

Management Discussion and Analysis For the Three Months ended March 31, 2015

This Management Discussion and Analysis ("MD&A") for the three months ended March 31, 2015 is derived from, and should be read in conjunction with the condensed interim consolidated financial statements of Sunora Foods Inc. ("Sunora" or the "Company") for the three months ended March 31, 2015. This MD&A is effective May 28, 2015 and provides information on the operating activities, performance and financial position of the Company and is intended to assist in understanding the dynamics of the Company's business and key factors underlying its financial results.

FORWARD-LOOKING STATEMENTS

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

DESCRIPTION OF BUSINESS

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

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

HIGHLIGHTS

The following highlights are from the condensed interim consolidated balance sheet as at March 31, 2015 and as at March 31, 2014, and the statements of operations for the three months ended March 31, 2015 and the three months ended March 31, 2014, respectively:

	3 months ended March 31, 2015	3 months ended March 31, 2014
Sales	\$ 2,743,967	\$ 2,959,727
Net income (loss) and comprehensive income (loss)	\$ 240,238	\$ (58,792)
Earnings per share - basic and diluted	0.00	0.00
Total assets	\$ 4,494,917	\$ 3,739,165
Shareholders' equity	\$ 3,066,411	\$ 2,818,608

Sunora had lower than expected sales for the three-month period ended March 31, 2015. Sales were negatively impacted by a decline in oil related commodity prices of over twenty percent.

The \$240,238 of net income and comprehensive income in the three months ended March 31, 2015 was due to better gross margins attributable to a higher percentage of packaged oil sales versus bulk oil sales. Profitability also benefitted from the positive impact of the foreign exchange gains.

FINANCIAL POSITION

	March 31, 2015	December 31, 2014 <i>(audited)</i>
Assets		
Current assets		
Cash	\$ 2,375,580	\$ 1,784,147
Accounts receivable	1,595,441	1,440,990
Inventory	350,671	741,047
Prepaid expenses	23,163	23,163
	<u>4,344,855</u>	<u>3,989,347</u>
Deferred tax asset	150,062	150,062
	<u>\$ 4,494,917</u>	<u>\$ 4,139,409</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,034,668	\$ 979,793
Income tax payable	153,538	80,465
Customer deposits	-	12,678
	<u>1,188,206</u>	<u>1,072,936</u>
Shareholders' Equity		
Share capital	1,400,816	1,400,816
Warrants	480,021	480,021
Contributed surplus	86,157	86,157
Retained earnings	1,339,717	1,099,479
	<u>3,306,711</u>	<u>3,066,473</u>
	<u>\$ 4,494,917</u>	<u>\$ 4,139,409</u>

Current assets

Sunora's current assets consist of cash, accounts receivable, prepaid expenses and inventory. Cash is held for working capital requirements and to fund expansion costs for new markets and customers. A policy of conserving cash is rigorously followed by management in order to sustain operations and not hamper its marketing strategies. Accounts receivable is in a comparable range to that of December 31, 2014, due to continuing efforts by management to improve the Company's credit and collections. The decrease in inventory is due to increases in customer demands.

Current liabilities

Sunora's current liabilities consist of accounts payable and accrued liabilities, income tax payable and customer deposits. Accounts payable increased by \$59,875 since December 31, 2014, due to a temporary timing of payments for purchases in this quarter. Nevertheless, Sunora is committed to its policy to manage its trade payables on a current basis and maintain its excellent credit standing.

Working capital

The Company's target Working Capital Ratio (Current Assets divided by Current Liabilities, which is an indicator of its ability to finance its on-going operations) is 2:1. Current Assets comprise cash, accounts receivable, prepaid expenses and inventory; current liabilities include accounts payable, accrued liabilities and income taxes payable. The amounts of accounts receivable, inventory and accounts payable and accrued liabilities at a point in time are the direct result of sales and purchases and how the Company manages collections, supplier credit and inventory levels, which in turn is manifested in the available cash. At March 31, 2015, the Company has exceeded its target Working Capital Ratio which was 3.7:1 compared to 3.7:1 at December 31, 2014, maintaining its capacity to support operations. The Company's business has been managed with a strong working capital position which has enabled the Company to operate without debt. Additionally, the current nature of Sunora's operations has enabled it to expand without making capital investments. Therefore, the Company believes it is in a very favourable position to expand in the future.

OPERATIONS

	Three-month Period Ended March 31, 2015	Three-month Period Ended March 31, 2014
Sales	\$ 2,743,967	2,959,727
Cost of sales	<u>2,438,792</u>	<u>2,852,527</u>
Gross margin	<u>305,175</u>	<u>107,200</u>
Other		
General and administrative	97,535	152,744
Marketing and promotion	16,811	5,791
Bank charges and interest	1,904	2,939
Foreign exchange	(131,013)	(37,086)
Stock-based compensation	<u>-</u>	<u>45,901</u>
	<u>(14,763)</u>	<u>170,289</u>
Income (loss) before income taxes	319,938	(63,089)
Income tax expense (recovery)		
Current	<u>79,700</u>	<u>(4,297)</u>
Net income (loss) and comprehensive income (loss)	\$ <u><u>240,238</u></u>	\$ <u><u>(58,792)</u></u>
Earnings per share		
Basic and diluted	\$ <u><u>0.00</u></u>	\$ <u><u>0.00</u></u>

DISCUSSION OF OPERATIONS

Sales

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

The Company's revenues were earned as follows:

	3 months ended March 31, 2015	3 months ended March 31, 2014
USA	\$ 1,785,591	\$ 1,636,727
Canada	275,451	759,991
International	682,925	574,490
	<u>\$ 2,743,967</u>	<u>\$ 2,971,208</u>

The Company also has had an economic dependence on one customer. During the three month ended March 31, 2015 and the three month period ended March 31, 2014, sales to the customer represented approximately 13% and 32% of the Company's total sales, respectively.

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

Cost of sales

Cost of sales consists of purchases of crude and refined oil, freight and custom duties. Sunora achieved a gross margin of 11.1% in the three months ended March 31, 2015, which varied due to a higher percentage of packaged oil sales versus bulk oil sales in the current period, and 3.6% in the three months ended March 31, 2014 which was lower due to write downs in inventory. These margins vary within an expected range as sales for packaged value-added products were relatively higher than bulk oil which commands lower margins.

General and administration

General and administrative expenses decreased to \$97,535 in the period. G&A consists of salaries, commissions, rent, travel, and various other miscellaneous office overhead expenses. Being a public company has increased these costs.

Marketing and promotion

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

Foreign exchange

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

QUARTERLY RESULTS

	Three months ended March 31, 2015	Three months ended December 31, 2014	Three months ended September 30, 2014	Three months ended June 30, 2014	Three months ended March 31, 2014
Sales	\$ 2,743,967	\$ 3,941,719	\$ 3,496,856	\$ 2,836,903	\$ 2,959,560
Cost of sales	<u>2,438,792</u>	<u>3,618,935</u>	<u>3,204,233</u>	<u>2,627,296</u>	<u>2,852,527</u>
Gross margin	<u>305,175</u>	<u>322,784</u>	<u>292,623</u>	<u>209,607</u>	<u>107,033</u>
Other					
General and administrative expenses	97,535	332,624	111,983	54,270	152,744
Marketing and promotion	16,811	3,570	5,739	7,502	5,791
Bank charges and interest	1,904	3,246	2,222	1,778	2,939
Foreign exchange gains and losses	(131,013)	(31,070)	(9,088)	(29,628)	(37,086)
Stock-based compensation	-	-	-	-	45,901
	<u>(14,763)</u>	<u>308,370</u>	<u>110,856</u>	<u>33,922</u>	<u>170,289</u>
Income (loss) before income taxes	319,938	14,414	181,767	175,685	(63,256)
Income tax expense (recovery)					
Current income tax expense (recovery)	79,700	24,330	69,856	14,481	(4,297)
Deferred income tax expense (recovery)	-	3,780	(28,237)	39,624	-
Net income and comprehensive income	\$ <u>240,238</u>	\$ <u>(13,696)</u>	\$ <u>140,148</u>	\$ <u>121,580</u>	\$ <u>(58,959)</u>
Earnings per share - basic and diluted	0.00	0.00	0.00	0.00	0.00

Sales for the first quarter of 2015 were 30.1% lower than the fourth quarter of 2014 due to decrease in Canadian sales; fourth quarter of 2014 sales were 12.7% higher than the third quarter of 2014 due to the increase in overseas sales; third quarter sales were 23.3% higher than the second quarter partly due to the favorable exchange rate for the US dollar and improvement in the US economy; second quarter sales were 4.1% lower than first quarter of 2014 due to a continuing decline in commodity prices and lower bulk oil sales. Cost of sales was up by 12.9% in the fourth quarter of 2014 over the third quarter due to a comparable increase in sales. Cost of sales was up by 22% in the third quarter of 2014 over the second quarter due to a comparable increase in sales. Cost of sales was lower by 7.9% in the second quarter of 2014 than that of the first quarter of 2014 due to an inventory write-down taken in the first quarter and mix of sales. Gross margin for the first quarter of 2015 was 11.1% compared to 8.2% for the

fourth quarter of 2014 due to a higher percentage of packaged oil sales in versus bulk oil sales. Gross margin for the fourth quarter of 2014 was 8.2% compared to 8.4% for the three months ended September 30, 2014 due to reclassifying commission expenses into cost of sales offset by an increase in overseas sales and the depreciation of the Canadian dollar. Gross margin for the third quarter was 8.4% compared to 7.4% for the three months ended June 30, 2014 partly due to the appreciation of the US dollar. Gross margin for the second quarter of 2014 was 7.4% compared to 3.6% for the three months ended March 31, 2014, which is slightly higher than normal due to more value-added packaged products sold than bulk oil, the latter having lower profit margins. General and administration expenses were higher in the first quarter of 2014 due to one-time costs associated with going public. General and administration expenses were higher than all other quarters due to a co-packer's insolvency resulting in write-offs of \$134,957. Earnings per share remained consistent in the third quarter compared to the four quarters of 2014.

CASH FLOWS

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

The following is the Company's Statement of Cash Flows for the three-month periods ending March 31, 2015 and March 31, 2014; Sunora's cash flows arose only from operations during these periods.

	Three-month Period Ended March 31, 2015	Three-month Period Ended March 31, 2014
Net cash inflow (outflow) related to:		
Operating activities		
Net Income	\$ 240,238	\$ (58,792)
Items not affecting cash		
Stock-based compensation	-	45,901
Change in unrealized foreign exchange on US dollar cash	<u>(120,583)</u>	<u>(37,086)</u>
	<u>119,655</u>	<u>(49,977)</u>
Changes in non-cash working capital		
Accounts receivable	(154,451)	(22,861)
Income tax recoverable (payable)	73,073	(1,138)
Inventory	390,376	243,596
Prepaid expenses	-	919
Accounts payable and accrued liabilities	54,875	(77,759)
Customer deposits	<u>(12,678)</u>	<u>(18,522)</u>
	<u>351,195</u>	<u>124,235</u>
Increase in cash flow	470,850	74,258
Cash, beginning of period	1,784,147	1,646,563
Effect of exchange fluctuations on US dollar cash	120,583	37,086
Cash, end of period	\$ <u><u>2,375,580</u></u>	\$ <u><u>1,757,907</u></u>
Cash is comprised of:		
Cash held in Canadian dollars	1,752,560	1,379,133
Cash held in US dollars	<u>623,020</u>	<u>378,774</u>
	\$ <u><u>2,375,580</u></u>	\$ <u><u>1,757,907</u></u>

Sunora's cash balances increased \$470,850 in the three months ended March 31, 2015. This increase since December 31, 2014 resulted primarily from higher income for the quarter, the reduction of inventory and an increase in accounts payable and accrued liabilities offset partly by an increase in accounts receivables during that period. Sunora's cash balance increased during the three months ended March 31, 2014 primarily due to a decrease in inventory offset by a decrease accounts payable and accrued liabilities and an increase in accounts receivable during that period.

OUTLOOK

Sunora maintains strong relationships with a number of strategically located relationships with customers in North America and Internationally. These relationships continue to drive demand for food oil products from Canada, with Sunora well positioned to meet existing and additional demand. Management has focused on increasing visibility in emerging markets, with a specific focus on international economies including Southeast Asia, and has met this increased demand with Canadian manufactured food oil products. Sunora operations can be impacted by geopolitical situations that may restrict delivery, but this has not significantly hindered operations to date. As the middle class in these emerging economies demands higher quality and healthier foods, Sunora is well positioned to meet additional demand.

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

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

With the improvement in the United States economy through the first 3 quarters of 2014, Sunora is well positioned to continue to meet increasing demand from this region.

OTHER SELECTED FINANCIAL INFORMATION

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Assets	\$ 4,344,855	\$ 3,989,347
Liabilities	\$ 1,188,206	\$ 1,072,936
Shareholders' equity	\$ 3,306,711	\$ 3,066,473

Total assets of Sunora as at March 31, 2015 are comprised primarily of cash, accounts receivable, inventory and deferred tax asset. The increase in assets from December 31, 2014 to March 31, 2015 is primarily due to an increase in cash as a result of the positive net income.

Sunora's current liabilities consist primarily of accounts payable and accrued liabilities. Accounts payable and accrued liabilities increased by \$54,875 since December 31, 2014 due to temporary timing in payments for purchases towards the end of the quarter. However, the Company's strong working capital position continues to allow management to keep current on balances owing.

OFF-BALANCE SHEET TRANSACTIONS

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

LIQUIDITY, FINANCING ACTIVITY AND CAPITAL RESOURCES

The financial position of the Company is strong relative to its financial requirements and commitments. Management has maintained a conservative approach to day-to-day operations, monitoring the timing of its inventory turnover closely to ensure it can meet its obligations to suppliers within their credit facilities. Collections from customers are stringently managed such that substantially all receivables at March 31, 2015 were less than 60 days old. Sunora's Current Ratio (Current Assets divided by Current Liabilities) target as set by management is 2.0:1. Including its cash balance of \$2,375,580 at March 31, 2015, Sunora's Current Ratio at March 31, 2015 was 3.6:1. The Company has continued to have a strong working capital position. Additionally, the Company has neither debt nor any financial obligations other than to fund its operations.

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

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

As the Company engages in commodity trading for its purchases, as opposed to speculation; price changes have limited impact on its operations for the three months ended March 31, 2015. A major world economic downturn would adversely impact Sunora due to its reliance on markets outside of Canada.

The total number of common shares outstanding as at May 28, 2015 is 42,254,332.