

**SILVERMEX RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**for the period ended October 31, 2008**

**Date of Report**

The following Management Discussion and Analysis (“MD&A”) for Silvermex Resources Ltd. (“Silvermex” or the “Company”) is prepared as of December 19, 2008, and should be read in conjunction with the interim consolidated financial statements for the three period ended October 31, 2008 and the audited consolidated financial statements and related notes for the years ended April 30, 2008 and 2007. The reader is also referred to the Company’s Annual Information Form dated August 7, 2008, 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.

**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 and its administrative office in Hermosillo, Sonora, Mexico. The Company also shares a field office at a related party’s mine site near Estacion Lano, Sonora. The Company recently closed its field office in Guadalajara, Mexico. The Company currently has no revenue from operations and will continue to incur negative

**Silvermex Resources Ltd.****Management Discussion and Analysis****For the period ended October 31, 2008****Containing information up to and including December 23, 2008****Page 2**

cash flow for the foreseeable future. The Company currently has two material properties for purposes of National Instrument 43-101, the Peñasco Quemado Property located in north central Sonora State and the San Marcial Property located in southern Sinaloa State. Both properties have mineral resources as defined by current Canadian Institute of Mines (CIM) definitions. Details of each of these and the Company's other projects are discussed in the Results of Operations.

The Company has raised \$8.570 million since completing its initial public offering (IPO). It raised these funds through a combination of the IPO, private placements and a short form offering. The funds were used as follows: to fund and complete the drill program and preparation of the revised mineral resource estimate on the Peñasco Quemado Property:

- to fund the drill program on the Cerro de Plata Project;
- to pay accrued amounts from the Cerro de Plata drill program;
- to initiate and complete the third phase Peñasco Quemado drill program;
- to fund the completion of a current mineral resource and supporting NI 43-101 technical report on the San Marcial Property;
- for first phase surface exploration programs on the El Rayo and Lobos properties;
- to initiate the first phase San Marcial drill program; and
- for a surface and underground sampling program at the La Frazada silver-zinc property..

The Company's 2008 exploration program has been very successful in a very difficult economic climate. Silvermex completed extensive exploration and drill programs on its San Marcial and Peñasco Quemado properties and extensive underground sampling at La Frazada. Approximately 2,000 meters of drilling at San Marcial increased the indicated mineral resource to 18.0 million ounces silver and the inferred resource to 4.4 million ounces silver. This updated resource includes an upgrade of the old resource of 14.26 million ounces of silver into the indicated category from the inferred category. These programs resulted in increased mineral resource estimates on its three principal, advanced-stage properties. Specifically, Measured and Indicated resources total 32.8 million ounces silver, 40.8 million lbs lead and 86.9 million lbs zinc while Inferred resources total 9.8 million ounces silver, 30.0 million lbs lead and 65.5 million lbs zinc. This represents a 343% growth in silver resources over the last 24 months.

As disclosed in news releases dated October 9, October 14 and October 15, 2008, the Company's silver mineral resources by project are (ounces):

Category	San Marcial	La Frazada	Peñasco Quemado	Totals
Measured:	0	2,615,493	2,591,752	5,207,245
Indicated:	18,021,221	2,156,335	7,468,166	27,645,722
Total M&I:	18,021,221	4,771,828	10,059,918	32,852,967
Inferred:	4,371,018	4,132,520	1,366,749	9,870,287

The Company's total mineral resources are:

Category	Silver (ozs)	Gold (ozs)	Lead (lbs)	Zinc (lbs)
Measured:	5,207,245	1,797	5,657,445	15,834,150
Indicated:	27,645,722	1,264	35,230,132	71,123,399
Total M&I:	32,852,967	3,061	40,887,577	86,957,549
Inferred:	9,870,287	2,231	30,054,276	65,499,878

Assuming adequate funds are available, the Company's principal objectives remain resource expansion, metallurgical testing, and economic assessment of its three principal properties. However the Company requires additional funds to not only fund future exploration programs but for general working capital for day to day operations in Mexico and Vancouver. While management expects it will secure adequate funds, the recent financial and liquidity crises facing financial institutions world wide has produced a great deal of uncertainty in the sector and there is no guarantee that the Company will be able to fund exploration programs or general working capital requirements.

However, on December 23, 2008, the Company signed agreements for a non-brokered private placement of \$300,000, and a brokered private placement of up to a further \$1.5 million. Up to 18,000,000 units will be issued at a price of \$0.10 per unit. Each unit will consist of one common share with one half of one common share warrant. Each whole warrant is exercisable into one common share for a period of 18 months on payment of \$0.15. The Company shall pay its agent the following on the brokered portion of the private placement: 9% of the gross proceeds raised, a fee of \$25,000, and 100,000 units issued on the same basis as those issued in the private placements. Closing is expected to occur by January 20, 2009. The funds will be used to make property payments, pay accounts payable, and do additional work on certain of the Company's projects.

#### *Impact of Market Volatility on Operations*

The recent capital market volatility that is being experienced worldwide has had a significant impact on the Company's operations during the most recently completed interim period and to the date of this management discussion and analysis. Effects that have been encountered include, but are not limited to, a reduction in silver and other commodity prices, significant volatility in foreign exchange rates, including a drop in excess of 20% in the value of the Canadian dollar against the US dollar, a reduction in the Company's share price, depressed equity and credit markets, and an increase in the cost of capital.

#### *Going Concern Issues*

While the Company has been previously successful in funding ongoing exploration programs and operations through equity financings, management is concerned with the Company's ability to continue as a going concern should minimum short term funding not be secured. As discussed above, should capital market volatility continue to erode investor and creditor confidence and/or should silver prices decline significantly, the Company may not be able to secure financing to complete its planned programs or fund general and administrative expenses. If the financing is not completed in the near future, management will have to reassess the Company's ability to continue as a going concern.

**Selected Annual Information**

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

	2008	2007	2006
Total revenues	\$11,465	\$11,184	Nil
Net loss	(\$2,364,336)	(\$1,114,629)	(\$217,882)
Basic and diluted loss per share	(\$0.10)	(\$0.06)	(\$0.03)
Total assets	\$8,150,588	\$3,681,684	\$772,204
Total long term liabilities	Nil	Nil	Nil
Dividends declared	Nil	Nil	Nil

**MINERAL PROPERTIES**

**1. PEÑASCO QUEMADO PROPERTY, SONORA, MEXICO**

During the current period an infill and step-out drill program continued to expand the near-surface silver resources at the Peñasco Quemado silver project in Sonora, Mexico. Measured and Indicated silver resources increased to 10.05 million ozs of silver and inferred resources have increased to 1.36 million oz of silver. The resource estimate was audited by Mr. William Lewis, B. Sc., P.Geo. (Micon International Inc.) an independent Qualified Person, and was prepared using CIM definitions for mineral resources as required by National Instrument 43-101. The mineral resource estimate is:

Category	Tonnes*	Ag (g/t)	Contained Ag (oz)
Measured (M)	722,658	111.6	2,591,752
Indicated (I)	2,352,174	98.8	7,468,166
<b>Total M&amp;I</b>	<b>3,074,832</b>	<b>101.8</b>	<b>10,059,918</b>
Inferred:	597,045	71.2	1,366,749

*\*Cut-off grade of 30 grams of silver per tonne.*

The mineral resource estimate is now based on a total of 9,847 meters of core and reverse circulation drilling from 107 holes completed by both Silvermex and previous operators. The 139 square mile (36,000 hectare) property is located in the north-central portion of the state of Sonora, Mexico, approximately 70 kilometers (km) southwest of the Mexico-Arizona border. The Peñasco Quemado deposit consists of silver with minor gold and copper in structurally-controlled fissure fillings hosted within granite and disseminated throughout a sedimentary breccias unit. The near surface and oxidized nature of the mineralization suggest the deposit would have a low strip ratio and be amenable to low cost, bulk tonnage, open pit mining methods. During the period, the Company also completed metallurgical testing on the principal ore domain. Two-phase, 24 hour leach produced 71% silver recoveries. Management is pleased with these results but is confident that by optimizing crush size, reagent concentration, leach time, and ph, that recoveries can be further improved.

Significant intersections from past drill programs include 30 meters grading 149.2 g/t Ag from the Peñasco Quemado (PQ) Zone and 22.5 meters grading 148.5 g/t Ag from the Southeast Extension, located approximately 820 meters along strike from the PQ Zone. This intersection of economic grade mineralization was the furthest

encountered from the PQ Zone since exploration began in 2005. The results of the latest drill program confirm that the ore grade mineralization extends along strike both to the southwest and the southeast. To date the resource has been defined over a strike length of 400 meters. In addition there have been several intersections of the mineralized zone up to 820SE of the PQ Zone, suggesting the mineralization may be continuous between the 400SE and 820SE sections.

Management is encouraged with this latest resource and based on extensive geological modelling, detailed sampling, and recent drill intersections are confident that future exploration programs will deliver additional quality silver resources.

The Company has obtained an extension from the optionor to make a reduced final payment of US\$145,000 on the project by May 15, 2009. This payment is now subject to an interest rate of 10%.

## **2. SAN MARCIAL PROPERTY, SINALOA, MEXICO**

In October 2007, the Company announced the execution of a term sheet with Silver Standard Resources Inc. to earn a 100% interest in the 1,250 hectare, San Marcial Property located approximately 150 kilometres east of Mazatlan in west central Mexico. (See News Release dated October 9, 2007 for a comprehensive description of the terms of the San Marcial option agreement). In November 2007 the Company filed a report titled NI 43-101 Technical Report for the San Marcial Property, La Rastra Mining District, Sinaloa, Mexico, prepared by independent Qualified Persons, William J. Lewis, B.Sc. P.Geo., and Nathan Eric Fier, C.P.G., P.Eng. of Micon International Limited (the Report). The Report confirmed a resource estimate previously completed for Silver Standard on the San Marcial Property. The estimate states the property currently hosts a mineral resource of 14.26 million ounces of silver, 33 million lbs of zinc and 16 million lbs of lead (2.31 million tonnes grading 191.79 g/t silver, 0.66% zinc and 0.32% lead). In addition, it notes that a number of silver targets that may be amenable to bulk mining methods have been identified at San Marcial. The most advanced of these targets being the San Marcial South East (SE) and North West (NW) zones which extend for 450 metres and are open in both directions along strike and at depth. The Report is available on SEDAR.

The mineralization at San Marcial is typical of the low sulphidation, epithermal vein systems hosted near the contact of the Tertiary, Upper and Lower Volcanic units in the Sierra Madre Occidental Geologic Province. This Province hosts many important precious metal mines and prospects along its 1,500 km long, 250 km wide extent. The Report states *The San Marcial project should be regarded as a mid-stage project which may have a significant economic potential, should the mineralization prove to be more extensive than is presently indicated by the current resource estimate. Given the prospective nature of the San Marcial project and the current metal prices, it is Micon's opinion that the project is worthy of further exploration work.* Significant intercepts from previous drill programs included 11.61 meters (true width) grading 350 g/t silver (SM-2), 53.95 meters (true width) grading 235 g/t silver (SM-4), 17.61 meters (true width) grading 282 g/t silver (SM-5) and 12.68 meters (true width) grading 540 g/t silver (SM-9) and 17.5 meters (true width) grading 621 g/t silver (SM-13).

On April 17, 2008, the Company announced results of its first phase exploration program. Highlights included grades as high as 300 g/t silver across 22.1 meters including a higher grade core grading 994 g/t silver over two meters. The surface and underground exploration program at San Marcial included geological mapping, surface channel sampling, drill core re-logging, and road construction. Geological mapping (1:1,000) was completed over a 360 hectare area exposing 3.5 kms of strike length along the San Marcial vein system. This is an increase of three kilometres over the 500 meter area which contains the existing inferred resource of 14.26 million ounces of silver. Channel sampling of the surface exposures of the vein system and re-logging of 3,127 meters of core from previous drilling campaigns by prior operators was also completed. This program provided valuable information regarding the geologic history, nature of the mineralization, and deposit model used to support the next phase of exploration, including the diamond drill program currently in progress.

A total of 143 channel samples were collected from the various trenches and outcrops along the 3.5 kilometers of strike length that has been exposed. The vein system varies from two to 35 meters in width over this distance. The results confirmed the high grade nature of the surface mineralization and the continuity of the ore-shoot that hosts the inferred mineral resource. Five trenches are located along 400 meters of strike within the area hosting the majority of historical workings. The mineralization ranged from 300 g/t Ag across 22.1 meters to 994 g/t Ag across 2.0 meters. The mineralization remains open to the southeast. To the northwest the surface exposures of the San Marcial vein system are not as continuous but can be traced or inferred by an alteration zone that extends for more than 2.5 kilometers. Details of the results from the sampling program are available in the Company's news release dated April 17, 2008.

The Company began a first phase diamond drill program on May 29, 2008. A fourteen hole, 3,700 meter core drilling exploration program was initially planned. The Company did not have sufficient funds to complete the intended drilling and the program was revised to 1,500 meters. The objective of the program was to complete the necessary infill drilling to upgrade the category of the current mineral resource and expand the continuity of the mineralized structure at least 200 meters along strike and 400 meters down dip. Work concentrated on the San Marcial South East and North West zones which have been traced for over 450 metres and are open in both directions along strike and at depth. Two holes were collared 200 meters apart to help confirm the existence of the mineralized zone intersected in four holes from the previous drill programs. Five holes tested the northwest projection of the mineralized structure associated with the San Marcial deposit while another five holes tested the down dip extension of the mineralization below the existing resource. The final two holes tested the southeast extension of the San Marcial deposit. Based on the grade, tonnage and nature of the mineralization, Company geologists believe the silver, lead and zinc mineralization associated with a quartz stockwork within the footwall of the San Marcial vein system will be amenable to bulk mining methods. In total, the program tested 900 meters of strike of the mineralized structure that to date has been traced by drilling, mapping and sampling. To the southeast a Tertiary volcanic cover masks much of the structure. As a result, detailed mapping, sampling, geochemical and/or geophysical programs will be required to help locate additional drill targets.

The infill and step-out drilling met its objective of expanding the silver resource as the indicated and inferred mineral resources were increased to 18.0 million and 4.4 million oz silver respectively. Significant zinc and lead resources were also delineated. Total current mineral resources include:

Category	Tonnes	Ag (g/t)	Pb (%)	Zn (%)	Contained Ag (oz)	Contained Pb (lb)	Contained Zn (lb)
Indicated	3,755,893	149.20	0.36	0.67	18,021,221	29,931,874	55,328,145
Inferred:	3,075,403	44.21	0.29	0.51	4,371,018	19,525,788	34,690,817

The resource estimate was reviewed by Mr. William Lewis, B. Sc., P.Ge. (Micon International Inc.), the independent Qualified Person, and was prepared using CIM definitions for mineral resources as required by National Instrument 43-101 (see *Updated NI 43-101 Technical report for the San Marcial Property, La Rastra Mining District, Sinaloa, Mexico* authored by William J. Lewis, B.Sc., P.Ge. (Micon International Limited) dated November 5, 2008). The resource estimate is based on a cut-off grade of 30 grams of silver per tonne for open pit resources and a cut-off grade of 80 grams of silver per tonne for underground resources. It is based on information and data from a total of 4,884 meters of diamond drilling in 27 holes, completed by both Silvermex and previous operators. Preliminary metallurgical testing on the San Marcial project has also returned encouraging results. Five oxide and sulphide samples from holes SM-2, SM-4 and SM-5 were sent to ALS Chemex in Reno NV for column leach tests. Recoveries from all columns exceeded 80% over a 72 hour leach

period. Additional metallurgical test work was completed on four samples composed of drill core rejects submitted to Process Research Associates Ltd. in Richmond, B.C. Recoveries from flotation and cyanidation ranged from 90 to 97.9 percent. Silvermex management is very pleased with the results obtained from the recent exploration program and are confident a better understanding of the geologic controls, a refined deposit model and additional drilling, mapping and sampling will continue to expand the resource base.

To satisfy the terms of the San Marcial agreement the Company is required to spend US\$3.5 million over a three year period. The Company anticipates that the majority of these expenditures will be related to drilling and resource definition and should the results justify, economic assessment and feasibility. This agreement is being renegotiated to reflect current market conditions.

### **3. LA FRAZADA PROPERTY, NAYARIT, MEXICO**

On March 25, 2008, the Company announced it had staked a 360 hectare concession along the southwest margin of the Sierra Madre Occidental, in the historic mining district of Real del Zopilote, in the state of Nayarit. The concession encompasses the past producing La Frazada Silver Mine. The project is located approximately 300 kilometres northwest of Guadalajara and less than 100 kilometres south of the Company's San Marcial project. Preliminary reconnaissance sampling by Silvermex geologists of the La Frazada structure returned an average grade of 222.7 g/t silver. These results include channel samples across 1.5 meter sections of the vein grading up to 482.9 g/t silver and grab samples from dump material grading up to 655.7 g/t silver. Base metal grades of up to 0.77% copper, 8.2% zinc and 1.55% lead from 1.5 meter channel samples of vein material, and 0.70% copper, 5.3% zinc and 1.87% lead from grab samples of dump material have also been returned.

The mine and a small smelter operated from 1890 until the Mexican Revolution in 1910. In 1985 Compania Minera Nival completed construction of a 280 t.p.d. mill and development of an extensive series of underground workings, including a 1,300 meter tunnel that allowed access to the La Jabalina vein at six different levels. These workings were used to access a 900 meter long, 350 meter high ore shoot that has been only partially mined. Prior to its abandonment, Nival had been preparing for a more extensive mining program as 5 meter wide ramps had been developed allowing for significantly higher rates of production from La Jabalina. The mine closed in 1997 due to low metal prices and the mill was later relocated elsewhere.

The principal mineralized zones are the La Jabalina and La Frazada Veins. These two parallel structures are 10 to 15 meters apart and vary in width from 3 to 15 meters. Both mineralized zones either outcrop or are exposed in trenches and underground workings along strike for more than 3 kilometers. A brief survey of the underground workings indicate the structures are exposed over a vertical distance of at least 300 meters and are open down dip. The tunnels offer easy access but require some re-conditioning. The property lies along the contact between the Upper and Lower Volcanic Series, an unconformity that hosts many of the precious metal deposits in the Sierra Madre Occidental. Silver, zinc, lead, copper and gold mineralization have been identified within the area staked.

Silvermex had previously completed a systematic sampling and mapping program along the 3 kilometres of surface outcrops and 1.3 kilometers of underground workings where the La Jabalina and La Frazada vein and breccias systems are exposed. Company geologists believe the El Zopilote District is a large mineral system that may be part of a volcanic caldera complex. In addition to being a favorable environment for hosting epithermal deposits the geology of the region suggests it may also be favorable for hosting volcanogenic massive sulfides targets. Initial results from this first phase surface and underground sampling program returned silver assays as high as 2,495 g/t Ag (80.22 oz/t Ag) across 1.5 meters on surface at the Jabalina vein, 251 g/t Ag (8.07 oz/t Ag) across 1.5 meters from below the La Frazada workings and 539 g/t Ag (17.35 oz/t Ag) across 15 meters from a breccia zone in the Tiro Real shaft.

**Silvermex Resources Ltd.****Management Discussion and Analysis****For the period ended October 31, 2008****Containing information up to and including December 23, 2008****Page 8**

During the current period the Company's independent qualified person visited the property and completed an mineral resource estimate using CIM definitions for mineral resources as required by National Instrument 43-101 (see *Technical Report & Preliminary Mineral Resource Estimate for the La Frazada Silver Property, El Zopilote Mining District, Nayarit, Mexico* authored by William J. Lewis, B.Sc., P.Geo. (Micon International Limited) dated November 24, 2008). The mineral resource estimate is:

<b>Category</b>	<b>Tonnes* 000</b>	<b>Ag (g/t)</b>	<b>Au (g/t)</b>	<b>Pb (%)</b>	<b>Zn (%)</b>	<b>Ag (oz) 000</b>	<b>Au (oz)</b>	<b>Pb (lb) 000</b>	<b>Zn (lb) 000</b>
Measured:	303.8	259.75	0.197	0.88	2.357	2,537	1,925	5,866	15,782
Indicated:	278.9	240.46	0.141	0.86	2.521	2,156	1,264	5,297	15,498
Total M& I:	582.7	250.50	0.170	0.690	2.436	4,693	3,189	11,163	31,280
Inferred:	533.7	224.88	0.178	0.923	2.616	3,859	3,055	10,860	30,769

\* Cut-off grades of 80 g/t silver, 0.75% lead and 1% zinc.

Management are encouraged with the results, and are pleased that this was achieved with limited expenditures. Company geologists are confident that future exploration programs will significantly expand this resource base.

#### **4. CERRO DE PLATA PROPERTY, SONORA, MEXICO**

On November 27, 2006, the Company announced the signing of an option to acquire a 100% interest in the 10,000 hectare "Cerro de Plata" silver project. The property is located in the Sierra Madres Mountains approximately 50 kilometres south of the Mexico/Arizona border at Nogales, Mexico, and is 45 kilometres east of the Company's Peñasco Quemado project.

A first phase exploration program was conducted at the project between May and August 2007. The program consisted of drilling 1,528 metres of core in nine holes, a 10 kilometre Controlled Response Induced Polarization geophysical survey, a 600 kilometre airborne magnetic and radiometric survey, 2.5 kilometres of road construction and trenching and detailed surface and underground mapping and sampling. A detailed discussion and analysis of the results of the program are provided in a news release dated September 13, 2007.

Technical staff believes that an extensive program of detailed geological mapping, geophysics and geochemistry followed by a second phase 5,000 metre diamond drill program is required to progress the project to the next decision point. The Company does not have any immediate plans for this second phase drill program as it believes its limited financial resources are better allocated to its other properties at this time.

## **5. LOBOS PROPERTY, SONORA, MEXICO**

During the previous year the Company announced the results from a first phase surface exploration program on its 100% owned, 2,830 hectare Lobos project located in northwestern Sonora, Mexico. The property lies along the Sea of Cortez, approximately 90 kilometers south of Puerto Peñasco.

The sampling program returned several high grade silver and zinc results over appreciable widths. From these results the Company determined a systematic channel sampling program along the exposed breccia zone was justified. The results of 327 channel samples taken along 350 m of strike identified a 200 metres long, 42 metres wide mineralized zone averaging 184.6 g/t Ag, 0.53% Zn, 0.29% Pb and 0.026% Cu. The highest values returned 2.74 kg/t Ag across 3.0 m. The mineralized zone appears to be open in both directions along strike.

A review of the property geology indicates a sequence of tertiary volcanic flows and agglomerates varying in composition from andesite to rhyolite overlying a granitic basement with the entire sequence being subjected to severe tectonic forces producing wide breccia zones, faults and fractures that are often intruded by dikes. Company geologists believe the mineralized breccias zone extends below the volcanic cover, further enhancing the economic potential of the property. While it is hoping to test this theory with a first phase drill program the Company does not anticipate this occurring in the current fiscal year. A detailed discussion and analysis of the results from the program are provided in a news release dated November 8, 2007.

## **6. EL RAYO PROPERTY, SONORA, MEXICO**

On May 28, 2007, the Company entered into an agreement to acquire a 100% interest in the 150 hectare El Rayo Claims located less than 10 kilometres from the city of Magdalena de Keno, Sonora, Mexico. The Company has staked an additional 2,200 hectares to ensure the mineral rights to any extensions to the known mineralization are secured. The property is easily accessible from the Pan American Highway and high voltage power lines bisect the northwest corner of the claim block. To exercise the option the Company must pay a total of US\$315,000 over a period of two years. In addition, the Company is required to issue 250,000 common shares for every 10 million ounces silver identified in measured and/or indicated mineral resource categories (CIM definition). The vendor is an arm's-length party and retains no royalties on the claims.

The Company initially completed a short first phase surface and underground exploration and sampling program on the claim block including prospecting, and reconnaissance mapping along 750 metres of intermittent exposures of the brecciated, shear zone that varies from 0.50 to 15 metres in width. Mineralization consists of pyrite, galena and sphalerite hosted in a volcanic breccia. A total of 60 samples including eight channel samples from the underground workings were taken. The assays returned 665 g/t silver, 0.83% lead, 0.50% copper and 0.43% zinc across 12 metres (approximate true width) in the underground workings. The silver, lead, zinc and copper values were traced for at least 150 to 200 m along the strike of the mineralization zone with the highest silver values returning from the exposures near the portal of the underground workings.

Silver and polymetallic mineralization has been sampled on the property over exposed surface widths of up to 40 meters and over underground widths of 12 meters on the ceiling of an existing 30 meter long tunnel that runs along the structure. Underground samples from the tunnel have returned assays as high as 700 g/t silver over 12 meters. A recently completed surface trenching program over the outcropping mineralization included values of 76 g/t silver over 24 meters, 40 g/t silver over 40 meters and 23.3 g/t silver over 4 meters. To date silver and polymetallic mineralization has been sampled on the property over exposed surface widths of up to 40 meters and over underground widths of 12 meters on the ceiling of the 30 meter long tunnel that runs along the structure. Underground samples from the tunnel have returned assays as high as 700 g/t silver over 12 meters. A second phase of surface sampling and trenching program over the outcropping mineralization returned values of 76 g/t silver over 24 meters, 40 g/t silver over 40 meters and 23.3 g/t silver over 4 meters.

A short reverse circulation drill program was initiated in July 2008. The program consisted of 600 meters of drilling in 6 holes with the holes located to intersect the mineralized breccia/fault zone that outcrops for 400 meters along strike. While the drill program failed to return economic grade intersections, Company geologists believe additional surface work and a second phase is warranted should sufficient cash reserves become available. No additional work is planned at this time.

## **Results of Operations**

### **Six months ended October 31, 2008, compared with six months ended October 31, 2007:**

During the six month period ended October 31, 2008, the Company reported a net loss of \$1,059,252 (\$0.04 per share) compared to a net loss of \$1,085,451 (\$0.05 per share) for the six months ended October 31, 2007. The net loss for the period was \$878,321 (2007: \$751,303) excluding non-cash charges to income of stock based compensation and foreign exchange losses

The major items for the six month period ended October 31, 2008, compared to October 31, 2007, were:

- a. Consulting fees of \$84,929 (2007: \$120,600) primarily due to a decrease in market activity and contracting out to marketing and promotional consultants.
- b. Investor relation charges of \$132,715 (2007: \$161,245) for corporate communications also decreased due to a reduction in the Company's marketing and promotions campaign.
- c. Charges for stock-based compensation decreased to \$117,522 (2007: \$291,673). These charges are non-cash transactions and are based on the fair value of 1,650,000 options at an exercise price of between \$0.30 and \$1.11 using the Black-Scholes option pricing model. Please refer to Note 8 of the interim consolidated financial statements for further details.
- d. Salaries and wages expense totaled \$432,032 (2007: \$146,847). The increase was partially due the company being fully staffed for the full period (as compared to the prior quarter). It was also due to a bonus paid to a director and officer of the Company pursuant to the terms of his employment agreement to reimburse him for his tax liability relating to options granted on the commencement of his employment. In addition, salaries and wages expense includes \$70,000 paid to a former employee, director and officer in settlement of his breach of contract/wrongful dismissal claim and his claimed right to exercise his stock options.

During the three month period ended October 31, 2008, the Company reported a net loss \$480,825 or \$0.02 per share, compared to a net loss of \$621,843 or \$0.03 per share for the three months ended October 31, 2007. The net loss for the period was \$387,126 (2007: \$404,216) excluding stock based compensation and foreign exchange gains or losses.

The major items for the three month period ended October 31, 2008, compared to October 31, 2007, were:

- a. Consulting fees of \$47,443 (2007: \$50,154) to a director and officer of the Company. The current consulting fees for the current period are consistent with previous periods..

## Silvermex Resources Ltd.

### Management Discussion and Analysis

For the period ended October 31, 2008

Containing information up to and including December 23, 2008

Page 11

- b. A foreign exchange loss of \$93,699 (2007: \$89,505) incurred due to the weakening of the Canadian dollar against the US dollar, and the Mexican peso against the US dollar. The Company's Subsidiary is required to make most of its payments to suppliers and contractors in US funds.
- c. Investor relation charges of \$56,003 (2007: \$90,275) for corporate communications work performed reflect the decrease in the investor relations program.
- d. Salaries and wages expense totaled \$145,834 (2007: \$68,671). In addition, salaries and wages expense includes \$70,000 paid to a former employee, director and officer in settlement of his breach of contract/wrongful dismissal claim and his claimed right to exercise his stock options.

The Company's expenditures on its properties reflects its focus in the last six months. \$198,611 was spent on Peñasco Quemado Project, \$53,786 of which went to salaries and consulting fees, and \$54, 586 to assaying. The Company's primary focus was its San Marcial Project, on which \$683,120 was spent. Of this amount, \$374,886 was spent on drafting, reporting and reproduction, and \$162, 026 on salaries and consulting fees.

### Summary of Quarterly Results

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

	<b>Q2 October 31, 2008</b>	<b>Q1 July 31, 2008</b>	<b>Q4 April 30, 2008</b>	<b>Q3 January 31, 2008</b>	<b>Q2 October 31, 2007</b>	<b>Q1 July 31, 2007</b>	<b>Q4 April 30, 2007</b>	<b>Q3 January 31, 2007</b>
Total revenues	\$1,030	\$12,037	\$2,912	\$3,035	\$832	\$4,686	\$3,306	\$ 7,878
Net loss	(\$480,825)	(\$578,427)	(\$661,604)	(\$617,281)	(\$621,843)	(\$463,608)	(\$331,323)	(\$206,046)
Basic loss per share (1)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.02)	(\$0.01)

(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.

### Liquidity

The interim consolidated financial statements for the three month period ended October 31, 2008, 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 be available to further explore its mineral property projects and to cover general and administrative expenses necessary to maintain a public company.

The Company had cash of \$200,315 at October 31, 2008 compared to \$1,455,130 as at April 30, 2008. The Company had working capital deficiency of \$107,261 as at October 31, 2008 compared to working capital surplus of \$1,770,034 at April 30, 2008.

## 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.

In the interim, and subsequent to the period end, the optionor of the Peñasco Quemado Project agreed to extend the date of the last option payment to May 15, 2009, and to reduce the amount of this payment to US\$145,000. Interest is payable on this final payment. The US\$25,000 option payment that was due on the El Rayo project was also deferred, to December 31, 2008.

The Company also announced a private placement for \$1.8 million which will enable it to pay its payables, make property payments, and work on certain of its projects.

## Transactions with Related Parties

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

	Six months ended October 31, 2008	Six months ended October 31, 2007
Mineral property costs:		
- field work and consulting (1)	\$ 47,535	\$ 99,181
Accounting (2)	30,500	29,000
Consulting (1)	Nil	65,000
Office expenses (3)	107,248	-
	<u>\$ 185,283</u>	<u>\$ 213,518</u>

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

- (1) Certain of the Mexican employees are paid as consultants, rather than as employees.
- (2) A company that was related to the Company by virtue of a director, provides day-to-day accounting services for the Company.
- (3) A Company related by virtue of directors in common incurs office expenses (such as rental of the Vancouver office) on behalf of the Company. The related company is reimbursed for all such expenses.

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, 2008 and October 31, 2007 are the following related party amounts:

October 31, 2008	October 31, 2007
---------------------	---------------------

---

Accounts payable and accrued liabilities	\$ 135,103	\$ 108,747
--	------------	------------

---

This amount is due to the company related by virtue of common directors for office expenses incurred on the Company's behalf.

### **Critical Accounting Estimates**

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

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.

### **Changes in Accounting Policies**

The interim consolidated financial statements for the six month period ended October 31, 2008 have been prepared in accordance with Canadian generally accepted accounting principles. The accounting policies and methods remain consistent with the previous period.

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

The carrying value of financial instruments, which includes 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.

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

The Company's outstanding share capital as at December 23, 2008, is as follows:

Common shares	29,934,251
Stock options	1,750,000
Share purchase warrants	2,545,250
Brokers' options	192,880

### **Investor Relations Agreements**

The Company has a month-to-month investor relation agreement for \$10,000 plus GST per month. Subsequent to the period end this agreement was terminated.

### **Legal matters**

A former consultant of the Company initiated action against the Company for damages for breach of contract/wrongful dismissal. Legal counsel to the Company is unable to assess the Company's potential liability, if any, resulting from this action. Any settlement will be reflected as a charge to operations in the year incurred. Based on management's assessment no provision for possible loss has been included in these financial statements.

### **Directors and officers**

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 Annual Information Form dated August 7, 2008. The Company's financial success is subject to, among other things, fluctuations in silver, 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, 2008 the Company completed updated mineral resource estimates on its Peñasco Quemado and San Marcial Properties and an initial mineral resource estimate on its La Frazada Property. These estimates are discussed in detail in *Mineral Properties*.

During 2008 approximately 2,000 meters of drilling at San Marcial produced an indicated and inferred mineral resource of 18.0 million and 4.4 million oz silver respectively. These programs allowed the Company to announce updates to the NI 43-101 resource estimates on its 3 primary, advanced-stage properties during the current period. Measured and indicated mineral resources total 32.8 million ounces silver, 40.8 million lbs lead and 86.9 million lbs zinc while inferred mineral resources total 9.8 million ounces silver, 30.0 million lbs lead and 65.5 million lbs zinc. This represents a 343% growth in silver resources over the last 24 month period. As outlined above, measured and indicated resources represent 77% of total resources.

**Total Silver Mineral Resources (oz Ag) – Project Breakdown**

Category	San Marcial	La Frazada	Penasco Quemado	Totals
Measured:	0	2,615,493	2,591,752	5,207,245
Indicated:	18,021,221	2,156,335	7,468,166	27,645,722
Total M&I:	18,021,221	4,771,828	10,059,918	32,852,967
Inferred:	4,371,018	4,132,520	1,366,749	9,870,287

**Total Mineral Resources - Metal Breakdown**

Category	Silver (oz Ag)	Gold (oz Au)	Lead (lbs Pb)	Zinc (lbs Zn)
Measured:	5,207,245	1,797	5,657,445	15,834,150
Indicated:	27,645,722	1,264	35,230,132	71,123,399
Total M&I:	32,852,967	3,061	40,887,577	86,957,549
Inferred:	9,870,287	2,231	30,054,276	65,499,878

The equity markets in general and for early stage exploration companies specifically, have been very difficult over the last several months. The Company has assessed a number of financing alternatives to help ensure adequate funds are available to progress each of its projects during the remainder of the current fiscal year. It is pleased to announce that it has signed agreements to raise \$300,000 in a non-brokered private placement of \$300,000, and up to a further \$1.5 million in a brokered private placement. Up to 18,000,000 units will be issued at a price of \$0.10 per unit. Each unit will consist of one common share with one half of one common share

warrant. Each whole warrant is exercisable into one common share for a period of 18 months on payment of \$0.15. The funds will be used to make property payments, pay accounts payable, and do additional work on certain of the Company's projects, thereby allowing the Company to expand the collective resource base over the next year.

#### **OTHER INFORMATION**

For information about the Company and its projects 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**

*"Bruce Bragagnolo"*

---

Bruce Bragagnolo  
Director, CEO

December 23, 2008

*"Darcy Krohman"*

---

Darcy Krohman  
Director, Vice-President & CFO