



MANAGEMENT DISCUSSION AND ANALYSIS **for the year ended April 30, 2010**

Date of Report

The following Management Discussion and Analysis (MD&A) for Silvermex Resources Ltd. (Silvermex or the Company) is prepared as of August 25, 2010, and should be read in conjunction with the audited Consolidated Financial Statements (Financial Statements) for the year ended April 30, 2010 and 2009. The Company's AIF and the risks and uncertainties discussed therein, and the Company's MD&A for prior periods, are on SEDAR at www.sedar.com and on the Company's website at www.silvermexresources.com.

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 unless otherwise required by law.

Qualified Person

Pursuant to National Instrument 43-101, Robert Fraser, M.Sc. P.Geo is the Qualified Person responsible for the technical disclosure in this MD&A.

Overall Performance

The Company is a junior resource company engaged in the acquisition, exploration and development of silver properties in Mexico. To date the Company has measured its success through the growth of its mineral resources, in particular silver resources, at reasonable discovery and/or acquisition cost. The Company has its corporate office in Vancouver, an administrative office in Mazatlan, Sinaloa, Mexico, and a field office near Rosario, Sinaloa. The Company has two Mexican subsidiaries, Minera Terra Plata, S.A. de C.V (Terra Plata) and Minera La Rastra S.A. de C.V. (Aurcana Mexico) (formerly called Aurcana de Mexico S.A. de C.V.).

The Company currently has no revenue from operations and will continue to incur negative cash flow for the foreseeable future. The successful completion on February 12, 2010, of the private placement for gross proceeds of \$6,901,045 has enabled the Company to continue as a going concern for the immediate future. The Company will, however, require further funding in order for it to achieve growth. The Company has previously been successful in funding ongoing exploration programs and operations through equity financings. However, it is possible that the Company will not secure the financing required.

As a result of the Company's acquisition of Aurcana Mexico the Company undertook an administrative reorganization. The Company has moved to new offices in Vancouver, and has consolidated its administrative, legal, and technical functions in Sinaloa. This now reflects the Company's renewed interest in Sinaloa.

Aurcana Mexico's Rosario Property is the most advanced within the Company's portfolio and is located within two kilometres of the Company's San Marcial Property. Management anticipates certain synergies between the two properties.

The Company has made the following payments for the acquisition of Aurcana Mexico, as provided under the share acquisition agreement: \$250,000 to Aurcana less \$127,843 for certain equipment sold to Aurcana, \$85,000 to Aurcana for operating expenses incurred since August 1, 2009 (the maximum payable under the agreement), \$17,836 as severance payments to Aurcana de Mexico employees; and, US\$1,158,330 to Industrial Minera Mexico, S.A. de C.V. (IMMSA), which debt was assumed by the Company; and has issued 1,250,000 common shares valued at a market price to \$350,000. Aurcana Mexico's debt owed to Aurcana Corporation of MXP49,023,730 was assigned to the Company as part of the acquisition.

The Company has not had to make any further payments for its acquisition of Aurcana Mexico prior to April 30, 2010, however, the following outstanding payments are provided under the acquisition agreement: a further 1,000,000 shares upon the earlier of October 9, 2011 or the commencement of production (accrued as deferred acquisition costs); US\$500,000 to Aurcana upon the earlier of April 9, 2012 or six months after the commencement of commercial production (accrued as deferred acquisition costs); a further US\$500,000 by October 9, 2012 (accrued as deferred acquisition costs); US\$500,000 to Aurcana or 500,000 shares at the option of Aurcana, within 18 months following the commencement of commercial production; US\$500,000 to Aurcana or 500,000 shares at the option of Aurcana, within 24 months following the commencement of commercial production; and, US\$500,000 to Aurcana within 30 months following commencement of commercial production, or 500,000 shares at the option of Aurcana. An NSR is also payable.

The Company decided to write-off its interest (at a carrying value of \$3,660,258) in the Peñasco Quemado property as it does not envisage conducting any further exploration activities on it. The Company continues to be the owner of this property and has kept the property in good standing.

The Company announced that its agreement with Silver Standard for the acquisition of the San Marcial Property has been amended as follows: the payment due February 1, 2012 has been revised from (a) \$13,750,000, payable in cash or shares at the option of Silver Standard, less the value of the 1,000,000 shares to be issued to Silver Standard in February 2011 to (b) \$6,000,000 payable in cash or shares at the option of Silver Standard and a 1% NSR capped at \$13,750,000 less \$6,000,000 and the value of the 1,000,000 shares to be issued to Silver Standard in February 2011.

Since April 30, 2010, the Company has received nearly \$370,000 from the exercise of warrants, agents' options, and options. These funds are being used to fund exploration activities in Mexico, and to pay general and administrative expenses.

Selected Annual Information

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

	2010	2009	2008
Total revenues	4,522	\$13,404	\$11,465
Net loss	(\$6,929,353)	(\$3,289,213)	(\$2,364,336)
Basic and diluted loss per share	(\$0.12)	(\$0.10)	(\$0.10)
Total assets	\$11,618,700	\$6,743,681	\$8,150,588
Total long term liabilities	\$1,595,052	Nil	Nil
Dividends declared	Nil	Nil	Nil

The Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) as described in Note 2 to the Financial Statements for the year ended April 30, 2010, as modified by the changes disclosed in Note 2 to the Financial Statements. Except as noted, all dollar amounts contained in this discussion and analysis and in the Financial Statements are in Canadian dollars.

The total revenue figure is interest received and is a direct reflection of the amount of cash the Company had available in the bank throughout the year. This figure is consistent from year-to-year.

The net loss in 2009 was higher than in 2008 because the Company wrote-off two resource mineral properties in 2009, and higher again in 2010 as the Company wrote off the Peñasco Quemado property.

The decrease in total assets in 2009 from 2008 reflects the low level of exploration undertaken in 2009 against the extensive exploration programs undertaken in 2008, as well as the write-off of the Cerro de Plata and El Rayo properties. The increase in total assets in 2010 over that of 2009 reflects the acquisition of Aurcana Mexico and its assets, even though the Peñasco Quemado property was written off. During the current year the Company also amended some of the original terms of the San Marcial acquisition agreement with Silver Standard. This resulted in the reissuance of 1,000,000 shares, and an adjustment to the acquisition price of the San Marcial property of \$1,088,000. This agreement was further amended subsequent to year end.

Mineral Properties

The Company assessed each of its mineral properties as part of its reorganization, and reassesses each one periodically. Geological and financial information for each property is evaluated to determine whether a property should be retained. The Company may still elect to terminate its interest in any of these four properties at a later time.

At this point in time, it is management's opinion that the following resource properties add value to the Company's portfolio, and that the carrying values in the financial statements are not impaired because:

- exploration work has been conducted on each of its properties in the last three years;
- the Company has written off those properties which have yielded unsatisfactory results and/or on which the Company does not plan to perform any exploration work in the foreseeable future; and
- the Company plans to meet all its obligations and complete any work commitments on its properties.

San Marcial Property

The Company has recently completed a diamond drill program consisting of 22 holes totalling 3706.5 meters on the San Marcial Property. The purpose of the program was as follows:

- Test for grade and width continuity of the known mineralization both the Upper and Lower Vein structures along strike and down dip, and to identify where there is additional exploration potential;
- Collect geotechnical data on the rocks in the immediate hanging wall, the mineralized zone and the adjacent footwall;
- Collect sufficient material for metallurgical testing; and
- Provide sufficient density of drilling data to permit a NI 43-101 resource calculation with the majority of the resources classified as measured.

Significant silver mineralization occurs in a broad zone over a strike length of at least 350 meters and to a depth of at least 500 meters. In the current drill program silver mineralization occurred over widths varying from 4.45 meters to over 29.0 meters with grades from 72.9 - 327.0 g/t Ag. A zone of higher grade mineralization with excellent continuity exists with this broader envelope of lower grade material including values of 502.5 g/t Ag over 4.50 meters, 483.2 g/t Ag over 4.50 meters and 335.4 g/t Ag over 5.0 meters.

The mineralization has been closed off to the northwest by a fault but remains open along strike to the southeast where drill hole SM-10-21 encountered 19.45 meters @ 188.5 g/t Ag including 4.70 meters @ 316.7 g/t Ag and 5.00 meters @ 335.4 g/t Ag.

Drill hole SM-10-22 was drilled to test the down dip continuation of the mineralized zone. The hole intersected 11.50 meters @ 224.2 g/t Ag including 4.50 meters @ 483.2 g/t Ag at a depth 50 meters deeper than any previous intersection confirming the potential for additional mineralization at depth.

Table 1. San Marcial Assay Results 2010 Drilling

Hole No	From	To	Width	g/t Ag
SM-10-01	60.00	83.10	23.10	90.1
including	60.00	61.70	1.70	156.8
SM-10-02	107.80	129.50	21.70	91.7
including	122.30	128.50	6.20	168.3
SM-10-03	46.02	75.30	29.28	95.4
including	48.02	53.02	5.00	304.8
SM-10-04	100.15	119.50	19.35	104.3
including	105.30	108.30	3.00	279.0
SM-10-06	154.50	180.00	25.50	132.1
including	156.50	161.00	4.50	502.5

SM-10-07	138.70	153.28	14.58	131.9
including	103.19	104.44	1.25	258.0
SM-10-08	101.00	120.00	19.00	112.4
including	116.00	120.00	4.00	408.2
SM-10-09	114.18	133.50	19.32	72.9
including	102.90	104.15	1.25	142.0
SM-10-11	118.45	137.00	18.55	94.9
including	122.60	125.40	2.80	211.0
SM-10-12	118.00	134.00	16.00	89.9
including	123.40	127.80	4.40	172.0
SM-10-15	53.80	67.25	13.45	327.0
including	54.00	55.00	1.00	3720.0
SM-10-19	27.00	37.00	10.00	99.8
including	31.50	34.00	2.50	237.8
SM-10-20	69.85	74.3	4.45	120.1
including	69.85	70.85	1.00	159.0
including	73.35	74.30	0.95	245.1
SM-10-21	23.65	43.10	19.45	188.5
including	24.60	29.30	4.70	316.7
including	37.50	42.50	5.00	335.4
SM-10-22	255.70	267.20	11.50	224.2
including	256.70	261.20	4.50	483.2

Upon receipt of all of the check assays an updated mineral resource estimate will be prepared.

The San Marcial mineralization is known by previous work to respond well to cyanide leaching. Additional metallurgical test work is planned in particular to refine the cyanide leaching process.

All assaying has been done by ALS Chemex of Vancouver, British Columbia.

As part of Silvermex's Quality Assurance/Quality Control (QA/QC) procedures, certified reference samples, blanks and duplicate samples were inserted into the sampling sequence at a rate of approximately one in twenty. Additional QA/QC procedures include the reanalysis of the original pulps and rejects for approximately 5% of the samples by ALS Chemex and by a split of the original pulp by a second commercial laboratory.

All results pertaining to the QA/QC program will have been received and evaluated by the end of the September 2010.

Geologic work related to recompiling all the drill data has been completed and all historic and new drill information has been compiled into one database. Modelling of the mineralized zones is underway with further refinement to be done upon completion of the QA/QC program with the focus of bringing all the existing drill data into one database. This database will then be used to develop a block model from which a mine plan can be developed which will be incorporated into a scoping study to determine the economic viability of the San Marcial project. The scoping study may also include, metallurgical testing, environmental permitting and baseline studies.

Rosario Property

The Company is evaluating the strategic synergy provided by the existing infrastructure at the Rosario Property and its proximity to the San Marcial project. The Rosario Property contains a camp, mill site, tailings facility, water rights and electrical contract and infrastructure that could allow the San Marcial project to commence production in a shorter time frame and at a lower capital cost. The scoping study referred to above will incorporate the synergies of the two properties to determine the economic viability of moving the San Marcial project towards production. In addition, the Company is also encouraged by the exploration potential identified by Grupo México and Aurcana Corporation on this project. Channel samples were obtained from the lowest working levels and the results were encouraging. The Company is reviewing existing production records and will work on a preliminary in-house study to evaluate the potential of these properties to go back into production. A projected budget has not yet been determined.

La Frazada Property

No exploration work was conducted on this property in the previous quarter, and none is planned until the San Marcial/Rosario project evaluation is complete.

Lobos Property

No exploration work was conducted on this property in the quarter, and none is planned until the San Marcial/Rosario project evaluation is complete.

Comparison of Actual and Proposed Use of Proceeds: February 12, 2010 Private Placement

As at August 25, 2010:

	Proposed Use of Proceeds	Actual Use of Proceeds
Gross proceeds of private placement	\$6,901,045	\$6,901,045
San Marcial project and general working capital (1)	6,901,045	-
Cost of private placement (2)	-	321,000
Repayment of promissory note	-	118,000
Repayment of IMMSA loan	-	855,000
General working capital purposes, debt repayment and advances to subsidiaries		1,207,045
Cash remaining	-	4,400,000
	<u>\$6,901,045</u>	<u>\$6,901,045</u>

(1) The use of proceeds was not quantified in the news release.

(2) The estimated costs of the private placement were not quantified in the news release.

The net proceeds of the private placement are being used to fund: the preliminary economic assessment, detailed metallurgical studies, in-fill drilling, mine and mill engineering, bulk sampling, permitting, and infrastructure upgrades on the Company's San Marcial/Rosario project, and for general working capital.

Summary of Quarterly Results

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

	Q4 April 30, 2010	Q3 January 31, 2010	Q2 October 31, 2009	Q1 July 31, 2009	Q4 April 30, 2009	Q3 January 31, 2009	Q2 October 31, 2008	Q1 July 31, 2008
Total revenues	\$4,107	\$415	\$Nil	\$Nil	Nil	\$337	\$1,030	\$12,037
Net loss	(\$4,412,784)	(\$1,750,405)	(\$320,497)	(\$445,667)	(\$1,830,681)	(\$399,280)	(\$480,825)	(\$578,427)
Basic loss per share (1)	(\$0.07)	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.05)	(\$0.01)	(\$0.02)	(\$0.02)

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

The Company's cash expenditures are fairly consistent from quarter to quarter. In general terms, much of the fluctuations seen from quarter to quarter are caused by variations in non-cash items, such as stock-based compensation charges.

The above average loss in the fourth quarter of 2008 was partially a result of a restatement of the foreign exchange loss, while part of the increase in the loss for the third quarter of 2010 was due to a foreign exchange loss sustained on the US\$ denominated debt of the Company's newly acquired subsidiary. The large loss incurred in the fourth quarter of 2009, the third quarter of 2010, and the fourth quarter of 2010, was as a result of writing down mineral properties by \$1,535,434, \$451,155, and \$3,660,258 respectively.

Liquidity

The Company had cash of \$5,543,925 at April 30, 2010 compared to \$160,327 as at April 30, 2009. The Company had a working capital surplus of \$5,558,576 as at April 30, 2010 compared to working capital surplus of \$196,340 at April 30, 2009.

The increase in the Company's cash reserves is a result of the closing of a second private placement in 2010 of 15,335,655 units at a price of \$0.45 per unit for gross proceeds of \$6,901,045 during the fourth quarter of 2010. A further \$2,037,981 was received in 2010 from the exercise of warrants, agents' warrants, and options. Subsequent to the year end, nearly \$370,000 in additional funds has been received from warrants, options and agents' options exercised.

The largest increase in a working capital account other than cash was the increase in accounts payable and accrued liabilities (April 30, 2010: \$231,689; April 30, 2009: \$34,899). The increase is mainly due to taxes payable to the Mexican tax authorities on severance payments made to the Company's staff at its former Hermosillo office. These taxes were paid subsequently.

The consolidated financial statements for the year ended April 30, 2010, have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will operate 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 always be available to further explore its mineral property projects and to cover the general and administrative expenses necessary to maintain a public company. The ability of the Company to arrange additional financing in the future depends, in part, on the prevailing capital market conditions and exploration and development success.

Capital Resources

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 the financing required in the future on acceptable terms.

The Company has the following cash commitments relating to its properties for the following three fiscal years:

	For the year ended April 30 (1)		
	2011	2012	2013
Property payments:			
San Marcial (2)(3)	-	6,000,000	-
Acquisition payment:			
Aurcana Mexico	-	500,000	500,000

(1) All amounts are denominated are in US dollars

(2) Maximum amount payable as Silver Standard may elect to be paid in shares;

(3) The Company also has an exploration commitment of \$1,000,000 on the San Marcial property. The Company believes that it has substantially satisfied this commitment.

The Company is also obligated to pay Silver Standard US\$100,000 per month commencing if commercial production commences on the San Marcial Project while the project is still under option from Silver Standard.

Any payments will be credited toward the purchase price. The Company is also obligated to make a one time payment of US\$100,000 to International American Resources Inc. on commencement of commercial production.

The following payments are also provided under the agreement with Aurcana: US\$500,000 by October 9, 2012; US\$500,000 to Aurcana or 500,000 shares at the option of Aurcana, within 18 months following the commencement of commercial production; US\$500,000 to Aurcana or 500,000 shares at the option of Aurcana, within 24 months following the commencement of commercial production; and, US\$500,000 to Aurcana within 30 months following commencement of commercial production, or 500,000 shares at the option of Aurcana.

The Company will need to close further private placements in order to meet the obligations listed above.

Transactions with Related Parties

During the year ended April 30, 2010, the Company entered into the following transactions with related parties:

- a. Incurred \$91,709 for consulting services, including services related to resource property development provided by a former director and officer, Miguel Soto.
- b. Advanced \$22,791 to a nominee company incorporated in Mexico. These funds were used to pay the salaries of the employees of one of the Company's subsidiaries in Mexico.
- c. Paid \$109,566 to Mexican Mine Management Ltd. and Timmins Gold Corp., both previously related by common directors and common officers for shared office premises and expenses.
- d. Incurred \$62,500 of consulting fees to a company controlled by its chief executive officer, Duane Nelson. Mr. Nelson did not receive a salary from the Company and was paid consulting fees for providing investor relations and marketing services, and advice on corporate development.
- e. Incurred \$34,000 of consulting fees to a former chief financial officer, Eugene Hodgson.
- f. Sold furniture, equipment, and vehicles at book value (of \$35,212) to Timmins Goldcorp Mexico S.A. de C.V., a company previously related by common directors and officers. The Company's subsidiary, Terra Plata, no longer requires these assets as it has relocated its administrative and geological functions to Sinaloa from Sonora.
- g. Incurred \$157,785 of consulting fees to its former president, Arturo Bonillas.
- h. Incurred \$78,131 of consulting fees to its president, Michael Callahan.

Results of Operations

Twelve months ended April 30, 2010, compared with twelve months ended April 30, 2009

During the year ended April 30, 2010, the Company reported a net loss of \$6,929,353 (\$0.12 per share) compared to a net loss of \$3,289,213 (\$0.10 per share) for the year ended April 30, 2009.

The major items for the twelve month period ended April 30, 2010, compared to April 30, 2009, were:

- a. Consulting fees of \$314,102 (2009: \$158,246) increased primarily due to the inclusion of payments made to the Company's former chief financial officer, and the Company's new president, neither of whom is salaried, and to a financial advisor.
- b. Foreign exchange gain \$124,905 (2009: \$55,516 loss) is due to the strengthening of the Canadian dollar against the US dollar, which is reflected in the savings associated with the repayment of the US\$ denominated IMMSA debt. This has been paid in full.
- c. Investor relations charges of \$494,557 (2009: \$388,832) increased due to the addition of two investor relations consultants who were not contracted to the Company in the comparable period.
- d. Office and miscellaneous expenses of \$383,360 (2009: \$54,360) increased due to the consolidation of the Company's new subsidiary, Aurcana Mexico, as well as some closure costs associated with the Hermosillo office and set up costs associated with the Company's move to the new Vancouver office.
- e. Salaries and wages of \$213,842 (\$647,623) due to the reduction in the number of salaried staff, particularly at the executive level, compared to the previous year. In addition, in the prior year, a bonus of \$126,000 was paid to the Company's previous chief financial officer in terms of this employment agreement, and various employment settlements totalling \$115,000 were made.
- f. Stock-based compensation increased to \$1,010,371 (2009: \$119,546) due to the increased number of options vesting in the current year.
- g. Write-off of resource property of \$4,156,759 (2009: \$1,533,765). The Company wrote-off its Lety property and Peñasco Quemado property in the current period whilst two properties with lower carrying values were written off in the prior year.

Three months ended April 30, 2010, compared with three months ended April 30, 2009

During the three month ended April 30, 2010, the Company reported a net loss \$4,412,784 (\$0.07 per share), compared to a net loss of \$1,830,681 (\$0.05 per share) for the three months ended April 30, 2009.

The major items for the three month period ended April 30, 2010, compared to April 30, 2009, were:

- a. A foreign exchange gain of \$248,610 (2009: \$29,194) is due to the strengthening of the Canadian dollar against the US dollar, which is reflected in the savings associated with the repayment of the US\$ denominated IMMSA debt. This debt has been paid in full.
- b. Office and miscellaneous of \$290,825 (2009: -\$8,408) increased due to the consolidation of the Company's new subsidiary, Aurcana Mexico, and set up costs associated with the Company's move to the new Vancouver office.

- c. Stock-based compensation increased to \$328,311 (2009: \$2,024) due to the number of options which vested in the current quarter.
- d. Write-off of resource property of \$3,705,604 (2009: \$1,533,765). The Company wrote-off its Peñasco Quemado property of \$3,660,258 in the current period due to impairment, while the properties written off in 2009 had lower carrying values.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires the Company 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, asset retirement obligations, 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 beyond the Company's control.

Exploration and Development Expenditures

The Company capitalizes exploration and development expenditures directly related to its properties until such time that the properties are placed into production, sold, abandoned, or management determines impairment in the realizable value of the property/properties has occurred. The Company's policy to capitalize exploration costs on a project by project basis is consistent with GAAP, and that of other exploration companies that do not have established mineral reserves. If and when a mineral property is commissioned, the associated deferred costs will be amortized on a systematic basis. The depletion of the mining property will be provided on the unit-of-production basis using estimated reserves and resources expected to be converted to reserves as the depletion basis. Mining plant and equipment and related capital assets will be depreciated, following the commencement of commercial production, over their expected economic lives using the unit-of-production method.

Reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves the study of geological, geophysical and economic data and the reliance on a number of assumptions. The estimates of the reserves may change, based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. A change in the original estimate of reserves would result in a change in the rate of depletion and depreciation of the related mining assets or could result in impairment resulting in a write-down of the assets.

If and when an impairment in value of a property is determined, the property value will be written-down to its realizable value at that time, and the write-down charged to operations. The recoverability of the recorded value of the Company's mineral properties and associated deferred expenses is based on market conditions for minerals, the underlying mineral resources associated with the properties, and future costs that may be required for ultimate realization through mining operations or by sale. The impairment review is made annually by management, or earlier if warranted. A write-down may also be required when a property is sold or abandoned, if exploration

activity ceases on a property due to unsatisfactory results, or if there is insufficient funding to continue exploration on a property.

Income Taxes

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantially enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is currently reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. The determination of the ability of the Company to utilize tax loss carry-forwards to offset future income tax payable requires management to exercise judgment and make assumptions about the future performance of the Company. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Effective January 1, 2008, the Mexican government introduced an alternative minimum tax known as the IETU, as a method to limit certain companies from avoiding paying taxes on their cash earnings in Mexico. Management will review its IETU obligations and its consolidated tax position, as the Company has not previously earned revenues.

Asset Retirement Obligations

The Company recognizes contractual, statutory and legal obligations associated with the retirement of mining properties when those obligations result from the acquisition, construction, development or normal operation of the assets. The initial liability for the asset retirement obligation has been estimated at its fair value in the period incurred, so the corresponding asset retirement cost was added to the carrying amount of that asset. This cost will be amortized as an expense over the economic life of the related asset, if production of that asset commences. The carrying amount of the liability could be increased for the passage of time and if additional information is gained, and is adjusted for changes to the amount or timing of the underlying cash flows to settle the obligation. All asset retirement obligations are not expected to be paid for several years in the future and are intended to be funded from cash balances at the time of the mine closure or termination of an interest in a property.

Stock-based Compensation

The Company follows accounting guidelines in determining the value of stock option compensation, as disclosed in Note 9 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. As 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.

Changes in Accounting Policies including Initial Adoption

Goodwill and Intangible Assets

CICA section 3064 replaces the former CICA 3062 – Goodwill and other intangible assets and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. CICA 3064 is effective for interim and annual financial statements for years beginning on or after January 1, 2009. The

Company adopted this section effective May 1, 2009. There was no material change to the results of operations or financial position of the Company.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009 the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which requires the Company to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The accounting treatments provided in EIC-173 have been applied in the preparation of these financial statements and as required have been applied retrospectively without restatement of prior periods. The adoption of this standard did not have a material impact on the valuation of financial assets or liabilities.

Financial Instruments - Disclosures

In June 2009 the CICA amended Section 3862, Financial Instruments-Disclosures, to include enhanced disclosures on the liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. The Company has applied these amendments to its 2010 annual consolidated financial statements. There was no material change to the results of operations or financial position of the Company.

Financial instruments-recognition and measurement

In August 2009, the CICA amended Section 3855, Financial Instruments-Recognition and Measurement. This Section has been amended to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply to reclassifications made on or after July 1, 2009. Earlier adoption is permitted. Also, this Section has been amended to:

- change the categories into which a debt instrument is required or permitted to be classified;
- change the impairment model for held-to-maturity financial assets to the incurred credit loss model of Impaired loans, Section 3025; and
- require reversal of previously recognized impairment losses on available-for sale financial assets in specified circumstances.

The Company applied these amendments to its 2010 annual consolidated financial statements. There was no material change to the results of operations or financial position of the Company.

New Accounting Pronouncements

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company. The Company will adopt the requirements on the date specified in each respective section and is considering the impact this will have on the consolidated financial statements.

Business combinations, consolidated financial statements and non-controlling interests

CICA sections 1582, 1601 and 1602 replace the former CICA 1581, Business Combinations and CICA 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to FASB Statements No. 141(R), Business Combinations and No. 160 Non-controlling Interests in Consolidated Financial Statements. CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual

reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

Comprehensive revaluation of assets and liabilities

In August 2009, the CICA amended Section 1625, Comprehensive revaluation of assets and liabilities. This section has been amended as a result of issuing Business combinations, Section 1582, Consolidated financial statements, Section 1601, and Non-controlling interests, Section 1602, in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. If the Company adopts this section for a fiscal year beginning before January 1, 2011, it also adopts Section 1582. The adoption of this standard is not expected to have a material impact on the Company's results of operations or its financial position.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed the mandatory changeover date to International Financial Reporting Standards (IFRS) for Canadian profit-oriented publicly accountable entities (PAE's) such as the Company.

The AcSB requires that IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. The Company's first audited annual financial statements will be for the year ending April 30, 2012, with comparative financial information for the year ended April 30, 2011. This also means that all the opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the May 1, 2010 opening balance sheet which will be issued as part of the comparative financial information in the July 31, 2011 unaudited interim financial statements.

The Company will adopt these requirements as set out by the AcSB and other regulatory bodies. At this time, the impact of adopting IFRS cannot be reasonably quantified. The conversion to IFRS is expected to impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency activities, certain contractual arrangements, capital requirements and compensation arrangements. The Company plans to recommence evaluating the impact of IFRS on the Company and will continue to develop a plan for the conversion to IFRS. The actual conversion work will commence in the new fiscal year, in anticipation of the preparation of the May 1, 2010 balance sheet that will be required for comparative purposes for all periods ending in 2011.

The Company has been assessing some of the optional exemptions as part of the transition process to IFRS. The following preliminary elections have been made so far under IFRS, but this may change prior to the formal adoption of IFRS:

- The Company will not restate business combinations prior to the adoption of IFRS;
- The Company will continue to capitalize exploration costs on a project-by-project basis even prior to mineral reserves being established; and
- The Company will be electing to recognize any cumulative translation differences of its foreign subsidiaries into opening retained earnings.

The Company has also identified other areas relating to IFRS that could materially affect the Company:

- Foreign currency: The adoption of IFRS will involve the identification of a functional currency. At present, it appears that the Canadian dollar is the Silvermex's functional currency and the Mexico peso is the subsidiaries' functional currency. Upon consolidation, the presentation currency will be that of the parent's functional currency.

- Income taxes: Although there are many areas where GAAP is similar to IFRS, there are differences such as the differentiation between deferred tax assets and deferred tax liabilities; and whether deferred tax is to be charged to the income statement, equity or goodwill.

At present the Company does not believe that it has any contracts, debt covenants, capital requirements or compensation requirements that may be affected by changes to financial reporting because of IFRS.

Management will continue to take professional development courses relating to IFRS conversion, and it is comfortable that its accounting services company will also be adequately prepared for the conversion.

Risk Factors

The Company is engaged in the exploration for mineral deposits. These activities involve significant risks which even with careful evaluation, experience and knowledge may not, in some cases, be eliminated. The Company's success depends on a number of factors, many of which are beyond its control. The primary risk factors affecting the Company include inherent risks in the mining industry, metal price fluctuations and operating in foreign countries and currencies.

Inherent Risks within the Mining Industry

The commercial viability of any mineral deposit depends on many factors, not all of which are within the control of management. Some of the factors that will affect the financial viability of a given mineral deposit include its size, grade and proximity to infrastructure. Government regulation, taxes, royalties, land tenure and use, environmental protection and reclamation and closure obligations could also have a profound impact on the economic viability of a mineral deposit.

Mining activities also involve risks such as unexpected or unusual geological operating conditions, floods, fires, earthquakes, other natural or environmental occurrences and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or for other reasons. The Company does not currently maintain insurance against political or environmental risks. Should any uninsured liabilities arise, they could result in increased costs, reductions in profitability, and a decline in the value of the Company's securities.

There is no assurance at this time that the Company's current mineral properties will be economically viable for development and production.

Prices for Silver and Other Commodities

Metals prices are subject to volatile price fluctuations and have a direct impact on the commercial viability of the Company's exploration properties. Price volatility results from a variety of factors, including global consumption and demand for metals, international economic and political trends, fluctuations in the US dollar and other currencies, interest rates, and inflation. The Company has not hedged any of its potential future silver sales. The Company closely monitors silver prices to determine the appropriate course of action to be taken by the Company.

Foreign Currency Risks

The Company uses the Canadian dollar as its measurement and reporting currency, and therefore fluctuations in exchange rates between the Canadian dollar and other currencies may affect the results of operations and financial

position of the Company. The Company does not currently have any foreign currency or commercial risk hedges in place.

The Company raises the majority of its equity financings in Canadian dollars while foreign operations are predominately conducted in Mexican pesos and US dollars. Fluctuations in the exchange rates between the Canadian dollar, US dollar and Mexican pesos may impact the Company's financial condition.

Risks Associated with Foreign Operations

The Company's investments in foreign countries such as Mexico carry certain risks associated with different political, business, social and economic environments. The Company is currently evaluating silver and/or other commodities in Mexico, but will undertake new investments only when it is satisfied that the risks and uncertainties of operating in different cultural, economic and political environments are manageable and reasonable relative to the expected benefits.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from ambiguous conveyance and regulatory characteristics of property rights in certain foreign countries.

Future government, political, legal or regulatory changes in the foreign jurisdictions in which the Company currently operates or plans to operate could affect many aspects of the Company's business, including title to properties and assets, environmental protection requirements, labour relations, taxation, currency convertibility, repatriation of profits or capital, the ability to import the necessary materials or services, or the ability to export produced materials.

Disclosure Controls and Procedures

As required by Multilateral Instrument 52-109, management is responsible for the design, establishment and maintenance of disclosure controls and procedures over the public disclosure of financial and non-financial information regarding the Company, and internal control over financial reporting to provide reasonable assurance regarding the integrity of the Company's financial information and reliability of its financial reporting. Management maintains appropriate information systems, procedures and controls to ensure integrity of the financial statements and maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

The Company has designed its disclosure controls and procedures so that they provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them on a timely basis; and designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting. The Company's management believes 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. Due to the inherent limitations in all controls systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Management believes appropriate segregation of duties within the finance department have been maintained. However, where segregation of duty deficiencies exist, the Company relies on certain compensating and detection controls, including dual signatories on all cheque disbursements from head office, review and approval of all bank reconciliations by persons other than the preparer, and quarterly and annual review of financial statements, and

other information by the Audit Committee. The day-to-day accounting in the Vancouver and Mazatlan offices, and initial preparation of the financial statements, is outsourced to independent accountants.

Management believes the Company's disclosure controls and procedures were effective in providing reasonable assurance that the material information relating to the Company was made known to them on a timely basis and was processed and disclosed within the appropriate reports and time periods.

Disclosure of Outstanding Share Capital as at August 25, 2010

The common shares outstanding are:

Common shares	85,818,406
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Details of the warrants outstanding are as follows:

Number of Warrants	Exercise Price	Expiry Date
2,417,000	\$ 0.20	September 11, 2010
15,335,655	\$ 0.65	February 12, 2012

The stock options outstanding are:

Number of Options	Exercise Price	Expiry Date
100,000	\$ 0.25	November 12, 2010
500,000	\$ 0.30	July 31, 2011
1,750,000	\$ 0.26	February 9, 2014
1,350,000	\$ 0.34	December 4, 2014
2,650,000	\$ 0.41	May 12, 2015
1,500,000	\$ 0.32	June 21, 2015

The agents' options outstanding are:

Number of Agents' Options	Exercise Price	Expiry Date
1,003,244	\$ 0.45	February 12, 2012