

SONORO METALS CORP.

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

(Expressed in Canadian Dollars)

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, 2013 and 2012, 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, 2013 and 2012, 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 22, 2014

SONORO METALS CORP.

Consolidated statements of financial position

(Expressed in Canadian Dollars)

As at

	December 31, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 780,232	\$ 1,174,403
Receivables	25,858	36,470
Prepaid expenses	10,239	9,563
	816,329	1,220,436
Non-Current Assets		
Exploration and evaluation assets (note 6)	1,566,838	1,484,524
	\$ 2,383,167	\$ 2,704,960
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (note 7)	\$ 72,240	\$ 63,309
Due to related parties (note 8)	56,175	101,360
	128,415	164,669
Shareholders' Equity		
Share capital (note 9)	3,836,530	3,836,530
Share-based payment reserve (note 9)	360,000	394,851
Deficit	(1,941,778)	(1,691,090)
	2,254,752	2,540,291
	\$ 2,383,167	\$ 2,704,960

Approved on behalf of the Board:

*"Kenneth MacLeod" (signed)**"Scott Kelly" (signed)*

Kenneth MacLeod, Director

Scott Kelly, Director

SONORO METALS CORP.

Consolidated statements of comprehensive loss

(Expressed in Canadian Dollars)

For the years ended December 31

	2013	2012
Expenses		
Consulting fees	\$ 162,120	\$ 154,576
Amortization	-	9,806
Legal and audit	61,687	78,006
Office and administration (note 8)	34,320	58,033
Share-based payments (note 9)	-	176,055
Transfer agent fees	18,667	22,290
Travel and promotion	16,852	15,031
	293,646	513,797
Interest income	(8,746)	(8,928)
Foreign exchange loss	639	1,277
	285,539	506,146
Loss Before Taxes	285,539	506,146
Deferred income tax recovery (note 10)	-	(17,769)
	285,539	488,377
Loss and Comprehensive Loss for the Year	\$ 285,539	\$ 488,377
Loss Per Common Share, basic and diluted	\$ 0.01	\$ 0.02
Weighted Average Number of Common Shares Outstanding	21,241,453	21,147,069

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		Share-Based Payment Reserve	Deficit	Shareholders' Equity
	Shares	Amount			
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 9(b))	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
Share-based payment (note 9(d))	-	-	(34,851)	34,851	-
Net loss for the year	-	-	-	(285,539)	(285,539)
Balance, December 31, 2013	21,241,453	\$ 3,836,530	\$ 360,000	\$ (1,941,778)	\$ 2,254,752

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

	2013	2012
Operating Activities		
Net loss	\$ (285,539)	\$ (488,377)
Items not involving cash		
Amortization	-	9,806
Deferred income tax recovery	-	(17,769)
Share-based payments	-	176,055
Changes in non-cash working capital		
Receivables	10,612	956
Prepaid expenses	(676)	3,433
Accounts payable and accrued liabilities	8,931	(11,623)
Due to related parties	(45,185)	48,467
Cash Used in Operating Activities	(311,857)	(279,052)
Investing Activities		
Expenditures on exploration and evaluation assets	(82,314)	(169,313)
Financing Activities		
Common shares issued for cash	-	331,250
Share issuance costs	-	(3,434)
Cash Provided by Financing Activities	-	327,816
Outflow of Cash and Cash Equivalents	(394,171)	(120,549)
Cash and Cash Equivalents, Beginning of Year	1,174,403	1,294,952
Cash and Cash Equivalents, End of Year	\$ 780,232	\$ 1,174,403
Cash and Cash Equivalents Consists of		
Cash	\$ 690,232	\$ 324,403
Term deposit	90,000	850,000
	\$ 780,232	\$ 1,174,403

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

SONORO METALS CORP.

Notes to the consolidated financial statements
(Expressed in Canadian Dollars)
Years ended December 31, 2013 and 2012

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. 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 \$285,539 (2012 - \$488,377) for the year ended December 31, 2013 and has an accumulated deficit of \$1,941,778 (2012 - \$1,691,090) as at December 31, 2013. As at December 31, 2013, the Company had working capital of \$687,914 (2012 - \$1,055,767) 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 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. 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. These matters indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern.

2. 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. These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information.

The Board of Directors approved these consolidated financial statements for issue on April 22, 2014.

Basis of consolidation

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

SONORO METALS CORP.

Notes to the consolidated financial statements
(Expressed in Canadian Dollars)
Years ended December 31, 2013 and 2012

2. BASIS OF PREPARATION (Continued)

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.

Critical accounting estimates

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

Share-based payments

The fair value of share-based payments is subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, 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.

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.

SONORO METALS CORP.

Notes to the consolidated financial statements
(Expressed in Canadian Dollars)
Years ended December 31, 2013 and 2012

3. 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 identified 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).

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 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 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.

SONORO METALS CORP.

Notes to the consolidated financial statements
(Expressed in Canadian Dollars)
Years ended December 31, 2013 and 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss per 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

Financial assets

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 or 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 statements of financial position at fair value with changes in fair value recognized in net income (loss).

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.

SONORO METALS CORP.

Notes to the consolidated financial statements
(Expressed in Canadian Dollars)
Years ended December 31, 2013 and 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

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 statements 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 or 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.

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Inputs for assets or liabilities that are not based on observable market data.

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

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).

SONORO METALS CORP.

Notes to the consolidated financial statements
(Expressed in Canadian Dollars)
Years ended December 31, 2013 and 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Exploration and evaluation expenditures (continued)

Exploration and evaluation assets (continued)

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.

Share-based payments

The Company has a stock option plan that is described in note 9(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.

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.

SONORO METALS CORP.

Notes to the consolidated financial statements
(Expressed in Canadian Dollars)
Years ended December 31, 2013 and 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

New standards not yet adopted (continued)

IFRS 9 Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as “fair value through other comprehensive income” with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss

The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The IASB has indefinitely deferred the mandatory adoption date of this standard.

IFRS 9 Financial Instruments (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The IASB has indefinitely deferred the mandatory adoption date of this standard.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amends IAS 32 *Financial Instruments: Presentation* to clarify 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 right of set-off”
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

Applicable to annual periods beginning on or after January 1, 2014.

SONORO METALS CORP.

Notes to the consolidated financial statements
(Expressed in Canadian Dollars)
Years ended December 31, 2013 and 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

Amends IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* to:

- provide “investment entities” (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 or IAS 39
- require additional disclosure about why the entity is considered an investment entity, details of the entity’s unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries
- require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

Applicable to annual periods beginning on or after January 1, 2014.

Annual Improvements 2010-2012 Cycle

Makes amendments to the following standards:

- **IFRS 2** — Amends the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”
- **IFRS 3** — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date
- **IFRS 8** — Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
- **IFRS 13** — Clarify that issuing **IFRS 13** and amending **IFRS 9** and **IAS 39** did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
- **IAS 16** and **IAS 38** — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount
- **IAS 24** — Clarify how payments to entities providing management services are to be disclosed

Applicable to annual periods beginning on or after July 1, 2014.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- **IFRS 1** — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only)
- **IFRS 3** — Clarify that **IFRS 3** excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- **IFRS 13** — Clarify the scope of the portfolio exception in paragraph 52
- **IAS 40** — Clarifying the interrelationship of **IFRS 3** and **IAS 40** when classifying property as investment property or owner-occupied property

Applicable to annual periods beginning on or after July 1, 2014.

SONORO METALS CORP.

Notes to the consolidated financial statements
(Expressed in Canadian Dollars)
Years ended December 31, 2013 and 2012

4. FINANCIAL INSTRUMENTS

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

Fair value

The carrying values of 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.

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:

	2013	2012
Cash and cash equivalents held at major Canadian financial institutions	\$ 774,639	\$ 1,161,021
Cash held at major Mexican financial institutions	5,593	13,382
Total cash and cash equivalents	\$ 780,232	\$ 1,174,403

Included in cash and cash equivalents at December 31, 2013, is a guaranteed investment certificate of \$90,000 earning interest at prime less 1.85%, maturing August 7, 2014, and cashable at any time.

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, 2013 in the amount of \$687,914 (2012 - \$1,055,767).

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, 2013 and 2012.

SONORO METALS CORP.

Notes to the consolidated financial statements
(Expressed in Canadian Dollars)
Years ended December 31, 2013 and 2012

4. FINANCIAL INSTRUMENTS (Continued)

Market risk (continued)

(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 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, 2013 and 2012, 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:

	2013	
	MXN	USD
Cash	7,014	5,358
Accounts payable and accrued liabilities	(149,466)	-
	(142,452)	5,358
Canadian dollar equivalent	\$ (11,565)	\$ 5,038

	2012	
	MXN	USD
Cash	151,132	1,777
Accounts payable and accrued liabilities	(149,466)	-
	1,666	1,777
Canadian dollar equivalent	\$ 128	\$ 1,786

The sensitivity analysis of the Company's exposure to foreign currency risk suggests that a 5% change in foreign exchange rates between the Mexican peso, US dollar and Canadian dollar would not have a material impact on loss and comprehensive loss for the years ended December 31, 2013 and 2012.

(iii) 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.

SONORO METALS CORP.

Notes to the consolidated financial statements
(Expressed in Canadian Dollars)
Years ended December 31, 2013 and 2012

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, 2013.

6. EXPLORATION AND EVALUATION ASSETS

	Chipriona	Santa Clara	Los Pinos	Total
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
Acquisition costs	-	82,314	-	82,314
Balance, December 31, 2013	\$ 927,147	\$ 320,131	\$ 319,560	\$ 1,566,838

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:

<u>Cash</u>	
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)
	US \$240,000

<u>Shares</u>	
Issuable by July 2013	120,000 common shares with a par value of US\$0.67*

* In June 2013, the Company completed the acquisition of a 100% interest in the Santa Clara concession by paying US\$80,400 (\$82,314) cash in lieu of issuing common shares.

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

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6. EXPLORATION AND EVALUATION ASSETS (Continued)

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.

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.

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.

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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2013	2012
Trade payables	\$ 40,633	\$ 28,309
Accrued liabilities	31,607	35,000
Total	\$ 72,240	\$ 63,309

All accounts payable and accrued liabilities for the Company are due within 90 days.

8. RELATED PARTY TRANSACTIONS

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

- Rent of \$18,291 (2012 - \$21,000) was paid to a company with directors in common and is included in office and administration.

At December 31, 2013, \$56,175 (2012 - \$101,360) is owing to related parties without interest and is 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, 2013 and 2012 is as follows:

	2013	2012
Short-term employee benefits	\$ 139,050	\$ 122,071
Share-based payments	-	94,875
	\$ 139,050	\$ 216,946

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

9. SHARE CAPITAL AND RESERVES

- a) Authorized

Unlimited number of common shares without par value.

- b) Issued

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 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.

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9. SHARE CAPITAL AND RESERVES (Continued)

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, 2011	1,800,000	1,050,000	\$ 0.28
Vested	-	750,000	\$ 0.30
Balance, December 31, 2012 and 2013	1,800,000	1,800,000	\$ 0.28

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

Expiry Date	Exercise Price	2013	2012
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, 2013 is 2.55 (2012 - 3.55) years.

On December 23, 2011, the Company granted 1,500,000 options to directors, consultants and employees. These options vested 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 was recognized in the year ended December 31, 2012.

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9. SHARE CAPITAL AND RESERVES (Continued)

d) Warrants

As at December 31, 2013 and 2012, the Company had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Outstanding, December 31, 2012	Issued	Expired	Outstanding, December 31, 2013
\$ 0.20	December 20, 2014*	4,275,000	-	-	4,275,000
\$ 0.30	December 20, 2014**	225,000	-	-	225,000
\$ 0.35	January 27, 2013	1,325,000	-	(1,325,000)	-
		5,825,000	-	(1,325,000)	4,500,000

* During the year ended December 31, 2013, the exercise price of these warrants were reduced from \$0.30 to \$0.20, and the exercise period was extended for a period of one year.

** During the year ended December 31, 2013, the exercise period of these warrants was extended for a period of one year.

As at December 31, 2013 and 2012, the Company had finder's warrants outstanding as follows:

Exercise Price	Expiry Date	Outstanding, December 31, 2012	Issued	Expired	Outstanding, December 31, 2013
\$ 0.30	December 20, 2013	122,500	-	(122,500)	-

The fair value of the finder's warrants was calculated at \$34,851 and originally included as part of share-based payment reserves. This amount was reversed to deficit when these warrants expired unexercised on December 20, 2013.

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10. INCOME TAXES

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

	2013	2012
Loss before taxes	\$ (285,539)	\$ (506,146)
Canadian statutory tax rate	25.75%	25.00%
Income tax recovery computed at statutory rates	(73,526)	(126,537)
Non-deductible items	426	44,466
Temporary differences	(19,710)	1,384
Foreign tax rates different from statutory	20	(863)
Effects of foreign exchange on tax assets	28,994	(14,148)
Rate difference between current and deferred taxes	-	415
Unused tax losses and tax offsets not recognized	63,796	77,514
Income tax recovery	\$ -	\$ (17,769)

Effective January 1, 2013, the Canadian federal corporate tax rate remained constant at 15% and the British Columbia remained constant at 11%. The Company's statutory tax rate remained constant at 25.0%.

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 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:

	2013	2012
Non-capital losses	\$ 2,290,000	\$ 1,940,000
Share issue costs	34,000	48,000
Tax value over book value of exploration and evaluation assets	-	57,000
Tax value over book value of equipment	10,000	10,000
Unrecognized deferred tax	\$ 2,334,000	\$ 2,055,000

As at December 31, 2013, the Company has non-capital losses available for carry-forward of approximately \$2,205,000 and \$85,000 that may be applied against future income for income tax purposes in Canada and Mexico, respectively. The operating losses expire between 2014 and 2033.

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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:

<u>As at December 31, 2013</u>	<u>Exploration and Evaluation Assets</u>	
Mexico	\$	1,566,838

<u>As at December 31, 2012</u>	<u>Exploration and Evaluation Assets</u>	
Mexico	\$	1,484,524