



SONORA GOLD & SILVER CORP.

Consolidated Financial Statements
Nine Months Ended October 31, 2011
(Expressed in Canadian dollars)
(unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company's external auditors, Saturna Group Chartered Accountants LLP, have not performed a review of these financial statements.

SONORA GOLD & SILVER CORP.

Interim consolidated statements of financial position
(Expressed in Canadian dollars)
(unaudited)

	October 31 2011 \$	January 31 2011 \$	February 1 2010 \$
Assets			
Current Assets			
Cash and cash equivalents	736,408	1,225,194	52,855
Amounts receivable	2,520	20,011	1,825
Prepaid expenses	16,958	15,946	–
Total Current Assets	755,887	1,261,151	54,680
Non-Current Assets			
Restricted cash (Note 3)	11,500	11,500	11,500
Exploration and evaluation assets (Note 4)	915,136	846,306	574,965
Total Assets	1,682,522	2,118,957	641,145
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities	13,831	77,517	39,705
Notes payable (Note 5)	–	150,000	–
Total Liabilities	13,831	227,517	39,705
Shareholders' Equity			
Share capital	11,473,792	11,473,792	8,929,432
Contributed surplus	1,105,089	920,365	234,698
Deficit	(10,910,189)	(10,502,717)	(8,562,690)
Total Shareholders' Equity	1,668,691	1,891,440	601,440
Total Liabilities and Shareholders' Equity	1,682,522	2,118,957	641,145

Nature of operations and continuance of business (Note 1)
Contingency (Note 11)

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 consolidated financial statements)

SONORA GOLD & SILVER CORP.

Interim consolidated statements of comprehensive loss
(Expressed in Canadian dollars)
(unaudited)

	Three months ended October 31, 2011 \$	Three months ended October 31, 2010 \$	Nine months ended October 31, 2011 \$	Nine months ended October 31, 2010 \$
Revenue	–	–	–	–
Expenses				
Property evaluation costs	926	–	26,101	26,598
Amortization	–	–	–	–
Consulting fees	9,000	8,000	28,110	17,000
Foreign exchange loss	–	–	95	–
Investor Relations	–	337	–	2,411
Management fees (Note 11)	13,200	15,150	41,100	49,650
Office and miscellaneous	2,824	1,165	9,549	6,951
Finance charges	–	–	–	30,000
Professional fees	16,645	15,289	91,493	22,400
Rent	4,440	2,109	12,760	6,402
Stock-based compensation	154,724	77,342	154,724	848,929
Transfer agent and regulatory fees	(1,143)	13,244	23,431	40,394
Travel and promotion	(12,182)	5,221	7,878	46,824
Total expenses	188,434	137,857	395,241	1,097,559
Loss before other expense	(188,434)	(137,857)	(395,241)	(1,097,559)
Other expense				
Interest expense	(4,833)	–	(12,230)	–
Net loss and comprehensive loss for the period	(193,267)	(137,857)	(407,471)	(1,097,559)
Loss per share, basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)
Weighted average shares outstanding	35,742,120	25,914,580	35,742,120	25,914,580

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

SONORA GOLD & SILVER CORP.

Interim consolidated statement of changes in equity
(Expressed in Canadian dollars)
(unaudited)

	Share capital		Contributed surplus \$	Deficit \$	Total shareholders' equity \$
	Number of shares	Amount \$			
Balance, February 1, 2011	35,726,172	11,473,792	920,365	(10,502,717)	1,891,440
Exercise of warrants	200,000	–	30,000	–	30,000
Stock-based compensation			154,724		154,724
Net loss for the period	–	–	–	(407,471)	(252,747)
Balance, October 31, 2011	35,926,172	11,473,792	1,105,089	(10,910,189)	1,668,691

	Share capital		Contributed surplus \$	Deficit \$	Total shareholders' equity \$
	Number of shares	Amount \$			
Balance, February 1, 2010	25,196,348	8,929,432	234,698	(8,562,690)	601,440
Exercise of Warrants	2,500,000	1,953,200	848,929		2,802,129
Net loss for the period	–	–	–	(1,097,559)	(1,097,559)
Balance, October 31, 2010	27,696,648	10,882,632	1,083,627	(9,660,249)	2,306,009

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

SONORA GOLD & SILVER CORP.

Interim consolidated statements of cash flows
(Expressed in Canadian dollars)
(unaudited)

	Three months ended October 31, 2011 \$	Three months ended October 31, 2010 \$	Nine months ended October 31, 2011 \$	Nine months ended October 31, 2010 \$
Operating Activities				
Net loss for period	(193,267)	(929,699)	(407,471)	(1,097,559)
Adjustments				
Amortization				
Stock-based compensation	154,724	771,587	154,724	848,929
Bonus shares issued	–	30,000	–	30,000
Changes in non-cash operating working capital:				
Amounts receivable	4,730	(58,363)	17,491	(58,205)
Prepaid expenses	(16,958)	–	(1,012)	–
Accounts payable and accrued liabilities	(33,112)	4,857	(63,686)	(277)
Net cash used in investing activities	(83,883)	(181,618)	(299,954)	(277,112)
Financing Activities				
Promissory note	(150,000)	150,000	(150,000)	150,000
Issuance of shares	–	1,300,313	30,000	1,550,313
Net cash provided from financing activities	(150,000)	(1,450,313)	(120,000)	1,700,313
Investing Activities				
Funds deposited in trust re property	–	(816,347)	–	(816,347)
Option payment on mineral properties	(18,274)	(208,531)	(68,830)	(218,728)
Net Cash Used in Investing Activities	(18,274)	(1,024,878)	(68,830)	(1,035,075)
Increase (Decrease) in cash during the period	(252,157)	243,817	(488,784)	388,126
Cash and cash equivalents, beginning period	988,566	197,163	1,225,194	52,855
Total cash and cash equivalents	736,408	440,980	736,408	440,980

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

SONORA GOLD & SILVER CORP.

Notes to the consolidated financial statements

October 31, 2011

(Expressed in Canadian dollars)

(unaudited)

1. Nature of Operations and Going Concern

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 October 31, 2011, the Company has not generated any revenues from operations and has an accumulated deficit of 10,755,465. 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 Preparation

These interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). These financial statements are the Company's third IFRS interim financial statements after its transition to reporting in accordance with IFRS and before the issuance of its first publicly issued annual IFRS financial statements. IFRS 1, "First-time Adoption of International Financial Reporting Standards ("IFRS 1")" has been applied to these interim financial statements

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 12.

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars, which is the Company's functional currency.

The interim financial statements were authorized for issue by the Board of Directors on December 19, 2011.

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 inter-company balances and transactions have been eliminated on consolidation.

(b) Use of Estimates and Judgments

The preparation of the financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

Significant areas requiring the use of estimates include the useful life and recoverability of property and equipment, valuation of exploration and evaluation expenditures, determination of reclamation provisions, measurement of share-based payments, fair values of financial instruments, and deferred income tax asset valuation allowances.

SONORA GOLD & SILVER CORP.

Notes to the consolidated financial statements

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2. Significant Accounting Policies (continued)

(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) Exploration and Evaluation Expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are charged to operations.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Mineral Property Options

The Company does not record any expenditures made by the optionee in its accounts. It also does not recognize any gain or loss on its exploration and evaluation option arrangements but re-designates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the optionee is credited against costs previously capitalized.

(e) Joint Interests

Substantially all of the Company's exploration activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(f) Impairment of Non-Current Assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

SONORA GOLD & SILVER CORP.

Notes to the consolidated financial statements

October 31, 2011

(Expressed in Canadian dollars)

(unaudited)

2. Significant Accounting Policies (continued)

(f) Impairment of Non-Current Assets (continued)

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the statement of income.

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the statement of income.

(g) Reclamation and Remediation Provisions

The Company recognizes a provision for statutory, contractual, constructive or legal obligations associated with decommissioning of mining operations and reclamation and rehabilitation costs arising when environmental disturbance is caused by the exploration or development of mineral properties, plant and equipment. Provisions for site closure and reclamation are recognized in the period in which the obligation is incurred or acquired, and are measured based on expected future cash flows to settle the obligation, discounted to their present value. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability including risks specific to the countries in which the related operation is located.

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in mineral properties, plant and equipment. These costs are depreciated using either the unit of production or straight line method depending on the asset to which the obligation relates.

The obligation is increased for the accretion and the corresponding amount is recognized as a finance expense. The obligation is also adjusted for changes in the estimated timing, amount of expected future cash flows, and changes in the discount rate. Such changes in estimates are added to or deducted from the related asset except where deductions are greater than the carrying value of the related asset in which case, the amount of the excess is recognized in the statements of comprehensive income/loss.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total provision for future site closure and reclamation costs is subject to change based on amendments to laws and regulations, changes in technology, price increases and changes in interest rates, and as new information concerning the Company's closure and reclamation obligations becomes available.

SONORA GOLD & SILVER CORP.

Notes to the consolidated financial statements

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2. Significant Accounting Policies (continued)

(h) Financial Instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss when the financial asset is held for trading or it is designated as fair value through profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as fair value through profit or loss are stated at fair value with any gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. The Company does not have any assets classified as fair value through profit or loss.

Held-to-maturity investments

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as held-to-maturity investments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Available-for-sale financial assets are comprised of marketable securities.

SONORA GOLD & SILVER CORP.

Notes to the consolidated financial statements

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(unaudited)

2. Significant accounting policies (continued)

(h) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of cash and amounts receivable.

Impairment of financial assets

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to profit or loss in the period. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For marketable securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

SONORA GOLD & SILVER CORP.

Notes to the consolidated financial statements

October 31, 2011

(Expressed in Canadian dollars)

(unaudited)

2. Significant accounting policies (continued)

(h) Financial instruments (continued)

(i) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities and amounts due to related parties.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(i) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

SONORA GOLD & SILVER CORP.

Notes to the consolidated financial statements

October 31, 2011

(Expressed in Canadian dollars)

(unaudited)

2. Significant Accounting Policies (continued)

(i) Income Taxes (continued)

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(j) Flow-through Shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. On issuance, the premium recorded on the flow-through share, being the difference in price over a common share with no tax attributes, is recognized as a liability. As expenditures are incurred, the deferred income tax liability associated with the renounced tax deductions is recognized through profit and loss with a pro-rata portion of the deferred premium.

(k) Foreign Currency Translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in profit or loss.

(l) 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, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive.

(m) Comprehensive Loss

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in profit or loss. The Company's only component of comprehensive loss is unrealized holding gains and losses on available-for-sale marketable securities.

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(Expressed in Canadian dollars)

(unaudited)

2. Significant Accounting Policies (continued)

(n) Stock-based Compensation

The Company grants share-based awards to employees, directors and consultants as an element of compensation. The fair value of the awards is recognized over the vesting period as share-based compensation expense and contributed surplus. The fair value of share-based payments is determined using the Black-Scholes option pricing model using estimates at the date of the grant. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the statement of income with a corresponding entry within equity, against contributed surplus. No expense is recognized for awards that do not ultimately vest. When stock options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital.

Share-based payments arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, unless the fair value cannot be estimated reliably. If the Company cannot reliably estimate the fair value of the goods or services received, the Company will measure their value by reference to the fair value of the equity instruments granted.

(o) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended October 31, 2011, and have not been applied in preparing these financial statements.

(i) Effective for annual periods beginning on or after November 1, 2011:

Amendments to IFRS 7, "Financial Instruments: Disclosures"

Increase in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.

(ii) Effective for annual periods beginning on or after January 1, 2013:

New standard IFRS 9, "Financial Instruments"

Partial replacement of IAS 39, "Financial Instruments: Recognition and Measurement"

New standard IFRS 13, "Fair Value Measurement"

IFRS 13 replaces the fair value measurement guidance currently dispersed across different IFRS standards with a single definition of fair value and extensive application guidance. IFRS 13 provides guidance on how to measure fair value and does not introduce new requirements for when fair value is required or permitted. It also establishes disclosure requirements to provide users of the financial statements with more information about fair value measurements.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the financial statements.

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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.

4. Mineral Property Costs

	Handeni \$	Negese \$	Total \$
<i>Acquisition Costs:</i>			
Balance, January 31, 2011	731,642	114,664	846,306
Additions	–	31,437	31,437
Balance, October 31, 2011	731,642	146,101	877,743
<i>Exploration Costs:</i>			
Balance, January 31, 2011	–	–	–
Geological	–	37,393	37,393
Balance, October 31, 2011	–	–	–
	731,642	183,494	915,136

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). (Payments are current);

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 were due on October 6, 2011. In fiscal 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 which was recorded as interest expense. These notes were all repaid in October, 2011, including accrued interest.

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6. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants	Weighted average exercise price \$
Balance, January 31, 2011 and October 31, 2011	2,500,000	0.43

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

Number of warrants outstanding	price \$	Expiry date
2,500,000	0.50	September 22, 2012
<u>2,500,000</u>		

7. 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, 2011	2,150,000	0.48
Expired	(50,000)	0.50
Issued	1,400,000	0.16
Outstanding, October 31, 2011	<u>3,500,000</u>	<u>0.35</u>

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

Range of exercise prices \$	Outstanding and exercisable		
	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price \$
0.10	350,000	4.1	0.10
0.50	850,000	2.4	0.50
0.60	900,000	2.4	0.60
0.16	1,400,000	5.0	0.14
	<u>3,500,000</u>	<u>3.4</u>	<u>0.35</u>

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(Expressed in Canadian dollars)

(unaudited)

8. Related Party Transaction

- (a) For the nine months ended October 31, 2011, the Company incurred management fees of \$30,600 (2010 - \$30,600) to an officer of the Company and a company controlled by the officer.
- (b) For the nine months ended October 31, 2011, the Company incurred consulting fees of \$27,000 (2010 - \$13,500) to an officer of the Company.
- (c) For the nine months ended October 31, 2011, the Company incurred rent of \$10,800 (2010 - \$10,800) to a Company controlled by an officer of the Company.
- (d) For the nine months ended October 31, 2011, the Company incurred legal fees of \$18,759 (2010 - \$nil) to law firm where a director of the Company is a partner.

9. Financial Instruments

(a) Fair Values

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

	Fair Value Measurements Using			Balance, October 31, 2011 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$	
Cash	736,408	–	–	736,408
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.

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9. Financial Instruments (continued)

(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.

10. 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, 2011.

11. 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 appealed to have the mineral licence reinstated. The court in November ruled that there were sufficient merits to the Company's appeal that the matter was referred to the High Court and the hearing will now be held on March 27, 2012. The outcome of this hearing is unknown at this time.

12. Transition to IFRS

As stated in Note 2, these are the Company's financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for nine months ended October 31, 2011, the comparative information presented in these financial statements for the nine months ended October 31, 2010, and in the preparation of an opening IFRS statement of financial position as at February 1, 2010 (the Company's date of transition).

First Time Adoption of IFRS

The Company has adopted IFRS on February 1, 2011 with a transition date of February 1, 2010. Under IFRS 1, "First Time Adoption of International Financial Reporting Standards ("IFRS 1"), the IFRS standards are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to deficit, with IFRS providing certain optional and mandatory exemptions to this principle.

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12. Transition to IFRS (continued)

The Company has elected to apply the following optional exemptions:

Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, "Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to February 1, 2010.

Reconciliation to previously reported financial statements

The transition from Canadian GAAP to IFRS had no material impact on the statements of financial position, comprehensive loss, cash flows for the nine months ended October 31, 2011 and year ended January 31, 2011.