

Sunora Foods Inc.
Condensed Interim Consolidated Financial Statements
For the Three and Six-Month Periods ended June 30, 2017 and 2016
(unaudited)

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

| Assets | June 30, 2017 | December 31, 2016 <i>(audited)</i> |
|--|--------------------------|---|
| Current assets | | |
| Cash and cash equivalents | \$ 3,356,010 | \$ 3,353,921 |
| Accounts receivable <i>(note 7 (c))</i> | 1,090,006 | 949,816 |
| Accrued interest | 2,527 | 2,908 |
| Inventory <i>(note 3)</i> | 343,899 | 438,064 |
| Prepaid expenses | 9,647 | 21,874 |
| Goods and services tax recoverable | 22,259 | 11,023 |
| Income tax recoverable | <u>135,727</u> | <u>110,457</u> |
| | 4,960,075 | 4,888,063 |
| Deferred tax asset <i>(note 6)</i> | <u>159,545</u> | <u>159,545</u> |
| | <u>\$ 5,119,620</u> | <u>\$ 5,047,608</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 1,181,778 | \$ 954,092 |
| Income tax payable | - | - |
| Customer deposits | <u>68,743</u> | <u>71,510</u> |
| | 1,250,521 | 1,025,602 |
| Shareholders' Equity | | |
| Share capital <i>(note 4)</i> | 1,400,816 | 1,400,816 |
| Contributed surplus | 760,444 | 736,735 |
| Retained earnings | <u>1,707,839</u> | <u>1,884,455</u> |
| | <u>3,869,099</u> | <u>4,022,006</u> |
| | <u>\$ 5,119,620</u> | <u>\$ 5,047,608</u> |
| Commitment <i>(note 11)</i> | | |

See accompanying notes to the condensed interim consolidated financial statements.

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

| | Three-month Period Ended June 30, 2017 | Three-month Period Ended June 30, 2016 | Six-month Period Ended June 30, 2017 | Six-month Period Ended June 30, 2016 |
|---|---|---|---|---|
| Sales | \$ 3,164,688 | 2,835,773 | \$ 6,644,917 | \$ 5,517,700 |
| Cost of sales | <u>2,911,004</u> | <u>2,635,047</u> | <u>6,158,534</u> | <u>5,070,070</u> |
| Gross margin | <u>253,684</u> | <u>200,726</u> | <u>486,383</u> | <u>447,630</u> |
| Other | | | | |
| General and administrative | 121,476 | 122,765 | 250,164 | 245,268 |
| Marketing and promotion | 16,428 | 5,460 | 28,314 | 17,037 |
| Bank charges and interest | 2,192 | 954 | 5,159 | 3,285 |
| Stock-based compensation | 9,846 | 24,680 | 23,709 | 24,680 |
| Foreign exchange | 26,501 | (29,318) | 15,668 | 53,336 |
| Interest income | <u>(5,284)</u> | <u>-</u> | <u>(10,333)</u> | <u>(5,452)</u> |
| | <u>171,159</u> | <u>124,541</u> | <u>312,681</u> | <u>338,154</u> |
| Income from operations | 82,525 | 76,185 | 173,702 | 109,476 |
| Claim settlement (note 12) | <u>434,684</u> | <u>-</u> | <u>434,684</u> | <u>-</u> |
| Income before income taxes | (352,159) | 76,185 | (260,982) | 109,476 |
| Income tax expense (recovery) - Current | <u>(108,984)</u> | <u>20,570</u> | <u>(84,366)</u> | <u>28,894</u> |
| Net income (loss) and comprehensive income (loss) | \$ <u>(243,175)</u> | <u>55,615</u> | \$ <u>(176,616)</u> | \$ <u>80,582</u> |
| Earnings per share | | | | |
| Basic and diluted | \$ <u>(0.006)</u> | <u>0.001</u> | \$ <u>(0.004)</u> | \$ <u>0.002</u> |

See accompanying notes to the condensed interim consolidated financial statements.

Sunora Foods Inc.
Condensed Interim Consolidated Financial Statements
Condensed 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, 2015 | 42,254,332 | 1,400,816 | - | 668,758 | 1,601,661 | 3,671,235 |
| Stock-based compensation | | | | 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 |
| Stock-based compensation (<i>note 5</i>) | | | | 23,709 | | 23,709 |
| Net income for the period | | | | | (176,616) | (176,616) |
| Balance at March 31, 2017 | 42,254,332 | 1,400,816 | - | 760,444 | 1,707,839 | \$ 3,869,099 |

See accompanying notes to the condensed interim consolidated financial statements.

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

| | Six-month Period Ended June 30, 2017 | Six-month Period Ended June 30, 2016 |
|---|---|---|
| Net cash inflow (outflow) related to: | | |
| Operating activities | | |
| Net Income | \$ (176,616) | \$ 80,586 |
| Items not affecting cash | | |
| Stock-based compensation | 23,709 | 24,680 |
| Change in unrealized foreign exchange on US dollar cash | <u>(66,245)</u> | <u>(97,411)</u> |
| | <u>(219,152)</u> | <u>7,855</u> |
| Changes in non-cash working capital | | |
| Accounts receivable | (140,190) | (177,462) |
| Accrued interest | 381 | |
| Income tax recoverable (payable) | (25,270) | (140,442) |
| Inventory | 94,165 | (208,489) |
| Prepaid expenses | 12,227 | 14,451 |
| Goods and services tax recoverable | (11,236) | - |
| Accounts payable and accrued liabilities | 227,686 | 381,556 |
| Customer deposits | <u>(2,767)</u> | <u>(6,066)</u> |
| | <u>154,996</u> | <u>(136,452)</u> |
| Decrease in cash flow | (64,156) | (128,597) |
| Cash and cash equivalents, beginning of period | 3,353,921 | 2,620,566 |
| Effect of exchange fluctuations on US dollar cash | 66,245 | 97,411 |
| Cash and cash equivalents, end of period | \$ <u>3,356,010</u> | \$ <u>2,589,380</u> |
| Cash and cash equivalents is comprised of: | | |
| Cash held in Canadian dollars | 2,947,741 | 2,470,860 |
| Cash held in US dollars | <u>408,269</u> | <u>118,520</u> |
| | \$ <u>3,356,010</u> | \$ <u>2,589,380</u> |

See accompanying notes to the condensed interim consolidated financial statements.

Sunora Foods Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six-Month Periods ended June 30, 2017 and 2016

(amounts in Canadian dollars)

(Unaudited)

1. General business description

Sunora Foods Inc. ("Sunora" or the "Corporation"), 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.

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 condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 28, 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.

(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 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.

3. Inventory

The cost of inventory recognized as an expense during the period and included in cost of sales was \$6,158,534 (six-month period ended June 30, 2016 - \$5,070,070). The inventory on hand consists of finished goods including product available for sale in bulk as well as packaged product available for sale.

Sunora Foods Inc.**Notes to the Condensed Interim Consolidated Financial Statements****For the Three and Six-Month Periods ended June 30, 2017 and 2016***(amounts in Canadian dollars)**(Unaudited)*

4. 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, 2016 and June 30, 2017 | <u>42,254,332</u> | <u>\$ 1,400,816</u> |

(c) Earnings per share (loss) per share

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

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|---------------------------------|--------------------------|--------------------------|
| Basic | 42,254,332 | 42,254,332 |
| Effect of dilutive instruments: | | |
| Common share options | - | - |
| Diluted | <u>42,254,332</u> | <u>42,254,332</u> |

(d) Warrants

There were no warrants outstanding at June 30, 2017 and June 30, 2016.

5. 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.

The following is a summary of the Corporation's outstanding stock options for the six-month period ended June 30, 2017 and the year ended December 31, 2016:

Sunora Foods Inc.**Notes to the Condensed Interim Consolidated Financial Statements****For the Three and Six-Month Periods ended June 30, 2017 and 2016***(amounts in Canadian dollars)**(Unaudited)*

| | Number of options | Weighted average exercise price | Expiry date |
|---|------------------------------|--|--------------------|
| Outstanding at December 31, 2015 | 1,485,000 | \$0.15 | March 23, 2020 |
| Issued | <u>690,000</u> | \$0.15 | August 1, 2021 |
| Outstanding at December 31, 2016 and June 30, 2016 | <u>2,175,000</u> | \$0.15 | |
| Exercisable at June 30, 2017 | <u>2,175,000</u> | \$0.15 | |

6. Income taxes

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

| | June 30, 2017 | December 31, 2016 |
|------------------------------------|--------------------------|------------------------------|
| Non-capital losses carried forward | \$ 100,705 | \$ 100,705 |
| Share issue costs | 8,685 | 8,685 |
| Cumulative eligible capital | <u>50,155</u> | <u>50,155</u> |
| | <u>\$ 159,545</u> | <u>\$ 159,545</u> |

7. 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.

(b) Fair value of financial instruments

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

Sunora Foods Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six-Month Periods ended June 30, 2017 and 2016

(amounts in Canadian dollars)

(Unaudited)

(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 June 30, 2017, the Corporation's maximum exposure to credit risk for accounts receivable is:

| | June 30, 2017 | December 31, 2016 |
|----------------------|--------------------------|------------------------------|
| Current | \$ 1,083,541 | \$ 949,816 |
| Greater than 30 days | 6,465 | - |
| Accounts receivable | <u>\$ 1,090,006</u> | <u>\$ 949,816</u> |

During the six-month period ended June 30, 2017, sales to two customers represented 41% of the Corporation's total sales (six-month period ended June 30, 2016 - one customer - 19%).

The accounts receivable balance is widely diversified with the exception of three customers (December 31, 2016 – two customers) that represent 37%, 20% and 10% of the accounts receivable balance at June 30, 2017 (December 31, 2016 – 27%, 20%, 13% and 11%).

The Corporation manages the credit exposure of \$3,356,010 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.

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

At June 30, 2017, the Corporation had cash and cash equivalents of \$3,356,010 to settle current liabilities of \$1,181,778. The majority of the Corporation's financial liabilities have contractual maturities of less than 30 days and all are subject to normal trade terms except for the claim settlement as described in Note 12.

Sunora Foods Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six-Month Periods ended June 30, 2017 and 2016

(amounts in Canadian dollars)

(Unaudited)

(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") 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 but stated in Canadian currency, at June 30, 2017 and December 31, 2016 are as follows:

| | <i>Foreign Currency</i> | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|---------------------|-----------------------------|--------------------------|--------------------------|
| Cash | <i>USD</i> | \$ 408,269 | \$ 562,207 |
| Accounts receivable | <i>USD</i> | \$ 950,346 | \$ 398,058 |
| Accounts receivable | <i>SGP</i> | \$ 84,314 | \$ - |
| Accounts payable | <i>USD</i> | \$ (550,064) | \$ (401,527) |

(ii) Interest rate risk

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

(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 of June 30, 2017 was 4.0:1 (December 31, 2016 - 4.9:1). The Company's business has been managed with a strong working capital position which has enabled the Company to operate without debt.

9. Segmented information

The Corporation determines the geographic location of revenues based on the location of its customers. All of the Corporation's assets are located in Canada except for inventory of \$291,698 (at December 31 2016 - \$280,842).

Sunora Foods Inc.**Notes to the Condensed Interim Consolidated Financial Statements****For the Three and Six-Month Periods ended June 30, 2017 and 2016***(amounts in Canadian dollars)**(Unaudited)*

The Corporation's revenues were earned as follows:

| | 3 months ended June 30, 2017 | 3 months ended June 30, 2016 | 6 months ended June 30, 2017 | 6 months ended June 30, 2016 |
|--------|---|---|---|---|
| USA | \$ 2,410,793 | \$ 2,054,390 | \$ 5,075,540 | \$ 4,221,805 |
| Canada | 186,691 | 206,764 | 475,480 | 442,477 |
| Other | 567,204 | 574,619 | 1,093,897 | 858,870 |
| | <u>\$ 3,164,688</u> | <u>\$ 2,835,773</u> | <u>\$ 6,644,917</u> | <u>\$ 5,523,152</u> |

10. Employee and executive compensation

Total employee wages and bonuses recognized in general and administrative expenses were \$148,674 (June 30, 2016 - \$142,303).

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, included in wages and bonuses, comprised \$37,250 (June 30, 2016 - \$23,957) and stock-based as reported in each period. In addition, a profit share bonus for all the staff of \$12,317, being 8% of earnings before taxes, has been accrued in this period.

11. Commitments**(a) Rent commitment**

Sunora is committed under a lease on its office premises expiring August 31, 2017 for future minimum rental payments, excluding estimated operating costs of \$13,841.

(b) Investor Relations commitment

The Corporation is committed to monthly payments of \$2,500 to an investor relations firm.

12. Claim settlement

On December 31, 2015, a statement of claim was filed against the Corporation by one of its vendors who alleged that Sunora wilfully did not accept deliveries of soybean oil pursuant to a contractual arrangement. The vendor claimed USD \$506,798 in damages relating to losses allegedly suffered. Sunora denied no responsibility for such a claim. However, subsequent to June 30, 2017, on the recommendation of legal counsel, management settled the claim for CDN \$390,000 to be paid by August 31, 2017. The claim settlement comprises a full provision for the claim including already incurred and expected legal fees which have been accrued in the financial statements for the quarter ended June 30, 2017.