SONORA GOLD & SILVER CORP.

Consolidated Financial Statements

Years Ended January 31, 2011 and 2010

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sonora Gold & Silver Corp.

We have audited the consolidated balance sheets of Sonora Gold & Silver Corp. as at January 31, 2011 and 2010, and the consolidated statements of operations, comprehensive loss, deficit, and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 involves evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Sonora Gold & Silver Corp. as at January 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Sonora Gold & Silver Corp. to continue as a going concern.

Saturna Group LLP

Saturna Group Chartered Accountants LLP

Vancouver, Canada

May 30, 2011

SONORA GOLD & SILVER CORP.
Consolidated balance sheets
As at January 31, 2011 and 2010
(Expressed in Canadian dollars)

	2011 $	2010 $
Assets		
Current Assets		
Cash and cash equivalents	1,225,194	52,855
Amounts receivable	20,011	1,825
Prepaid expenses	15,946	–
	1,261,151	54,680
Restricted cash (Note 3)	11,500	11,500
Mineral property costs (Note 4)	846,306	574,965
	2,118,957	641,145
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	77,517	39,705
Notes payable (Note 5)	150,000	–
	227,517	39,705
Shareholders' Equity		
Share capital (Note 6)	11,473,792	8,929,432
Contributed surplus (Note 7)	920,365	234,698
Deficit	(10,502,717)	(8,562,690)
	1,891,440	601,440
	2,118,957	641,145

Nature of operations and continuance of business (Note 1)
Contingency (Note 13)

Approved on behalf of the Board:

/s/ "Kenneth Churchill"
Kenneth Churchill, Director

/s/ "Giulio Bonifacio"
Giulio Bonifacio, Director

(The accompanying notes are an integral part of these financial statements)

SONORA GOLD & SILVER CORP.
Consolidated statements of operations, comprehensive loss and deficit
Years ended January 31, 2011 and 2010
(Expressed in Canadian dollars)

	2011 $	2010 $
Revenue	–	–
Expenses		
Amortization	–	800
Consulting fees (Note 10)	40,745	9,000
Foreign exchange loss	14,545	–
Impairment of mineral property costs (Note 4)	560,217	53,632
Management fees (Note 10)	58,800	48,000
Office and miscellaneous	18,078	6,978
Professional fees	154,239	25,615
Project evaluation costs	29,737	–
Rent (Note 10)	16,206	7,606
Stock-based compensation (Note 9)	848,929	15,121
Transfer agent and regulatory fees	53,568	25,557
Travel and promotion (Note 10)	101,545	26,537
	1,896,609	218,846
Loss before other expense	(1,896,609)	(218,846)
Other expense		
Interest expense (Note 5)	(43,418)	–
Net loss and comprehensive loss for the year	(1,940,027)	(218,846)
Deficit, beginning of year	(8,562,690)	(8,343,844)
Deficit, end of year	(10,502,717)	(8,562,690)
Loss per share, basic and diluted	(0.08)	(0.01)
Weighted average shares outstanding	29,640,404	25,196,348

(The accompanying notes are an integral part of these financial statements)

SONORA GOLD & SILVER CORP.

Consolidated statements of cash flows
Years ended January 31, 2011 and 2010
(Expressed in Canadian dollars)

	2011 $	2010 $
Cash provided by (used in):		
Operating activities		
Net loss for the year	(1,940,027)	(218,846)
Items not involving cash:		
Amortization	–	800
Impairment of mineral property costs	560,217	53,632
Stock-based compensation	886,577	15,121
Changes in non-cash operating working capital:		
Amounts receivable	(18,186)	7,564
Prepaid expenses	(15,946)	650
Accounts payable and accrued liabilities	52,560	(4,349)
	(474,805)	(145,428)
Investing activities		
Mineral property costs	(278,306)	–
	(278,306)	–
Financing activities		
Proceeds from notes payable	150,000	–
Proceeds from shares issued	1,775,450	–
	1,925,450	–
Increase (decrease) in cash and cash equivalents	1,172,339	(145,428)
Cash and cash equivalents, beginning of year	52,855	198,283
Cash and cash equivalents, end of year	1,225,194	52,855
Cash and cash equivalents consists of :		
Cash	423,393	52,855
Funds held in legal trust	801,801	–
	1,225,194	52,855
Non-cash investing and financing activities:		
Shares issued pursuant to mineral property option agreements	568,000	–
Supplemental disclosures:		
Interest paid	–	–
Income taxes paid	–	–

(The accompanying notes are an integral part of these financial statements)

1. Nature of Operations and Continuance of Business

The Company is an exploration stage company currently focussed on exploration and development of precious and base metal projects in Tanzania.

These financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at January 31, 2011, the Company has not generated any revenues from operations and has an accumulated deficit of $10,502,717. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is pursuing equity financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles. These consolidated financial statements include the accounts of the Company and its inactive wholly owned subsidiary, DJ Mines Limited, a company incorporated in Tanzania. All significant inter-company balances and transactions have been eliminated on consolidation.

(b) Use of Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and the related notes to the financial statements. Significant financial statement items which involve the use of estimates include the useful life and recoverability of long-lived assets, mineral property costs, asset retirement obligations, stock-based compensation, and future income tax asset valuation allowances. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

(d) Mineral Properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized against future income of the project using the unit of production method over estimated recoverable ore reserves. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that are allowed to lapse, the unrecoverable amounts are charged to operations.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contain economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs, option proceeds and recoveries, and do not necessarily reflect present or future values.

2. Significant Accounting Policies (continued)

(d) Mineral Properties (continued)

When options are granted on mineral properties, or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed carrying value of that particular claim group, the excess proceeds are reported as a gain.

Impairment may occur in the carrying value of mineral interests when one of the following conditions exists:

(i) the Company's work program on a property has significantly changed, so that previously identified resource targets or work programs are no longer being pursued;

(ii) exploration results are not promising and no more work is being planned in the foreseeable future; or

(iii) the remaining lease term is insufficient to conduct necessary studies or exploration work.

Once impairment has been determined, the carrying value is written down to net realizable value.

(e) Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(f) Asset Retirement Obligations

The Company follows CICA Handbook Section 3110, "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at the end of the current period, the Company has not incurred any asset retirement obligations related to the exploration and development of its mineral properties.

(g) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Future income taxes assets and liabilities are recognized for the estimated future tax consequences attributable to difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases ("temporary differences") and loss carry forwards. When necessary, a valuation allowance is recorded to reduce income tax assets to an amount where realization is more likely than not. Future income tax assets and liabilities are measured using enacted or substantively enacted tax laws and rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is recognized in the period that included the date of enactment or substantive enactment.

2. Significant Accounting Policies (continued)

(h) Foreign Currency Translation

Monetary assets and liabilities are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities have been translated at transaction date rates. Revenue and expenses are translated at average rates for the period. Foreign exchange gains and losses are included in operations.

(i) Flow-through Shares

The Company follows the recommendations of Emerging Issues Committee Abstract No. 146, "Flow-through Shares", which is effective for all flow-through share transactions. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the Company assigns the tax deductions arising from the related resource expenditures to the shareholders. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and share capital is reduced. If the Company has sufficient unused tax losses carried forward or other future income tax assets to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these items, a portion of such unrecognized losses is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

(j) Financial Instruments

The Company classifies all financial instruments as either held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instruments classification. Held-for-trading instruments are measured at fair value with unrealized gains and losses recognized in results of operations. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost.

The Company has classified its cash and restricted cash as held-for-trading. Receivables are classified as loans and receivables. Accounts payable, accrued liabilities, and notes payable are classified as other financial liabilities.

(k) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share. Stock options, share purchase warrants, and other equity instruments are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options, warrants and other equity instruments. As the Company has recorded a loss in each of the periods presented, basic and diluted loss per share are the same since the exercise of warrants or options would reduce the loss per share.

(l) Comprehensive Loss

Section 1530 establishes standards for the reporting and display of comprehensive income. The Company does not have any items representing comprehensive income or loss.

(m) Reclassifications

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

2. Significant Accounting Policies (continued)

(n) Stock-based Compensation

The Company recognizes stock-based compensation expense in accordance with CICA Handbook Section 3870, “Stock-Based Compensation and Other Stock-Based Payments”. When stock or stock options are issued to employees, compensation expense is recognized based on the fair value of the stock or stock options issued on the date of grant, over the vesting period of the stock or stock options. Stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. On the exercise of stock options, share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus.

(o) Future Changes in Accounting Standards

In August 2009, the Accounting Standards Board (“AcSB”) issued CICA Handbook Section 1625, “Comprehensive Revaluation of Assets and Liabilities” for consistency with new Section 1582, “Business Combinations”. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. The adoption of this section is not expected to have a material impact on the Company’s consolidated financial statements.

In August 2009, AcSB issued CICA Handbook Section 3251, “Equity” in response to issuing Section 1602, “Non-controlling Interests”. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602. The adoption of this section is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2009, the AcSB issued CICA Handbook Sections 1582, “Business Combinations”, 1601, “Consolidated Financial Statements” and 1602, “Non-controlling Interests” which replace CICA Handbook Sections 1581, “Business Combinations” and 1600, “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning February 1, 2011. Early adoption of this section is permitted and all three sections must be adopted concurrently.

In February 2008, the AcSB confirmed that public companies will be required to prepare interim and annual financial statements under International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. The transition date of February 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended January 31, 2011. Management has assessed the impact of adopting IFRS and it does not expect a material effect on the Company’s consolidated financial statements.

3. Restricted Cash

The Company has pledged a guaranteed investment certificate (“GIC”) as collateral for the Company’s credit cards. The GIC earns interest of prime minus 2.05% and has a maturity date of January 18, 2012.

(Expressed in Canadian dollars)

4. Mineral Property Costs

2011	Los Pavitos $	Handeni $	Negese $	Total $
Acquisition Costs:				
Balance, January 31, 2010	514,675	–	–	514,675
Additions	–	731,642	114,664	846,306
Impairment	(514,675)	–	–	(514,675)
Balance, January 31, 2011	–	731,642	114,664	846,306
Exploration Costs:				
Balance, January 31, 2010	60,290	–	–	60,290
Impairment	(60,290)	–	–	(60,290)
Balance, January 31, 2011	–	–	–	–
	–	731,642	114,664	846,306

2010	Los Pavitos $	Brenda $	Christina $	Total $
Acquisition Costs:				
Balance, January 31, 2009	514,675	19,501	19,501	553,677
Impairment	–	(19,501)	(19,501)	(39,002)
Balance, January 31, 2010	514,675	–	–	514,675
Exploration Costs:				
Balance, January 31, 2009	60,290	7,315	7,315	74,920
Impairment	–	(7,315)	(7,315)	(14,630)
Balance, January 31, 2010	60,290	–	–	60,290
	574,965	–	–	574,965

(a) Los Pavitos, Christina, and Brenda, Mexico

On September 11, 2007, the Company entered into an option agreement to purchase three separate mineral claims (Los Pavitos, Christina, and Brenda) in the state of Sonora, Mexico. The Company paid US$50,000 to purchase a two year option on the three separate mining claims. Under the agreement, the Company has the right to earn a 100% interest in the three properties. In order to exercise the options relating to Los Pavitos and Christina, the Company must, for each property, make payments of US$50,000 and issue 1,500,000 common shares of the Company. To exercise the option on Brenda, the Company must issue 3,500,000 common shares of the Company. All three properties are subject to a 2% net smelter return.

On November 27, 2007, the Company exercised its option to acquire 100% of the Los Pavitos mining claim in Sonora, Mexico, by making a cash payment of US$50,000 and by issuing 1,500,000 common shares at a fair value of $442,500 to the vendors.

During the year ended January 31, 2010, the Company decided not to exercise the options on the Christina and Brenda properties and therefore recognized an impairment loss of $53,632 on these two properties.

During the year ended January 31, 2011, the Company decided not to pursue exploration on the Los Pavitos property and therefore recognized an impairment loss of $560,217 on the property.

4. Mineral Property Costs (continued)

(b) Handeni Property, Tanzania

On July 24, 2010 (amended on October 6, 2010), the Company entered into an option agreement to acquire the mineral licence for the Handeni property located in Tanzania.

To earn this interest, the Company must issue 700,000 common shares (issued) and make the following cash payments:

- initial payment of US$20,000 into an escrow account within 10 days of the execution of the agreement (paid and released to the optionor upon completion of due diligence);
- a further US$22,500 every 90 days for a total of US$90,000 until July 24, 2011. ($45,000 has been paid)

The initial term is for one year. The Company has the right of extending the option for up to two further one year periods and then one further six month period by notice in writing to the optionor and a further payment of US$45,000 at the beginning of the each new extension option period. If the purchase option is exercised prior to the expiry of the initial term or any extension option period, then no further instalment payments or extension payments will be required to be paid.

The Company can exercise the option at any time by paying the optionor US$1,000,000. The optionor retains a 2% net smelter royalty. The US$1,000,000 option exercise payment will be treated as an advance payment of the royalty.

(c) Negese Property, Tanzania

On September 9, 2010, the Company entered into an option agreement to acquire the mineral licence to the Negese property located in Tanzania.

To earn this interest, the Company must issue 300,000 common shares (issued) and make the following cash payments:

- US$5,000 to be paid on execution of the agreement (paid);
- A further US$25,000 to be paid within 30 days on execution of the agreement (paid);
- Monthly payment of US$2,000 on the 1st day of each proceeding month from November 9, 2010 to September 9, 2011 (prorated for first month). ($5,400 has been paid);

The initial term is for one year. The Company has the right of extending the option for up to four further one year periods by notice in writing to the optionor and further monthly payments of US$5,000. If the purchase option is exercised prior to the expire of any one year option period then the value of any unexpired option period will be deducted from the purchase price

The Company can exercise the option at any time by paying the optionor US$1,300,000. The optionor retains a 2% net smelter royalty. The US$1,300,000 option exercise payment will be treated as an advance payment of the royalty.

5. Notes Payable

The Company entered into promissory note agreements with three directors of the Company whereby each of the three directors lent the Company $50,000, for a total of $150,000. The notes payable bear interest at 12% per annum, are unsecured, and due on October 6, 2011. The Company issued a total of 58,824 common shares with a fair value of $37,648 to the three directors as a bonus for lending the funds. This amount has been recorded as interest expense.

(Expressed in Canadian dollars)

6. Share Capital

Authorized: 100,000,000 common shares without par value

	Number of shares	$
Balance, January 31, 2009	25,196,383	8,929,432
Reduction due to cancellation of fractional shares	(35)	–
Balance, January 31, 2010	25,196,348	8,929,432
Issued pursuant to private placements	7,500,000	1,500,000
Issued pursuant to exercise of stock options	1,396,000	189,200
Fair value of stock options exercised transferred from contributed surplus	–	163,262
Issued pursuant to exercise of share purchase warrants	575,000	86,250
Issued pursuant to mineral property option agreements	1,000,000	568,000
Issued pursuant to notes payable proceeds received	58,824	37,648
Balance, January 31, 2011	35,726,172	11,473,792

(a) On April 22, 2010, the Company issued 2,500,000 units at $0.10 per unit for proceeds of $250,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire an additional common share at an exercise price of $0.15 per share expiring on April 22, 2011.

(b) On September 9, 2010, the Company issued 300,000 common shares with a fair value of $78,000 pursuant to the Negese mineral property option agreement. Refer to Note 4(c).

(c) On September 22, 2010, the Company issued 5,000,000 units at $0.25 per unit for proceeds of $1,250,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire an additional common share at an exercise price of $0.50 per share expiring on September 22, 2012.

(d) On October 6, 2010, the Company issued 700,000 common shares with a fair value of $490,000 pursuant to the Handeni mineral property option agreement. Refer to Note 4(b).

(e) On October 6, 2010, the Company also issued 58,824 common shares with a fair value of $37,648 pursuant to the promissory notes payable executed with three directors of the Company. Refer to Note 5.

7. Contributed Surplus

	$
Balance, January 31, 2009	219,577
Fair value of stock options granted	15,121
Balance, January 31, 2010	234,698
Fair value of stock options granted	848,929
Fair value of stock options exercised transferred to share capital	(163,262)
Balance, January 31, 2011	920,365

(Expressed in Canadian dollars)

8. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of warrants	Weighted average exercise price $
Balance, January 31, 2009	1,625,000	0.15
Expired	(1,625,000)	0.15
Balance, January 31, 2010	–	–
Issued	3,750,000	0.38
Exercised	(575,000)	0.20
Balance, January 31, 2011	3,175,000	0.43

As at January 31, 2011, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price $	Expiry date
675,000	0.15	June 16, 2011
2,500,000	0.50	September 22, 2012
3,175,000		

9. Stock Options

The Company has adopted a fixed stock option plan pursuant to which options may be granted to directors, officers, employees and consultants of the Company to a maximum of 10% of the issued and outstanding common shares. Stock options granted under this plan vest immediately.

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price $
Outstanding, January 31, 2009	650,000	0.22
Granted	450,000	0.10
Forfeited	(100,000)	0.10
Outstanding, January 31, 2010	1,000,000	0.18
Granted	2,700,000	0.40
Exercised	(1,396,000)	0.14
Expired	(104,000)	0.20
Outstanding, January 31, 2011	2,200,000	0.48

(Expressed in Canadian dollars)

9. Stock Options (continued)

Additional information regarding stock options outstanding as at January 31, 2011 is as follows:

	Outstanding and exercisable		
Range of exercise prices $	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price $
0.10	350,000	4.4	0.10
0.50	950,000	2.5	0.50
0.60	900,000	2.7	0.60
	2,200,000	2.9	0.48

The fair values for stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	2011	2010
Risk-free interest rate	2.35%	1.93%
Expected life (in years)	5	5
Expected volatility	112%	144%

The weighted average fair value of the stock options granted was $0.32 (2010 – $0.03) per option. The total fair value of the stock options granted in 2011 was $848,929 (2010 – $15,121) which was recorded as contributed surplus and charged to operations.

10. Related Party Transactions

During the years ended January 31, 2011 and 2010, the Company was involved in the following related party transactions:

(a) During the year ended January 31, 2011, the Company incurred consulting fees of $23,710 (2010 - $9,000) to the Chief Financial Officer of the Company and a company controlled by the Chief Financial Officer of the Company.

(b) During the year ended January 31, 2011, the Company incurred consulting fees of $17,035 (2010 - $nil) to a former director of the Company.

(c) During the year ended January 31, 2011, the Company incurred management fees of $40,800 (2010 - $30,000) to the President of the Company and a company controlled by the President of the Company.

(d) During the year ended January 31, 2011, the Company incurred rent of $14,400 (2010- $nil) to the President of the Company and a company controlled by the President of the Company.

(e) During the year ended January 31, 2011, the Company reimbursed the President of the Company for $nil (2010 - $18,000) in travel expenses.

All of the above transactions have been in the normal course of operations and have been recorded at their exchange amounts, which are the amounts agreed upon by the transacting parties.

(Expressed in Canadian dollars)

11. Financial Instruments and Risks

(a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's balance sheet as at January 31, 2011 as follows:

	Fair Value Measurements Using			
	Quoted prices in active markets for identical instruments (Level 1) $	Significant other observable inputs (Level 2) $	Significant unobservable inputs (Level 3) $	Balance, January 31, 2011 $
Cash	1,225,194	–	–	1,225,194
Restricted cash	11,500	–	–	11,500

The fair values of other financial instruments, which include amounts receivable, accounts payable and accrued liabilities, and notes payable, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure. Amounts receivable consist of GST/HST refunds due from the Government of Canada.

(c) Foreign Exchange Rate and Interest Rate Risk

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

(d) 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 obligations 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.

(e) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

12. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity comprised of issued share capital, contributed surplus and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended January 31, 2010.

(Expressed in Canadian dollars)

13. Contingency

On February 11, 2011, the Minister for Energy and Minerals for Tanzania cancelled the mineral licence underlying the Handeni Property option agreement. The Company believes that it has a valid agreement and that the Minister for Energy and Minerals erred in law when it cancelled the mineral licence. The Company has appealed to the High Court of Tanzania to have the mineral licence reinstated. The outcome cannot be reasonably determined at this time.

14. Income Taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise future tax assets and liabilities, are as follows:

	2011 $	2010 $
Canadian statutory income tax rate	28.33%	30%
Income tax recovery at statutory rate	(549,610)	(65,654)
Tax effect of:		
Permanent differences and other	230,672	3,037
Expiry of non-capital loss	17,476	73,646
Change in enacted tax rates	35,435	20,861
Change in valuation allowance	266,027	(31,890)
Income tax provision	–	–

The significant components of future income tax assets and liabilities are as follows:

	2011 $	2010 $
Future income tax assets		
Non-capital losses carried forward	446,619	290,143
Property and equipment	179	326
Resource pools	335,761	225,907
Share issuance costs	5,144	5,300
Total gross future income tax assets	787,703	521,676
Valuation allowance	(787,703)	(521,676)
Net future income tax asset	–	–

As at January 31, 2011, the Company has non-capital losses carried forward of $1,786,475, which are available to offset future years' taxable income. These losses expire as follows:

	$
2026	108,450
2027	204,837
2028	222,157
2029	335,930
2030	227,511
2031	687,590
	1,786,475

The Company also has available mineral resource related expenditure pools totalling $2,189,351 which may be deducted against future taxable income on a discretionary basis.