Management's discussion and analysis ("MD&A") of the financial condition of Santa Fe Metals Corp. (the "Company" or "Santa Fe") should be read in conjunction with its annual consolidated financial statements for the year ended March 31, 2011. The information contained within this MD&A is current to June 24, 2011. The consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of its wholly-owned subsidiaries, Compañia Minera Coronado S.A. de C.V. ("Coronado"), Prestadora de Servicios Coronado S.A. de C.V. ("Servicios"), 0803198 BC Ltd. ("0803198") and 0803203 BC Ltd. ("0803203"), and Interior Gold Corp., which was acquired subsequent to March 31, 2011.

## FORWARD LOOKING STATEMENT

This MD&A contains certain forward-looking statements and information relating to the Company which are based on the beliefs of its management as well as assumptions made by and information currently available to Santa Fe. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to Santa Fe or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance and the sufficiency of current working capital. Such statements reflect the current views of Santa Fe with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of Santa Fe to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

## OVERALL PERFORMANCE

A summary of events occurring since the beginning of the year is as follows:

- In June 2010, the Company entered into a binding Memorandum of Understanding ("MOU") with Tahoe Resources Group LLC ("TRG") of Reno, Nevada, USA for the sale of a 40% interest the Cuatro Ciénegas Project (the "Project") for US$5.0 million. The agreement subsequently lapsed when TRG failed to meet the payment deadline. Since then the Company has continued discussions with several interested parties for either the sale of a partial interest in the property or a joint venture arrangement to explore and/or develop the Project.

- Mexico's environmental agency, Secretariat of the Environment and Natural Resources ("SEMARNAT"), has advised Coronado that its Environmental Impact Study for the high grade copper oxide heap leach operation planned for its 100% owned Cuatro Ciénegas property, has been approved. SEMARNAT's finding is that the project is "environmentally feasible" and its approval is valid for 15 years for the project as designed.

- Coronado has been advised that a notice has been sent to the Cuatro Ciénegas land owner informing him that Coronado's application for a Temporary Occupancy Permit ("TOP") meets all legal and technical requirements. After the TOP is issued, Coronado will have to obtain a change of land use permit, i.e. from agricultural to industrial, prior to commencing construction on the site. The change of land use application has been prepared and will be submitted to the Federal Prosecutor for the Protection of the Environment, ("PROFEPA") upon issuance of the TOP. PROFEPA then has 60 working days to approve the change of land use.

- The Company investigated and evaluated many opportunities to acquire mineral properties located in Mexico and elsewhere.

## SELECTED ANNUAL INFORMATION

| | March 31 | | |
|---|---|---|---|
| **Description** | **2011** | **2010** | **2009** |
| Loss for the year | (379,874) | (2,508,259) | (1,183,584) |
| Loss per share | (0.01) | (0.10) | (0.08) |
| Total assets | 1,394,897 | 1,656,181 | 2,175,159 |

Notes:

1) The Company was formed as a Capital Pool Corporation ("CPC") pursuant to Exchange Policy 2.4 of the TSX Venture Exchange ("TSXV") and, until March 2008, did not have any commercial operations or assets other than a minimum amount of cash with which to identify and evaluate businesses or assets for the purpose of possible acquisition, referred to as a Qualifying Transaction ("QT"), subject to the approval of the TSXV. As a CPC, the Company's activities and expenditures were limited.

2) Loss for the year ended March 31, 2010 included property written downs of $1,464,415.

3) Loss for the year ended March 31, 2011 was abnormally low, largely because of several factors:

   a) Salaries and benefits recovery of $110,197 was realized because two management employees abandoned their rights to unpaid salary in respect of calendar year 2010. Also, no salaries have been paid to these individuals in respect of 2011 and the contract of a Mexico employee expired in March 2010 and was not renewed.

   b) The company recouped approximately $19,000 in property investigation costs incurred in performing due diligence on a property of interest from a potential business partner.

   c) The company recouped $30,000 of accrued property investigation costs when a consultant abandoned claims for fees in respect of several projects.

   d) The Company provided professional services in Mexico for which certain employment and operating costs were reimbursed.

The Company has not declared or paid dividends on its common shares, and has no intention of paying dividends on its common shares in the near future, as it anticipates that all available funds will be used to finance the operations and growth of its business.

## SUMMARY OF QUARTERLY RESULTS

| | 2011 | 2010 | | | | 2009 | | |
|---|---|---|---|---|---|---|---|---|
| **Description** | **Mar 31** | **Dec 31** | **Sept 30** | **June 30** | **Mar 31** | **Dec 31** | **Sept 30** | **June 30** |
| Income (loss) for quarter | (72,330) | 74,966 | (166,967) | (215,543) | (1,783,795) | (210,425) | 219,671 | (733,710) |
| Income (loss) per share | 0.00 | 0.00 | (0.01) | (0.01) | (0.07) | (0.01) | 0.01 | (0.03) |
| Equipment | 35,915 | 35,915 | 39,318 | 42,720 | 46,123 | 55,712 | 67,150 | 317,312 |

The loss for the quarter ended March 31, 2011 is abnormally small when compared to previous quarters largely because of a lack of funds to spend. Additionally, the company recorded a recovery $30,000 of property investigation costs accrued when a consultant abandoned claims for fees in respect of several projects, and a recovery for smaller amounts charged to third parties for the services of employees.

Net losses for the quarters ended June 30 and September 30, 2010 have been progressively decreasing, largely because of a lack of funds. Net income for the quarter ended December 31, 2010 resulted because of a recovery of salaries previously accrued. Operational losses will likely increase, at least in the short term, if additional working capital is raised.

Net loss for the quarter ended March 31, 2010 was comparatively high because of a charge of $1,464,415 related to the write-off of the Lobos property.

Net losses for the quarters ended September 30, 2010, June 30, 2010 and December 31, 2009 were attributable largely to ongoing administrative expenses that can be expected to continue in the future. However, travel and accommodation and property investigation expense components can vary significantly from quarter to quarter depending on the number and location of properties investigated and the extent to which consultants are involved.

Net income for the quarter ended September 30, 2009 resulted from the receipt of litigation proceeds of $478,000. Results for this quarter excluding this item were comparable to most other quarters.

The loss for the quarter ended June 30, 2009 was unusually high because of a stock-based compensation charge of $378,264 and legal fees relating to the litigation of about $156,577 recognized during that quarter. Remaining expenditures for the quarter ended June 30, 2009 are otherwise generally comparable to those realized for the quarter ended March 31, 2009.

## FOURTH QUARTER

Santa Fe incurred net loss for the quarter of $72,330 ($0.00 per share) during the quarter ended March 31, 2011 (2010: net loss of $1,783,795 or $0.07 per share). Significant items to note include:

- The comparative quarter included property write-downs totaling $1,464,415 while there were no write-downs during the fourth quarter.
- Two management employees did not receive salaries and benefits during the fourth quarter but, together with a former Mexico employee whose contract expired in March 2010, were paid and accrued salaries and benefits totaling approximately $125,000 during the comparative quarter. Future expenditures will depend on the Company's success.
- Property investigations totaled $(32,360) and is down significantly when compared to the amount incurred for this quarter last year of $69,480. The company recorded a recovery $30,000 of property investigation costs accrued when a consultant abandoned claims for fees in respect of several projects, and a recovery for smaller amounts charged to third parties for the services of employees. This level of expenditure is unusually low and can be expected to increase until at least one additional property is acquired.
- The Company closed its Mexico office in late March 2011, resulting in the termination of four support employees and elimination of the office and related costs. Cost savings will be realized in future quarters as a result of the closure. A full-time geologist remains on staff. Another office may be established in the future to support exploration and predevelopment activities, if needed.

## LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2011, the Company had cash and cash equivalents of $32,460 and working capital of $76,425. The Company has arranged for a line of credit (LOC) of $175,000 with a private company owned by two directors. The line of credit bears interest at the rate of bank prime plus 3%, currently 6%, per annum, compounded monthly. The LOC has no specific repayment terms but the lender has agreed not to demand payment before 2013.

On April 15, 2011, the Company completed a private placement of 11,093,750 units at $0.08 per unit generating gross proceeds of $887,500. Each unit consisted of one common share and one-half of a warrant. One whole warrant entitles the holder to purchase one additional common share at $0.11 each for a two year period expiring April 15, 2013. Finder's fees of $7,560 cash and 108,000 "B" warrants, exercisable into 108,000 common shares at a price of $0.10 per share for a two year period expiring April 15, 2013, were paid in connection with the placement of 1,350,000 units. One-half of the $175,000 outstanding balance of the LOC, or $87,500, was repaid from the proceeds of the private placement.

The Company hired a full-time geologist to be based at its Vancouver office effective June 1, 2011. The Company will require additional funds in the near future in order to, firstly, continue operating and, secondly, progress exploration and development of its properties and maintain them in good standing. The Company intends to raise additional funds or make alternative arrangements in the next few quarters.

To help conserve working capital in the short term, we have taken or are taking the following steps:

- Two senior management employees are not currently receiving salaries. Salaries will resume once the company has sufficient funds.
- Some Mexico staff have been, and will continue to be, temporarily contracted out on an as-needed basis to other companies.
- The Company has temporarily sublet a portion of its Vancouver office space until needed for operations.

The Company needs to raise approximately US$3 million to cover the estimated capital costs associated with constructing a production facility on its Cuatro Ciénegas property after the appropriate permits are issued. We plan to obtain a large portion of this amount in the form of a peso-equivalent term loan from a department of the Mexican government. The loan is expected to cover 3 to 5 years and bear interest at 9% to 12%. A formal loan application cannot be made until we receive both a Temporary Occupancy Permit and a change in land use permit. Once received, construction can begin and is expected to take 3 to 4 months.

The Company keeps its funds at a major Canadian financial institution in highly-liquid interest bearing accounts until such time as spent in Canada or advanced to Mexico financial institutions to fund Mexican operations.

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Securities outstanding are:

| Description | March 31, 2011 | Report Date |
|---|---|---|
| Shares outstanding | 37,760,237 | 48,853,987 |
| Contractor options at $0.10 until November 13, 2011 | 75,000 | 75,000 |
| Share purchase warrants at $0.15 until March 9, 2012 | 5,500,000 | 5,500,000 |
| Director and employee options at $0.10 until September 23, 2012 | 471,428 | 471,428 |
| Director and employee options at $0.60 until March 7, 2013 | 290,000 | 290,000 |
| Share purchase warrants at $0.11 until April 15, 2013 | - | 5,546,875 |
| Director and employee options at $0.23 until June 2, 2014 | 1,665,000 | 1,665,000 |

## RELATED PARTY TRANSACTIONS

During the year ended March 31, 2011, the Company:

- Paid rent of $63,120 (2010: $63,120) to entities controlled by two of the Company's directors.
- Arranged a series of unsecured, revolving 6% loans from a private company owned by two of the Company's directors. Interest of $1,475 (2010: $11,286) was charged in respect of these loans, of which $1,475 (2010: $Nil) is included in payables. The balance of loan payable outstanding is $175,000 (2010: $Nil). The current loan has no specific terms of repayment but the lender has agreed not to demand payment prior to December 31, 2012.
- Paid geological consulting fees to an individual who is a director of the Company of $Nil (2010: $5,852).
- Paid and accrued legal fees of $5,547 (2010: $6,661) to a law firm, a partner of which is also a Company director. Payables includes $11,970 (2010: $6,370) owing to this firm.
- Accrued metallurgical consulting fees of $Nil (2010: $15,000) to a company, the principal of which is also a Company director. This company subsequently forgave fees accrued over several years totaling $30,000. Payables includes $Nil (2010: $31,250) owing to this company.

In addition, payables includes $Nil (2010: $37,500) of unpaid salaries owing to two directors.

Each of these transactions occurred in the normal course of operations and is measured at the exchange amount.

## OUTLOOK

A priority is to establish an exploration program on the Cuatro Ciénegas property. Materials gathered from exploration contain copper oxides and will be processed through a simple leaching facility at the rate of 1,000 tonnes per day to produce cement copper. We hope to generate approximately 10 million pounds of copper in precipitate per year yielding enough net revenue to fund both the exploration program and operations in other areas. Costs to set up the production facility are expected to be approximately US$3 million. We are exploring the availability of short term debt financing to fund the processing facility but a significant amount of equity financing may be required to simply meet day-to-day operational needs until such time as positive cash flow is generated.

The Company is continuing to investigate and consider other property opportunities as they arise and as available finances permit.

## CRITICAL ACCOUNTING ESTIMATES

The most critical accounting principles upon which the Company's financial status depends are those requiring estimates of the recoverability of its capitalized mineral property expenditures and capital assets.

## CHANGES IN ACCOUNTING POLICIES

### Adoption of new accounting pronouncements.

No new accounting policies were adopted during the year ended March 31, 2011.

## RECENT ACCOUNTING PROMOUNCEMENTS

### Convergence With International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canada's current Generally Accepted Accounting Principles ("GAAP") for publicly accountable profit-oriented enterprises effective for fiscal years commencing on or after January 1, 2011. Accordingly, on April 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements, and will issue its financial results for the quarter ended June 30, 2011 prepared on an IFRS basis with restatement of comparative information presented for the quarter ended June 30, 2010 including a restated opening April 1, 2010 balance sheet.

Management may utilize an available 30 day filing extension for the first interim financial report in the year of adopting IFRS, and anticipates filing its financial statements for the quarter ended June 30, 2011 on or before to September 30, 2011.

### General information about the IFRS transition impact:

In presenting the IFRS financial statements for the quarter ended June 30, 2011, users of the financial statements will notice changes in the following areas:

- The presentation of the balance sheet, statement of operations, comprehensive loss and deficit, and statement of cash flows will look somewhat different to the statements that users are used to seeing under Canadian GAAP;

- The notes to the IFRS financial statements will be more comprehensive and more detailed, than those under Canadian GAAP. In some cases, even when accounting policies have not changed, additional disclosures may be required by IFRS that were not previously required under Canadian GAAP;

- During the first year of IFRS reporting, the Company will include detailed reconciliations between Canadian GAAP and IFRS for the historical periods presented as comparative results, and for the opening balance sheet;

- Certain balances and transactions are calculated differently under IFRS; the items which are expected to significantly impact the Company are summarized below.

The MD&A overall is not likely to change significantly, other than to discuss transition related issues.

### IFRS Conversion Plan:

As previously reported in the MD&A's for the quarters ended September 30 and December 31, 2010, management is executing its conversion project in accordance with the following four phases:

1. Review and Assessment
2. Design
3. Implementation
4. Post Implementation Review

The Company is currently transitioning from the project design phase (which includes the evaluation of accounting policy alternatives and the quantification of impact on key line items and disclosures) into the implementation phase (which includes finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant consolidated financial statements, and preparation and approval of completed IFRS consolidated financial statements). The Company has selected its accounting policy for "Accounting for deferred exploration costs and mineral rights" (see "Comparison of IFRS to Canadian GAAP — Other Considerations" below), and in the significant and relevant areas from the various available policy alternatives and one-time accounting alternatives under IFRS 1 (see "Provisions related to the initial adoption of IFRS under IFRS 1 (First Time Adoption of IFRS)" below). Management is still in the process of preparing an opening balance sheet as at April 1, 2010 and reconciliations of subsequent interim and year end statements to Canadian GAAP statements of the corresponding periods.

**Comparison of IFRS to Canadian GAAP — Key Differences for the Company**

The key differences between the accounting policies that the Company expects to apply in preparing its first consolidated IFRS financial statements and its current accounting policies in accordance with Canadian GAAP follow. Although the Company expects to record the following transition adjustments to reconcile the Company's Canadian GAAP accounts to the IFRS for the opening balance sheet as of April 1, 2010, the proposed adjustments are subject to a final internal review, and to review by the Company's external auditors.

***1) Functional currencies and foreign currency translations***

Under Canadian GAAP, the Company and all of its wholly owned subsidiaries operated with the Canadian dollar ("CAD") as their functional currency. The Mexican subsidiaries were considered to be 'integrated' subsidiaries and to have a CAD functional currency because of their reliance on the parent company to finance their operations and provide key decision making. Accordingly, their balances were translated to CAD using the temporal method of translation, with foreign exchange gains and losses reflected in the Statement of Operations, Comprehensive Loss and Deficit.

IAS 21, "The effects of changes in foreign exchange rates" requires that the functional currency of each entity in a consolidated group be determined separately based on the currency of the primary economic environment in which the entity operates. A list of primary and secondary indicators is used under IFRS in this determination, and these differ in content and emphasis to a certain degree from those factors used under Canadian GAAP. IAS 21 sets out a more specific approach to determining the functional currencies of a reporting entity and its subsidiaries, and prioritizes influencing factors. Under Canadian GAAP, no factor is identified as having any greater relative importance.

Although a change in the functional currency of the Company or any of its subsidiaries was not originally expected, in re-assessing the functional currency of each entity on transition to IFRS, management has reached different conclusions and concluded that the functional currency of each of the two Mexican subsidiaries is the US dollar ("USD"). This determination was based on the fact that the USD is the influencing factor in the primary indicators used in the IFRS evaluation, and that the weight given to the currency of financing under Canadian GAAP is diminished under the IFRS analysis.

As a result, the Mexican subsidiaries will have a different functional currency than the Company's reporting and presentation currency of the Canadian dollar. Rather than being translated to the Canadian dollar using the using the temporal method of translation, these subsidiaries will retrospectively be translated into the Canadian dollar consolidation using a translation methodology that parallels the current rate method, with foreign exchange differences going through a 'Cumulative Translation Adjustment' within shareholders' equity.

For the Company's opening balance sheet, the impact of the foreign currency translation difference is expected to change the valuation in mineral rights and deferred exploration costs, with the offsetting amount recorded to the opening deficit.

The Company will retain the Canadian dollar as its reporting and presentation currency.

***2) Share-based payments (stock options and stock-based compensation)***

The guidance provided by IFRS 2, "Share Based Payments", is largely consistent with Canadian GAAP, and requires estimates of the fair value of stock options to be made at the date of the grant and recognition of the related expense in income as the options vest. The use of the Black-Scholes model is an acceptable method to estimate the fair value of the options at the date of grant, and is consistent with the Company's current practice. For share options that vest in installments, IFRS 2 requires the use of the attribution method, which requires that the Company treat each installment as a separate share option grant with a different fair value. Unlike Canadian GAAP, IFRS 2 does not include the straight line method as an alternative to the attribution method for awards with a service condition and graded-vesting features. The Company will need to account for its awards using the attribution method. Currently, the Company records forfeitures as they occur, however upon transition to IFRS, the Company will be required to make an estimate of the forfeiture rates for use in the determination of the total share based compensation expense.

Because the Company had no unvested options outstanding as at the date of transition, the Company expects the adjustment to its opening balance sheet under IFRS at April 1, 2010 to be Nil. Similarly, as no options were granted during the year ended March 31, 2011, these changes will not result in a difference in valuation of the stock based awards and timing differences for the recognition of compensation expenses.

***3) Provisions related to the initial adoption of IFRS under IFRS 1 (First Time Adoption of IFRS)***

IFRS 1 guidance is mandatory for all first-time adopters of IFRS, including the Company, and there is no Canadian GAAP equivalent. It provides the framework for the first-time adoption of IFRS and specifies that an entity shall apply the principles under IFRS retrospectively, meaning the opening statement of financial position as at the date of transition and the opening numbers of IFRS will be determined on the premise that IFRS had always been applied. Certain optional exemptions and mandatory exceptions to retrospective application are provided under IFRS. For the Company the material exemptions relate primarily to cumulative translation differences (IAS 21) and estimates as at the date of transition.

IFRS 1 allows for certain other optional exemptions; however, the Company does not expect such exemptions to be significant or applicable to the Company's adoption of IFRS.

Adjustments resulting from IFRS 1 are generally recognized directly in the deficit at the date of transition to IFRS, or in some instances in another category of equity. The tax effects of any opening differences must also be measured and recorded.

*Cumulative translation adjustments ("CTA')*

Under the transition rules for IFRS, the Company intends to avail itself of an exemption to make the CTA nil as of the transition date, which will result in the CTA balance being transferred to the deficit.

*Share-based payments (stock options and stock-based compensation)*

The Company will use the exemption provision under IFRS 1, First Time Adoption, which allows the prospective application of IFRS 2 for options granted on or after November 7, 2002, or for grants after November 7, 2002, that vested before the later of: i). the date of transition to IFRS; and ii). January 1, 2005.

*Estimates*

Estimates used in preparing the Company's opening consolidated IFRS balance sheet as at April 1, 2010 and restating its fiscal 2011 comparative periods under IFRS must be consistent with estimates previously made for the same date under Canadian GAAP, after adjustments to reflect any difference in accounting policies, unless there is objective evidence that those estimates were in error. More specifically, an entity may be in possession of information about estimates it made under Canadian GAAP that was not available at the time those estimates were made. IFRS 1 requires the receipt of such information to be accounted for prospectively.

The above key differences are based on IFRS standards effective as at the date of this document. The governing bodies continue to amend and add to current IFRS, with several projects underway. The Company will continually monitor actual and anticipated changes to IFRS and related rules and regulations and will assess the impact of these changes on the Company and its financial statements, including expected dates of when such impacts are effective.

**Comparison of IFRS to Canadian GAAP — Other Considerations**

In addition to the impacts of key differences between the Company's accounting policies under IFRS and those under Canadian GAAP as noted above, the Company transition to IFRS will also reflect the following:

*Accounting for deferred exploration costs and mineral rights*

The most significant potential impact of accounting policy differences on the Company's consolidated financial statements relates to the accounting for deferred exploration costs and mineral rights. The Company is in the exploration stage and under Canadian GAAP currently capitalizes all costs related to the acquisition and exploration of its mining rights. Management regularly reviews the carrying value of mineral rights and deferred exploration costs for evidence of impairment, and when the carrying values are estimated to exceed their net recoverable amounts, a provision is made for the decline in value.

IFRS 6 "exploration for and evaluation of mineral resources," prescribes the financial reporting for the exploration for and evaluation of mineral resources. IFRS 6 does not require or prohibit any specific accounting policies for the recognition and measurement of exploration and evaluation assets. Under IFRS 6, an entity is permitted to continue to use its existing accounting policies provided that they result in information that is relevant to the economic decision making needs of users and that is reliable. A policy choice is therefore required under IFRS dictating whether the Company continues to capitalize costs related to the acquisition and exploration of its mining rights, or elects to expense them as incurred. If the latter choice is made, the opening April 1, 2010 IFRS balance sheet will show a nil carrying value for the Company's mineral rights and deferred exploration costs.

Management will elect to continue to use its existing accounting policy, resulting in no impact from the IFRS transition on the carrying value for the Company's mineral rights and deferred exploration costs currently reflected under Canadian GAAP.

*Impairments*

In conjunction with IFRS 6, under International Accounting Standard (TAS) 36, "Impairment of Assets," the Company will be required to assess at the end of each reporting period whether there is any indication that the asset may be impaired. IFRS also allows the reversal of impairments if conditions that gave rise to those impairments no longer exist. Canadian GAAP prohibits reversal of impairment losses. It is expected therefore, that there will be increased volatility in impairment recognition due to increase in frequency of assessment and possibility of reversal of impairments.

The IAS 36 criteria for assessing for potential impairment do not apply to exploration and evaluation assets, but rather, these assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Specifically, under IFRS 6, various facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment — for example, if the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed. When such facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an Company will measure, present and disclose any resulting impairment loss in accordance with IAS 36.

The Company expects that the adoption of the requirements of IAS 36 on transition to IFRS will not result in any difference from amounts reported under Canadian GAAP.

**IFRS - Other**

The Company does not expect that the conversion to IFRS will have a significant impact on its accounting processes and internal controls (including information technology and data systems). The Company also does not expect the conversion to IFRS to have a significant impact on its risk management or other business activities. Currently, there are no matters that would be influenced by GAAP measures, such as debt covenants, capital requirements and compensation arrangements that would be impacted by the transition to IFRS.

## Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. These financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate risk and price risk.

**Currency risk**

Many of the Company's expenditures are in Mexican pesos and USD, and any future equity raised is expected to be predominantly in Canadian dollars. The company conducts the majority of its business in Mexico which uses the Mexican peso as its primary economic currency, however, some suppliers invoice in USD and property option payments are denominated in USD. Future project exploration and development expenditures are expected to be paid primarily in Mexican pesos and secondarily in USD. A significant change in the relative currency exchange rates between the Canadian dollar, the Mexican peso and the USD could have an effect on the company's results of operations, financial position or cash flows. The company has not hedged its exposure to currency fluctuations. As such, the company is subject to risk due to fluctuations in the exchange rates for the US and Canadian dollar.

At March 31, 2011, the company is exposed to currency risk through the following assets and liabilities denominated in Mexican pesos and USD and expressed in Canadian dollar equivalents:

| Description | March 31, 2011 |
|---|---|
| | $ |
| Cash and cash equivalents | 15,784 |
| Receivables | 104,697 |
| Payables and accrued liabilities | (24,058) |
| | 9,642 |

Based on the above net exposures as at March 31, 2011, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against either the Mexican peso or the US dollar would result in an increase/decrease of approximately $9,642 in the company's net loss.

**Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The company's cash and cash equivalents are held at a large Canadian financial institution in interest bearing accounts. Minimal cash balances are held in Mexican financial institutions. The company has no investments in asset-backed commercial paper. The company's accounts receivable consist mainly of prepaids, and GST and IVA receivable due from the Governments of Canada and Mexico, respectively. As at March 31, 2011, receivables includes an amount of $105,871 in respect of IVA. Although recoveries to date have been slow and intermittent, the Company recently discussed its outstanding IVA receivables with the Mexican authorities and there is no reason to believe these amounts will not be recovered.

**Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company manages liquidity risk through its capital management as described in note 11 to the audited consolidated financial statements for the year ended March 31, 2011. Accounts payable relating to mineral properties and other accounts payable and accrued liabilities are due within the current operating period.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal because these investments roll over daily.

**Price risk**

The company is exposed to price risk with respect to commodity prices, particularly as it moves toward production on its Cuatro Ciénegas property. The company closely monitors commodity prices to determine the appropriate course of action to be taken by the company.

## Subsequent events

On April 15, 2011, the Company completed a private placement of 11,093,750 units at $0.08 per unit generating gross proceeds of $887,500. Each unit consisted of one common share and one-half of a warrant. One whole warrant entitles the holder to purchase one additional common share at $0.11 each for a two year period expiring April 15, 2013. Finder's fees of $7,560 cash and 108,000 "B" warrants, exercisable into 108,000 common shares at a price of $0.10 per share for a two year period expiring April 15, 2013, were paid in connection with the placement of 1,350,000 units.

In June 2011 the Company agreed to acquire all of the issued and outstanding shares of Interior Gold Corp., a private Canadian company in consideration for one million units to be issued on receipt of regulatory approval and another one million units to be issued one year after the receipt of regulatory approval. Each unit consists of one common share and a one year share purchase warrant. Each warrant entitles the holder to purchase another common share at $0.10 each. Interior has a 100% interest in the "Ahbau Creek" Gold prospect, located to the Northwest of Barkerville Gold Mines' "Bonanza Ledge" deposit in central British Columbia. The prospect includes a large percentage of a historic gold placer deposit.

In June 2011, the Company signed a letter of intent to option up to 100% of the Cuyoaco Gold and Base Metal Property in the State of Puebla, Mexico. The Company can earn up to 100% of the property by making cash payments and issuing shares as follows:

| | Cash – US$ | Shares | Interest earned |
|---|---|---|---|
| On receipt of regulatory approval | 100,000 | 360,000 | - |
| 1st year anniversary | 100,000 | 360,000 | 20% |
| 2nd year anniversary | 100,000 | 360,000 | 20% |
| 3rd year anniversary | 100,000 | 360,000 | 20% |
| 4th year anniversary | 100,000 | 360,000 | 20% |
| 5th year anniversary | - | 6,000,000 | 20% |
| TOTAL | 500,000 | 7,800,000 | 100% |

SFM may, at its option, accelerate the schedule of payments and share issuances.