

## **Management Discussion and Analysis**

### **For the Nine-Month Period ended September 30, 2019**

This Management Discussion and Analysis ("MD&A") for the nine months ended September 30, 2019 is derived from and should be read in conjunction with the condensed interim financial statements of Sunora Foods Inc. ("Sunora" or the "Company") for the nine months ended September 30, 2019. This MD&A is effective November 28, 2019 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 Inc. ("Sunora") is a Calgary-based trader and supplier of canola, other food oils and related commodities. Currently, the Company is a relatively modest-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 competitive pricing, consistent quality, and 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's has achieved a measure of success for over twenty-five years and has weathered economic downturns by remaining true to its commitment to its industry, its customers and suppliers, with a coherent long-term business vision. Sunora receives 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 and other food oils. Sunora's 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 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 statements for the nine months ended September 30, 2019 and the nine months ended September 30, 2018, respectively:

|  | <b>9-months ended<br/>September 30,<br/>2019</b> | <b>9-months ended<br/>September 30,<br/>2018</b> |
|--|--|--|
| Sales                                  | \$ 8,238,200                                     | \$ 11,547,324                                    |
| Net income and comprehensive income    | \$ 206,935                                       | \$ 252,623                                       |
| Earnings per share - basic and diluted | \$ 0.005   | \$ 0.006   |
|  | <b>September 30,<br/>2019</b>                    | <b>December 31,<br/>2018</b>                     |
| Cash                                   | \$ 3,178,647                                     | \$ 3,535,161                                     |
| Other assets                           | \$ 1,524,180                                     | \$ 1,452,699                                     |
| Total liabilities                      | \$ 674,625                                       | \$ 1,004,176                                     |
| Shareholders' equity                   | \$ 4,028,202                                     | \$ 3,983,684                                     |

The sales for the first nine months of 2019 decreased by 28.7.8% compared to the same period of 2018, a decline of \$3,309,124. Much of this decline in sales was attributable to lower bulk oil sales and the hesitancy of clients in China to risk buying Canadian origin oil due to the current adverse political climate.

The gross margin achieved for the first nine months of 2019 was 7.4% compared to 6.4% for the same period of 2018, an increase of 1.0%. The percentage increase in gross margin is a result of a lower percentage of bulk sales compared to packaged products.

The income from operations before taxes for the first nine months of 2019 declined by 18.1% from the same period of 2018 due to the 28.7% decrease in sales from the comparative period although expenses decreased by 8.4%.

Earnings (loss) per share - basic and diluted for the nine months ended September 30, 2019 declined over the same period last year due to a decline in net income as alluded above, resulting from the decrease in sales.

Sunora's policy on conserving cash is reflected in the cash balance of \$3,178,647 at September 30, 2019 down 10% from December 31, 2018. The cash balance decline is primarily due to decrease in accounts payable, increase in accounts receivable, shares re-purchased and the payment of the dividend of \$141,917 in July 2019. Notwithstanding, the Company's strong working capital position continues to allow management to keep current on all obligations and to take advantage of new opportunities.

The other assets of Sunora as at September 30, 2019 were comprised primarily of accounts receivable, inventory, prepaid expenses and a deferred tax asset. Sunora's liabilities, all current, consist primarily of accounts payable and accrued liabilities, customer deposits and income tax payable.

## DIVIDEND DECLARED

At its meeting on April 29, 2019, the Board declared Sunora's first ever dividend of \$0.0035 per share which was paid on July 31, 2019 to shareholders on record on June 30, 2019. This is line with the Board's commitment to create shareholder value evidenced by the share buy-back of 4.0% of its shares in issue.

## FINANCIAL POSITION

| <b>Assets</b>                            | <b>September 30,<br/>2019</b> | <b>December 31,<br/>2018<br/>(Audited)</b> |
|--|-------------------------------|--|
| Current assets                           |                               |  |
| Cash                                     | \$ 3,178,647                  | \$ 3,535,161                               |
| Accounts receivable                      | 1,194,836                     | 1,070,121                                  |
| Inventory                                | 267,234                       | 243,374                                    |
| Prepaid expenses and accrued interest    | 10,143                        | 57,935                                     |
| GST recoverable                          | <u>2,595</u>                  | <u>13,535</u>                              |
|  | 4,653,455                     | 4,920,126                                  |
| Deferred tax asset                       | <u>49,372</u>                 | <u>67,734</u>                              |
|  | <u>\$ 4,702,827</u>           | <u>\$ 4,987,860</u>                        |
| <b>Liabilities</b>                       |                               |  |
| Accounts payable and accrued liabilities | \$ 642,560                    | \$ 946,137                                 |
| Customer deposits                        | 15,062                        | 58,039                                     |
| Dividend payable                         | -                             | -  |
| Income tax payable                       | <u>17,003</u>                 | <u>-</u>                                   |
|  | 674,625                       | 1,004,176                                  |
| <b>Shareholders' Equity</b>              |                               |  |
| Share capital                            | 1,170,251                     | 1,190,751                                  |
| Contributed surplus                      | 771,858                       | 771,858                                    |
| Retained earnings                        | <u>2,086,093</u>              | <u>2,021,075</u>                           |
|  | <u>4,028,202</u>              | <u>3,983,684</u>                           |
|  | <u>\$ 4,702,827</u>           | <u>\$ 4,987,860</u>                        |

### Current assets

Sunora's current assets consist of cash, accounts receivable, prepaid expenses, inventory and GST recoverable. 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 increased by 11.7% but still was in a comparable range to that of December 31, 2018, due to continuing efforts by management to control the Company's credit and collections. The 9.8% increase in inventory was due to an increase in raw materials for anticipated orders.

### **Current liabilities**

Sunora's current liabilities consist of accounts payable and accrued liabilities, customer deposits, and income tax payable. Accounts payable decreased by 32.1% since December 31, 2018, due to normal fluctuations in business activity in the period. As in the past, 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, inventory, prepaid expenses, and GST recoverable; current liabilities include accounts payable and accrued liabilities, customer deposits 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 September 30, 2019, the Working Capital Ratio was 6.9:1 compared to 4.9:1 at December 31, 2018. The Company's business has been consistently 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 sales without making capital investments. Therefore, the Company believes it is in a very favourable position to continue to take advantage of opportunities and expand in the future.

## OPERATIONS

|   | Three-month<br>Period Ended<br>September 30,<br>2019 | Three-month<br>Period Ended<br>September 30,<br>2018 | Nine-month<br>Period Ended<br>September 30,<br>2019 | Nine-month<br>Period Ended<br>September 30,<br>2018 |
|---|--|--|---|---|
| Sales   | \$ 2,875,992   | 3,926,619  | \$ 8,238,200  | \$ 11,547,324                                       |
| Cost of sales                                     | <u>2,683,395</u>                                     | <u>3,633,756</u>                                     | <u>7,631,165</u>                                    | <u>10,802,534</u>                                   |
| Gross margin                                      | <u>192,597</u>                                       | <u>292,863</u>                                       | <u>607,035</u>                                      | <u>744,790</u>                                      |
| Other   |  |  |   |   |
| General and administrative                        | 109,101  | 118,156  | 350,939   | 384,321   |
| Marketing and promotion                           | 18,221   | 10,396   | 36,623  | 26,330  |
| Bank charges and interest                         | 2,222  | 1,941  | 7,154   | 8,263   |
| Stock-based compensation                          |  | -  | -   | 1,383   |
| Foreign exchange                                  | (4,013)  | 19,594   | 4,387   | 4,934   |
| Interest income                                   | <u>(12,880)</u>                                      | <u>(9,586)</u>                                       | <u>(34,368)</u>                                     | <u>(26,855)</u>                                     |
| Income from operations                            | <u>79,946</u>  | <u>152,362</u>                                       | <u>242,300</u>                                      | <u>346,414</u>                                      |
| Income tax expense (recovery) - Current           | 5,459  | -  | 17,003  | 29,661  |
| Income tax expense (recovery) - Deferred          | <u>721</u>   | <u>52,708</u>  | <u>18,362</u>                                       | <u>64,130</u>                                       |
|   | <u>6,180</u>   | <u>52,708</u>  | <u>35,365</u>                                       | <u>93,791</u>                                       |
| Net income (loss) and comprehensive income (loss) | \$ <u>73,766</u>                                     | <u>99,654</u>  | \$ <u>206,935</u>                                   | \$ <u>252,623</u>                                   |

## DISCUSSION OF OPERATIONS

### Sales

The Company operates in the single segment of food oil and related commodities. 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 International; International comprises various regions in South America, Africa, Asia, the Middle East, Eastern Russia, Australia and New Zealand.

Although Sunora believes the fall in sales to China and in bulk shipments generally, is impacting current results, it recently welcomed Gregory Morhun on board as Vice-President of Business Development. Mr. Morhun was a former Vice-President of Bunge, the largest international food oil business, and has a great deal of sales and marketing experience. Mr. Morhun has already brought in some business, and we anticipate that he will bring in more in the future.

The Company's revenues were earned as follows:

|                     | <b>Nine-Month<br/>Period<br/>September 30,<br/>2019</b> | <b>Nine-Month<br/>Period<br/>September 30,<br/>2018</b> |
|---------------------|---|---|
| <b><u>Sales</u></b> |   |   |
| USA                 | \$ 5,889,411  | \$ 8,007,697  |
| Canada              | 136,949   | 408,686   |
| International       | <u>2,211,840</u>  | <u>3,130,941</u>  |
|                     | <u>\$ 8,238,200</u>                                     | <u>\$ 11,547,324</u>                                    |

During the period ended September 30, 2019, sales to two customers (period ended September 30, 2018 – four) represented 45.4% of the Corporation's total sales (period ended September 30, 2018 – 53%).

#### ***Cost of sales***

Cost of sales consists of purchases of food oil, packaging, freight and custom duties. Sunora achieved a gross margin of 7.4% in the nine months ended September 30, 2019, compared to 6.4% in the nine months ended September 30, 2018. These margins tend to fluctuate due to the proportion of packaged oil sales to bulk oil sales, the latter have lower margin structures. Bulk oil sales declined in the last nine months thus resulting in the increase in gross margin.

#### ***General and administration***

General and administrative expenses decreased by a modest \$33,641 in the nine-month period ended September 30, 2019 compared to the same period of 2018. These expenses consist of salaries, commissions, rent, travel, and other office overhead expenses.

#### ***Marketing and promotion***

A direct correlation to Sunora's increased sales has been its marketing efforts. Over the years, Sunora has established good relationships with its sale staff, giving them more flexibility and autonomy as mutual trust has developed in these relationships. In North America, Sunora has worked with brokers who have introduced new customers to the Company. Sales to independent distributors have also grown, mostly in overseas countries, which have given Sunora entry into many foreign markets. Product sales to foreign distributors and for other customers are final and not returnable.

#### ***Foreign exchange***

The foreign exchange gain or loss is primarily a result of inventory purchases and sales, which are denominated in US currency. In addition, this includes the unrealized foreign exchange gain or loss on the following foreign currency denominated balances: cash, accounts receivable and customer deposit.

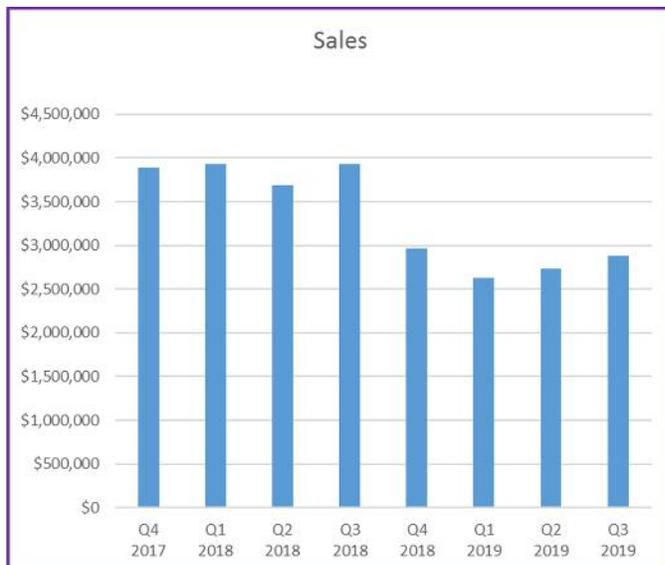
## QUARTERLY RESULTS

|   | Three-month<br>Period Ended<br>September 30,<br>2019 | Three-month<br>Period Ended<br>September 30,<br>2018 | Nine-month<br>Period Ended<br>September 30,<br>2019 | Nine-month<br>Period Ended<br>September 30<br>2018 |
|---|--|--|---|--|
| Sales   | \$ 2,875,992   | 3,926,619  | \$ 8,238,200  | \$ 11,547,324                                      |
| Cost of sales                                     | <u>2,683,395</u>                                     | <u>3,633,756</u>                                     | <u>7,631,165</u>                                    | <u>10,802,534</u>                                  |
| Gross margin                                      | <u>192,597</u>                                       | <u>292,863</u>                                       | <u>607,035</u>                                      | <u>744,790</u>                                     |
| Other   |  |  |   |  |
| General and administrative                        | 109,101  | 118,156  | 350,939   | 384,321  |
| Marketing and promotion                           | 18,221   | 10,396   | 36,623  | 26,330   |
| Bank charges and interest                         | 2,222  | 1,941  | 7,154   | 8,263  |
| Stock-based compensation                          | -  | -  | -   | 1,383  |
| Foreign exchange                                  | (4,013)  | 19,594   | 4,387   | 4,934  |
| Interest income                                   | <u>(12,880)</u>                                      | <u>(9,586)</u>                                       | <u>(34,368)</u>                                     | <u>(26,855)</u>                                    |
| Income from operations                            | <u>79,946</u>  | <u>152,362</u>                                       | <u>242,300</u>                                      | <u>346,414</u>                                     |
| Income tax expense (recovery) - Current           | 5,459  | -  | 17,003  | 29,661   |
| Income tax expense (recovery) - Deferred          | <u>721</u>   | <u>52,708</u>  | <u>18,362</u>                                       | <u>64,130</u>                                      |
|   | <u>6,180</u>   | <u>52,708</u>  | <u>35,365</u>                                       | <u>93,791</u>                                      |
| Net income (loss) and comprehensive income (loss) | \$ <u>73,766</u>                                     | <u>99,654</u>  | \$ <u>206,935</u>                                   | \$ <u>252,623</u>                                  |
| Earnings per share                                |  |  |   |  |
| Basic and diluted                                 | \$ <u>0.002</u>                                      | <u>0.002</u>   | \$ <u>0.005</u>                                     | \$ <u>0.006</u>                                    |

## QUARTERLY RESULTS (continued)

|   | Three months<br>ended<br>September 30,<br>2018<br><i>Q3</i> | Three months<br>ended<br>June 30,<br>2018<br><i>Q2</i> | Three months<br>ended<br>March 31,<br>2018<br><i>Q1</i> | Three months<br>ended<br>December 31,<br>2017<br><i>Q4</i> |
|---|---|--|---|--|
| Sales   | \$ 3,926,619  | \$ 3,684,694   | \$ 3,936,012  | \$ 3,893,887   |
| Cost of sales                                     | <u>3,633,756</u>  | <u>3,514,527</u>                                       | <u>3,654,250</u>  | <u>3,651,552</u>   |
| Gross margin                                      | <u>292,863</u>  | <u>170,167</u>   | <u>281,762</u>  | <u>242,335</u>   |
| Other   |   |  |   |  |
| General and administrative expenses               | 118,156   | 131,882  | 134,285   | 159,589  |
| Marketing and promotion                           | 10,396  | 7,719  | 8,214   | 12,739   |
| Bank charges and interest                         | 1,941   | 3,698  | 2,623   | 1,692  |
| Stock-based compensation                          | -   | -  | 1,383   | 3,975  |
| Foreign exchange loss (gain)                      | 19,594  | (2,852)  | (11,807)  | 12,297   |
| Interest income                                   | <u>(9,586)</u>  | <u>(8,999)</u>   | <u>(8,270)</u>  | <u>(7,696)</u>   |
| Income before income taxes                        | <u>152,362</u>  | <u>38,719</u>  | <u>155,334</u>  | <u>59,739</u>  |
| Income tax expense                                |   |  |   | -  |
| Current income tax (recovery)                     | -   | (13,832)   | 43,493  | 25,360   |
| Deferred income tax                               | <u>52,708</u>   | <u>5,711</u>   | <u>5,711</u>  | <u>-</u>   |
|   | <u>52,708</u>   | <u>(8,121)</u>   | <u>49,204</u>   | <u>25,360</u>  |
| Net income (loss) and comprehensive income (loss) | <u>99,654</u>   | <u>\$ 46,840</u>                                       | <u>\$ 106,130</u>                                       | <u>\$ 34,379</u>   |
| Earnings per share - basic and diluted            | <u>0.002</u>  | <u>0.001</u>   | <u>0.002</u>  | <u>0.001</u>   |

## QUARTERLY SALES



In the third quarter of 2019, sales increased 5.3% from the second quarter of 2019 which in turn decreased 3.80% from the first quarter of 2019 which decreased 11.3% from fourth quarter sales of 2018. The 2018 fourth quarter sales decreased by 24.4% over the third quarter; 2018 third quarter sales increased by 6.6% compared to the second quarter of 2018 due to seasonal factors. The softer sales in recent quarters reflect softer bulk oil sales and the reluctance of Chinese customers to buy as much.

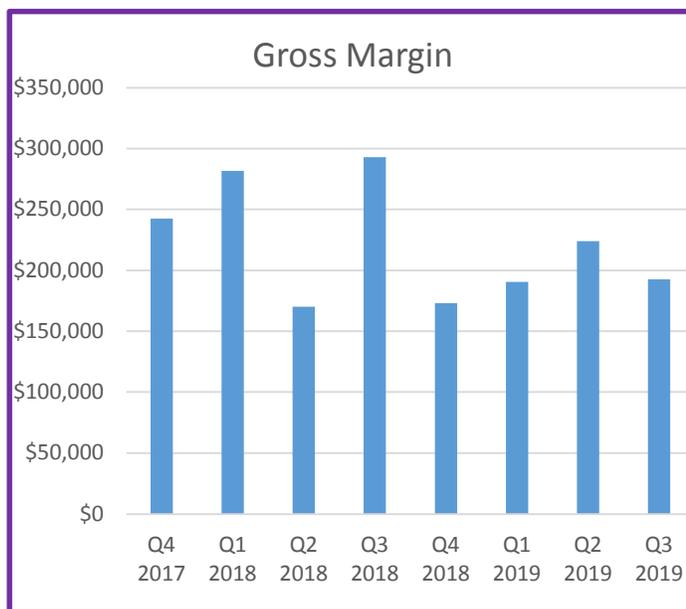
The sales for the third quarter of 2019 were \$2,875,992 compared to \$2,730,626 for the second quarter. The sales for the second

quarter of 2019 were \$2,730,626 compared to \$3,684,694 for the same period of 2018, a decline of \$954,068 or 25.9%. The softer sales in recent quarters reflect softer bulk oil sales and the reluctance of Chinese customers to make major commitments.

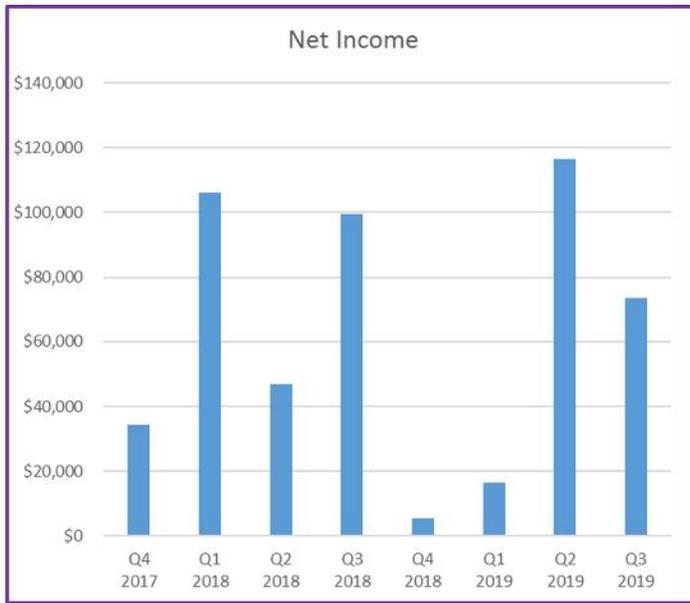
## QUARTERLY GROSS MARGIN

Gross margin for the third quarter of 2019 was 6.7% dropping by 1.5% from the second quarter. Gross margin for the second quarter of 2019 was 8.2% compared to the first quarter of 2019 at 7.2%. The gross margin for fourth quarter of 2018 was 5.8% compared to 7.5% for the third quarter, 4.6% for second quarter and 7.2% for the first quarter of 2018.

The increase in margin for the second and first quarters of 2019 compared to the same periods of 2018 is due to the mix of bulk oil sales versus packaged oil products, the latter yielding better value-added profits.



## QUARTERLY NET INCOME



The net income for third quarter of 2019 was \$73,766 compared to \$116,607 for the second quarter.

The net income for second quarter of 2019 was \$116,607 compared to \$16,560 for the first quarter.

For 2018, the net income for fourth and the third quarters were \$5,632 and \$99,654 respectively. The net income for the second quarter of 2018 of \$46,840 compared to \$106,130 for the first quarter.

## CASH FLOWS

The Corporation's cash flows are in line with expectations with respect to on-going operations for this quarter.

|   | <b>Nine-month<br/>Period Ended<br/>September 30,<br/>2019</b> | <b>Nine-month<br/>Period Ended<br/>September 30,<br/>2,018</b> |
|---|---|--|
| Net cash inflow (outflow) related to:                   |   |  |
| Operating activities                                    |   |  |
| Net Income (loss)                                       | \$ 206,935  | \$ 252,623   |
| Items not affecting cash                                |   |  |
| Stock-based compensation                                | -   | 1,383  |
| Deferred income tax adjustment                          | 18,362  | 64,130   |
| Change in unrealized foreign exchange on US dollar cash | <u>(12,477)</u>   | <u>(9,996)</u>   |
|   | <u>212,820</u>  | <u>308,140</u>   |
| Changes in non-cash working capital                     |   |  |
| Accounts receivable                                     | (124,715)   | 143,286  |
| Inventory   | (23,860)  | 116,407  |
| Prepaid expenses and accrued interest                   | 47,792  | 259  |
| GST recoverable   | 10,940  | 165,835  |
| Accounts payable and accrued liabilities                | (303,577)   | 24,004   |
| Customer deposits                                       | (42,977)  | (441,190)  |
| Income tax payable                                      | <u>17,003</u>   | <u>(46,239)</u>  |
|   | <u>(419,394)</u>  | <u>(37,638)</u>  |
| Cash inflow (outflow) from operations                   | (206,574)   | 270,502  |
| Investing activities                                    |   |  |
| Shares re-purchased                                     | (20,500)  | (84,425)   |
| Dividend paid   | <u>(141,917)</u>  | <u>-</u>   |
| Cash inflow (outflow) from investing activities         | <u>(162,417)</u>  | <u>-</u>   |
| Net cash inflow (outflow)                               | (368,991)   | 186,077  |
| Cash, beginning of period                               | 3,535,161   | 3,214,699  |
| Effect of exchange fluctuations on US dollar cash       | <u>12,477</u>   | <u>9,996</u>   |
| Cash, end of period                                     | <u>\$ 3,178,647</u>   | <u>\$ 3,410,772</u>  |
| Cash is comprised of:                                   |   |  |
| Cash held in Canadian dollars                           | 2,992,064   | 3,202,760  |
| Cash held in US dollars stated in Canadian dollars      | <u>186,583</u>  | <u>208,012</u>   |
|   | <u>\$ 3,178,647</u>   | <u>\$ 3,410,772</u>  |

Sunora's cash balances decreased \$356,514 in the nine months ended September 30, 2019 from December 31, 2018. The decrease in the cash balance in the nine months to September 30, 2019 was due to decrease in accounts payable, increase in accounts receivable, shares re-purchased and the payment

of the dividend and other changes in working capital line items, particularly, the increase olive oil inventory, partly offset by the net income from operations.

## **OUTLOOK**

Sunora maintains good relationships with customers in North America and overseas. 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 the economies in Asia, with a view to meet this increased demand for Canadian manufactured food oil products. Sunora's operations are impacted by geopolitical situations that may hold up deliveries and sales, as was experienced in recent quarters. As the middle class in these emerging economies demands higher quality and healthier foods, Sunora is well positioned to meet additional demand.

Sunora recently signed an agreement with a significant coconut oil processor and packager for the exclusive distribution of Medium-Chain Triglycerides ("MCT") Oil in Canada. Sunora believes MCT Oil demand will increase in 2019 and beyond with the legalization of edible cannabis related products in October 2019. It is anticipated that Health Canada will approve Licensed Producers and other Cannabis related entities for production and distribution of products requiring MCT Oil in December 2019.

The addition of Mr. Gregory Morhun as our new Vice-President of Business Development further enhances future opportunities for food oils worldwide. Mr. Morhun was formerly a Vice-President of Bunge, the largest food oil business in the world.

Management is actively identifying and analyzing operations that might increase gross margins for the Company. Prospective businesses considered 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 possible new products and trading opportunities that may benefit from its contacts in domestic and international markets. Although Sunora has recently had a slowdown in bulk oil sales and sales to China, Sunora is well positioned for the future.

## **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 maintains a conservative approach to day-to-day operations, monitoring the timing of its inventory turnover and meeting its obligations to suppliers within their credit facilities. Collections from customers were stringently managed as over 100% of receivables at September 30, 2019 were current. Sunora's Current Ratio (Current Assets divided by Current Liabilities) target as set by management is 2.0:1. Including its cash balance of \$3,178,647 at September 30, 2019, Sunora's Current Ratio at September 30, 2019 was 6.9:1 (December 31, 2018 was 4.9:1). 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-- a lease on its office facilities in the Provident Professional Building in Calgary, Alberta. This lease for 1,038 square feet of office space, which was renewed for an additional three years to August 31, 2020.

Sunora has independent agents working in many parts of the world including the United States. In Canada, the United States and overseas, 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.

The Company engages in commodity trading for its purchases, as opposed to speculation. Price changes had limited financial impact on its margins for the period ended September 30, 2019. The total number of common shares outstanding as at September 30, 2019 and May 25, 2019 is 40,515,332.

## **FINANCIAL INSTRUMENTS**

### ***Risk management***

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note sets out the Corporation's exposure to each of the under-noted 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 policies 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.

### ***Fair value of financial instruments***

The fair values of accounts receivable and accounts payable and accrued liabilities and customer deposits 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.

### ***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 requiring a down payment from some companies to which it extends credit.

As at September 30, 2019, the Corporation's maximum exposure to credit risk for accounts receivable was:

|                     | <b>September 30<br/>2019</b> | <b>December 31<br/>2018</b> |
|---------------------|------------------------------|-----------------------------|
| Current             | \$ 1,194,836                 | \$ 1,070,121                |
| Accounts receivable | <u>\$ 1,194,836</u>          | <u>\$ 1,070,121</u>         |

The accounts receivable balance has two customers (December 31, 2018 – four) which represent 41.8%, and 19.5% of the accounts receivable balance at September 30, 2019 (December 31, 2018 - 28%, 20%, 19% and 10%) Bad debt expense for nine-month period ended September 30, 2019 was nil (year ended December 31, 2018 - nil). At September 30, 2019 and December 31, 2018, the Corporation had no allowance for doubtful accounts.

The Corporation manages the credit exposure of \$3,178,647 (December 31, 2018- \$3,535,161) 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.

#### **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.

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

At September 30, 2019, the Corporation had cash and cash equivalents of \$3,178,647 to settle current liabilities of \$674,625. Most the Corporation's financial liabilities have contractual maturities of less than 30 days and all are subject to normal trade terms.

#### **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; these 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 and purchases denominated in U.S. dollars ("USD") and Singapore dollars ("SGD") to the extent the U.S. and Singapore denominated accounts receivable and accounts payable and accrued liabilities are subject to fluctuations in the related foreign exchange rate.

The actual amounts of the Corporation's monetary assets and liabilities denominated in foreign currency held at September 30, 2019 and December 31, 2018 are as follows:

|                     | Foreign<br>Currency | September 30<br>2019 | December 31,<br>2018 |
|---------------------|---------------------|----------------------|----------------------|
| Cash bank balance   | USD \$              | 45,596               | \$ 159,568           |
| Accounts receivable | USD \$              | 902,543              | \$ 625,371           |
| Accounts receivable | SGD \$              | -                    | \$ -                 |
| Inventory           | USD \$              | 112,998              | \$ -                 |
| Accounts payable    | USD \$              | (434,921)            | \$ (487,475)         |
| Customer deposits   | USD \$              | (11,378)             | \$ -                 |

(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 food 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 three-month period ended September 30, 2019 and the year ended December 31, 2018 nor does it currently have any derivative financial contracts.

### 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 of September 30, 2019 was 6.9:1 (December 31, 2018 – 4.9:1). The Company's business has been managed with a strong working capital position which has enabled the Company to operate without debt.

The Corporation optimizes its capital structure with a view to ensure a strong financial position to take advantage of future opportunities. Sunora considers its capital structure to include shareholders' equity, and the Corporation strives to maximize the value associated with share capital.

Sunora's share capital could be used as a basis to raise additional capital to pursue future opportunities. The Corporation's ability to raise additional equity financing is impacted by external factors, including global economic conditions. The Corporation is not subject to externally imposed capital requirements and the capital management policy has not changed during the period ended September 30, 2019 or the year ended December 31, 2018.

### CRITICAL ACCOUNTING ESTIMATES

Note 2 to Sunora's September 30, 2019 financial statements describes Sunora's basis of presentation of financial statement and note 3 describes the significant accounting policies. 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.

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 provision for doubtful accounts based on late payments, client relationships and default history.

#### ***Valuation of inventory***

The Corporation evaluates its inventory to ensure it is carried at the lower of average cost and net realizable value. Costs include all expenses to bring the goods to sale. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### ***Share-based compensation***

The Company has recorded stock-based compensation expense was nil for the nine months ended September 30, 2019 (\$1,383 in the nine months ended September 30, 2018). The amount recorded relates to the fair value of stock options and warrants issued are based on estimates using a Black- Scholes option pricing model which considers the future volatility of the Corporation's share price, market price of the Corporation's shares at grant date, expected lives of the options and warrants, expected forfeiture rates, expected dividends and other relevant assumptions.

#### ***Current and deferred taxes***

Provisions for current taxes are made using the best estimate of the amount expected to be paid based on a review of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation operates are subject to change. As such, income taxes are subject to estimation uncertainty. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

### *Foreign currency translation and operations*

The functional currency of the Corporation is determined based on management's assessment of the currency of the primary economic environment in which the entity operates. As functional currency determines how income and expense items and 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.