Sunora Foods Inc.

Condensed Interim Consolidated Financial Statements

For the Three and Nine-Month Periods ended September 30, 2016 and 2015

(unaudited)

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

Assets		**September 30, 2016**		**December 31, 2015** *(audited)*
Current assets				
Cash	$	3,091,780	$	2,620,566
Accounts receivable *(note 7 (c))*		1,233,869		920,001
Inventory *(note 3)*		687,014		497,798
Prepaid expenses		3,911		32,826
Income tax instalments		74,503		-
		5,091,077		4,071,191
Deferred tax asset		147,974		147,974
	$	5,239,051	$	4,219,165
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	1,232,809	$	468,226
Income tax payable		-		66,638
Customer deposits		99,613		13,066
		1,332,422		547,930
Shareholders' Equity				
Share capital *(note 4)*		1,400,816		1,400,816
Contributed surplus *(note 6)*		700,694		668,758
Retained earnings		1,805,119		1,601,661
		3,906,629		3,671,235
	$	5,239,051	$	4,219,165

Commitment *(note 10)*
Contingency *(note 11)*

	Three-month Period Ended September 30, 2016	Three-month Period Ended September 30, 2015	Nine-month Period Ended September 30, 2016	Nine-month Period Ended September 30, 2015
Sales	$ 3,281,156	$ 2,451,477	$ 8,804,308	$ 8,452,570
Cost of sales	2,952,174	2,134,505	8,022,181	7,507,320
Gross margin	328,982	316,972	782,127	945,250
Other				
General and administrative	122,351	99,365	367,682	333,983
Marketing and promotion	29,609	5,778	46,646	34,165
Bank charges and interest	4,173	3,318	7,457	9,066
Foreign exchange	(7,510)	(62,626)	45,823	(165,229)
Stock-based compensation	7,256	-	31,936	-
	155,879	45,835	499,544	211,985
Income before income taxes	173,103	271,137	282,583	733,265
Current income tax	50,231	72,366	79,125	183,316
Net income and comprehensive income	$ 122,872	$ 198,771	$ 203,458	$ 549,949
Earnings per share				
Basic and diluted	$ 0.003	$ 0.005	$ 0.005	$ 0.013

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)

(unaudited)

	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
Net income for the Period	-	-	-	-	24,971	24,971
Balance at March 31, 2016	42,254,332	$ 1,400,816	$ -	$ 668,758	$ 1,626,632	$ 3,696,206
Balance at March 31, 2016	42,254,332	$ 1,400,816	$ -	$ 668,758	$ 1,626,632	$ 3,696,206
Net income for the Period	-	-	-		55,615	55,615
Balance at June 30, 2016	42,254,332	$ 1,400,816	$ -	$ 668,758	$ 1,682,247	$ 3,751,821
Balance at June 30, 2016	42,254,332	$ 1,400,816	$ -	$ 668,758	$ 1,682,247	$ 3,751,821
Net income for the Period	-	-	-		122,872	122,872
Balance at September 30, 2016	42,254,332	$ 1,400,816	$ -	$ 668,758	$ 1,805,119	$ 3,874,693

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)

		Nine-month Period Ended September 30, 2016		Nine-month Period Ended September 30, 2015
Net cash inflow (outflow) related to:				
Operating activities				
Net Income	$	203,458	$	549,949
Items not affecting cash				
Stock-based compensation		31,936		-
Change in unrealized foreign exchange on US dollar cash		(34,210)		-
		201,184		549,949
Changes in non-cash working capital				
Accounts receivable		(313,868)		277,543
Income tax instalments		(141,141)		39,700
Inventory		(189,216)		254,670
Prepaid expenses		28,915		18,662
Accounts payable and accrued liabilities		764,583		(159,854)
Customer deposits		86,547		(12,678)
		235,820		418,043
Increase (decrease) in cash flow		437,004		967,992
Cash, beginning of period		2,620,566		1,784,147
Effect of exchange fluctuations on US dollar balances		34,210		-
Cash, end of period	$	3,091,780	$	2,752,139
Cash in Canadian dollars is comprised of:				
Cash held in Canadian dollars		2,611,444		2,339,989
Cash held in US dollars		480,336		412,150
	$	3,091,780	$	2,752,139

See accompanying notes to the condensed interim consolidated financial statements.

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 November 24, 2016.

(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.

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.

In preparation of the condensed interim consolidated financial statements, the significant judgements made by management in applying the Corporation’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2015.

(amounts in Canadian dollars)

3. Inventory

The cost of inventory recognized as an expense during the three and nine month periods included in cost of sales was $2,641,158 and $7,140,820, respectively (three and nine month periods ended September 30, 2015 - $2,134,505 and $7,507,320). The inventory on hand consists of finished goods including product available for sale in bulk as well as packaged product.

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, 2015 and September 30, 2016	42,254,332	$ 1,400,816

(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:

	September 30, 2016	**September 30, 2015**
Basic	42,254,332	42,254,332
Effect of dilutive instruments:		
Common share warrants	-	183,503
Diluted	42,254,332	42,437,835

For the period ended September 30, 2016, the potential effect of the issuance of common shares upon the exercise of the 1,485,000 options is anti-dilutive and therefore not considered in the calculation of diluted number of shares. In the comparative period, the dilution is due to warrants that expired in 2015.

d) Shares in escrow

At September 30, 2016, a total of 4,800,000 common shares (December 31, 2015 – 9,600,000) were held in escrow pursuant to TSXV requirements which will be released from escrow on December 31, 2016.

(amounts in Canadian dollars)

(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		(6,723,406)		(480,021)
Balance at December 31, 2015 and September 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 nine month period ended September 30, 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 September 30, 2016	2,175,000	$0.15	
Exercisable at September 30, 2016	1,485,000	$0.15	

(amounts in Canadian dollars)

6. Contributed surplus

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

	September 30, 2016	December 31, 2015
Balance, beginning of period	$ 668,758	$ 86,157
Stock-based compensation (note 5)	31,936	102,580
Expiry of warrants (note 4(e))	-	480,021
Balance, end of period	$ 700,694	$ 668,758

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.

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

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

(amounts in Canadian dollars)

(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.

The Corporation's maximum exposure to credit risk for accounts receivable was:

	September 30, 2016	December 31, 2015
Current	$ 1,233,869	$ 814,899
Past due greater than 60 days	-	105,102
Accounts receivable	$ 1,233,869	$ 920,001

During the nine month period ended September 30, 2016, sales to two customers (nine month period ended September 30, 2015 – one customer) represented 19% and 13% of the Corporation's total sales (nine month period ended September 30, 2015 - 14%).

The accounts receivable balance is widely diversified with the exception of three customers (December 31, 2015 – four customers) that represent 30%, 19% and 12% of the accounts receivable balance at September 30, 2016 (December 31, 2015 – 23%, 16%, 13% and 10%).

The Corporation manages the credit exposure of $3,091,780 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. The Corporation manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements.

At September 30, 2016, the Corporation had cash and cash equivalents of $3,091,780 to settle current liabilities of $1,232,809. The majority of the Corporation's financial liabilities have contractual maturities of less than 60 days and all are subject to normal trade terms.

(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 actual amounts of the Corporation's monetary assets and liabilities denominated in foreign currency held at September 30, 2016 and December 31, 2015 are as follows:

	Foreign Currency	September 30, 2016	December 31, 2015
Cash	USD	586,266	216,336
Accounts receivable	USD	785,476	517,914
Accounts receivable	SGD	-	88,052
Accounts payable	USD	(671,621)	(77,428)

(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.

(amounts in Canadian dollars)

(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 on September 30, 2016 was 3.8:1 (December 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's equity will be the basis to raise additional capital to pursue acquisitions. The Corporation's ability to raise additional equity financing is impacted by external factors, including global economic conditions. The Corporation is not subject to externally imposed capital requirements and the capital management policy has not changed during the nine month period ended September 30, 2016 or the year ended December 31, 2015.

8. 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. The Corporation's revenues were earned as follows:

	3 months ended September 30, 2016	**3 months ended September 30, 2015**	**9 months ended September 30, 2016**	**9 months ended September 30, 2015**
USA	$ 2,257,456	$ 1,786,788	$ 6,479,261	$ 5,403,471
Canada	173,286	194,161	615,763	1,348,769
Other	850,414	470,528	1,709,284	1,700,330
	$ 3,281,156	$ 2,451,477	$ 8,804,308	$ 8,452,570

9. Employee and executive compensation

Total employee wages and bonuses recognized in general and administrative expenses for the three and nine month periods ended were $75,130 and $217,434, respectively (three and nine month periods ended September 30, 2015 - $51,126 and $169,901).

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 $11,930 and $51,887 for the three and nine periods ended September 30, 2016, respectively (three and nine month periods ended September 30, 2015- $9,779 and $47,926).

(amounts in Canadian dollars)

10. Commitments

(a) Rent commitment

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:

2016	5,193
2017	13,841
	$ 19,034

11. 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 will be 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 period ended September 30, 2016.