,355
Canada	38,489	275,115	408,686	750,595
International	1,116,794	749,942	3,130,942	1,843,839
	$ 3,926,619	$ 3,396,871	$ 11,547,324	$ 10,041,789
			September 30 2018	**December 31, 2017**
Accounts receivable				
USA			$ 791,975	$ 1,131,310
Canada			38,762	561
International			$ 330,257	172,409
			$ 1,160,994	$ 1,304,280
Inventory				
USA			$ 117,807	$ 203,500
Canada			$ 142,988	33,795
In transit			-	189,336
			$ 260,796	$ 426,631

10. Employee and executive compensation

Total employee wages and bonuses recognized in general and administrative expenses for the nine-month period ended September 30,2018 were $136,553 (nine-month period ended September 30, 2017 - $175,712).

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 $88,126 (nine-month period ended September 30, 2017 - $50,256) and stock-based compensation of $-1,383 (nine-month period ended September 30, 2017 - $29,764).

Stock-based compensation is reported separately in each period. The profit sharimg bonus for employees and management is based on 8% of earnings before taxes and extra-ordinary items; it has been accrued and reported in each period and only included in compensation when paid.

11. Related party transactions

During the nine-month period ended September 30, 2018, Sunora's sales included sales of $488,196, on normal selling terms, to a company controlled by an officer's family, representing 4.2% of the total sales for the period.

12. Commitments

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

13. Claim settlement

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. Although Sunora did not accept liability, after extensive negotiations, on the recommendation of legal counsel, management settled the claim in August 2017, thus reflected in the figures for the nine-month period to September 30, 2017.