

# **SONOMA CAPITAL INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JULY 31, 2012 AND 2011  
(EXPRESSED IN CANADIAN DOLLARS)**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Sonoma Capital Inc.

We have audited the accompanying consolidated financial statements of Sonoma Capital Inc., which comprise the consolidated statements of financial position as at July 31, 2012, July 31, 2011 and August 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended July 31, 2012 and 2011 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 in our audits 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 Sonoma Capital Inc. as at July 31, 2012, July 31, 2011 and August 1, 2010, and its financial performance and its cash flows for the years ended July 31, 2012 and July 31, 2011 in accordance with International Financial Reporting Standards.

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes the material uncertainties that may cast significant doubt about Sonoma Capital Inc.'s ability to continue as a going concern.

*Collins Barrow Toronto LLP*

Licensed Public Accountants  
Chartered Accountants  
November 27, 2012  
Toronto, Ontario

**SONOMA CAPITAL INC.**  
**Consolidated Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

<u>ASSETS</u>	<u>July 31, 2012</u>	<u>July 31, 2011</u> (note 13)	<u>August 1, 2010</u> (note 13)
<b>Current</b>			
Cash	\$ 34	\$ 676	\$ 4,659
HST receivable	-	3,556	-
<b>Total Assets</b>	<b>\$ 34</b>	<b>\$ 4,232</b>	<b>\$ 4,659</b>
<u>LIABILITIES</u>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 103,026	\$ 35,483	\$ 45,918
Note payable (note 5)	-	5,000	23,700
<b>Total Liabilities</b>	<b>\$ 103,026</b>	<b>\$ 40,483</b>	<b>\$ 69,618</b>
<u>SHAREHOLDERS' DEFICIENCY</u>			
Share capital (note 6)	520,290	240,000	100,000
Deficit	(623,282)	(276,251)	(164,959)
<b>Total shareholders' deficiency</b>	<b>(102,992)</b>	<b>(36,251)</b>	<b>(64,959)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>\$ 34</b>	<b>\$ 4,232</b>	<b>\$ 4,659</b>

Nature of business and going concern (note 1)  
 Commitments and contingencies (note 9)

APPROVED ON BEHALF OF THE BOARD

\_\_\_\_\_  
**"ANDRES TINAJERO"**  
 DIRECTOR

\_\_\_\_\_  
**"CLAUDE FORGET"**  
 DIRECTOR

(See accompanying notes to consolidated financial statements.)

**SONOMA CAPITAL INC.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**(Expressed in Canadian Dollars)**

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For the years ended July 31,	2012	2011
<b>Expenses</b>		
Professional fees	\$ 17,168	\$ 8,250
Consulting fees	127,427	38,133
Filing fees	2,803	300
Office and general	(700)	-
Interest and bank charges	323	2,450
<b>Total expenses</b>	<u>147,021</u>	<u>49,133</u>
<b>Other (income)</b>		
Loss on debt settlement (note 7)	-	70,000
Loss on write down of notes receivable (note 4)	217,107	-
Recovery of expenses (note 6)	(4,990)	(7,841)
Interest income (note 4)	(12,107)	-
<b>Net loss and comprehensive loss</b>	<u>\$ (347,031)</u>	<u>\$ (111,292)</u>
<b>Loss per share weighted average number of shares outstanding – basic and diluted</b>		
Loss per share	\$ (0.038)	\$ (0.110)
<b>Weighted average number of common shares outstanding</b>		
Basic and diluted	9,024,110	1,007,671

(See accompanying notes to consolidated financial statements.)

**SONOMA CAPITAL INC.**  
**Consolidated Statements of Changes in Equity**  
**(Expressed in Canadian Dollars)**

	Share Capital		Reserves		Accumulated Deficit	Total
	Number of Shares	Amount	Share based payments	Warrants		
<b>Balance at August 1, 2010</b>	<b>1,000,000</b>	<b>\$ 100,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (164,959)</b>	<b>\$ (64,959)</b>
Common stock issued for services and extinguishment of promissory notes	2,800,000	140,000	-	-	-	140,000
Net loss and comprehensive loss for the year	-	-	-	-	(111,292)	(111,292)
<b>Balance at July 31, 2011</b>	<b>3,800,000</b>	<b>\$ 240,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (276,251)</b>	<b>\$ (36,251)</b>
Common stock issued in private placement	5,600,000	280,000	-	-	-	280,000
Common stock issued for settlement of debt and for services	200,000	10,000	-	-	-	10,000
Cost of share issuance - cash	-	(9,710)	-	-	-	(9,710)
Net loss and comprehensive loss for the period	-	-	-	-	(347,031)	(347,031)
<b>Balance at July 31, 2012</b>	<b>9,600,000</b>	<b>\$ 520,290</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (623,282)</b>	<b>\$ (102,992)</b>

(See accompanying notes to consolidated financial statements.)

**SONOMA CAPITAL INC.**  
**Consolidated Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**

For the years ended July 31,	2012	2011
<b>Operating Activities</b>		
Net loss	\$ (347,031)	\$ (111,292)
<b>Adjustments for non-cash items:</b>		
Loss on write down of notes receivable	205,000	-
Interest accrued on notes receivable	12,107	-
Common stock issued for services provided	5,000	-
Recovery of expenses	4,990	7,841
Loss on debt settlement	-	70,000
Changes in non-cash working capital items:		
HST receivable	3,556	(3,556)
Accounts payable and accrued liabilities	62,553	16,524
	<b>(65,932)</b>	<b>(20,483)</b>
<b>Financing Activities</b>		
Note payable	-	16,500
Issuance of share capital, net of issue costs	270,290	-
	<b>270,290</b>	<b>16,500</b>
<b>Investing Activities</b>		
Loans provided to investee	(205,000)	-
	<b>(205,000)</b>	<b>-</b>
<b>Net decrease in cash during the year</b>	<b>(642)</b>	<b>(3,983)</b>
<b>Cash – beginning of the year</b>	<b>676</b>	<b>4,659</b>
<b>Cash – end of the year</b>	<b>\$ 34</b>	<b>\$ 676</b>

(See accompanying notes to consolidated financial statements.)



**SONOMA CAPITAL INC.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended July 31, 2012 and 2011**  
**(Expressed in Canadian Dollars)**

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**1. Nature of Business and Going Concern**

Sonoma Capital Inc. (the "Company" or "Sonoma") was incorporated under the Canada Business Corporations Act on July 19, 2004. The Company was previously classified as a Capital Pool Corporation as defined in TSX Venture Exchange Inc. (the "Exchange") Policy 2.4. The Company has nominal assets other than cash and proposes to identify and evaluate potential acquisitions or businesses with a view to completing a Qualifying Transaction, as defined in Exchange Policy 2.4.

On October 3, 2011, the Company incorporated Sonoma Energy Inc. ("Sonoma Energy") in Nevada, USA. Sonoma Energy does not have operations, assets or liabilities.

The Company filed a final prospectus on January 31, 2007, in Quebec only and is therefore a reporting issuer in Quebec.

The Company did not raise any proceeds relating to this prospectus offering and all deferred share issuance fees relating to this offering were expensed.

The Company's head office is located at 95 Wellington Street West, Suite 1450, Toronto, Ontario M5J 2N7.

The Company's continued existence as a going concern, as planned, depends on its ability to successfully obtain additional financing. While the Company has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These statements have been prepared on a going-concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future.

The Company plans to pursue additional financing in the immediate future.

**2. Basis of Preparation**

**2.1 Statement of compliance**

The Company's Consolidated Financial Statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended July 31, 2012.

The policies applied in these Consolidated Financial Statements are based on IFRS issued and outstanding as of November 27, 2012, the date the Board of Directors approved the financial statements.

These are the Company's first IFRS consolidated annual financial statements for the year ending July 31, 2012. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

**2.2 Basis of presentation**

The financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The comparative figures presented in these consolidated financial statements are in accordance with IFRS and have been audited.

**SONOMA CAPITAL INC.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended July 31, 2012 and 2011**  
**(Expressed in Canadian Dollars)**

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**2. Basis of Preparation**

**2.3 Adoption of new and revised standards and interpretation**

At the date of authorization of these Financial Statements, the International Accounting Standards Board ("IASB") and the International Financial Reporting Issues Committee ("IFRIC") has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted these standards, amendments and interpretations. However the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

- IFRS 7 '*Financial Instruments, Disclosures*' - effective for annual periods beginning on or after January 1, 2013, IFRS 7 has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting arrangements.
- IFRS 9 '*Financial Instruments: Classification and Measurement*' – effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.
- IFRS 10 '*Consolidated Financial Statements*' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- IFRS 11 '*Joint Arrangements*' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12 '*Disclosure of Interests in Other Entities*' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- IFRS 13 '*Fair Value Measurement*' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.
- IAS 1 '*Presentation of Financial Statements*' - the IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.
- IAS 12 '*Income Taxes*' – In December 2010, effective for annual periods beginning on or after January 1, 2012, IAS 12 Income Taxes was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, *Income Taxes – recovery of revalued non-depreciable assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.
- IAS 19 '*Employee Benefits*' - effective for annual periods beginning on or after January 1, 2013, a number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures.

**SONOMA CAPITAL INC.**  
**Notes to the Consolidated Financial Statements**  
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**2. Basis of Preparation, (continued)**

**2.3 Adoption of new and revised standards and interpretation, (continued)**

- IAS 27 '*Separate Financial Statements*' - effective for annual periods beginning on or after January 1, 2013, as a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
- IAS 28 '*Investments in Associates and Joint Ventures*' - effective for annual periods beginning on or after January 1, 2013, as a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.
- IAS 32 '*Financial instruments, Presentation*' – In December 2011, effective for annual periods beginning on or after January 1, 2014, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date.

**3. Summary of significant accounting policies**

**a) Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its 100% wholly owned subsidiary, Sonoma Energy. Sonoma Energy was incorporated on October 3, 2011, in the state of Nevada and is a subsidiary entity controlled by the Company. Control is achieved when the Company has the power to govern the financial and operating policies of an entity as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of loss and comprehensive loss from the date control commences until the date that control ceases.

Business acquisitions are accounted for using the acquisition method.

All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

**b) Cash**

Cash consists of cash on deposit with a bank in a general non-interest bearing account and funds held in trust by the Company's lawyers.

**c) Functional currency**

These consolidated financial statements have been prepared in Canadian Dollars, which is the Company's functional and presentation currency.

**SONOMA CAPITAL INC.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended July 31, 2012 and 2011**  
**(Expressed in Canadian Dollars)**

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**3. Summary of significant accounting policies, (continued)**

**d) Financial instruments**

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables and at fair value through profit and loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. Cash is classified as fair value through profit or loss.

Financial assets classified as held-to-maturity and loans and receivables are measured at amortized cost using the effective interest rate method.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss), except for equity instruments without a quoted market price in an active market and whose fair value cannot be reliably measured, which measured at cost. The Company does not have any financial assets classified as available-for-sale.

Transaction costs associated with fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the assets.

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through the profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities and note payable are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit or loss. At July 31, 2012, the Company has not classified any financial liabilities as fair value through the profit and loss.

**e) Income taxes**

The Company accounts for income taxes in accordance with the liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and losses carried forward.

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the date of enactment or substantive enactment.

Current income taxes are recognized for the estimated income taxes payable for the current year.

Deferred income tax assets are recognized to the extent that management believes that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**SONOMA CAPITAL INC.**  
**Notes to the Consolidated Financial Statements**  
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**(Expressed in Canadian Dollars)**

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**3. Summary of significant accounting policies, (continued)**

**f) Share based payments**

The Company uses the fair value method of accounting for options granted under share purchase option plans. Options granted to directors, officers and employees are measured at fair value at the grant date, which is charged to operations over the applicable vesting period, with an offsetting credit to share option reserves. Options granted to non-employees are measured at fair value of goods and services received, unless if they are not reliably measured, in which case they are valued at fair value of equity instruments granted which is charged to operations at the date the options are fully vested, with an offsetting credit to share option reserves. The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. Consideration received upon exercise of share purchase options, along with the related amount previously recorded in the share option reserve, is credited to share capital. Cash received on the exercise of share options is recorded in share capital and the related compensation previously included in share option reserves is transferred to share capital to recognize the total consideration for the shares issued.

The costs of equity-settled transactions for services or debt are measured by reference to the fair value at the date on which they are granted.

**g) Other comprehensive income**

Other comprehensive income or loss is the change in net assets arising from transactions and other events and circumstances from non-owner sources. Comprehensive income comprises net income or loss and other comprehensive income or loss. Financial assets that are classified as available-for-sale will have revaluation gains and losses included in other comprehensive income or loss until the asset is removed from the statement of financial position. At present, the Company has no other comprehensive income or loss.

**h) Provisions**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

**i) Loss per share**

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes conversion, exercise or contingent issuance of options, warrants and securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share.

**SONOMA CAPITAL INC.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended July 31, 2012 and 2011**  
**(Expressed in Canadian Dollars)**

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**3. Summary of significant accounting policies, (continued)**

**j) Accounting estimates and judgments**

The preparation of these consolidated financial statements requires management to make estimates and judgments and form assumptions that affect the reported amounts and other disclosures in these consolidated financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Significant estimates used in the preparation of these consolidated financial statements include, among others, the recoverability of notes receivable and the fair value of financial assets and liabilities. Actual results may differ from those estimates.

**4. Notes receivable**

As of July 31, 2012, the Company has provided loans to Caldera Geothermal Inc. ("Caldera") aggregating \$205,000. The notes receivable bear interest at 8% per annum, are unsecured, due on demand and have no specific repayment date.

Caldera is a related party by virtue of certain common shareholders.

As at July 31, 2012 interest accrued was \$12,107.

As at July 31, 2012, the Company determined that the loans to Caldera will not be recovered and as such, has recorded a write down of the loans and interest receivable to \$nil.

**5. Note payable**

On April 17, 2008, the Company issued a \$5,000 non-interest bearing note payable to a director and shareholder of the Company, which was unsecured, due on demand and had no specific repayment date. On August 2, 2011, the note was settled through the issuance of 100,000 shares of common stock (note 6).

**SONOMA CAPITAL INC.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended July 31, 2012 and 2011**  
**(Expressed in Canadian Dollars)**

**6. Share capital**

Unlimited common shares authorized, issued and outstanding as follows:

	Number of Shares	Amount
August 1, 2010	1,000,000	\$ 100,000
Shares issued for settlement of debt and services provided <sup>(i)</sup>	2,800,000	140,000
July 31, 2011	3,800,000	240,000
Shares issued under private placement <sup>(ii)</sup>	5,600,000	280,000
Shares issued for settlement of debt and services provided <sup>(iii)</sup>	200,000	10,000
Cost of share issuance		(9,710)
July 31, 2012	9,600,000	\$ 520,290

- (i) On July 31, 2011, the Company issued 1,400,000 common shares to settle promissory notes of \$35,000 issued to Foundation Opportunities Inc. ("FOI"), and a further 600,000 common shares to extinguish liabilities totaling \$15,000 for past consulting services rendered by FOI. Cavalry Corporate Solutions Ltd. ("Cavalry") (Cavalry is a majority owned subsidiary of Foundation Financial Holdings Corp., the parent entity of FOI) assigned a receivable from the Company to FOI on July 31, 2011, and the Company issued 800,000 shares of its common stock to FOI in full satisfaction of this liability, valued at \$0.05 per common share.
- (ii) Between August 23, 2011 and September 26, 2011, the Company completed a private placement of 5,600,000 common shares for aggregate cash consideration of \$280,000, at \$0.05 per common share.
- (iii) On August 2, 2011, the Company issued 100,000 common shares to a director and shareholder of the Company in full and complete repayment of a \$5,000 promissory note. On August 31, 2011, the Company issued 100,000 common shares to FOI as payment of \$5,000 in consulting services provided, valued at \$0.05 per common share.

**7. Related party transactions**

On November 8, 2010 and January 5, 2011, the Company issued 8% interest bearing promissory notes of \$6,500 and \$10,000, respectively, to FOI.

On November 16, 2010, FOI and certain directors acquired 450,000 shares of the Company's common stock from existing shareholders, representing an ownership interest of 45%.

On July 31, 2011, the Company issued a total of 2,800,000 common shares valued at \$140,000 to FOI to extinguish the promissory notes payable and liabilities associated with past services provided of \$70,000. The Company recorded a loss on debt settlement of \$70,000.

On August 2, 2011, the Company settled a promissory note due to a director and shareholder of the Company in the amount of \$5,000 through the issuance of 100,000 shares of common stock (note 5).

**SONOMA CAPITAL INC.**  
**Notes to the Consolidated Financial Statements**  
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**7. Related party transactions, (continued)**

During the year ended July 31, 2012, Cavalry provided \$68,515 of financial accounting and consulting services. Also, during the year ended July 31, 2012, FOI invoiced the Company \$50,850 for strategic consulting services, of which \$5,000 was paid through the issuance of 100,000 shares of the Company's common stock.

Included in accounts payable and accrued liabilities as at July 31, 2012 is \$62,975 (July 31, 2011 - \$2,290) in amounts due to related parties.

Cavalry is related as a result of having officers and directors in common with the Company. FOI is related because it controls Cavalry.

**8. Capital management**

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company includes equity, comprised of issued common shares and deficit, in the definition of capital. As at July 31, 2012, the Company had \$34 in cash and accounts payable and accrued liabilities of \$103,026, which is not sufficient for the Company to meet its ongoing obligations (Note 1).

The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

**9. Commitments and contingencies**

The Company and Cavalry entered into a management services agreement on November 25, 2011. The management services agreement includes services for controllership, bookkeeping and corporate secretarial services. In consideration for these services the Company agreed to pay \$5,000 per month until a going public transaction by the Company or as terminated by the Company.

The Company and FOI entered into a financial advisory agreement on November 1, 2011 until April 30, 2012. In consideration for these services the Company agreed to pay \$5,000 per month. On April 30, 2012, the agreement was terminated.

**10. Financial instruments**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of the Company's cash, accounts payable and accrued liabilities and note payable approximate their fair value due to the relatively short periods to maturity of these instruments



**SONOMA CAPITAL INC.**  
**Notes to the Consolidated Financial Statements**  
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**11. Financial risk exposure and risk management**

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's involvement in the operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks. The Board approves the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfillment of obligations, the continuation of the Company's search for potential acquisitions or businesses with a view of completing a transaction, and limited exposure to credit and market risks.

The types of risk exposures and the way in which such exposures are managed as follows:

**(a) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligation out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. The Company is susceptible to liquidity risk due to the negative working capital.

**(b) Interest rate risk**

The Company is not exposed to any significant interest rate risk.

**(c) Credit risk**

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of notes receivable.

**12. Income taxes**

**(a) Income Tax Expenses**

Reported income tax expense differs from the amounts computed by applying current tax rates to the loss before income taxes due to the following:

	<b>2012</b>	2011
Loss before income taxes	\$ (347,031)	\$ (111,292)
Statutory rate	27.33%	29.09%
Expected income tax recovery	(94,800)	(32,400)
Non-deductible expenses and other	(3,800)	20,400
Change in rates	5,600	1,700
Change in deferred taxes not recognized	93,000	10,300
Income tax expense	\$ -	\$ -

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**12. Income taxes, (continued)**

(b) Deferred Income Taxes

The tax effect of significant differences that give rise to deferred income taxes is as follows:

	<b>2012</b>	2011
Non-capital loss carry forwards	\$ 116,000	\$ 52,000
Capital loss carry forwards	27,000	52,000
Share issuance costs	2,000	-
Net deferred tax asset	145,000	52,000
Less: deferred taxes not recognized	(145,000)	(52,000)
	\$ -	\$ -

The Company has determined that the realization of a deferred tax asset is not probable and therefore it has not been recognized.

(c) Loss and Tax Credit Carryforwards

As at July 31, 2012 the Company has non-capital losses which are available to reduce future year's taxable income. The potential income tax benefits associated with these losses have not been recorded in the accounts. The approximate amounts and expiry dates of these non-capital loss carry forwards are as follows:

2025	\$ 90
2026	100
2027	81,700
2028	23,400
2029	4,000
2030	55,600
2031	57,600
2032	240,400
	\$ 462,890

As at July 31, 2012 the Company also has capital losses which do not expire in the amount of \$217,107 are available to reduce future capital gains.

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**13. First time adoption of IFRS**

For all periods up to and including the year ended July 31, 2011, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Company transitioned from Canadian GAAP to IFRS effective August 1, 2010. Accordingly, the Company has prepared financial statements which comply with IFRS for periods beginning on or after August 1, 2010.

These consolidated financial statements have been prepared in accordance with the accounting policies described in Note 3. There are no reconciling items for the statements of financial position as at July 31, 2011 and August 31, 2010 and for the loss and comprehensive loss and cash flows for the year ended July 31, 2011.

**(a) Elected exemptions from full retrospective application**

The Company has followed the recommendations in IFRS-1 First-time adoption of International Financial Reporting Standards, in preparing its transitional statements. While IFRS 1 permits certain optional exemptions from full retrospective application of IFRS, the Company has not used any of these exemptions.

**(b) Mandatory exceptions to retrospective application**

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exception to full retrospective application of IFRS regarding estimates. Specifically, hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

**(c) Significant differences between IFRS and Canadian GAAP**

Given the business of the Company as a shell entity preparing for a listing, the adoption of IFRS had no significant impact on the Company's financial position, financial performance and cash flows. Specifically, the main areas of accounting focus for the Company to date have been, and will continue to be prior to the consummation of an acquisition or the start of material operations, the issuance of share capital and the recording of cash transactions for which there are very few or no significant differences between IFRS and previous Canadian GAAP.