# SONORO METALS CORP.

(An Exploration Stage Company)
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011
(Expressed in Canadian Dollars)

**SmytheRatcliffe**
CHARTERED ACCOUNTANTS

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF SONORO METALS CORP.

We have audited the accompanying consolidated financial statements of Sonoro Metals Corp., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sonoro Metals Corp. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
April 18, 2013





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**SONORO METALS CORP.**
Consolidated statements of financial position
(Expressed in Canadian Dollars)
As at

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 1,174,403 | $ 1,294,952 |
| Receivables | 36,470 | 37,426 |
| Prepaid expenses | 9,563 | 12,996 |
| | 1,220,436 | 1,345,374 |
| **Non-Current Assets** | | |
| Capital assets (note 7) | - | 9,806 |
| Exploration and evaluation assets (note 8) | 1,484,524 | 1,315,211 |
| | $ 2,704,960 | $ 2,670,391 |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities (note 9) | $ 63,309 | $ 74,932 |
| Due to related parties (note 10) | 101,360 | 52,893 |
| | 164,669 | 127,825 |
| **Non-Current Liabilities** | | |
| Deferred income tax liability (note 12) | - | 17,769 |
| | 164,669 | 145,594 |
| **Shareholders' Equity** | | |
| Share capital (note 11) | 3,836,530 | 3,508,714 |
| Reserves (note 11) | 394,851 | 218,796 |
| Deficit | (1,691,090) | (1,202,713) |
| | 2,540,291 | 2,524,797 |
| | $ 2,704,960 | $ 2,670,391 |

Approved on behalf of the Board:

*"Stephen Kenwood" (signed)* *"Gary Freeman" (signed)*

Stephen Kenwood, Director Gary Freeman, Director

**SONORO METALS CORP.**
Consolidated statements of comprehensive loss
(Expressed in Canadian Dollars)
For the years ended December 31

| | 2012 | 2011 |
|---|---|---|
| **Expenses** | | |
| Consulting fees (note 10) | $ 154,576 | $ 22,390 |
| Amortization | 9,806 | 684 |
| Legal and audit | 78,006 | 86,073 |
| Office and administration (note 10) | 58,033 | 15,201 |
| Share-based payment (note 10) | 176,055 | 183,945 |
| Transfer agent fees | 22,290 | 11,078 |
| Travel and promotion | 15,031 | 5,216 |
| | 513,797 | 324,587 |
| Interest income | (8,928) | (6,480) |
| Listing expense (note 2) | - | 565,825 |
| Foreign exchange loss | 1,277 | 8,364 |
| **Loss Before Taxes** | 506,146 | 892,296 |
| Deferred income tax expense (recovery) (note 12) | (17,769) | 17,769 |
| **Loss and Comprehensive Loss for the Year** | $ 488,377 | $ 910,065 |
| **Loss Per Common Share,** basic and diluted | $ 0.02 | $ 0.07 |
| **Weighted Average Number of Common Shares Outstanding** | 21,147,069 | 13,059,061 |

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

## SONORO METALS CORP.

Consolidated statements of changes in equity
(Expressed in Canadian Dollars)
For the years ended December 31

| | Share Capital | | | | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Share-Based Payment Reserve | Share Subscriptions Receivable | Deficit | Shareholders' Equity |
| Balance, December 31, 2010 | 12,284,782 | $ 2,057,915 | $ - | $ (370,000) | $ (292,648) | $ 1,395,267 |
| Share subscriptions receivable collected (note 11(b)(iii)) | - | - | - | 370,000 | - | 370,000 |
| Acquisition of Cap Capital Corp. (note 2) | 3,131,671 | 626,334 | - | - | - | 626,334 |
| Cancel shares of Cap Capital Corp. on reverse acquisition | (12,284,782) | - | - | - | - | - |
| Shares issued on reverse acquisition | 12,284,782 | - | - | - | - | - |
| Private placements, net of issuance costs (note 11(b)(ii)) | 4,500,000 | 824,465 | 34,851 | - | - | 859,316 |
| Share-based payment | - | - | 183,945 | - | - | 183,945 |
| Net loss for the year | - | - | - | - | (910,065) | (910,065) |
| Balance, December 31, 2011 | 19,916,453 | 3,508,714 | 218,796 | - | (1,202,713) | 2,524,797 |
| Private placements, net of issuance costs (note 11(b)(i)) | 1,325,000 | 327,816 | - | - | - | 327,816 |
| Share-based payment | - | - | 176,055 | - | - | 176,055 |
| Net loss for the year | - | - | - | - | (488,377) | (488,377) |
| **Balance, December 31, 2012** | 21,241,453 | $ 3,836,530 | $ 394,851 | $ - | $ (1,691,090) | $ 2,540,291 |

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

## SONORO METALS CORP.

Consolidated statements of cash flows
(Expressed in Canadian Dollars)
For the years ended December 31

| | 2012 | 2011 |
|---|---|---|
| **Operating Activities** | | |
| Net loss | $ (488,377) | $ (910,065) |
| Items not involving cash | | |
| Amortization | 9,806 | 684 |
| Deferred income tax | (17,769) | 17,769 |
| Listing expense | - | 565,825 |
| Share-based payment | 176,055 | 183,945 |
| Unrealized foreign exchange | - | 755 |
| Changes in non-cash working capital | | |
| Receivables | 956 | (7,341) |
| Prepaid expenses | 3,433 | (10,100) |
| Accounts payable and accrued liabilities | (11,623) | (452,763) |
| Due to related parties | 48,467 | 45,393 |
| **Cash Used in Operating Activities** | (279,052) | (565,898) |
| **Investing Activities** | | |
| Cash acquired on reverse acquisition | - | 270,510 |
| Expenditures on exploration and evaluation assets | (169,313) | (118,291) |
| **Cash Provided from (Used in) Investing Activities** | (169,313) | 152,219 |
| **Financing Activities** | | |
| Common shares issued for cash | 331,250 | 1,270,000 |
| Share issuance costs | (3,434) | (40,684) |
| **Cash Provided from Financing Activities** | 327,816 | 1,229,316 |
| **Effect of Exchange Rate Changes on Cash and Cash** | - | (755) |
| **Inflow (Outflow) of Cash and Cash Equivalents** | (120,549) | 814,882 |
| **Cash and Cash Equivalents, Beginning of Year** | 1,294,952 | 480,070 |
| **Cash and Cash Equivalents, End of Year** | $ 1,174,403 | $ 1,294,952 |
| **Cash and Cash Equivalents Consists of** | | |
| Cash | $ 324,403 | $ 1,294,952 |
| Term deposit | 850,000 | - |
| | $ 1,174,403 | $ 1,294,952 |

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Sonoro Metals Corp. ("Sonoro" or the "Company") was incorporated in Ontario on November 30, 1944 under the *Company Act* of Ontario. On January 15, 2007, the Company was issued a Certificate of Continuation by the Province of British Columbia. On December 20, 2011, the Company changed its name from Becker Gold Mines Ltd. to Sonoro Metals Corp, which took effect on January 6, 2012. The Company's principal business activity is the acquisition, exploration and development of exploration and evaluation assets. The Company is a publicly-traded company listed on the TSX Venture Exchange ("TSX-V") under the symbol "SMO".

The head office, registered address and records office of the Company are located at suite 480 – 789 West Pender Street, Vancouver, British Columbia, Canada, V6C 1H2.

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not include any adjustments related to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company reported a net loss of $488,377 (2011 - $910,065) for the year ended December 31, 2012 and has an accumulated deficit of $1,691,090 (2011 - $1,202,713) as at December 31, 2012. As at December 31, 2012, the Company had working capital of $1,055,767 (2011 - $1,217,549) available to meet its liabilities as they become due and to continue its exploration of current properties and the evaluation of potential resource property acquisitions in the next year.

The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and to finance mineral property acquisitions and future exploration. The Company does not generate cash flow from operations to adequately fund its activities and has therefore relied principally upon the issuance of securities for financing. The Company intends to continue relying upon the issuance of securities to finance its future activities, but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. Although these consolidated financial statements do not include any adjustments that may result from the inability to secure future financing, such a situation would have a material adverse effect on the Company's business, results of operations and financial condition.

## 2. REVERSE ACQUISITION

On October 20, 2011, pursuant to an agreement dated August 25, 2011, the Company issued 12,284,782 common shares of the Company to the shareholders of Cap Capital Corp. ("Cap Capital"), a private company, in exchange for all of the issued and outstanding shares of Cap Capital (the "Transaction").

Upon completion of the Transaction, the shareholders of Cap Capital owned 79.69% of the common shares of the Company. The Transaction resulted in the former shareholders of Cap Capital acquiring control of the Company and accordingly, the Transaction has been accounted for as a reverse acquisition by Cap Capital, with the legal subsidiary being treated as the accounting parent and Sonoro, the legal parent, being treated as the accounting subsidiary. A reverse acquisition transaction involving a non-public operating entity and a non-operating public company is in substance a capital transaction, rather than a business combination and is considered a recapitalization of the public company.

(Expressed in Canadian Dollars)

**2. REVERSE ACQUISITION** (Continued)

The consolidated financial statements have been prepared as a continuation of Cap Capital and have been issued in the name of the Company, being the legal parent. The Transaction has been measured based on the fair value of the shares that have been issued to Sonoro's shareholders.

Accordingly, the Transaction has been accounted for as follows:

a) The historical equity of the Company as of the Transaction date has been eliminated and the excess of the fair value of the common shares issued over the fair value of net assets acquired has been recorded as a listing expense;

b) The deficit and other equity balances are those of Cap Capital immediately prior to the Transaction;

c) The equity structure presented in these consolidated financial statements (the number and type of equity instruments issued) reflects the equity structure of the Company, including the equity instruments issued by the Company to effect the Transaction; and

d) The assets and liabilities of Cap Capital are recognized and measured at their pre-Transaction carrying amounts and the net assets of the Company on the Transaction date have been measured at their fair value of $60,509.

The fair value of Sonoro's net assets acquired and liabilities assumed are as follows:

| | |
|---|---|
| Cash | $ 270,510 |
| Receivables | 9,161 |
| Prepaid expenses | 1,400 |
| Equipment | 10,490 |
| Accounts payable and accrued liabilities | (231,052) |
| Fair value of net assets acquired | 60,509 |
| Fair value of 3,131,671 common shares issued | (626,334) |
| Listing expense | $ 565,825 |

For the year ended December 31, 2011, the consolidated statements of comprehensive loss and cash flows include Cap Capital's results of operations and cash flows, and the Company's results of operations from October 20, 2011 (the date of the reverse acquisition) to December 31, 2011.

**3. BASIS OF PREPARATION**

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Board of Directors approved these consolidated financial statements for issue on April 18, 2013.

## 3. BASIS OF PREPARATION (Continued)

### Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned Canadian subsidiary, Cap Capital, and its wholly-owned Mexican subsidiary, Minera Mar Plata S.A. de C.V ("MMP"). All significant intercompany transactions and balances have been eliminated.

### Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the year. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

a) The carrying value and the recoverability of exploration and evaluation assets;

b) The inputs used in the option pricing models used to calculate the fair value of share-based payments;

c) The inputs used in calculating the fair value of warrants included in units issued in private placements;

d) The valuation of shares issued in non-cash transactions;

e) The recognition of deferred tax assets and liabilities; and

f) Purchase price allocation and the fair value of the net assets acquired in the Transaction.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors indentified in International Accounting Standard ("IAS") 21 *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in net income (loss).

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash equivalents

The Company considers cash equivalents to be deposits with banks or highly liquid short-term interest-bearing investments cashable at any time and having maturities of three months or less from the date acquired. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

### Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax is recorded using the asset and liability method, in respect of temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against current liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

### Loss per common share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

### Financial instruments

<u>Financial assets</u>

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the assets were acquired:

*Fair value through profit and loss* – This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in net income (loss).

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (continued)

Financial assets (continued)

*Loans and receivables* – These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are originally recognized at fair value and carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* – These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in net income (loss).

*Available-for-sale* – Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized as other comprehensive income and classified as a component of equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in net income (loss).

All financial assets, except for those at fair value through profit or loss, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* – This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in net income (loss).

*Other financial liabilities* – Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Unit offerings

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced and any excess is allocated to warrants.

### Exploration and evaluation expenditures

*Pre-exploration costs*

Pre-exploration costs are expensed in the period in which they are incurred.

*Exploration and evaluation assets*

The Company capitalizes the acquisition costs of exploration and evaluation assets.

Exploration and evaluation expenditures are expensed as incurred. These direct expenditures include such costs as materials used, geological and geophysical evaluation, surveying costs, drilling costs, payments made to contractors, and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects for the Company, exploration and evaluation assets in respect of that project are deemed to be impaired. As a result, those exploration and evaluation assets, in excess of estimated recoveries, are written off to net income (loss).

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as “mines under construction”. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized costs.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As such options are exercisable entirely at the discretion of the optionee the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received.

Capitalized costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the applicable mineral rights are allowed to lapse.

(Expressed in Canadian Dollars)

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payments

The Company has a stock option plan that is described in note 11(c). Share-based payments to employees are measured at the fair value of the equity instruments issued and are amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of the goods or services cannot be reliably measured), and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payment reserve. If and when the stock options are ultimately exercised, the applicable amounts of fair value are transferred from the share-based payment reserve to share capital.

### Capital assets

Capital assets are recorded at cost and amortized using the following annual rate and method:

| | |
|---|---|
| Leaseholds | 20% straight-line |

### New standards not yet adopted

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

*Accounting Standards Issued and Effective January 1, 2013*

IFRS 10 *Consolidated Financial Statements* replaces guidance on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements,* and SIC-12 *Consolidation – Special Purpose Entities.* IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control.

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-Based Payment*; leasing transactions within the scope of IAS 17 *Leases;* measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.*

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**New standards not yet adopted** (continued)

IAS 19 *Employee Benefits* was amended to eliminate the option to defer, or recognize in full in profit or loss, actuarial gains and losses, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for defined benefit plans.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors in joint control of, or significant influence over, an investee (associate or joint venture).

*Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7: *Financial Instruments: Disclosures*) amends the disclosure requirements in IFRS 7 to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 *Financial Instruments: Presentation*. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

*Annual Improvements 2009-2011 Cycle* makes amendments to the following standards:

- IFRS 1 – permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets
- IAS 1 – clarification of the requirements of comparative information
- IAS 16 – classification of servicing equipment
- IAS 32 – clarifies that tax effect of distribution to holders of equity instruments should be accounted for in accordance with IAS 12 *Income Taxes*
- IAS 34 – clarifies interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 *Operating Segments*

*Accounting Standards Issued and Effective January 1, 2014*

IAS 32 *Financial Instruments: Presentation* clarifies certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- The meaning of “currently has a legally enforceable rights of set-off”;
- The application of simultaneous realization and settlement;
- The offsetting of collateral amounts; and
- The unit of account for applying the offsetting requirements.

(Expressed in Canadian Dollars)

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**New standards not yet adopted** (continued)

*Accounting Standards Issued and Effective January 1, 2015*

IFRS 9 *Financial Instruments* replaces the current standard IAS 39 *Financial Instruments: Recognition and Measurement*, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories; amortized cost and fair value.

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

## 5. FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents as fair value through profit and loss; receivables, as loans and receivables; and accounts payable and accrued liabilities and due to related parties, as other financial liabilities.

**Fair value**

The carrying values of receivables, accounts payable and accrued liabilities and due to related parties approximate their fair values due to the short-term nature of these financial instruments.

**Credit risk**

The Company is exposed to credit risk with respect to its cash and cash equivalents. Cash has been placed on deposit with major Canadian and Mexican financial institutions. The risk arises from the non-performance of counterparties of contracted financial obligations. The Company is not exposed to significant credit risk on receivables as these amounts are due from government agencies.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as the majority of the amount is held with only a few Canadian and Mexican financial institutions. The Company's concentration of credit risk and maximum exposure thereto is as follows:

| | **2012** | **2011** |
|---|---:|---:|
| Cash and cash equivalents held at major Canadian financial institutions | $ 1,161,021 | $ 1,265,231 |
| Cash held at major Mexican financial institutions | 13,382 | 29,721 |
| Total cash and cash equivalents | $ 1,174,403 | $ 1,294,952 |

As at December 31, 2012, the Company held a guaranteed investment certificate of $850,000 earning interest at prime less 1.95%, maturing December 19, 2013, and cashable at any time.

## 5. FINANCIAL INSTRUMENTS (Continued)

### Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company had working capital at December 31, 2012 in the amount of $1,055,767 (2011 - $1,217,549).

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

The Company's cash and cash equivalents consist of cash held in bank accounts. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of December 31, 2012.

(ii) Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars.

The Company is exposed to foreign currency risk with respect to cash and cash equivalents, receivables, and accounts payable and accrued liabilities as a portion of these amounts are denominated in US dollars and Mexican pesos. The Company has not entered into any foreign currency contracts to mitigate this risk.

As at December 31, 2012 and 2011, the Company's significant exposure to foreign currency risk, based on consolidated statement of financial position carrying values, were to the Mexican peso and the US dollar, as follows:

| | **2012** | |
|---|---|---|
| | MXN | USD |
| Cash | 151,132 | 1,777 |
| Receivables | 265,533 | - |
| Accounts payable and accrued liabilities | (149,466) | - |
| | 267,199 | 1,777 |
| Canadian dollar equivalent | $ 20,505 | $ 1,786 |

| | **2011** | |
|---|---|---|
| | MXN | USD |
| Cash | 407,805 | 18,866 |
| Receivables | 408,803 | - |
| Accounts payable and accrued liabilities | (145,694) | - |
| | 670,914 | 18,866 |
| Canadian dollar equivalent | $ 48,896 | $ 19,187 |

(Expressed in Canadian Dollars)

**5. FINANCIAL INSTRUMENTS** (Continued)

**Market risk** (continued)

(ii) Foreign currency risk (continued)

The sensitivity analysis of the Company's exposure to foreign currency risk at the reporting date has been determined based upon hypothetical changes taking place at December 31, 2012 and 2011, which includes a hypothetical change in the foreign exchange rate between the Canadian dollar and Mexican peso and the Canadian dollar and US dollar and the effect on net income (loss).

| | Reasonably Possible Changes | |
|---|---|---|
| | **2012** | **2011** |
| CDN $: MXN peso exchange rate variance | +/- 5% | +/-5% |
| Impact on net loss | $ 1,079 | $ 2,445 |

| | Reasonably Possible Changes | |
|---|---|---|
| | **2012** | **2011** |
| CDN $: USD dollar exchange rate variance | +/- 5% | +/- 5% |
| Impact on net loss | $ 94 | $ 959 |

(ii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

**6. CAPITAL MANAGEMENT**

The Company's primary objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to be able to identify and continue with the exploration activities on its exploration and evaluation assets. The Company defines capital that it manages as shareholders' equity.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue shares from treasury, which is the Company's primary source of funds. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations and is not subject to any externally imposed capital requirements.

There have been no changes to the Company's approach to capital management during the year.

(Expressed in Canadian Dollars)

## 7. CAPITAL ASSETS

| Leasehold Improvements | | |
|---|---|---|
| **Cost** | | |
| Balance, December 31, 2010 | $ | - |
| Additions | | 10,490 |
| Balance, December 31, 2011 and 2012 | $ | 10,490 |
| **Accumulated amortization** | | |
| Balance, December 31, 2010 | $ | - |
| Amortization | | 684 |
| Balance, December 31, 2011 | | 684 |
| Amortization | | 9,806 |
| Balance, December 31, 2012 | $ | 10,490 |
| Net book value, December 31, 2011 | $ | 9,806 |
| Net book value, December 31, 2012 | $ | - |

## 8. EXPLORATION AND EVALUATION ASSETS

| | Chipriona | Santa Clara | Los Pinos | Total |
|---|---|---|---|---|
| Balance, December 31, 2010 | $ 927,147 | $ - | $ 269,773 | $ 1,196,920 |
| Acquisition costs | - | 118,291 | - | 118,291 |
| Balance, December 31, 2011 | 927,147 | 118,291 | 269,773 | 1,315,211 |
| Acquisition costs | - | 119,526 | 49,787 | 169,313 |
| Balance, December 31, 2012 | $ 927,147 | $ 237,817 | $ 319,560 | $ 1,484,524 |

The Chipriona property is subject to a 2% royalty on net operating profits and the Los Pinos property is subject to a 2% net smelter return royalty.

Santa Clara

On January 10, 2011, the Company entered into an option agreement whereby the Company can acquire a 100% interest in the Santa Clara concession, which is contiguous to the Company's current mineral concessions, for total cash payments of US $240,000 over a three-year period and the issuance of 120,000 common shares due as follows:

| | | |
|---|---|---|
| Cash | | |
| Payable by January 2011 | US $40,000 | (paid - $39,096) |
| Payable by February 2011 | US $20,000 | (paid - $19,153) |
| Payable by July 2011 | US $60,000 | (paid - $56,411) |
| Payable by January 2012 | US $60,000 | (paid - $60,000) |
| Payable by July 2013 | US $60,000 | (paid - $59,526 – August 20, 2012) |
| | US $240,000 | |
| Shares | | |
| Issuable by July 2013 | | |

The Santa Clara property is subject to a 2.5% royalty on net operating profits.

## 8. EXPLORATION AND EVALUATION ASSETS (Continued)

a) Realization of assets

The Company's investment in and expenditures on exploration and evaluation assets comprise a significant portion of the Company's assets. Realization of the Company's investment in the assets is dependent on establishing legal ownership of the property interest, on the attainment of successful commercial production or from the proceeds of its disposal. The recoverability of the amounts shown for the exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the exploration and evaluation assets, and upon future profitable production or proceeds from the disposition thereof.

b) Title to mineral properties

Title to exploration and evaluation assets 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 conveyancing history of many exploration and evaluation assets. Although the Company has taken steps to ensure title to the exploration and evaluation assets in which it has an interest, in accordance with industry standards for the current stage of exploration of such assets, these procedures may not guarantee the Company's title. Asset title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

c) Environmental matters

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its exploration and evaluation assets. The Company conducts its exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current assets that may result in a material liability to the Company.

Environmental legislation is becoming increasingly stringent and the costs of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the exploration and evaluation assets, the potential for production on these assets may be diminished or negated.

(Expressed in Canadian Dollars)

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities for the Company are broken down as follows:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Trade payables | $ 28,309 | $ 37,932 |
| Accrued liabilities | 35,000 | 37,000 |
| Total | $ 63,309 | $ 74,932 |

All accounts payable and accrued liabilities for the Company are due within the next 12 months.

## 10. RELATED PARTY TRANSACTIONS

The Company entered into the following transaction with related parties during the year:

- Rent of $21,000 (2011 - $3,500) was paid to a company with directors in common and is included in office and administration.

At December 31, 2012, $101,360 (2011 - $52,893) is owing to related parties without interest and payable on demand.

**Compensation of key management**

Key management comprises directors and executive officers. Compensation awarded to key management for the years ended December 31, 2012 and 2011 is as follows:

| | 2012 | 2011 |
|---|---|---|
| Short-term employee benefits | $ 122,071 | $ 12,858 |
| Share-based payments | 94,875 | 99,000 |
| | $ 216,946 | $ 111,858 |

The Company incurred no post-employment benefits, no long-term benefits and no termination benefits.

## 11. SHARE CAPITAL AND RESERVES

a) Authorized

Unlimited number of common shares without par value.

b) Issued

(i) On January 27, 2012, the Company completed a private placement and issued 1,325,000 units at a price of $0.25 per unit for gross proceeds of $331,250. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one common share of the Company at an exercise price of $0.35 per share until January 27, 2013. The Company incurred expenses of $3,434 in connection with the private placement. There was no finder's fee paid in connection with this private placement.

(Expressed in Canadian Dollars)

**11. SHARE CAPITAL AND RESERVES** (Continued)

b) Issued (continued)

(ii) On December 20, 2011, the Company completed a private placement and issued 4,500,000 units at a price of $0.20 per unit for gross proceeds of $900,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder to purchase one additional common share of the Company for two years at an exercise price of $0.30. In connection with the private placement, finder's fees totaled $24,500 in cash, other expenses amounted to $16,184 and 122,500 finder's warrants with a fair value of $34,851 were issued. Finder's warrants entitle the holder to purchase 122,500 units, with the same terms of the private placement, for a period of two years at an exercise price of $0.30 per unit.

(iii) On December 31, 2010, the Company completed a private placement and issued 5,382,500 common shares at a price of $0.20 per common share for gross proceeds of $1,076,500. No finder's fees were paid in connection with the private placement. As at December 31, 2010, $370,000 was receivable for this issuance, which was received during the year ended December 31, 2011.

c) Stock options

Pursuant to the policies of the TSX-V, under the Company's stock option plan, options to purchase common shares are granted to directors, employees and consultants at exercise prices determined by reference to the market value on the date of grant for a maximum term of five years. The Board of Directors may grant options for the purchase of up to a total of 10% of the outstanding shares at the time of the option grant less the aggregate number of existing options and number of common shares subject to issuance under outstanding rights that have been issued under any other share compensation arrangement. Options granted under the plan may vest over a period of time at the discretion of the Board of Directors.

A summary of the Company's outstanding and exercisable stock options and changes during the years then ended is as follows:

| | Outstanding | Exercisable | | Weighted Average Exercise Price |
|---|---|---|---|---|
| Balance, December 31, 2010 | 300,000 | 300,000 | $ | 0.20 |
| Granted | 1,500,000 | 750,000 | $ | 0.30 |
| Balance, December 31, 2011 | 1,800,000 | 1,050,000 | $ | 0.28 |
| Vested | - | 750,000 | $ | 0.30 |
| Balance, December 31, 2012 | 1,800,000 | 1,800,000 | $ | 0.28 |

(Expressed in Canadian Dollars)

## 11. SHARE CAPITAL AND RESERVES (Continued)

c) Stock options (continued)

The following summarizes information on the number of stock options outstanding at December 31:

| Expiry Date | Exercise Price | **2012** | **2011** |
|---|---|---|---|
| May 20, 2014 | $ 0.20 | 300,000 | 300,000 |
| December 23, 2016 | $ 0.30 | 1,500,000 | 1,500,000 |
| | | 1,800,000 | 1,800,000 |

The weighted average remaining contractual life for the outstanding options at December 31, 2012 is 3.55 (2011 - 4.48) years.

On December 23, 2011, the Company granted 1,500,000 options to directors, consultants and employees. These options vest 50% on the grant date and 50% on December 23, 2012. The fair value of these options was calculated at $360,000, of which $176,055 (2011 - $183,945) was recognized for the year ended December 31, 2012.

The fair value of stock options is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | **2012** | **2011** |
|---|---|---|
| Share price on grant date | N/A | $0.30 |
| Risk-free interest rate | N/A | 1.31% |
| Expected dividend yield | N/A | 0.00% |
| Expected stock price volatility | N/A | 112.37% |
| Expected life in years | N/A | 5.00 |
| Expected forfeiture rate | N/A | 0.00% |
| Fair value at grant date | N/A | $0.24 |

Volatility is determined based on the historical share price of peer group companies over the estimated lives of the options.

(Expressed in Canadian Dollars)

**11. SHARE CAPITAL AND RESERVES** (Continued)

d) Warrants

As at December 31, 2012, the Company had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

| Exercise Price | Expiry Date | Outstanding, December 31, 2011 | Issued | Exercised | Expired | Outstanding, December 31, 2012 |
|---|---|---|---|---|---|---|
| $ 0.30 | December 20, 2013 | 4,500,000 | - | - | - | 4,500,000 |
| $ 0.35 | January 27, 2013* | - | 1,325,000 | - | - | 1,325,000 |
| | | 4,500,000 | 1,325,000 | - | - | 5,825,000 |

* Subsequent to the year ended December 31, 2012, these warrants expired unexercised.

As at December 31, 2012, the Company had finder's warrants outstanding as follows:

| Exercise Price | Expiry Date | Outstanding, December 31, 2011 | Issued | Exercised | Expired | Outstanding, December 31, 2012 |
|---|---|---|---|---|---|---|
| $ 0.30 | December 20, 2013 | 122,500 | - | - | - | 122,500 |

Finder's warrants entitle the holders to acquire one unit whereby each unit is comprised of one common share and one share purchase warrant, and one share purchase warrant entitles the holder to purchase one common share of the Company for an exercise price of $0.30 exercisable until December 20, 2013.

The fair value of the finder's warrants was calculated at $0.28 per unit.

The fair value of finder's warrants is estimated using the option pricing models with the following weighted average assumptions:

| | **2012** | **2011** |
|---|---|---|
| Share price on grant date | N/A | $0.30 |
| Risk-free interest rate | N/A | 0.95% |
| Expected dividend yield | N/A | 0.00% |
| Expected stock price volatility | N/A | 88.19% |
| Expected life in years | N/A | 2.00 |
| Expected forfeiture rate | N/A | - |
| Fair value at grant date | N/A | $0.28 |

Volatility was determined based on the historical share price of Sonoro over the estimated lives of the finder's warrants.

(Expressed in Canadian Dollars)

## 12. INCOME TAXES

a) A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Loss before income taxes | $ | (506,146) | $ | (892,296) |
| Canadian statutory tax rate | | 25.0% | | 26.5% |
| Income tax recovery computed at statutory rates | | (126,537) | | (236,459) |
| Non-deductible items | | 44,466 | | 48,745 |
| Temporary differences | | 1,384 | | 142,621 |
| Foreign tax rates different from statutory | | (863) | | (826) |
| Effects of foreign exchange on tax assets | | (14,148) | | 36,622 |
| Rate difference between current and deferred taxes | | 415 | | 2,338 |
| Unused tax losses and tax offsets not recognized | | 77,514 | | 24,728 |
| Income tax expense (recovery) | $ | (17,769) | $ | 17,769 |

Effective January 1, 2012, the Canadian federal corporate tax rate decreased from 16.5% to 15% and the British Columbia remained constant at 10.0%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 26.5% to 25.0%. Effective April 1, 2013 the British Columbia corporate tax rate increased from 10% to 11%.

In 2009, the Mexican government approved tax reform that includes a 2% increase in the income tax rate in Mexico from 28% to 30% for a three-year period starting in 2010.

b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income liabilities at December 31, 2012 and 2011 are presented below:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Deferred income tax assets | | | | |
| Tax loss carry-forward | $ | - | $ | 17,072 |
| Deferred income tax liability | | | | |
| Exploration and evaluation assets | | - | | (34,841) |
| Deferred tax liability | $ | - | $ | (17,769) |

(Expressed in Canadian Dollars)

## 12. INCOME TAXES (Continued)

c) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable deferred tax assets will be realized. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

| | 2012 | 2011 |
|---|---|---|
| Non-capital losses | $ 1,940,000 | $ 1,541,000 |
| Capital losses | - | 4,000 |
| Share issue costs | 48,000 | 33,000 |
| Tax value over book value of exploration and evaluation assets | 57,000 | 134,000 |
| Tax value over book value of equipment | 10,000 | 1,000 |
| Unrecognized deferred tax | $ 2,055,000 | $ 1,713,000 |

As at December 31, 2012, the Company has non-capital losses carried forward of approximately $1,860,000 and $80,000 that may be applied against future income for income tax purposes in Canada and Mexico, respectively. The operating losses expire between 2014 and 2032.

## 13. SEGMENTED INFORMATION

The Company has one business segment, the exploration of mineral properties. The Company's significant assets are distributed by geographic locations as follows:

| As at December 31, 2012 | Capital Assets | Exploration and Evaluation Assets | Total Non-Current Assets |
|---|---|---|---|
| Mexico | $ - | $ 1,484,524 | $ 1,484,524 |

| As at December 31, 2011 | Capital Assets | Exploration and Evaluation Assets | Total Non-Current Assets |
|---|---|---|---|
| Canada | $ 9,806 | $ - | $ 9,806 |
| Mexico | - | 1,315,211 | 1,315,211 |
| Total | $ 9,806 | $ 1,315,211 | $ 1,325,017 |