SONORO METALS CORP.

(Formerly Becker Gold Mines Ltd.)
(An Exploration Stage Company)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2012

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1.0 INTRODUCTION

This Management's Discussion and Analysis ("MD&A") includes financial information from, and should be read in conjunction with, the audited consolidated financial statements of Sonoro Metals Corp ("the Company" or "Sonoro") for the year ended December 31, 2012 and 2011. This MD&A was prepared with information available to April 18, 2013. Additional information and disclosure relating to the Company can be found on SEDAR at www.sedar.com.

2.0 FORWARD LOOKING STATEMENTS

This MD&A contains "forward-looking statements" within the meaning of applicable Canadian securities legislation, which include all statements other than statements of historical fact that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future. These include, without limitation:

- the Company's anticipated results and developments in the Company's operations in future periods
- planned exploration and development of its mineral properties
- planned expenditures and budgets
- evaluation of the potential impact of future accounting changes
- estimates concerning share-based compensation and carrying value of properties
- other matters that may occur in the future.

These statements relate to analyses and other information that are based on expectations of future performance and planned work programs.

Statements concerning mineral resource estimates may also be deemed to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if the related property is developed.

With respect to forward-looking statements and information contained herein, the Company has made a number of assumptions with respect to, including among other things, the price of gold and other metals, economic and political conditions, and continuity of operations. Although the Company believes that the assumptions made and the expectations represented by such statements or information are reasonable, there can be no assurance that forward-looking statements or information contained or incorporated by reference herein will prove to be accurate.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ materially from those expressed or implied by the forward-looking statements, including, without limitation:

- fluctuations in mineral prices;
- the Company's dependence on a limited number of mineral projects;
- the nature of mineral exploration and mining and the uncertain commercial viability of certain mineral deposits;
- the Company's lack of operating revenues;

- the Company's ability to obtain necessary financing to fund the development of its mineral properties or the completion of further exploration programs;
- jurisdiction operating risks which can over time include changes in political, economic, regulatory and taxation regimes;
- governmental regulations and specifically the ability to obtain necessary licenses and permits;
- risks related to the Company's mineral properties being subject to prior unregistered agreements, transfers, or claims and other defects in title;
- fluctuations in the currency markets;
- changes in environmental laws and regulations which may increase costs of doing business and restrict the Company's operations;
- risks related to the Company's dependence on key personnel; and
- estimates used in the Company's financial statements proving to be incorrect.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statements. The Company's forward-looking statements are based on beliefs, expectations and opinions of management on the date the statements are made. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

3.0 DESCRIPTION OF BUSINESS

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

The Company has financed its current exploration and development activities principally by the issuance of common shares. The Company intends to continue relying upon the issuance of securities to finance its future activities but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company.

4.0 HIGHLIGHTS

- During the year ended December 31, 2012, the Company completed a private placement and issued 1,325,000 units at a price of $0.25 per unit for gross proceeds of $331,250. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one common share of the Company at an exercise price of $0.35 per share until January 27, 2013. The Company incurred expenses of $3,434 in connection with the private placement. There was no finder's fee paid in connection with this private placement.

- During the year ended December 31, 2012, the Company made the final two cash payments, totaling US$120,000, per the Santa Clara option agreement.

- During the year ended December 31, 2012, the Company purchased the land that encompasses the Los Pinos mineral property for $49,787.

5.0 PROJECT UPDATES

The Company's principal asset is its wholly-owned subsidiary Minera Mar De Plata, S.A. de C.V. ("**MMP**"); MMP in turn holds a 100% interest in the Chipriona and Los Pinos properties, located in Sonora State, Mexico.

Chipriona

Chipriona is comprised of 6 concessions totaling 370 hectares, and adjoins Agnico-Eagle's La India and Tarachi deposits. Alamos Gold's Mulatos property is located to the southeast, and Penole's exploration property to the northwest. Other than very recent surface mapping and sampling performed on the property by MMP, there has been no modern day exploration of this property; the property has never been drilled.

Two previous mining campaigns mined about 100,000 tons of material from five levels down to a depth of 100 meters below surface. The most recent mining, from 1970-1989 left tailings of about 80,000 tons along with crushing, milling, flotation equipment and infrastructure. This mine development used a flotation mill that was reported to process up to 180 tons per day.

Results from underground sampling performed by MMP between 2007 and 2009 at the Santa Clara level, the deepest level mined by past operators, sampled massive sulphide veins with widths ranging from 6.6 – 19.9 meters and returned values averaging 403 g/t silver, 1.26 g/t gold, 1.0 percent lead, and 0.6% copper. Later surface sampling by MMP (51 samples) in 2009, over a width of 20.7 meters, returned 183 g/t silver and 0.7 g/t gold on the north side and a sub-parallel zone discovered in the Santa Clara cross-cut of 7 meters of 208 g/t silver and 0.68 g/t gold.

The next phase of exploration will consist mainly of a 12-15 hole 2,500 meter diamond drilling program designed to test the main mineralized shear zone from near surface down to a vertical depth of about 150 meters below surface. Results will be used to provide data for a preliminary resource calculation. This program will also continue property scale evaluation of targets away from the main zone, including the four known sub-parallel structures to the main shear zone, the recently discovered gold porphyry mineralization located in the northwest corner of the property, and the potential for high sulphidation gold mineralization on the south end of the property, which is in close proximity to Agnico-Eagles's La India and Tarachi projects.

Los Pinos

The Los Pinos property is 3 kilometers west of Chipriona, in an area exhibiting similar style geology to the main deposits in the vicinity. Host rocks are the typical volcanic layered succession of andesitic composition within which much of the Sierra Madre mineralization is found.

Penoles drilled the property around 1980, and used results from the drilling combined with results from extensive underground workings to determine a non 43-101 compliant estimated historical resource of about 750,000 tons averaging 170 grams silver per ton, 0.4 grams per ton gold, 6% zinc, 0.5% lead, and 0.3% copper. Various adits, two declines, and stoped areas exist in the concession, along with a mill with capacity of about 50-100 tons per day. More than six veins are identified from the drilling and underground workings, all of which have the same basic mineralogy.

Mineralization at Los Pinos consists of sulfide rich quartz veins that generally trend north-south with moderate to steep westerly dips. In holes drilled by Penoles, as many as three veins in a set were intersected in angle drilling. Widths of the vein zones are reported from the drilling and underground sampling in those reports to range from 0.3 to 15 meters. Vertical extent may depend on the thickness of the favorable andesitic agglomerate, but many sections show a vertical extent ranging from 50 to 100 meters with good potential for expansion at depth.

6.0 RESULTS OF OPERATIONS

Twelve months ended December 31, 2012, compared to the twelve months ended December 31, 2011.

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

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

The Company recorded a net loss and comprehensive loss of $488,377 ($0.02 loss per common share) for the twelve months ended December 31, 2012 (the "current year") compared to a net loss and comprehensive loss of $910,065 ($0.07 loss per common share) during the twelve months ended December 31, 2011 (the "comparative year"), a decrease of $421,688, as explained in the following paragraphs.

- Consulting fees were $132,186 higher in the current year ($154,576) when compared to the comparative year ($22,390) due to the timing of the acquisition of Cap Capital.

- Legal and audit fees were $8,067 lower in the current year ($78,006) when compared to the comparative year ($86,073). The comparative year included additional legal and accounting fees as a result of the acquisition of Cap Capital.

- Transfer agent fees were $11,212 higher in the current year ($22,290) when compared to the comparative year ($11,078) reflecting an increase in listing fees due to the Company moving to the TSX Venture Exchange as a result of the acquisition of Cap Capital that occurred in fiscal 2011.

- Office and administration was $42,832 higher in the current year ($58,033) when compared to the comparative year ($15,201) due to the company incurring rent and other administrative expenses since the acquisition of Cap Capital that occurred in fiscal 2011.

- Share-based payments, a non-cash expense, were $7,890 lower in the current year ($176,055) when compared to the comparative year ($183,945). The decrease relates to the lower amount of stock options that vested in the current year compared to the comparative year.

- Listing expense was $565,825 lower in the current year ($nil) compared to the comparative year ($565,825). The listing expense incurred during the comparative year was directly related to the acquisition of Cap Capital and is therefore a one-time expense to the Company.

7.0 FOURTH QUARTER

- The Company incurred $176,055 in share-based payment expense as a result of the vesting of previously granted stock options.

- Legal and audit fees were $14,069.

- Consulting fees were $29,025.

- Office and administration was $26,345.

8.0 SELECTED ANNUAL INFORMATION

The following table summarizes information regarding the Company's operations on a yearly basis for the last three years in accordance with IFRS. The Company's reporting currency is Canadian dollars.

For the years ended December 31

	2012	**2011**	**2010**
Total revenues (interest & other income)	$8,928	$6,480	$3,335
Loss for the year	$(488,377)	$(910,065)	$(186,755)
Loss per share, basic and diluted	$(0.02)	$(0.07)	$(0.06)
Total assets	$2,704,960	$2,670,391	$571,687

The nature of the Company's operations has remained unchanged from prior years. The loss for the year of $488,377 was incurred in the normal course of operations.

9.0 SUMMARY OF QUARTERLY RESULTS (unaudited)

The following table summarizes selected information from the Company's unaudited financial statements, prepared in accordance with International Financial Reporting Standards, for the last eight quarters.

For the quarters ended

	Dec 31, 2012	**Sept 30, 2012**	**Jun 30, 2012**	**Mar 31, 2012**
Total revenues (Interest income)	$2,372	$-	$4,377	$2,179
Loss for the quarter	($227,082)	($71,771)	($87,120)	($102,404)
Loss for the quarter per share	($0.01)	($0.00)	($0.005)	($0.015)

For the quarters ended

	Dec 31, 2011	**Sept 30, 2011**	**Jun 30, 2011**	**Mar 31, 2011**
Total revenues (Interest income)	$2,788	$-	$-	$3,692
Loss for the quarter	($897,721)	($1,300)	($2,389)	($8,655)
Loss for the quarter per share	($0.06)	($0.00)	($0.00)	($0.01)

The Company only earns interest income from its cash and cash equivalents, which will vary from period to period depending on their relative balances.

10.0 LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2012, the Company had working capital of $1,055,767 (2011 – $1,217,549), which is sufficient working capital to fund its operations for the next twelve months.

The Company's cash and cash equivalents are highly liquid and held at a major Canadian financial institution.

The Company currently has no income from operations and relies on financing through the issuance of additional shares of its common stock. Management has been successful in accessing the equity markets in prior years, but there is no assurance that such sources will be available, on acceptable terms, or at all in the future. Factors which could impact management's ability to access the equity markets include the state of capital markets, market prices for natural resources and the non-viability of the projects.

11.0 SHARE CAPITAL AND DISCLOSURE OF OUTSTANDING SHARE DATA

At December 31, 2012 the authorized share capital was an unlimited number of common shares and there were 21,241,453 common shares issued and outstanding. As at the date of this MD&A the Company had 21,241,453 common shares issued and outstanding.

<u>Stock Options and Warrants</u>

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

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

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

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

Subsequent to December 31, 2012, 1,325,000 warrants expired unexercised.

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

Exercise Price	Expiry Date	Outstanding, December 31, 2011	Issued	Exercised	Expired	Outstanding, December 31, 2012
$ 0.20	December 20, 2013	122,500	-	-	-	122,500

As at the date of this report, the Company's fully diluted shares outstanding is as follows:

Common shares	21,241,453
Options	1,800,000
Warrants	4,500,000
Finder's warrants	122,500
Fully diluted shares outstanding	27,663,953

12.0 TRANSACTIONS WITH RELATED PARTIES

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

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

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

Compensation of key management

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

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

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

13.0 OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements as of the date of this report.

14.0 PROPOSED TRANSACTIONS

The Company has no proposed transactions.

15.0 CONTRACTUAL OBLIGATIONS

The Company has no commitments, material capital lease agreements and no material long term obligations.

16.0 RISKS AND UNCERTAINTIES

The Company is in the mineral exploration and development business and has not commenced commercial operations and has no assets other than cash and mineral property agreements under option. It has no history of earnings, and it is not expected to generate earnings or pay dividends in the foreseeable future.

Precious and Base Metal Price Fluctuations

The profitability of the precious and base metal operations in which the Company has an interest will be significantly affected by changes in the market prices of precious and base metals. Prices for precious and base metals fluctuate on a daily basis, have historically been subject to wide fluctuations and are affected by numerous factors beyond the control of the Company such as the level of interest rates, the rate of inflation, central bank transactions, world supply of the precious and base metals, foreign currency exchange rates, international investments, monetary systems, speculative activities, international economic conditions and political developments. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving adequate returns on invested capital or the investments retaining their respective values. Declining market prices for these metals could materially adversely affect the Company's operations and profitability.

Fluctuations in the Price of Consumed Commodities

Prices and availability of commodities consumed or used in connection with exploration, development and mining, such as natural gas, diesel, oil, electricity, cyanide and other reagents fluctuate affecting the costs of exploration in our operational areas. These fluctuations can be unpredictable, can occur over short periods of time and may have a materially adverse impact on our operating costs or the timing and costs of various projects.

Foreign Exchange Rate Fluctuations

Operations may be subject to foreign currency exchange fluctuations. The Company to-date has raised its funds through equity issuances which are priced in Canadian dollars. The Company's properties are located in Mexico and as a result exploration expenditures will be denominated in United States dollars and Mexican pesos. The Company may suffer losses due to adverse foreign currency fluctuations.

Competitive Conditions
Significant competition exists for natural resource acquisition opportunities. As a result of this competition, some of which is with large, well established mining companies with substantial capabilities and significant financial and technical resources, the Company may be unable to either compete for or acquire rights to exploit additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Company will be able to acquire any interest in additional projects that would yield reserves or results for commercial mining operations.

Operating Hazards and Risks
Exploration activities may generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include, but are not limited to, the following: environmental hazards, industrial accidents, third party accidents, unusual or unexpected geological structures or formations, fires, power outages, labour disruptions, floods, explosions, cave-ins, land-slides, acts of God, periodic interruptions due to inclement or hazardous weather conditions, earthquakes, war, rebellion, revolution, delays in transportation, inaccessibility to property, restrictions of courts and/or government authorities, other restrictive matters beyond the reasonable control of the Company, and the inability to obtain suitable or adequate machinery, equipment or labour and other risks involved in the normal course of exploration activities.

Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious and base metals, any of which could result in work stoppages, delayed production and resultant losses, increased production costs, asset write downs, damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damages. The Company may become subject to liability for pollution, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. Any compensation for such liabilities may have a material, adverse effect on the Company’s financial position.

Infrastructure
Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. The lack of availability of acceptable terms or the delay in the availability of any one or more of these items could prevent or delay exploitation or development of the Company’s projects. If adequate infrastructure is not available in a timely manner, there can be no assurance that the exploitation or development of the Company’s projects will be commenced or completed on a timely basis, if at all.

Exploration and Development
There is no assurance given by the Company that its exploration and development programs and properties will result in the discovery, development or production of a commercially viable ore body or yield new reserves to replace or expand current reserves.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. At this time, none of the Company’s properties have any defined ore-bodies with proven reserves.

The economics of developing silver, gold and other mineral properties are affected by many factors including capital and operating costs, variations of the tonnage and grade of ore mined, fluctuating mineral markets, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Depending on the prices of silver, gold or other minerals produced, the Company may determine that it is impractical to commence or continue commercial production. Substantial expenditures are required to discover an ore-body, to establish reserves, to identify the appropriate metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately foreseen or predicted, such as market fluctuations, conditions for precious and base metals, the proximity and capacity of milling and smelting facilities, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection. In order to commence exploitation of certain properties presently held under exploration concessions, it is necessary for the Company to apply for an exploitation concession. There can be no guarantee that such a concession will be granted. Unsuccessful exploration or development programs could have a material adverse impact on the Company's operations and profitability.

Business Strategy

As part of the Company's business strategy, it has sought and will continue to seek new exploration and development opportunities in the mining industry. In pursuit of such opportunities, it may fail to select appropriate acquisition candidates, negotiate appropriate acquisition terms, conduct sufficient due diligence to determine all related liabilities or to negotiate favourable financing terms. The Company may encounter difficulties in transitioning the business, including issues with the integration of the acquired businesses or its personnel into the Company. The Company cannot assure that it can complete any acquisition or business arrangement that it pursues, or is pursuing, on favourable terms, or that any acquisitions or business arrangements completed will ultimately benefit its business.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that any future changes in environmental regulation, will not adversely affect the Company's operations. The costs of compliance with changes in government regulations have the potential to reduce the profitability of future operations. Environmental hazards that may have been caused by previous or existing owners or operators may exist on the Company's mineral properties, but are unknown to the Company at the present.

Title to Assets
Although the Company has or will receive title opinions for any properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company has not conducted surveys of the claims in which it holds direct or indirect interests and, therefore, the precise area and location of such claims may be in doubt. The Company's claims may be subject to prior unregistered agreements or transfers, or native land claims, and title may be affected by unidentified or unknown defects. The Company has conducted as thorough an investigation as possible on the title of properties that it has acquired or will be acquiring to be certain that there are no other claims or agreements that could affect its title to the concessions or claims. If title to the Company's properties is disputed, it may result in the Company paying substantial costs to settle the dispute or clear title and could result in the loss of the property, which events may affect the economic viability of the Company.

Uncertainty of Funding
The Company has limited financial resources, and the mineral claims in which the Company has an interest or an option to acquire an interest require financial expenditures to be made by the Company. There can be no assurance that adequate funding will be available to the Company so as to exercise its option or to maintain its interests once those options have been exercised. Further exploration work and development of the properties in which the Company has an interest or option to acquire depend upon the Company's ability to obtain financing through joint venturing of projects, debt financing or equity financing or other means. Failure to obtain financing on a timely basis could cause the Company to forfeit all or parts of its interests in mineral properties or reduce or terminate its operations.

Agreements with Other Parties
The Company has entered into agreements with other parties relating to the exploration, development and production of its properties. The Company may in the future, be unable to meet its share of costs incurred under agreements to which it is a party, and the Company may have its interest in the properties subject to such agreements reduced as a result. Furthermore, if other parties to such agreements do not meet their share of such costs, the Company may be unable to finance the costs required to complete recommended programs.

Potential Conflicts of Interest
The directors and officers of the Company may serve as directors and/or officers of other public and private companies, and may devote a portion of their time to manage other business interests. This may result in certain conflicts of interest. To the extent that such other companies may participate in ventures in which the Company is also participating, such directors and officers of the Company may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. The laws of British Columbia, Canada, require the directors and officers to act honestly, in good faith, and in the best interests of the Company and its shareholders. However, in conflict of interest situations, directors and officers of the Company may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions.

There is no assurance that the needs of the Company will receive priority in all cases. From time to time, several companies may participate together in the acquisition, exploration and development of natural resource properties, thereby allowing these companies to: (i) participate in larger properties and programs; (ii) acquire an interest in a greater number of properties and programs; and (iii) reduce their financial exposure to any one property or program. A particular company may assign, at its cost, all or a portion of its interests in a particular program to another affiliated company due to the financial position of the company making the assignment. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, it is expected that the directors and officers of the Company will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

Third Party Reliance

The Company's rights to acquire interests in certain mineral properties may have been granted by third parties who themselves may hold only an option to acquire such properties. As a result, the Company may have no direct contractual relationship with the underlying property holder.

Assurance on Financial Statements

We prepare our financial reports in accordance with accounting policies and methods prescribed by IFRS. In the preparation of financial reports, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Company. Significant accounting policies and practices are described in more detail in the notes to our consolidated financial statements for the year ended December 31, 2012. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use and transactions are properly recorded and reported, we have implemented and continue to analyze our internal control systems for financial reporting. Although we believe our financial reporting and financial statements are prepared with reasonable safeguards to ensure reliability, we cannot provide absolute assurance in that regard.

General Economic Conditions

The unprecedented events in global financial markets during the last few years have had a profound effect on the global economy. Many industries, including the gold and silver mining industry, are affected by these market conditions. Some of the key effects of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company's growth and profitability.

Substantial Volatility of Share Price

In recent years, the securities markets have experienced a high level of price and volume volatility, and the securities of many mineral exploration companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. The price of the Company's common shares is also likely to be significantly affected by short-term changes in mineral prices or in the Company's financial condition or results of operations as reflected in its yearly financial reports.

Potential dilution of present and prospective shareholdings
In order to finance future operations and development efforts, the Company may raise funds through the issue of common shares or the issue of securities convertible into common shares. The Company cannot predict the size of future issues of common shares or the issue of securities convertible into common shares or the effect, if any, that future issues and sales of the Company's common shares will have on the market price of its common shares. Any transaction involving the issue of shares, or securities convertible into shares, could result in dilution, possibly substantial, to present and prospective holders of shares.

17.0 CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

The preparation of financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods.

Significant estimates and assumptions are used in determining the application of the going concern concept, the balance of accrued liabilities, assumptions used to determine the fair value of share-based payments, the inputs used in calculating the fair value of warrants included in units issued in private placements, the carrying value and recoverability of exploration and evaluation assets, the valuation of shares issued in non-cash transactions, the purchase price allocation and the fair values of the net assets acquired in the Transaction, and the recognition of deferred tax assets and liabilities. The Company evaluates its estimates on an ongoing basis and bases them on various assumptions that are believed to be reasonable under the circumstances. The Company's estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the policies for going concern, share-based payments, exploration and evaluation assets and deferred income taxes are critical accounting policies which involve significant judgments and estimates used in the preparation of the Company's consolidated financial statements.

Changes in circumstances in the future, many of which are outside of management's control, will impact the Company's estimates of future recoverability of net amounts to be realized from their assets. Such factors include, but are not limited to, the availability of financing, the identification of economically recoverable reserves, co-venturer decisions and developments, market prices of minerals, the Company's plans and intentions with respect to its assets and other industry and competitor developments.

The Company uses the Black-Scholes option pricing method to determine the fair value of share-based payments recognized. Estimates and assumptions are required under the model, including those related to the Company's stock volatility, expected life of options granted, and the risk-free interest rate. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested.

18.0 FUTURE ACCOUNTING STANDARDS

New standards not yet adopted

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

Accounting Standards Issued and Effective January 1, 2013

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

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

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

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

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

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

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

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

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

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

Accounting Standards Issued and Effective January 1, 2014

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

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

Accounting Standards Issued and Effective January 1, 2015

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

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

19.0 FINANCIAL INSTRUMENTS

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

Fair value

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

Credit risk

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

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

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

Liquidity risk

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

Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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

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

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

	December 31, 2012	
	MXN	USD
Cash	151,132	1,777
Receivables	265,533	-
Accounts payable and accrued liabilities	(149,466)	-
	267,199	1,777
Canadian dollar equivalent	$ 20,505	$ 1,786

	December 31, 2011	
	MXN	USD
Cash	407,805	18,866
Receivables	408,803	-
Accounts payable and accrued liabilities	(145,694)	-
	670,914	18,866
Canadian dollar equivalent	$ 48,896	$ 19,187

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

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

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

(ii) Other price risk

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