

## **Management Discussion and Analysis For the Year Ended December 31, 2020**

This Management Discussion and Analysis ("MD&A") for the year ended December 31, 2020 and for the year ended December 31, 2019 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 "Company") for the year ended December 31, 2020 with comparative figures for the year ended December 31, 2019. This MD&A is effective April 29, 2021 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 thirty 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, 2020 and as at December 31, 2019, and the statements of operations for the year ended December 31, 2020 and the year ended December 31, 2019, respectively:

	<b>Year ended December 31, 2020</b>	<b>Year ended December 31, 2019</b>
Sales	\$ 11,327,120	\$ 11,264,457
Net income (loss) and comprehensive income (loss)	\$ (7,936)	\$ 259,173
Earnings per share - basic and diluted	\$ 0.000	\$ 0.006
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Cash	\$ 3,317,475	\$ 3,281,809
Other assets	\$ 1,809,342	\$ 1,794,631
Total liabilities	\$ 1,216,374	\$ 996,000
Shareholders' equity	\$ 3,910,443	\$ 4,080,440

Sunora's sales for the year ended December 31, 2020 increased by 0.6% over the previous year, with the increase in bulk oil sales offset by a decline in packaged oil sales.

The net loss and comprehensive loss for the year ended December 31, 2020 of \$7,936, compared to income of \$259,173 for the previous year, was significantly impacted by an increase in bad debts, by an increase in foreign exchange loss, a decrease in interest income earned and a provision of taxes for previous years. In addition, the gross margin declined from 7.6% to 6.3%, due to the impact of increased cost of sales, as a result of operating with COVID-19 and a relatively greater proportion of bulk oil sales.

Total assets of Sunora as at December 31, 2020 comprised of cash, accounts receivable, inventory, prepaid expenses and accrued interest, GST recoverable, right-of-use asset and a deferred tax asset. The increase in assets from December 31, 2019 to December 31, 2020 is primarily due to an increase in accounts receivable.

Sunora's liabilities consist of accounts payable and accrued liabilities, customer deposits, income taxes payable and a lease liability, relating to its office premises. Net current liabilities increased by \$237,931 from December 31, 2019 due mainly to an increase in accounts payable and accrued liabilities, income taxes payable and customer deposits.

## FINANCIAL POSITION

### Sunora Foods Inc.

#### Balance Sheets

As at December 31, 2020 and 2019

(amounts in Canadian dollars)

<b>Assets</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Current assets</b>		
Cash	\$ 3,317,475	\$ 3,281,809
Accounts receivable	1,504,080	1,434,853
Inventory	181,289	207,630
Prepaid expenses and accrued interest	25,853	29,898
GST recoverable	2,062	4,508
	<u>5,030,759</u>	<u>4,958,698</u>
Right-of-use asset	49,223	67,122
Deferred tax asset	46,835	50,620
	<u>\$ 5,126,817</u>	<u>\$ 5,076,440</u>
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,052,051	\$ 919,555
Customer deposits	76,551	-
Income taxes payable	35,315	6,749
Lease liability	17,558	17,240
	<u>1,181,475</u>	<u>943,544</u>
Lease liability	34,899	52,456
<b>Shareholders' Equity</b>		
Share capital	1,170,251	1,170,251
Contributed surplus	771,858	771,858
Retained earnings	1,968,334	2,138,331
	<u>3,910,443</u>	<u>4,080,440</u>
	<u>\$ 5,126,817</u>	<u>\$ 5,076,440</u>

### Current assets

Sunora's current assets consist of cash, accounts receivable, inventory, prepaid expenses and accrued interest and GST recoverable. Cash is held for working capital requirements and to fund expansion costs for potential new opportunities, 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 and inventories decreased due to the timing of sales and customer orders.

## Current liabilities

Sunora's current liabilities consist of accounts payable and accrued liabilities, customer deposits, income taxes payable and lease liability. Accounts payable increased due to the timing of payments for purchases and year-end accruals in the fourth quarter. Income taxes payable increased as a result of a provision for taxes of previous years. Sunora is committed to its policy of managing its trade payables and other liabilities on a timely basis and maintaining its excellent credit standing. Lease liability represents office lease payments due in the ensuing 12 months.

## 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, income taxes recoverable, prepaid expenses and accrued interest and GST recoverable. Current Liabilities include accounts payable and accrued liabilities, customer deposits, and lease liability. 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, 2020, the Company has exceeded its target Working Capital Ratio with a ratio of 4.3:1 as compared to 5.3 at December 31, 2019. 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

**Sunora Foods Inc.**  
**Statements of Income and Comprehensive Income**  
**For the Years Ended December 31, 2020 and 2019**  
*(amounts in Canadian dollars)*

	Year Ended December 31 2020	Year Ended December 31 2019
Sales	\$ 11,327,120	\$ 11,264,457
Cost of sales	<u>10,615,151</u>	<u>10,409,325</u>
Gross margin	<u>711,969</u>	<u>855,132</u>
Expenses		
General and administrative	411,432	478,196
Marketing and promotion	58,470	50,336
Bad debts	155,548	25,840
Bank charges and interest	15,952	16,461
Amortization	17,899	17,899
Foreign exchange	32,879	26,412
Interest income	<u>(18,783)</u>	<u>(43,047)</u>
	<u>673,397</u>	<u>572,097</u>
Income from operations before income taxes	38,572	283,035
Income tax expense - current	42,723	6,748
Deferred income tax expense	<u>3,785</u>	<u>17,114</u>
	<u>46,508</u>	<u>23,862</u>
Net income and comprehensive income	\$ <u>(7,936)</u>	\$ <u>259,173</u>
Earnings per share		
Basic and diluted	\$ <u>(0.000)</u>	\$ <u>0.006</u>

## DISCUSSION OF OPERATIONS

### *Sales*

The Company operates in the single segment of food oil and related products. 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, 2020</b>	<b>3 months ended December 31, 2019</b>	<b>Year ended December 31, 2020</b>	<b>Year ended December 31, 2019</b>
USA	\$ 2,558,873	\$ 2,165,116	\$ 7,861,760	\$ 8,056,088
Canada	71,366	48,810	235,643	185,760
International	827,586	812,331	3,229,717	3,022,609
	<u>\$ 3,457,825</u>	<u>\$ 3,026,257</u>	<u>\$ 11,327,120</u>	<u>\$ 11,264,457</u>

During the year ended December 31, 2020, sales to one customer (2019 – two) represented 38.1% of the Company's total sales (December 31, 2019 – 46.7%).

Sunora's sales to the United States have recently been relatively stronger in comparison to sales in Canada. Overseas markets, except for China, are continuing to show growth. The growth of sales in emerging markets, with growing awareness of healthy food choices by the expanding middle classes, is a positive long-term trend for Sunora. Overseas sales in the fourth quarter continue to be impacted by relations between Canada and China.

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

Cost of sales consists of purchases of food oil, packaging, freight and custom duties. Sunora achieved a gross margin of 6.3% in the year ended December 31, 2020 compared to 7.6% in the previous year. Margins in 2020 were weaker than the prior year because of a higher percentage of bulk oil sales and the challenges of operating with Covid-19.

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

General and administrative expenses consist of salaries, rent, travel, and various other miscellaneous office overhead expenses. These expenses for the year ended December 31, 2020 were lower compared to the previous year due to a decrease in salaries and wages and profit-sharing bonus, and in travel expense and insurance.

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

Sunora's sales over the years reflect its effective marketing efforts. Sunora has established strong relationships with sales staff and given them continuing 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. It includes quarterly changes in unrealized foreign exchange on cash, accounts receivable, inventory and customer deposits denominated in US currency.

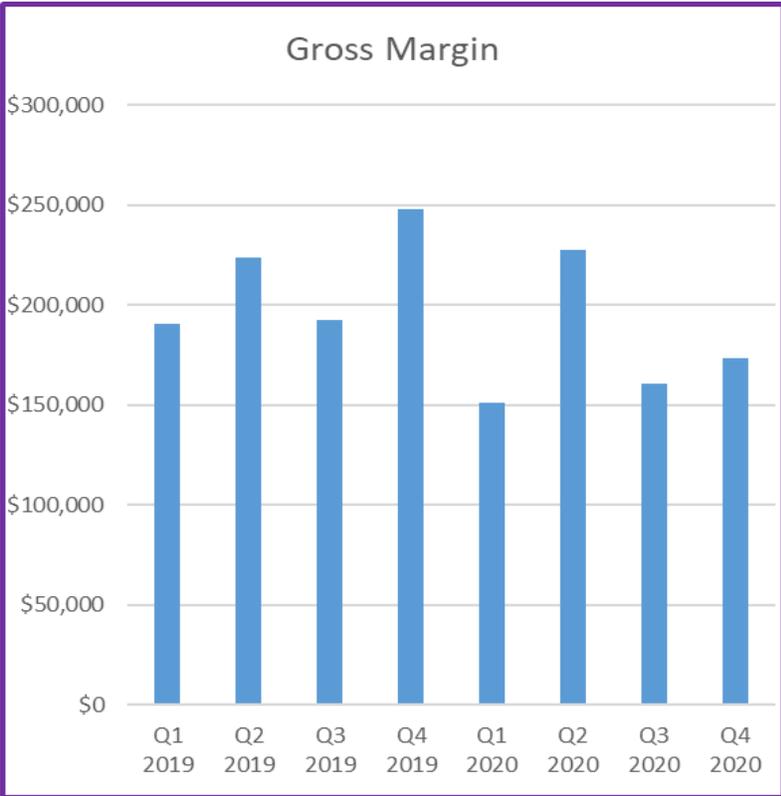
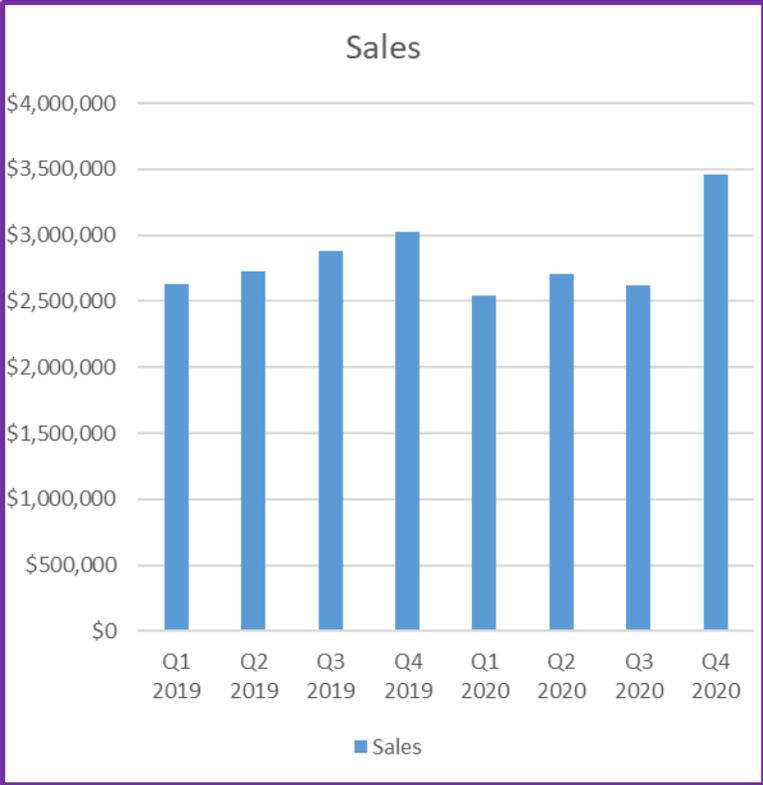
## Income tax expense

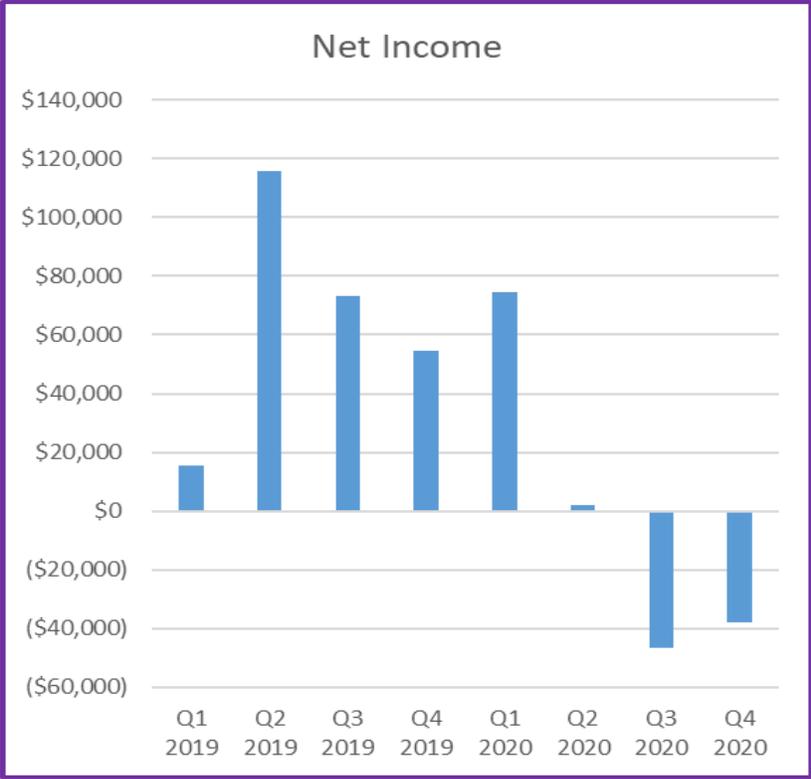
The current income tax expense includes a provision of \$36,147 relating to prior years, resulting from corrections to be made to tax returns already filed.

## QUARTERLY RESULTS

	Three months ended December 31, 2020 <i>Q4</i>	Three months ended September 30, 2020 <i>Q3</i>	Three months ended June 30, 2020 <i>Q2</i>	Three months ended March 31, 2020 <i>Q1</i>
Sales	\$ 3,457,825	\$ 2,617,356	\$ 2,705,518	\$ 2,546,421
Cost of sales	<u>3,284,498</u>	<u>2,456,820</u>	<u>2,478,262</u>	<u>2,395,571</u>
Gross margin	<u>173,327</u>	<u>160,536</u>	<u>227,256</u>	<u>150,850</u>
Other				
General and administrative expenses	118,311	79,484	104,378	109,259
Marketing and promotion	11,385	26,865	16,081	4,139
Bad debts	(3,841)	79,775	79,614	-
Bank charges and interest	2,099	3,817	3,966	6,070
Amortization	4,474	4,475	4,475	4,475
Foreign exchange loss (gain)	49,167	26,491	39,693	(82,472)
Interest income	<u>(2,432)</u>	<u>(1,275)</u>	<u>(4,362)</u>	<u>(10,714)</u>
Income from operations	<u>(5,836)</u>	<u>(59,096)</u>	<u>(16,589)</u>	<u>120,093</u>
Income tax expense				
Current income tax (recovery)	31,461	(14,774)	(18,461)	44,497
Deferred income tax	<u>470</u>	<u>2,393</u>	<u>(183)</u>	<u>1105</u>
	<u>31,931</u>	<u>(12,381)</u>	<u>(18,644)</u>	<u>45,602</u>
Net income and comprehensive income	\$ <u>(37,767)</u>	\$ <u>(46,715)</u>	\$ <u>2,055</u>	\$ <u>74,491</u>
Earnings per share - basic and diluted	\$ <u>(0.001)</u>	\$ <u>(0.001)</u>	\$ <u>0.000</u>	\$ <u>0.002</u>

	Three months ended December 31, 2019 <i>Q4</i>	Three months ended September 30, 2019 <i>Q3</i>	Three months ended June 30, 2019 <i>Q2</i>	Three months ended March 31, 2019 <i>Q1</i>
Sales	\$ 3,026,257	\$ 2,875,992	\$ 2,730,626	\$ 2,631,582
Cost of sales	<u>2,778,160</u>	<u>2,683,395</u>	<u>2,506,613</u>	<u>2,441,158</u>
Gross margin	<u>248,097</u>	<u>192,597</u>	<u>224,014</u>	<u>190,424</u>
Other				
General and administrative expenses	143,606	103,593	110,416	120,580
Marketing and promotion	13,713	18,221	6,681	11,721
Bad debts	25,840	-	-	-
Bank charges and interest	4,017	3,719	4,461	4,264
Amortization	4,475	4,475	4,475	4,475
Foreign exchange loss (gain)	22,025	(4,013)	(41,838)	50,238
Interest income	<u>(8,680)</u>	<u>(12,880)</u>	<u>(9,255)</u>	<u>(12,233)</u>
	<u>204,996</u>	<u>113,115</u>	<u>74,941</u>	<u>179,045</u>
Income from operations	43,101	79,482	149,073	11,379
Income tax expense				
Current income tax (recovery)	(10,254)	5,459	11,544	-
Deferred income tax	<u>(1,248)</u>	<u>721</u>	<u>21,550</u>	<u>(3,909)</u>
	<u>(11,502)</u>	<u>6,180</u>	<u>33,094</u>	<u>(3,909)</u>
Net income and comprehensive income	\$ <u>54,603</u>	\$ <u>73,302</u>	\$ <u>115,979</u>	\$ <u>15,288</u>
Earnings per share - basic and diluted	\$ <u>0.001</u>	\$ <u>0.002</u>	\$ <u>0.003</u>	\$ <u>0.000</u>





## EQUITY

The Company's Equity and changes for the year ended December 31, 2020 were as follows:

<b>Sunora Foods Inc.</b> <b>Statements of Changes in Equity</b> <b>For the Years Ended December 31, 2020 and 2019</b> <i>(amounts in Canadian dollars)</i>					
	Number of Common Shares	Share Capital	Contributed Surplus	Retained Earnings	Total
<b>Balance at December 31, 2018</b>	40,669,832	1,190,751	771,858	2,021,075	\$ 3,983,684
Dividend paid	-	-	-	(141,917)	(141,917)
Share buy back	(154,500)	(20,500)	-	-	(20,500)
Net income and comprehensive income	-	-	-	259,173	259,173
<b>Balance at December 31, 2019</b>	40,515,332	1,170,251	771,858	2,138,331	\$ 4,080,440
Dividend paid	-	-	-	(162,061)	(162,061)
Net income and comprehensive income	-	-	-	(7,936)	(7,936)
<b>Balance at December 31, 2020</b>	40,515,332	\$ 1,170,251	\$ 771,858	\$ 1,968,334	\$ 3,910,443

## CASH FLOWS

The Company's Cash Flows for the year ended December 31, 2020 were as follows:

<b>Sunora Foods Inc.</b>		
<b>Statements of Cash Flows</b>		
<b>For the Years Ended December 31, 2020 and 2019</b>		
<i>(amounts in Canadian dollars)</i>		
	<b>Year ended December 31, 2020</b>	<b>Year ended December 31, 2019</b>
Net cash inflow (outflow) related to:		
Operating activities		
Net income and comprehensive income	\$ (7,936)	\$ 259,173
Items not affecting cash		
Amortization	17,899	17,899
Deferred income tax expense	3,785	17,114
Change in unrealized foreign exchange on US dollar cash	<u>30,056</u>	<u>(10,340)</u>
	<u>43,804</u>	<u>283,846</u>
Changes in non-cash working capital		
Accounts receivable	(69,227)	(364,732)
Inventory	26,341	35,744
Prepaid expenses and accrued interest	4,045	28,037
GST recoverable	2,446	9,027
Accounts payable and accrued liabilities	132,497	(26,583)
Customer deposits	76,551	(58,039)
Income taxes	<u>28,566</u>	<u>6,749</u>
	<u>201,219</u>	<u>(369,797)</u>
Cash flow from (used in) operations	245,023	(85,951)
Financing activities		
Re-purchase of Company's shares	-	(20,500)
Dividend paid	(162,061)	(141,917)
Lease payments	<u>(17,240)</u>	<u>(15,325)</u>
Cash flow used for financing	<u>(179,301)</u>	<u>(177,742)</u>
Increase (decrease) in cash flow	65,722	(263,693)
Cash, beginning of period	3,281,809	3,535,162
Effect of exchange fluctuations on US dollar cash	<u>(30,056)</u>	<u>10,340</u>
Cash, end of period	<u>\$ 3,317,475</u>	<u>\$ 3,281,809</u>
Cash, in Canadian dollars, is comprised of:		
Cash held in Canadian dollars	2,659,517	2,984,102
Cash held in US dollars	<u>657,958</u>	<u>297,707</u>
	<u>\$ 3,317,475</u>	<u>\$ 3,281,809</u>

The Company'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 year ended December 31, 2020 and 2019: Sunora's cash balances increased by \$35,666 during the year ended December 31, 2020. This increase in cash balances was primarily due to an increase in accounts payables and accrued liabilities and customer deposits net of the payment of the dividend of \$162,061.

## OUTLOOK

Sunora maintains strong relationships with strategically located trading partners 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 2020. 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. Sunora has begun to market MCT oil, which is an ideal carrier oil for hemp and medical cannabis products. Management is also actively considering other new products that may benefit from new domestic and international markets.

Prospective investment opportunities include packagers and suppliers in the food oil industry. With each operation identified, a detailed review and analysis is undertaken by management.

With renewed strength in the United States economy and new customers being added in Asia, along with its participation in the emerging hemp and medical cannabis market, Sunora is well positioned to grow and increase its sales.

## 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 are stringently managed as all receivables as at December 31, 2020 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 \$3,317,475 as at December 31, 2020, Sunora's Current Ratio at December 31, 2020 was still strong at 4.3, down from 5.3 at December 31, 2019. 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 terminates on August 31, 2023 with a three-year renewal option on the same terms, which Sunora may exercise. 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 trading partners who purchase canola oil from Sunora for redistribution; these sales are final and not returnable.

The Company's only property, plant and equipment (other than office furniture and equipment carried at no book value) is the right-of-use assets which comprises the capitalized value of its office lease. The corresponding lease liability constitutes the present value of lease payments due. Aside from funding its operations, turning over and maintaining adequate inventory levels, the Company has no minimum externally imposed working capital requirements.

The Company engages in trading, entailing the matching of its sales contracts with the relating purchase of products, as opposed to speculation. Price changes had limited impact on its operations for the year ended December 31, 2020. As previously noted, a major world economic downturn could adversely impact Sunora due to its reliance on upscale markets outside of Canada.

The total number of common shares outstanding as of December 31, 2020 was 40,515,332. This change in outstanding shares reflects the re-purchase of 154,500 during 2019 under the Normal Course Issuer bid protocol. The total number of shares re-purchased up to December 31, 2020 amounted to 1,793,000, which have been withdrawn from listing and have been cancelled.

## **FINANCIAL INSTRUMENTS**

### ***Risk management***

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Company's risk management framework, Sunora's management has the responsibility to administer and monitor these risks. There have been no changes from the prior year in the Company's exposure or responses to financial risks.

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

The fair values of cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly, and are based on valuation models and techniques where the inputs are derived from quoted indices. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

### *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on credit risk applicable. Management believes the risk is often mitigated by the size and reputation of the companies to which they extend credit.

Preventing credit losses associated with accounts receivable requires management to assess certain forward looking and macroeconomic factors to determine whether there is a significant increase in credit risk as well as expected provisions on the balance outstanding at year-end.

As at December 31, 2020, the Company's maximum exposure to credit risk for accounts receivable was \$1,504,080 (December 31, 2019 - \$1,434,853). Account receivables include amounts that are past due at the end of the year as follows:

	<b>December 31 2020</b>	<b>December 31 2019</b>
Accounts receivable		
Current	\$ 1,385,408	\$ 527,020
Overdue less than 90 days	<u>\$ 118,672</u>	<u>\$ 907,833</u>
	<u>\$ 1,504,080</u>	<u>\$ 1,434,853</u>

During the year ended December 31, 2020, sales to one customer (2019 – two) represented 38.1% of the Company's total sales (December 31, 2019 – 46.7%).

The accounts receivable balance has two customers (2019 – one) which represent 50.1% and 10.6% of the accounts receivable balance as of December 31, 2020 (December 31, 2019 - 57%). Bad debt expense for the year ended December 31, 2020 was \$155,548 (2019 - \$25,839). As of December 31, 2020, and 2019, the Company had no allowance for doubtful accounts.

The Company manages the credit exposure of \$3,317,475 (December 31, 2019 - \$3,281,809) 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 Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including global economic conditions.

As of December 31, 2020, the Company had cash and cash equivalents of \$3,317,475 (2019 - \$3,281,809) available to settle accounts payable and accrued liabilities, customer deposits and taxes of \$1,128,602 (2019 - \$926,304). The majority of the Company's financial liabilities mature within 60 days and all are subject to normal trade terms.

The financial liabilities on the balance sheet consist primarily of accounts payable and accrued liabilities. The Company 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 Company's net earnings or the value of financial instruments and are largely outside the control of the Company. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Primary market risks are as follows:

(i) *Foreign currency risk*

The Company is exposed to currency price risk on sales denominated in U.S. dollars ("USD") and Singapore dollars ("SGD") to the extent that the receipt of payment of the U.S. and Singapore denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. This risk is partly off-set by accounts payable denominated in USD.

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

	<b>Foreign Currency</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Cash at bank	USD	\$ 517,547	\$ 229,252
Accounts receivable	USD	\$ 1,098,382	\$ 1,039,783
Accounts receivable	SGD	\$ -	\$ 87,513
Accounts payable	USD	\$ (676,942)	\$ (504,756)

(ii) *Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

(iii) *Commodity price risk*

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for canola and other food oils are impacted by global economic and political events that dictate the levels of supply and demand. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when it deems appropriate. The Company did not enter into any derivative financial contracts related to commodity prices during the years ended December 31, 2020 and 2019 nor does it currently have any derivative financial contracts.

## **Capital Management**

The Company's minimum desired working capital ratio (current assets divided by current liabilities, which is an indicator of its ability to finance its on-going operations) is 2:1. The working capital ratio for December 31, 2020 was 4.3:1 (2019 – 5.3:1). 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.

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

Sunora's share capital could be used as a basis to raise additional capital to pursue acquisitions. The Company's ability to raise additional equity financing is impacted by external factors, including global economic conditions. The Company is not subject to externally imposed capital requirements and the capital management policy has not changed during the year ended December 31, 2020 or the year ended December 31, 2019.

## **ADOPTION OF NEW ACCOUNTING STANDARDS**

The adoption of the following new standards, interpretations and amendments were included in the financial statements for the year beginning January 1, 2019.

On January 1, 2019, the Company adopted IFRIC 23 Uncertainty over income tax treatments ("IFRIC 23"). IFRIC 23 requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes that it is not probable that a taxation authority will accept an uncertain tax treatment, the entity shall reflect the uncertainty in determining the effect on taxable income, tax bases, unused tax losses, unused tax credits or tax rates based on either the most likely amount, or expected value. The adoption of IFRIC 23 did not have any impact on the financial statements.

By the adoption of IFRS 16, the Company recognized a right-of-use asset and corresponding lease liabilities related to their office lease of \$85,021 and \$85,201 respectively as of January 1, 2020. This recognition did not have a material impact on the Company's financial position, its net income and comprehensive income, its earnings per share, its equity or its cash flows.

On January 1, 2019 the Company adopted IFRS 16 Leases ("IFRS 16"). IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standards. The Company adopted IFRS 16 using the modified retrospective approach without restatement of comparative figures. The Company elected to apply the practical expedient not to reassess whether a contract is or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2020.

The Company applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;

- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. However, the Company has elected not to recognize right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

## **CRITICAL ACCOUNTING ESTIMATES**

Note 2 to Sunora's December 31, 2020 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 Company evaluates its inventory to ensure it is carried at the lower of average cost and net realizable value. Costs include all expenses to bring the goods to sale. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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

The amounts recorded relating to the fair value of stock options and warrants issued are based on estimates using a Black-Scholes option pricing model which considers the future volatility of the Company's share price, market price of the Company's shares at grant date, expected lives of the options and warrants, expected forfeiture rates, expected dividends and other relevant assumptions. These estimates affect the amount recognized as stock-based compensation expense in the consolidated statement of income and comprehensive income.

### *Current and deferred taxes*

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

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to 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 Company is determined based on management's assessment of the currency of the primary economic environment in which the entity operates. As functional currency determines how income and expense items and liabilities denominated in foreign currencies are translated and where exchange differences are recognized, a change in the functional currency could have a significant effect on the amounts recorded in the financial statements.

### *Contingencies*

Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. Management has not identified any specific contingencies at this time.

### *Recognition of lease liabilities*

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

### *Subsequent event*

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

On March 16, 2021, the Company entered into an agreement whereby the Company, through a statutory plan of arrangement under Section 193(1) of the Business Corporations Act (Alberta), will become a private company. A Special Meeting of the shareholders of the Company has been scheduled for May 10, 2021, at which time the proposal to become a private company must be approved by 66.66% of the shareholders for the proposal to go forward.

## *COVID-19*

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

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

In addition, if the impacts of COVID-19 continue there could be further impact on the entity and its major customers, suppliers and other third-party business associates that could impact the timing and amounts realized on the Company's assets and future profitability. At this time, the full potential impact of COVID-19 on the entity is not known.