

SONORA GOLD CORP.

(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2005 and 2004

(Canadian Funds)

AUDITORS' REPORT

To the Shareholders of Sonora Gold Corp.:

We have audited the consolidated balance sheets of Sonora Gold Corp. (the "Company") as at 31 December 2005 and 2004 and the consolidated statements of loss and 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Staley, Okada & Partners"

Vancouver, B.C.
10 April 2006

STALEY, OKADA & PARTNERS
CHARTERED ACCOUNTANTS

Sonora Gold Corp.
(A Development Stage Company)
Consolidated Balance Sheets
As at 31 December
Canadian Funds

Statement 1

ASSETS	2005		2004 <i>(Note 12)</i>	
Current				
Cash	\$	155,220	\$	189,688
Accounts receivable		3,482		7,421
Prepaid expense		1,000		5,750
		<u>159,702</u>		202,859
Property and Equipment <i>(Note 4)</i>		3,479		4,906
Resource Property Costs - <i>Schedule 1 (Note 6)</i>		2,765,267		2,213,776
Incorporation Costs		1,050		1,050
	\$	<u>2,929,498</u>	\$	<u>2,422,591</u>
LIABILITIES				
Current				
Accounts payable and accrued liabilities	\$	142,779	\$	93,543
Due to related parties <i>(Note 7)</i>		760		-
		<u>143,539</u>		93,543
Future Income Tax <i>(Note 10)</i>		297,166		265,821
		<u>440,705</u>		<u>359,364</u>
Continued Operations <i>(Note 1)</i>				
SHAREHOLDERS' EQUITY				
Share Capital <i>(Note 8a)</i>		10,271,404		9,618,106
Contributed Surplus <i>(Note 8a)</i>		1,096,374		910,636
Deficit - <i>Statement 2</i>		<u>(8,878,985)</u>		<u>(8,465,515)</u>
		<u>2,488,793</u>		<u>2,063,227</u>
	\$	<u>2,929,498</u>	\$	<u>2,422,591</u>

ON BEHALF OF THE BOARD:

"David McMillan", Director

"Harold Forzley", Director

Consolidated Statements of Loss and Deficit

As at 31 December

Canadian Funds

	2005	2004 (Note 12)
General and Administrative Expenses		
Amortization	\$ 1,427	\$ 928
Audit fees	20,286	19,143
Consulting fees	50,775	68,736
Interest and bank charges	1,403	1,918
Investor relations	27,056	23,471
Legal	4,738	19,924
Management fees	53,250	42,750
Office and administrative	50,636	80,075
Stock-based compensation (Note 8g)	185,738	399,251
Transfer agent, listing and filing fees	22,532	28,867
Travel and promotions	8,056	51,475
Loss Before the Under-noted	425,897	736,538
Loss on sale of short term investments	-	18,385
Gain on foreign exchange	(12,427)	(49,567)
Accounts payable recovery	-	(23,522)
	(12,427)	(54,704)
Loss for the Year	413,470	681,834
Deficit - Beginning of year	8,465,515	7,783,681
Deficit - End of Year	\$ 8,878,985	\$ 8,465,515
Weighted Average Number of Shares	39,710,233	31,231,255
Loss per Share - Basic and Diluted	\$ 0.01	\$ 0.02

Consolidated Statements of Cash Flows

As at 31 December

Canadian Funds

Cash Resources Provided By (Used In)	2005	2004 <i>(Note 12)</i>
Operating Activities		
Loss for the year	\$ (413,470)	\$ (681,834)
Items not affected by cash		
Stock-based compensation	185,738	399,251
Loss on sale of investment	-	18,385
Accounts payable recovery	-	(23,522)
Amortization	1,427	928
Changes in non-cash working capital	<u>(4,576)</u>	<u>(8,805)</u>
	<u>(230,881)</u>	<u>(295,597)</u>
Investing Activities		
Proceeds from sale of short term investment	-	257,093
Purchase of property and equipment	-	(5,834)
Resource property costs	<u>(457,645)</u>	<u>(1,435,636)</u>
	<u>(457,645)</u>	<u>(1,184,377)</u>
Financing Activities		
Shares issued - for cash	653,298	1,655,805
Due to (from) related parties	<u>760</u>	<u>(19,733)</u>
	<u>654,058</u>	<u>1,636,072</u>
Net Increase (Decrease) in Cash	(34,468)	156,098
Cash position - Beginning of year	<u>189,688</u>	<u>33,590</u>
Cash Position - End of Year	\$ 155,220	\$ 189,688
Supplemental Schedule of Non-Cash Transactions		
Interest paid	\$ -	\$ -
Income taxes	\$ -	\$ -
Supplemental Schedule of Non-Cash Investing Transactions		
Exploration expenditures included in accounts payable	\$ 104,190	\$ 41,689
Future income tax included in resource properties	<u>\$ 31,345</u>	<u>\$ 265,821</u>

Consolidated Schedule of Resource Property Costs

As at 31 December

Canadian Funds

	2005	2004 (Note 12)
Mexico		
<i>Santa Gertrudis</i>		
Assays	\$ 28,555	\$ 43,092
Drilling	37,911	139,817
Engineering fees	136,963	70,837
Environmental costs	(4,810)	47,594
Equipment rental	25,376	136,885
Other	193,735	69,262
Annual mining taxes (recovery)	74,474	118,492
Recovery of costs	(120,000)	-
Future income tax	16,673	75,531
	<u>388,877</u>	<u>701,510</u>
<i>Roca Roja</i>		
Assays	1,449	10,552
Drilling	693	9,298
Salary and fees	21,900	222,898
Environmental costs	471	-
Equipment rental	2,944	33,577
Other	59,447	7,179
Annual mining taxes	60,456	175,556
Future income tax	15,254	190,290
	<u>162,614</u>	<u>649,350</u>
Total costs for the year	551,491	1,350,860
Balance - Beginning of the year	2,213,776	862,916
Balance - End of Year	\$ 2,765,267	\$ 2,213,776

Notes to Consolidated Financial Statements

As at 31 December 2005 and 2004

Canadian Funds

1. Continued Operations

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Adverse conditions and events cast substantial doubt upon the validity of this assumption. The Company has incurred significant operating losses over the past several fiscal years and the Company does not have sufficient financial resources to complete the necessary exploration work on its properties. As at 31 December 2005, the Company had working capital of \$16,163 (2004 – \$109,316). In 2005, the Company completed two private placements in addition to some share purchase warrants. These financing activities provided \$653,298 of additional working capital to fund the Company's drilling program and other operational expenses.

The Company's ability to continue as a going concern is dependent upon its ability to accomplish the following:

- maintain and work its mineral properties (*Note 6*);
- raise additional capital through the issuance of treasury shares or debt;
- achieve profitable operations in the future;
- receive continued financial support from its general and related creditors.

If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. Significant Accounting Policies

a) Consolidation and Nature of Operations

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

- First Silver Reserve, S.A. de C.V. ("First Silver") (*Note 5*).
- Recursos Escondidos, S.A. de C.V. ("Recursos") (*Note 5*).
- Sonora Gold de Mexico, S.A. de C.V. ("Sonora de Mexico") (*Note 5*).

The Company is a development stage entity engaged in the exploration and development of mineral properties. The Company's principal assets consist of two mineral properties located in Mexico (*Note 6*).

b) Property and Equipment

The Company provides for amortization on property and equipment at the following rates:

- Vehicle – straight line declining method with zero salvage value at four year life

One-half the annual rate is charged in the year of acquisition.

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2. Significant Accounting Policies - Continued

c) Resource Properties

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Mineral exploration and development costs are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while costs for the prospects abandoned are written off.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its mineral properties, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

The Company assesses its capitalized mineral property costs on a regular basis. A property is written-down or written-off when the Company determines that a permanent impairment of value has occurred or when exploration results indicate that no further work is warranted. The Company will also reduce its capitalized mineral property costs if no active exploration has been conducted on the property for a period of three or more years.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

d) Basic Loss per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

e) Conversion of Foreign Currency

The accounts of the Company's foreign subsidiaries have been translated into Canadian dollars on the following basis:

- Revenue and expense items and exploration and development costs translated in a manner that produces substantially the same results as would have resulted had these items been translated on the date they occurred.
- Non-monetary assets and liabilities at historical exchange rates.
- Monetary assets and liabilities (assets and liabilities whose nominal value, in terms of foreign currencies are fixed) at the exchange rate at year-end.
- Exchange gains and losses relating to the translation of foreign currency are treated as current period items.

Notes to Consolidated Financial Statements

As at 31 December 2005 and 2004

Canadian Funds

2. Significant Accounting Policies - Continued

f) Management's Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. The most significant of these estimates and assumptions relate to the carrying value of the Company's resource properties and the decision as to when exploration and development costs should be capitalized or expensed. The Company reviews its estimates and assumptions regularly, however actual results could differ from those estimates.

g) Share Capital

- i) The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company.
- ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

h) Future Income Tax

Future income taxes are recorded using the asset and liability method whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

i) Stock-Based Compensation

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For employees and non-employees, the fair value of the options is accrued and charged to operations, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

j) Cash and Cash Equivalents

Cash and cash equivalent includes cash on account and highly liquid treasury bills with a remaining term to maturity of three months or less at the date of purchase.

Notes to Consolidated Financial Statements

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Canadian Funds

2. Significant Accounting Policies - Continued

k) Variable Interest Entities

The CICA has issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", which became effective for annual and interim periods beginning on or after November 1, 2004. This guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. The company adopted the guideline on January 1, 2005. The adoption of this guideline did not have any impact on the company's consolidated financial statements.

l) Impairment of Long-Lived Asset

The Company follows the CICA Handbook Section 3063, "Impairment of Long-Lived Assets" ("HB 3063"). HB 3063 requires the Company to assess the impairment of long-lived assets, which consist primarily of property, plant and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset to its fair value. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

m) Asset Retirement Obligations

The Company's mineral exploration and development activities are subject to various laws and regulations regarding protection of the environment. As a result the Company incurs expenses from time to time to discharge its obligations under these laws and regulations. Certain of these expenses meet the definition of an asset and other expenses do not meet this definition. The assets are capitalized and the other costs are expensed as incurred.

When estimating the costs that are expected to be incurred, there are many factors to be considered such as the extended period over which the costs are to be incurred, the discount factors, and significant judgments and estimates. As such the fair value of the retirement obligations could change materially from year to year. In addition, changes in laws and regulations could cause significant changes in the expected costs and the related fair value.

During the year, management determined that there was no change to the estimates for asset retirement.

n) Risk Management

The Company's functional currency is the Canadian dollar.

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company is at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate significant environmental remediation costs or liabilities in respect of its current operations.

The Company is not exposed to significant credit concentration risk. The Company is not exposed to significant interest rate risk.

o) Property Option Agreements

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

Notes to Consolidated Financial Statements

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3. Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and balances due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from the financial instruments. A portion of the accounts payable are denominated in Mexican Pesos, therefore the Company is exposed to currency risk in that the Canadian dollar value of the payables will fluctuate due to changes in foreign exchange rates. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

4. Property and Equipment

Details are as follows:

	As at 31 December 2005		
	Cost	Accumulated Amortization	Net Book Value
Vehicle	\$ 5,771	\$ 2,292	\$ 3,479

	As at 31 December 2004		
	Cost	Accumulated Amortization	Net Book Value
Vehicle	\$ 5,771	\$ 865	\$ 4,906

5. Subsidiaries

Through purchase agreements with effective dates of 19 November 2002, the Company acquired 100% of the issued and outstanding shares of its subsidiaries, First Silver and Recursos Escondidos. The Company accounted for the acquisition of the subsidiaries by using the purchase method of accounting for a business combination. Included in the Company's consolidated statement of loss are the results of operations of the subsidiaries from the effective date of acquisition.

In January 2005, the Company incorporated a third subsidiary, Sonora Gold de Mexico. This subsidiary current has no material assets, liabilities, revenue or expenses .

Notes to Consolidated Financial Statements

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6. Resource Property Costs

The Company is currently exploring the following properties:

a) **First Silver Reserve S.A. de C.V., Mexico**

Santa Gertrudis

First Silver holds title to the Santa Gertrudis property. The Company acquired the Santa Gertrudis property by issuing 362,307 common shares of the Company with a deemed value of \$0.10 per share for total consideration of \$36,231. Regulatory approval was received on 23 October 2002 and the shares were issued on 19 November 2002. The property is located in the Santa Teresa District, Cucurpe Municipality, Sonora State, Mexico and comprises 14 mineral claims totalling 4,823 hectares (4 of these claims belonging to the San Enrique copper-moly mineral claims and 2 claims belonging to the Greta mineral claims). The agreement provides that the Company and the vendors enter into a royalty agreement providing the vendor with a 2% net smelter royalty ("NSR") that will run as a covenant with and lien on the Santa Gertrudis property. In addition the Company assumed full responsibility for all unpaid property taxes and abandonment and reclamation costs.

San Enrique

By agreements dated 8 July 2005 and amended on 31 January 2006, the Company completed a Joint Venture agreement (the "Joint Venture Agreement") with Teck Cominco Limited's wholly owned Mexican subsidiary, Minera Teck Cominco SA de C.V. ("TCM") on the Company's 100% owned San Enrique copper-moly project and its 100% Greta claims located in Sonora State, Mexico. The San Enrique is made up of four claims and the Greta property is made up of 2 claims, located approximately 6.5 kilometers south of Santa Gertrudis gold production area.

The Joint Venture Agreement grants TCM an option to earn a 60% interest in the San Enrique and Greta properties by solely funding an aggregate of US\$3,500,000 in expenditures by 1 July 2010, of which US \$300,000 must be incurred within the first 12 months. TCM will be responsible for all property upkeep costs, including taxes and surface access costs. The Joint Venture Agreement also provides TCM the option, upon earning a 60% interest, to earn an additional 10% interest by solely funding a further US\$3,500,000 by July 1, 2011, thereby earning an aggregate 70% interest in the properties with the Company retaining a 30% interest. At the date TMC exercises its earn in rights, a Joint Venture will be formed with TCM being the initial Operator on behalf of the Joint Venture and undertaking programs and expenditures as approved by a Joint Venture Management Committee.

In addition to the funding requirements, TMC must pay cash of US\$80,000 (received 24 February 2006), US\$50,000 and US\$50,000 by 15 February 2006, 31 August 2006 and 31 August 2007 respectively. In addition, TMC must pay an additional US\$450,000 if there is a positive production decision on the Greta claims. Concurrent to the option agreement TCM's parent company acquired 3,000,000 shares of the Company (Note 8(b)(ii)).

Notes to Consolidated Financial Statements

As at 31 December 2005 and 2004

Canadian Funds

6. Resource Property Costs - *Continued*

b) Recursos Escondidos S.A. de C.V., Mexico

Roca Roja

Recursos holds title to the Roca Roja property. The property is located in the Santa Teresa District, Cucurpe Municipality, Sonora State, Mexico and comprises 13 mineral claims totalling 1,638 hectares. The Recursos acquisition agreement provides that the vendor will receive US\$0.10 per ton of ore mined to a maximum of US\$2,000,000 and a 1% NSR. The Company assumed full responsibility for all unpaid property taxes and abandonment and reclamation costs.

Details of cumulative expenditures are as follows:

	As at 31 December 2005			
	Acquisition	Annual Mining Concession Fees	Exploration	Total
Mineral Properties				
Santa Gertudis (i)	\$ 66,231	\$ 274,312	\$ 1,248,753	\$ 1,589,296
Roca Roja (i)	5,000	263,053	907,918	1,175,971
	\$ 71,231	\$ 537,365	\$ 2,156,671	\$ 2,765,267

- (i) Both First Silver and Recursos have unpaid property taxes payable to the Mexican government with respect to their claims for 2005. The consequence of having unpaid taxes with respect to mineral claim title is unknown, however, to the best of management's knowledge all claims remain in good standing.

	As at 31 December 2004			
	Acquisition	Annual Mining Concession Fees	Exploration	Total
Mineral Properties				
Santa Gertudis	\$ 66,231	\$ 196,838	\$ 934,017	\$ 1,197,086
Roca Roja	5,000	202,597	809,093	1,016,690
	\$ 71,231	399,435	1,743,110	\$ 2,213,776

7. Due to Related Parties

As at December 31, 2005, the Company owed directors and or companies controlled by directors \$760 (31 December 2004 - \$Nil).

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8. Share Capital

a) Details are as follows:

	Number		Amount		Contributed Surplus
Authorized:					
Unlimited common shares without par value					
Issued and fully paid:					
Balance - 31 December 2003	22,636,143	\$	7,928,426	\$	545,260
Issued for cash - Private placements	10,637,600		1,273,910		-
Issued for cash - Exercise of options	210,000		65,375		(33,875)
Issued for cash - Exercise of warrants	2,680,000		387,010		-
Return to treasury escrow	(56,250)		-		-
Stock-based compensation	-		-		399,251
Share issuance costs	-		(36,615)		-
Balance - 31 December 2004	36,107,493		9,618,106		910,636
Issued for cash - Private placements (Note 8b)	6,600,000		660,000		-
Issued for cash - Exercise of warrants	100,000		11,000		-
Stock-based compensation	-		-		185,738
Share issuance costs	-		(17,702)		-
Balance - 31 December 2005	42,807,493	\$	10,271,404	\$	1,096,374

b) **Private Placements**

- i) On 1 April 2005, the Company completed a private placement by issuing up to 3,600,000 units at \$0.10 per unit. Each unit consists of one common share and one two-year common share purchase warrant. Each common share purchase warrant entitles the warrant holder to purchase one common share of the Company at \$0.15 per share in year one and \$0.20 per share in year two. The Company netted proceeds of \$346,500 after finders' fees.
- ii) On 21 September 2005, the Company finalized a joint venture agreement with Teck Cominco Limited's ("TCL") wholly owned Mexican subsidiary, TCM and closed a private placement with TCL by issuing 3,000,000 units at \$0.14 per unit and netted \$415,800. The Company has allocated the value of the units between shares and warrants. Therefore, \$120,000 has been allocated to property costs as a recovery and \$295,800 to share capital based upon the residual method. The \$120,000 has been accounted for as a recovery of property costs based on the fact that the share subscription was undertaken as part of the property option agreement (Note 6a). Had there been no option agreement there would not have been a share subscription. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.20 for two years. (Note 6a)

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8. Share Capital - Continued

c) **Stock Option Plan**

During the year, the Company adopted a stock option plan pursuant to which the directors may, from time to time, authorize the issuance of options to directors, officers, employees and consultants of the Company and its subsidiaries to a maximum of 20% of the issued and outstanding common shares at the time of the grant.

Options granted under the plan shall vest as follows:

- 25% on the date of grant;
- 25% six months after the date of grant;
- 25% twelve months after the date of grant;
- 25% eighteen months after the date of grant.

An aggregate of 7,961,499 common shares have been reserved for issuance under the plan.

d) A summary of the Company's outstanding options is as follows:

	2005		2004	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Opening balance	5,205,000	\$0.174	4,190,000	\$0.120
Granted – vested	750,000	\$0.100	1,037,500	\$0.174
Granted - not vested (i)	2,250,000	\$0.100	1,662,500	\$0.174
Exercised	-	-	(210,000)	\$0.127
Cancelled	(1,075,000)	\$0.153	(1,475,000)	-
Ending balance	7,130,000	\$0.122	5,205,000	\$0.174

The weighted average exercise price of options issued and exercisable as at 31 December 2005 is \$0.133.

e) As at 31 December 2005, the Company had the following share purchase options outstanding:

	Number	Vested as at YE date	Exercise Price	Expiry Date
Consultants	175,000	175,000	\$0.18	5 March 2006 *
Officers and/or Consultants	425,000	425,000	\$0.18	6 March 2006 *
Directors	350,000	350,000	\$0.20	14 March 2006 *
Directors	200,000	200,000	\$0.16	18 July 2008
Consultants	280,000	280,000	\$0.15	15 August 2006
Directors	250,000	250,000	\$0.19	9 January 2007
Directors and/or Consultants	1,200,000	1,200,000	\$0.10	26 April 2007
Consultants	250,000	187,500	\$0.10	26 April 2007
Directors and/or Consultants	500,000	375,000	\$0.10	13 December 2007
Officers and/or Consultants	500,000	375,000	\$0.15	13 December 2007
Directors/Officers and/or Consultants	3,000,000	750,000	\$0.10	28 October 2008
	7,130,000	4,567,500		

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8. Share Capital - Continued

- f) Options granted during the year ended 31 December 2005

Date	Number		Exercise Price	Expiry Date
28 October 2005	3,000,000	Directors/ Officers and/or Consultants	\$0.10	28 October 2008
	3,000,000			

* Subsequent to year-end, 950,000 stock options expired without being exercised.

g) **Stock-Based Compensation**

Effective 1 January 2003, the Company adopted the new recommendations of CICA Handbook Section 3870 (Note 2i). This standard requires that stock-based awards made to employees and non-employees are to be measured and recognized using a fair value based method.

During the year ended 31 December 2005, the Company granted options to purchase up to 3,000,000 shares of the Company's stock to employees and non-employees at an exercise price of \$0.10. The Company used the Black-Scholes Option Pricing Model to estimate a fair value for these grants. Because a portion of the options granted were subject to vesting provisions, \$68,838 of the total estimated fair value of \$183,548 has been recorded in share capital as stock-based compensation expense for the year ended 31 December 2005. Because certain of these options are subject to vesting provisions, \$91,768 and \$22,942 of the estimated fair value have or will be expensed in the years 2006 and 2007 respectively. During the year ended 31 December 2005, the Company cancelled 1,075,000 previously granted options.

The fair value of each option grant that has vested during the current period is estimated on the date of grant using the Black-Scholes Option Pricing Model, with the following weighted average assumptions:

Risk-free interest rate	3.59%
Expected dividend yield	NIL
Expected stock price volatility	104.3%
Expected option life in years	3 years

The weighted average grant-date fair value of options granted was \$ 0.061 per option.

During the years ended 31 December 2004 and 2003, the Company granted options to purchase up to 7,550,000 shares of the Company's stock to employees and non-employees of the Company at an exercise price ranging from \$0.10 to \$0.28 per share, with an estimated aggregate fair value of \$1,148,830 on the grant dates. Because certain of these options are subject to vesting provisions \$490,796, \$399,253, \$116,915, and \$12,354 of the estimated fair value have or will be expensed in the years 2003, 2004, 2005, and 2006. The remaining balance of \$129,512 will not be expensed as certain of these options were cancelled prior to vesting.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Risk-free interest rate	3.30 to 4.06%
Expected dividend yield	NIL
Expected stock price volatility	112 to 174%
Expected life of options	2 to 3 years

The weighted average grant-date fair value of options granted was \$0.094 per option.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

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8. Share Capital - Continued

h) As at 31 December 2005 the following warrants were outstanding:

Number	Price per Share	Expiry Date
2,335,000	\$ 0.25	21 January 2006 *
8,302,600	\$ 0.20	8 October 2006
3,600,000	\$ 0.15/ \$0.20	1 April 2006 / 2007
3,000,000	\$ 0.20	21 September 2007
<u>17,237,600</u>		

* Subsequent to year-end, 2,335,000 warrants expired without being exercised.

9. Related Party Transactions

Related party transactions not disclosed elsewhere in these consolidated financial statements, are as follows:

- During the year, management fees of \$55,050 (2004 - \$42,750) were paid to directors and officers or a Company controlled by directors and officers.
- During the year, the Company paid directors \$29,395 (2004 - \$49,953) in consulting and service fees in addition to \$5,428 (2004 - \$77,253) for travel and expense reimbursements relating to investor communication, property investigation, and project management.
- During the year, directors, officers, and former directors subscribed for 1,600,000 (2004 - 2,650,000 for \$436,000) common shares of the Company in private placements for total proceeds of \$160,000. Warrants were not exercised by directors and officers in 2005 (2004 - 2,530,000 for \$363,010). Directors and officers did not exercise options to obtain common shares in 2005 (2004- Nil).

The above transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the consideration established and agreed to by the related parties. All of the amounts receivable and payable are expected to be paid within the next year and therefore, they have been classified as current liabilities in the consolidated financial statements.

10. Income Taxes

a) The Company has the following non-capital tax loss carryforwards expiring in the following years:

	Canada	Mexico	Total
2009	\$ 68,711	\$ -	\$ 68,711
2010	269,369	-	269,369
2011	68,472	-	68,472
2012	236,725	-	236,725
2013	284,563	260,975	545,538
2014	289,549	706,040	995,589
2015	227,967	224,537	452,504
	<u>\$ 1,445,356</u>	<u>\$ 1,191,552</u>	<u>\$ 2,636,908</u>

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10. Income Taxes - Continued

- b) Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes (Note 2h). The significant components of the Company's future income tax assets and liabilities as at 31 December 2005 and 2004 are as follows:

	2005		2004	
	Mexico	Canada	Mexico	Canada
Accounting value of resource mineral properties costs less than (in excess of) tax value	\$ * (2,182,297)	\$ 2,200,000	\$ (1,772,536)	\$ 2,200,000
Non-capital losses carried forward	1,191,552	1,445,356	967,015	1,217,389
	(990,745)	3,645,356	(805,521)	3,417,389
Expected tax rate	30.0%	35.6%	33%	35.6%
Future income tax asset (liability)	(297,166)	1,297,747	(265,821)	1,216,590
Less: Valuation allowance	-	(1,297,747)	-	(1,216,590)
Future income tax asset (liability) recognized	\$ (297,166)	\$ -	\$ (265,821)	\$ -

*20,021,076 x .109 = 2,182,297

11. Segmented Information

Details are as follows:

	Canada	Mexico	Consolidated
31 December 2005			
Segmented operating income (loss)	\$ (424,420)	10,950	(413,470)
Identifiable assets	\$ 147,932	2,781,566	2,929,498
31 December 2004			
Segmented operating income (loss)	\$ (742,291)	60,457	(681,834)
Identifiable assets	\$ 119,246	2,303,345	2,422,591

Notes to Consolidated Financial Statements

As at 31 December 2005 and 2004

Canadian Funds

12. Prior Periods Adjustment

During the current year, the Company determined that certain expenditures made by its Mexican subsidiaries do not qualify as a deduction for Mexican tax purposes, consequently there is a variance between the value of the resource property costs for accounting purposes and Mexican tax purposes. The balance for accounting exceeds the value for tax. Under Canadian Generally Accepted Accounting Principles this variance results in the recognition of a future income tax liability the balance of which is added to the cost of the asset.

In addition, the Company reclassified the recognition of stock option compensation. Previously, the Company's policy when recognizing stock option compensation expense was to credit share capital. The Company's current policy is to credit contributed surplus.

The net effect on the comparative figures at 31 December 2004 is as follows:

	Previously Reported	Adjustment	Restated
Balance sheet			
Assets			
Resource property costs	\$ 1,947,955	\$ 265,821	\$ 2,213,776
Liabilities			
Future income tax liability	\$ -	\$ 265,821	\$ 265,821
Shareholders equity			
Share capital	\$ 10,528,742	\$ (910,636)	\$ 9,618,106
Contributed surplus	-	910,636	910,636
Deficit	(8,465,515)	-	(8,465,515)
	\$ 2,063,227	\$ -	\$ 2,063,227

13. Subsequent Events

Subsequent to year-end, the Company entered into a letter of agreement to sell its wholly owned Mexican subsidiaries, First Silver and Recursos (Note 2a) to Sonora Copper LLC, a privately held company in the USA. The consideration includes cash of \$3,050,000 and in the event that Sonora Copper becomes a public company in the USA or Canada within two years of the closing date, the Company will receive a 24 month warrant to purchase up to the lesser of 1,000,000 shares or 5% of the fully diluted capital of such public company at the lesser of US\$0.40 or the price at which Sonora Copper achieves its initial public listing. The cash payments are due as follows:

- US\$100,000 non-refundable deposit upon signing of the letter agreement
- US\$900,000 payment on closing of the letter agreement
- US\$1,025,000 payment three months after the closing of the letter agreement
- US\$1,025,000 payment six months after the closing of the letter agreement

14. Contingency

The Company has determined that there may be a potential liability with respect to payroll taxes for certain contractors that may be deemed employees of the Mexican subsidiaries. It is the Company's position that all persons involved are contractors for payroll purposes. The extent and likelihood of the potential liability is not determinable at this time, consequently, no liability has been recorded in the accounts of the subsidiary.
