# SILVERMEX RESOURCES LTD.

## MANAGEMENT DISCUSSION AND ANALYSIS – FORM 51-102F1
## for the year ended April 30, 2007

### Date of Report

The following Management Discussion and Analysis ("MD&A") for Silvermex Resources Ltd. ("Silvermex" or the "Company") is prepared as of August 27, 2007 and should be read in conjunction with the audited consolidated financial statements ("Financial Statements") and related notes for the years ended April 30, 2007, April 30, 2006 and April 30, 2005. Except as noted, all dollar amounts contained in this MD&A and in the Financial Statements are in Canadian dollars.

### Accounting Principles

The Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), as described in Note 2 to the Financial Statements. These are consistent with prior periods.

### Forward-Looking Statements

This MD&A contains forward-looking statements about the Company's future prospects, and the Company provides no assurance that actual results will meet management's expectations. For a thorough discussion and analysis of the risks and uncertainties affecting the Company we refer you to the Annual Information Form. 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 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.

## Overall Performance

The Company is a junior resource company engaged in the acquisition, exploration and development of gold properties in Mexico. To date the Company has measured its success through the growth in its mineral resources, in particular silver resources, at reasonable discovery and/or acquisition cost. The Company has its corporate office in Vancouver and its administrative office in Hermosillo, Sonora, Mexico. The Company also has field offices in Magdalena, Sonora and Guadalajara, Mexico. The Company currently has no revenue from operations and will continue to incur negative cash flow for the foreseeable future.

The Company currently has two main projects. The principal and only material mineral property for purposes of NI 43-101 is its Peňasco Quemado Project located in Sonora, Mexico. In July 2006, the Company completed its initial public offering ("IPO") and raised gross proceeds of $2,070,000. In March 2007, the Company completed a private placement financing raising gross proceeds of $1,600,000. The funds raised by way of prospectus offering at the time of the IPO were primarily used to fund the drill program and mineral resource estimate on the Peňasco Quemado Project. Proceeds from the March 2007, private placement have been primarily used to fund the drill program on the Cerro de Plata Project. The Company had entered into an option to acquire a 100% interest in the Cerro de Plata Property in November 2006. While management is encouraged by the early results from the first phase exploration program on Cerro de Plata the Company does not currently consider it to be material for purposes of NI 43-101.

Additional financing is required to fund a third phase drill program on the Peňasco Quemado Project and a second phase program on the Cerro de Plata Project.

Most metal prices including silver prices although relatively strong over the last year, have fluctuated significantly in recent months. The Company believes that silver prices have benefited from declining silver resources, a general weakening of the US dollar against other major currencies, a reduction or elimination of hedging programs by major producers, and an increase in physical demand. The Company can not predict future silver prices or their impact or future operations.

### Selected Annual Information

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

| | 2007 | 2006 |
|---|---:|---:|
| Total revenues | $11,184 | Nil |
| Net loss | $1,125,813 | $217,882 |
| Basic loss per share (1) | $0.03 | Nil |
| Total assets | $3,681,684 | $772,204 |
| Total long term liabilities | Nil | Nil |
| Dividends declared | Nil | Nil |

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

## Results of Operations

***Peňasco Quemado Project, Sonora, Mexico***

On May 26, 2005 the Company entered into an option agreement to earn a 100% interest in the Peňasco Quemado Property. Peňasco Quemado is the Company's principal property and was the subject of a NI 43-101 technical report filed to support its final prospectus dated July 10, 2006. In March 2007 the Company filed a second technical report prepared in accordance with NI 43-101, disclosing the mineral resource estimate. The results from the 2005 and 2006 drill campaigns were combined with historical results to complete a mineral resource estimate that meets current CIM definitions. The estimate, based on a 30 g/t silver cut-off grade and high grade samples capped at 700 g/t Ag is:

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

The 2006 drill program was successful in providing valuable information for planning the next phase of the exploration and resource definition. In particular, the program helped determine the significance of several structures on the extension of the mineralization in the Peňasco Quemado Zone including confirming the continuity of the mineralization 750 metres along strike with the zone open at depth and along strike. Management is particularly pleased with the near surface extent and shallow dip of the mineralization which further enhances the economic potential of the zone. An airborne magnetic and radiometric survey has recently been completed by the Servicio Geologico Mexicano ("El SGM") over the entire property. The survey was commissioned to better assess both the high grade silver and porphyry copper potential on the property. Technical staff is currently reviewing the data to help identify additional high priority targets. The Company is also planning a ground NSAMT geophysical survey on the Peňasco Quemado Zone to aid in the structural interpretation of this zone and help locate future drill holes. A third phase drill program will be completed with the objective of expanding the mineral resource previously delineated in the Peňasco Quemado zone. Assuming adequate funds are available, the Company expects this program to be completed during the third quarter of 2007.

Other Targets - Red Breccia and SL Zones

As the Peňasco Quemado Property exceeds 10,000 hectares in size and the Company believes there is significant potential to expand the current mineral resource not only along strike of the Peňasco Quemado Zone but also at the recently identified Red Breccia and SL Zones. The Company plans to further test the high grade intersections previously encountered in the San Luis Zone (734 g/t Ag over 10.4 metres and 560 g/t Ag over 9.5 metres from surface). To date, only four holes have tested this zone and an expanded drill program is being planned to better understand the geology and structural controls on the mineralization and assess the potential of the zone.

The information obtained from the 2005 and 2006 drill programs has been valuable in determining the nature and characteristics of the silver mineralization and the orientation of the controlling structures in these areas. In the San Luis Zone the Company plans to test the continuity of the high grade silver mineralization identified in a steeply dipping feeder system. Assuming adequate funds are available, the Company expects this program to be completed during the third quarter of 2007.

***Cerro de Plata Project, Sonora, Mexico***

In November 2006, a 10,000 hectare claim encompassing the 200 hectare property that is the subject of the option agreement was staked. The project lies 40 kilometres east of the Company's Peňasco Quemado Project and 50 km south of the Mexico/Arizona border. After completing a reconnaissance program over the property with an emphasis on mapping, sampling and prospecting along the projected strike extension of the silver and copper mineralized, south-north structural zone a comprehensive sampling program was conducted on the existing underground workings including the main pits. The results were used to support management's initial decision to initiate a first phase, eight hole, 2,700 metres diamond drill program on the property. The purpose of the current drill program was to test the continuity of approximately 300 m's of exposed strike and the down dip extent of the zone. At the date of the MD&A seven of the eight holes initially contemplated have been completed. While the Company is awaiting final results prior to finalizing the next phase of exploration, it has expanded the current drill program and will complete a minimum of ten holes.

While the principal focus of the exploration program was to confirm and delineate the extent of the zone of higher grade, epithermal silver and copper mineralization proximate to the historical workings, the Company is also cognisant of the copper porphyry potential of the property, and therefore commissioned and completed both airborne and ground geophysical programs on the property. Of particular interest, the induced polarization and resistivity surveys were useful in delineating the down dip extent of the previously identified parallel structure 750 metres to the south of the underground workings that returned assays as high as 288.8 g/t Ag and 0.864% Cu. This zone will be the subject of a future drill program.

The Company also contracted the Servicio Geologico Mexicano ("El SGM") to complete a 306 line kilometre airborne magnetics and radiometrics survey on the Cerro de Plata property to better assess the property's regional potential and to identify targets outside of the principal area of influence. The Company is currently reviewing the data to help better understand the regional controls on the mineralization and to help identify high priority epithermal and porphyry targets. Based on the results, a systematic exploration program will be designed to best evaluate these targets.

***Lety Project, Durango, Mexico***

Subsequent to the year end the Company entered into an option agreement to acquire a 100% interest in the Lety property located in the municipality of Santa Maria del Oro, Durango, Mexico approximately 230 kilometres north west of the city of Durango. The Lety property consists of three mining concessions covering 5,130 hectares and are located near the historical mining districts of Magistral del Oro, Santa Maria del Oro and Guanacevi, and the recent Pitarrilla discovery.

To exercise the option the Company must pay a total of US$250,000 and issue 250,000 shares in the Company over a two year period, with equal payments every six months. Once these terms are satisfied, the vendor has the option to receive an additional 250,000 shares or US$1,000,000, at the earlier of commercial production or within 3 years of the Company exercising the option.

The principal mineralized structures lies along the Rodeo regional fault, known to host over 200 small bonanza grade mines that have operated intermittently since early Spanish Colonial times. Preliminary reconnaissance work by the Company identified two silver mineralized rhyolithic breccia structures ranging between 10 to 15 meters in width and exposed for more than 1,000 meters along strike. The system is exposed down dip for at least 150 meters. Preliminary outcrop rock sampling returned assays ranging from 80 to150 g/t Ag and 0.5 g/t Au.

***El Rayo Project, Sonora, Mexico***

On February 19, 2007, the Company entered into a letter of intent with Joel Eulogio Rodriguez Barraza, to acquire a 100% interest in the El Rayo and El Viento properties, located in the municipalities of Santa Ana and Magdalena de Kino, State of Sonora, Mexico. Subsequent to the year end on May 28, 2007 the Company entered into a formal option agreement. The terms of the agreement require the Company to pay a total of US$350,000 (US$15,000 paid on signing of the letter of intent). In addition the Company is required to issue 250,000 for every 10,000,000 of silver measured or indicated mineral resource identified. The only work completed to date is the staking of a 2,203 hectare claim surrounding the El Rayo and El Viento properties.

**Operating Activities**

The Company recorded a net loss for 2007 of $1,114,629 ($0.06 per share), compared with a net loss for 2006 of $217,882. Net losses increased because of a significant increase in corporate activity including higher administrative costs in both Canada and Mexico. The significant increase in deferred exploration and development costs is associated with the expanded drill program on the Peňasco Quemado Project in 2006 that lead to the completion of the technical report disclosing the mineral resource.

Administrative costs were $217,882 in 2006 and $1,125,813 in 2007. Accounting and auditing expenses rose from $9,346 in 2006 to $50,113 in 2007 because of a significant increase in audit fees. Audit fees increased primarily because of the volume of transactions and increased complexity of the audit of foreign operations. Expenses associated with investor relations increased from $18,978 in 2006 to $202,482 in 2007 as contracted companies specializing in these activities aggressively marketed the Company. The Company also attended various trade shows in 2007 that were not attended in 2006, prior to completion of the IPO. Salaries and benefits increased from $36,403 in 2006 to $185,668 in 2007 as the Company added senior management including Darcy Krohman, P.Geo., C.A. as Senior Vice President and CFO. In addition, salaries for the full year were also paid to the President and CEO of the Company that had not been incurred in 2006. Consulting fees increased from $10,500 in 2006 to $ 219,657 as the Company rapidly expanded its exploration activities. Rent increased from nil in 2006 to $28,829 as the Company opened a corporate head office in Vancouver.

**Comparison of Actual and Proposed Use of Proceeds from IPO**

The table below details the proposed versus actual use of proceeds of the funds raised by the prospectus dated July 10, 2006:

| | | **Proposed Use of Proceeds (CDN$)** | **Actual Use of Proceeds (CDN$)** |
|---|---|---|---|
| (a) | To pay the balance of the estimated remaining costs of the IPO (including legal, regulatory, audit and printing expenses) | $75,000 | $75,000 |
| (b) | To pay the Agent's commission | $162,000 | $162,000 |
| (c) | To pay for exploration expenditures on the Peňasco Quemado property including drilling (1) | $562,893 | $627,523 |
| (d) | To make property payments on the Peňasco Quemado property including mining taxes | $239,049 | $239,049 |
| (f) | To provide general working capital to meet general and administrative costs and fund ongoing operations | $599,058 | $534,428 |
| | **Total** | **$1,638,000** | **$1,638,000** |

The Company incurred $64,630 more in exploration expenditures than budgeted. This was primarily due to contracting a number of consultants and commissioning a mineral resource estimate not initially budgeted for the Peňasco Quemado project. As a result, the amount expended on the Peňasco Quemado project exceeded the budgeted expenditures, and less funds were available to fund ongoing operations. While the actual use of proceeds expended on general and administrative expenses appear to be lower, these expenses were higher than anticipated largely because of the expansion of operations justified by the results obtained by the drilling program at Peňasco Quemado. Salaries and wages increased significantly because a full time CFO and senior geologist was hired for the Company's head office to oversee several aspects of management. The Company also incurred non-budgeted fees for investor relations activities. The shortfall in the funds required for general and administrative expenses was covered by the proceeds of the private placement completed in March 2007.

**Summary of Quarterly Results**

The following is a summary of the Company's financial results for the four most recently completed quarters. Information for the prior quarters is not available as the Company was not a reporting issuer.

| | 2007 | Q4 | Q3 | Q2 | Q1 | 2006 |
|---|---|---|---|---|---|---|
| Total revenues | $11,184 | $3,306 | $7,878 | Nil | $492 | Nil |
| Net loss | $1,125,813 | $331,323 | $206,046 | $422,967 | $165,477 | $217,882 |
| Basic loss per share (1) | $0.06 | $0.02 | $0.01 | $0.02 | $0.01 | $0.03 |

(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 typical of junior exploration companies that do not have established mineral reserves. Expenses are not incurred evenly over the quarters as a result of non-recurring activities or events.

**Liquidity**

During the second quarter of the 2007 financial year the Company concurrently completed its IPO and a listing on the TSX-Venture Exchange (Tier 2). The Company raised gross proceeds of $2,070,000 by way of prospectus offering on the IPO through the distribution of 6,900,000 shares. On March 4, 2007, the Company completed a second financing raising an additional $1,600,000 by way of a private placement distribution of 2,000,000 units. Each unit consisted of a common share and one half share purchase warrant. The warrants expire on April 4, 2009, each full warrant can be exercised to purchase a common share at $1.00.

The Company had cash of $1,223,282 at April 30, 2007 compared to $20,943 as at April 30, 2006. The Company has working capital of $1,256,718 at April 30, 2007 compared to a working capital deficiency of $141,224 at April 30, 2006.

The Company's financial condition is contingent upon the results of continuing exploration and, if feasible, development of its projects. The Company is planning a third phase of drilling with the objective of increasing the mineral resource at the Peňasco Quemado Project.

Silvermex has historically relied upon equity financings 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. The Company anticipates it will need additional capital to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options, warrants and/or the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for further exploration and development of its projects. Although the Company has been successful in the past in financing its activities through the sale of equity securities there can be no assurance that it will be able to obtain sufficient financing in the future to carry out exploration and development work on the properties. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings.

| **Contractual Obligations** | **Total** | **Less than 1 year** | **1-3 years** | **4-5 years** | **After 5 years** |
|---|---|---|---|---|---|
| Long term debt | Nil | Nil | Nil | Nil | Nil |
| Capital lease obligations | Nil | Nil | Nil | Nil | Nil |
| Operating leases | Nil | Nil | Nil | Nil | Nil |
| Purchase obligations | Nil | Nil | Nil | Nil | Nil |
| Other long term obligations | $45,773 | $45,773 | $45,773 | $45,773 | $45,773 |
| Total contractual obligations | $45,773 | $45,773 | $45,773 | $45,773 | $45,773 |

The Company has obligations pursuant to option agreements it has entered into. While the Company has no contractual obligation to satisfy these obligations, it would forfeit any interest it may have earned to that date. Detailed terms of those agreements and the obligations are included in the Financial Statements.

**Capital Resources**

The Company's principal commitments at the financial year end consisted of options payments to satisfy its earn-in on the Peňasco Quemado, Cerro de Plata and Lety properties. The Company is required to make US$325,000 in cash payments and must issue 200,000 common shares of the Company pursuant to these three option agreements during the financial year ending April 30, 2008. While not required by any of the agreements to make physical property expenditures the Company is planning significant exploration programs on the Peňasco Quemado and Cerro de Plata projects. The Company is required to spend a minimum of US$500,000 during the first year of the option on the Lety Property (i.e., prior to July 2008). The Company will be raising funds in the near future to satisfy it's various obligations including the US$100,000 payment required to be made by October 31, 2007 to maintain the Penasco Quemado Property option agreement in good standing.

**Transactions with Related Parties**

During the financial year ended April 30, 2007, the Company incurred the following with directors of the Company:

| | Year ended April 30, 2007 | Year ended April 30, 2006 |
|---|---|---|
| Mineral property costs: | | |
| - deferred exploration costs | $95,654 | $72,551 |
| – field work and consulting (1) | | |
| Share issue costs: | | |
| - legal fees (2) | Nil | $2,651 |
| Consulting | $52,500 | Nil |
| Legal fees (2) | $45,980 | $75,000 |
| Management fees (Financial Statement Note 8) | $46,000 | Nil |
| Bonus on promissory notes | $6,100 | Nil |

(1) During the financial year geological services were provided by two directors and officers of the Company pursuant to a consulting agreement. These amounts are recorded as Mineral property costs – deferred exploration costs.

(2) During the financial year legal services were provided by a director of the Company.

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

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 April 30, 2007, and April 30, 2006, are the following related party amounts:

| | April 30, 2007 | April 30, 2006 |
|---|---|---|
| Accounts payable and accrued liabilities | $ Nil | $ 18,400 |

a) Amounts due to related parties are unsecured, do not bear interest and are payable on demand.

| | April 30, 2007 | April 30, 2006 |
|---|---|---|
| Due to related parties | $ 48,010 | $ 12,668 |

**Fourth Quarter**

Variances in net loss by quarter reflect overall corporate activity and factors which are not recurring each quarter, such as charges for stock based compensation when options are granted and timing of drilling, geophysical and exploration programs and other capital intensive activities. As the Company is not engaged in commercial operations, variances in its quarterly losses are not affected by sales or production- related factors. The Company did not have any drill programs in progress during the fourth quarter, and as a result actual exploration expenditures were significantly lower than for the previous quarter. During the quarter, data and information from the 2006 drill program was compiled and the mineral resource estimate completed.

**Critical Accounting Estimates**

The preparation of financial statements in conformity with GAAP requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the Financial Statements are considered appropriate in the circumstances, but are subject to judgements and uncertainties inherent in the financial reporting process.

Critical accounting estimates used in the preparation of the 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. All of these estimates involve considerable judgement and are, or could be, affected by significant factors that are out of the Company's control.

The Company capitalizes exploration and development expenditures directly related to its properties until such time that the properties are placed into production or management determines impairment in the realizable value of the property(s) has occurred. If and when a mineral property is commissioned the associated deferred costs will be amortized on a systematic basis. If and when an impairment of a property is determined the value will be written-down to its realizable value. Properties are reviewed for impairment annually. A write-down may be required when a property is sold or abandoned, or exploration activity ceases on a property due to unsatisfactory results or there is insufficient funding to continue exploration on the property. 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. Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned or written down. The Company's accounting policy is to capitalize exploration costs on a project-by-project basis consistent with GAAP. The policy is consistent with that of other exploration companies that do not have established mineral reserves.

The Company follows GAAP in determining the value of stock option compensation, as disclosed in Note 2 to the Financial Statements. This is a calculated amount not based on historical cost, but on subjective assumptions introduced to an option pricing model, in particular: (1) an estimate for the average expected hold period of issued stock options before exercise, expiry or cancellation; and (2) expected volatility of the Company's share price in the expected hold period, using historical volatility or comparables as a reference. Given that there is no market for the options and they are not transferable, the resulting calculated value is not necessarily the value which the holder of the option could receive in an arm's length transaction.

**Financial Instruments and Other Instruments**

The Company's financial assets and liabilities consist of cash and cash equivalents, receivables and accounts payable and accrued liabilities, some of which are denominated in US dollars and Mexican Pesos. These accounts are recorded at their fair value. The Company is at risk of financial loss as a result of foreign exchange movements against the Canadian dollar. The Company manages its foreign exchange risk by adjusting balances in currencies other than the Canadian dollar from time to time. The Company has certain commitments to acquire assets in foreign currencies and it incurs the majority of its exploration costs in foreign currencies, either the US dollar or Mexican Peso. Significant expenditures, principally for drilling, will also be denominated in these foreign currencies. The Company may acquire foreign currencies to fix such costs in Canadian funds, if management considers it advantageous.

The carrying value of financial instruments which include cash, accounts receivable, prepaid expenses, accounts payable and accrued liabilities and advances due to related party's 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.

## Additional information

Additional information relating to the Company, including the Company's AIF, is on SEDAR at www.sedar.com and on the Company's website at www.silvermexresources.com.

## Disclosure of Outstanding Share Capital

a) Share Capital

As at April 30, 2007, there were 22,651,501 common shares issued and outstanding, there were 1,696,500 warrants outstanding with exercise prices ranging from $0.30 to $1.00 and there were 2,025,000 options outstanding with exercise prices ranging from $0.30 to $1.11. The Company is authorized to issue an unlimited number of common shares without par value.

b) Stock Options:

Stock options outstanding at April 30, 2007 are as follows:

| Number of Options | Exercise Price | Expiry Date |
|---|---|---|
| 1,000,000 | $ 0.30 | July 31, 2011 |
| 375,000 | $ 0.56 | September 22, 2011 |
| 550,000 | $ 1.11 | April 12, 2012 |
| 100,000 | $ 0.96 | April 12, 2012 |
| 2,025,000 | | |

The share purchase options granted to a director and officer of the Company vest under the same terms as the Company's escrow shares except for 50,000 options which were accelerated to vest during the period ended December 31, 2006.

c) Share Purchase Warrants:

Warrants outstanding at April 30, 2007 are as follows:

| Number of Warrants | Exercise Price | Expiry Date |
|---|---|---|
| 441,500 | $ 0.30 | July 31, 2008* |
| 1,095,000 | $ 1.00 | April 4, 2009 |
| 160,000 | $ 0.80 | April 4, 2009 |
| 1,696,500 | | |

* Subsequently, 4,000 of these warrants were exercised

d) Escrow:

At April 30, 2007, 4,500,000 (2006: 6,000,000) common shares were held in escrow subject to the approval of the regulatory authorities.

**Disclosure Controls and Procedures**

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods and format.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Therefore, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be detected.

There was no change in the Company's internal control over financial reporting during the Company's year ended April 30, 2007 that materially affected, or was reasonably likely to materially affect, the Company's internal control over financial reporting.

During the financial year management of the Company commissioned an independent review of its internal controls over financial reporting of both its Mexican and Canadian operations. While no significant deficiencies were identified, the report made some recommendations for improvements in the control system. Among other recommendations the independent consultant identified weaknesses in the segregation of duties and the backup of information. Subsequent to the year end management initiated a program to address the recommendations and address the weaknesses.

**Additional Disclosure for Venture Issuers without Significant Revenue:**

**Schedule of Exploration and Development Costs at April 30, 2007:**

| | Peñasco Quemado | Cerro de Plata | Other | Total |
|---|---|---|---|---|
| Acquisition costs and holding costs | | | | |
| Acquisition costs | $ 678,635 | $ 62,339 | $75,033 | $816,007 |
| Claim staking | 19,380 | 6,441 | 21,383 | 47,204 |
| Mining taxes | 22,270 | 149 | 2,686 | 25,105 |
| Surface rights and rights of way | 38,031 | - | - | 38,031 |
| | 758,316 | 68,929 | 99,102 | 926,347 |
| Deferred exploration costs | | | | |
| Assaying | 106,769 | 5,739 | - | 112,508 |
| Camp and accommodation | 41,959 | 8,432 | 94 | 50,485 |
| Communications | 1,211 | 46 | - | 1,257 |
| Drafting, reporting and reproduction | 12,513 | 1,561 | - | 14,074 |
| Drilling | 321,015 | 33,611 | - | 354,626 |
| Engineering and feasibility | 5,053 | - | - | 5,053 |
| Equipment rental | 11,906 | - | - | 11,906 |
| Legal cost | 33,514 | 1,830 | - | 35,344 |
| Miscellaneous exploration expenses | 186,972 | 17,999 | 5,215 | 210,186 |
| Office expenses | 604 | - | - | 604 |
| Other | 7,538 | 303 | 19 | 7,860 |
| Salaries and consulting fees | 267,424 | 63,833 | - | 331,257 |
| Travel expenses | 45,191 | 13,852 | - | 59,043 |
| Trenching and road work | 40,108 | - | - | 40,043 |
| | 1,081,777 | 147,206 | 5,328 | 1,305,944 |
| Total | 1,840,093 | 216,135 | 104,430 | 2,160,658 |

**Schedule of Exploration and Development Costs at April 30, 2006:**

| | Peňasco Quemado | Other | Total |
|---|---|---|---|
| Acquisition costs and holding costs | | | |
| Acquisition costs | $ 174,979 | - | $ 174,979 |
| Claim staking | 13,589 | $7,257 | |
| Mining taxes | 8,740 | - | 8,740 |
| Surface rights and rights of way | 16,124 | - | 16,124 |
| | 213,432 | 7,257 | 220,689 |
| Deferred exploration costs | | | |
| Assaying | 37,168 | - | 37,168 |
| Camp and accommodation | 14,631 | 94 | |
| Communications | - | - | - |
| Drafting, reporting and reproduction | 10,595 | - | 10,595 |
| Drilling | 76,116 | - | 76,116 |
| Engineering and feasibility | - | - | - |
| Equipment rental | - | - | - |
| Legal cost | - | - | - |
| Miscellaneous exploration expenses | 13,330 | - | 13,330 |
| Office expenses | 409 | - | 409 |
| Other | 1,442 | 19 | |
| Salaries and consulting fees | 153,166 | - | 153,166 |
| Travel expenses | 16,090 | - | 16,090 |
| Trenching and road work | - | - | - |
| | 322,947 | 113 | 323,060 |
| Total | 536,379 | 7,370 | 543,749 |

At the financial year end and at the date of the MD&A the Peňasco Quemado project is the Company's only material property.

**Schedule of General and Administrative Costs for the Financial Year Ended 2007 & 2006:**

| | April 30, 2007 | April 30, 2006 |
|---|---|---|
| Accounting and audit fees | $50,113 | 9,346 |
| Amortization | 16,783 | - |
| Consulting | 219,657 | 10,500 |
| Exchange loss | 41,847 | 7,115 |
| Investor relations | 202,482 | 18,978 |
| Interest and bank charges | 22,397 | - |
| Legal | 76,663 | 27,651 |
| Management fees | 64,498 | - |
| Office and sundry | 51,378 | 10,990 |
| Rent | 28,829 | - |
| Regulatory and filing fees | 33,332 | 2,065 |
| Salaries and wages | 185,668 | 36,403 |
| Stock-based compensation expense | 65,292 | 79,657 |
| Telephone | 29,208 | 2,172 |
| Travel | 37,666 | 13,005 |
| | 1,125,813 | 217,882 |

## Investor Relations

During the year the Company initiated an active investor relations program. This program included the hiring of a full time consultant and a number of contractors with significant experience in the market. The Company continually monitors the effectiveness of the program and may make modifications to it in the future. This may include entering into new consulting agreements and terminating other less effective agreements. Most of the investor relations consulting agreements are on a month to month basis.

## Legal

A former director, officer and employee, and a former consultant of the Company have separately initiated action against the Company for damages for breach of contract/wrongful dismissal and for the right to the exercise their stock options originally granted under the Company's stock option plan. The Company cancelled these options when the individuals were dismissed. The Company has commenced an action against the former director, officer and employee and the Company's transfer agent seeking cancellation of performance shares granted to this individual. The outcome of these cases is indeterminable at present.

## Risks and 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 Annual Information Form. 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 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

With the receipt of the mineral resource estimate on Peňasco Quemado the Company is planning its next phase of exploration on this property. This will include a NSAMT geophysical survey to support an expanded drill program. Drill programs on previously identified targets will also be initiated or continued, in particular, in the San Luis (Red Breccia) and Low Angle zones.

Management is encouraged by the initial results received and believes the first phase drill program currently being completed on the Cerro de Plata property will provide valuable information regarding the economic potential of the Cerro de Plata property. Technical staff is also evaluating the anomalies identified by the recently completed IP and NSAMT surveys. The Company is particularly interested in testing the source of a strong chargeability anomaly identified near the south end of the survey area that is coincident with copper and silver geochemical anomalies.

Airborne magnetic and radiometric geophysical surveys have also recently been completed on both the Peňasco Quemado and Cerro de Plata properties. The Company plans a reconnaissance program on both to investigate the number of high priority targets identified by the program.

**Directors and Officers**

| | |
|---|---|
| Arturo Bonillas | Director, President & Previous CEO |
| Bruce Bragagnolo | Director and CEO (appointed CEO May 1, 2007) |
| Miguel Soto | Director & COO |
| Duane Nelson | Secretary |
| Darcy Krohman | Director, Executive Vice President and CFO (appointed October 27, 2006) |
| Mark Aplas | Previous CFO |
| Hallein Darby | Director (appointed May 1, 2007) |

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.

**BY ORDER OF THE BOARD**

| | |
|---|---|
| *"Bruce Bragagnolo"* | *"Darcy Krohman"* |
| Bruce Bragagnolo<br>CEO | Darcy Krohman<br>Senior Vice-President & CFO |

August 27, 2007