Sunora Foods Inc.

Consolidated Financial Statements

For the Year Ended December 31, 2016 and 2015

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sunora Foods Inc.:

We have audited the accompanying consolidated financial statements of Sunora Foods Inc. for the years ended December 31, 2016, and 2015, which comprise the consolidated balance sheet as at December 31, 2016 and 2015, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sunora Foods Inc. as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements for the year ended December 31, 2015 were audited by another firm, who expressed an unmodified opinion dated April 28, 2016.

Calvista LLP

Calgary, Alberta
April 27, 2017

Chartered Professional Accountants

Sunora Foods Inc.
Consolidated Balance Sheet
(amounts in Canadian dollars)

Assets		**2016**		**2015**
Current assets				
Cash and cash equivalents *(note 4)*	$	3,353,921	$	2,620,566
Accounts receivable *(note 10 (c))*		949,816		920,001
Accrued interest		2,908		-
Inventory *(note 5)*		438,064		497,798
Prepaid expenses		21,874		32,826
Goods and services tax recoverable		11,023		6,021
Income tax recoverable		110,457		-
		4,888,063		4,077,212
Deferred tax asset *(note 6)*		159,545		147,974
	$	5,047,608	$	4,225,186
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	954,092	$	474,247
Income tax payable		-		66,638
Customer deposits		71,510		13,066
		1,025,602		553,951
Shareholders' Equity				
Share capital *(note 7)*		1,400,816		1,400,816
Contributed surplus *(note 9)*		736,735		668,758
Retained earnings		1,884,455		1,601,661
		4,022,006		3,671,235
	$	5,047,608	$	4,225,186

Commitment *(note 14)*
Contingency *(note 15)*

See accompanying notes to the consolidated financial statements.

APPROVED BY THE BOARD

"Alan Chan" Director

"Steve Bank" Director

Sunora Foods Inc.
Consolidated Statement of Income and Comprehensive Income
(amounts in Canadian dollars)

	2016	2015
Sales	$ 12,254,101	$ 10,815,959
Cost of sales	11,166,617	9,658,027
Gross margin	1,087,484	1,157,932
Other		
General and administrative	545,142	545,743
Marketing and promotion	60,169	42,533
Bank charges and interest	9,996	10,159
Foreign exchange	33,456	(204,165)
Stock-based compensation *(note 8)*	67,977	102,580
	716,740	496,850
Income before income taxes	370,744	661,082
Income tax expense	99,521	156,812
Deferred income tax expense (recovery)	(11,571)	2,088
Net income and comprehensive income	$ 282,794	$ 502,182
Earnings per share		
Basic and diluted	$ 0.007	$ 0.012

See accompanying notes to the consolidated financial statements.

Sunora Foods Inc.
Consolidated Statements of Changes in Equity
(amounts in Canadian dollars)

	Number of Common Shares	Share Capital	Warrants	Contributed Surplus	Retained Earnings	Total
Balance at December 31, 2014	42,254,332	1,400,816	480,021	86,157	1,099,479	3,066,473
Stock-based compensation (note 8)	-	-	-	102,580	-	102,580
Warrant expiry (note 7 (e))	-	-	(480,021)	480,021	-	-
Net income and comprehensive income	-	-	-	-	502,182	502,182
Balance at December 31, 2015	42,254,332	1,400,816	-	668,758	1,601,661	3,671,235
Stock-based compensation (note 8)	-	-	-	67,977	-	67,977
Net income and comprehensive income	-	-	-	-	282,794	282,794
Balance at December 31, 2016	42,254,332	$ 1,400,816	$ -	$ 736,735	$ 1,884,455	$ 4,022,006

See accompanying notes to the consolidated financial statements.

Sunora Foods Inc.
Consolidated Statement of Cash Flows
(amounts in Canadian dollars)

	2016	2015
Net cash inflow (outflow) related to:		
Operating activities		
Net Income	$ 282,794	$ 502,182
Items not affecting cash and cash equivalents		
Stock-based compensation	67,977	102,580
Deferred income tax expense	(11,571)	2,088
Change in unrealized foreign exchange	(79,714)	(138,158)
	259,486	468,692
Changes in non-cash working capital		
Accounts receivable	(23,480)	628,045
Income tax recoverable (payable)	(177,095)	(13,827)
Goods and services tax recoverable (payable)	(5,002)	5,646
Accrued interest	(2,908)	-
Inventory	59,734	243,249
Prepaid expenses	10,952	(9,663)
Accounts payable and accrued liabilities	476,422	(534,549)
Customer deposits	58,444	388
	397,067	319,289
Increase in cash flows	656,553	787,981
Cash and cash equivalents, beginning of year	2,620,566	1,784,147
Effect of exchange fluctuations on US dollar cash	76,802	48,438
Cash and cash equivalents, end of year	$ 3,353,921	$ 2,620,566
Cash and cash equivalents are comprised of:		
Cash and cash equivalents held in Canadian dollars	3,051,230	1,120,566
Cash and cash equivalents held in US dollars	302,691	1,500,000
	$ 3,353,921	$ 2,620,566

See accompanying notes to the consolidated financial statements.

1. General business description

Sunora Foods Inc. ("Sunora" or the "Corporation"), formerly Thoroughbred Capital Inc. (“Thoroughbred”), is a trader of canola, olive and other food oils across Canada, the United States and internationally. Sunora is a publicly traded corporation, incorporated in Canada. The head office is located at 4616 Valiant Drive N.W., Calgary, Alberta, Canada, T3A 0X9.

The shares of Sunora are traded on the TSX Venture Exchange under the symbol SNF.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 27, 2017.

(b) Basis of measurement

These consolidated financial statements have been prepared on an historical cost basis, except for certain financial assets and financial liabilities, which are measured at fair value (note 10(b)).

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation and its wholly-owned subsidiary.

(d) Use of estimates and judgments

The preparation of financial statements 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. By their nature, estimates are subject to estimation uncertainty.

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 measurement uncertainty. Deferred income 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 assets and liabilities denominated in foreign currencies are translated and where exchange differences are recognized, a change in the functional currency could have as significant effect on the amounts recorded in the consolidated 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.

3. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Sunora Foods Ltd.

(i) Subsidiaries

A subsidiary is an entity controlled by the Corporation. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operational policies of an entity to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases and all intercompany transactions and balances are eliminated in preparing the consolidated financial statements.

(b) Business combinations

Business combinations are accounted for using the acquisition method where the acquisitions of companies and assets meet the definition of a business under IFRS. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in the consolidated statement of income and comprehensive income. Associated transaction costs are expensed when incurred.

(c) Foreign currency translation

Monetary assets and liabilities, which are denominated in foreign currencies, are translated to the Corporation's functional currency at period end exchange rates, and transactions included in the consolidated statement of income and other comprehensive income are translated at average rates prevailing during the period. Non-monetary assets and liabilities are measured at the exchange rate in effect at the transaction date and are not retranslated. Exchange gains and losses resulting from the translation of these amounts are included in the consolidated statement of income and other comprehensive income.

(d) Cash and cash equivalents

Cash and cash equivalents consist of amounts held in current bank accounts and highly liquid short-term investments, including those with maturities of less than three months.

(e) Inventory

Inventory is carried at the lower of average cost and net realizable value. Cost is determined using the average cost method or a specific item basis depending on the nature of the product inventory. Inventory consists of finished goods comprised of food oils and packaging materials. 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. Allowances are made against obsolete or damaged inventories and charged to the cost of sales. The reversal of any write-down of inventory arising from an increase in net realizable value is recognized as a reduction in cost of sales in the period in which the reversal occurred.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Revenue from the sale of goods is recognized when title has passed, at which time all the following conditions are satisfied:

- the Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably

Prepayments received on sale of goods are recorded as customer deposits.

(g) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of income and comprehensive income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(h) Stock-based compensation

Stock options granted to directors, officers and employees of the Corporation are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model

The Corporation measures stock-based payments to non-employees, if applicable, at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options granted will be measured using the Black-Scholes option-pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(i) Provisions and contingent liabilities

Provisions are recognized by the Corporation when it has legal or constructive obligation as a result of past events, or if it is probable that an outflow of economic resources will be retired to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(j) Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that would occur if in-the-money stock options and warrants were exercised. The Corporation uses the treasury stock method for outstanding stock options and warrants which basis assumes that all outstanding stock options with exercise prices below average market prices are exercised and assumed proceeds plus the unamortized portion of stock-based compensation are used to purchase the Corporation's common shares at the average market price during the period.

(k) Financial instruments

(i) Classification and measurement

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through the statement of income”, “profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “financial liabilities measured at amortized cost” as defined by IAS 39, *“Financial Instruments: Recognition and Measurement”*.

The Corporation has designated cash and cash equivalents as “loans and receivables” which are measured at amortized cost.

Financial assets classified as "loans and receivables", "held-to-maturity", or "financial liabilities measured at amortized costs" are measured at amortized cost using the effective interest method of amortization. The Corporation has designated accounts receivable as “loans and receivables”. Financial liabilities include accounts payable and accrued liabilities, and are classified as “financial liabilities measured at amortized costs”.

(ii) Equity instruments

The Corporation’s common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, stock options and warrants are recognized as a deduction from equity, net of any tax effects.

Warrants issued are classified as equity. Incremental costs directly attributable to the issuance of warrants are recognized as a deduction from warrants, net of any tax effects. The fair value of warrants is estimated using the Black-Scholes option pricing model at the time of their issuance. If warrants are exercised, a pro-rata portion of the amount recognized at their original issuance is transferred to common shares. If warrants expire unexercised, the amount recognized at their original issuance is transferred to contribute surplus.

(iii) Impairment

The Corporation assesses at the date of each consolidated balance sheet whether there is objective evidence that financial assets, other than those designated as “fair value through the statement of income” are impaired (one or more events have had a negative effect on the estimated cash flows of the asset). When impairment has occurred, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. Impairment losses may be reversed in subsequent periods.

(i) New accounting standards

(i) Future accounting policies

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

Financial instruments

In July 2014, the IASB issued *IFRS 9 – Financial Instruments,* which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 proposes a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. IFRS 9 is effective for years beginning on or after January 1, 2018. The Corporation has not yet determined the impact of the IFRS on the financial statements.

Revenue recognition

In May 2014, the International Accounting Standards Board ("IASB") issued *IFRS 15 – Revenue from Contracts with Customers*, which establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. IFRS 15 is effective for years beginning on or after January 1, 2018. The Corporation has not yet determined the impact of the IFRS on the financial statements.

Leases

In January 2016, the IASB issued IFRS 16 – Leases, which replaces *IAS 17 – Leases and related interpretations.* IFRS 16 eliminates the classification of leases as finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The Corporation has not yet determined the impact of the IFRS on the financial statements.

4. Cash and cash equivalents

Cash and cash equivalents includes guaranteed investment certificates of $2,500,000 as at December 31, 2016 (2015- $1,500,000) bearing at a weighted average rate of 0.75% (2015- 0.70%) per annum with maturity dates ranging from February 16, 2017 to March 28, 2017.

5. Inventory

The cost of inventory recognized as an expense during the year included in cost of sales was $9,963,209 (2015 - $8,737,941). The inventory on hand consists of finished goods including product available for sale in bulk as well as packaged product available for sale.

(amounts in Canadian dollars)

6. Income taxes

(a) Income tax recovery differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 27% (2015 - 26%) to income or loss before income taxes as follows:

	December 31, 2016	December 31, 2015
Net income before tax	$ 370,744	$ 661,082
Expected income tax expense	100,101	171,881
Stock-based compensation	18,354	26,671
Rate changes and other	(30,505)	(39,652)
Income tax expense	$ 87,950	$ 158,900
Total income tax expense is comprised of:		
Current income tax expense	$ 99,521	$ 156,812
Deferred income tax expense	(11,571)	2,088
	$ 87,950	$ 158,900

(b) The components of the Corporation's deferred income tax assets (liabilities) and associated movements are as follows:

	December 31, 2015	Recognized in profit or loss	December 31, 2016
Deferred tax assets:			
Non-capital losses carried forward	$ 83,496	$ 17,209	$ 100,705
Share issuance costs	12,545	(3,860)	8,685
Cumulative eligible capital	51,933	(1,778)	50,155
	$ 147,974	$ 11,571	$ 159,545

(amounts in Canadian dollars)

Deferred tax assets:	December 31, 2014	Recognized in profit or loss	December 31, 2015
Non-capital losses carried forward	$ 80,283	$ 3,213	$ 83,496
Share issuance costs	16,084	(3,539)	12,545
Cumulative eligible capital	53,695	(1,762)	51,933
	$ 150,062	$ (2,088)	$ 147,974

(c) The Corporation has available the following estimated non-capital losses carry forward:

Year of expiry	Amount
2030	13,263
2031	42,877
2032	90,724
2033	147,227
2034	27,046
2035	26,279
2036	25,564
	372,980

7. Share capital and warrants

(a) Authorized
Unlimited number of common shares
Unlimited number of preferred shares (issuable in series)

(b) Issued

Common shares	Number	Stated Value
Balance, December 31, 2014, 2015 and 2016	42,254,332	$ 1,400,816

(amounts in Canadian dollars)

(c) Earnings per share

The weighted average number of common shares used in the calculation of earnings per share is as follows:

	December 31, 2016	December 31, 2015
Basic	42,254,332	42,254,332
Effect of dilutive instruments:		
Common share options	-	109,622
Diluted	42,254,332	42,363,954

For the year ended December 31, 2016, the potential effect of the issuance of common shares upon the exercise of 1,485,000 options is anti-dilutive and were therefore not considered in the calculation of diluted earnings per share.

(d) Shares in escrow

At December 31, 2015, 9,600,000 common shares were held in escrow pursuant to TSXV requirements and were released from escrow on December 17, 2016. At December 31, 2016, no common shares were held in escrow.

(e) Warrants

	Number	Amount
Warrants issued as part of brokered private placement	4,587,667	$ 321,137
Agent's warrants	344,075	30,967
Warrants issued as part of non brokered private placement	1,666,665	116,667
Finder's warrants	124,999	11,250
Balance at December 31, 2013 and 2014	6,723,406	$ 480,021
Expiry of warrants during 2015	(6,723,406)	$ (480,021)
Balance at December 31, 2015 and December 31, 2016	-	$ -

(amounts in Canadian dollars)

8. Stock-based compensation

The Corporation has a stock option plan for officers, directors, employees and consultants and has authorized a pool of options to acquire common shares, not to exceed 10% of issued and outstanding common shares. Under the plan, the Board of Directors set the exercise price and expiry date for each option grant.

On March 23, 2015, the Corporation granted 1,485,000 stock options to certain directors, officers, employees and consultants of the Corporation. The options expire on March 23, 2020 and one-third vest on each 6-month anniversary of the grant date.

On August 1, 2016, the Corporation granted 690,000 stock options to certain employees and consultants of the Corporation. The options expire on August 1, 2021 and one-third vest on each 6-month anniversary of the grant date.

The fair value of the options was determined using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.50%
Expected volatility	114%
Expected life	5 years
Expected dividend yield	0.00%
Estimated forfeiture rate	7.00%
Stock price	$0.14
Exercise price	$0.15
Fair value per option	$0.11

During the year ended December 31, 2016, the Corporation recognized $67,977 (2015 - $102,580) of share-based compensation.

The Corporation's expected volatility is based on management's expectation of future stock price fluctuations, based on the Corporation's historical stock prices.

The Corporation's forfeiture rate is management's expectation of the value of stock options cancelled before reaching vesting requirements. This is estimated based on the likelihood of directors, officers, employees and consultants leaving the Corporation prior to that time.

(amounts in Canadian dollars)

The following is a summary of the Corporation's outstanding stock options for the year ended December 31, 2016 and the year ended December 31, 2015:

	Number of options	Weighted Average Exercise Price	Expiry date
Outstanding at December 31, 2014	540,000	$0.10	August 25, 2018
Issued	1,485,000	$0.15	March 23, 2020
Forfeited	(540,000)	$0.10	August 25, 2018
Outstanding at December 31, 2015	1,485,000	$0.15	March 23, 2020
Issued	690,000	$0.15	August 1, 2021
Outstanding at December 31, 2016	2,175,000	$0.15	
Exercisable at December 31, 2016	1,485,000	$0.15	

9. Contributed surplus

The following summarizes changes in the Corporation's contributed surplus:

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 668,758	$ 86,157
Stock-based compensation	67,977	102,580
Expiry of warrants (note (4))	-	480,021
Balance, end of year	$ 736,735	$ 668,758

10. Financial instruments

(a) Risk management

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Corporation's exposure to each of the above 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 polices 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.

There have been no changes from the prior year in the Corporation's exposure or responses to financial risks.

(amounts in Canadian dollars)

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, 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.

Accounts receivable, accounts payable and accrued liabilities are measured at fair value based on their Level 2 designations.

(c) 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 the size and reputation of the companies to which they extend credit.

As at December 31, 2016, the Corporation’s maximum exposure to credit risk for accounts receivable is $949,816 (2015 - $920,001). 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 collectible.

	December 31 2016		December 31 2015	
Current	$	949,816	$	814,899
60- 90 days		-		105,102
Accounts receivable	$	949,816	$	920,001

During the year ended December 31, 2016, sales to one customer represented 19% of the Corporation’s total sales (December 31, 2015 –17%).

The accounts receivable balance is widely diversified with the exception of four customers (2015 – four) which represent 27%, 20%, 13% and 11% of the accounts receivable balance at December 31, 2016 (December 31, 2015 -23%, 16%, 13% and 10%).

Bad debt expense for the year ended December 31, 2016 was nil (December 31, 2015 - $13,805) which is included in general and administrative expenses. At December 31, 2016, the Corporation had allowance for doubtful accounts of nil (December 31, 2015 - Nil).

The Corporation manages the credit exposure of $3,353,921 (December 31, 2015- $2,620,566) 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.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Corporation's ongoing liquidity is impacted by various external events and conditions, including global economic conditions.

As at December 31, 2016, the Corporation had cash and cash equivalents of $3,353,921 (December 31, 2015- $2,620,566) to settle accounts payable and accrued liabilities of $954,092 (December 31, 2015- $474,247). 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. The Corporation manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements.

(e) 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 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.

The carrying amounts of the Corporation's monetary assets and liabilities denominated in foreign currency at December 31, 2016 and December 31, 2015 are as follows:

	Foreign Currency	December 31, 2016	December 31, 2015
Cash	USD	562,207	216,336
Accounts receivable	USD	398,058	517,914
Accounts receivable	SGD	-	83,052
Accounts payable	USD	(401,527)	(77,428)

A $0.01 strengthening in the USD relative to the Canadian dollar exchange rate with all other variables held constant would have resulted in an increase of $15,000 to net income for the year ended

December 31, 2016 (2015 – $12,277).

(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 canola oil are impacted by global economic and political events that dictate the levels of supply and demand. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when it deems appropriate. The Corporation did not enter into any derivative financial contracts related to commodity prices during the years ended December 31, 2016 and 2015 nor does it currently have any derivative financial contracts.

(f) Capital management

The Company's target working capital ratio (current assets divided by current liabilities, which is an indicator of its ability to finance its on-going operations) is 2:1. The working capital ratio for December 31, 2016 was 4.9:1 (2015 - 7.4:1). 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 Corporation optimizes its capital structure with a view to ensure a strong financial position to support its acquisition strategies. Sunora considers its capital structure to include shareholders' equity and the Corporation strives to maximize the value associated to share capital.

Sunora has the ability to issue share capital 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 years ended December 31, 2016 or December 31, 2015.

11. Segmented information

The Corporation operates in one business segment in multiple locations. Although the Corporation derives its revenues globally, all sales are attributed to the Canadian head office. The Corporation determines the geographic location of revenues based on the location of its customers. The same products are offered for sale in all geographic regions at approximately the same average gross margins.

(amounts in Canadian dollars)

The Corporation's sales, accounts receivable and inventory were attributed to the regions as follows:

	December 31, 2016	December 31, 2015
Sales		
USA	$ 8,514,125	$ 7,100,553
Canada	1,047,999	1,867,089
International	2,691,977	1,848,317
	$ 12,254,101	$ 10,815,959
Accounts receivable		
USA	$ 533,398	$ 723,701
Canada	416,418	113,023
International	-	83,277
	$ 949,816	$ 920,001
Inventory		
USA	$ 280,842	$ 435,684
Canada	157,222	62,114
International	-	-
	$ 438,064	$ 497,798

12. Employee and executive compensation

Total employee wages and bonuses recognized in general and administrative expenses for the year ended December 31, 2016 was $318,062 (2015 - $290,230).

The Corporation considers its key management personnel to be its Chief Executive Officer and non-executive directors. The compensation paid to the key management personnel consisted of wages and bonuses of $77,121 (2015 - $104,116) and stock-based compensation of $14,839 (2015 - $47,664).

13. Related party transactions

General and administrative expenses include nil (2015 - $58,018) of commissions on products sold by a company partly owned by a director of the Corporation. No amount (2015 - $7,733) is included in accounts payable and accrued liabilities at December 31, 2016.

(amounts in Canadian dollars)

14. Commitments

(a) Rent commitment

At December 31, 2016, the Corporation is committed under a lease on its office premises expiring August 31, 2017 for future minimum rental payments, excluding estimated operating costs as follows:

2017	13,841
2018	-
	$ 13,841

15. Contingency

On December 31, 2015, a statement of claim was filed against the Corporation by one of its vendors. The claim alleges that the Corporation wilfully did not accept deliveries of soybean oil pursuant to a contractual arrangement. The plaintiff is claiming USD $506,798 in damage relating to losses suffered on the Corporation's alleged refusal to accept deliveries of the soybean oil. While the matter is still at a preliminary stage and the outcome is uncertain, it is the opinion of management that no loss was incurred as a result of this claim. Based on management's assessment, no loss has been accrued in the consolidated financial statements for the year ended December 31, 2015 nor for the year ended December 31, 2016.