



**SONORA GOLD & SILVER CORP.**

Financial Statements

Years Ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

## AUDITORS' REPORT

To the Shareholders of  
Sonora Gold & Silver Corp.

We have audited the balance sheets of Sonora Gold & Silver Corp. as at January 31, 2010 and 2009 and the statements of operations, comprehensive loss, deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

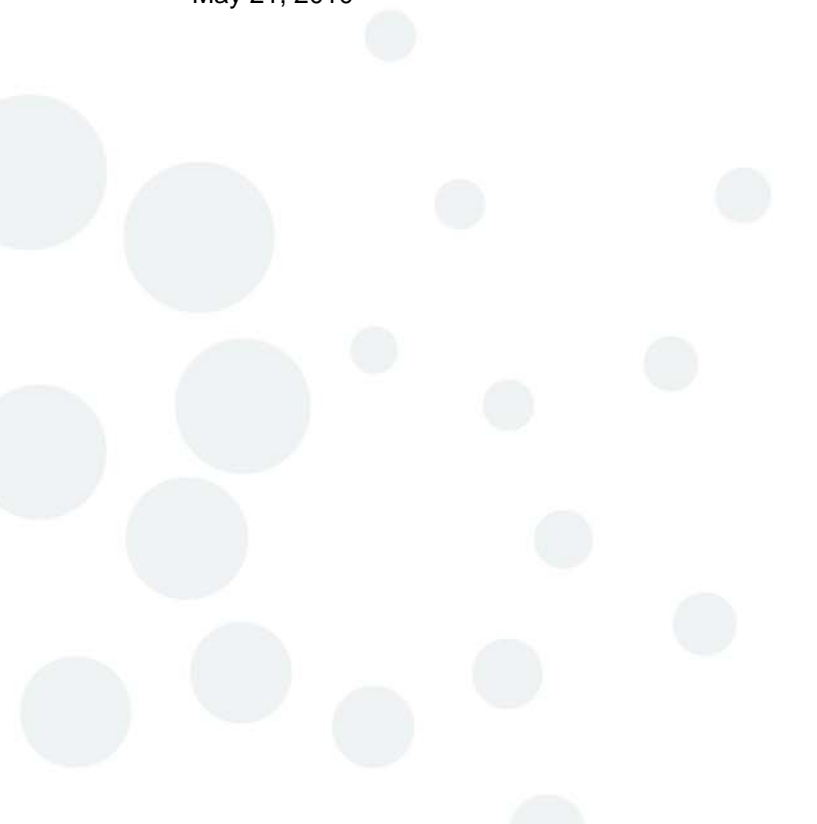
In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Saturna Group Chartered Accountants LLP

Vancouver, Canada

May 21, 2010



**SONORA GOLD & SILVER CORP.**

Balance sheets

As at January 31, 2010 and 2009

(Expressed in Canadian dollars)

	2010	2009
	\$	\$
<b>Assets</b>		
<b>Current Assets</b>		
Cash	52,855	198,283
Amounts receivable	1,825	9,389
Prepaid expenses and deposits	–	650
	54,680	208,322
Restricted cash (Note 3)	11,500	11,500
Property and equipment (Note 4)	–	800
Mineral property costs (Note 5)	574,965	628,597
	641,145	849,219
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	39,705	44,054
	39,705	44,054
<b>Shareholders' Equity</b>		
Share capital (Note 6)	8,929,432	8,929,432
Contributed surplus (Note 9)	234,698	219,577
Deficit	(8,562,690)	(8,343,844)
	601,440	805,165
	641,145	849,219

Nature of operations and continuance of business (Note 1)

Approved on behalf of the Board:

/s/ "Kenneth Churchill"

Kenneth Churchill, Director

/s/ "David George"

David George, Director

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

**SONORA GOLD & SILVER CORP.**

Statements of operations, comprehensive loss and deficit

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

	2010	2009
	\$	\$
Revenue	–	–
Expenses		
Amortization	800	674
Consulting fees	9,000	5,165
Impairment of mineral property costs	53,632	–
Investor relations	514	5,286
Management fees (Note 10)	48,000	97,300
Office and miscellaneous	6,978	24,677
Professional fees	25,615	66,160
Rent	7,606	14,423
Stock-based compensation	15,121	–
Transfer agent and regulatory fees	25,557	26,183
Travel (Note 10)	26,023	13,168
	218,846	253,036
Net loss and comprehensive loss for the year	(218,846)	(253,036)
Deficit, beginning of year	(8,343,844)	(8,090,808)
Deficit, end of year	(8,562,690)	(8,343,844)
Loss per share, basic and diluted	(0.01)	(0.01)
Weighted average shares outstanding	25,196,348	20,863,050

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

**SONORA GOLD & SILVER CORP.**

Statements of cash flows

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

	2010	2009
	\$	\$
<hr/>		
Cash provided by (used in):		
Operating activities		
Net loss for the year	(218,846)	(253,036)
Items not involving cash:		
Amortization	800	674
Impairment of mineral property costs	53,632	
Stock-based compensation	15,121	–
Changes in non-cash operating working capital:		
Amounts receivable	7,564	5,875
Prepaid expenses and deposits	650	6,120
Accounts payable and accrued liabilities	(4,349)	7,699
Due to related parties	–	(20,995)
	(145,428)	(253,663)
Investing activities		
Restricted cash	–	66
Mineral property expenditures	–	(33,869)
	–	(33,803)
Financing activities		
Proceeds from shares issued	–	325,000
	–	325,000
Increase (decrease) in cash	(145,428)	37,534
Cash, beginning of year	198,283	160,749
Cash, end of year	52,855	198,283
Supplemental disclosures:		
Interest paid	–	–
Income taxes paid	–	–

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

# SONORA GOLD & SILVER CORP.

Notes to the financial statements

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

## 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 Mexico.

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, 2010, the Company has not generated any revenues from operations and has an accumulated deficit of \$8,562,690. 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.

### (b) Newly Adopted Accounting Policies

Effective February 1, 2009, the Company adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". This revision establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this standard did not have a material impact on the Company's financial statements.

In March 2009, the Company adopted CICA Emerging Issues Committee ("EIC") Abstract 174, "Accounting by Mining Enterprises for Exploration Costs", which replaces EIC 126, "Accounting by Mining Enterprises for Exploration Costs", to provide additional guidance for mining exploration enterprises on the accounting for the capitalization costs and when an impairment test of these costs are required. The adoption of this standard did not have a material effect on the Company's financial statements.

In June 2009, the Accounting Standards Board ("AcSB") further amended CICA Handbook Section 3862, "Financial Instruments – Disclosures" to include additional disclosures about fair value measurements of financial instruments and to enhance risk disclosure. The additional fair value measurement disclosures include classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

These amendments were required to be adopted for the year ended January 31, 2010. The adoption of this section did not have a material effect on the Company's financial statements.

## **SONORA GOLD & SILVER CORP.**

Notes to the financial statements

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

### **2. Significant Accounting Policies (continued)**

#### (c) 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.

#### (d) 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.

#### (e) Property and Equipment

Property and equipment consists of computer equipment which is recorded at cost and amortized on a 30% declining balance basis. In the year of acquisition only one-half of the normal amortization is recorded and no amortization is recorded in the year of disposal.

#### (f) 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.

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.

## **SONORA GOLD & SILVER CORP.**

Notes to the financial statements

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

### **2. Significant Accounting Policies (continued)**

#### **(g) 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.

#### **(h) 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.

#### **(i) 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.

#### **(j) Flow-through Shares**

The Company has adopted EIC-146, which is effective for all flow-through share transactions initiated after March 19, 2004. 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.

#### **(k) 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.

## **SONORA GOLD & SILVER CORP.**

Notes to the financial statements

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

### **2. Significant Accounting Policies (continued)**

#### **(l) 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 as held-for-trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities.

#### **(m) 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.

#### **(n) Comprehensive Loss**

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

#### **(o) 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.

## SONORA GOLD & SILVER CORP.

Notes to the financial statements

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

### 2. Significant Accounting Policies (continued)

#### (p) Future Changes in Accounting Standards

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 February 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, 2010. Management is currently assessing the impact of adopting IFRS and it has not yet determined its effect on the Company's 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 1.85% and has a maturity date of December 15, 2010.

### 4. Property and Equipment

	Cost \$	Accumulated amortization \$	January 31, 2010 Net carrying value \$	January 31, 2009 Net carrying value \$
Computer equipment	3,562	3,562	–	800

### 5. Mineral Property Costs

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. There are no expenditure commitments in connection with the options on the properties.

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.

## SONORA GOLD & SILVER CORP.

Notes to the financial statements

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

### 5. Mineral Property Costs (continued)

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.

2010	Los Pavitos \$	Brenda \$	Christina \$	Total \$
<i>Acquisition Costs:</i>				
Balance, beginning of year	514,675	19,501	19,501	553,677
Impairment	–	(19,501)	(19,501)	(39,002)
Balance, end of year	514,675	–	–	514,675
<i>Exploration Costs:</i>				
Balance, beginning of year	60,290	7,315	7,315	74,920
Impairment	–	(7,315)	(7,315)	(14,630)
Balance, end of year	60,290	–	–	60,290
Balance, January 31, 2010	574,965	–	–	574,965
2009	Los Pavitos \$	Brenda \$	Christina \$	Total \$
<i>Acquisition Costs:</i>				
Balance, beginning and end of year	514,675	19,501	19,501	553,677
<i>Exploration Costs:</i>				
Balance, beginning of year	31,537	4,757	4,757	41,051
Geological	12,294	2,558	2,558	17,410
Surface taxes	14,663	–	–	14,663
Travel	1,796	–	–	1,796
Balance, end of year	60,290	7,315	7,315	628,597
Balance, January 31, 2009	574,965	26,816	26,816	628,597

### 6. Share Capital

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

	Number of shares	\$
Balance, January 31, 2008	18,696,383	8,604,432
Issued pursuant to private placement	6,500,000	325,000
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

On October 10, 2008, the Company issued 6,500,000 units at \$0.05 per unit for proceeds of \$325,000. Each unit consisted of one common share and one-quarter of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share at an exercise price of \$0.15 per share until October 10, 2009.

## SONORA GOLD & SILVER CORP.

Notes to the financial statements

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

### 7. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants	Weighted Average Exercise Price \$
Balance January 31, 2008	4,757,831	0.41
Issued	1,625,000	0.15
Expired	(4,757,831)	0.41
Balance, January 31, 2009	1,625,000	0.15
Expired	(1,625,000)	0.15
Balance, January 31, 2010	–	–

### 8. 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. There are 1,869,638 shares reserved for issuance pursuant to stock options granted under this plan.

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

	Number of options	Weighted average exercise price \$
Outstanding, January 31, 2008	1,029,000	0.21
Forfeited	(379,000)	0.20
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

Additional information regarding stock options outstanding as at January 31, 2010 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
0.20	600,000	0.7	0.20
0.50	50,000	1.1	0.50
	1,000,000	1.9	0.18

## SONORA GOLD & SILVER CORP.

Notes to the financial statements

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

### 8. Stock Options (continued)

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:

	2010	2009
Risk-free interest rate	1.93%	—
Expected life (in years)	5	—
Expected volatility	144%	—

The weighted average fair value of the stock options granted was \$0.03 per option.

The total fair value of the stock options granted in 2010 was \$15,121 which was recorded as contributed surplus and charged to operations.

### 9. Contributed Surplus

	\$
Balance, January 31, 2008 and 2009	219,577
Fair value of stock options granted	15,121
Balance, January 31, 2010	234,698

### 10. Related Party Transactions

During the years ended January 31, 2010 and 2009, the Company was involved in the following related party transactions:

- The amount of \$18,000 (2009 – \$18,000) was paid to a company controlled by the former President of the Company for management fees.
- The amount of \$nil (2009 - \$21,300) was paid to a company controlled by the former Chief Financial Officer of the Company for management fees.
- The amount of \$30,000 (2009 - \$58,000) was paid to the President of the Company for management fees. The Company also reimbursed the President of the Company for \$18,000 (2009 - \$nil) 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.

## SONORA GOLD & SILVER CORP.

Notes to the financial statements

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

### 11. Financial Instruments and Risks

#### (a) Classification of Financial Instruments

The Company has classified its financial instruments as follows:

	January 31, 2010 \$	January 31, 2009 \$
Financial assets:		
Held for trading, measured at fair value:		
Cash	52,855	198,283
Loans and receivables, measured at amortized cost:		
Amounts receivable	1,825	9,389
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	39,705	44,054

#### (b) Fair Values

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

As at January 31, 2010, the fair value of financial instruments measured on a recurring basis includes cash determined based on level one inputs, consisting of quoted prices in active markets for identical assets.

#### (c) 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.

#### (d) Foreign Exchange Rate and Interest Rate Risk

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

#### (e) 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.

#### (f) 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.

## SONORA GOLD & SILVER CORP.

Notes to the financial statements

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

### 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, 2009.

### 13. 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:

	Year ended January 31, 2010 \$	Year ended January 31, 2009 \$
Canadian statutory income tax rate	30.00%	31.00%
Income tax recovery at statutory rate	(65,654)	(78,441)
Tax effect of:		
Permanent differences and other	3,037	362
Expiry of non-capital loss	73,646	67,851
Change in enacted tax rates	20,861	43,572
Change in valuation allowance	(31,890)	(33,344)
Income tax provision	—	—

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

	January 31, 2010 \$	January 31, 2009 \$
Future income tax assets		
Non-capital losses carried forward	290,143	306,588
Property and equipment	326	408
Resource pools	225,907	235,708
Share issuance costs	5,300	10,862
Total gross future income tax assets	521,676	553,566
Valuation allowance	(521,676)	(553,566)
Net future income tax asset	—	—

## SONORA GOLD & SILVER CORP.

Notes to the financial statements

Years ended January 31, 2010 and 2009

(Expressed in Canadian dollars)

### 13. Income Taxes (continued)

As at January 31, 2010, the Company has non-capital losses carried forward of \$1,160,573, which are available to offset future years' taxable income. These losses expire as follows:

	\$
2014	61,688
2016	108,450
2027	204,837
2028	222,157
2029	335,930
2030	227,511
	<u>1,160,573</u>