

**SILVERMEX RESOURCES LTD.**  
MANAGEMENT DISCUSSION AND ANALYSIS – FORM 51-102F1  
– AMENDED AND RESTATED  
for the three and six month periods ended October 31, 2006

**1.1 Date of Report**

The following Management Discussion and Analysis (“MD&A”) for Silvermex Resources Ltd. (“Silvermex” or the “Company”) is prepared as of December 21, 2006 and amended and restated as of January 16, 2007 and should be read in conjunction with the restated interim consolidated financial statements for the three and six month periods ended October 31, 2006 and the audited consolidated financial statements and related notes for the years ended April 30, 2006 and 2005. The reader is also referred to the Company’s Prospectus dated July 10, 2006 for additional information. Except as noted, all dollar amounts contained in this discussion and analysis and in the financial statements are in Canadian dollars.

**Forward-Looking Statements**

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

**Management’s Responsibility for Financial Statements**

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

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

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

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

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

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

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

### **Corporate developments and Management Changes**

Subsequent to period end, on October 17, 2006 Darcy Krohman joined the management team of Silvermex Resources in the capacity of Executive Vice-President and Chief Financial Officer. Darcy was also appointed to the board of directors of the Company. Darcy is a Professional Geologist and Chartered Accountant who has held various senior positions within the mining and mineral exploration sector since 1981. Darcy replaces Mark Aplas who resigned as CFO of the Company effective October 27, 2006. In circumstances where his experience will satisfy that of Qualified Person (QP) for purposes of NI 43-101, Darcy will serve as the Company’s non-independent QP.

### **Mineral Project**

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

##### **(a) Drill and Exploration Program**

At present Silvermex’s only material mineral exploration project is the Penasco Quemado project in Sonora, Mexico, located approximately 70 km southwest of the Mexico/Arizona border town of Nogales. The Company has the option to earn a 100% interest in the property by making payments of \$545,000 over the next three years. Silver Standard Resources Inc. a public company listed on the TSX and NASDAQ, has the right to enter into a joint venture on the property. The silver identified on the Penasco Quemado property appears to have both lithologic and structural controls as the mineralization occurs as both fissure fillings in granite and between grains in conglomerates and breccias. Accordingly grain size and faulting are important factors in the localization of the mineralization. Non-conformable fault contacts between the host rocks and volcanics also appear to have a significant influence on the mineralization. In 2005 the Company completed a 15 hole, 1,450 metre reverse circulation drill program on the property. The 2006 diamond and reverse circulation drill program focused on expanding the zone of high grade mineralization associated with the Penasco Quemado (PQ) Zone and drill testing surface targets identified during the 2005 program. In addition to the silver potential, anomalous copper values are found throughout the property and the porphyry potential continues to be assessed.

The Company experienced delays in receiving assays. As a consequence geochemical and assay results for 1 diamond drill hole (PQD-04) are yet to be received. The Company is awaiting these final results to

complete an independent NI 43-101 compliant mineral resource estimate and the supporting technical report. The reader is referred to the Company's News Releases on November 10, and November 24, 2006 for a detailed description and analysis of the results obtained.

**(b) Drill and Exploration Results**

Penasco Quemado Zone: The Company recently completed its 2006 drill program on the Penasco Quemado Property. The Company has received the analytical results for all but hole of the twelve hole, 1,639 m's, diamond drill (DDH), and seven holes of the 609 m's, reverse circulation (RC) drill program. As previously disclosed significant intersections from the 2006 program include 101 g/t Ag over 20.9 m's starting at 22.7 m's in hole PQD-01, 162.8 g/t Ag over 30.7 m's starting at 18.4 m's in hole PQD-02 and 267.3 g/t Ag over 9.2 m's starting at 56.9 m's hole PQD-03. Each of these drill holes were located along strike of the known silver mineralization within the PQ Zone. The mineralized zone was intersected in diamond drill hole PQD-05, drilled 630 m's along strike from the edge of the pit. While the grades were generally lower and at depth the results confirmed the continuity of the mineralization along strike, slightly displaced by north-south faulting. PQ-08, an infill drill hole located 150 m's south east of the PQ pit and the southwest limit returned 290 g/t Ag over 15 m's starting from 15 m's. PQ-05 and PD-06, drilled approximately 200m's south-southeast did not return any significant intersections. Results from Hole PQD-04, located 360 m's along strike from the edge of the pit are yet to be received from Acme Analytical Laboratories Ltd. The results will support a NI 43-101 compliant resource estimate currently being prepared.

San Luis (Red Breccia) Zone: As previously reported the 2006 drill program returned several high-grade intersections from this zone. SLD-07 and SLD-09, drilled approximately 40 m's apart and along strike of the surface expressions of a breccia zone hosting high-grade silver mineralization, returned 734.9 g/t Ag over 10.4 m's from surface and 560.6 g/t Ag over 9.5 m's from 11.9 m's, respectively. Neither SLD-08, drilled approximately 60 m's south-west of SLD-09 nor SLD-10, drilled approximately 50 m's south of SLD-07 intersected the high-grade breccia encountered in both SLD-07 and SLD-09, leading to speculation a steeply dipping feeder system or shallow south-east striking/north-east dipping structure may control the mineralization in this area. Future programs will test this theory.

Low Angle Detachment (LA) & Stockwork Zones: Both the LA and Stockwork Zones are shallow south dipping east-west striking, felsic volcanic units. The LA Zone continuously outcrops in a area 200 m's wide by 400 m's long. Intermittent outcrops, structural orientation and additional supporting evidence suggest the zone maybe an extension of the Stockwork Zone located 1.2 km to the northwest. A surface program from the LA Zone has returned grades of up to 3.91g/t Au, 78.3 g/t Ag and 1.3% Cu in grab samples. Analysis of selected samples from the dump adjacent to Hole STW-02 in the Stockwork Zone has returned grades up to 4.02 g/t Au, 129 g/t Ag and 0.12% Cu. To test the depth and continuity of the felsic package a three hole RC drill program was designed. Approximately 350 m's of strike length of the zone was tested by the program.

RC Holes LA-01 and LA-02 were vertical holes drilled to depths of 40 m's. LA-02 was located 200 m's south-west along strike from LA-01. Each hole ended while still in the felsic volcanic package. Hole LA-03, also a vertical hole, was located 150 m's north-east of LA-01 and was drilled to a depth of 100 m's to establish the thickness of the felsic unit. The felsic unit was intersected from surface to 79 m's (true width of approximately 75 m's) prior to encountering a granitic unit that is believed to form the basement in the region. While each of the three holes

encountered anomalous copper grades and had evidence of hydrothermal alteration, no elevated gold or silver values were encountered.

The Stockwork Zone was tested by two RC holes during this most recent drill program. The felsic unit was encountered in hole STW-01 from surface to 75 m's (true width of approximately 70 m's) before encountering granite. The degree of structural preparation, alteration and oxidation of the felsic unit are significantly more pervasive in the Stockwork Zone than in the LA Zone. STW-02 was located 280 m's north 20 degrees east of STW-01. STW-02, drilled to a depth of 100.6 m's, encountered the highly oxidized and altered felsic volcanic package from surface to 79 m's before encountering the intrusive. Similar to the holes completed in the LA Zone STW-01 and STW-02 returned anomalous copper but failed to return elevated gold or silver grades.

In light of the results from the drill program on the LA and Stockwork Zones the Company will be reassessing the controls on the mineralization. The Company is considering a geophysical program to help in its evaluation of the continuity of the mineralization between the zones.

### **(c) Future Developments**

Short to medium term priorities will focus on completing an independent, NI 43-101 compliant resource estimate on the Penasco Quemado (PQ) Zone, refining the regional and local geologic model(s) and confirming the extension of the PQ Zone and the continuity of the San Luis, Low Angle and Stockwork Zones. The Company has just recently completed staking an additional 10,000 hectares to the south of the main Penasco Quemado claim block. Future programs will include early stage evaluation of previously identified and generation of new targets on this concession.

## **2. CERRO DE PLATA SILVER PROPERTY-SONORA, MEXICO**

Subsequent to the period end on November 27 the Company announced the signing of an option to acquire a 100% interest in the 10,000 hectare "Cerro de Plata" silver project. The property is located in the Sierra Madres Mountains approximately 50 kilometers south of the Mexico/Arizona border at Nogales, Mexico and 45 kilometers east of the Company's Peñasco Quemado project. The Company does not consider Cerro de Plata to be a material property at this time. Consideration includes US\$400,000 in cash payments and the issuance of 250,000 common shares over 48 months and an additional 250,000 common shares upon the completion of a feasibility study.

High grade silver-copper mineralized stockwork zones are structurally controlled by the steeply dipping, north-south and northwestern faults that dominate in the region. Due diligence sampling prior to the acquisition returned high grade values of silver ranging from 332 g/t (9.6 ounces) over a 3.5 metre channel sample to 991 g/t (28.7 ounces) and 6.36% copper from a selective grab sample from historical workings. Alteration assemblages consistent with both epithermal and porphyry systems (oxidation, silicification, argillic, phyllic and potassic alteration) are evident through out the property.

Mineralized zones are exposed at surface, in old underground workings and in a series of pits. A 100 m long tunnel located in the principal area of the old workings, provided access to a 40 m wide zone of high grade mineralization that was exploited along strike for at least 200 meters and up and down dip for at least 100 m's. This zone was stoped to the surface were a glory hole currently exits approximately 30 m's above the main access tunnel.. The exposures in these workings suggest that this mineralized zone is at least 100 meters wide, 100 meters long and 200 meters deep. A 20 to 30 m wide zone of higher grade mineralization striking north-south exists within this larger zone and can be traced by following colour anomalies for distances of over 800 m's along surface. Several creeks, that appear to be surface expressions of a series of northwest-southeast lineaments, intersect this higher grade zone at regular intervals along the 800m's of exposure. The intersection of these primary and secondary lineaments, are

considered to be important targets for follow up. Surface mineralization includes copper oxides and carbonates (malachite, crysocola, turquoise). Several small underground workings are located in parallel structures that are yet to be evaluated. In addition to being important exploration targets the Company believes they will help in interpretation of the broader property geology including the controls on the high grade silver and copper mineralization.

Chip sampling was completed over a 25 meter width within the higher-grade silver-copper mineralized fringe in the upper and lower pits. Elevated copper values were evident in the upper pit while higher-grade silver values were dominant in the lower pits. Silvermex's geologists believe the elevated copper grades returned from the upper pits, are associated with a zone of supergene enrichment that is higher in the mineralizing system than the high-grade silver mineralization. Accordingly the location of each of the pits reflects the position within the mineralized system.

The Company is currently conducting 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. This program has identified a 200 m wide alteration zone located approximately 500 m's south of the main working. This zone also strikes north-south, parallel to the main zone. Silvermex is confident additional silver and copper mineralization will be identified along strike, at depth and parallel to these structures.

The reader is referred to the Company News Release dated November 27, 2006 for a comprehensive description of sample results received to date.

### **1.3 Selected Annual Information**

N/A

### **1.4 Results of Operations**

During the three and six month periods ended October 31, 2006, the Company reported losses of \$422,967 and \$588,444 or \$0.02 and \$0.04 per share respectively. These losses do not compare with previous periods as the Company had started operations to acquire a mineral project in the period ended October 31, 2005. The major expenses for the six month period ended October 31, 2006 were mainly attributable to the following:

- a. Consulting fees were \$41,746 due to corporate development work required to complete the IPO.
- b. A foreign exchange loss \$24,589 due to the significant funds the Company sent to its wholly owned subsidiary which was required for the exploration work on its mineral projects in Mexico.
- c. Charges to stock-based compensation in the amount of \$232,820. These charges are non-cash transactions and are based on the fair value of 1,500,000 options at \$0.30 and the vesting of 50,000 options exercisable at \$0.56 for five year terms using the Black-Scholes option pricing model. Please refer to Note 6 for details.

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

### **1.5 Summary of Quarterly Results**

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

	Q2 Oct. 31, 2006	Q1 Jul. 31, 2006	Q4 Apr. 30, 2006	Q3 Jan. 31, 2005	Q2 Oct. 31, 2005	Q1 Jul. 31, 2005	Q4 Apr. 30, 2005	Q3 Jan. 31, 2004
Total revenues	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ N/A	\$ N/A
Net loss	\$(422,967)	\$(165,477)	\$(217,882)	\$(80,343)	\$(39,012)	\$(5,056)	\$ N/A	\$ N/A
Basic loss per share (1)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ N/A	\$ N/A

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

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

## 1.6 Liquidity

The interim consolidated financial statements for the three and six month periods ended October 31, 2006 have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses since inception, has limited financial resources, no source of operating cash flow and no assurances that sufficient funding, including adequate financing, will be available to further explore its mineral property projects and to cover general and administrative expenses necessary to maintain a public company.

The Company has cash of \$626,407 as at October 31, 2006 compared to \$20,943 as at April 30, 2006. The Company has working capital of \$721,533 as at October 31, 2006 compared to working capital deficiency of \$141,224 as at April 30, 2006.

The Company will be required to raise additional funds through the capital markets early in the new calendar year in order to finance its planned course of action.

## 1.7 Capital Resources

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

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

## 1.8 Off-Balance Sheet Arrangements

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

## 1.9 Transactions with Related Parties

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

	Three months ended October 31,		Six months ended October 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Mineral property costs:				
- deferred exploration costs				
– field work and consulting	\$ 1,098	\$ -	\$ 1,098	\$ -
Share issue costs:				
- legal fees	75,000	-	75,000	-
Accounting and audit	-	-	3,500	-
Consulting	3,000	-	3,000	-
Legal fees	19,008	5,350	34,498	6,287
Management fees	-	-	46,000	-
Salaries and wages	<u>5,472</u>	<u>6,000</u>	<u>5,472</u>	<u>17,500</u>
	<u>\$ 103,578</u>	<u>\$ 11,350</u>	<u>\$ 168,568</u>	<u>\$ 23,787</u>

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

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

	October 31, <u>2006</u>	April 30, <u>2006</u>
Accounts payable and accrued liabilities	<u>\$ 11,106</u>	<u>\$ 50,000</u>

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

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

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

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

## 1.10 Second Quarter

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

## 1.11 Proposed Transactions

N/A

## **1.12 Critical Accounting Estimates**

Critical accounting estimates used in the preparation of the interim consolidated financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred expenditures as well as the value of stock-based compensation. 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 factors affecting stock-based compensation include estimates of when the stock options might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors including the market value of the Company's shares and the financial objectives of the optionees.

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

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

## **1.13 Changes in Accounting Policies**

The interim consolidated financial statements for the three and six month periods ended October 31, 2006 have been prepared in accordance with Canadian generally accepted accounting principles. The accounting policies and methods remain consistent with the previous period.

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

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

## **1.15 Other MD&A Requirements**

### **Disclosure of Outstanding Share Capital**

- a) Authorized:

Unlimited number of common shares without par value

b) Issued

	<u>Number of Shares</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, April 30, 2006	11,240,001	\$ 682,050	\$ 79,657
For cash:			
Pursuant to Initial Public Offering – at \$0.30	6,900,000	2,070,000	-
Pursuant to Agent’s Commission – at \$0.30	310,000	93,000	-
Pursuant to Agent’s Corporate Finance Shares – at \$0.30	150,000	45,000	-
Pursuant to exercise of agents’ broker warrants – at \$0.30	114,500	49,887	(15,537)
Agents’ broker warrants	-	-	112,356
Less: share issue costs	-	(505,946)	-
Pursuant to mineral property joint venture agreement – at \$0.30	1,000,000	300,000	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>232,820</u>
Balance, October 31, 2006	<u>19,714,501</u>	<u>\$ 2,733,991</u>	<u>\$ 409,296</u>

Subsequent to October 31, 2006, the Company issued 237,000 common shares pursuant to the exercise of 237,000 agent’s warrants at \$0.30 per common share for proceeds of \$71,100. As at October 31, 2006, the Company held \$8,850 for the exercise of these agent’s warrants as share subscriptions.

c) Stock Options

Stock-based Compensation Plan

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

A summary of the stock option activity is presented below:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, April 30, 2006	-	\$ -
Granted	<u>2,000,000</u>	0.37
Balance, October 31, 2006	<u>2,000,000</u>	<u>\$ 0.37</u>

Vested, October 31, 2006 1,550,000    \$ 0.31

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

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,500,000	\$0.30	July 31, 2011
<u>500,000*</u>	\$0.56	September 6, 2011
<u>2,000,000</u>		

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

The Company has recorded \$232,820 (2005: \$Nil) of compensation expense for stock-based compensation relating to options granted and vested during the period. The fair value of the options granted has been determined using the Black-Scholes option pricing model with the following assumptions:

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

d) Share Purchase Warrants:

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

	Six months ended October 31,	
	<u>2006</u>	<u>2005</u>
Outstanding, beginning of the period	-	-
Granted	828,000	-
Exercised	<u>(114,500)</u>	<u>-</u>

Outstanding, end of the period 713,500 -

As at October 31, 2006, there are 713,500 Agent's warrants outstanding with a fair value of \$96,819 entitling the holders thereof the right to purchase one common share for each warrant held exercisable at \$0.30 per common share until July 31, 2008. See Subsequent Event Note 10 in the interim consolidated financial statements.

e) Escrow:

At October 31, 2006, 5,400,000 (2005: Nil) common shares were held in escrow subject to the approval of the regulatory authorities. Uniform terms of automatic timed-release escrow apply to principals of exchange-listed issuers and the following automatic timed releases apply to securities held by its principals:

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

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

During the three and six month periods ended October 31, 2006, the Company entered into an investor relation agreement for a term of six months for \$10,000 plus GST per month.

### **DIRECTORS AND OFFICERS**

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

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

### **CONFLICTS OF INTEREST**

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

### **RISKS & UNCERTAINTIES**

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

## **OUTLOOK**

During the interim period ended October 31, 2006 the Company completed its IPO financing and its 2006 drill program on its Penasco Quemado mineral property. The drill program was designed to verify historical data and expand the coverage of the 2005 drill program with the objective of providing sufficient information and drill hole density to support a National Instrument 43-101 compliant resource estimate. Jim McCrea, P.Geol., has been contracted to complete an independent NI 43-101 compliant mineral resource estimate and supporting technical report. The Company hopes to receive this estimate and report early in the new-year once all assays have been obtained from Acme.

The Company is very encouraged by the fact that its first phase exploration program will lead to a NI 43-101 compliant resource estimate on the PQ Zone. In addition, prospecting with follow-up exploration drilling has identified several other high priority targets that warrant second phase programs. The Penasco Quemado Property exceeds 10,000 hectares in size and the Company believes it holds significant potential for hosting additional zones of both epithermal and porphyry mineralization.

The Company is also excited with its recent acquisition of the Cerro de Plata Property. While first phase surface exploration will not be completed until early in the new-year, results obtained to date suggest a more comprehensive geological, geophysical and drill program will be justified. The Company is committed to fully evaluating the epithermal and copper porphyry potential of the property.

## **OTHER INFORMATION**

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

## **BY ORDER OF THE BOARD**

*"Arturo Bonillas"*

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Arturo Bonillas  
Director, President & CEO

*"Darcy Krohman"*

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Darcy Krohman  
Director, Vice-President & CFO

Amended and restated January 16, 2007