

**SILVERMEX RESOURCES LTD.**  
MANAGEMENT DISCUSSION AND ANALYSIS – FORM 51-102F1  
for the three and nine month periods ended January 31, 2007

**1.1 Date of Report**

The following Management Discussion and Analysis (“MD&A”) for Silvermex Resources Ltd. (“Silvermex” or the “Company”) is prepared as of March 30, 2007 and should be read in conjunction with the interim consolidated financial statements for the three and nine month periods ended January 31, 2007 and the audited consolidated financial statements and related notes for the years ended April 30, 2006 and 2005. The reader is also referred to the Company’s Prospectus dated July 10, 2006 for additional information. Except as noted, all dollar amounts contained in this discussion and analysis and in the financial statements are in Canadian dollars.

**Forward-Looking Statements**

This MD&A contains certain statements that may be deemed “forward-looking statements”. All statements in this MD&A, other than statements of historical fact, that address exploration drilling, exploitation activities and events or developments that the Company expects to occur, are forward looking statements. Forward looking statements are statements that are not historical facts and are generally, but not always, identified by the words “expects”, “plans”, “anticipates”, “believes”, “intends”, “estimates”, “projects”, “potential” and similar expressions, or that events or conditions “will”, “would”, “may”, “could” or “should” occur. Information inferred from the interpretation of drilling results and information concerning mineral resource estimates may also be deemed to be forward looking statements, as it constitutes a prediction of what might be found to be present when and if a project is actually developed. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in the forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, and continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Forward looking statements are based on the beliefs, estimates and opinions of the Company’s management on the date the statements are made. The Company undertakes no obligation to update these forward-looking statements in the event that management’s beliefs, estimates or opinions, or other factors, should change.

**Management’s Responsibility for Financial Statements**

The information provided in this MD&A, including the interim consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of the future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company’s assets are safeguarded and to facilitate the preparation of relevant and timely information.

During the period management of the Company contracted an independent consultant to assess its system of disclosure and internal controls over financial reporting in Vancouver, B.C. and Hermosillo, Sonora, Mexico. This review was initiated to help identify any control weakness’s and help the officers discharge their obligations under Multilateral Instrument 52-109. Management expects to be in receipt of the consultants report prior to the Company’s fiscal year-end.

## **1.2 Nature of Business and Overall Performance**

Silvermex Resources Ltd. is a junior resource company engaged in the acquisition, exploration and development of silver properties in Mexico.

The Company completed its initial public offering (“IPO”) of 6,900,000 shares and raised gross proceeds of \$2,070,000. The Company’s agent for the IPO was Canaccord Capital Corporation (“Canaccord”) of Vancouver, British Columbia. The IPO was fully subscribed at 6,000,000 shares at a price of \$0.30 per share and the over-allotment option of 900,000 shares at \$0.30 per share was also exercised. In consideration of their services, the Company paid Canaccord a cash commission of 9% of the aggregate proceeds of the offering, and issued agent’s warrants in an amount equal to 12% of the number of shares sold under the IPO. Canaccord elected to receive 310,000 shares issued at a deemed price of \$0.30 per share as partial payment of the cash commission. Canaccord was also paid a corporate finance fee of 150,000 shares.

The Company has its corporate office in Vancouver and has administrative offices in Hermosillo, Sonora, Mexico and subsidiary and field offices in Guadalajara, Jalisco and Magdalena, Sonora, Mexico.

The interim consolidated financial statements include the accounts of Silvermex Resources Inc. and its wholly owned subsidiary, Minera Terra Plata, S.A. de C.V. (the “Subsidiary”).

### **Corporate developments**

Subsequent to the period end on March 2, 2007 the Company announced it had engaged Cannacord Capital Corp. as lead agent in connection with a best efforts private placement of 2.0 million units at a price of \$0.80 per Unit (the “Unit”) for total gross proceeds of \$1.60 million. Each Unit consists of one common share and one-half of a non-transferable common share purchase Warrant. Each whole Warrant will entitle the holder to purchase one additional common share of the Company at a price of \$1.00 for a period expiring 24 months from closing. The Units are subject to a hold period of four months. Proceeds of the Offering will be used to fund future geophysical and drill programs on the Penasco Quemado property and Cerro de Plata property and for general corporate purposes. The proceeds may also be used to fund the acquisition of new projects.

### **Mineral Projects**

The Company considers its Penasco Quemado Property located in Sonora, Mexico to be material for purposes of NI 43-101. During the current interim period the Company entered into an option to acquire the Cerro de Plata Property, also located in Sonora, Mexico. While encouraged by the results obtained from an initial surface sampling program the Company does not consider the Property to be material at this time.

#### **1. PENASCO QUEMADO PROPERTY, SONORA, MEXICO**

The Company completed its initial drill program on the Penasco Quemado Property in November 2007. The program concentrated on three principal areas: The Penasco Quemado, Red Breccia Zone and Low Angle/Stockwork Zones.

On January 30, 2007 the Company announced it has received an independent mineral resource estimate on the Penasco Quemado Zone within the 10,000 hectare Penasco Quemado Property. The estimate, completed by Jim McCrea, P.Geol., an independent Qualified Person, was prepared using current CIM definitions for mineral resources. The disclosed mineral resource estimate is:

<b>Resource Classification</b>	<b>Ore (million tonnes)</b>	<b>Grade (g/t Ag)</b>	<b>Silver (million troy oz)</b>
Measured Mineral Resource	0.123	151.9	0.599
Indicated Mineral Resource	2.442	115.0	9.032
<b>Total Measured + Indicated</b>	<b>2.565</b>	<b>116.8</b>	<b>9.631</b>
Inferred Mineral Resource	0.001	41.4	0.001

The mineral resource estimate used a cut-off grade of 30 g/t Ag with high grade samples capped at 700 g/t Ag. The mineral resource estimate is based on a total of 3,442.67 meters of drilling from 45 holes completed by both Silvermex and previous operators. Silvermex completed approximately 2,210 meters of drilling in 4 core and 17 RC holes during its 2005 and 2006 drill campaigns in the PQ Zone.

Outside of the 300 meter zone hosting the resource, 4 additional holes were completed. The results from holes PQD-04 and PQD-05 confirmed the continuity of the mineralization 750 meters along strike with the zone open at depth. The step-out results allow the Company to proceed with an infill drill program that management is confident will expand the current Measured and Indicated Mineral Resource.

In compliance with NI 43-101 the Company filed a technical report on March 16, 2007 to support the reported Mineral Resource. The report, prepared by Bill Lewis, P.Geo. (Micon International Limited) and Jim McCrea, P.Geo., is available on SEDAR. Readers are also referred to a news release dated January 30, 2007 for a discussion of the results.

Short to medium term priorities will focus on expanding the resource base by confirming the extension of the Penasco Quemado Zone and refining the regional and local geologic model(s). The Company also hopes to establish the continuity of the San Luis, Low Angle and Stockwork Zones through detailed geological mapping and geophysical and drill programs. The Company has just recently completed staking an additional 10,000 hectares to the south of the main Penasco Quemado claim block. Future programs will include early stage evaluation of previously identified targets and generation of new targets on this concession.

## **2. Cerro de Plata Property, Sonora, Mexico**

On November 27, 2006, the Company announced the signing of an option to acquire a 100% interest in the 10,000 hectare "Cerro de Plata" silver project. The property is located in the Sierra Madres Mountains approximately 50 kilometres south of the Mexico/Arizona border at Nogales, Mexico and 45 kilometres east of the Company's Peñasco Quemado project. Consideration includes US\$400,000 in cash payments and the issuance of 250,000 common shares over 48 months and an additional 250,000 common shares upon the completion of a feasibility study.

Subsequent to entering into the option the Company completed a work program on the Property consisting of detailed geological mapping and sampling of the Cerro de Plata Mine underground workings and open cuts and reconnaissance mapping and sampling of the old pits in the immediate area. The exposures in these various workings indicate the mineralized zone is at least 150 meters wide, 100 meters long and 150 meters deep. Another mineralized zone was located approximately 750 meters south of the underground workings. Grab samples from this location returned assay values as high as 288.8 g/t Ag and 0.864% Cu.

The Property was acquired to assess the precious metal potential of a number of broad zones of high grade silver mineralization that had been previously exploited as part of the operation of the Cerro de Plata Mine. While the results of this first phase of exploration confirmed the existence of these zones,

they also suggest that the epithermal veins and stockworks that host the silver and copper may be associated with a larger and deeper copper porphyry source. Veins and stockworks containing significant grades of silver, the presence of other low pressure and temperature minerals and the existence of argillic alteration suggest an epithermal environment while the quartz-feldspar porphyry host, significant copper “leakage” and zones of phyllic alteration suggest a copper porphyry environment.

The principal mineralized zone is hosted in a strongly, brecciated and often oxidized, quartz-feldspar porphyry. Argillic alteration, silicification, and quartz-tourmaline veining and manganese are also commonly encountered. The mineralized structures are exposed on surface, in the underground workings and in a series of small pits. The exposures in these workings suggest that this mineralized zone is at least 150 meters wide, 100 meters long and 150 meters deep. A 20 to 30 meter wide zone of higher grade mineralization striking north-south exists within this larger zone and can be traced by following color anomalies for distances of over 800 meters along surface. Copper mineralization is dominated by copper oxides and carbonates (malachite, chrysocolla, turquoise) with few sulphides.

The underground work program consisted of mapping and sampling the access tunnel, main adit and crosscut. Both tunnels were developed perpendicular to the strike of the mineralized zone providing a good cross section of the mineralized zone.

High-grade silver mineralization is concentrated in a north-south striking (20 to 25 degrees north-east), steeply dipping (80 degrees west), 10 to 17 meter wide stockwork zone (true width) that is exposed in the underground working and in surface pits over 150 meters. The zone is open along strike in both directions with the northern extension masked by an alluvial cover. Thirteen channel samples collected in the Cerro de Plata Mine zone returned average grades of 160 g/t Ag and 0.29% Cu. This sampling included grades of 214 g/t Ag across 10 meters at the 1250 meter level, 134 g/t Ag across 12 meters at the 1265 meter level and 86 g/t Ag across 12 meters at the 1275 meter level.

Thirty-one channel samples collected in the Copper Pit area returned average grades of 90 g/t Ag and 0.66% Cu. Approximately 300 meters south of the main Cerro de Plata access tunnel a 100 meter by 100 meter open cut returned several significant silver and copper grades. Silver and copper grades of up to 843 g/t Ag and 1.2% Cu respectively were returned from this zone.

In addition to the sampling program conducted on the visible workings a reconnaissance mapping and sampling program was completed. Approximately 750 meters south of the Cerro de Plata Mine access tunnel a second mineralized zone has been identified. This mineralized zone appears to represent a parallel structure to the principal ore bearing zone that forms the Cerro de Plata Mine. While the silver and copper grades were generally lower than those exposed in the principal working of the Cerro de Plata Mine they were still ranged from highly anomalous to ore grade (i.e. 1.0 to 288.8 g/t Ag and 0.024 to 0.865 % Cu).

The first phase surface exploration program focused on only a small portion of the 10,000 hectare property adjacent to the previous workings. Additional prospecting, detailed geological mapping and geophysical surveys are required to better understand the structural and lithological controls over the mineralizing system. The Company plans to complete an initial drill program once these programs are completed.

The reader is referred to the Company News Release dated February 7, 2007 for a comprehensive discussion and description of results received to date.

### **1.3 Selected Annual Information**

N/A

## 1.4 Results of Operations

During the three and nine month periods ended January 31, 2007, the Company reported losses of \$206,046 and \$794,490 or \$0.01 and \$0.05 per share respectively. These losses do not compare with prior periods as the Company had started operations to acquire a mineral project in the period ended January 31, 2006. The major expenses for the nine month period ended January 31, 2007 were mainly attributable to the following:

- a. Consulting fees were \$67,996 due to corporate development work required to complete the IPO.
- b. A foreign exchange gain of \$14,820 incurred by holding US dollars. The Company's subsidiary is required to make most of its payments to suppliers and contractors in US funds and therefore holds a significant portion of their foreign currency reserve as US dollars satisfy these obligations.
- c. Investor relations charges of \$83,359 for corporate communications work performed.
- d. Charges to stock-based compensation in the amount of \$263,770. These charges are non-cash transactions and are based on the fair value of 1,500,000 options at \$0.30 and the vesting of 50,000 options exercisable at \$0.56 for five year terms using the Black-Scholes option pricing model. Please refer to Note 6 of the interim consolidated financial statements for details.
- e. Salaries and wages expense totaled \$87,396. The increase was a result of increased activities and associated administrative expenses in the Company. Salaries and wages directly related to exploration and development activities are capitalized as deferred exploration expenses and are included in "Mineral Properties". Included in Salaries and Wages is a bonus paid to a director and officer of the Company pursuant to the terms of his employment agreement.

Overall, the Company's general and administrative expenses increased significantly due to its increased activity on its Penasco Quemado silver project in Mexico and the increased activity required to complete the Company's IPO offering.

## 1.5 Summary of Quarterly Results

The following is a summary of the Company's financial results for the eight most recently completed quarters:

	Q3 Jan. 31, 2007	Q2 Oct. 31, 2006	Q1 Jul. 31, 2006	Q4 Apr. 30, 2006	Q3 Jan. 31, 2005	Q2 Oct. 31, 2005	Q1 Jul. 31, 2005	Q4 Apr. 30, 2005
Total revenues	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ N/A
Net loss	\$(213,924)	\$(422,967)	\$(165,477)	\$(217,882)	\$(80,343)	\$(39,012)	\$(5,056)	\$ N/A
Basic loss per share (1)	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ N/A

(1) Loss per share on a diluted basis is not disclosed as it is anti-dilutive due to losses incurred.

The expenses incurred by the Company are those typical of junior exploration companies that have not established mineral reserves. In some quarters more expenses are incurred than in others as a result of non-recurring activities or events.

## **1.6 Liquidity**

The interim consolidated financial statements for the three and nine month periods ended January 31, 2007 have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses since inception, has limited financial resources, no source of operating cash flow and no assurances that sufficient funding, including adequate financing, will be available to further explore its mineral property projects and to cover general and administrative expenses necessary to maintain a public company.

The Company has cash of \$274,604 as at January 31, 2007 compared to \$20,943 as at April 30, 2006. The Company has working capital of \$407,260 as at January 31, 2007 compared to working capital deficiency of \$141,224 as at April 30, 2006.

On March 2, 2007, subsequent to the period end the Company announced it had engaged Cannacord Capital Corp. as agent in connection with a best efforts private placement of 2.0 million units at a price of \$0.80 per Unit (the "Unit") for total gross proceeds of \$1.6 million.

## **1.7 Capital Resources**

Silvermex has historically relied upon equity financings and shareholder loans to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms or that optionees will continue to make property payments to the Company.

The Company anticipates it will need additional capital in the future to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options and warrants and/or the completion of private placements. The Company may also seek short-term loans from directors of the Company.

## **1.8 Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements to which the Company is committed.

## **1.9 Transactions with Related Parties**

- a) The Company was charged the following by directors, a former director of the Company or companies with common directors:

	Three months ended January 31,		Nine months ended January 31,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Mineral property costs:				
- deferred exploration costs				
– field work and consulting	\$ 21,667	\$ 41,227	\$ 22,765	\$ 41,227
Share issue costs:				
- legal fees	-	-	75,000	-
Accounting and audit	-	-	3,500	-
Consulting	-	-	3,000	-
Legal fees	6,582	10,664	40,630	16,951
Management fees	-	-	46,000	-
Salaries and wages	-	5,500	-	-
	<u>\$ 28,249</u>	<u>\$ 57,391</u>	<u>\$ 190,895</u>	<u>\$ 81,178</u>

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

- b) Accounts payable and accrued liabilities outstanding with related parties are unsecured, non-interest bearing and have no fixed terms of repayment. Included in accounts payable and accrued liabilities at October 31, 2006 and April 30, 2006 are the following related party amounts:

	January 31, <u>2007</u>	April 30, <u>2006</u>
Accounts payable and accrued liabilities	<u>\$ 3,098</u>	<u>\$ 50,000</u>

- c) Advances due to related parties are unsecured, do not bear interest and are payable on demand.

	January 31, <u>2007</u>	April 30, <u>2006</u>
Advances due to related parties	<u>\$ 12,668</u>	<u>\$ 12,668</u>

- d) Loans payable are unsecured, repayable for the principal amount plus a 10% bonus of the principal and have no fixed term of repayment.

	January 31, <u>2007</u>	April 30, <u>2006</u>
Loans payable	<u>\$ -</u>	<u>\$ 55,000</u>

### 1.10 Third Quarter

Third quarter results differ significantly from other quarters due to its increased activity on its mineral properties in Mexico and the increased activity required to complete the Company's IPO offering.

### 1.11 Proposed Transactions

On March 2, 2007, subsequent to the period end the Company announced it had engaged Cannacord Capital Corp. as agent in connection with a best efforts private placement of 2.0 million units at a price of \$0.80 per Unit (the "Unit") for total gross proceeds of \$1.6 million. Each Unit will consist of one common share and one-half of a non-transferable common share purchase Warrant. Each whole Warrant will entitle the holder to purchase one additional common share of the Company at a price of \$1.00 for a period expiring 24 months from closing. The Agent's compensation will include a cash commission of 8% of the gross proceeds of the Offering, of which the Agent may elect to be paid in Units, a corporate finance fee of 30,000 Units and Agent's Warrants equal to 8% of the units sold through the Offering, exercisable for a period of one year from the date of closing of the Offering. The Units are subject to a hold period of four months.

### **1.12 Critical Accounting Estimates**

Critical accounting estimates used in the preparation of the interim consolidated financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred expenditures as well as the value of stock-based compensation. These estimates involve considerable judgement and are, or could be, affected by factors beyond the Company's control. The factors affecting stock-based compensation include estimates of when the stock options might be exercised and the stock price volatility.

An error in the recording of stock-based compensation expense was discovered subsequent to the filing of the October 31, 2006 interim consolidated financial statements. The error resulted from the recording of the fair value of 500,000 stock options, as determined by using the Black-Scholes option pricing model, at the time of grant rather than at the time of vesting. The stock options had been granted to a director and officer of the Company pursuant to the terms of an employment agreement and vest over a 3 year period. The fair value of those options should have been recognized over that period. At period end 10% of the total options granted (i.e. 50,000 options), had vested and as such should have been recorded as stock-based compensation expense. The error resulted in an overstatement of stock-based compensation expense by \$263,463 (i.e. the fair-value of 450,000 stock options). Consequently the loss for the period and deficit were over stated by the same amount. The error was an accounting entry that had no impact on the Company's cash balance or working capital.

The Company's recoverability of the recorded value of its mineral properties and associated deferred expenses is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves and the ability of the Company to obtain necessary financing to complete the development and future profitable production or proceeds of disposition thereof.

### **1.13 Changes in Accounting Policies**

The interim consolidated financial statements for the three and nine month periods ended January 31, 2007 have been prepared in accordance with Canadian generally accepted accounting principles. The accounting policies and methods remain consistent with the previous period.

### **1.14 Financial Instruments and Other Instruments**

The carrying value of financial instruments which include cash, accounts payable and accrued liabilities, approximate fair value because of the short-term maturity of those instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## 1.15 Other MD&A Requirements

### Disclosure of Outstanding Share Capital

a) Authorized:

Unlimited number of common shares without par value

b) Issued

	<u>Number of Shares</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, April 30, 2006	11,240,001	\$ 682,050	\$ 79,657
For cash:			
Pursuant to Initial Public Offering – at \$0.30	6,900,000	2,070,000	-
Pursuant to Agent’s Commission – at \$0.30	310,000	93,000	-
Pursuant to Agent’s Corporate Finance Shares – at \$0.30	150,000	45,000	-
Pursuant to exercise of agents’ broker warrants – at \$0.30	386,500	168,397	(52,447)
Pursuant to exercise of options – at \$0.56	100,000	104,180	(48,180)
Agents’ broker warrants	-	-	112,356
Less: share issue costs	-	(505,946)	-
Pursuant to mineral property joint venture agreement – at \$0.30	1,000,000	300,000	-
Pursuant to mineral property option agreement – at \$0.80	50,000	40,000	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>263,770</u>
Balance, January 31, 2007	<u>20,136,501</u>	<u>\$ 2,996,681</u>	<u>\$ 355,156</u>

Subsequent to January 31, 2007 the Company issued 300,000 common shares pursuant to the exercise of 300,000 stock options at \$0.30 per common share for proceeds of \$90,000. As at January 31, 2007, the Company held \$30,000 for the exercise of these agent’s warrants as share subscriptions.

c) Stock Options

#### Stock-based Compensation Plan

The Company has a stock option plan (the “Plan”) for directors, senior officers, employees, consultants and management. The Plan provides for the issuance of stock options to acquire up to a maximum of 10% of the issued and outstanding common shares of the Company. Incentive Share Purchase Options are granted for a term not exceeding five years. Options granted to directors, senior officers, employees and consultants vest when granted. Options granted to consultants performing investor relations activities vest over a period of twelve months.

A summary of the stock option activity is presented below:

Weighted  
Average

	<u>Shares</u>	<u>Exercise Price</u>
Outstanding, April 30, 2006	-	\$ -
Granted	2,000,000	0.37
Exercised	<u>(100,000)</u>	0.56
Balance, January 31, 2007	<u>1,900,000</u>	<u>\$ 0.37</u>
Vested, January 31, 2007	<u>1,525,000</u>	<u>\$ 0.31</u>

Share purchase options outstanding at October 31, 2006 are as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,500,000	\$0.30	July 31, 2011
<u>400,000*</u>	\$0.56	September 6, 2011
<u>1,900,000</u>		

\* The share purchase options granted to a director and officer of the Company vest under the same terms of the Company's escrow shares (see below).

The Company has recorded \$263,770 (2005: \$Nil) of compensation expense for stock-based compensation relating to options granted and vested during the period. The fair value of the options granted has been determined using the Black-Scholes option pricing model with the following assumptions:

	Six months ended September 30, <u>2006</u>
Expected dividend yield	Nil
Expected volatility	80%
Risk-free interest rate	4.01 - 4.18%
Weighted average expected term	5.0 years

d) Share Purchase Warrants:

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Nine months ended January 31,	
	<u>2007</u>	<u>2006</u>
Outstanding, beginning of the period	-	-
Granted	828,000	-
Exercised	<u>(386,500)</u>	<u>-</u>
Outstanding, end of the period	<u>441,500</u>	<u>-</u>

As at January 31, 2007, there are 441,500 Agent's warrants outstanding with a fair value of \$59,910 entitling the holders thereof the right to purchase one common share for each warrant held exercisable at \$0.30 per common share until July 31, 2008.

e) Escrow:

At January 31, 2007, 4,500,000 (2005: Nil) common shares were held in escrow subject to the approval of the regulatory authorities. Uniform terms of automatic timed-release escrow apply to principals of exchange-listed issuers and the following automatic timed releases apply to securities held by its principals:

On the listing date	1/10 of the escrow securities
6 months after the listing date	1/6 of the remaining escrow shares
12 months after the listing date	1/5 of the remaining escrow shares
18 months after the listing date	1/4 of the remaining escrow shares
24 months after the listing date	1/3 of the remaining escrow shares
30 months after the listing date	1/2 of the remaining escrow shares
36 months after the listing date	The remaining escrow shares

### **Disclosure of Investor Relations Agreements**

During the nine month period ended January 31, 2007, the Company entered into an investor relation agreement for a term of six months for \$10,000 plus GST per month.

### **DIRECTORS AND OFFICERS**

Arturo Bonillas	Director, President & CEO
Bruce Bragagnolo	Director
Miguel Soto	Director & COO
Duane Nelson	Secretary
Darcy Krohman, P.Geo., C.A.	Director, Vice President & CFO (Appointed October 27, 2006)
Mark Aplas	Outgoing CFO
Derek Thomson	Outgoing Director

The Company is dependent on a small number of key directors and officers. Loss of any one of those persons could have an adverse affect on the Company. The Company does not maintain "key-man" insurance with respect to any of its management.

### **CONFLICTS OF INTEREST**

Certain officers and directors of the Company are officers and/or directors of, or are associated with other natural resource companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest. The directors are required by law, however, to act honestly and in good faith with a view to the best interests of the Company and its shareholders and to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction.

## **RISKS & UNCERTAINTIES**

The Company is a mineral exploration and development company and is exposed to a number of risks and uncertainties that are common to other companies in the same business; some of these risks have been discussed elsewhere in this document. The reader should also refer to the discussion of risks contained in the Company's prospectus dated July 10, 2006. The Company's financial success is subject to, among other things, fluctuations in gold and other commodity prices that may affect current or future operating results and may affect the economic value of its mineral properties. The Company is exposed to currency fluctuations against the Mexican peso and United States dollar that could affect capital and operating costs, but may choose to mitigate the risk through forward purchase of these currencies. The Company must comply with environmental regulations governing air and water quality and land disturbance. The Company's ability to obtain financing to explore and develop its mineral properties is not assured; nor is there assurance that the expenditure of funds will result in the discovery and development of an economic mineral deposit. 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 forward-looking statements.

## **OUTLOOK**

During the interim period ended January 31, 2007, the Company completed its 2006 drill program on its Penasco Quemado mineral property. These drill results, together with those from the 2005 drill program, were used in the preparation of a Mineral Resource estimate on the Penasco Quemado zone. The Company disclosed on January 30, 2007 a Measured and Indicated Mineral Resource of 9.63 million ounces of silver (Measured Mineral Resource = 0.599 million ounces and Indicated Mineral Resource = 9.032 million ounces). Subsequent to the period end the Company filed a technical report prepared in accordance with National Instrument 43-101 to support the Mineral Resource (available on the Company's website and on SEDAR)

The principal focus of the next phase of exploration on the Property will concentrate on expanding the resource base identified on the Penasco Quemado Zone.

The Company is also planning an extensive exploration program on its recently acquired Cerro de Plata Property. Surface and underground mapping and sampling have identified an extensive zone of epithermal and porphyry type mineralization on the property. First phase exploration will include airborne magnetic and radiometric survey's and a diamond drill program proximate to the establish workings.

## **OTHER INFORMATION**

For information about the Company or to view pictures of the Penasco Quemado project please visit the Company's website at [www.silvermexresources.com](http://www.silvermexresources.com). Other information relating to the Company may be found on the SEDAR website [www.sedar.com](http://www.sedar.com).

**BY ORDER OF THE BOARD**

*"Arturo Bonillas"*

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Arturo Bonillas  
Director, President & CEO

*"Darcy Krohman"*

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Darcy Krohman  
Director, Vice-President & CFO

March 30, 2007