



(Formerly Sonoro Metals Corp)

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SONORO GOLD CORP.

Opinion

We have audited the consolidated financial statements of Sonoro Gold Corp. and its subsidiaries (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$5,648,579 during the year ended December 31, 2020 and as of that date, the Company had an accumulated deficit of \$12,833,017. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises of the information included in the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, and remain alert for indications that the other information appears to be materially misstated.

We obtained the Management's Discussion & Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ♦ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Kevin Yokichi Nishi.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 28, 2021

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Consolidated statements of financial position

(Expressed in Canadian Dollars)

As at	Note	December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		\$ 2,310,411	\$ 1,074,652
Receivable		51,273	-
Prepaid expenses		39,783	14,185
		2,401,467	1,088,837
Non-current assets			
VAT receivables		915,077	241,297
Exploration and evaluation assets	6	2,337,687	1,432,095
		\$ 5,654,231	\$ 2,762,229
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 146,111	\$ 1,369,664
Due to related parties	8	22,017	22,743
Loans payable	9	59,727	273,862
		227,855	1,666,269
Shareholders' equity			
Share capital	10	16,837,074	8,139,909
Share-based payment reserve	10	1,462,819	140,489
Share subscriptions receivable	10	(40,500)	-
Deficit		(12,833,017)	(7,184,438)
		5,426,376	1,095,960
		\$ 5,654,231	\$ 2,762,229

Approved on behalf of the Board:

*"Stephen Kenwood" (signed)**"Ken MacLeod" (signed)*

Stephen Kenwood, Director

Ken MacLeod, Director

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

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Consolidated statements of loss and comprehensive loss

(Expressed in Canadian Dollars)

For the years ended December 31	Note	2020	2019
Operating expenses			
Consulting fees	8	\$ 993,730	\$ 593,210
Exploration expenditures	6	2,425,222	1,890,101
Legal and audit		146,216	122,865
Office and administration		99,881	128,449
Share-based payments	8,10	1,257,050	87,500
Transfer agent and filing fees		80,304	60,770
Travel and promotion		489,208	453,864
		(5,491,611)	(3,336,759)
Other income (expenses)			
Interest income		142	847
Interest expense	9	(88,966)	(3,911)
Sale of royalty	13	-	875,000
Foreign exchange loss		(74,077)	(16,857)
		(162,901)	855,079
Loss before taxes		(5,654,512)	(2,481,680)
Income tax recovery	12	5,933	725,270
Loss and comprehensive loss for the year		\$ (5,648,579)	\$ (1,756,410)
Basic and diluted loss per share		\$ (0.10)	\$ (0.05)
Weighted average number of shares outstanding		58,274,030	36,273,802

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

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Consolidated statements of changes in shareholders' equity

(Expressed in Canadian Dollars)

	Note	Share Capital		Share-Based Payment Reserve	Subscription Receivable	Deficit	Shareholders' Equity
		Shares	Amount				
Balance, December 31, 2018		31,130,086	\$ 6,112,299	\$ 214,112	\$ (13,000)	\$ (5,428,028)	\$ 885,383
Private placement, net of issuance costs	10	7,964,231	1,357,987	19,000	-	-	1,376,987
Shares issued for subscriptions received	0	1,875,000	264,500	-	13,000	-	277,500
Reallocation of reserve on exercise of options	0	-	180,123	(180,123)	-	-	-
Exercised warrants	0	1,500,000	225,000	-	-	-	225,000
Share-based payments	8, 10	-	-	87,500	-	-	87,500
Net loss for the period		-	-	-	-	(1,756,410)	(1,756,410)
Balance, December 31, 2019		42,469,317	\$ 8,139,909	\$ 140,489	\$ -	\$ (7,184,438)	\$ 1,095,960
Private placement, net of issuance costs	10	37,407,440	7,908,302	-	-	-	7,908,302
Fair value of financing warrants		-	(162,000)	162,000	-	-	-
Exercise of warrants	10	4,100,528	687,143	-	(40,500)	-	646,643
Exercise of options	10	1,100,000	167,000	-	-	-	167,000
Fair value of options	10	-	96,720	(96,720)	-	-	-
Share-based payments	8, 10	-	-	1,257,050	-	-	1,257,050
Net loss for the period		-	-	-	-	(5,648,579)	(5,648,579)
Balance, December 31, 2020		85,077,285	\$ 16,837,074	\$ 1,462,819	\$ (40,500)	\$ (12,833,017)	\$ 5,426,376

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

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Consolidated statements of cash flows

(Expressed in Canadian Dollars)

For the years ended December 31	2020	2019
Operating Activities		
Net loss	\$ (5,648,579)	\$ (1,756,410)
Items not involving cash		
Share-based payments	1,257,050	87,500
Foreign exchange	7,434	-
Income tax recovery	(5,933)	(725,270)
Changes in non-cash working capital		
VAT receivables	(673,780)	(13,061)
Receivables	(51,273)	-
Prepaid expenses	(25,598)	71,912
Accounts payable and accrued liabilities	(1,217,619)	1,061,326
Due to related parties	(725)	22,743
Cash Used in Operating Activities	(6,359,024)	(1,251,260)
Investing Activity		
Expenditures on exploration and evaluation assets	(905,592)	(560,073)
Cash Used in Investing Activity	(905,592)	(560,073)
Financing Activities		
Common shares issued for cash, net of share issuance costs	7,908,302	1,376,987
Proceeds received from exercise of stock options	167,000	264,500
Proceeds received from exercise of warrants	646,643	225,000
Proceeds received from subscriptions receivable	-	13,000
Loans payable advances	770,670	273,862
Loans repaid	(992,240)	-
Cash Provided by Financing Activities	8,500,375	2,153,349
Inflow of Cash and Cash Equivalents	1,235,759	342,016
Cash and Cash Equivalents, Beginning of Year	1,074,652	732,636
Cash and Cash Equivalents, End of Year	\$ 2,310,411	\$ 1,074,652
Cash and Cash Equivalents Consists of		
Cash	\$ 1,983,186	\$ 1,049,126
Term deposit	327,225	25,526
	\$ 2,310,411	\$ 1,074,652
Supplemental Disclosure with Respect to Cash Flows		
Interest received	\$ 142	\$ 847
Interest paid	\$ 89,256	\$ 3,911
Share subscriptions receivable on warrant exercises	\$ 40,500	\$ -

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

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Sonoro Gold Corp., formerly 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. 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 “SGO”.

The head office, registered address and records office of the Company are located at suite 408 – 470 Granville Street, Vancouver, British Columbia, Canada, V6C 1V5.

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 will be required to and 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. The Company incurred a net loss of \$5,648,579 during the year ended December 31, 2020 (2019 - \$1,756,410). As at December 31, 2020, the Company had working capital of \$2,173,612 (working capital deficiency 2019 - \$577,432) and an accumulated deficit of \$12,833,017 (2019 - \$7,184,438). These matters indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments that may result from the Company being unable to continue as a going concern, or to the recoverability of assets and classification of assets and liabilities, which could be material.

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus, COVID-19, a global pandemic. This has impacted the global economy with restrictions on travel and mobility being imposed by numerous countries to help reduce new infections. These countries include locations where the Company operates. The Company is committed to providing safe and healthy work environments for its employees, contractors and the communities in which it operates. The Company initiated an exploration program in August 2020 on its Cerro Caliche project in Sonoro State, Mexico. The Company has developed a comprehensive mobilization protocol for the resumption of field activities and is observing social distancing and other protective measures in accordance with such protocols.

The Board of Directors approved these consolidated financial statements for issue on April 28, 2021.

2. BASIS OF PREPARATION

These consolidated financial statements, have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board. These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (Continued)

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries, Cap Capital Corp. ("Cap Capital"), Minera Mar de Plata S.A. de C.V ("MMP") and Minera Breco, S.A. de C.V. ("Breco"). A subsidiary is an entity in which the Company has control, where control requires exposure or rights to variable returns and the ability to affect those returns through power over the investee. 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 period. Actual results could differ from these estimates.

Critical accounting estimates

Critical accounting estimates made by management that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year include, but are not limited to, the following:

Share-based payments

The fair value of share-based payments is subject to the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in certain assumptions. As the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices and expected forfeiture rate, changes in subjective input assumptions can materially affect the fair value estimate.

Recovery of deferred tax assets

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

Taxes Payable

In 2017, the Company estimated taxes payable on the sale of Chipriona property to Agnico Eagle to be \$725,270. During the year ended December 31, 2019, the Company completed filing of its Mexican tax returns for the years 2017 to 2019. Based on the filings of the completed tax returns, management has assessed the Company's subsidiary does not have a tax liability on the sale of the Chipriona property. Accordingly, the previously estimated taxes payable of \$725,270 has been revised to \$nil, resulting in a corresponding tax recovery in 2019. The Company is waiting for a notice of assessment from the Mexican tax authorities. When the notice of assessment is issued, it may have a material impact on the consolidated financial statements.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (Continued)

Critical accounting estimates (continued)

Value Added Tax ("VAT")

Management's assumptions regarding the recoverability of Value Added Tax ("VAT") receivable in at the end of each reporting period, is made using all relevant facts available, including past collectability, the development of VAT policies and the general economic environment of the country to determine if a write-down of the VAT is required. Collection of the amount receivable depends on processing and payment of the claims by the local government, which historically has been very slow. While the Company is still pursuing collection, with the delay in processing and collection, management determined for the year ended December 31, 2020 that it was appropriate to record the VAT to the resource property and general and administrative expenses that the VAT related to. The timing and amount of the VAT ultimately collectible could be materially different from the amount recorded in the consolidated financial statements.

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

Exploration and evaluation assets

Management is required to make judgments on the status of each mineral property and the future plans with respect to finding commercial reserves. The nature of exploration and evaluation activity is such that only a few projects are ultimately successful and some assets are likely to become impaired in future periods.

In respect of costs incurred for its mineral properties, management has determined that acquisition costs, which have been capitalized, continue to be appropriately recorded on the consolidated statement of financial position at carrying value. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit, including geologic and metallurgic information, economic assessment/studies, accessible facilities and existing permits.

Assets or cash-generating units are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's mineral properties.

Functional currency

The Company applies judgment in assessing the functional currency of each entity consolidated in these consolidated financial statements, including determinations of whether each entities' functional currency is impacted by the direction of the Canadian head office, or local market forces.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

Non-monetary consideration

Shares issued for non-monetary consideration to non-employees are recorded at the fair value of the goods or services received. When such fair value cannot be estimated reliably, fair value is measured based on the quoted market value of the Company's shares on the date of share issuance. Shares to be issued, which are contingent upon future events or actions, are recorded by the Company when it is reasonably determinable that the shares will be issued.

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 group of companies. The functional currency for all entities within the group of companies is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in 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 consolidated statement of financial position date. Exchange gains and losses arising on translation are included in net income (loss).

Cash equivalents

The Company considers cash equivalents to be 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.

Taxes receivable

The Company has reclassified the Value Added Tax ("VAT") receivables in the amount of \$915,077 (2019 - \$241,297) as non-current. The VAT receivables are generated on the purchase of supplies and services and are receivable from the Mexican government. The Company classifies VAT receivables as non-current as it does not expect collection of amounts to occur within the next year. The recovery of VAT involves a complex application process and the timing of collection of VAT receivables is uncertain. The Company has not recognized a loss allowance for expected credit losses as VAT receivables are not contract assets and therefore outside the scope of IFRS 9.

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 year-end, adjusted for amendments to tax payable with regard to previous years.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (continued)

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 amounts of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated 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 tax 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.

Income (loss) per common share

Basic income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted income per share is computed similar to basic income (loss) per share, except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. However, diluted loss per share does not include the increase to weighted average shares, as the effect of including additional shares would be anti-dilutive.

Financial instruments

Financial assets

Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Amortized cost - A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for such financial assets is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

Financial assets measured at fair value through profit or loss (“FVTPL”)

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

Financial assets measured at fair value through other comprehensive income (“FVTOCI”)

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as “financial asset at fair value through other comprehensive income” in other comprehensive income.

Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the consolidated statement of comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities

Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

Classification of financial liabilities

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

Financial liabilities measured at amortized cost

A financial liability at amortized cost is initially measured at fair value plus transaction cost directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities measured at fair value through profit or loss

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of loss and comprehensive loss.

Exploration and evaluation expenditures

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.

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 indicators of impairment at each reporting date.

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.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

The Company has a stock option plan that is described in note 10(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.

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 value of the common shares at the time the units are priced, and any excess is allocated to warrants.

New accounting standards issued but not yet effective

The Company has not yet adopted certain standards, interpretations to existing standards and amendments that have been issued but have an effective date of later than December 31, 2020. All of these updates are not relevant to the Company and are therefore not discussed herein.

4. FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents as fair value through profit and loss; receivables (excluding input tax credits receivable) as amortized cost, and accounts payable and accrued liabilities and loans and amounts due to related parties, as amortized cost.

Fair value

The carrying values of receivables, accounts payable and accrued liabilities and loans and amounts due to related parties approximate their fair values due to the short-term nature of these financial instruments. Cash and cash equivalents are measured at their market value in accordance with Level 1 of the fair value hierarchy.

Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents and receivables. The risk arises from the non-performance of counterparties of contracted financial obligations. Credit risk is mitigated as cash and cash equivalents have been placed on deposit with major Canadian and Mexican financial institutions.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

4. FINANCIAL INSTRUMENTS (Continued)

Credit risk (continued)

Concentration of credit risk exists with respect to the Company's cash and cash equivalents and maximum exposure thereto is as follows:

	December 31, 2020	December 31, 2019
Cash and cash equivalents held at major Canadian financial institutions	\$ 1,887,635	\$ 194,602
Cash held at major Mexican financial institutions	422,776	880,050
Total cash and cash equivalents	\$ 2,310,411	\$ 1,074,652

As at December 31, 2020, the Company held a 60 day term deposit of US \$250,000 (2019 - \$nil) earning interest at 3.17% per year (2019 – n/a) which expired on January 7, 2021.

As at December 31, 2020, the Company held no cashable guaranteed investment certificates (2019 - \$25,526 earning interest at 0.05%).

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, 2020 in the amount of \$2,173,612 (working capital deficiency on December 31, 2019 – \$577,432).

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.

(a) 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, 2020 and 2019.

(b) 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 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.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

4. FINANCIAL INSTRUMENTS (Continued)**Market risk (continued)**

As at December 31, 2020 and 2019, the Company's significant exposure to foreign currency risk, based on the consolidated statement of financial position carrying values, were to the Mexican peso and the US dollar, as follows:

December 31, 2020		
	MXN	USD
Cash	\$ 5,252,702	\$ 75,731
VAT receivable	14,055,695	-
Prepaid expenses	17,660	-
Accounts payable and accrued liabilities	(1,787,862)	-
Loans	(405,118)	(23,440)
Total	17,133,077	52,291
Canadian dollar equivalent	\$ 1,097,202	\$ 66,577

December 31, 2019		
	MXN	USD
Cash	\$ 153,297	\$ 770,012
VAT receivable	3,340,603	-
Prepaid expenses	17,660	-
Accounts payable and accrued liabilities	(14,343,056)	(15,945)
Total	(10,831,496)	754,067
Canadian dollar equivalent	\$ (746,531)	\$ 979,383

The sensitivity analysis of the Company's exposure to foreign currency risk suggests that a 10% change in foreign exchange rates between the Mexican peso, US dollar and Canadian dollar would impact net income (loss) for the year ended December 31, 2020 by approximately \$115,000 (2019 - \$145,000).

(c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to 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.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

5. 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 ended December 31, 2020.

6. EXPLORATION AND EVALUATION ASSETS

	Cerro Caliche	San Marcial	Total
December 31, 2018	\$ 518,373	\$ 353,649	\$ 872,022
Acquisition costs	560,073	-	560,073
December 31, 2019	1,078,446	353,649	1,432,095
Acquisition costs	905,592	-	905,592
December 31, 2020	\$ 1,984,038	\$ 353,649	\$ 2,337,687

During the year ended December 31, 2020, the Company incurred the following exploration expenditures:

	Cerro Caliche
Field expenses	\$ 250,183
Drilling	1,112,955
Geological fees	312,751
Assays	311,257
Metallurgical testing	201,753
Consulting	70,626
Laboratory	70,236
Administration	59,728
Travel expenses	15,088
Concession taxes	11,810
Geological data	8,835
	\$ 2,425,222

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (continued)

During the year ended December 31, 2019, the Company incurred the following exploration expenditures:

	Cerro Caliche	San Marcial	Total
Geological fees	\$ 832,658	\$ -	\$ 832,658
Drilling	356,368	-	356,368
Assays	211,907	-	211,907
Field expenses	434,791	-	434,791
Travel and administration	18,256	-	18,256
Concession taxes	27,452	8,669	36,121
	<u>\$ 1,881,432</u>	<u>\$ 8,669</u>	<u>\$ 1,890,101</u>

(a) Cerro Caliche Property

On January 23, 2018, the Company through its wholly owned Mexican subsidiary, MMP, entered into an option agreement with a resident of Sonora, Mexico (the "Cerro Caliche Vendor"), to acquire a 100% interest in the Cerro Caliche Group of Concessions ("Cerro Caliche") located in the municipality of Cucurpe, in northern Sonora state, Mexico.

To exercise the Company must make payments of US\$2,982,000 payable in instalments as follows:

December 19, 2017 deposit	US\$10,000 (paid)
January 23, 2018 (on signing)	US\$117,000* (paid)
January 23, 2019	US\$200,000 (paid)
December 13, 2019	US\$30,000 (paid) (amended as per discussion below)
January 13, 2020	US\$135,000 (paid) (amended as per discussion below)
April 3, 2020	US\$20,000 (paid) (amended as per discussion below)
April 30, 2020	US\$120,000 (paid) (amended as per discussion below)
July 23, 2020	US\$200,000 (paid)
January 23, 2021	US\$200,000 (Note 15)
July 23, 2021	US\$250,000
January 23, 2022	US\$250,000
July 23, 2022	US\$300,000
January 23, 2023	US\$300,000
July 23, 2023	US\$400,000
January 23, 2024	US\$450,000

* Plus reimbursement of property taxes of US\$17,487 (paid)

Following exercise of the option, the Cerro Caliche Vendor will be entitled to a 2% net smelter returns royalty ("NSR") ("Cerro Caliche NSR") from the proceeds of the sale of minerals from the Cerro Caliche project. The Company may purchase the Cerro Caliche NSR at any time for US\$1,000,000 for each one percent. On December 10, 2019, MMP entered into an amendment agreement with the Cerro Caliche Vendor to pay the US\$300,000 amount due on January 23, 2020 to be split such that MMP will pay US\$30,000 by December 13, 2019 (paid) and US\$270,000 by January 23, 2020.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

(a) Cerro Caliche Property (continued)

On January 13, 2020, MMP entered into a second amendment agreement to split the balance of the January 23, 2020 payment such that MMP would pay US\$135,000 by January 13, 2020 (paid), which included a US\$5,000 incentive payment and an additional US\$140,000 by March 31, 2020.

On April 3, 2020, MMP entered into a third amendment agreement with Cerro Caliche vendor to split the March 31, 2020 payment such that MMP would pay US\$20,000 (paid) by April 3, 2020 and US\$120,000 by April 30, 2020.

In May 2020, MMP entered into a fourth amendment agreement with Cerro Caliche vendor to split the April 30, 2020 payment such that MMP would pay US\$50,000 by May 7, 2020 (paid) and US\$70,000 (paid) by June 30, 2020.

On February 14, 2018, the Company through its wholly owned Mexican subsidiary, MMP, entered into a purchase agreement with a resident of Sonora, Mexico to acquire a 100% interest in the Abel concession adjacent to the eastern portion of Cerro Caliche in northern Sonora state, Mexico for a onetime payment of 300,000 pesos (paid - \$21,215).

On March 14, 2018, the Company through its wholly owned Mexican subsidiary, MMP, entered into an option agreement with a resident of Tucson, Arizona (the "Rosario Vendor") to acquire a 100% interest in the Rosario Group of Concessions ("Rosario") located in the municipality of Cucurpe, in northern Sonora State, Mexico. The Rosario concessions are contiguous to the Company's Cerro Caliche concessions.

To exercise the option the Company must make payments totaling US\$1,600,000 payable in instalments as follows:

On signing	US\$60,000 (paid)
March 14, 2019	US\$75,000 (paid)
March 14, 2020	US\$90,000 (paid)
March 14, 2021	US\$150,000 (Note 15)
March 14, 2022	US\$300,000
March 14, 2023	US\$375,000
March 14, 2024	US\$550,000

Following exercise of the option, the Rosario Vendor will be entitled to a 2% NSR ("Rosario NSR") from the proceeds of the sale of minerals from the Rosario project. The Company may purchase the Rosario NSR at any time for US\$1,000,000 for each one percent.

In May 2020, MMP entered into an amendment agreement with the Rosario Vendor to pay the US\$90,000 amount due on March 14, 2020 to be split such that MMP will pay US\$35,000 by May 7, 2020 (paid) and US\$55,000 by June 30, 2020.

In July 2020, MMP entered into a second amendment agreement with the Rosario Vendor to pay the US\$55,000 amount due by June 30, 2020 to be split such that MMP will pay US\$10,000 (paid) by July 10, 2020 and US\$45,000 by August 31, 2020 (paid).

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

(a) Cerro Caliche Property (continued)

On May 29, 2018, the Company entered into an option agreement to acquire a 100% interest in the Tres Amigos concession in Sonoro, Mexico. The Tres Amigos concessions are contiguous to the Company's Cerro Caliche concessions. To exercise the option the Company must make payments totaling US\$130,000, which is payable in nine equal instalments over 48 months from the date of signing, as follows:

On signing	US\$14,444 (paid)
November 2, 2018	US\$14,444 (paid)
May 2, 2019	US\$14,444 (paid)
November 2, 2019	US\$14,444 (paid)
May 2, 2020	US\$14,444 (paid)
November 2, 2020	US\$14,444 (paid)
May 2, 2021	US\$14,444
November 2, 2021	US\$14,444
May 2, 2022	US\$14,444

In May 2020, MMP entered into an amendment agreement with the Tres Amigos concession Vendors to pay the US\$14,444 amount due on May 2, 2020 to be split such that MMP will pay US\$7,222 by May 7, 2020 (paid) and US\$7,222 by June 30, 2020 (paid in July 2020).

On August 10, 2018, the Company entered into an option agreement to acquire a 100% interest in the El Colorado concessions, which are located within the perimeter of the Cerro Caliche concessions. To exercise the option the Company must make payments totaling US\$100,000, of which US\$50,000 (\$63,810) had been paid and the balance was due six months from the signing of the agreement.

During the year ended December 31, 2019, the Company paid the remaining balance of US\$50,000 (\$66,094) and completed the acquisition of the El Colorado concessions.

On October 5, 2018, the Company entered into an option agreement to acquire a 100% interest in the Cabeza Blanca concession, located within the perimeter of the Cerro Caliche concessions. To exercise the option the Company must make payments totaling US\$175,000 in staged payments over five years from the date of signing and by issuing 250,000 common shares (issued - \$45,000).

The staged payments were due as follows:

On signing	US\$ 5,000 (paid)
November 5, 2019	US\$20,000 (paid)
January 5, 2019	US\$10,000 (paid)
October 5, 2019	US\$70,000 (paid)
October 5, 2020	US\$70,000 (paid)

In September 2020, the Company acquired the 100% interest in Cabeza Blanca concession by making the US\$70,000 payment due on October 5th, 2020 and secured 100% title to the concession through execution of an "Assignment of Title to Mining Concession Agreement."

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

a. Cerro Caliche Property (continued)

In June 2018, the Company entered into a surface access agreement with the owners of El Cerro Prieto Ranch, which has ownership of the surface rights to the Cerro Caliche concession. In Mexico, mineral concessions do not grant the rights over the surface where they are located, the concession holder must negotiate directly for the use of land with the owners of the surface rights.

Under the Sonoro agreement with El Cerro Prieto Ranch, the Company has access to the land for mineral exploration and development for an annual fee of US\$48,000.

b. San Marcial Property

On July 8, 2014, the Company completed the acquisition of Breco, a private Mexican company that holds the San Marcial project in Sonora, Mexico. The Company acquired all of the issued and outstanding shares of Breco by paying \$40,000 cash and issuing 50,000 common shares with a market value of \$16,000. The acquisition of Breco was deemed to be the acquisition of an asset.

As a result of the acquisition of Breco, Sonoro assumes the original option agreement obligation with the original optionors of the San Marcial property. Future-stage cash payments to an aggregate of \$60,000 over two years and share issuances to an aggregate of 150,000 shares over three years to maintain interest in the underlying San Marcial property option agreement will be made at Sonoro's discretion to the vendors of Breco as follows:

	Cash	Shares
First anniversary date	\$30,000	50,000
Second anniversary date	30,000	50,000
Third anniversary date	nil	50,000
	\$60,000	150,000

On September 29, 2017, the Company issued the final 50,000 shares due on the third anniversary with a fair value of \$7,500.

In September 2012, Breco entered into an option agreement with certain vendors (the "Vendors") whereby Breco acquired a 100% interest in an additional concession that is contiguous to the San Marcial project for cash payments of US \$180,000 made between September 2012 to September 2017. The San Marcial concession is subject to a 2% NSR, which may be purchased for US\$750,000 at the Company's election.

(b) 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.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

(c) 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.

(d) 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.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	December 31, 2020	December 31, 2019
Trade payables	\$ 103,391	\$ 1,197,917
Accrued liabilities	42,720	171,747
Total	\$ 146,111	\$ 1,369,664

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

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS

Compensation of key management

Key management comprises directors and executive officers. Compensation awarded to key management is as follows:

	For the year ended December 31,	
	2020	2019
Consulting fees	\$ 644,807	\$ 446,210
Share-based payments	835,650	70,700
	<u>\$1,480,457</u>	<u>\$ 516,910</u>

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

In May 2020, the Board of Directors reapproved executive compensation plans (“ECPs”) for the Chief Executive Officer (“CEO”) and Executive Chairman (“EC”) of the Company for a three year term starting from May 1, 2020. Pursuant to the ECPs the CEO and EC are entitled to additional bonuses at the discretion of the Board of Directors. In the event of termination without cause or under change of control provisions, the CEO and EC are entitled to a one-time lump sum payment equivalent to 24 months of the officer’s then-current annual fees, or the remainder of the term, whichever is less, (less all required or permitted withholdings and remittances), within 5 business days from the date of the termination notice.

In May 2020, the Board of Directors reapproved the compensation plan for an officer of the Company for a three-year term starting from May 1, 2020. Pursuant to the compensation plan, the officer is entitled to additional bonuses at the discretion of the Board of Directors. In the event of termination without cause or under change of control provisions, the officer is entitled to a one-time lump sum payment equivalent to 12 months of the officer’s then-current annual fees, or the remainder of the term, whichever is less, (less all required or permitted withholdings and remittances), within 5 business days from the date of the termination notice.

At December 31, 2020, \$22,017 (2019 - \$22,743) is owing to related parties without interest and is payable on demand.

9. LOANS - RELATED PARTIES

During the year ended December 31, 2020, the Company issued promissory notes to related parties in the amount of \$770,670 with annual interest rates ranging from 8% to 10%. Promissory notes of \$992,240 and interest of \$89,256 were repaid during the year ended December 31, 2020. As at December 31, 2020, the remaining balance owing was \$59,727, of which \$33,783 is owed to related parties, bears no interest, and is due on demand.

During the year ended December 31, 2019, the Company issued promissory notes to related parties in the amount of \$273,862 and accrued interest of \$3,911 with annual interest rates ranging from 8% to 10%. The promissory notes were due on demand and had no fixed terms.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued

- i. In October 2020, warrant holders exercised the remaining balance of 2,980,000 warrants with an exercise price of \$0.15 per share, which were to expire in October 2020, for gross proceeds of \$447,000 of which \$40,500 remains outstanding as of December 31, 2020. The 270,000 shares relating to the outstanding amount of \$40,500 are held in treasury by the Company.
- ii. In September, 2020, 245,000 warrants with an exercise price of \$0.15 were exercised for gross proceeds of \$36,750.
- iii. In August 2020, the Company closed a non-brokered private placement offering of 36,363,638 units at \$0.22 per unit for proceeds of \$8,000,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share for a period of three years from the closing date at an exercise price of \$0.30 per share.

In connection with the offering, the Company entered into finder's fee agreements pursuant to which the Company paid to each arm's length finder: (i) at the election of the finder, either a cash finder's fee or units equal to 7% of the gross proceeds raised from subscribers introduced to the Company by the finder and (ii) such number of non-transferable finder's warrants (the "Finder's Warrants") equal to 7% of the gross proceeds raised from subscribers introduced to the Company by the finder. Each Finder's Warrant entitles the finder to purchase one common share in the capital of the Company at a price of \$0.30 for a period of three years following the closing of the offering. The Company paid total cash finder's fee of \$66,228 to seven arm's length finders and issued 1,043,802 units and 1,329,157 non-transferrable Finder's Warrants to an arm's length finder. The fair value of the finder's warrants was \$162,000 which has been recorded as share-based payment reserve.

- iv. In August, 2020, warrant holders exercised 275,000 warrants with an exercise price of \$0.15 per share for gross proceeds of \$41,250.
- v. In August 2020, 200,000 options with an exercise price of \$0.16 were exercised for gross proceeds of \$32,000. Upon exercise, \$15,720 was allocated to share capital from share-based payment reserve.
- vi. In August 2020, 900,000 options with an exercise price of \$0.15 were exercised for gross proceeds of \$135,000. Upon exercise, \$81,000 was allocated to share capital from share-based payment reserve.
- vii. In July, 2020, warrant holders exercised 600,528 warrants with an exercise price of \$0.27 per share for gross proceeds of \$162,643.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES (Continued)

(b) Issued (continued)

- viii. On December 27, 2019, 100,000 options with an exercise price of \$0.18 were exercised for gross proceeds of \$18,000. Upon exercise, \$11,700 was allocated to share capital from share-based payment reserve.
- ix. On December 27, 2019, 350,000 options with an exercise price of \$0.17 were exercised for gross proceeds of \$59,500. Upon exercise, \$39,200 was allocated to share capital from share-based payment reserve.
- x. On December 27, 2019, 150,000 options with an exercise price of \$0.16 were exercised for gross proceeds of \$24,000. Upon exercise, \$11,790 was allocated to share capital from share-based payment reserve.
- xi. On December 6, 2019, 350,000 options with an exercise price of \$0.16 were exercised for gross proceeds of \$56,000. Upon exercise, \$27,510 was allocated to share capital from share-based payment reserve.
- xii. On December 6, 2019, 625,000 options with an exercise price of \$0.12 were exercised for gross proceeds of \$75,000. Upon exercise, \$61,313 was allocated to share capital from share-based payment reserve.
- xiii. On October 31, 2019, 600,000 warrants with an exercise price of \$0.15 were exercised for gross proceeds of \$90,000.
- xiv. On October 23, 2019, 200,000 stock options with an exercise price of \$0.10 were exercised for gross proceeds of \$20,000. Upon exercise, \$18,800 was allocated to share capital from share-based payment reserve.
- xv. On October 10, 2019, 300,000 warrants with an exercise price of \$0.15 were exercised for gross proceeds of \$45,000.
- xvi. On August 9, 2019, 600,000 warrants with an exercise price of \$0.15 were exercised for gross proceeds of \$90,000.
- xvii. On August 2, 2019, the Company completed a non-brokered private placement of 4,167,000 units (the "Units") at a price of \$0.18 per Unit, for gross proceeds of \$750,060. Each Unit consisted of one common share and one-half of a common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.27 for a period of one year. Finder's fees of 114,437 Units and 114,437 non-transferable finder's warrants ("Finder's Warrants") were issued to three arm's length finders equaling 7% of the total unit subscriptions introduced by each respective finder. Each Finder's Warrant entitles the finder to purchase one common share of the Company at a price of \$0.27 and expires in one year.
- xviii. On July 31, 2019, 100,000 stock options with an exercise price of \$0.12 per share were exercised for gross proceeds of \$12,000. Upon exercise, \$9,810 was allocated to share capital from share-based payment reserve.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES (Continued)

(b) Issued (continued)

- xix. On April 2, 2019, the Company completed a non-brokered private placement of 3,615,104 units (the "Units") at a price of \$0.18 per Unit, for gross proceeds of \$650,718. Each Unit consists of one share and one-half of a common share purchase warrant (each warrant, a "Warrant"). Each Warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.27 for a period of one year. In connection with the private placement, the Company paid finder's fees by way of issuing 67,690 Units and 67,690 non-transferrable finder's warrants ("Finder's Warrants"). Each Finder's Warrant entitles the holder to purchase one common share of the Company at a price of \$0.27 for a period of one year.

(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 is as follows:

	December 31, 2020		December 31, 2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	1,185,000	\$ 0.15	2,375,000	\$ 0.12
Granted	7,790,000	0.24	800,000	0.17
Expired	(235,000)	0.16	-	-
Exercised*	(1,100,000)	0.15	(1,875,000)	0.14
Cancelled	(75,000)	0.21	(115,000)	0.16
Balance, end of year	7,565,000	\$ 0.24	1,185,000	\$ 0.15

*The weighted average market price on the dates the shares were exercised was \$0.28 per share.

On January 10, 2020, the Company granted incentive stock options to directors, officers and consultants of the Company entitling them to purchase 3,040,000 common shares at a price of \$0.15 per share for a period of three years vesting 100% on the date of grant and expiring January 10, 2023. The fair value of \$273,600 is included in net loss for year ended December 31, 2020.

On August 26, 2020, the Company granted incentive stock options to directors, officers and consultants of the Company entitling them to purchase 4,200,000 common shares at a price of \$0.30 per share for a period of three years vesting 100% on the date of grant and expiring August 26, 2023. The fair value of \$865,200 is included in net loss for the year ended December 31, 2020.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES (Continued)

(b) Stock options (continued)

On September 4, 2020, the Company granted incentive stock options to directors, officers and consultants of the Company entitling them to purchase 550,000 common shares at a price of \$0.30 per share for a period of three years vesting 100% on the date of grant and expiring September 4, 2023. The fair value of \$118,250 is included in net loss for the year ended December 31, 2020.

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

	December 31, 2020		December 31, 2019	
	Options	Warrants	Options	Warrants
Risk-free interest rate	0.28% - 1.69%	n/a	1.74%	n/a
Expected dividend yield	0.00	n/a	0.00	n/a
Expected stock price volatility	121.84% - 131.18%	n/a	129.83%	n/a
Expected life in years	3.00	n/a	2.00	n/a
Weighted average fair value	\$0.24	n/a	\$0.17	n/a

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

Expiry Date	Exercise Price	December 31, 2020	December 31, 2019
July 28, 2022	\$ 0.12	200,000	200,000
May 31, 2023	\$ 0.15	200,000	200,000
November 13, 2020	\$ 0.16	-	435,000
February 11, 2021	\$ 0.17	150,000	150,000
December 9, 2021	\$ 0.16	200,000	200,000
January 10, 2023	\$ 0.15	2,140,000	-
August 26, 2023	\$ 0.30	4,200,000	-
September 4, 2023	\$ 0.30	550,000	-
		7,565,000	1,185,000

The weighted average remaining contractual life for the outstanding options at December 31, 2020 is 2.35 (2019 – 1.80) years.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES (Continued)

(d) Warrants

The Company's warrant activity for the year ended December 31, 2020 is as follows:

	Number of Financing Warrants	Number of Finders Warrants	Weighted Average Exercise Price \$
December 31, 2018	5,000,000	-	0.15
Issued	3,891,054	273,191	0.27
Exercised	(1,500,000)	-	0.15
December 31, 2019	7,391,054	273,191	0.22
Issued	36,363,638	2,372,959	0.30
Exercised	(4,100,528)	-	0.17
Expired	(3,290,526)	(273,191)	0.27
December 31, 2020	36,363,638	2,372,959	0.30

The following summarizes information on the number of warrants outstanding:

Expiry Date	Exercise Price	December 31, 2020	December 31, 2019
October 29, 2020	\$ 0.15	-	3,500,000
April 3, 2020	\$ 0.27	-	1,909,087
August 1, 2020	\$ 0.27	-	2,255,158
August 12, 2023	\$ 0.30	38,736,597	-
		38,736,597	7,664,245

11. 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, 2020

	<u>Exploration and Evaluation Assets</u>	<u>VAT receivable</u>	<u>Total</u>
Mexico	\$ 2,337,687	\$ 915,077	\$ 3,242,764

As at December 31, 2019

	<u>Exploration and Evaluation Assets</u>	<u>VAT receivable</u>	<u>Total</u>
Mexico	\$ 1,432,095	\$ 241,297	\$ 1,673,392

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(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:

	2020	2019
Income (loss) before taxes	\$ (5,648,579)	\$ (2,481,680)
Canadian statutory tax rate	27%	27%
Income tax recovery computed at statutory rates	(1,525,116)	(670,054)
Non-deductible items	340,723	(410)
Temporary differences	(103,912)	43,474
Effect of change in tax rates	-	-
Foreign tax rates different from statutory	755,113	143,324
Effects of foreign exchange on tax assets	-	(34,915)
Unused tax losses and tax offsets not recognized	550,458	(219,135)
Under(over) provided in prior years	(17,266)	12,446
Income tax expense (recovery)	\$ -	\$ (725,270)
Represented by:		
Current income tax	\$ -	\$ (725,270)
Future income tax	\$ -	\$ -

The Mexican income tax rate remained constant at 30%.

- b. 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:

	2020	2019
Non-capital losses	\$ 7,341,000	\$ 5,375,000
Share issue costs	112,000	20,500
Resource properties	63,500	63,500
Unrecognized deferred tax	\$ 7,516,500	\$ 5,459,000

As at December 31, 2020, the Company has non-capital losses carried forward of approximately \$7,516,500 (2019 - \$5,459,000) that may be applied against future income for income tax purposes in Canada and Mexico. The operating losses expire between 2021 and 2040.

13. SALE OF ROYALTY

In December 2016, the Company sold the Chipriona property to Agnico Sonoro S.A. de C.V., a subsidiary of Agnico Eagle Mines Limited ("Agnico"). Concurrent with the sale, Agnico was granted an option to purchase 1% net smelter returns royalty (the "Royalty") on the Chipriona property located in the Mulatos Mining District in Sonora, Mexico, at any time for \$1.5 million. In December 2019, the Company and Agnico renegotiated the option to purchase the Royalty for proceeds of \$875,000.

SONORO GOLD CORP.

(Formerly Sonoro Metals Corp.)

(An Exploration Stage Company)

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

14. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

In June 2020, the Company entered into a commercial property lease commencing on July 1, 2020 and expiring on November 29, 2021.

The Company has entered into option agreements to acquire certain exploration properties in Mexico. For the option agreements to remain in good standing, the Company is committed to making periodic payments. (Note 6)

15. EVENTS AFTER THE REPORTING PERIOD

- a. In January 2021, the Company made the US\$200,000 instalment payment for the Cerro Caliche concession, which was due on January 23, 2021.
- b. In February 2021, the Company granted stock options to officers, directors and consultants to purchase up to 535,000 common shares at an exercise price of \$0.30 until February, 2024. The options are fully vested as of the grant date.
- c. In March 2021, the Company made the US\$150,000 instalment payment for the Rosario concession, which was due on March 14, 2021.
- d. In April 2021, the Company closed a non-brokered private placement offering of 17,283,586 units at \$0.18 per unit for proceeds of \$3,111,045. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share for a period of two years from the closing date at an exercise price of \$0.30 per share.

In connection with the offering, the Company entered into finder's fee agreements pursuant to which the Company paid to each arm's length finder:

- (i) at the election of the finder, either a cash finder's fee or units equal to 7% of the gross proceeds raised from subscribers introduced to the Company by the finder, and
- (ii) such number of non-transferable finder's warrants equal to 7% of the gross proceeds raised from subscribers introduced to the Company by the finder. Each finder's warrant entitles the finder to purchase one common share in the capital of the Company at a price of \$0.30 for a period of two years following the closing of the offering.

In total the company paid \$26,406 in finder's fees, 9,722 in finder's units and 167,922 in nontransferable finder's warrants.