



MANAGEMENT DISCUSSIONS AND ANALYSIS  
FOR THE PERIOD ENDED JULY 31, 2009



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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SEPTEMBER 29<sup>th</sup>, 2009

This Management Discussion and Analysis ("MD&A") is intended to help the reader understand the Sonora Gold & Silver Corp. ("Sonora") financial statements. The statements are provided for the purpose of reviewing the second quarter of fiscal 2009, as well as the fiscal year ended January 31, 2009, and comparing results to the previous period. The MD&A should be read in conjunction with the Company's audited financial statements and corresponding notes for the fiscal years ending January 31, 2009 and 2008. The financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all monetary amounts are expressed in Canadian dollars. The following comments may contain management estimates of anticipated future trends, activities, or results. These are not a guarantee of future performance, since actual results could change based on other factors and variable beyond management control.

The management of Sonora is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures, and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

The reader is encouraged to review the Company's statutory filings on [www.sedar.com](http://www.sedar.com).

### **DESCRIPTION OF BUSINESS AND OVERVIEW**

Sonora is a Canadian mineral acquisition and exploration company based in Vancouver, British Columbia, Canada. Its common shares are listed on the TSX Venture Exchange ("TSX.V" or the "Exchange") as a Tier 2 issued under the symbol "SOC". Sonora is exploring for commercially exploitable mineral deposits in Sonora, Mexico.

The Company was incorporated on November 23, 1983 under the name Southern Star Resources Ltd. After undergoing several earlier name changes, the company changed its name from Alda Industries Corporation to Crux Industries on July 14, 1999. The Company requested to be deemed inactive by the Exchange on March 19, 1996 to complete corporate restructuring. On August 12, 2003, the Company was moved to the NEX, a new and separate board of the TSX Venture Exchange for public companies that a designated "inactive". On March 9, 2004, the Company was reinstated for trading on NEX. At the September 13, 2005 Annual General Meeting ("AGM") the Company received approval from the shareholders to change its name from Crux Industries Inc. to Mont Blanc Resources. Subsequently, after receiving approval from



the TSX.V, the Company was transferred from NEX to the TSX.V, effective April 7, 2006.

On July 18th, 2008, the Company changed its name to Sonora Gold & Silver Corp. after receiving approval from the TSX Venture Exchange and shareholders on June 26, 2008 at the company's previous AGM. On May 21, 2009, the Company received shareholder approval for a name change and consolidation of the issued and outstanding shares of Sonora. The completion of both undertakings is pending the approval of a name by the BC Registrar of Companies with the consolidation of Company's common shares proposed to be completed on a two (2) old for one (1) new basis, thereafter.

On July 31, 2009 the Company received the resignation of Ms. June Ballant as Chief Financial Officer to pursue other opportunities, Mr. Robert Dinning was appointed that same day. Further to that management change, and subsequent to the quarter end, Mr. Jurgen Biertumpel was appointed as Corporate Secretary of the Company on September 9, 2009.

Sonora's recent operational focus has been primarily on the exploration of gold and silver mineral properties with the objective of identifying commercially exploitable mineralization, this has been a divergence from the company's previous focus in oil and gas exploration.

Through much of 2008, the Company continued work on the Los Pavitos claim group, consisting of trenching and mapping of the area. Sampling work was also conducted, which indicated mineralization consisting of silver (Ag), copper (Cu), lead (Pb) and zinc (Zn).

The Company's business is managed by directors and officers with professional backgrounds. This is augmented by independent financial, geological and mining professionals retained to advise the Company on its exploration programs and business as required to advance company projects.

This MD&A is prepared to conform with the requirements of National Instrument 51-102F1 and has been approved by the Board of Directors prior to release. The financial statements for the period ended July 31, 2009 have been prepared by management and are unaudited.

## **OVERALL PERFORMANCE**

Sonora (TSX.V – SOC) is a Canadian-based mineral exploration company searching for commercially exploitable mineral deposits in Sonora, Mexico. This region is historically recognized as a gold-silver-copper rich area and is home to many producers operating mines in close proximity to Sonora's current mineral properties. Sonora's strategy is to identify potentially economic resources and acquire further mineral properties in areas that have potential for such discoveries.

## **MINERAL PROPERTIES**

On September 11, 2007, the Company entered into an Option Agreement (the "Option") to purchase three separate mineral claim blocks, referred to as the Los Pavitos, the Christina and

the Brenda, all located in the state of Sonora, Mexico and each comprising 10,000 hectares in size.

Under the terms of the Option, the Company paid an initial USD \$50,000 to purchase the two year option on all three claim blocks; however, in order to earn the full 100% interest in each of the underlying properties, the Company is obligated to the following terms:

Los Pavitos	-payment of USD \$50,000 and issue 1,500,000 common shares to the vendors, issued at a deemed price of \$0.295 (paid);
Christina	-payment of USD \$50,000 and issue 1,500,000 common shares to the vendors;
Brenda	-issue 3,500,000 shares to the vendors.

There are no expenditure commitments in connection with the options on the properties; however, during the term of the Option, the company is required to keep the Properties in good standing in all respects including the filing of work assessments and payment of taxes. All three properties are subject to a 2% Net Smelter Return (“NSR”) should they reach commercial production at any point in the future.

#### *Los Pavitos Property*

The Los Pavitos covers 10,000 hectares and is located approximately 35 kilometres southeast of Navojoa, Sonora. Small-scale copper and gold mining have historically taken place throughout the property. The property hosts similar age copper-bearing intrusive as observed at the Piedras Verdes mine located 30 kilometres to the northeast. The Piedras Verdes mine has been in production since October 2006, by Fronterra Copper Corporation.

In February 2008 the Company management, accompanied by two independent geologists, conducted a site inspection of the Los Pavitos mining claims. The inspections included grab sampling and rock-chip sampling and a general assessment of the infrastructure surrounding the mining claims. Assays from the samples identified mineralization for copper, lead and zinc. Based upon the preliminary site inspection, the independent geologists indicated the area had the potential to host a porphyry copper system.

On November 27, 2007, following receipt and analysis of assays from the previous visit to the Los Pavitos claim group, the Company exercised its option to acquire 100 per cent of the Los Pavitos mining claim, by making a cash payment of USD \$50,000 and by issuing 1.5 million common shares at a deemed price of \$0.295 per share. The shares were issued on January 10, 2008.

On March 2nd, 2008, the Company reported it had contracted independent geologist Joel Rodriguez Noriega of Minera Ronato to conduct stage-two geology on the Los Pavitos claim.

#### *Christina Property*

The Christina Property is located 25 kilometres south-southeast of Alamos, Sonora and also



covers 10,000 hectares. The property adjoins Pan American Silver Corporation’s Alamo Dorado Mine. The geology of the Christina is similar to that observed at the Alamo Dorado mine.

On February 14<sup>th</sup>, 2008, the Company reported that it had obtained rock-chip samples for assaying and would obtain ASTER Satellite Data on the property to analyze the mineral alteration zones to assist in identifying future exploration targets.

*Brenda Property*

The Brenda Property covers 10,000 hectares and is located approximately 35 kilometres northeast of Navojoa, in the state of Sonora. The property adjoins both the Los Pavitos claim block under option by the Company, and the Las Minitas project which is underway by Pershimco Resources Inc. The geology of the Brenda property exhibits similar rock types and structures that host mineralization observed at Las Minitas. Several old mine workings, predominantly gold, are present throughout the Brenda property.

*Exploration Programs*

Sonora’s exploration programs to date have consisted of geological reconnaissance procedures to locate mineralized zones through systematic soil and rock-chip sampling. The information obtained from the reconnaissance programs will be followed by detailed geological mapping of the mineralized zones. Upon conclusion of geological mapping the Company will determine its go forward plans to potentially drill the Los Pavitos property in the fall of 2009.

To facilitate further advancement of the Company’s exploration objectives in Sonora, the Company may seek additional equity financing and look to expand its exploration team through the retention of a management mining professional that can lead the program on the Sonora mining claims.

**SCHEDULE OF EXPENDITURES – MINERAL PROPERTIES**

The Company has incurred the following expenditures on the Sonora claim group:

	<b>Los Pavitos</b>	<b>Brenda</b>	<b>Christina</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Acquisition costs	514,675	19,501	19,501	553,677	553,677
Geological and assay	36,010	3,404	3,404	42,818	25,408
Travel and consulting	9,617	3,911	3,911	17,439	15,643
Other	14,663	-	-	14,663	-
	<b>574,965</b>	<b>26,816</b>	<b>26,817</b>	<b>628,597</b>	<b>594,728</b>

## SELECTED ANNUAL INFORMATION

	Year ended January 31, 2009	Year ended January 31, 2008 <sup>1</sup>	Year ended January 31, 2007
Total Revenues	--	--	--
Total Loss and comprehensive loss for the year	(253,036)	(64,995)	(1,431,013)
Loss from continuing operations	(253,036)	(202,178)	(223,659)
Income (Loss) from discontinued operations	--	137,183	(1,207,354)
Total Assets	849,219	790,551	318,930
Total Working Capital (Deficiency)	164,268	125,433	(182,456)
Shareholder's Equity (Deficit)	805,165	733,201	36,032

## RESULTS OF OPERATIONS

### *For year ended January 31, 2009*

#### *Exploration*

The Company has not generated any revenues over the past three fiscal years. Generally, the Company's accounting policy for exploration costs requires that exploration spending that does not meet the criteria for mine development is expensed as it is incurred. As a result exploration costs charged to operations during the fiscal period ended January 31, 2009, were \$40,492, or 73% higher than the \$23,275 incurred in fiscal year ended January 31, 2008. Exploration costs were largely attributed to sampling and assaying of the Los Pavitos mining claims.

#### *Corporate and Administrative*

Corporate and administrative expenses were \$248,641 in fiscal 2009, compared to \$200,956 in 2008, representing a 24% increase. Higher corporate and administrative costs during the year were partially attributed to increased transfer agent and listing fees, professional (legal) fees and management fees related to the company's shift in focus from oil and gas to mining and rebranding of its corporate identity.

#### *Stock-based Compensation*

There were no significant changes in the Company's stock-based compensation during the fiscal year as no new stock options were granted to eligible persons under the Company's stock option plan. Generally, the value of the stock-based compensation expense is added to the contributed surplus account within shareholders' equity, resulting in no net effect on total shareholders' equity. The Company has a fixed stock-based compensation plan in effect, which provides that up to 10% of the number of shares outstanding may be reserved for stock option grants to eligible optionees. Stock options granted under the plan vest immediately.

<sup>1</sup> Operations between 2008 and 2007 are not directly comparable as a result of the Company's change in focus from oil and gas exploration to mineral exploration.

### Income Taxes

At present the Company is not liable for income taxes for its operations in Mexico as none of the Company's properties are generating any revenue. In future the Company may be liable as it advances its mining operations into production.

### SUMMARY OF QUARTERLY RESULTS

Quarter Ending	July 31, 2009 Q2	April 30, 2009 Q1	January 31, 2009 Q4	October 31, 2008 Q3	July 31, 2008 Q2	April 30, 2008 Q1	January 31, 2008 Q4	October 31, 2007 Q3	July 31, 2007 Q2
Loss before discontinued operations and extraordinary items	(39,752)	(43,187)	(47,814)	(86,111)	(67,397)	(51,714)	(27,518)	(81,379)	79,058
Loss <u>per share</u> before discontinued operations and extraordinary items	Nil	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Income (loss) for the period	(39,712)	(47,043)	(47,814)	(86,111)	(67,397)	(51,714)	(27,518)	(81,379)	79,058
Basic and diluted earnings (loss) per share	Nil	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

### ***Results of Operations for the period ended July 31, 2009 and year ended January 31, 2009.***

This review of the Results of Operations should be read in conjunction with the Audited Financial Statements of the Company for the years ended January 31, 2009 and 2008.

### CAPITAL RESOURCES AND LIQUIDITY

At July 31, 2009, the Company had \$113,930 in cash and cash equivalents compared to \$18,136 as at July 31, 2008. The Company's working capital position on July 31, 2009 was \$83,073 compared to working capital of \$164,268 at July 31, 2008. On a comparative basis, the drawdown in working capital in the second quarter ended July 31, 2009, was on par with previous as the company has continued to maintain strong fiscal management in response to the financial crisis experienced in world markets over the past year and the difficulty in raising equity under such conditions.

On October 9, 2008 the Company completed a private placement, issuing 6,500,000 common shares of the Company for gross proceeds of \$325,000. As the Company does not currently

receive any revenues from any of its operations, cash flows were mainly from the Company's private placement. The Company deems it prudent to continue its limited exploration spending in this current economic climate. The Company will require additional funding in the near term to continue the development of its mineral properties and to pay for general corporate and administrative expenses.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with accounting principles generally accepted in Canada.

In connection with Exemption Orders issued in November 2007, by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificate under Multilateral Instrument ("MI") 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in MI 52-109.

## **TRANSACTIONS WITH RELATED PARTIES**

During the year ended January 31, 2009 and the period ended July 31, 2009, Sonora did not enter into any related party transactions.

## **CHANGES IN ACCOUNTING POLICY AND PRESENTATION**

Effective February 1, 2008, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

- Section 1535: Capital Disclosures;
- Section 3862: Financial Instruments - Disclosures;
- Section 3863: Financial Instruments – Presentations.

The impact of these standards on the Company's financial statements was primarily to increase the disclosures surrounding the Company's capital management program and financial instruments.

## **CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Effective February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011.

The Company is currently completing a preliminary assessment of how IFRS will impact its financial reporting standards and will develop an IFRS conversion implementation plan, which will include a detailed assessment of the impact of the conversion to the consolidated financial statements and related disclosures. The plan will also consider the impact of the conversion of the Company's information technology systems, internal controls over financial reporting, performance measurement systems, disclosure controls and procedures and other business activities that may be influenced by GAAP measurements.

The Company is currently performing an analysis of the significant IFRS-GAAP differences with respect to the Company's financial statements and disclosures. The Company will quantify the potential effect of these differences as part of the conversion implementation plan.

## **FINANCIAL AND OTHER INSTRUMENTS**

The Company's financial assets and liabilities consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and current and future income or surface tax liabilities, some of which are denominated in Canadian dollars, US dollars or Mexican pesos. The Company is exposed to financial gains or losses as a result of foreign exchange movements against the US dollar.

The Company's cash and cash equivalents may be invested in short-term liquid deposits which may be pledged as collateral. As of January 31, 2009 the Company has pledged a Guaranteed Investment Certificate ("GIC") as collateral for the Company's credit card.

## **RISK FACTORS**

Companies involved in the mineral exploration industry are faced with many risk factors. The following selected risk factors are those management views as the most germane to the Company as this stage in the Company's growth. While it is not possible to eliminate all the factors inherent in the mineral exploration business, the Company, through ongoing assessment, strives to mitigate these risks to ensure the protection of its assets.

### *Exploration and Development Risk*

Mineral exploration and development involves a high degree of risk and few properties explored are ultimately developed into producing mines. There is no assurance that any mineral resources identified and defined can be commercially mined. Sonora attempts to mitigate these risks by conducting exploration programs and studies using qualified contractors and

personnel who will make professional recommendations based upon the findings of these studies.

#### *Competitive Risk*

The Company's business is intensely competitive, and the Company competes with other mineral exploration companies, many of which have greater resources and experience. Competition in the precious and base metals mining industry is primarily for mineral rich properties which can be developed and produced economically; the technical expertise to find, develop, and produce such properties; the labour to operate such properties; and the capital for the purpose of financing development of such properties. Many competitors not only explore for and mine precious and base metals, but conduct refining marketing on a world-wide basis and many of these companies have much greater financial and technical resources than the Company. Such competition may result in the Company being unable to acquire other desired properties, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties. The Company's inability to compete with other mining companies for these mineral deposits could have a material adverse effect on the Company's result of operations and business.

#### *Resource/Reserve Calculation Risk*

There is a degree of uncertainty attributable to the calculation of mineral resources and mineral reserves and corresponding grades. Until ore is actually mined and processed, quality of mineral resources and mineral reserves and grades must be considered as estimates only. In addition, the quantity of mineral resources or reserves and grades may vary depending upon the prices of the individual commodities contained. Any material change in quantity of mineral resources or reserves, grade, or recovery ratio may affect the economic viability of the Company's project. In addition, there can be no assurances that recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. The Company attempts to mitigate these risks by conducting resource evaluations and studies using qualified contractors and personnel who will make professional recommendations based upon the findings of these evaluations and studies.

#### *Financing Risk*

Sonora has limited financial resources and relies upon the issuance of share capital to raise funds. The Company's management is aware that the availability of equity funds at favourable terms is not certain, so the financial requirements of Sonora's operations are reviewed at least quarterly to allow for timely changes in capital deployment. The Company has been successful in the past in obtaining financing through the placement of equity, however, there can be no assurance that it will obtain adequate financing in the future or that the terms of such financing will be favorable.

### *Country Risk*

The Company conducts exploration in Sonora, Mexico. Mexico is a developing country and obtaining, financing, finding or hiring qualified people or obtaining necessary services for the Company's operations in Mexico may be difficult. Mexico's status as a developing country may make it more difficult for the Company to attract investors or obtain any required financing for its mining projects.

The acquisition of the right to exploit mineral properties is a detailed and time-consuming process. Although the Company is satisfied it has taken reasonable measures to acquire unencumbered rights to explore on and exploit its mineral reserves on the Company's mining claims, no assurance can be given that such claims are not subject to prior unregistered agreements or interests or to undetected or other claims or interests which could be material and adverse to the Company.

### *Business Cycle Risk*

General market conditions and the price of precious and base metals will have an impact on the Company's ability to raise financing in the future to continue the exploration of its properties and further the Company's long term plan. Commodities prices are generally regarded to behave cyclically, however gold has reached a significant high in recent months. There can be no assurance that these conditions will remain over the long-term. The Company can be favorably or adversely affected by a change in cyclical market direction. Any changes in general market conditions are beyond the control of the Company.

## **OUTSTANDING SHARE DATA**

As at July 31, 2009, and at the date of this report, the Company had 25,196,348 common shares outstanding.

### *Options*

Options outstanding at July 31, 2009 are detailed in the table below:

<b>Number</b>	<b>Date of Grant</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Type</b>
396,000	October 21, 2005	\$0.20	October 21, 2010	Consultant
100,000	October 21, 2005	\$0.20	October 21, 2010	Director
104,000	November 23, 2005	\$0.20	November 23, 2010	Consultant
50,000	March 10, 2006	\$0.50	March 10, 2011	Director
350,000	March 11, 2009	\$0.10	March 11, 2014	Director
100,000	March 11, 2009	\$0.10	March 11, 2014	Officer
1,100,000				



### *Warrants*

During the fiscal year, 4,757,831 share purchase warrants expired. These warrants ranged in exercise price from \$0.20 per warrant share to \$0.60 per warrant share. As of the date of this MD&A, 1,625,000 share purchase warrants remain in effect and are exercisable on or before October 10, 2009 at a price of \$0.15 per common share.

## **FORWARD-LOOKING STATEMENTS**

*All statements in this report that do not directly and exclusively relate to historical facts, constitute forward-looking statements. These statements represent the Company's intentions, plans, expectations and beliefs, and are subject to risks, uncertainties and other factors of which many are beyond the control of the Company. These factors could cause actual results to differ materially from such forward-looking statements. The Company disclaims any intention or obligation to update or revise such forward-looking statements, as a result of new information, future events or otherwise.*



## **CORPORATE DATA**

### **HEAD OFFICE**

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### **REGISTRAR AND TRANSFER AGENT**

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### **AUDITORS**

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### **DIRECTORS & OFFICERS**

Ken Churchill, President & CEO, Director  
Robert Dinning, CFO  
Michael Resendes, Director  
David George, Director  
Ralph Claussner, Director  
Jurgen Biertumpel, Corporate Secretary

### **CAPITALIZATION**

Authorized: 100,000,000  
Issued: 25,196,348  
Options: 1,100,000  
Warrants: 1,625,000  
Fully Diluted: 27,471,348

### **LISTING**

TSX Venture Exchange: SOC  
CUSIP: 835651