

## **Management Discussion and Analysis**

### **For the Three and Nine Months ended September 30, 2016**

This Management Discussion and Analysis ("MD&A") for the three and nine months ended September 30, 2016 is derived from, and should be read in conjunction with the condensed interim consolidated financial statements of Sunora Foods Inc. ("Sunora" or the "Company") for the three and nine months ended September 30, 2016. This MD&A is effective November 24, 2016 and provides 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 variation (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 Foods") is a Calgary-based trader and supplier of canola, soybean, corn, olive and other food oils. Currently, the Company is a relatively modestly-sized player participating in an international business populated by some of the largest companies in the world. It has successfully maintained a niche position that has been achieved by building strong relationships with its suppliers and customers through a history of reliable and responsive service. While the Company regularly cooperates with many of these companies, it also occasionally competes with companies that have far greater resources. Sunora Foods has achieved a measure of success for over twenty 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 Foods receives 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, soybean and corn oils. Sunora Foods 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 Foods prides itself on its quality food oil products and intends to continue its global expansion as well as enhance its position as a supplier of food oil to the health food industry.

## HIGHLIGHTS

The following highlights are from the condensed interim consolidated balance sheet as at September 30, 2016 and as at September 30, 2015, and the statements of operations for the nine months ended September 30, 2016 and the nine months ended September 30, 2015, respectively:

	<b>9 months ended September 30, 2016</b>	<b>9 months ended September 30, 2015</b>
Sales	\$ 8,804,308	\$ 8,452,570
Net income and comprehensive income	\$ 203,458	\$ 549,949
Earnings per share - basic and diluted	\$ 0.005	\$ 0.013
Total assets	\$ 5,239,051	\$ 4,556,526
Shareholders' equity	\$ 3,906,629	\$ 3,616,422

Sunora had 4.2% higher sales for the nine-month period ended September 30, 2016 than the comparative nine month period. Sales were somewhat adversely impacted by delivery issues with a key co-packer.

The \$203,458 of net income and comprehensive income in the nine months ended September 30, 2016 was 63% lower than the same period of 2015. This was primarily a result of a foreign exchange loss of \$45,823, as opposed to a foreign exchange gain of \$165,229 in the comparative period. Gross margin declined from 11.2% to 8.9% at least partly because of delivery issues with a co-packer.

## FINANCIAL POSITION

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

### Current assets

Sunora's current assets consist of cash, accounts receivable, inventory, prepaid expenses and income tax recoverable. Cash is held for working capital requirements and to fund expansion costs for new markets and customers. A policy of conserving cash is rigorously followed by management in order to sustain operations and not hamper its marketing strategies. Accounts receivable are higher than at December 31, 2015, due to higher sales. The increase in inventory is due to increased bulk oil purchases in anticipation of future sales.

### Current liabilities

Sunora's current liabilities consist of accounts payable and accrued liabilities, income tax payable and customer deposits. Accounts payable increased by \$764,583 since December 31, 2015, due to increased bulk oil purchases at the end of this quarter. Nevertheless, Sunora is committed to its policy to manage its trade payables on a current basis and maintain its excellent credit standing.

## Working capital

The Company's target Working Capital Ratio (Current Assets divided by Current Liabilities, which is an indicator of its ability to finance its on-going operations) is 2:1. Current Assets comprise cash, accounts receivable, inventory, prepaid expenses and income tax recoverable; Current Liabilities include accounts payable, accrued liabilities and income taxes payable. 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 is manifested in the available cash. At September 30, 2016, the Working Capital Ratio was 3.8:1 compared to 7.4:1 at December 31, 2015. The Company's business has been consistently 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. Therefore, the Company believes it is in a very favourable position to expand in the future.

## OPERATIONS

	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	<u>2,952,174</u>	<u>2,134,505</u>	<u>8,022,181</u>	<u>7,507,320</u>
Gross margin	<u>328,982</u>	<u>316,972</u>	<u>782,127</u>	<u>945,250</u>
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	<u>7,256</u>	<u></u>	<u>31,936</u>	<u></u>
	<u>155,879</u>	<u>45,835</u>	<u>499,544</u>	<u>211,985</u>
Income before income taxes	173,103	271,137	282,583	733,265
Current income tax	<u>50,231</u>	<u>72,366</u>	<u>79,125</u>	<u>183,316</u>
Net income and comprehensive income	\$ <u>122,872</u>	\$ <u>198,771</u>	\$ <u>203,458</u>	\$ <u>549,949</u>
Earnings per share				
Basic and diluted	\$ <u>0.003</u>	\$ <u>0.005</u>	\$ <u>0.005</u>	\$ <u>0.013</u>

## DISCUSSION OF OPERATIONS

### Sales

The Company operates in the single segment of food oil. 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 Other; other comprises various regions in South America, Africa, Asia, the Middle East, Eastern Russia, Australia and New Zealand.

The Company's revenues were earned as follows:

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

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%).

Sunora's sales to the United States have recently trended higher in proportion to sales in Canada. Overseas markets are generally continuing to grow, although international sales were adversely impacted in the first six months by short term conditions. Sales in Canada declined in this nine month period compared to the same period last year due to reduced bulk oil shipments in Canada. The growth of sales in emerging markets is due to a trend in greater awareness of healthy food choices in an expanding middle class. Overseas sales are continuing to grow.

### Cost of sales

Cost of sales consists of purchases of crude and refined oil, packaging, freight and custom duties. Sunora achieved a gross margin of 10% in the three months ended September 30, 2016, compared to 12.9% in the three months ended September 30, 2015. Gross margin for the nine months ended September 30, 2016 were 8.9% compared to 11.2% for the nine months ended September 30, 2015. These margins were impacted by delivery issues with a co-packer.

### General and administration

General and administrative expenses increased by \$22,986 in the three-month period ended September 30, 2016 compared to the same period of 2015, and increased by \$33,699 in the nine-month period ended September 30, 2016 compared to the same period of 2015 due primarily to an accrual for staff profit sharing bonus of \$21,677. No profit sharing bonus was accrued in the comparative period. G&A

consists of salaries, commissions, rent, travel, and various other miscellaneous office overhead expenses.

### *Marketing and promotion*

A direct correlation to Sunora's increased sales has been its marketing efforts. Over the years, Sunora has established good relationships with its sale staff, giving them more flexibility and autonomy as mutual trust has developed in these relationships. In North America, Sunora has worked with brokers who have introduced new customers to the Company. Sales to independent distributors have also grown, mostly in overseas countries, who have given Sunora entry into many foreign markets. Product sales to foreign distributors and for other customers are final and not returnable.

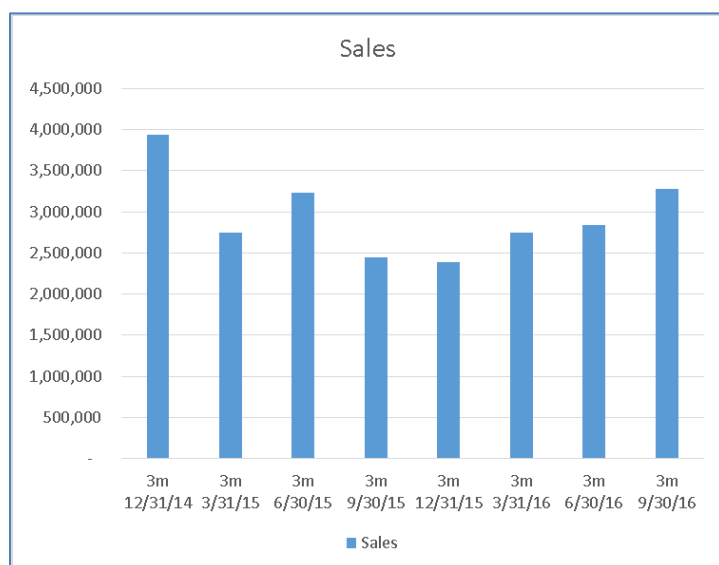
### *Foreign exchange*

The foreign exchange gain or loss is primarily a result of inventory purchases and sales, much of which are denominated in US currency.

## QUARTERLY RESULTS

	Three months ended September 30, 2016	Three months ended June 30, 2016	Three months ended March 31, 2016	Three months ended December 31, 2015
Sales	\$ 3,281,156	\$ 2,835,773	\$ 2,687,379	\$ 2,386,519
Cost of sales	2,952,174	2,635,047	2,434,957	2,150,708
Gross margin	<u>328,982</u>	<u>200,726</u>	<u>252,422</u>	<u>235,811</u>
Other				
General and administrative expenses	122,351	122,765	122,566	235,685
Marketing and promotion	29,609	5,460	11,576	8,367
Bank charges and interest	4,173	954	2,330	298
Foreign exchange gains and losses	(7,510)	(29,318)	82,655	(38,936)
Stock-based compensation	7,256	24,680	-	102,580
	<u>155,879</u>	<u>124,541</u>	<u>219,127</u>	<u>307,994</u>
Income before income taxes	173,103	76,185	33,295	(72,183)
Income tax expense				
Current income tax (recovery)	50,231	20,570	8,324	(26,504)
Deferred income tax	-	-	-	2,088
Net income (loss) and comprehensive income (loss)	<u>\$ 122,872</u>	<u>\$ 55,615</u>	<u>\$ 24,971</u>	<u>\$ (47,767)</u>
Earnings per share - basic and diluted	0.003	0.001	0.001	(0.001)

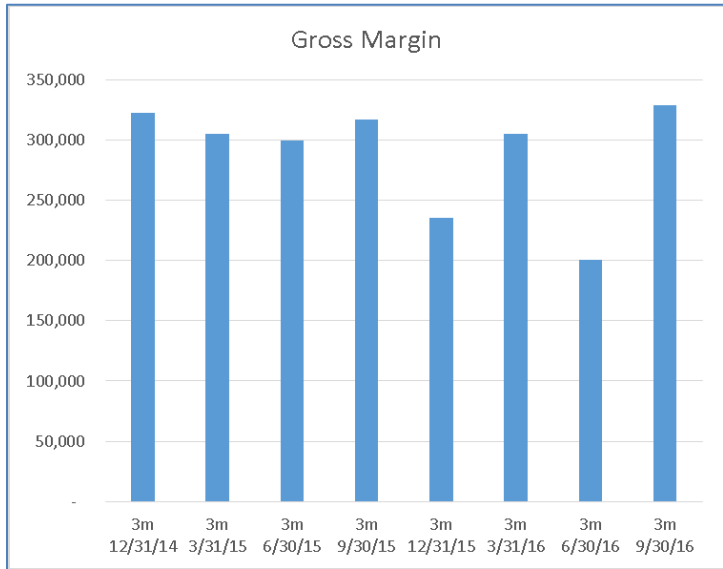
	Three months ended September 30, 2015	Three months ended June 30, 2015	Three months ended March 31, 2015	Three months ended December 31, 2014
Sales	\$ 2,451,477	\$ 3,233,996	\$ 2,743,967	\$ 3,941,552
Cost of sales	<u>2,134,505</u>	<u>2,934,022</u>	<u>2,438,792</u>	<u>3,618,935</u>
Gross margin	<u>316,972</u>	<u>299,974</u>	<u>305,175</u>	<u>322,617</u>
Other				
General and administrative expenses	99,365	113,158	97,535	332,624
Marketing and promotion	5,778	11,577	16,811	3,570
Bank charges and interest	3,318	4,639	1,904	3,246
Foreign exchange gains and losses	(62,626)	28,410	(131,013)	(31,070)
Stock-based compensation	-	-	-	-
	<u>45,835</u>	<u>157,784</u>	<u>14,763</u>	<u>308,370</u>
Income before income taxes	271,137	142,190	319,938	14,247
Income tax expense				
Current income tax (recovery)	72,366	31,250	79,700	24,330
Deferred income tax	-	-	-	3,780
Net income (loss) and comprehensive income (loss)	<u>\$ 198,771</u>	<u>\$ 110,940</u>	<u>\$ 240,238</u>	<u>\$ (13,863)</u>
Earnings per share - basic and diluted	0.005	0.003	0.006	0.000



In the third quarter of 2016, sales increased 15.7% due to an increase in bulk oil sales in comparison to the second quarter. In the second quarter of 2016, sales had increased 5.5% due to some increase in bulk oil sales in comparison to the first quarter. Sales for the first quarter of 2016 were 12.6% higher than the fourth quarter of 2015. Sales for the fourth quarter of 2015 were 2.6% lower than the third quarter of 2015 due to a decrease in overseas sales. 2015 third quarter sales were 24% lower than the second quarter of 2015; second quarter sales were 18% higher than first quarter of 2015.

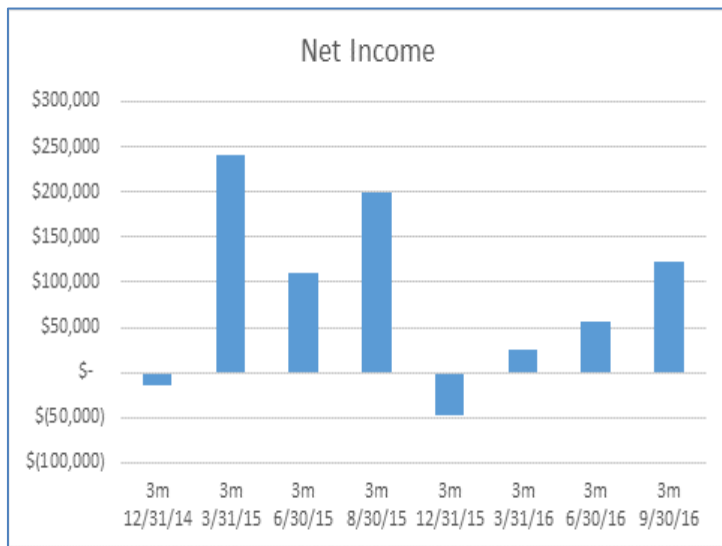
Cost of sales in the third quarter of 2016 was 12% higher than second quarter of 2016 which is comparable with increase of 15.7% in sales. Cost of sales in the second quarter of 2016 was 8.2% higher than first quarter of 2016. Cost of sales in first quarter was 13.2% higher than the fourth quarter of 2015. The fourth quarter of 2015 was consistent with third quarter. Third quarter cost of sales was 27% lower than the second quarter due to a 24% decrease in sales. Second quarter cost of sales was 20% higher than the first quarter due to an 18% increase in sales.

Gross margin for the third quarter of 2016 was 10%, 2.9% higher than second quarter of 2016. Gross margin for the second quarter of 2016 was 7.1% compared to 9.4% for the first quarter of 2016. Gross margin for the fourth quarter of 2015 was 9.9% compared to 12.9% for the third quarter of 2015. Second quarter gross margin was 9.3% compared to 11.1% for the first quarter ended March 31, 2015.



General and administrative expenses were slightly higher in third quarter of 2016 compared to second quarter of 2016. General and administrative expenses were higher in second quarter of 2016 compared to first quarter of 2016. In first quarter, General and administrative was lower compare to fourth quarter of 2015. General and administration expenses were higher in the fourth quarter of 2015 due to various charges corded at year end, such as audit and accounting fees, profit sharing bonus and bad debt.

Foreign exchange gains and losses represent realized gains and losses on transactions undertaken in foreign currencies and unrealized gains and losses on balance held in foreign currencies at each period end. Variances in each respective quarter are due to changes in exchange rates.



Net income for the third quarter has maintained the positive trend of quarters one and two, also reflecting the decrease in gross margin compared to the previous year.



## CASH FLOWS

The Corporation's cash flows are in line with expectations given the operations for the period.

The following is the Company's Statement of Cash Flows for the six-month periods ending September 30, 2016 and September 30, 2015; Sunora's cash flows arose only from operations during these periods.

	<b>Nine-month Period Ended September 30, 2016</b>	<b>Nine-month Period Ended September 30, 2015</b>
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	<u>(34,210)</u>	<u>-</u>
	<u>201,184</u>	<u>549,949</u>
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	<u>86,547</u>	<u>(12,678)</u>
	<u>235,820</u>	<u>418,043</u>
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	\$ <u><u>3,091,780</u></u>	\$ <u><u>2,752,139</u></u>
Cash in Canadian dollars is comprised of:		
Cash held in Canadian dollars	2,611,444	2,339,989
Cash held in US dollars	<u>480,336</u>	<u>412,150</u>
	\$ <u><u>3,091,780</u></u>	\$ <u><u>2,752,139</u></u>

Sunora's cash balances increased \$437,004 in the nine months ended September 30, 2016. This increase resulted primarily from cash flow from net income for the period, cash released from non-cash working capital items, namely, accounts payable, prepaid expenses and customer deposits offset by additional cash tied in accounts receivable, income taxes recoverable and inventory.

## OUTLOOK

Sunora maintains good relationships with customers 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 are impacted by geopolitical situations that may hold up deliveries as was experienced in some recent quarters. As the middle class in these emerging economies demands higher quality and healthier foods, Sunora is well positioned to meet additional demand.

Management is actively identifying and analyzing operations that might increase gross margins for the Company. Prospective businesses considered include packagers and suppliers in the food oil industry. With each operation identified, a detailed review and analysis is undertaken by management. Specific focus is currently on packagers with operations in Canada that are looking for a strategic partner to expand international operations.

Management is also actively considering possible new products that may benefit from new domestic and international markets.

With the continuing positive momentum in the United States economy and new customers being added in Asia, Sunora is well placed for the future.

## OTHER SELECTED FINANCIAL INFORMATION

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Assets	\$ 5,239,051	\$ 4,219,165
Liabilities	\$ 1,232,809	\$ 547,930
Shareholders' equity	\$ 3,906,629	\$ 3,671,235

Total assets of Sunora as at September 30, 2016 are comprised primarily of cash, accounts receivable, inventory, income taxes recoverable and a deferred tax asset. The increase in assets from December 31, 2015 to September 30, 2016 is primarily as a result of increased cash, accounts receivable, inventory and income taxes recoverable.

Sunora's current liabilities consist primarily of accounts payable and accrued liabilities. Accounts payable and accrued liabilities increased by \$764,583 since December 31, 2015 due to temporary timing in payments for purchases towards the end of the quarter. However, the Company's strong working capital position continues to allow management to keep current on balances owing.

## 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 at September 30, 2016 were less than 60 days old. Sunora's Current Ratio (Current Assets divided by Current Liabilities) target as set by management is 2.0:1. Including its cash balance of \$3,091,780 at September 30, 2016, Sunora's Current Ratio at September 30, 2016 was 3.8:1. 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 of 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, 2017, and has an early termination clause with nine months' notice during the last two years. 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 wholesale customers who purchase canola oil from Sunora for redistribution; these sales are final and not returnable.

The Company has no property, plant and equipment (other than office furniture and equipment carried at no book value) and it has no short or long-term loans. 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 commodity trading for its purchases, as opposed to speculation. Price changes have limited impact on its operations for the period ended September 30, 2016. As previously noted a major world economic downturn would adversely impact Sunora due to its reliance on markets outside of Canada.

The total number of common shares outstanding as at September 30, 2016 and November 24, 2016 is 42,254,332.

## FINANCIAL INSTRUMENTS

### *Risk management*

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note sets out the Corporation's exposure to each of the under-noted 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 policies 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.

### *Fair value of financial instruments*

The fair values of accounts receivable and accounts payable and accrued liabilities and customer deposits 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.

### *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 requiring a down payment from some companies to which they extend credit.

As at September 30, 2016, the Corporation's maximum exposure to credit risk for accounts receivable is \$1,233,869.

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

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%).

Bad debt expense for the period ended September 30, 2016 was nil (September 30, 2015- Nil). At September 30, 2016, the Corporation had allowance for doubtful accounts of nil (December 31, 2015 - nil).

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.

### *Liquidity risk*

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come 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 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.

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.

### *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 and purchases denominated in U.S. dollars ("USD") and Singapore dollars ("SGD") to the extent the U.S. and Singapore denominated accounts receivable and accounts payable and accrued liabilities 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:

	<b>Foreign Currency</b>	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Cash	USD	586,266	216,336
Accounts receivable	USD	785,476	517,914
Accounts receivable	SGD	88,251	88,052
Accounts payable	USD	(671,621)	(77,428)

The net effect of any changes in the U.S. to Canadian dollar exchange rate would not be material as Sunora makes cross-border purchases and sales in both currencies. A 1% increase in the Singapore to Canadian dollar exchange rate would not have a significant impact on the net income for the nine month period ended September 30, 2016.

(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 nine month period ended September 30, 2016 and the year ended December 31 2015 nor does it currently have any derivative financial contracts.

### **Capital Management**

The Corporation'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 2.0:1. The working capital ratio of September 30, 2016 was 3.8:1 (December 31, 2015 – 7.4:1) The Corporation's business has been managed with a strong working capital position which has enabled the Corporation 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 potential acquisition strategies. Sunora considers its capital structure to include shareholders' equity, and the Corporation strives to maximize the value associated with share capital.

Sunora's share capital could be used as a 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 period ended September 30, 2016 or the year ended December 31 2015.

### **CRITICAL ACCOUNTING ESTIMATES**

Note 2 to Sunora's September 30, 2016 financial statements describes Sunora's basis of presentation of financial statement and note 3 describes the significant accounting policies. The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the

circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates, judgements and assumptions in preparation of the consolidated financial statements.

#### ***Valuation of accounts receivable***

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts based on late payments, client relationships and default history.

#### ***Valuation of inventory***

The 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 Company has recorded stock-based compensation expense of \$31,936 in the nine months ended September 30, 2016. The amount recorded relates 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.

#### ***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 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 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 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.

## **NEW ACCOUNTING STANDARDS**

### (i) Future accounting policies

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

#### *Financial instruments*

*IFRS 9 – Financial Instruments* provides a comprehensive new standard for accounting for all aspects of financial instruments. It includes a logical model for classification and measurement, a single, forward-looking “expected-loss” impairment model and a substantially reformed approach to hedge accounting. The new standard is effective for years beginning on or after January 1, 2018.

#### *Revenue recognition*

*IFRS 15 – “Revenue from contracts with customers”* provides a comprehensive new standard on revenue recognition. It specifies how and when to recognize revenue as well as requiring entities to provide more information and relevant disclosure. The new standard is effective for years beginning on or after January 1, 2018.

*IFRS 16 – “Leases”* which provides for a single recognition and measurement model for leases, with required recognition of assets and liabilities for most leases. The new standard is effective for annual reporting periods beginning on or after January 1, 2019.