

## **Management Discussion and Analysis**

### **For the nine-month Period Ended September 30, 2020**

This Management Discussion and Analysis ("MD&A") for the nine-month period ended September 30, 2020 and for the year ended December 31, 2019 is derived from, and should be read in conjunction with the management-prepared financial statements of Sunora Foods Inc. ("Sunora" or the "Company" or the "Company") for nine-month period ended September 30, 2020 with comparative figures for the nine-months ended September 30, 2019 and as at December 31, 2019. This MD&A is effective November 26, 2020 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 modest-size 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-five 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 high quality food oil.

## HIGHLIGHTS

The following highlights are from the balance sheets as at September 30, 2020 and as at December 31, 2019, and the statements of operations for the nine-month periods ended September 30, 2020 and 2019, respectively:

	Nine-Month Periods Ended	
	September 30, 2020	September 30, 2019
Sales	\$ 7,869,294	\$ 8,238,200
Net income and comprehensive income	\$ 29,903	\$ 206,935
Earnings per share - basic and diluted	\$ 0.001	\$ 0.005
	September 30, 2020	December 31, 2019
Cash	\$ 3,384,924	\$ 3,281,809
Other assets	\$ 1,511,779	\$ 1,706,051
Total liabilities	\$ 948,421	\$ 996,000
Shareholders' equity	\$ 3,948,282	\$ 4,080,440

Sunora's sales for the nine-month period ended September 30, 2020 decreased by 3.3% over the same period of the previous year due to a decline in sales of food service products.

The net income and comprehensive income for the nine-month period ended September 30, 2020 decreased to \$29,903 from \$206,935 for comparative period of the previous year. The main reasons for this decrease were a decline in gross margin and a bad debt provision of \$159,389, which were only partially offset by an increase in foreign exchange gain. The gross margin declined from 7.4% to 6.8%; this change, in the expected range, was due to fluctuations in the mix of bulk oil sales compared to packaged products.

Total assets of Sunora as at September 30, 2020 comprised of cash, accounts receivable, inventory, prepaid expenses and accrued interest, GST recoverable, right-of-use asset and a deferred tax asset. The decrease in assets from December 31, 2019 to September 30, 2020 was primarily due to a decline in cash, inventory and the payment of a dividend of \$162,061.

Sunora's liabilities consisted of accounts payable and accrued liabilities, customer deposits, income taxes payable and lease and deferred tax liabilities. Net current liabilities decreased from December 31, 2019 due to decrease in accounts payable, offset in part by an increase in customer deposits.

## FINANCIAL POSITION

### Sunora Foods Inc.

#### Balance Sheets

As at September 30, 2020 and December 31, 2019

(amounts in Canadian dollars)

	September 30, 2020	December 31, 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 3,384,924	\$ 3,281,809
Accounts receivable	1,123,043	1,434,853
Inventory	281,190	207,630
Prepaid expenses and accrued interest	4,112	29,898
GST recoverable	2,431	4,508
	<u>4,795,700</u>	<u>4,958,698</u>
Right-of-use asset	53,698	67,122
Deferred tax asset	47,305	50,620
	<u>\$ 4,896,703</u>	<u>\$ 5,076,440</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 751,660	\$ 919,555
Customer deposits	136,360	-
Income taxes payable	3,854	6,749
Lease liability (note 14)	16,953	17,240
	<u>908,827</u>	<u>943,544</u>
Lease liability	39,594	52,456
<b>Shareholders' Equity</b>		
Share capital	1,170,251	1,170,251
Contributed surplus	771,858	771,858
Retained earnings	2,006,173	2,138,331
	<u>3,948,282</u>	<u>4,080,440</u>
	<u>\$ 4,896,703</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. Cash increased in the nine-month period primarily due an increase in customer deposits off-set in part by the settlement of accounts payables. Accounts receivable decreased due to the timing of sales and customer payments.

### **Current liabilities**

Sunora's current liabilities consist of accounts payable and accrued liabilities, customer deposits, income taxes payable, dividend payable and lease liability. Accounts payable decreased due to the timing of payments for purchases in this quarter. Sunora is committed to its policy of managing its trade payables 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. 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 September 30, 2020, the Company has exceeded its target Working Capital Ratio with a ratio of 5.3:1 as compared to 5.3:1 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 Nine-Month Periods Ended September 30, 2020 and**  
**2019 (amounts in Canadian dollars)**

	Three-Month Period Ended September 30 2020	Three-Month Period Ended September 30 2019	Nine-Month Period Ended September 30 2020	Nine-Month Period Ended September 30 2019
Sales	\$ 2,617,356	\$ 2,875,992	7,869,294	8,238,200
Cost of sales	<u>2,456,820</u>	<u>2,683,395</u>	<u>7,330,652</u>	<u>7,631,165</u>
Gross margin	<u>160,536</u>	<u>192,597</u>	<u>538,642</u>	<u>607,035</u>
Expenses				
General and administrative	79,484	109,101	293,122	350,939
Marketing and promotion	26,865	18,221	47,086	36,623
Bad debts	79,775	-	159,389	-
Bank charges and interest	3,817	2,222	13,853	7,154
Amortization	4,475	-	13,424	-
Foreign exchange	26,491	(4,013)	(16,361)	4,387
Interest income	<u>(1,275)</u>	<u>(12,880)</u>	<u>(16,352)</u>	<u>(34,368)</u>
	<u>219,632</u>	<u>112,651</u>	<u>494,161</u>	<u>364,735</u>
Income from operations before income taxes	(59,096)	79,946	44,481	242,300
Income tax expense - current	(14,774)	5,459	11,263	17,003
Deferred income tax expense	<u>2,393</u>	<u>721</u>	<u>3,315</u>	<u>18,362</u>
	<u>(12,381)</u>	<u>6,180</u>	<u>14,578</u>	<u>35,365</u>
Net income and comprehensive income	<u>\$ (46,715)</u>	<u>\$ 73,766</u>	<u>\$ 29,903</u>	<u>\$ 206,935</u>
Earnings per share				
Basic and diluted	<u>\$ (0.001)</u>	<u>\$ 0.002</u>	<u>\$ 0.001</u>	<u>\$ 0.005</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:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
USA	\$ 2,093,061	\$ 2,068,463	\$ 5,302,888	\$ 5,889,411
Canada	64,665	41,721	164,276	136,949
International	459,630	765,808	2,402,130	2,211,840
	<u>\$ 2,617,356</u>	<u>\$ 2,875,992</u>	<u>\$ 7,869,294</u>	<u>\$ 8,238,200</u>

During the period ended September 30, 2020, sales to two customers (period ended September 30, 2019 – two) represented 43.6% of the Company's total sales (period ended September 30, 2019 – 45.4%).

Sunora's sales to the United States declined in the nine-month period ended September 30, 2020. International markets, except for China, for the nine-month periods showed good 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.

#### *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 nine-month period ended September 30, 2020 compared to 7.4% in the nine-month period ended September 30, 2019.

#### *General and administration*

General and administrative expenses for the nine-month period ended September 30, 2020 were 16.5% lower compared to the same period of the previous year due normal variations in expenses. These expenses consist of salaries, rent, travel, and various other miscellaneous office overhead expenses.

#### *Marketing and promotion*

Sunora's sales over the years reflect its effective marketing efforts. Sunora has established strong relationships in North America and around the world. Sales to independent distributors have continued to grow for Sunora, particularly in countries overseas, which has given Sunora entry into many foreign markets.

#### *Foreign exchange*

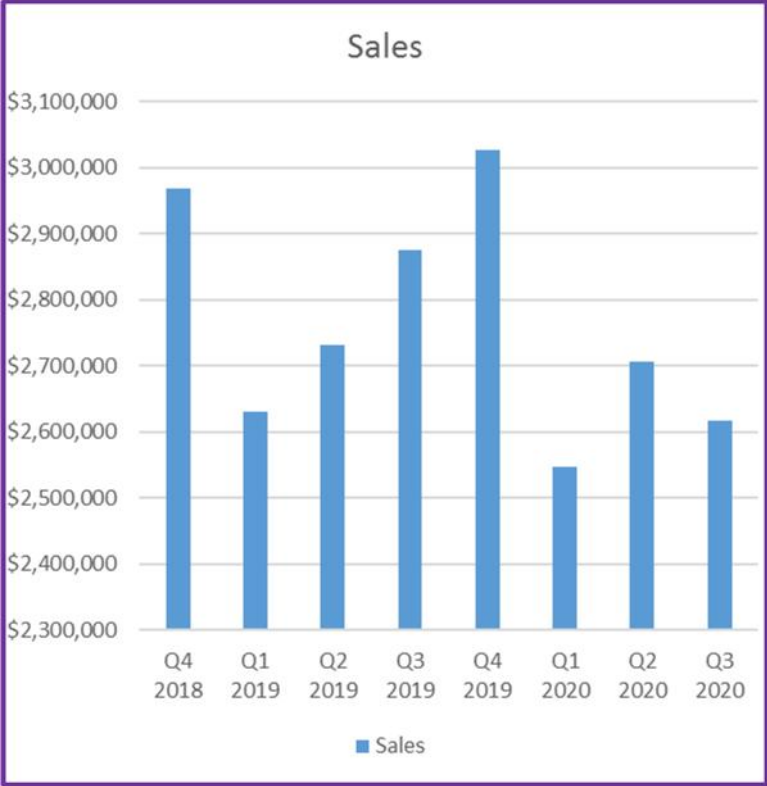
The foreign exchange gain or loss is primarily a result of the inventory purchases and sales that are denominated in US currency. It includes period-end changes in unrealized foreign exchange on cash, accounts receivable, inventory and customer deposits denominated in US currency. Sunora had a foreign exchange gain of \$16,361 in this period versus a foreign exchange loss of \$4,387 in the same period of the prior year.

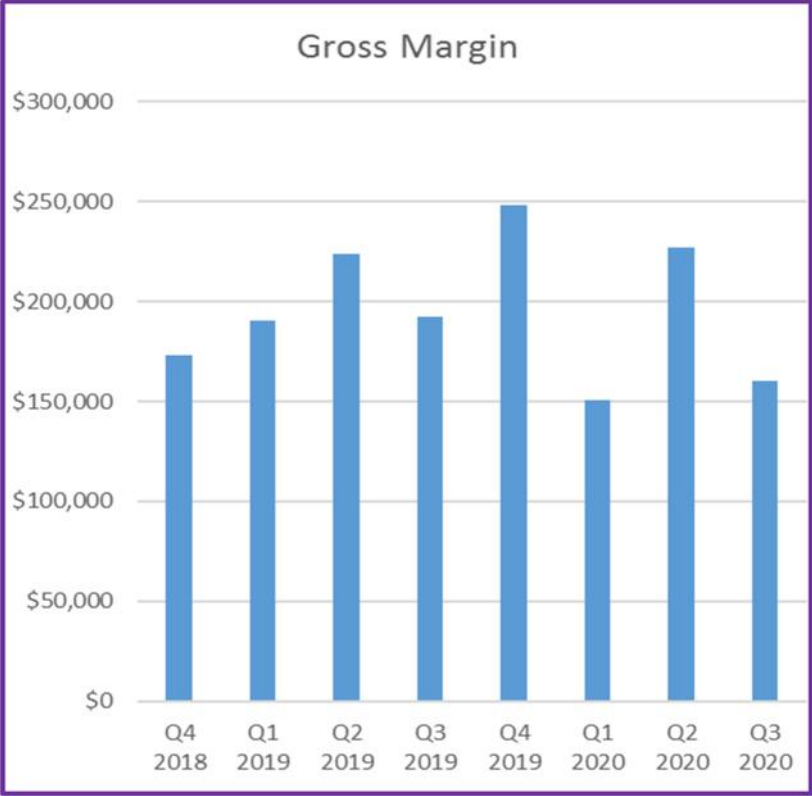
## QUARTERLY RESULTS

	Three-month Period Ended September 30, 2020 <i>Q3</i>	Three-month Period Ended June 30, 2020 <i>Q2</i>	Three-month Period Ended March 31, 2020 <i>Q1</i>	Three-month Period Ended December 31, 2019 <i>Q4</i>
Sales	\$ 2,617,356	\$ 2,705,518	\$ 2,546,421	\$ 3,026,257
Cost of sales	<u>2,456,820</u>	<u>2,478,262</u>	<u>2,395,571</u>	<u>2,778,160</u>
Gross margin	<u>160,536</u>	<u>227,256</u>	<u>150,850</u>	<u>248,097</u>
Other				
General and administrative expenses	79,484	104,378	109,259	143,606
Marketing and promotion	26,865	16,081	4,139	13,713
Bad debts	79,775	79,614	-	25,840
Bank charges and interest	3,817	3,966	6,070	4,017
Amortization	4,475	4,475	4,475	4,475
Foreign exchange loss (gain)	26,491	39,693	(82,472)	22,025
Interest income	<u>(1,275)</u>	<u>(4,362)</u>	<u>(10,714)</u>	<u>(8,680)</u>
Income from operations	<u>(59,096)</u>	<u>(16,589)</u>	<u>120,093</u>	<u>43,101</u>
Income tax expense				
Current income tax (recovery)	(14,774)	(36,175)	44,497	(10,254)
Deferred income tax	<u>2,393</u>	<u>(183)</u>	<u>1105</u>	<u>(1,248)</u>
	<u>(12,381)</u>	<u>(36,358)</u>	<u>45,602</u>	<u>(11,502)</u>
Net income and comprehensive income	<u>\$ (46,715)</u>	<u>\$ 19,769</u>	<u>\$ 74,491</u>	<u>\$ 54,603</u>
Earnings per share - basic and diluted	<u>\$ (0.001)</u>	<u>\$ 0.000</u>	<u>\$ 0.002</u>	<u>\$ 0.001</u>

	Three-month Period Ended September 30, 2019 <i>Q3</i>	Three-month Period Ended June 30, 2019 <i>Q2</i>	Three-month Period Ended March 31, 2019 <i>Q1</i>	Three-month Period Ended December 31, 2018 <i>Q4</i>
Sales	\$ 2,875,992	\$ 2,730,626	\$ 2,631,582	\$ 2,968,027
Cost of sales	<u>2,683,395</u>	<u>2,506,613</u>	<u>2,441,158</u>	<u>2,795,093</u>
Gross margin	<u>192,597</u>	<u>224,014</u>	<u>190,424</u>	<u>172,934</u>
Other				
General and administrative expenses	109,101	110,416	120,580	152,816
Marketing and promotion	18,221	6,681	11,721	16,350
Bank charges and interest	2,222	4,461	4,264	1,948
Stock-based compensation	-	4,475	4,475	-
Foreign exchange loss (gain)	(4,013)	(41,838)	50,238	(21,115)
Interest income	<u>(12,880)</u>	<u>(9,255)</u>	<u>(12,233)</u>	<u>(10,378)</u>
Income from operations	<u>112,651</u>	<u>74,941</u>	<u>179,045</u>	<u>139,621</u>
	79,946	149,073	11,379	33,313
Income tax expense				
Current income tax (recovery)	5,459	11,544	-	-
Deferred income tax	721	21,550	(3,909)	27,681
	<u>6,180</u>	<u>33,094</u>	<u>(3,909)</u>	<u>27,681</u>
Net income and comprehensive income	<u>\$ 73,766</u>	<u>\$ 115,979</u>	<u>\$ 15,288</u>	<u>\$ 5,632</u>
Earnings per share - basic and diluted	<u>\$ 0.002</u>	<u>\$ 0.003</u>	<u>\$ 0.000</u>	<u>\$ 0.000</u>









## EQUITY

The Company's Equity and changes for nine-month period ended September 30, 2020 and the year ended December 31, 2019 were as follows:

<b>Sunora Foods Inc.</b>					
<b>Statements of Changes in Equity</b>					
<b>As at September 30, 2020 and December 31, 2019</b>					
<i>(amounts in Canadian dollars)</i>					
	<b>Number of Common Shares</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Retained Earnings</b>	<b>Total</b>
<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 for the period	-	-	-	29,903	29,903
<b>Balance at September 30, 2020</b>	<u>40,515,332</u>	<u>\$ 1,170,251</u>	<u>\$ 771,858</u>	<u>\$ 2,006,173</u>	<u>\$ 3,948,282</u>

## CASH FLOWS

The Company's cash flows are in line with expectations. The following is the Company's Statement of Cash Flows for the nine-month periods ended September 30, 2020 and 2019:

<b>Sunora Foods Inc.</b>		
<b>Statements of Cash Flows</b>		
<b>For the Nine-Month Periods Ended September 30, 2020 and 2019</b>		
<i>(amounts in Canadian dollars)</i>		
	<b>Nine-Month Period Ended September 30 2020</b>	<b>Nine-Month Period Ended September 30 2019</b>
Net cash inflow (outflow) related to:		
Operating activities		
Net income and comprehensive income	\$ 29,903	\$ 206,935
Items not affecting cash		
Amortization	13,424	-
Deferred income tax expense	3,315	18,362
Change in unrealized foreign exchange on US dollar cash	<u>(93,535)</u>	<u>(12,477)</u>
	<u>(46,893)</u>	<u>212,820</u>
Changes in non-cash working capital		
Accounts receivable	311,810	(124,715)
Inventory	(73,560)	(23,860)
Prepaid expenses and accrued interest	25,786	47,792
GST recoverable	2,077	10,940
Accounts payable and accrued liabilities	(167,891)	(303,577)
Customer deposits	136,360	(42,977)
Income tax payable	<u>(2,895)</u>	<u>17,003</u>
	<u>231,687</u>	<u>(419,394)</u>
Cash flow from (used in) operations	184,794	(206,574)
Investing activities		
Re-purchase of Company's shares	-	(20,500)
Dividend apid	<u>(162,061)</u>	<u>(141,917)</u>
Cash flow used in investing activities	<u>(162,061)</u>	<u>(162,417)</u>
Financing activities		
Lease payments	<u>(13,153)</u>	<u>-</u>
Cash flow used for financing	<u>(13,153)</u>	<u>-</u>
Increase (decrease) in cash flow	9,580	(368,991)
Cash, beginning of period	3,281,809	3,535,161
Effect of exchange fluctuations on US dollar cash	<u>93,535</u>	<u>12,477</u>
Cash, end of period	<u>\$ 3,384,924</u>	<u>\$ 3,178,647</u>
Cash, in Canadian dollars, is comprised of:		
Cash held in Canadian dollars	2,737,788	2,992,064
Cash held in US dollars	<u>647,136</u>	<u>186,583</u>
	<u>\$ 3,384,924</u>	<u>\$ 3,178,647</u>

Sunora's cash balances increased by \$103,115 during the nine-month period ended September 30, 2020 primarily due to cash generated from normal operations.

## **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 experienced since the second half of 2019. As the middle class in these emerging economies demands higher quality and healthier foods, Sunora is well positioned to meet this additional demand.

Management is actively identifying and analyzing operations that might increase sales and profitability for the Company. Sunora in the fourth quarter of 2019 began to market MCT oil, which is an ideal carrier oil for hemp and medical cannabis products and as a component of healthy lifestyle diets. 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 new customers being added overseas, along with its participation in the emerging MCT oil 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 were stringently managed as all receivables as all reported receivables at September 30, 2020 were less than 60 days old. However, a bad debt provision of \$159,389 has been recorded in this period. Sunora's target Current Ratio (Current Assets divided by Current Liabilities) as set by management is 2.0:1. Sunora's Current Ratio at September 30, 2020 was strong at 5.3:1, the same as 5.3:1 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, 2020 and has been renewed for 3 years to August 31, 2023 with a three-year renewal option on the similar terms. 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 working capital requirements that are externally imposed.

The Company engages in trading with 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 nine-month period ended September 30, 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 at September 30, 2020 and December 31, 2019 was 40,515,332. The change in outstanding shares during 2019 reflects the re-purchase of 154,500 (1,584,500 shares repurchased in 2018) under the Normal Course Issuer bidding protocol. The total number of shares re-purchased up to September 30, 2020 was 1,739,000 shares, which 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 each period end.

As at September 30, 2020, the Company's maximum exposure to credit risk for accounts receivable is \$1,123,043 (December 31, 2019 - \$1,434,853). Accounts receivable include amounts that are past due at September 30, 2020 as follows, after a bad debt provision of \$159,389:

	September 30, 2020	December 31, 2019
Accounts receivable		
Current	\$ 952,258	\$ 527,020
Overdue less than 90 days	<u>170,785</u>	<u>907,833</u>
	<u>\$ 1,123,043</u>	<u>\$ 1,434,853</u>

During the period ended September 30, 2020, sales to two customers (period ended September 30, 2019 – two) represented 43.6% of the Company's total sales (period ended September 30, 2019 – 45.4%).

The accounts receivable balance has one customer who represented 49.4% of the accounts receivable balance at September 30, 2020 (December 31, 2019 – one customer, representing 57%). During the period ended September 30, 2020, the Company recognised bad debts of \$159,359 (period to September 30, 2019 – nil).

The Company manages the credit exposure of \$3,384,924 (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.

At September 30, 2020, the Company had cash and cash equivalents of \$3,384,924 (December 2019 - \$3,281,809) available to settle accounts payable and accrued liabilities, customer deposits and taxes of \$888,938 (December 2019 - \$926,204). 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 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:

	Foreign Currency	September 30, 2020	December 31, 2019
Cash at bank	USD	\$ 485,146	\$ 229,252
Accounts receivable	USD	\$ 823,040	\$ 1,039,783
Accounts receivable	SGD	\$ -	\$ 87,513
Accounts payable	USD	\$ (501,291)	\$ (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 nine-month periods ended September 30, 2020 and September 30, 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 September 30, 2020 was 5.3:1 (December 31, 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 operate 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.

#### **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, 2019. 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, 2019.

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 September 30, 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 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 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 expiring on August 31, 2023. The incremental borrowing rate applied to set up the right-of-use asset and lease liability was 8%.

### ***Dividend paid***

A dividend of \$0.004 per share was paid in July 2020 to shareholders on record at June 30, 2020.

### ***Subsequent event***

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.

The impacts of COVID-19 could 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. The full potential impact of COVID-19 on the entity is not known.