

**SILVERMEX RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**for the year ended April 30, 2009**

**Date of Report**

The following Management Discussion and Analysis (“MD&A”) for Silvermex Resources Ltd. (“Silvermex” or the Company) is prepared as of August 11, 2009, and should be read in conjunction with the audited Consolidated Financial Statements (“Financial Statements”) and related notes for the years ended April 30, 2009 and April 30, 2008. 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](http://www.sedar.com) and on the Company’s website at [www.silvermexresources.com](http://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.

**Qualified Person**

Pursuant to National Instrument 43-101, Lawrence A. Dick, Phd, P.Geo is the Qualified Person (“QP”) 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 and its administrative office in Hermosillo, Sonora, Mexico. The Company also has a field office near Estacion Llano, Sonora. The Company currently has no revenue from operations and will continue to incur negative cash flow for the foreseeable future. The Company currently has three material properties for purposes of National Instrument 43-101, the Peñasco Quemado Property located in Sonora, the La Frazada

property located in Nayarit, and the San Marcial Property located in Sinaloa. These properties have mineral resources as defined by current Canadian Institute of Mining, Metallurgy and Petroleum (CIM) definitions. These projects are discussed in Mineral Properties.

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, volatility in silver and other commodity prices, volatility in foreign exchange rates, a reduction in the Company's share price, an increase in the cost of capital, and significantly depressed equity and credit markets especially for junior issuers, such as the Company.

Management is concerned with the Company's ability to continue as a going concern should minimum short term funding not be secured. However, the Company has previously been successful in funding ongoing exploration programs and operations through equity financings. If the circumstances discussed above continue, it is possible that the Company will not be able to secure financing to complete its planned programs or fund general and administrative expenses. If financing is not completed as required in the near term, management will have to reassess the Company's ability to continue as a going concern. However, on August 13, 2009, the Company announced a short term interim financing of \$765,000. These funds are to be used for general working capital. The Company plans to complete a further private placement for \$2,500,000 in the autumn of 2009.

The Company had not conducted any exploration activities on its properties since the work performed which resulted in updated National Instrument 43-101 resource estimates on its three primary, advanced-stage properties, as it did not have the funds available. However, the Company completed a private placement of \$1,863,000 (gross) in the fourth quarter and moved forward with some exploration activities on the San Marcial project. The funds were also used to satisfy accounts payable, for general working capital purposes, and to make the final option payment on the Peñasco Quemado property. This payment completed the purchase of a 100% interest in the Peñasco Quemado property.

During the year the Company announced that it had finalized its formal agreement with Silver Standard Resources Inc. ("Silver Standard") for the acquisition of the San Marcial project. Under the terms of the formal agreement with Silver Standard, Silvermex can acquire a 100-per-cent interest by issuing three million common shares in three stages by February 1, 2011, at a deemed share value of 75 cents per share for the first one million shares and based on the market price of the shares of Silvermex at the time of each subsequent issuance. Silvermex must also pay US\$15-million (less the deemed value of the three million common shares issued) in either cash or shares at the election of Silver Standard, by February 1, 2012. The Company must also expend US\$1,000,000 on exploration by February 1, 2011. The Company is also obligated to pay Silver Standard US\$100,000 per month commencing after commercial production has begun. These payments will be credited against the purchase price. There is also a 3% net smelter return on the property.

The Company entered into letter of intent with Aurcana Corp. ("Aurcana") to acquire a 100% interest in the Rosario Property. The agreement was to have been signed by June 15, 2009, at which time the Company was to pay Aurcana \$125,000 and issue 1,000,000 shares. In addition, \$125,000 was to be paid to Aurcana within 90 days of signing. Upon successful production or within 24 months, the Company was to issue an additional 1,000,000 shares and pay to Aurcana \$3,000,000 in six instalments of \$500,000 every six months over 36 months. The Company was also to assume the balance of payments due to Grupo Mexico in the amounts of US\$350,000 due in July 2009, and US\$650,000 due in January 2010. There is also an NSR payable to Grupo Mexico. The agreement is subject to Exchange approval, the assignment of the underlying option agreement to the Company and satisfactory due diligence by the Company. A definitive agreement has not yet been concluded

and the terms may change. The Company will need to raise additional funds to meet the obligations as set out in the letter of intent.

### **Selected Annual Information**

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

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Total revenues	\$13,404	\$11,465	\$11,184
Net loss	(\$3,289,213)	(\$2,364,336)	(\$1,114,629)
Basic and diluted loss per share	(\$0.10)	(\$0.10)	(\$0.06)
Total assets	\$6,743,681	\$8,150,588	\$3,681,684
Total long term liabilities	Nil	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 audited Annual Consolidated Financial Statements for the year ended April 30, 2009, 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 increase in net loss from 2007 to 2008 shows the increase in expenditure as the Company moved toward being an operating entity, as opposed to being merely a newly-listed entity. The net loss in 2009 was higher than in 2008 because the Company decided to write-off two resource mineral properties in 2009.

The increase in total assets from 2007 to 2008 reflects the acquisition, or acquisition related payments, of the various projects and, in particular, San Marcial, as well as extensive exploration programs performed on the Peñasco Quemado and Cerro de Plata projects. In contrast, the only extensive exploration program undertaken in 2009 was on the San Marcial project. New projects were acquired in 2009. (The La Frazada project was staked.) The increase in the resource property asset is not entirely evident as the Company wrote-off the Cerro de Plata and El Rayo properties.

### **Mineral Properties**

It is management's opinion that its resource properties 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;
- the Company plans to make its option payments and complete its work commitments on its remaining properties; and
- the Company plans to conduct exploration activities on these properties within the next year.

### **Peñasco Quemado Property**

The Company made the final option payment on this property thereby completing the purchase of a 100% interest in the Peñasco Quemado silver project. No exploration work was conducted on this property in the previous quarter, and none is planned for this property in the foreseeable future as the Company does not have the funds available.

### **San Marcial Property**

The Company did not conduct any exploration work on this property in the current quarter due to lack of funds. Continuation of the preliminary economic assessment studies on this project has been delayed, as has reconstruction of, and improvements, to the access roads. The results of the metallurgical test program that were expected in mid May are not yet available. Subject to the availability of funds, the Company is contemplating a program costing US\$1,060,000 which includes in-fill core drilling and a scoping study.

### **La Frazada Property**

Minimal work was performed on this property in the current quarter and consequently the anticipated results of the metallurgical test program are not yet available. The Company had also planned to take additional representative bulk samples and ship the resulting material to an independent metallurgical laboratory. The results of these tests were to be used to determine flow process, plant design and equipment selection as part of a pre-feasibility program. As the samples have not been taken, this work will not be completed late in the third quarter of 2009 as originally expected. Subject to the availability of funds the Company is contemplating a program costing US\$1,227,000 should the necessary funds become available. This program will include core drilling, ramps and tunnelling, and a scoping study.

### **Cerro De Plata Property**

No exploration work was conducted on this property in the quarter, and the results that have been received to date were mediocre. Consequently the Company has decided to write off this property.

### **Lobos Property**

No exploration work was conducted on this property in the quarter, and little work is planned for this property in the foreseeable future as the Company does not have the funds available.

### **El Rayo Property**

No exploration work was conducted on this property in the quarter, and the Company has decided to write this property off in order to be able to focus its resources on its remaining properties.

### **Lety Property**

No exploration work was conducted on this property in the previous quarter, and none is planned for this property in the foreseeable future as the Company does not have the funds available.

**Rosario Property**

Subsequent to the period end, the Company entered into a letter of intent with Aurcana to acquire a 100% interest in the silver - gold - lead - zinc Rosario Property located in south eastern Sinaloa State, Mexico. This property consists of 18 concessions totalling approximately 8,515 hectares and is located approximately 94 kilometres southeast of Mazatlan. It is located within two kilometres of the San Marcial property.

The acquisition will include all facilities and infrastructure, including surface rights, underground workings, tailings dam, water, power, offices, shops, 60 man camp, warehouses and assay lab. The previous operator completed partial renovations to the mine and mill site including; upgrading of electrical substations and wiring, camp accommodations upgrades, mine dewatering and detailed engineering of an 800 tonne per day (t/d) mill. The acquisition also includes an extensive list of mill equipment and vehicles, including; two 9 by 12 ball mills, numerous feeders and tanks, electrical equipment, loader/backhoe, trucks, pumps, compressors, etc.

The land directly surrounding the Rosario mill site (330 ha) is owned in fee simple and key exploration and mining areas are under a current surface rights agreement which remains in good standing for 20 years. The Company is working on a preliminary in-house study which will determine mine and production plans based on combining the two Rosario and San Marcial projects.

Historic production on the Rosario property by Grupo Mexico, the prior operator, averaged 600 t/d from 1986 to 2000. During this production period a total of 2.5 million tonnes of ore were produced which averaged 190.5 grams per tonne (g/t) silver, 0.92 g/t gold, 2.02% zinc and 2.38% lead. The two main areas of interest on the Rosario Project are the San Juan Prospect and the Plomosas Mine.

The San Juan prospect is a high priority target on the project. This vein structure has 26,205 tonnes of historic reserves with grades of 339.9 grams per tonne silver, 2.1% zinc, 1.4% lead and 0.4 grams per tonne gold and 230,511 tonnes of historic inferred resources with grades of 327.8 grams per tonne silver, 3.90% zinc, 1.70% lead and 0.2 grams per tonne gold. Developed workings consist of several hundred metres of drifts and cross cuts on two levels. Previous owners Grupo México reported the following historic reserves:

San Juan Historic Reserves and Resources, 2000

Category	Tonnes	Grade				Contained Metal			
		Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Ag (oz)	Au (oz)	Pb (lb)	Zn (lb)
<b>Proven</b>	12,325	333.5	0.3	1.4	2.1	132,150	119	362,355	543,533
<b>Probable</b>	13,880	345.5	0.4	1.3	2.1	154,178	178	378,924	612,108
<b>Total</b>	26,205	339.9	0.4	1.4	2.1	286,327	297	741,279	1,155,641
<b>Inferred</b>	230,511	327.8	0.2	1.7	3.9	2,429,318	1,482	8,229,243	18,878,851

Two adits provide access to the San Juan prospect. A decline has been driven into the San Juan Vein and has tested the vein structure over a vertical distance of 40 metres. Historic drill intersections suggest that the zone remains open at depth. Exploration work planned for the San Juan vein area will include exploring the known zone at San Juan to depth. Diamond drill testing will also evaluate the San Francisco vein which is interpreted to be an extension of the San Juan vein. Surface sampling by Grupo Mexico traced the vein along strike for 600

metres, and has reported results including 3.02 g/t gold and 314 g/t silver over 1.6 metres, and 0.34 g/t gold and 574 g/t silver over 1.7 metres.

The Plomosas Mine has been partially refurbished by the previous operator in preparation for an 800 tpd operation. The Plomosas Mine currently has 323,278 tonnes of historic reserves with grades of 92.0 grams per tonne silver, 3.7% zinc, 2.5% lead and 1.0 gram per tonne gold and 286,613 tonnes of historic inferred resources with grades of 161.3 grams per tonne silver, 3.21% zinc, 2.23% lead and 1.2 grams per tonne gold.

Plomosas Mine Historic Reserves and Resources, 2000

Category	Tonnes	Grade				Contained Metal			
		Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Ag (oz)	Au (oz)	Pb (lb)	Zn (lb)
<b>Proven</b>	37,624	123.6	1.0	2.6	3.9	149,509	1,210	2,054,270	3,081,406
<b>Probable</b>	285,654	87.8	1.0	2.4	3.4	806,341	9,184	14,396,962	20,395,696
<b>Total</b>	323,278	92.0	1.0	2.5	3.7	955,850	10,393	16,451,232	23,477,101
<b>Inferred</b>	286,613	161.3	1.2	2.2	3.2	1,486,326	1,058	13,241,521	19,260,394

The historic reserves are located in a number of mineral zones which include the Veta Plomosas, Plomositas, Lead-Zinc Stock Work, and Silver Stock Work. Silvermex will focus on the potential that remains within these zones and intends to expand the resource from areas remaining between old mine levels along strike and below the lowest level exploited. The stock work zones are thought to have potential for significant tonnage expansion along the strike and dip of the Plomosas fault structure.

The reader should be cautioned the historic reserves and resources do not conform to National Instrument 43-101 requirements for reporting purposes; as such the Company is not treating these historic estimates as current reserves or resources. These estimates should not be relied upon until they have been verified by further due diligence and by the Company's "Qualified Person".

In addition to the Plomosas Mine and the San Juan prospect, there are a number of exploration targets outlined by geology, geochemistry and geophysics which are drill ready. In particular, Grupo México had proposed a significant amount of work including diamond drilling in the La Chorreras, and La Rastra areas. The Company is encouraged by the exploration potential that has been identified by Grupo México and Aurcana on this project.

**Comparison of Actual and Proposed Use of Proceeds from the February 2 and February 9, 2009 Private Placements**

The table below details as at August 11, 2009, the proposed versus actual use of proceeds of these private placements:

	<b>Proposed Use of Proceeds</b>	<b>Actual Use of Proceeds</b>
Gross Proceeds of Private Placement	\$1,863,500	\$1,863,500
Cost of Private Placement	164,550	156,550
Net Proceeds of Private Placement	\$1,698,950	\$1,706,950
For exploration on the San Marcial property and general working capital	\$1,698,950	
Peñasco Quemado option payment		\$184,000
San Marcial exploration		\$63,000
Peñasco Quemado exploration		\$88,000
Lety acquisition costs		\$45,000
Expenditures on other projects		\$25,000
To pay accounts payable		\$490,000
General working capital purposes		\$803,950
	\$1,698,950	\$1,698,950

**Summary of Quarterly Results**

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

	<b>Q4 April 30, 2009</b>	<b>Q3 January 31, 2009</b>	<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>
Total revenues	Nil	\$337	\$1,030	\$12,037	\$2,912	\$3,035	\$832	\$4,686
Net loss	(\$1,830,681)	(\$399,280)	(\$480,825)	(\$578,427)	(\$661,604)	(\$617,281)	(\$621,843)	(\$463,608)
Basic loss per share (1)	(\$0.05)	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.03)	(\$0.02)

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

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The Company's cash expenditures are fairly consistent from quarter to quarter. In general terms, much of the fluctuations seen from quarter to quarter as seen above, are caused by variations in non-cash items, such as stock-based compensation charges. The above average loss in the first quarter of 2008 was primarily as a result of a bonus paid to a director and officer of the Company in terms of his employment agreement. And, the above average loss in the third quarter of 2008 was partially as a result of a restatement of the foreign exchange loss. The large loss incurred in the fourth quarter of 2009 was caused by writing off \$1,535,434 in mineral properties. These properties were not priorities for the Company and the results of drilling were unimpressive.

### **Results of Operations**

The Company reported a net loss for 2009 of \$3,289,213 (\$0.10 per share) compared to a net loss for 2008 of \$2,364,336 (\$0.10 per share).

The major differences in expenditures for the year ended April 30, 2009, compared to April 30, 2008, were:

- a. Consulting fees of \$158,246 (2008: \$245,226) decreased primarily due to a decrease in market activity and contracting out of marketing and promotional consultants.
- b. Investor relation charges of \$388,832 (2008: \$480,574) for corporate communications also decreased due to a reduction in the Company's marketing and promotions campaign.
- c. Salaries and wages expense totaled \$647,623 (2008: \$414,368). The increase was partially 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. Salaries and wages expense also includes amounts paid to two former employees, directors and officers in settlement of claims. The above items total \$241,000.
- d. Stock-based compensation decreased to \$119,546 (2008: \$552,730) as a result of fewer options being granted during the year.
- e. Travel expenses decreased to \$43,535 (2008: \$119,481) as the Company's management undertook fewer promotional trips overseas, to the United States, and to Mexico.
- f. The Cerro de Plata and El Rayo exploration properties totalling \$3,290,882 (2008: \$Nil) were written off due to unsatisfactory drill results and other priorities.

The Company's expenditures on its properties reflect its focus in the past year. (All amounts disclosed relate to exploration costs only.) The Company's primary focus was its San Marcial Project, on which \$788,960 was spent. Of this amount, \$374,886 was spent on drilling, and \$208,644 on salaries and consulting fees. \$287,746 was spent on the Peñasco Quemado Project, \$120,157 of which went to salaries and consulting fees, and \$54,750 to assaying. \$142,079 was spent at El Rayo, \$69,472 of which was spent on drilling. The La Frazada project received \$106,534, of which \$48,946 was salaries and consulting fees.

## **Liquidity**

The Company had cash of \$160,327 at April 30, 2009 compared to \$1,455,130 as at April 30, 2008. The Company had a working capital surplus of \$196,340 as at April 30, 2009 compared to working capital surplus of \$1,770,034 at April 30, 2008. Other than the decrease in the Company's cash reserves, the largest movements in working capital accounts were in amounts receivable (2008: \$409,449; 2009: \$48,053), and accounts payable and accrued liabilities (2008: \$184,065; 2009: \$34,899). Both movements are a direct reflection of the level of exploration work undertaken in 2008. The higher amounts receivable balance reflects the IVA refundable by the Mexican tax authorities on the expenditures made (which has since been refunded), while the higher accounts payable and accrued liabilities balance reflects payments outstanding to vendors for services and equipment provided for the exploration activities undertaken.

The consolidated financial statements for the year ended April 30, 2009, 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. As the Company is facing an immediate cash shortfall, it has announced a non-brokered private placement to raise gross proceeds of up to \$765,000 in short term interim financing. The private placement is planned to consist of 4,500,000 units at a price of \$0.17 per unit. Each unit would consist of one common share and one non-transferable share purchase warrant. Each whole warrant would entitle the holder to purchase one additional common share of the Company at a price of \$0.20 for a period of 12 months from the date of closing. The private placement is subject to Exchange approval. The Company plans to complete a further private placement in the autumn of 2009, as well as renegotiate some of its option payments.

During fiscal 2009, the Company closed a brokered private placement of 15,000,000 units at a price of \$0.10 per unit for gross proceeds of \$1,500,000, and a non-brokered portion consisting of 3,635,000 units at a price of \$0.10 per unit for gross proceeds of \$363,500. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share for a period of 18 months from closing at a price of \$0.15 per share.

The agent for the brokered private placement was Canaccord Capital Corporation. The agent's compensation consisted of a cash commission of 9% of the gross proceeds of the brokered private placement. The agent was also issued 100,000 corporate finance units and a compensation option exercisable to acquire that number of units equal to 9% of the number of units sold pursuant to the brokered private placement. The agent also received a corporate finance fee of \$25,000 and a work fee of \$5,000. The Company paid cash finders' fees totalling \$21,550 in connection with the non-brokered portion of the private placement. The common share, warrants and units were subject to a hold period expiring June 1, 2009.

The funds from this most recent private placement have been spent almost in their entirety, and so the Company has written two promissory notes for \$100,000 each. A bonus of 10% is payable on each promissory note. The principal amounts and the bonuses are convertible at any time into common shares and/or warrants of the Company on the same terms and at a conversion rate equal to the price of the next financing undertaken by the Company before August 28, 2009. Both notes are held by parties unrelated to the Company.

The Company has also received \$62,000 from the conversion of warrants. However, for the Company to remain solvent and meet its monthly expenses, management has announced plans for a short term interim financing of

\$765,000. And, to continue with its exploration plans for the San Marcial and La Frazada properties, management has proposed that the Company doing a further private placement in the autumn of 2009.

Currently the Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for further exploration and development of its projects. Although the Corporation has been successful in the past in financing its activities through the sale of equity securities there can be no assurance that it will be able to obtain sufficient financing in the future to carry out exploration and development work on its properties. 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. As mentioned in the discussion of Overall Performance, the recent equity and capital market volatility worldwide has had a significant impact on the Company's operations during the last year. While management believes adequate financing on acceptable terms will be secured, there can be no assurance of this occurring.

### **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 related to its properties:

	<b>For the year ended April 30</b>			
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Property payments:</b>				
Lety	70,000			
San Marcial (1)			14,250,000	
<b>Exploration commitment:</b>				
San Marcial (2)		1,000,000		
<b>Proposed transaction:</b>				
Rosario acquisition (3)	1,750,000	1,000,000	1,000,000	500,000

(1) The market value of the 3,000,000 shares issued to Silver Standard over the term of the option agreement will be deducted from the total purchase price of US\$15,000,000. The balance is payable in cash or shares at the option of Silver Standard. To date, 1,000,000 shares have been issued at a deemed price of \$0.75.

(2) To be spent over the period until February 1, 2011.

(3) A definitive agreement has not yet been concluded for the Rosario acquisition.

(4) All amounts are denominated in US dollars

The Company is also obligated to pay Silver Standard US\$100,000 per month commencing if and when commercial production commences on the San Marcial Project, and is also obligated to make a US\$100,000 production payment to International American Resources Inc.

The Company has no other commitments other than its obligation to reimburse Mexican Mine Management Ltd. and Timmins Gold Corp. for shared office premises and expenses.

The Company has to close the private placement announced on August 13, 2009, in order to to meet its short term commitments and to cover its general and administrative costs. It will also need to close a second private placement in order to fund its exploration activities. And, it will have to raise significantly more funds if a final agreement with Aurcana is signed with similar terms to the letter of intent.

### **Transactions with Related Parties**

During the year ended April 30, 2009, the Company entered into the following transactions with related parties:

- a. The Company incurred \$45,385 for consulting services, including geological consulting, to Arturo Bonillas and Miguel Soto, both of whom are directors and officers of the Company.
- b. In fiscal 2009, the Company was charged \$226,018 for shared office premises and expenses by Mexican Mine Management Ltd. and Timmins Gold Corp., companies related by common directors and common officers. As of April 30, 2009, \$27,675 was owed to these companies.
- c. The Company paid \$51,500 for accounting services provided by Pacific Opportunity Capital Ltd., a private company of which a former director of the Company, Hallein Darby, was a vice-president.
- d. On August 20, 2008, the Company acquired the La Frazada Project for US\$20,000 from Timmins Gold Corp., a company related by common directors and common officers. The company had staked the project as the Company's agent. As of April 30, 2009, US\$20,000 was owed to this company.
- e. The Company incurred \$190,000 of consulting fees to a company controlled by its corporate secretary, Duane Nelson. Mr. Nelson does not receive a salary from the Company and is paid consulting fees for providing investor relations and marketing services, and advice on corporate development.
- f. The Company advanced \$21,795 to a nominee company incorporated in Mexico. These funds were used to pay the salaries of the Company's employees in Mexico.

### **Fourth Quarter**

Variances in net loss by quarter reflect overall corporate activity and factors which are not recurring each quarter, such as charges for stock based compensation, timing of the granting of options and timing of drilling, geophysical and exploration programs and other capital intensive activities. Quarters with little physical activity may occur while the Company awaits assay and/or other exploration results prior to planning and implementing the best course of action, or raises the funds required for exploration. As the Company is not engaged in commercial operations, variances in its quarterly losses are not affected by sales or production-related factors.

The Company's expenses for the fourth quarter of 2009 were considerably lower than those of the comparative period in 2008. The Company has reduced the number of contracts for investor relations and consulting services, reducing expenses by approximately \$100,000. The Company's quarterly salaries and wages expense also decreased as a result of the departure of the Company's chief financial officer. In addition, stock based compensation decreased from \$95,000 in the fourth quarter of 2008 to \$2,000 in the fourth quarter of 2009. This was due to fewer options being issued during the current year. However, the overall loss for the fourth quarter of

2009 did increase because the decision was made subsequent to the year end to write off the Cerro de Plata and El Rayo properties which had a carrying value of \$1,535,434.

Expenditures on the Company's projects have been detailed in the use of proceeds reconciliation.

### **Proposed Transactions**

The Company has signed a letter of intent to acquire the Rosario Property. This project is located near the Company's San Marcial Property, and management foresees certain synergies between the two properties. The acquisition requires the approval of the Exchange, the assignment of the underlying option agreement to the Company, and the completion of due diligence. Due diligence is still ongoing and a definitive agreement has not been concluded or signed.

The Company announced a non-brokered private placement to raise gross proceeds of up to \$765,000. The private placement is planned consist of 4,500,000 units at a price of \$0.17 per unit. Each unit would consist of one common share and one non-transferable share purchase warrant. Each whole warrant would entitle the holder to purchase one additional common share of the Company at a price of \$0.20 for a period of 12 months from the date of closing. The private placement is subject to Exchange approval.

Management is also proposing a further financing to be completed in the autumn of 2009.

### **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. And 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 reviews are 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.

### **Asset Retirement Obligations**

The Company will recognize 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. Initially, a liability for asset retirement obligations will be recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost will be added to the carrying amount of that asset and the cost will be amortized as an expense over the economic life of the related asset, once production of that asset commences. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability could be increased for the passage of time, and adjusted for changes to the amount or timing of the underlying cash flows to settle the obligation. As at April 30, 2009, the Company has made no provision for site restoration costs or potential environmental liabilities as the ultimate liability is not reasonably determinable and neither is it currently material.

### **Stock-based Compensation**

The Company follows accounting guidelines in determining the value of stock option compensation, as disclosed in Note 6 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**

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning on or after January 1, 2009. 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.

### **Section 3064 – Goodwill and Intangible Assets**

This new standard 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 believes that adoption of this section will result in no material changes to the results of operations or financial position of the Company.

**Section 1582 Business combinations, Section 1601 consolidated financial statements and Section 1602 non-controlling interests**

These sections 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.

**Financial Instruments and Other Instruments**

The Company's financial assets and liabilities consist of cash, amounts receivable, and accounts payable and accrued liabilities. Some of the accounts payable and accrued liabilities are denominated in US dollars and Mexican pesos. Amounts denominated in non-Canadian dollars are translated into Canadian dollars at the rates applicable to the period end date. The Company has financial gains or losses as a result of foreign exchange movements against the Canadian dollar. The Company manages its foreign exchange risk by adjusting balances in currencies other than the Canadian dollar from time to time. The Company has certain commitments to acquire assets in foreign currencies and it incurs the majority of its exploration costs in foreign currencies, either the US dollar or Mexican peso. The Company may acquire foreign currencies to fix costs in Canadian funds, if management considers it advantageous.

The carrying value of financial instruments, which include cash, amounts receivable, prepaid expenses, accounts payable, and accrued liabilities and advances due to/from related parties 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.

**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 Company continues to evaluate the impact of IFRS on the Company and is in the process of developing a plan for the conversion to IFRS. If the Company decides not to early adopt the standards, the actual conversion work will occur in late 2009 and 2010, 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 thus far under IFRS1:

- 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 all of its cumulative translation differences of its foreign subsidiaries into opening retained earnings.

These elections are preliminary and may change prior to the formal adoption of IFRS.

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 Company'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. The Company will have to examine whether its functional currency will change to the US dollar assuming the Company moves into production.
- 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 has no contracts, debt covenants, capital requirements or compensation requirements that may be affected by changes to financial reporting because of IFRS.

Management is taking 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's designed the disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiary, 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, review and approvals 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. And, the Company's day-to-day accounting in the Vancouver office 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. The Company's management also believes that the Company's internal controls over financial reporting were effective.

### **Disclosure of Outstanding Share Capital as at August 11, 2009**

Details of the common share outstanding are:

Common shares	49,059,251
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Details of the warrants outstanding are as follows:

Number of Warrants	Exercise Price	Expiry Date
7,122,500	\$ 0.15	July 30, 2010
1,817,500	\$ 0.15	July 30, 2010

Details of the stock options outstanding are:

Number of Options	Exercise Price		Expiry Date
100,000	\$ 0.25		November 12, 2010
1,000,000	\$ 0.30		July 31, 2011
550,000	\$ 1.11		April 12, 2012
100,000	\$ 0.90		April 12, 2012

Details of the agents' options outstanding are:

Number of Agents' Options	Exercise Price		Expiry Date
1,350,000	\$0.10		July 30, 2010