

**SUNORA FOODS INC.**  
***(Formerly "Thoroughbred Capital Inc.")***  
**Consolidated Financial Statements**  
**For the periods ended December 31, 2014 and 2013**

## Independent Auditors' Report

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To the Shareholders  
Sunora Foods Inc.

We have audited the accompanying consolidated financial statements of Sunora Foods Inc. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the periods ended December 31, 2014 and December 31, 2013, 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 auditors' 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 Sunora Foods Inc. and its subsidiary as at December 31, 2014 and December 31, 2013, and their financial performance and their cash flows for the periods ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

*Collins Barrow Calgary LLP*

CHARTERED ACCOUNTANTS

Calgary, Canada  
April 28, 2015

**SUNORA FOODS INC.**  
**(Formerly "Thoroughbred Capital Inc.")**

**Consolidated Balance Sheets**

*(amounts in Canadian dollars)*

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 1,784,147	\$ 1,646,563
Accounts receivable <i>(note 10(c))</i>	1,440,990	1,296,199
Income taxes recoverable <i>(note 6)</i>	-	15,713
Inventory <i>(note 5)</i>	741,047	707,362
Prepaid expenses	<u>23,163</u>	<u>17,271</u>
	<b>3,989,347</b>	<b>3,683,108</b>
DEFERRED TAX ASSET <i>(note 6)</i>	<u>150,062</u>	<u>165,229</u>
	<b>\$ 4,139,409</b>	<b>\$ 3,848,337</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities <i>(note 10(d))</i>	\$ 979,793	\$ 998,316
Income taxes payable <i>(note 6)</i>	80,465	-
Customer deposits	<u>12,678</u>	<u>18,522</u>
	<b>1,072,936</b>	<b>1,016,838</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>(note 7)</i>	1,400,816	1,400,816
Contributed surplus <i>(note 9)</i>	86,157	40,256
Warrants <i>(note 7(e))</i>	480,021	480,021
Retained earnings	<u>1,099,479</u>	<u>910,406</u>
	<b>3,066,473</b>	<b>2,831,499</b>
	<b>\$ 4,139,409</b>	<b>\$ 3,848,337</b>

Subsequent events *(note 8)*

Commitments *(note 14)*

**Approved by the board**

\_\_\_\_\_ "Steve Bank" \_\_\_\_\_ *Director*

\_\_\_\_\_ "Alan Chan" \_\_\_\_\_ *Director*

See accompanying notes to consolidated financial statements

**SUNORA FOODS INC.**  
**(Formerly "Thoroughbred Capital Inc.")**  
**Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**

*(amounts in Canadian dollars)*

	Year Ended December 31, 2014	Four-month Period Ended December 31, 2013
<b>SALES</b>	<b>\$ 13,235,038</b>	<b>\$ 4,794,330</b>
COST OF SALES	<u>12,302,991</u>	<u>4,489,415</u>
GROSS MARGIN	<u>932,047</u>	<u>304,915</u>
<b>OTHER EXPENSES (INCOME)</b>		
General and administrative expenses <i>(note 10(c) and 12)</i>	651,621	270,065
Marketing and promotion	22,602	9,174
Bank charges and interest	10,185	3,146
Foreign exchange gains and losses	(106,872)	(9,654)
Listing expense <i>(note 4)</i>	-	996,873
Transaction costs <i>(note 4)</i>	-	255,617
Stock based compensation <i>(note 8)</i>	<u>45,901</u>	<u>-</u>
	<u>623,437</u>	<u>1,525,221</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>308,610</u>	<u>(1,220,306)</u>
INCOME TAX EXPENSE (RECOVERY) <i>(note 6)</i>		
Current income tax expense (recovery)	104,370	(533)
Deferred income tax expense (recovery)	<u>15,167</u>	<u>(145,124)</u>
	<u>119,537</u>	<u>(145,657)</u>
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>	<b><u>\$ 189,073</u></b>	<b><u>\$ (1,074,649)</u></b>
<b>Earnings (loss) per share - basic and diluted</b> <i>(note 7(c))</i>	<b><u>\$ 0.00</u></b>	<b><u>\$ (0.03)</u></b>

See accompanying notes to consolidated financial statements

**Sunora Foods Inc.***(formerly "Thoroughbred Capital Inc.")***Consolidated Statements of Changes in Shareholders' Equity***(amounts in Canadian dollars)*

	<u>Notes</u>	<u>Number of Common Shares</u>	<u>Share Capital</u>	<u>Contributed Surplus</u>	<u>Warrants</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, at September 1, 2013	7(b)	10,000	\$ 1,000	\$ -	\$ -	\$ 1,985,055	\$ 1,986,055
Elimination of Sunora Foods Ltd. common shares	7(b)(i)	(10,000)	-	-	-	-	-
Shares issued in reverse acquisition Shares previously issued by Thoroughbred Capital Inc.	7(b)(i) 7(b)(ii)	30,000,000 6,000,000	- 1,002,000	- -	- -	- -	- 1,002,000
Units issued in brokered private placement		4,587,667	367,013	-	321,137	-	688,150
Units issued in non-brokered private placement	7(b)(iii)	1,666,665	133,333	-	116,667	-	250,000
Share issue costs, net of tax	7(b)(iv)	-	(102,530)	-	-	-	(102,530)
Agent's warrants	7(b)(v); 7( e)(i);7( e)(ii)	-	-	-	30,967	-	30,967
Finder's warrants	7( e)(i)	-	-	-	11,250	-	11,250
Thoroughbred Capital Inc. stock options		-	-	40,256	-	-	40,256
Loss for the period		-	-	-	-	(1,074,649)	(1,074,649)
Balance, at December 31, 2013		42,254,332	\$ 1,400,816	\$ 40,256	\$ 480,021	\$ 910,406	\$ 2,831,499
Stock-based compensation		-	-	45,901	-	-	45,901
Net income for the year		-	-	-	-	189,073	189,073
Balance at December 31, 2014		42,254,332	\$ 1,400,816	\$ 86,157	\$ 480,021	\$ 1,099,479	\$ 3,066,473

See accompanying notes to the consolidated financial statements.

**SUNORA FOODS INC.**  
**(Formerly "Thoroughbred Capital Inc.")**  
**Consolidated Statement of Cash Flows**

*(amounts in Canadian dollars)*

	<b>Year Ended December 31, 2014</b>	<b>Four-month Period Ended December 31, 2013</b>
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 189,073	\$ (1,074,649)
Items not affecting cash:		
Listing expense	-	996,873
Deferred income tax (recovery)	15,167	(145,124)
Change in unrealized foreign exchange	107,692	12,697
Stock-based compensation	45,901	-
	<b>357,833</b>	<b>(210,203)</b>
Changes in non-cash working capital:		
Accounts receivable	(234,694)	322,906
Inventory	(33,685)	(168,778)
Accounts payable and accrued liabilities	15,332	(70,757)
Income taxes payable	96,178	(15,823)
Prepaid expenses	(5,892)	(17,271)
Customer deposits	(5,844)	18,522
	<b>(168,605)</b>	<b>68,799</b>
Cash flow from (used by) operating activities	<b>189,228</b>	<b>(141,404)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from units issued, net of issue costs	-	857,732
Cash acquired in reverse acquisition	-	60,728
Cash flow from financing activities	<b>-</b>	<b>918,460</b>
<b>INCREASE IN CASH FLOW</b>	<b>189,228</b>	<b>777,056</b>
Cash - beginning of period	<b>1,646,563</b>	<b>836,292</b>
Effect of exchange fluctuations on US dollar cash	<b>(51,644)</b>	<b>33,215</b>
<b>CASH - END OF PERIOD</b>	<b>\$ 1,784,147</b>	<b>\$ 1,646,563</b>
<b>CASH FLOWS SUPPLEMENTARY INFORMATION</b>		
Interest paid	<b>\$ 10,185</b>	<b>\$ 3,146</b>
Income taxes paid (recovered)	<b>\$ 8,194</b>	<b>\$ (129,944)</b>
<b>CASH CONSISTS OF:</b>		
Cash held in Canadian dollars	<b>\$ 1,148,695</b>	<b>\$ 1,091,103</b>
Cash held in US dollars	<b>635,452</b>	<b>555,460</b>
	<b>\$ 1,784,147</b>	<b>\$ 1,646,563</b>

See accompanying notes to consolidated financial statements

# Sunora Foods Inc.

*(formerly "Thoroughbred Capital Inc.")*

## **Notes to the Consolidated Financial Statements** **For the Year Ended December 31, 2014** **and Four-Month Period Ended December 31, 2013** *(amounts in Canadian dollars)*

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### 1. General business description

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

Thoroughbred was incorporated under the Ontario Business Corporations Act on March 8, 2011 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). The principal business of Thoroughbred was to identify and evaluate potential acquisitions or businesses and, once identified and evaluated, to negotiate an acquisition or participation subject to receipt of regulatory and, if required, shareholders' approval.

On December 17, 2013, Thoroughbred completed its Qualifying Transaction which was effected pursuant to an agreement between Thoroughbred and Sunora Foods Ltd. ("SFL"). Pursuant to the agreement, Thoroughbred acquired all of the issued and outstanding shares of SFL. The former shareholder of SFL received 3,000 common shares of Thoroughbred for each SFL common share held. Thoroughbred changed its name to Sunora Foods Inc. upon completion of the Qualifying Transaction.

Upon closing of the transaction, the shareholder of SFL owned 83.33% of the common shares of Thoroughbred and as a result, the transaction is a reverse acquisition of Thoroughbred by SFL. For accounting purposes, SFL is considered the acquirer and Thoroughbred the acquiree. Accordingly, the consolidated financial statements are in the name of Sunora Foods Inc. (formerly Thoroughbred), however are a continuation of the financial statements of SFL. Additional information on the transaction is disclosed in note 4.

The financial year-end of the Corporation was changed from August 31 to December 31. Accordingly, the comparative figures for the consolidated statement of income (loss) and comprehensive income (loss), consolidated statement of changes in shareholders' equity, consolidated statement of cash flows and the related notes to the consolidated financial statements are for the four month period ended December 31, 2013.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 28, 2015.

### 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").



# Sunora Foods Inc.

(formerly "Thoroughbred Capital Inc.")

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements 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 and assumptions in determining the value of assets, liabilities and equity:

*Valuation of accounts receivable*

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

*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.

# Sunora Foods Inc.

(formerly "Thoroughbred Capital Inc.")

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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### *Share-based compensation*

The amounts recorded relating to the fair value of stock options and warrants issued are based on estimates of the future volatility of the Corporation's share price, market price of the Corporation's shares at grant date, expected lives of the options and warrants, expected forfeiture rates, expected dividends and other relevant assumptions. These estimates affect the amount recognized as stock-based compensation expense in the statement of income (loss) and comprehensive income (loss).

### *Current and deferred taxes*

Provisions for current taxes are made using the best estimate of the amount expected to be paid based on a review of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

### 3. Significant accounting policies

#### (a) Basis of consolidation

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

#### (i) Subsidiaries

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

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

# Sunora Foods Inc.

(formerly "Thoroughbred Capital Inc.")

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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(b) Business combinations

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

(c) Foreign currency translation

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

(d) Inventory

Inventory is carried at the lower of average cost and net realizable value. Inventory consists of finished goods comprised of food oils and packaging materials. Costs include all expenses to bring the goods to sale. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Allowances are made against obsolete or damaged inventories and charged to the cost of sales. The reversal of any write-down of inventory arising from an increase in net realizable value would be recognized as a reduction in cost of sales in the period in which the reversal occurred.

(e) Revenue recognition

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

- the Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

# Sunora Foods Inc.

(formerly "Thoroughbred Capital Inc.")

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(f) Income taxes

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

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

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

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

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

(g) Stock-based compensation

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

# Sunora Foods Inc.

(formerly "Thoroughbred Capital Inc.")

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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

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

(h) Net income (loss) per share

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

(i) Financial instruments

(i) Classification and measurement

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

Financial assets and financial liabilities at "fair value through the statement of income" are either classified as "held for trading" or "designated at fair value through the statement of income" and are measured at fair value with changes in fair value recognized in the statement of income. Transaction costs are expensed when incurred. The Corporation has designated cash as "held for trading".

# Sunora Foods Inc.

(formerly "Thoroughbred Capital Inc.")

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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Financial assets and financial liabilities classified as "loans and receivables", "held-to-maturity", or "financial liabilities measured at amortized costs" are measured at amortized cost using the effective interest method of amortization. "Loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. "Held-to-maturity" financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. "Financial liabilities measured at amortized cost" are those financial liabilities that are not designated as "fair value through the statement of income" and that are not derivatives. The Corporation has designated accounts receivable as "loans and receivables". Accounts payable and accrued liabilities are classified as "financial liabilities measured at amortized cost".

Financial assets classified as "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Corporation has no available-for-sale financial assets.

(ii) Equity instruments

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

(iii) Impairment

The Corporation assesses at the date of each statement of financial position whether there is objective evidence that financial assets, other than those designated as "fair value through the statement of income" are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of income in the period. Impairment losses may be reversed in subsequent periods.

# Sunora Foods Inc.

(formerly "Thoroughbred Capital Inc.")

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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(i) New accounting standards

(i) Changes in accounting policies

On January 1, 2014, the Company adopted the following new standards and amendments which became effective for annual periods beginning on or after January 1, 2014:

*Financial instruments*

*IAS 32 - Financial Instruments: Presentation* ("IAS 32") has been amended to clarify requirements for offsetting financial assets and liabilities. The amendment addresses the meaning and application of the concepts of legally enforceable right of set-off and simultaneous realization and settlement.

Adoption of this standard had no impact on the company's consolidated financial statements.

*Impairment of assets*

*IAS 36 – Impairment of Assets* has been amended to require disclosure of the recoverable amount of an asset (including goodwill) or a cash generating unit when an impairment has been recognized or reversed in a period. When the recoverable amount is based on fair value less costs of disposal, the valuation techniques and key assumptions must also be disclosed.

Adoption of this standard had no impact on the Company's consolidated financial statements.

*Levies*

*International Financial Reporting Interpretations Committee ("IFRIC") 21 – Levies* includes the accounting for levies imposed by governments which clarifies the obligating event that gives rise to a liability to pay a levy.

Adoption of this standard had no material impact on the Company's consolidated financial statements.

(ii) Future accounting policies

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

# Sunora Foods Inc.

(formerly "Thoroughbred Capital Inc.")

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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### *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 standards 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, 2017.

#### 4. Reverse acquisition

On December 17, 2013, Thoroughbred completed its Qualifying Transaction which was effected pursuant to an agreement between Thoroughbred and SFL. Pursuant to the agreement, Thoroughbred acquired all of the issued and outstanding shares of SFL. The former shareholder of SFL received 3,000 common shares of Thoroughbred for each SFL common share held.

The transaction is a reverse acquisition of Thoroughbred and has been accounted for under IFRS 2, Share-based Payments. Accordingly, the transaction has been accounted for at the fair value of the equity instruments granted by the shareholder of SFL to the shareholders and option holders of Thoroughbred. The difference between the net assets acquired and the fair value of the consideration paid has been recognized as a listing expense in the statement of income (loss) and comprehensive income (loss) for the period ended December 31, 2013. Costs of the transaction of \$255,617 were also expensed in the period ended December 31, 2013.

The results of operations of Thoroughbred are included in the consolidated financial statements of Sunora from the date of the reverse acquisition, December 17, 2013.



# Sunora Foods Inc.

(formerly "Thoroughbred Capital Inc.")

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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The fair value of the net assets acquired at December 17, 2013 are as follows:

Cash	\$ 60,728
Accounts receivable	23,717
Deferred transaction costs	273,707
Accounts payable and accrued liabilities	<u>(312,769)</u>
Net assets acquired	<u>\$ 45,383</u>
Fair value of share consideration (note 7(b))	\$ 1,002,000
Fair value of options recorded as contributed surplus	<u>40,256</u>
Fair value of consideration paid	<u>\$ 1,042,256</u>
Listing expense	<u>\$ 996,873</u>

The fair value of the Thoroughbred options were estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.11%
Expected volatility	100.00%
Expected life	0.04 years
Estimated dividend yield	0.00%
Estimated forfeiture rate	0.00%
Stock price	\$0.167
Exercise price	\$0.10
Fair value per option	\$0.07

### 5. Inventory

The cost of inventory recognized as an expense during the period and included in cost of sales was \$11,148,847 (2013 - \$4,092,977). The inventory on hand consists of finished goods including product available for sale in bulk as well as packaged product available for sale.

# Sunora Foods Inc.

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## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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### 6. Income taxes

- (a) Income tax recovery differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 25% (2013 - 25%) to income or loss before income taxes as follows:

	December 31, 2014	December 31, 2013
Net income (loss) before tax	\$ 308,610	\$ (1,220,306)
Expected income tax expense (recovery)	77,152	(305,093)
Listing expense	-	249,218
Tax asset not previously recognized	-	(55,843)
Stock-based compensation	11,475	-
Rate changes and other	<u>30,910</u>	<u>(33,939)</u>
Income tax expense (recovery)	<u>\$ 119,537</u>	<u>\$ (145,657)</u>
Total income tax expense (recovery) is comprised of:		
Current income tax expense (recovery)	\$ 104,370	\$ (533)
Deferred income tax expense (recovery)	<u>15,167</u>	<u>(145,124)</u>
	<u>\$ 119,537</u>	<u>\$ (145,657)</u>

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

	December 31, 2013	Recognized in profit or loss	December 31, 2014
Deferred income tax assets:			
Non-capital loss carryforwards	\$ (130,469)	\$ 50,186	\$ (80,283)
Share issuance costs	(16,084)	-	(16,084)
Cumulative eligible capital	(18,587)	(35,108)	(53,695)
Undepreciated capital cost	(89)	89	-
	<u>\$ (165,229)</u>	<u>\$ 15,167</u>	<u>\$ (150,062)</u>

	August 31, 2013	Recognized in profit or loss	Recognized directly in equity	December 31, 2013
Deferred income tax assets:				
Non-capital loss carryforwards	\$ -	\$ (130,469)	\$ -	\$ (130,469)
Share issuance costs	-	4,021	(20,105)	(16,084)
Cumulative eligible capital	(19,031)	444	-	(18,587)
Undepreciated capital cost	(96)	7	-	(89)
Tax assets not recognized	19,127	(19,127)	-	-
	<u>\$ -</u>	<u>\$ (145,124)</u>	<u>\$ (20,105)</u>	<u>\$ (165,229)</u>

- (c) The Corporation has available the following estimated non-capital loss carryforwards:

Year of expiry	Amount
2030	\$ 13,263
2031	42,877
2032	90,724
2033	147,227
2034	<u>27,046</u>
	<u>\$ 321,137</u>

### 7. Share capital and warrants

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

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(b) Issued

Common shares	Number	Stated Value
Balance, August 31, 2013	10,000	\$ 1000
Elimination of SFL common shares (i)	(10,000)	-
Shares issued in reverse acquisition (i)	30,000,000	-
Shares previously issued by Thoroughbred (ii)	6,000,000	1,002,000
Shares issued for brokered private placement (iii)	4,587,667	367,013
Shares issued for non-brokered private placement (iv)	1,666,665	133,333
Share issue costs (v),(vi), 7(e)(i), 7(e)(ii) (less tax benefit of 20,105)	-	<u>(102,530)</u>
Balance, December 31, 2013 and 2014	<u>42,254,332</u>	<u>\$ 1,400,816</u>

- (i) On December 17, 2013, as part of the reverse acquisition (note 4), the former holders of SFL common shares received 3,000 common shares of Sunora for each one SFL common share held.
- (ii) At December 17, 2013, Thoroughbred had 6,000,000 outstanding common shares.
- (iii) During the period ended December 31, 2013, in conjunction with the reverse acquisition, the Corporation completed a brokered private placement and issued 4,587,667 units at \$0.15 per unit. Each unit consists of one common share and one common share warrant, exercisable at \$0.25 per share for a period of 24 months from the date of closing. Of the \$0.15 unit price, \$0.07 per unit has been allocated to the common share warrant based on a Black-Scholes model using a risk-free interest rate of 1.11%, an expected life of 2 years, an expected volatility of 100%, no expected dividends, a stock price of \$0.167 per share and an exercise price of \$0.15 per share. The remaining \$0.08 per unit was allocated to the stated value of common shares.
- (iv) During the period ended December 31, 2013, in conjunction with the reverse acquisition, the Corporation completed a non-brokered private placement and issued 1,666,665 units at \$0.15 per unit. Each unit consists of one common share and one common share warrant, exercisable at \$0.25 per share for a period of 24 months from the date of closing. Of the \$0.15 unit price, \$0.07 per unit has been allocated to the common share warrant based on a Black-Scholes model using a risk-free interest rate of 1.11%, an expected life of 2 years, an expected volatility of 100%, no expected dividends, a stock price of \$0.167 per share and an exercise price of \$0.15 per share. The remaining \$0.08 per unit was allocated to the stated value of common shares.
- (v) The Agent to the brokered private placement received a marketing commission of 7.5% of the private placement funds of \$51,611, which have been included in share issue costs.

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(vi) Additional share issue costs of \$28,807 relating to legal and other fees were incurred during the reverse acquisition.

(c) Net income (loss) per share

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Basic	42,254,332	31,406,235
Effect of dilutive instruments		
Common share options	<u>183,503</u>	<u>-</u>
Diluted	<u>42,437,835</u>	<u>31,406,235</u>

The weighted average number of shares for the period ended December 31, 2013 have been adjusted to reflect the equivalent number of Thoroughbred shares issued to SFL shareholders upon the reverse acquisition.

For the year ended December 31, 2014, the potential effect of the issuance of common shares upon the exercise of 6,723,406 (2013 – 6,723,406) warrants and NIL (2013 – 600,000) common share options are anti-dilutive and were therefore excluded from this calculation of diluted income per share. 600,000 (2013 – NIL) common share options were dilutive and therefore included in the calculation of diluted income per share.

(d) Shares in escrow

At December 31, 2014, a total of 19,200,000 common shares (2013 – 28,800,000) were held in escrow pursuant to TSXV requirements. The remaining shares will be released from escrow every 6 months by instalments of 4,800,000 common shares.

(e) Warrants

	<b>Number</b>	<b>Amount</b>
Warrants issued as part of brokered private placement (note 7(b)(iii))	4,587,667	\$ 321,137
Agent's warrants (i), (iii)	344,075	30,967
Warrants issued as part of non-brokered private placement (note 7(b)(iv))	1,666,665	116,667
Finder's warrants (ii), (iii)	<u>124,999</u>	<u>11,250</u>
Balance at December 31, 2013 and 2014	<u>6,723,406</u>	<u>\$ 480,021</u>

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## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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- (i) The Agent to the brokered private placement also received Agent's warrants to purchase common shares representing that number of common shares equal to 7.5% of the units issued, exercisable at a price of \$0.15 per common share for a period of 24 months from the date of closing. The fair value of the Agent's warrants of \$30,967 has been included as share issue costs during the period ended December 31, 2013 (note 7(b)).
- (ii) The Finder to the non-brokered private placement received Finder's warrants to purchase common shares representing that number of common shares equal to 7.5% of the units issued, exercisable at a price of \$0.15 per common share for a period of 24 months from the date of closing. The fair value of the Finder's warrants of \$11,250 has been included as share issue costs during the period ended December 31, 2013 (note 7(b)).
- (iii) The fair value of the agent's and finder's warrants granted during the period ended December 31, 2013 were estimated on the date of grant using the Black Scholes option pricing model with the following assumptions:

Share price on the date of grant	\$0.167
Exercise price	\$0.15
Risk-free interest rate	1.11%
Expected volatility	100.00%
Expected life	2 years
Estimated dividend yield	0.00%
Estimated forfeiture rate	0.00%
Fair value per option	\$0.09

The Corporation's expected volatility is based on volatility assumptions used by similar publicly-traded companies in the same industry, as well as management's expectation of future stock price fluctuations.

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### 8. Stock-based compensation

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

For the year ended December 31, 2014, the Corporation modified the previously issued stock options (note 4) to extend the expiry date to August 21, 2021 and recorded stock-based compensation of \$45,901 relating to the modification.

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

Risk-free interest rate	2.09%
Expected volatility	100.00%
Expected life	7.69 years
Estimated dividend yield	0.00%
Estimated forfeiture rate	0.00%
Stock price	\$0.167
Exercise price	\$0.10
Fair value per option	\$0.15

The Corporation's expected volatility is based on volatility assumptions used by similar publicly-traded companies in the same industry, as well as management's expectation of future stock price fluctuations.

The following is a summary of the Corporation's outstanding stock options for the year ended December 31, 2014 and the period ended December 31, 2013:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Expiry Date</b>
Outstanding at August 31, 2013	-	-	-
Issued	600,000	\$ 0.10	August 25, 2021
Outstanding at December 31, 2013	600,000	\$ 0.10	August 25, 2021
Forfeited	(60,000)	\$ 0.10	August 25, 2021
Outstanding at December 31, 2014	540,000	\$ 0.10	August 25, 2021
Exercisable at December 31, 2014	540,000	\$ 0.10	August 25, 2021

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## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2014 and Four-Month Period Ended December 31, 2013 (amounts in Canadian dollars)

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During the year ended December 31, 2014, 60,000 (2013 – Nil) options were forfeited.

Subsequent to year end, on February 11, 2015, 1,855,000 stock options were granted at an exercise price of \$0.15/option to certain directors, officers, employees and consultants of the Corporation. The options expire in 5 years and vest 1/3 each 6 month anniversary of the grant date.

Subsequent to year end, on March 11, 2015, 540,000 options were forfeited.

### 9. Contributed surplus

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Balance, beginning of period	\$ 40,256	\$ -
Stock-based compensation (note 8)	45,901	40,256
Balance, end of period	<u>\$ 86,157</u>	<u>\$ 40,256</u>

### 10. Financial instruments

#### (a) Risk management

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. The Corporation employs risk management strategies and 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.

#### (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.



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

(c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on credit risk applicable to certain accounts, historical trends and other relevant information. Management believes the risk is often mitigated by the size and reputation of the companies to which they extend credit.

As at December 31, 2014, the Corporation's maximum exposure to credit risk for accounts receivable is \$1,440,990. Accounts receivable include amounts that are past due at the end of the reporting period for which the Corporation has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Current	\$ 1,333,071	\$ 1,287,774
60 - 90 days	105,641	6,927
Greater than 90 days	<u>2,278</u>	<u>1,498</u>
Accounts receivable	<u>\$ 1,440,990</u>	<u>\$ 1,296,199</u>

The accounts receivable balance is widely diversified with the exception of two customers (2013 – one customer) that represent 18% and 10% of the accounts receivable balance at December 31, 2014 (2013 –33%).

During the period ended December 31, 2014, sales to one customer (2013 - two customers) represents 17% of the Corporation's total sales (2013 – 27% and 14%).

Bad debt expense for the period ended December 31, 2014 was \$148,260 (2013 - \$103,680) which is included in general and administrative expenses. At December 31, 2014, the Corporation had allowance for doubtful accounts of \$137,948 (2013 - \$Nil).

The Corporation manages the credit exposure related to cash 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.

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(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 December 31, 2014, the Corporation considered \$Nil (2013 - \$9,778) of its accounts payable to be past due.

(e) Market risk

Market risk is the risk that changes in market prices, foreign exchange rates and interest rates will affect the Corporation's net earnings or the value of financial instruments and are largely outside the control of the Corporation. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Primary market risks are as follows:

(i) Foreign currency risk

The Corporation is exposed to currency price risk on sales denominated in U.S. dollars ("USD") and Singapore dollars ("SGD") to the extent that the receipt of payment of the U.S. and Singapore denominated accounts receivable are subject to fluctuations in the related foreign exchange rate.

The carrying amounts of the Corporation's monetary assets and liabilities denominated in foreign currency at December 31, 2014 and December 31, 2013 are as follows:

	Foreign Currency	December 31, 2014	December 31, 2013
Cash	USD	547,756	522,245
Accounts receivable	USD	1,144,223	651,127
Accounts receivable	SGD	92,250	92,131
Accounts payable	USD	(427,818)	(247,046)

A \$0.01 increase in the U.S. to Canadian dollar exchange rate would have resulted in an increase of \$16,000 to net income for the year ended December 31, 2014. A \$0.01 increase in the Singapore to Canadian dollar exchange rate would not have a significant impact on the net income for the year ended December 31, 2014.

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(ii) Interest rate risk

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

(f) Capital management

The Company's target Working Capital Ratio (Current Assets divided by Current Liabilities, which is an indicator of its ability to finance its on-going operations) is 2:1. The 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. Therefore, the Company believes it is in a very favorable position to expand in the future.

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 share capital will 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 year ended December 31, 2014 or the four month period ended December 31, 2013.

11. Segmented information

The Corporation operates in one segment. 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 are earned as follows:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
United States	\$ 7,972,651	\$ 2,695,864
Canada	2,707,840	1,430,180
International	<u>2,554,547</u>	<u>668,286</u>
	<u>\$ 13,235,038</u>	<u>\$ 4,794,330</u>

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### 12. Employee and executive compensation

Total employee wages and bonuses recognized in general and administrative expenses were \$216,775 (2013 - \$90,133).

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 \$65,703 (2013 - \$19,569) and stock-based compensation of \$45,901 (2013 - \$40,256).

### 13. Related party transactions

General and administrative expenses include \$57,630 (2013 - \$Nil) of commissions on products sold from a company controlled by a director of the Corporation. \$10,374 (2013 - \$Nil) is included in accounts payable and accrued liabilities at December 31, 2014.

### 14. Commitments

#### (a) Rent commitment

At December 31, 2014, 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:

2015	20,069
2016	20,761
2017	<u>13,841</u>
	<u>\$ 54,671</u>

#### (b) Investor Relations commitment

The Corporation is committed to payments of \$1,250 twice monthly to the end of September 2015 for a total of \$22,500 to an investor relations company.

### 13. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.