

**SILVERMEX RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**for the three month period ended July 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 September 25, 2008, and should be read in conjunction with the interim consolidated financial statements for the three period ended July 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 has a field offices at Timmins Gold Corp.’s San Francisco 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 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 CIM definitions. Details of each of these and the company's other projects are discussed in the Results of Operations.

Pursuant to National Instrument 43-101, Darcy Krohman, P.Geo., C.A., Executive Vice-President and CFO of Silvermex is the Qualified Person (QP) responsible for the disclosure in this MD&A.

In July 2006, the Company completed its initial public offering ("IPO") and raised gross proceeds of \$2,070,000. In April 2007, the Company completed a private placement financing raising gross proceeds of \$1.6 million. In November 2007, the Company raised gross proceeds of \$2 million and in March 2008, the Company raised gross proceeds of \$2.9 million. The funds raised at the time of the IPO were used to fund the drill program and preparation of the revised mineral resource estimate on the Peñasco Quemado Property. Proceeds from the March 2007, private placement were primarily used to fund the drill program on the Cerro de Plata Project. Funds raised in November 2007 were raised by way of short form offering and were used to pay accrued amounts from the Cerro de Plata drill program and to initiate the third phase Peñasco Quemado drill program. A portion of the proceeds were also used to fund the completion of a current mineral resource and supporting NI 43-101 technical report on the San Marcial Property, and for first phase surface exploration programs on the El Rayo and Lobos properties located in Sonora. Proceeds from the April 2008 private placement were used to fund completion of the Peñasco Quemado drill program and initiate the first phase San Marcial drill program. A portion of the funds raised are also being used for a surface and underground sampling program at the La Frazada silver-zinc property located in Nayarit. The Company will require additional funds to complete the proposed drill program at San Marcial and to fund general working capital.

While most metal prices including silver prices have been relatively strong over the last year, they have been very volatile in recent months. The Company believes that silver prices have benefited from declining silver reserves and resources, a general weakening of the US economy and the US dollar against other major currencies, a reduction or elimination of hedging programs by major producers, and an increase in physical demand. The Company cannot predict future silver prices or their impact on future operations.

### **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 Projects**

The Company considers its Peñasco Quemado Property located in Sonora, and its San Marcial Property located in Sinaloa to be material for purposes of NI 43-101. While encouraged by the results obtained from its other properties the Company does not consider them material at this time.

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

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

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

The 2006 drill program was successful in providing valuable information for planning the next phase of the exploration and resource definition. In particular, the program helped determine the significance of several structures on the extension of the mineralization in the Peñasco Quemado Zone including confirming the continuity of the mineralization 750 metres along strike with the zone open at depth and along strike. Management is particularly pleased with the near surface extent and shallow dip of the mineralization which further enhances the economic potential of the zone. An airborne magnetic and radiometric survey was completed by the Servicio Geologico Mexicano ("El SGM") over the entire property in May 2007. The Company also completed a ground NSAMT geophysical survey on the Peñasco Quemado Zone to aid in the structural interpretation of this zone and help locate drill holes. A third phase drill program was completed during the third quarter 2007 and in March 2008, a fourth phase, 3,231 meter, infill and step-out reverse circulation drill program was completed. Preliminary modelling and mine plans are currently being completed to help provide the necessary data and information required to complete a preliminary assessment.

The objectives of the third and fourth phase programs were to expand the mineral resource in the Peñasco Quemado Zone. From the assay results and information on structural controls gained, the Company is proceeding with an updated mineral resource estimate. A total of 1,254 meters of drilling were completed in 14 holes in the Peñasco Zone. The program was designed to: (i) increase the level of confidence through infill drilling in the established resource area, and (ii) test the down dip and southeastern strike extent of the mineralized zone. The program was successful as it extended the strike length of the current resource to a total of 330 meters from 240 meters and confirmed the down dip extent of the mineralized zone is also open. The reader is referred to a news June 11, 2008 for details on significant drill hole intercepts.

The third and fourth phase program also sought to test the South Eastern Extension of the Peñasco Quemado Zone first identified by hole PQD-05. This hole had previously intercepted high grade silver mineralization near cross section 0-720 SE approximately 400 meters southeast of the Peñasco Zone. A total of 540 meters in six holes were drilled during the third phase and 480 meters in four holes during the fourth in this area. Hole PQRC-80 from the fourth phase program, located on section 820SE, encountered 22.5 meters grading 148.3 g/t Ag. This intersection of economic grade mineralization was the furthest ever encountered from the PQ Zone since Silvermex initiated exploration on the property in 2005. The next phase of drilling will concentrate on infill drilling between section 620SE and 850SE and further extending this zone of silver mineralization to sections 850SE and 900 SE. This principal mineralized trend appears to have been offset by post depositional faulting that has produced minor strike slip and down dip displacement. An Induced Polarization- Resistivity (IP-R) survey

completed at 50 meter dipole spacings during the summer of 2007 along cross section 0-720SE identified an IP-R anomaly related to the high grade silver intersection from PQD-05. The survey was expanded to complete two additional IP-R survey lines on either side of the first. Similar IP and Resistivity responses were received suggesting the continuity of the mineralized zone.

The objectives of the fifth drill program included: (i) delineation of the full extent of the P Q Zone bulk tonnage deposit, including its northeast, southwest and southeast boundaries; (ii) completion of infill drilling in areas with inadequate data and information in order to establish continuity between mineralized zones, (i.e. in particular between sections 0+00 and 0+400SE); (iii) establishing continuity of the mineral intervals intersected by the January and February 2008 drill program including the Southeast Extension identified in hole PQD-05 (between sections 0+620SE and 0+850SE); and (iv) testing the high grade silver intervals intersected by the previous drill programs in the San Luis area. The results of the drilling confirm that the mineralization extends to the southwest with silver grades similar to those that constitute the current mineral resource of 9.5 million ounces. Significant intersections encountered during the program include 30 meters grading 149.2 g/t Ag from infill drilling at the Peñasco Quemado (PQ) Zone and 22.5 meters grading 148.5 g/t Ag from the Southeast Extension approximately 820 meters from the start of the PQ Zone. Along strike to the southeast the deposit expands longitudinally while silver grades decrease moderately. The deposit remains open along strike past section 400SE. Intersection of the mineralized zone at section 820SE suggests the mineralization may be continuous between these sections. In addition to the drill program, metallurgical testing and geological modeling were recently initiated. Once completed the results will help support a revised mineral resource estimate and preliminary evaluation.

A total of 2,226 meters in 23 holes were completed in the vicinity of the Peñasco Quemado Zone during the fifth drill program. The Company believes encouraging results from several drill holes completed along the southwestern extension of the mineralized zone will significantly increase the current mineral resource. Specifically, holes PQRC-55, 59, 62, 63, 68 and 72 all encountered ore grade silver mineralization over significant intervals along the southwest extension of the deposit. Holes PQRC-73, 74, 75 and 76 also encountered high-grade silver mineralization along the southeast extension of the deposit. Actual results from the reverse circulation drill program included 30 meters grading 149.2 g/t silver from infill drilling and 22.5 meters grading 148.5 g/t silver from the Southeast Extension approximately 820 meters from the start of the PQ Zone. This intersection of economic grade mineralization was the furthest ever encountered from the PQ Zone since Silvermex initiated exploration on the property in 2005. The results of this latest drill campaign further confirm the deposit's low stripping ratio and potential amenability to low cost, bulk tonnage, open pit mining methods. The mineralized zone remains open along strike to the southwest. Once a comprehensive review of the geological controls over the mineralization is completed, a step-out drill campaign will commence to help confirm the full extent of the strike extension. Results from the most recent drill program are available in the Company's June 11, 2008, news release. An internal mineral resource estimate based on all drill hole data received to date is being completed by Silvermex technical staff. Management expects an updated mineral resource will be released in early October.

**San Luis (Pink or Red Breccia) Zone:** A total of 372 meters in nine shallow reverse circulation holes were completed during the third phase drill program. The objective was to test the continuity of the silver mineralization identified during the 2006 drilling program. The most significant intersection during this program returned 734 g/t Ag over 10.4 metres and 560 g/t Ag over 9.5 metres from surface. A total of 570 meters in 10 holes were completed during the most recent fifth phase drill program. The objective of this program was to penetrate the down dip extension and extend the strike length of the mineralization encountered during the earlier programs. The significant intersections are all near surface and hosted in an andesitic breccia unit. The unit dips to the southwest and outcrops along strike for over 120 meters. While only two holes from the most recent program penetrated the zone, they do confirm the continuity of the mineralized zone. With the exception of hole PQRC-86 that intersected 4.5 meters grading 174.3 g/t silver, the results were generally lower grade and restricted to small lenses. While the Company does not expect that any resource identified in the San Luis Zone will have a material

impact on the overall resource base of the property, the high grade and near surface nature of the mineralization will make it an attractive and low cost zone to exploit.

**Guadalupe IP Anomaly and Peñasco East:** A total of 285 meters of reverse circulation drilling were completed in two holes in these zones. A geophysical survey identified a strong IP anomaly interpreted as a high angle structure related to the emplacement of the silver mineralization, and silver mineral resource along the southwest edge of the Peñasco mineral zone. It is believed this structure acted as a conduit for the mineralizing fluids in this zone. Hole PQRC-32 appears to have identified the source of the IP anomaly - the combined effect of the high angle structure, disseminated pyrite and ground water.

**La Fortuna Zone:** La Fortuna is located approximately 5 kilometers west of the Peñasco Zone. The mineralization appears to be associated with a moderately dipping, northwest trending, 300 meter long, 10 meter wide zone of fault breccia that hosts a dense concentration of quartz veinlets and stockworks. Previous sampling programs returned significant silver, lead and zinc grades. A total of 576 meters in 4 holes were completed in this zone to test the mineralized structure at depth. The best intervals intersected included 207 g/t silver across 6.0 meters from hole PQRC-51. Assay results from significant drill hole intersections are available in a news release dated March 17, 2008. The final hole in the current program, PQRC-53, was completed to test a geochemical anomaly identified 1,200 meters southeast of the Peñasco Zone in an area known as Loma Negra. The 204 meter hole encountered a sequence of rhyolites-rhyodacites with significant arsenic, manganese, copper, barium, antimony, silver and lead grades. This mineral assemblage suggests the existence of a low sulphidation, epithermal environment.

**Southern Portion of the property:** Silvermex exploration staff recently completed a program of detailed mapping and sampling in the southern portion of the Peñasco Quemado Property. The investigation concentrated upon the structures controlling the silver and copper mineralization in the area that acted as conduits for the flow of hydrothermal fluids. The low angle structures were created by the uplifting of the granitic basement producing local and regional metamorphic effects on the overlying volcanic and sedimentary sequence. Mineralization appears to be related to a larger copper porphyry system. The Company intends to test this theory by completing geophysical (IP and/or NSAMT), geochemical (MMI) and reverse circulation drill programs. No time frame has been considered for completion of this program and Management does not believe it will be completed during the current fiscal year.

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

On October 9, 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.Geol., 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 2 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 3 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 were 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, however the Company currently does not have adequate funds to complete this program and the program has been revised to 1,500 meters of drilling. The objective of the program is 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. The most advanced targets on the property that technical staff believes are likely to add to the current resource base are the San Marcial South East and North West zones. These zones have been traced for over 450 metres and are open in both directions along strike and at depth. Two holes have been collared 200 meters apart to help confirm the existence of the mineralized zone intersected in four holes from the previous drill programs. Five holes will test the northwest projection of the mineralized structure associated with the San Marcial deposit while another five holes will test the down dip extension of the mineralization below the existing resource. The final two holes will test the southeast extension of the San Marcial deposit. Based on the grade, tonnage and nature of the mineralization, technical staff believes the silver, lead and zinc mineralization associated with a quartz stockwork within the footwall of the San Marcial vein system may ultimately prove amenable to bulk mining methods.

The program will only test 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 future drill targets. The program has been completed and technical staff and management are compiling the results obtained. Management expects an updated mineral resource will be released in early October, once Company's

technical staff and independent consultants have had an opportunity to review and assess the data and information received from the program.

To satisfy the terms of the San Marcial Option 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.

### **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. See the Company's March 25, 2008 news release for a detailed description of the results obtained from this sampling program.

The mine and a small smelter operated from 1890 until the Mexican Revolution in 1910. Unverified sources indicate that bonanza grade silver (i.e. up to 1.5 kg/t) and an undisclosed quantity of gold were commonly recovered. 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 appears to be only partially mined. Prior to its abandonment, it appears 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. Previous owners have reported that exploration results from the Jabalina tunnel include a one meter channel sample of vein material that assayed 19.3 oz/t silver and 0.19 oz/t gold. The mine closed in 1997 due to low metal prices and the mill was later relocated.

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. Mineralization is associated with a northwest trending regional structure that hosts several quartz veins and breccias zones. This principal trend has been displaced locally by minor post-depositional faulting that has not impacted the continuity of the mineralized structures. Porphyritic andesite, with pervasive prophylic alteration (limonite secondary to pyrite) and minor dissemination of galena and pyrite is the principal host in the mineralized zone.

Silvermex has 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. Management believes 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 have 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 underground at the La Frazada workings and 539 g/t Ag (17.35 oz/t Ag) across 15 meters from a breccia zone underground at the Tiro Real shaft.

The Company's independent Qualified Person has completed a property visit and, with the assistance of Company geologists, is in the process of preparing an initial mineral resource estimate. Management expects this resource estimate to be released in early October. Once the Company has secured adequate financing a first phase drill program will be initiated.

**Tiro Real Shaft:** The Tiro Real Shaft is located approximately 2,000 meters east of the La Jabalina tunnel portal. This shaft linked an adjacent adit and allowed access to stopes developed at several different elevations. Sampling results from the adit and stopes confirm the continuity of the mineralization. An average grade of 269.8 g/t Ag (7.9 oz/t Ag), 0.135% Cu, 1.39% Pb and 1.20% Zn across 2.0 meters and along 80 meters of strike was returned. This mineralized zone is open along strike and down dip. Mapping and sampling of a breccia zone within the shaft identified a 15 meter wide mineralized structure with an average grade of 539.8 g/t Ag (15.9 oz/t Ag), 0.15% Cu; 0.64% Pb and 0.45% Zn. Mapping and sampling is being continued to help confirm the continuity of the mineralized zone both along strike and down dip.

**La Frazada Vein and Mineralized Zone:** The La Frazada Vein and related mineralized zone averages 3.0 meters wide, 850 meters long and 35 meters deep. Technical staff believes the strike length and down dip extent of the vein is significantly greater than exposed. To determine the best drill targets a program of detailed mapping and sampling of the surface and underground exposures of the La Frazada vein is continuing.

Future exploration and drilling programs will concentrate on confirming the lateral and vertical continuity of (i) the La Jabalina Vein, (ii) the northwest-southeast trending breccias zone identified in the Tiro Real Shaft, and (iii) the mineralization associated with the La Frazada Vein.

#### **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.

Highlights from the drill program included a 16.8 metre interval averaging 190.9 g/t silver, 0.37% copper and 0.105% lead from surface in hole CP-02, 4.5 metres grading 139 g/t silver in hole CP-03, 13.65 metres grading 78 g/t silver in hole CP-04 and a 4.50 metre intersection grading 125.8 g/t silver, and 0.28% copper in hole CP-07. Complete results for the drill program can be found in a news release dated September 13, 2007.

In summary, the 2007 exploration program consisted of detailed geological mapping, 1,528 metres of diamond drilling, 2.5 kilometres of road construction and trenching, ground IP-resistivity and airborne magnetic and radiometric geophysical surveys and reinterpretation of previously collected, high resolution aeromagnetic data. The information garnered from the program supports a copper-molybdenum porphyry geological model with associated epithermal silver vein type mineralization. The information also suggests the region has a volcanic

cover that locally has been pierced by the porphyry and/or epithermal systems. As the volcanic cover masks a significant portion of the porphyry system, the surface values are often inconsistent and erratic. The geologic sequence has been subjected to both high and low angle faulting that produced conduits for the flow of both meteoric waters and hydrothermal fluids. These favorable paths allowed for the "leakage" of copper, silver and other base and precious metals to the surface. The percolation of the fluids resulted in oxidation and weak supergene enrichment of copper and molybdenum minerals to depths exceeding 100 metres. The high aluminum content in both the quartz porphyry and the highly altered granodiorite suggests mineralization was formed in a volcanic to sub-volcanic environment similar to those hosting many of the major copper-molybdenum porphyry deposits of northwest Sonora and southern Arizona. The final hole of the drill program, drill hole CP-09, was drilled on a strong coincident chargeability-resistivity anomaly to a depth of 357 metres. The principal objective of the hole was to test the copper-molybdenum porphyry theory and determine whether the silver mineralization evident in the shallower holes and underground workings continued to depth.

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 current interim period 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 kilometres from 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. In many locations this sequence is masked by Quaternary conglomerates and basalts and recent alluvial sediments. Rhyolite dikes and tectonic breccias are often hosted in zones of weakness in the granite. The regional north-west to south-east trend is exposed for 350 metres before plunging below the volcanic sequence. The tectonic breccias zones are important controls on the mineralization as they host stockworks of quartz-chalcedony veins and veinlets and black calcite that appear to be related to the silver, lead, zinc sulphide (shalerite), zinc oxide (calamine) and copper grades. Moderate to strong oxidation of pyrite, forming boxworks of limonite, and sericite are common alteration products in the breccias. In the southern portion of the claim a similar mineralized breccia zone with strong oxidation and quartz-chalcedony veins and veinlets has been identified.

Management is very encouraged with the preliminary results and is confident a mineral resource will be ultimately be delineated on the property. In addition, Company geologists believe the mineralized breccias zone extends below the volcanic cover, further enhancing the economic potential of the property. The Company is hoping to test this theory with a first phase drill program. With its limited cash reserves the Company does not anticipate this occurring in the current fiscal year.

## **5. 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 commissioned in mid July 2008, subsequent to year end. The program consisted of 600 meters of drilling in 6 holes. The holes were located along strike of the mineralized breccia/fault zone that outcrops for 400 meters along strike. The zone plunges under a tertiary volcanic and alluvial cover but is inferred over a minimum distance of 700 meters. Technical staff are currently assessing the significance of the assay and analytical results received to date. Once all the geological information has been compiled a comprehensive news release detailed the results, conclusions and recommendation will be disseminated. Management expects this information to be released in late October or November.

## **6. LETY PROJECT, DURANGO, MEXICO**

In July 2007 the Company entered into an option agreement to acquire a 100 percent interest in the Lety property located in the municipality of Santa Maria del Oro, Durango, approximately 230 kilometres north west of the city of Durango, Mexico. The 5,130 hectare property consists of three mining concessions in northern Durango located near the historical mining districts of Magistral del Oro, Santa Maria del Oro and Guanacevi, in the Sierra Madre Occidental of Mexico. The project is 17 kilometres north of Silver Standard Resources Inc.'s Pitarilla deposit which hosts a mineral resource in excess of 500 million ounces of silver. To exercise the option the Company must pay a total of US\$250,000 and issue 250,000 shares over a two year period. The Company must also spend as a minimum of US\$500,000 in each of the first two years of the option. The vendor also has the right to be paid an additional 250,000 shares or US\$1,000,000 at the vendor's option, on or before the earlier of the

commencement of commercial production or five years from the date of signing of the option agreement. The vendor is an arm's-length party and retains no royalty interest. The Company is also obligated to pay a finder's fee of 250,000 shares to Guillermo Garcia Hoyos. 25,000 of these shares were issued on Exchange acceptance. Six additional releases of 37,500 shares every six months from the date of Exchange acceptance are also required.

The regional geology consists of rhyolitic and andesitic rocks overlaying cretaceous limestones and metamorphic rocks. The mineralization is controlled by a system of northwest trending regional faults. Specifically the mineralized structures lie along the Great Rodeo regional fault, known to host over 200 small bonanza grade mines that have operated intermittently since Spanish Colonial times. Preliminary reconnaissance work completed by the Company identified two highly oxidized and altered silver mineralized rhyolitic breccia structures. The structures trend NW 30, vary in width between 10 to 15 metres and outcrop for more than 1,000 metres along strike. The system is exposed over a vertical extent of over 150 metres. Preliminary sampling by Silvermex on both structures returned assays ranging from 80 to 150 g/t Ag and 0.5 g/t Au. A 15 metre wide andesitic dyke that also outcrops for more than 1,000 metres was identified with samples returning grades of up to 45 g/t Ag. The Company believes this system is related to similar mineralized structures exposed in the Guanacevi, Santa Maria del Oro, and Magistral del Oro mining districts. Systems where highly oxidized and supergene enriched sedimentary cretaceous rocks have locally been subjected to contact metamorphism. The first phase surface sampling program completed during the most recent interim period returned assays as high as 137.8 g/t silver and 17.85% zinc over 1.55 metres from a channel sampling program on several old workings and breccia zones. Over 187 samples were collected during the program with several new anomalous zones being identified. The highlight of the program was the results received from the Verdosa zone (See news release titled *Grades of 137.8 g/t silver and 17.85% zinc over 1.55 metres returned from preliminary surface sampling at Lety Project in Durango Mexico*, dated February 21, 2008 for a detailed description of specific results from sampling of this zone).

While Management would like to complete a first phase drill program during the current fiscal year it is not a priority and adequate funds are not currently available to consider the program.

## **Results of Operations**

During the three month period ended July 31, 2008, the Company reported a net loss \$578,427 or \$0.02 per share, compared to a net loss of \$463,608 or \$0.02 per share for the three months ended July 31, 2007. The net loss for the period was \$491,195 (2007: \$347,287) excluding stock based compensation and foreign exchange gains or losses. The major items for the three month period ended July 31, 2008, compared to July 31, 2007, were:

- a. Consulting fees of \$37,486 (2007: \$70,446) to a director and officer of the Company. The current consulting fees for the current period are consistent with previous periods. The Consulting fees paid in 2007 were abnormally high because of timing differences in billing for services provided for by the director and officer.
- b. A foreign exchange gain of \$30,290 (2007: \$47,230) earned by holding Canadian dollars. The Company's Subsidiary is required to make most of its payments to suppliers and contractors in US funds.
- c. Investor relation charges of \$76,712 (2007: \$70,970) for corporate communications work performed. This is consistent with the comparative quarter.
- d. Charges to stock-based compensation in the amount of \$117,522 (2007: \$163,551). These charges are non-cash transactions and are based on the fair value of the options issued.
- e. Salaries and wages expense totaled \$286,198 (2007: \$78,176). The increase was a result of increased activities and associated administrative expenses in the Company. Salaries and wages directly related to exploration and development activities are capitalized as deferred exploration expenses and are included

**Silvermex Resources Ltd.**  
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**Containing information up to and including September 25, 2008**

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in “Mineral Properties”. Salaries and wages includes the salary of the Company’s CEO, CFO and Executive Vice President, corporate development staff and the office manager and also includes a bonus paid to a director and officer of the Company pursuant to the terms of his employment agreement. Salary and wages expense has increased as the majority of these employees were not employed by the Company in the comparative quarter.

**Summary of Quarterly Results**

The following is a summary of the Company’s financial results for the eight most recently completed quarters. Quarterly information for the previous quarters is not available as the Company was not a reporting issuer.

	<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>	<b>Q2 October 31, 2006</b>
Total revenues	\$12,037	\$2,912	\$3,035	\$832	\$4,686	\$3,306	\$ 7,878	Nil
Net loss	(\$578,427)	(\$661,604)	(\$617,281)	(\$621,843)	(\$463,608)	(\$331,323)	(\$206,046)	(\$422,967)
Basic loss per share (1)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.02)

(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 July 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 \$485,990 at July 31, 2008 compared to \$1,455,130 as at April 30, 2008. The Company had working capital of \$925,567 as at July 31, 2008 compared to working capital \$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 or that optionees will continue to make property payments to the Company.

The Company requires additional capital to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options and warrants and/or the completion of equity financings. (See Proposed Transactions)

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 December 15, 2008, subject to an annual interest rate of 6.5%. If a further extension is required, the interest rate will increase to an annual rate of 10%.

### **Transactions with Related Parties**

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

	Three months ended July 31, 2008	Three months ended July 31, 2007
Mineral property costs:		
- field work and consulting (1)	\$ 50,589	\$ 62,388
Accounting (2)	16,000	13,000
Consulting (1)	Nil	10,000
Office expenses (3)	56,634	11,704
	<u>\$ 123,223</u>	<u>\$ 97,092</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 treated as consultants, rather than as employees.  
(2) A company 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 July 31, 2008 and July 31, 2007 are the following related party amounts:

	July 31, 2008	July 31, 2007
Accounts payable and accrued liabilities	<u>\$ 32,195</u>	<u>\$ 33,491</u>

### **Proposed Transactions**

In September 2008 the Company plans to raise additional capital through the sale of its securities. The Company has not entered into any formal agreement with regards to this proposed financing. Assuming the Company is able to raise adequate funds they will be used to complete a second phase drill program and a revised mineral resource estimate on the San Marcial property, a revised mineral resource estimate on the Quemado property and first phase drill programs on the El Rayo and La Frazada properties.

### **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 three month period ended July 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 September 25, 2008 is as follows:

Common shares	29,934,251
Stock options	1,650,000
Share purchase warrants	3,652,940

### **Investor Relations Agreements**

The Company has a month-to-month investor relation agreement for \$10,000 plus GST per month.

### **Legal matters**

A former director, officer and employee, and a former consultant of the Company had separately initiated action against the Company for damages for breach of contract/wrongful dismissal and for the right to the exercise their stock options originally granted under the Company's stock option plan. The Company cancelled these options when the individuals were dismissed. The Company had commenced an action against the former director, officer and employee and the Company's transfer agent seeking cancellation of performance shares granted to this individual. Subsequent to the period end the actions initiated by the former director, officer and employee and the

Company were settled by way of mediation. The amount of the settlement will be reflected as a charge to operations in the subsequent period. The action against the Company made by the former consultant is yet to be resolved. Legal counsel to the Company is unable to assess the Company's potential liability, if any, resulting from these actions. 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 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 July 31, 2008 the Company completed a surface exploration and first phase drill program on its San Marcial silver property in Sinaloa, Mexico. The program consisted of detailed geological mapping, the excavation of 13 trenches, 1,700 metres of diamond drilling and 1 kilometre of road construction. The Company has received the assay results from the final drill holes from the program and is completing an updated mineral resource estimate. Management expects a second phase drill program will be initiated in late 2008 or early 2009 once adequate funds are in place.

During the period interim the Company also received results from a fifth phase reverse circulation drill program on the Peñasco Quemado property. The principal objective of the program was to expand the resource base already delineated in the Peñasco Quemado Zone by identifying extensions to the existing mineralization. The secondary objective was to identify the geological and structural controls responsible for the mineralization at the

Stockwork, San Luis and Low Angle Zones. Management considered this program to be successful as it expanded the known strike length of the Penasco Quemado zone to over 900 meters. The information and data obtained from these programs are being used to prepare an updated mineral resource estimate. Management expects this updated mineral resource to be completed in October.

Together with the mineral resource confirmed at San Marcial the Company currently has a mineral resource inventory in excess of 25 million ounces of silver. With an updated mineral resource estimate expected shortly from its San Marcial Property and an initial mineral resource estimate from its La Frazada Property, also expected shortly, the Company anticipates its total resource base will increase significantly. During the current period the Company also completed a short 600 meter reverse circulation drill program on its El Rayo property located in central Sonora near the city of Magdalena de Kino. Rock chip samples from the RC drill program have been submitted for assay and results are pending. While not currently a priority the Company is also very encouraged by the surface exploration and sampling results obtained from its earlier stage Lobos and Lety Properties. The Company plans first phase drill programs on each of these properties when funds become available.

The equity markets for early stage exploration have been difficult over the last several months. The Company is currently assessing a number of financing alternatives to help ensure adequate funds are available to progress each of its projects during the current fiscal year. Assuming the Company is able to finance its planned exploration programs management is confident it can expand the collective resource base significantly over the next year. The Company continues to review various opportunities for mineral resource expansion at reasonable acquisition and/or exploration costs.

#### **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 Bragnolo"*

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Bruce Bragnolo  
Director, CEO

*"Darcy Krohman"*

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Darcy Krohman  
Director, Vice-President & CFO

September 25, 2008