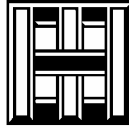


SONORA GOLD CORP.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31 2006 AND 2005



MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of
Sonora Gold Corp.

We have audited the consolidated balance sheet of Sonora Gold Corp. as at December 31, 2006 and the consolidated statements of loss and deficit and cash flows for the year 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 audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance as to 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 December 31, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2005 and for the year then ended, prior to the restatement described in Note 15, were reported on by other auditors who expressed an opinion without reservation on those consolidated financial statements in their report dated April 10, 2006.

We have audited the restatement as described in Note 15 and in our opinion, such restatement, in all material respects, is appropriate and has been properly applied.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

March 26, 2007

Sonora Gold Corp.
Consolidated Balance Sheets
As at December 31, 2006 and 2005

ASSETS	2006	2005 (Restated Note 15)
Current		
Cash	\$ 175,674	\$ 155,220
Accounts receivable	5,647	3,482
Prepaid expenses	26,725	1,000
	<u>208,046</u>	159,702
Equipment (Note 4)	112	3,479
Resource Property Costs - (Note 5)	5,026,001	3,633,540
Incorporation Costs	1,050	1,050
	<u>\$ 5,235,209</u>	<u>\$ 3,797,771</u>

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 368,738	\$ 142,779
Due to related parties (Note 6)	47,795	760
	<u>416,533</u>	143,539
Future Income Tax (Note 11)	1,263,850	1,165,439
	<u>1,680,383</u>	1,308,978

SHAREHOLDERS' EQUITY

Share Capital (Note 7)	11,654,778	10,271,404
Contributed Surplus (Note 8)	1,229,162	1,096,374
Deficit	(9,329,114)	(8,878,985)
	<u>3,554,826</u>	2,488,793
	<u>\$ 5,235,209</u>	<u>\$ 3,797,771</u>

ON BEHALF OF THE BOARD:

"David McMillan", Director

"Harold Forzley", Director

Sonora Gold Corp.

Consolidated Statements of Loss and Deficit

For the years ended December 31, 2006 and 2005

	2006	2005 (Restated Note 15)
General and Administrative Expenses		
Amortization	\$ -	\$ 1,427
Accounting and audit fees	77,546	33,854
Consulting fees	81,672	93,917
Director's fees	78,014	84,811
Gain on foreign exchange	(23,347)	(12,427)
Interest and bank charges	36,138	1,403
Investor relations	29,742	27,056
Legal	9,601	4,738
Management fees	77,467	97,466
Office and administrative	42,846	50,636
Transfer agent, listing and filing fees	24,560	22,532
Travel and promotion	15,890	8,056
Loss for the Year	450,129	413,470
Deficit - Beginning of year	8,878,985	8,465,515
Deficit - End of Year	\$ 9,329,114	\$ 8,878,985
Weighted Average Number of Shares Outstanding	45,329,748	39,710,233
Loss per Share - Basic and Diluted	\$ 0.01	\$ 0.01

- See accompanying notes to the consolidated financial statements -

Sonora Gold Corp.**Consolidated Statements of Cash Flows**

For the years ended December 31, 2006 and 2005

Cash Resources Provided By (Used In)	2006	2005 (Restated Note 15)
Operating Activities		
Loss for the year	\$ (450,129)	\$ (413,470)
Items not affected by cash		
Stock-based compensation	132,788	185,738
Amortization	-	1,427
Changes in non-cash working capital balances:		
Changes in accounts receivable	(250)	3,939
Changes in accounts payable	(320,957)	(13,265)
Prepaid expenses	(25,000)	4,750
	<u>(663,648)</u>	<u>(230,881)</u>
Investing Activities		
Resource property costs	<u>(239,899)</u>	<u>(457,645)</u>
Financing Activities		
Shares issued - for cash, net	860,124	653,298
Due to related parties	47,035	760
Cash from business acquisition	16,842	-
	<u>924,001</u>	<u>654,058</u>
Net Increase (Decrease) in Cash	20,454	(34,468)
Cash position - Beginning of year	<u>155,220</u>	<u>189,688</u>
Cash Position - End of Year	\$ 175,674	\$ 155,220
Supplemental Cash Flow Information		
Interest paid	\$ 32,981	\$ -
Income taxes	\$ -	\$ -

- See accompanying notes to the consolidated financial statements -

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

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. At December 31 2006, the Company had working capital deficit of \$208,487 (2005 – \$16,163). The Company completed a private placement in December 2006 for gross proceeds of \$1,455,275. This financing activity provided the Company with additional working capital to continue the Company's administrative and 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;
- 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");
- Recursos Escondidos, S.A. de C.V. ("Recursos");
- Sonora Gold de Mexico, S.A. de C.V. ("Sonora de Mexico");
- Red Tusk Resources Inc. ("Red Tusk").

The Company is engaged in the exploration and development of mineral properties. The Company's principal assets consist of two mineral properties located in Mexico and one in British Columbia.

b) Equipment

Equipment is recorded at cost and amortized over its estimated useful life using the straight line method:

- Office furniture 5 years
- Vehicle 4 years

The vehicle was disposed of in the year ended December 31, 2006 at a net book value of \$3,478.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

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) 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.

e) Share Capital

- 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.
- Share capital issued for non-monetary consideration is recorded at an amount based on fair market value

f) 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. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based compensation.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

2. Significant Accounting Policies - *Continued*

g) 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.

h) Loss per Share

The Company uses the treasury stock method in computing loss per share. Under this method, basic loss per share is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the year.

For the years ended December 31, 2006 and 2005, the existence of warrants and options affects the calculation of loss per share on a fully diluted basis. As the effect of this dilution is to reduce the reported loss per share, fully diluted loss per share information has not been shown.

i) 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.

j) 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.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

2. Significant Accounting Policies - *Continued*

k) Use of estimates in the preparation of the financial statements

The preparation of the 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 disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amount of expenses for the period. The more significant areas requiring the use of estimates include exploration properties, impairment of long-lived assets, future income taxes, and stock based compensation. Management bases its estimates on historical experience and on other assumptions considered to be reasonable under the circumstances. However, actual results may differ from the estimates.

l) Impairment of Long-Lived Assets

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 recognizes the fair value of the liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows. The liability is subsequently adjusted for the passage of time, and its recognized as an accretion expense in the statements of operations. The increase in the carrying value of the asset is amortized on the same basis as the related long-lived assets.

Sonora Gold Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

3. Business Combination

Red Tusk Resources Inc. - On July 11, 2006 the Company acquired 96.30% of the issued and outstanding shares of Red Tusk Resources Inc. ("Red Tusk") for consideration of \$523,250. Red Tusk is engaged in the business of mineral exploration and has an option to acquire a 100% undivided legal and beneficial interest in 16 mineral claims located in the Liard Mining Division of British Columbia, Canada ("the RHG Property"). The acquisition has been accounted for using the purchase method of accounting and accordingly these consolidated financial statements include the operations of Red Tusk from the effective date of the transaction. The consideration comprised of issuing one common share of the Company for every one common share of Red Tusk totaling 4,550,001 shares valued at \$0.115 per share. Included in the consideration is 1,000,000 shares issued to the Optionor of the RHG Mineral Property in compliance with the option agreement.

Total consideration for the business combination was allocated based on estimated fair values on the acquisition date as follows:

	2006	
Consideration Given:		
Common shares issued - 4,550,001	\$	523,250
Net assets acquired at fair value:		
Current assets	\$	19,382
Equipment		112
Resource property costs		1,149,707
Accounts payable		(645,951)
Net assets acquired at fair value	\$	523,250

4. Equipment

			Net book value	
	Cost	Accumulated Depreciation	2006	2005 (Restated Note 15)
Office furniture	\$ 449	337	112	-
Vehicle	5,771	5,771	-	3,479
	\$ 6,220	6,108	112	3,479

Sonora Gold Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

5. Resource Property Costs

	2006	2005 (Restated Note 15)
Mexico		
<i>Santa Gertrudis</i>		
Assays	\$ 686	\$ 28,555
Drilling	1,837	37,911
Salaries and fees	96,533	136,963
Surface access fee	40,131	-
Environmental costs	518	(4,810)
Equipment rental	1,557	25,376
Other	101,544	193,735
Annual mining taxes (recovery)	74,930	74,474
Recovery of costs	(269,782)	(120,000)
Future income tax	149,447	102,071
	<u>197,401</u>	<u>474,275</u>
<i>Roca Roja</i>		
Assays	-	1,449
Drilling	-	693
Salary and fees	-	21,900
Environmental costs	-	471
Equipment rental	-	2,944
Other	55,081	59,447
Annual mining taxes	36,297	60,456
Future income tax	(46,593)	(12,632)
	<u>44,785</u>	<u>134,728</u>
Canada		
RHG Property		
Acquisition cost	1,149,707	-
Mapping and geophysics	568	-
	<u>1,150,275</u>	<u>-</u>
Total costs for the year	1,392,461	609,003
Balance - Beginning of the year	3,633,540	3,024,537
Balance - End of Year	\$ 5,026,001	\$ 3,633,540

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

5. Resource Property Costs - *Continued*

The Company is currently exploring the following properties:

a. 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 October 23, 2002 and the shares were issued on November 19, 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 a 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 July 8, 2005 and amended on January 31, 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 TCM 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, TCM must pay cash of US\$80,000 (received) and pay US\$100,000 in two instalments due August 31, 2006 (received) and August 31, 2007. In addition, TCM must pay an additional US\$450,000 if there is a positive production decision on the Greta claims.

b. 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.

Sonora Gold Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

5. Resource Property Costs - *Continued*

c. **RHG Property**

On December 15, 2005, Red Tusk entered into an option agreement to acquire a 100% undivided legal and beneficial interest in 16 mineral claims located in the Liard Mining Division, British Columbia, Canada ("the RHG Property") in consideration for \$100,000 in cash (paid), the issuance of 1,000,000 common shares (issued) and reimbursement of exploration costs of \$405,775. The interest in the property is subject to a 2.5% net smelter return royalty. Red Tusk may purchase 60% of the net smelter return royalty at any time for \$1,000,000.

An officer of the Optionor is related to a director.

Details of cumulative expenditures are as follows:

	As at December 31, 2006			
	Acquisition	Annual Mining Concession Fees	Exploration	Total
Mineral Properties				
Santa Gertudis (i)	\$ 66,231	\$ 349,151	\$ 1,836,677	\$ 2,252,059
Roca Roja (i)	5,000	332,794	1,285,873	1,623,667
RHG Property	1,149,707	-	568	1,150,275
	<u>\$ 1,220,938</u>	<u>\$ 681,945</u>	<u>\$ 3,123,118</u>	<u>\$ 5,026,001</u>

- (i) Both First Silver and Recursos have unpaid property taxes payable to the Mexican government with respect to their claims for 2005 and 2006. 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 December 31, 2005 (restated Note 15)			
	Acquisition	Annual Mining Concession Fees	Exploration	Total
Mineral Properties				
Santa Gertudis	\$ 66,231	\$ 274,312	\$ 1,764,947	\$ 2,105,490
Roca Roja	5,000	263,053	1,259,997	1,528,050
	<u>\$ 71,231</u>	<u>\$ 537,365</u>	<u>\$ 3,024,944</u>	<u>\$ 3,633,540</u>

6. Due to Related Parties

As at December 31, 2006, the Company owed directors and or companies controlled by directors \$47,795 (2005 - \$760), these amounts are non-interest bearing with no specific terms of repayment.

Sonora Gold Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

7. Share Capital

a) Details are as follows:

	<u>Number</u>		<u>Amount</u>
Authorized:			
100,000,000 common shares without par value			
Issued and fully paid:			
Balance - December 31, 2004	36,107,493	\$	9,618,106
Issued for cash - Private placements	6,600,000		660,000
Issued for cash - Exercise of warrants	100,000		11,000
Share issuance costs	-		(17,702)
Balance – December 31, 2005	42,807,493	\$	10,271,404
Issued for cash - Private placements	26,459,544		1,455,274
Issued for business acquisition	4,550,001		523,250
Share issuance costs	-		(97,775)
Share subscriptions receivable	-		(497,375)
Balance – December 31, 2006	73,817,038	\$	11,654,778

b) Private Placements

During the year ended December 31, 2006, the Company issued common shares pursuant to the following private placements:

- i) The Company issued 4,550,001 common shares in connection with the business combination described in Note 3.
- ii) At December 28, 2006, the Company issued 26,459,544 units of the Company at a price of \$0.055 per unit for gross proceeds of \$1,455,275. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share for \$0.10 per share for up to two years from the closing date. The Company received \$957,900 from the proceeds of the private placement. The remaining \$497,375 was received subsequent to year end. The Company paid \$63,525 for finders' fees in connection with this private placement.

During the year ended December 31, 2005, the Company issued common shares pursuant to the following private placements:

- i) On April 1, 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 September 21, 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.

Sonora Gold Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

7. Share Capital - Continued

c) **Warrants**

Warrant transactions are summarized as follows:

	Number of Warrants
Balance- December 31, 2005	17,237,600
Issued	26,459,544
Expired	(10,637,600)
Balance- December 31, 2006	33,059,544

As at December 31, 2006 the following warrants were outstanding:

Number	Price per Share	Expiry Date
3,600,000	\$ 0.20	April 1, 2007
3,000,000	\$ 0.20	September 21, 2007
26,459,544	\$ 0.10	December 27, 2008
33,059,544		

8. Contributed Surplus

The Company's contributed surplus is comprised of the following:

	2006	2005
Balance- Beginning of year	\$ 1,096,374	\$ 910,636
Stock-based compensation (Note 9)	132,788	185,738
Balance- End of year	\$ 1,229,162	\$ 1,096,374

9. Stock Option Plan and Stock-Based Compensation

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.

Sonora Gold Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

9. Stock Option Plan and Stock-Based Compensation - Continued

An aggregate of 8,561,498 common shares have been reserved for issuance under the plan.

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

	2006		2005	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Opening balance	7,130,000	\$ 0.122	5,205,000	\$ 0.174
Granted	2,600,000	\$ 0.09	3,000,000	\$ 0.10
Expired/Cancelled	(1,780,000)	\$ 0.164	(1,075,000)	\$ 0.153
Ending balance	7,950,000	\$ 0.102	7,130,000	\$ 0.122

b) As at December 31, 2006, the Company had the following share purchase options outstanding and exercisable:

Quantity		Exercise Price	Expiry Date
Outstanding	Exercisable		
250,000	250,000	\$0.19	January 9, 2007
1,250,000	1,250,000	\$0.10	April 26, 2007
450,000	450,000	\$0.10	December 13, 2007
400,000	400,000	\$0.15	December 13, 2007
3,000,000	2,250,000	\$0.10	October 28, 2008
2,600,000	650,000	\$0.09	October 28, 2008
7,950,000	5,250,000		

The weighted average contract life remaining on the above options is 1.44 years.

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options granted. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions. The model requires management to make estimates, which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. For purposes of the calculation, the following weighted average assumptions were used:

	2006	2005
Risk free interest rate	4.10%	3.59%
Expected dividend yield	0%	0%
Expected stock price volatility	70%	104%
Expected life of options	2 years	3 years
Fair value of options granted in year	0.03	0.06

Total stock-based compensation for the year ended December 31, 2006 was \$132,788 (2005 - \$185,738) and was expensed to operations and included in contributed surplus for options granted to directors, officers, and consultants of the Company.

Sonora Gold Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

10. Related Party Transactions

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

- a) During the year, management fees of \$52,500 (2005 - \$55,050) were paid to directors and officers or a Company controlled by directors and officers.
- b) During the year, the Company paid directors \$918 (2005 - \$29,395) in consulting and service fees in addition to \$15,192 (2005 - \$5,428) for travel and expense reimbursements relating to investor communication, property investigation, and project management.
- c) During the year, the Company expensed \$122,359 (2005 - \$141,910) of stock-based compensation cost to directors' fees, management fees, accounting and consulting fees for options granted to directors, officers, and companies with directors in common.
- d) During the year, the Company paid interest of \$34,914 (2005 - \$Nil), consulting fees of \$26,100 (2005 - \$1,650) and finder's fees of \$10,450 (2005 - \$Nil) to companies controlled by officers and relatives of directors. Prepaid expense includes \$15,000 (2005 - \$Nil) paid to those companies.
- e) The Company is related to the Optionor of the RHG Property as described in Note 5.

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 and are on terms and conditions similar to non-related parties.

Amounts referred to in Note 6 are expected to be paid within the next year and therefore, they have been classified as current liabilities in the consolidated financial statements.

11. Income Taxes

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

	Canada	Mexico	Total
2010	\$ 269,369	\$ -	\$ 269,369
2011	68,472	-	68,472
2012	236,725	-	236,725
2013	318,059	268,848	586,907
2014	426,852	727,339	1,154,191
2015	416,519	231,311	647,830
2016	-	54,050	54,050
2026	514,382	-	514,382
	<u>\$ 2,250,378</u>	<u>\$ 1,281,548</u>	<u>\$ 3,531,926</u>

Sonora Gold Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

11. Income Taxes - Continued

- b) The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2006	2005 (Restated Note 15)
Canadian statutory income tax rate	34.12%	35.62%
Income tax recovery at statutory rate	\$ 153,584	\$ 147,278
Non-deductible items and timing differences for tax purposes:		
Amortization	-	(508)
Stock-based compensation expense	(45,307)	(66,160)
Share insurance costs	16,219	9,967
Resource loss	(10,261)	(14,261)
Valuation allowance	(114,235)	(76,316)
Income Tax Recoverable	\$ -	\$ -

- c) 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. The significant components of the Company's future income tax assets and liabilities as at December 31, 2006 and 2005 are as follows:

	2006		2005 (Restated Note 15)	
	Mexico 29.0%	Canada 34.1%	Mexico 30.0%	Canada 35.6%
Accounting value of resource property costs less than (in excess of) tax value	\$ (1,263,850)	\$ 590,300	\$ (1,165,439)	\$ 780,196
Share issue costs	-	41,150	-	25,064
Input tax credits	-	13,169	-	13,728
Capital loss carryforwards	-	6,239	-	6,513
Non-capital losses carried forward	371,649	767,829	357,524	517,099
Future income tax asset (liability)	(892,201)	1,418,687	(807,915)	1,342,599
Less: Valuation allowance	(371,649)	(1,418,687)	(357,524)	(1,342,599)
Future income tax asset (liability) recognized	\$ (1,263,850)	\$ -	\$ (1,165,439)	\$ -

12. Segmented Information

Details are as follows:

	Canada	Mexico	Consolidated
December 31, 2006			
Segmented operating income (loss)	\$ (476,474)	\$ 26,345	\$ (450,129)
Resource property costs	\$ 1,150,275	3,875,726	5,026,001
December 31, 2005 (Restated Note 15)			
Segmented operating income (loss)	\$ (424,420)	\$ 10,950	\$ (413,470)
Resource property costs	\$ -	\$ 3,633,540	\$ 3,633,540

Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

13. 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.

14. Commitment

The Company is committed to a management contract with a Company controlled by a director. The contract requires payments of \$5,000 per month and expires May 31, 2007.

15. Prior Period Adjustment

The Company has restated its financial statements for the years ended December 31, 2005 and 2004 to reflect a calculation error made in determining its future income tax liability. In addition, the Company has provided for a full valuation allowance against its Mexican non-capital tax loss carry-forwards which was previously recorded as an offset to the future income tax liability. As a result, the future income tax liability as of December 31, 2005 has been increased by \$868,273 and a corresponding increase to resource property costs. These adjustments had no effect on the Company's opening deficit or operations for the years ended December 31, 2005 and 2004.

16. Subsequent Events

Letter of Intent

On February 21, 2007 the Company signed a Letter of Intent to sell 100% of its interest in the Santa Gertrudis Gold Project to Deal Capital Ltd. ("the Purchaser"), a Toronto Venture Exchange listed Capital Pool Company ('DCP.P').

The Purchaser has paid a non-refundable deposit of \$25,000 to the Company for the acquisition, and will pay US\$650,000 and issue 1,500,000 common shares to the Company upon closing, subject to an escrow agreement. Three more payments of US\$500,000 will be paid to the Company in cash or common shares (at the option of the Purchaser) on the first, second and third anniversaries. If the closing of the transaction goes beyond April 30, 2007, the Purchaser will pay the Company US\$10,000 to extend the closing date to May 31, 2007. The transaction is subject to regulatory approval.

Options

Subsequent to the year-end, 250,000 options expired.

17. Comparative Figures

Certain figures from the previous year have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously reported results.