

## **Management Discussion and Analysis For the Year Ended December 31, 2017**

This Management Discussion and Analysis ("MD&A") for the year ended December 31, 2017 and for the year ended December 31, 2016, and is derived from, and should be read in conjunction with the audited consolidated financial statements of Sunora Foods Inc. ("Sunora" or the "Company" or the "Corporation") for the year ended December 31, 2017 with comparative figures for the year ended December 31, 2016. This MD&A is effective April 25, 2018 and provides some 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 variations (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 oil 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 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 receives its 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 oils. Sunora 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 natural foods industry.

## HIGHLIGHTS

The following highlights are from the consolidated balance sheets as at December 31, 2017 and as at December 31, 2016, and the statements of operations for the year ended December 31, 2017 and the year ended December 31, 2016, respectively:

	<b>Year ended December 31, 2017</b>	<b>Year ended December 31, 2016</b>
Sales	\$ 13,935,676	\$ 12,240,283
Net income (loss) and comprehensive income (loss)	\$ (121,636)	\$ 282,794
Earnings per share - basic and diluted	\$ (0.003)	\$ 0.007
Total assets	\$ 5,263,467	\$ 5,047,608
Shareholders' equity	\$ 3,934,110	\$ 4,022,006

Sunora's sales for the year ended December 31, 2017 were positively impacted by an increase of 13.9% over the previous year due to sales growth in the United States.

The net comprehensive loss in the year ended December 31, 2017 of \$135,795, compared to income \$282,794 for the previous year, was principally due to the claim settled in quarter 2 of 2017. A foreign exchange loss of \$60,100 was also incurred in 2017 compared to \$33,456 in 2016. In addition, the total gross margin for the year ended December 31, 2017 declined by 12% from previous year despite the 13.9% increase in sales. The lower total gross margin can be attributed to a lower percentage of sales in packaged products that have a higher value added.

## 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. The vendor claimed USD \$506,798 in damages relating to losses allegedly suffered. Sunora denied any responsibility for such a claim. However, subsequent to June 30, 2017, on the recommendation of legal counsel, management settled the claim for CDN \$390,000 which was completed in late August 2017. The claim settlement comprises the full cost of the claim and the related legal fees which were accrued in the financial statements for the quarter ended June 30, 2017 and is reflected in the year ended December 31, 2017.

## FINANCIAL POSITION

	December 31, 2017	December 31, 2016
<b>Assets</b>		
Current assets		
Cash	\$ 3,214,699	\$ 3,353,921
Accounts receivable	1,304,280	949,816
Inventory	426,631	438,064
Prepaid expenses and accrued interest	31,285	24,782
GST recoverable	10,620	11,023
Income tax recoverable	<u>116,407</u>	<u>110,457</u>
	5,103,922	4,888,063
Deferred tax asset	<u>159,545</u>	<u>159,545</u>
	<u>\$ 5,263,467</u>	<u>\$ 5,047,608</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,256,855	\$ 954,092
Customer deposits	<u>72,502</u>	<u>71,510</u>
	1,329,357	1,025,602
<b>Shareholders' Equity</b>		
Share capital	1,400,816	1,400,816
Contributed surplus	770,475	736,735
Retained earnings	<u>1,762,819</u>	<u>1,884,455</u>
	<u>3,934,110</u>	<u>4,022,006</u>
	<u>\$ 5,263,467</u>	<u>\$ 5,047,608</u>

### Current assets

Sunora's current assets consist of cash and cash equivalents, term deposits, accounts receivable, prepaid expenses, inventory and income tax 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 to foster its marketing strategies. Accounts receivable increased due to increased sales. The decrease in inventories was due to changes in customer demand.

### Current liabilities

Sunora's current liabilities consist of accounts payable and accrued liabilities, and customer deposits. Accounts payable increased due to the timing of payments for purchases in the fourth quarter. Sunora is committed to its policy of managing its trade payables on a timely basis and maintaining 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, income taxes recoverable, prepaid expenses and inventory. Current Liabilities include accounts payable, accrued liabilities, and customer deposits. 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 are manifested in the available cash. At December 31, 2017, the Company has exceeded its target Working Capital Ratio with a ratio of 3.8:1 as compared to 4.8:1 at December 31, 2016. The Company's business has been managed with a strong working capital position which has enabled the Company to operate without debt. Additionally, given the current nature of Sunora's operations, it has been able to maintain its business without making major capital investments. Therefore, the Company believes it is in a very favourable position to expand in the future.

## OPERATIONS

	Year ended December 31, 2017	Year ended December 31, 2016
Sales	\$ 13,935,676	12,240,283
Cost of sales	<u>12,991,136</u>	<u>11,166,617</u>
Gross margin	<u>944,540</u>	<u>1,073,666</u>
Other		
General and administrative	533,085	545,142
Marketing and promotion	70,999	60,169
Bank charges and interest	8,642	9,996
Foreign exchange	60,010	33,456
Stock-based compensation	<u>33,739</u>	<u>67,977</u>
	<u>706,475</u>	<u>716,740</u>
Income from operations	238,065	356,926
Interest income	(23,801)	(13,818)
Claim settlement	<u>434,684</u>	<u>-</u>
Income (loss) before income taxes	(172,818)	370,744
Income tax expense (recovery)	(51,182)	99,521
Deferred income tax expense	<u>-</u>	<u>(11,571)</u>
	<u>(51,182)</u>	<u>87,950</u>
Net income and comprehensive income	\$ <u><u>(121,636)</u></u>	\$ <u><u>282,794</u></u>
Earnings per share		
Basic and diluted	\$ <u><u>(0.003)</u></u>	\$ <u><u>0.007</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 International; International 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:

	<b>3 months ended December 31, 2017</b>	<b>3 months ended December 31, 2016</b>	<b>Year ended December 31, 2017</b>	<b>Year ended December 31, 2016</b>
USA	\$ 2,842,405	\$ 2,034,864	\$ 10,288,738	\$ 8,514,125
Canada	281,450	432,242	1,032,144	1,047,999
International	770,032	982,693	2,614,794	2,691,977
	<u>\$ 3,893,887</u>	<u>\$ 3,449,799</u>	<u>\$ 13,935,676</u>	<u>\$ 12,254,101</u>

The Company also had an economic dependence on two customers in 2017 and one customer in 2016. Sales to these two customers were 43% in the three months ended December 31, 2017 (2016 – 21%) and 39% (2016 – 19%) of total sales in the year ended December 31, 2017.

Sunora's sales to the United States have recently trended higher in comparison to sales in Canada. Overseas markets are continuing to grow and provide greater long term stability to sales. The growth of sales in emerging markets, with growing awareness of healthy food choices by the expanding middle classes, is a positive trend for Sunora. Overseas sales in the fourth quarter generally increase because of the timing of the New Year celebrations in Asia.

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

Cost of sales consists of purchases of food oil, packaging, freight and custom duties. Sunora achieved a gross margin of 6.8% in the year ended December 31, 2017 compared to 8.9% in the previous year. Recent margins were not as strong as in the prior year.

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

General and administrative expenses decreased by \$12,057 in the year ended December 31, 2017 from the previous year. These expenses consist of salaries, rent, travel, and various other miscellaneous office overhead expenses.

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

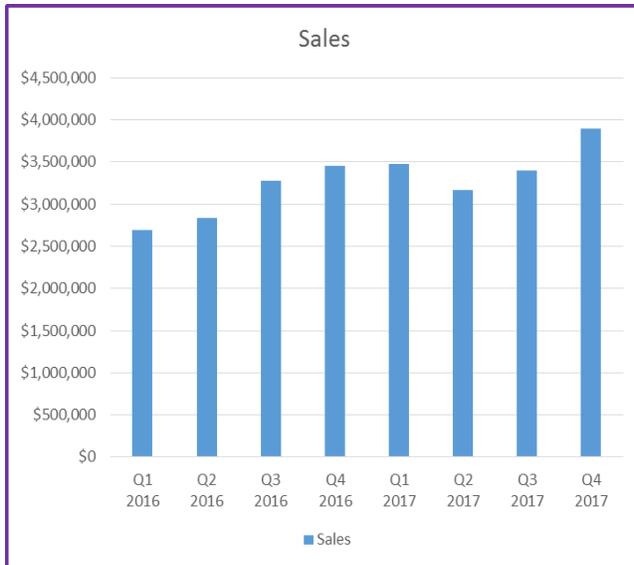
Sunora has increased sales over the years due to its marketing efforts. Sunora has established strong relationships with sales staff and given them more flexibility and support as mutual trust has developed in these relationships. In North America, Sunora has outstanding commissioned brokers who have introduced new customers to the Company. Sales to independent distributors have also grown for Sunora, mostly in countries overseas, which has given Sunora entry into many foreign markets.

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

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

## QUARTERLY RESULTS

	Three months ended December 31, 2017 <i>Q4</i>	Three months ended September 30, 2017 <i>Q3</i>	Three months ended June 30, 2017 <i>Q2</i>	Three months ended March 31, 2017 <i>Q1</i>
Sales	\$ 3,893,887	\$ 3,396,872	\$ 3,164,687	3,480,230
Cost of sales	<u>3,651,552</u>	<u>3,181,049</u>	<u>2,911,004</u>	<u>3,247,529</u>
Gross margin	<u>242,335</u>	<u>215,823</u>	<u>253,683</u>	<u>232,701</u>
Other				
General and administrative expenses	159,589	123,332	121,477	128,689
Marketing and promotion	12,739	29,946	16,428	11,886
Bank charges and interest	1,692	1,792	2,192	2,966
Foreign exchange loss (gain)	12,297	32,528	26,502	(10,833)
Stock-based compensation	3,975	6,055	9,846	13,863
	<u>190,292</u>	<u>193,653</u>	<u>176,445</u>	<u>146,571</u>
	52,043	22,170	77,238	86,130
Interest income	7,696	5,772	5,284	5,049
Claim settlement	-	-	(434,684)	-
Income before income taxes	<u>59,739</u>	<u>27,942</u>	<u>(352,162)</u>	<u>91,179</u>
Income tax expense				
Current income tax (recovery)	25,360	7,824	(108,984)	24,618
Deferred income tax	-	-	-	-
Net income (loss) and comprehensive income (loss)	<u>\$ 34,379</u>	<u>20,118</u>	<u>(243,178)</u>	<u>66,561</u>
			0	0
Earnings per share - basic and diluted	0.000	0.000	(0.006)	0.002
	Three months ended December 31, 2016 <i>Q4</i>	Three months ended September 30, 2016 <i>Q3</i>	Three months ended June 30, 2016 <i>Q2</i>	Three months ended March 31, 2016 <i>Q1</i>
Sales	\$ 3,449,793	\$ 3,281,156	\$ 2,835,773	\$ 2,687,379
Cost of sales	<u>3,144,439</u>	<u>2,952,174</u>	<u>2,635,047</u>	<u>2,434,957</u>
Gross margin	<u>305,354</u>	<u>328,982</u>	<u>200,726</u>	<u>252,422</u>
Other				
General and administrative expenses	177,460	122,351	122,765	122,566
Marketing and promotion	13,524	29,609	5,460	11,576
Bank charges and interest	2,539	4,173	954	2,330
Foreign exchange gains and losses	(12,371)	(7,510)	(29,318)	82,655
Stock-based compensation	36,041	7,256	24,680	-
	<u>217,193</u>	<u>155,879</u>	<u>124,541</u>	<u>219,127</u>
Income before income taxes	<u>88,161</u>	<u>173,103</u>	<u>76,185</u>	<u>33,295</u>
Income tax expense				
Current income tax (recovery)	20,396	50,231	20,570	8,324
Deferred income tax	(11,571)	-	-	-
Net income (loss) and comprehensive income (loss)	<u>\$ 79,336</u>	<u>\$ 122,872</u>	<u>\$ 55,615</u>	<u>\$ 24,971</u>
Earnings per share - basic and diluted	0.002	0.003	0.001	0.001

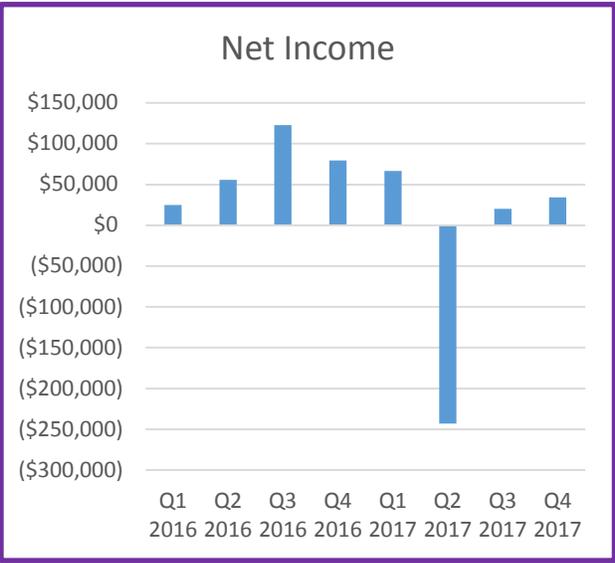


Sales for the fourth quarter of 2017 were 14.6% higher than the third quarter of 2017 due to the increase in U.S. and overseas sales. Third quarter sales were 7.3% higher than the second quarter. Second quarter sales were 9% lower than first quarter

Cost of sales in the fourth quarter of 2017 was 14.8% higher than third quarter due to increased sales. Third quarter cost of sales was 9.3% higher than the second quarter due to increased sales. Second quarter cost of sales was 10% lower than the first quarter due to 9% decrease in sales.

Gross margin for the fourth quarter of 2017 was 6.2% compared to 6.4% for the third quarter. Second quarter gross margin was 8.0% compared to 6.7% for the first quarter ended March 31, 2017.





General and administration expenses were higher in the fourth quarter of 2017 due to various charges recorded at year end, including audit and accounting fees and profit sharing bonus.

Net income for the fourth quarter was comparable to the third quarter. As a result of the settlement of a legal claim in the second quarter, there was a loss in the second quarter and it was substantially down from the first quarter.

## 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 months ended December 31, 2017 and for the year ended 2017; Sunora's cash flows arose only from operations during these periods.

	Three months ended December 31, 2017	Three months ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2016
Net cash inflow (outflow) related to:				
Operating activities				
Net Income (loss)	\$ 34,379	\$ 79,336	(121,636)	282,794
Items not affecting cash				
Stock-based compensation	3,975	36,041	33,739	67,977
Deferred income tax expense	-	(11,571)	-	(11,571)
Change in unrealized foreign exchange on US dollar cash	(42,686)	(79,714)	(31,009)	(79,714)
	<u>(4,332)</u>	<u>24,092</u>	<u>(118,906)</u>	<u>259,486</u>
Changes in non-cash working capital				
Accounts receivable	(311,124)	284,053	(354,464)	(23,480)
Income tax recoverable (payable)	25,360	(35,954)	(5,950)	(177,095)
Goods and services tax recoverable (payable)	(3,289)	3,345	404	(5,002)
Inventory	(74,654)	248,950	11,433	59,734
Prepaid expenses and accrued interest	(20,274)	(20,871)	(6,503)	8,044
Accounts payable and accrued liabilities	404,271	(290,173)	302,763	476,422
Customer deposits	16,174	(28,103)	992	58,444
	<u>36,464</u>	<u>161,247</u>	<u>(51,325)</u>	<u>397,067</u>
Increase in cash flow	32,132	185,339	(170,231)	656,553
Cash and cash equivalents, beginning of year or period	3,139,881	3,091,780	3,353,921	2,620,566
Effect of exchange fluctuations on US dollar cash	42,686	76,802	31,009	76,802
Cash and cash equivalents, end of year	\$ <u>3,214,699</u>	\$ <u>3,353,921</u>	<u>3,214,699</u>	<u>3,353,921</u>
Cash and cash equivalents are comprised of:				
Cash held in Canadian dollars	2,919,110	3,051,230	2,919,110	3,051,230
Cash held in US dollars (stated in Canadian dollars)	295,589	302,691	295,589	302,691
	\$ <u>3,214,699</u>	\$ <u>3,353,921</u>	<u>3,214,699</u>	<u>3,353,921</u>

Sunora's cash balances decreased \$139,083 during the year ended December 31, 2017. This decrease since December 31, 2016 resulted primarily from the settlement of the legal claim in the second quarter; it was further reduced by an increase in accounts receivables. This was off-set somewhat by an increase in accounts payable and accrued liabilities. The remaining working capital components had little overall impact on cash.

## OUTLOOK

Sunora maintains strong relationships with strategically located 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, however, may be impacted by geo-political situations that can hold up sales as was experienced in the fourth quarter of

2015. 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 might increase sales and profitability 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.

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

With continuing strength in the United States economy and new customers being added in Asia, Sunora is well positioned to grow and increase its sales.

#### **OTHER SELECTED FINANCIAL INFORMATION**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Assets	\$ 5,263,467	\$ 5,047,608
Liabilities	\$ 1,329,357	\$ 1,025,602
Shareholders' equity	\$ 3,934,110	\$ 4,022,006

Total assets of Sunora as at December 31, 2017 comprised cash, accounts receivable, inventory, prepaid expenses, income tax recoverable and a deferred tax asset. The increase in assets from December 31, 2016 to December 31, 2017 is primarily due to an increase in current assets of \$215,859 as a result of increased sales, timing of payments and income tax recoverable.

Sunora's liabilities consist primarily of accounts payable and accrued liabilities and customer deposits. These current liabilities increased by \$303,755 since December 31, 2016 due to the timing of payments and expenses accrued at the year-end.

#### **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 all receivables at December 31, 2017 were less than 60 days old. Sunora's target Current Ratio (Current Assets divided by Current Liabilities) as set by management is 2.0:1. Including its cash balance of \$3,214,699 at December 31, 2017, Sunora's Current Ratio at December 31, 2017 was still strong at 3.8:1, down from 4.8:1 at December 31, 2016. 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, 2020, 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, 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 impact on its operations for the year ended December 31, 2017. As previously noted 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 December 31, 2017 and March 31, 2018 is 42,254,332.

## **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 closely 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.

Cash is measured at fair value based on its Level 1 designation.

### **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 they extend credit.

As at December 31, 2017, the Corporation's maximum exposure to credit risk for accounts receivable is \$1,304,180. Accounts receivable include amounts that are past due at the end of the reporting period for which the Corporation has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and the amounts are still considered collectable.

	December 31 2017	December 31 2016
Current	\$ 1,304,280	\$ 949,816
Accounts receivable	<u>\$ 1,304,280</u>	<u>\$ 949,816</u>

During the year ended December 31, 2017, sales to two customers (2016 – one) represented 39.4% of the Corporation's total sales (December 31, 2016 –19%).

The accounts receivable balance is widely diversified with the exception of three customers (2016 – four) which represent 33%, 20% and 13% of the accounts receivable balance at December 31, 2017 (December 31, 2016 -27%, 20%, 13% and 11%).Bad debt expense for the year ended December 31, 2017 was nil (2016 - nil) which is included in general and administrative expenses. At December 31, 2017, the Corporation had no allowance for doubtful accounts (2016 - nil).

There was no bad debt expense for the years ended December 31, 2017 and 2016; the Corporation had no allowance for doubtful accounts.

The Corporation manages the credit exposure of \$3,214,699 (December 31, 2016- \$3,353,921) 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 come 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.

As at December 31, 2017, the Corporation had cash and cash equivalents of \$3,214,699 to settle current liabilities of \$1,256,855. The majority of the Corporation's financial liabilities have contractual maturities of less than 60 days and all are subject to normal trade terms.

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

### **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 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 carrying amounts of the Corporation's monetary assets and liabilities denominated in foreign currency at December 31, 2017 and December 31, 2016 are as follows:

	<b>Foreign Currency</b>		<b>December 31, 2017</b>		<b>December 31, 2016</b>
Cash bank balance	USD	\$	523,494	\$	562,207
Accounts receivable	USD	\$	859,894	\$	398,058
Accounts receivable	SGD	\$	183,668		-
Accounts payable	USD	\$	(644,045)	\$	(401,527)

(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 impact the levels of supply and demand. Management continuously monitors commodity prices and regularly covers sales contracts with purchase contracts 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 years ended December 31, 2017 and 2016 nor does it currently have any derivative financial contracts.

## ***Capital Management***

The Corporation'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 December 31, 2017 was 3.8:1 (2016 – 4.8:1) The Corporation's business has been managed with a strong working capital position which has enabled the Corporation to operate without debt. Additionally, the current nature of Sunora's operations has enabled it to expand without making capital investments.

The Corporation optimizes its capital structure with a view to ensure a strong financial position to take advantage of potential opportunities. Sunora's capital structure includes significant 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 acquisitions. 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 year ended December 31, 2017 or the year ended December 31 2016.

## **CRITICAL ACCOUNTING ESTIMATES**

Note 2 to Sunora's December 31, 2017 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 consolidated 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 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 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. These estimates affect the amount recognized as stock-based compensation expense in the consolidated 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 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.

### *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.

## **NEW ACCOUNTING STANDARDS**

### (i) Future accounting policies

The Company is currently assessing the impact of adopting the following recent standards issued by the IASB:

#### *Financial instruments*

*IFRS 9 – Financial Instruments* provides a comprehensive new standard for accounting for all aspects of financial instruments. It includes a logical model for classification and measurement, a single, forward-looking “expected-loss” impairment model and a substantially reformed approach to hedge accounting. The new standard is effective for years beginning on or after January 1, 2018.

### *Revenue recognition*

*IFRS 15 – “Revenue from contracts with customers”* provides a comprehensive new standard on revenue recognition. It specifies how and when to recognize revenue as well as requiring entities to provide more information and relevant disclosure. The new standard is effective for years beginning on or after January 1, 2018.

*IFRS 16 – “Leases”* which provides for a single recognition and measurement model for leases, with required recognition of assets and liabilities for most leases. The new standard is effective for annual reporting periods beginning on or after January 1, 2019.