

**SILVERMEX RESOURCES LTD.**  
MANAGEMENT DISCUSSION AND ANALYSIS – FORM 51-102F1  
for the three and six month period ended October 31, 2007

**Date of Report**

The following Management Discussion and Analysis (“MD&A”) for Silvermex Resources Ltd. (“Silvermex” or the “Company”) is prepared as of December 21, 2007, and should be read in conjunction with the interim consolidated financial statements for the six month period ended October 31, 2007, and the audited consolidated financial statements and related notes for the years ended April 30, 2007, and 2006. The reader is also referred to the Company’s Annual Information Form dated August 27, 2007 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. Please refer to the discussion of risks and uncertainties contained in the Company’s Annual Information Form dated August 27, 2007.

**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. No changes have been made to the Company’s system of internal controls in the current period.

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

Silvermex Resources Ltd. is a junior resource company engaged in the acquisition, exploration and development of gold properties in Mexico. To date the Company has measured its success through the growth in its mineral resources, in particular silver resources, at reasonable discovery and/or acquisition cost. The Company has its corporate office in Vancouver and administrative office in Hermosillo, Sonora, Mexico. The Company also has field offices in Magdalena, Sonora, and Guadalajara, Jalisco, Mexico. The Company currently has no revenue from operations and will continue to incur negative cash flow for the foreseeable future. The interim consolidated financial statements include the accounts of Silvermex Resources Inc. and its wholly owned subsidiary, Minera Terra Plata, S.A. de C.V. (the "Subsidiary").

The Company's currently has three principal projects, two of which are considered material for purposes of NI 43-101. These are the Peñasco Quemado Project located in northern Sonora, and the recently acquired San Marcial Property located in Sinaloa. While management is encouraged by the results from the first phase exploration program on the Cerro de Plata Property, the Company does not consider it to be material for purposes on National Instrument 43-101. In July 2006, the Company completed its initial public offering ("IPO") and raised gross proceeds of \$2,070,000. In March 2007, the Company completed a private placement financing raising an additional \$1,600,000 (gross proceeds). The funds raised by way of prospectus offering at the time of the IPO were primarily used to fund the drill program and mineral resource estimate on the Peñasco Quemado Project. Proceeds from a March 2007 private placement were used primarily to fund the drill program on the Cerro de Plata Project. The Company had entered into an option agreement to acquire a 100% interest in the Cerro de Plata Property in November 2006.

Subsequent to the period end the Company completed a financing by way of a Short Form Offering Document. The proceeds of the offering were used to eliminate the Company's accumulated working capital deficit and fund general and administrative expenses in Vancouver and Hermosillo, and commence a third phase drill program on the Peñasco Quemado Project.

Metal prices including silver prices have been very volatile yet generally strong over the last year. The Company believes that silver prices have benefited from declining silver resources, a general weakening of 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 is not able to predict future silver prices or other metal prices or their impact or future operations.

## **Corporate developments**

During the interim period ended October 31, 2007, the Company completed the first phase exploration program on its Cerro de Plata project in northern Sonora. The program consisted of detailed geological mapping, 1,528 metres of diamond drilling, 2.5 km of road construction and trenching, 600 km of airborne magnetic and radiometric survey, and a 10 km ground induced polarization and resistivity survey. Results of the program are described under Mineral Projects. An airborne magnetics and radiometrics survey was also completed on the Cerro de Plata Property in May. An Induced Polarization-Resistivity survey was initiated on the Peñasco Quemado zone with the objective of locating drill holes for the January 2008 drill program. During the interim period, management was also active in negotiating an option to acquire the San Marcial Property from the vendor, Silver Standard Resources Inc., and on October 9, 2007, announced the terms of that option agreement. Details of the San Marcial Property, including terms of the agreement and an Inferred Mineral Resource of 14.26 million ounces of silver prepared in accordance with CIM definitions and NI 43-101 is provided below under Mineral Projects.

The Company also completed a first phase surface sampling and small geophysical program on the Lobos Property located in northwest Sonora adjacent to the Sea of Cortez. Initial results are very encouraging and the Company plans an extensive program in March-April 2008. Details of the property geology and results obtained to date are provided below under "Mineral Projects".

## 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. During the interim period the Company completed a first phase drill program on its Cerro de Plata Property, also located in Sonora, Mexico. While encouraged by the results obtained from an initial surface sampling program, the Company does not consider this property to be material at this time.

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

The Company completed its initial drill program on the Peñasco Quemado Property in November 2006, and on January 30, 2007, the Company announced it has received an independent mineral resource estimate on the Peñasco Quemado Zone. The estimate was prepared using current CIM definitions for mineral resources.

| Resource Classification           | Ore<br>(million<br>tonnes) | Grade<br>(g/t Ag) | Silver<br>(million<br>troy oz) |
|-----------------------------------|----------------------------|-------------------|--------------------------------|
| 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                          |

During May and June 2007, an airborne magnetic and radiometric geophysical survey was completed over the entire Peñasco Quemado property. Several new anomalies/targets were identified that will be the subject of a follow up reconnaissance program. In August 2007, an induced polarization (IP)-resistivity (R) survey was initiated. The objective of the program was to confirm the extension of the high grade silver mineralization previously intersected in the PQ Zone and to identify extensions to the system. The program successfully met its objectives and the information gained has been used to locate several of the drill holes currently being completed. This drill program is focusing on expanding the resource base by confirming the extension of the Peñasco Quemado Zone and refining the regional and local geologic model(s). Several infill holes are also being completed with the objective of increasing the drill hole density. Technical staff believe this would allow the inclusion of significant drill hole intercepts previously not included in the resource estimate because of the lack of density.

The Company also hopes to establish the continuity of the San Luis, Low Angle and Stockwork Zones through detailed geological mapping and geophysical and drill programs. A four hole, 600 m drill program is planned for these zones. Technical staff believes these anomalies could be the source of the silver-gold and copper mineralization identified in the outcrops in the area and at the San Luis Zone. In addition, a four hole, 600 metre RC drill program is being completed to test the IP anomaly in the zone and follow up the encouraging results from drill hole PQD-05, completed during the 2006 program. The Company also staked an additional 10,000 hectares south of the main Peñasco Quemado claim block.

The exploration program will include early stage evaluation of previously identified targets and generation of new targets on this concession. A total of 3,000 m of diamond drilling is budgeted to be completed at a cost of US\$500,000. A detailed description and discussion of the results from the ground geophysical program is available in the Management Discussion & Analysis for the three month interim period ended July 31, 2007.

## 2. SAN MARCIAL PROPERTY, SINALOA, MEXICO

On October 9, 2007, the Company announced the execution of an option agreement with Silver Standard Resources Inc. to earn a 100% interest in the San Marcial silver property located in Sinaloa State, Mexico. The 1,250 hectare property is located 90 km east of Mazatlan in west central Mexico. Under the terms of the agreement with Silver Standard, Silvermex can acquire a 100% interest by issuing one million common shares (issued), a further one million shares on each of the first and second anniversaries, and a lump sum payment in either cash or shares at the election of Silver Standard, on the third anniversary. The lump sum payment will be calculated by deducting the deemed value of the above share issuances from either US\$15,000,000 if the price of silver is \$15.00 per ounce or less, or US\$18,000,000 if the price of silver is above US\$15.00 per ounce. The Company must also expend US\$3.5 million on exploration over three years and provide Silver Standard with an updated resource estimate based on such expenditures. The Company is also obligated to pay Silver Standard an additional US\$0.50 per ounce of silver in any resource category in excess of 14.26 million ounces, determined by the resource estimate to be present on the property. Further, in the event the results of the \$3.5 million program increase the resource to 100 million ounces of silver equivalent (silver and gold), Silver Standard has the option to back-in for 50% of the property by spending an additional \$10.5 million on exploration. Silver Standard would then become the operator of the property.

On November 23, 2007 the Company filed a report titled NI 43-101 Technical Report for the San Marcial Property, La Rastra Mining District, Sinaloa, Mexico, prepared by independent Qualified Persons, William J. Lewis, B.Sc. P.Geo., and Nathan Eric Fier, C.P.G., P.Eng. of Micon International Limited (the Report). The Report confirmed a resource estimate previously completed for Silver Standard on the San Marcial Property. This estimate states the property hosts an Inferred Mineral Resource of 14.26 million ounces of silver (2.31 million tonnes grading 191.79 g/t silver). 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.*

Micon concurs with the Company's plans to complete a US\$883,000 first phase, 3,000 m diamond drill/surface exploration program. The Report also makes recommendations regarding the consolidation and compilation of all available data; completion of a number of twin diamond drill holes to validate historical data; re-logging of the core; documentation of the Company's QA/QC program; and increased sampling and specific gravity testing. Contingent upon favorable results a US\$1,168,000 second phase program is proposed. Silvermex's objective will be to define an inferred silver resource in excess of 50 million ounces of silver. The Company is currently completing road repairs and a surface sampling and detailed mapping program and anticipates the first phase diamond drill program will begin in February/March 2008. The Company will require additional funds prior to commencing this program.

The best drill hole intercepts to date were from a January 2001 drill program on the SE zone completed by Gold Ore Resources Ltd. Holes SM-4 and SM-5 returned the following intercepts:

| Drill Hole | From | To   | Interval (m) | Ag Grade (g/t) | Ag Grade (oz/t) |
|------------|------|------|--------------|----------------|-----------------|
| SM-4       | 3.0  | 69.0 | 66.0         | 205.9          | 6.0             |
| includes   | 6.0  | 21.0 | 15.0         | 637.0          | 18.6            |
| SM-5       | 1.4  | 36.0 | 34.6         | 205.3          | 6.0             |
| includes   | 1.4  | 9.0  | 7.6          | 415.1          | 12.1            |
| Includes   | 15.0 | 21.0 | 6.0          | 342.7          | 10.1            |

### 3. 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 Company’s Cerro de Plata project in northern Sonora 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 an interval averaging 190.9 g/t silver, 0.37% copper and 0.105% lead from surface to 16.8 metres 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.

The information garnered from the program supports a copper-molybdenum porphyry geological model with associated epithermal silver vein type mineralization. The main area of interest now appears to be in the northern portion of the survey area. 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 high aluminium 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.

Technical staff and our consultants continue to analyse the geological and geophysical data to help refine targets for a second phase drill program. They believe that an extensive program of detailed geological mapping, geophysics and geochemistry, followed by a second stage 5,000 metre diamond drill program is required to progress the project to the next decision point. A detailed interpretation of the aeromagnetic data is currently being completed by Zonge Engineering and Research of Tucson, Arizona. Management does not anticipate that this work will be completed prior to the end of the current fiscal year.

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

Subsequent to the period end, on November 8, 2007, 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 km from Puerto Peñasco, the largest major center in the region.

As previously reported, a recently completed 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 m long, 42 m wide mineralized zone averaging 184.6 g/t Ag, 0.53% Zn, 0.29% Pb and 0.026% Cu. The highest values returned 2743 g/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 overly 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 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. This theory will be tested by a first phase drill program proposed for the second quarter of 2008.

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

Subsequent to the period end, on November 27, 2007, the Company announced it had entered into an agreement to acquire a 100% interest in the 150 hectare El Rayo Claims located near the city of Magdalena de Keno in Sonora, Mexico. The property is easily accessible from both the Magdalena and Pan American Highways. The Company has staked an additional 2,200 hectares to ensure the mineral rights to any extensions to the known mineralization are secured. 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 acquisition is subject to approval by the TSX Venture Exchange.

Silvermex has recently completed due diligence sampling and first phase underground exploration 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 meters 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.

A detailed description of the results obtained to date, including assay and analytical results, are available in the news release dated November 27, 2007.

The Company is planning a more intensive surface and underground program in the first quarter of 2008 consisting of detailed geological mapping, sampling and trenching. The objective of the program will be to identify parallel structures and confirm the continuity of the known mineralized systems.

## **Results of Operations**

### **Six months ended October 31, 2007, compared with six months ended October 31, 2006:**

During the six month period ended October 31, 2007, the Company reported a net loss of \$1,085,451 (\$0.05 per share) compared to a net loss of \$851,927 (\$0.05 per share) for the six months ended October 31, 2006. The major items for the six month period ended October 31, 2007, compared to October 31, 2006, were:

- a. Consulting fees of \$120,600 (2006: \$41,746) primarily incurred for increased market activity and contracting out to marketing and promotional consultants.
- b. Office and miscellaneous expenses increased to \$57,494 (2006: \$13,883) primarily attributable to the increase in operations (such as promotional activities and meals and entertainment).
- c. Investor relation charges of \$161,245 (2006: \$54,465) for corporate communications work performed. This can be attributed to a dedicated marketing and promotions campaign in North America and Europe.
- d. Charges for stock-based compensation decreased to \$291,673 (2007: \$496,303). These charges are non-cash transactions and are based on the fair value of 2,025,000 options at an exercise price of between \$0.30 and \$1.11 using the Black-Scholes option pricing model. Please refer to Note 8 of the interim consolidated financial statements for further details.
- e. Salaries and wages expense totaled \$146,847 (2006: \$15,819). The increase was a result of increased activities and associated administrative expenses in the Company and, in particular, the addition of the Company's CEO, CFO and Executive Vice President, corporate development staff, and office manager, and also includes a bonus paid to a director and officer of the Company pursuant to the terms of his employment agreement. Salaries and wages directly related to exploration and development activities are capitalized as deferred exploration expenses and are included in "Mineral Properties".
- f. Accounting and audit fees of \$92,648 (2006: \$15,807) of which \$29,000 was related to accounting services provided by private company of which a director of the Company is a vice-president. The balance of this expense relates to audit fees.

Overall, the Company's general and administrative expenses increased significantly due to its increased activity on its Cerro de Plata and Peñasco Quemado silver project in Sonora, Mexico, and increased marketing and investor relation activities. As the Company had only completed its initial public offering and TSX-V listing in July 2006, the Company believes any comparative analysis for comparable periods would be inappropriate.

### **Three months ended October 31, 2007, compared with three months ended October 31, 2006:**

During the three month period ended October 31, 2007, the Company reported a net loss of \$621,843 (\$0.03 per share) compared to a net loss of \$686,450 or (\$0.04 per share) for the six months ended October 31, 2006. The major items for the three month period ended October 31, 2007, compared to October 31, 2006, were:

- a. Consulting fees of \$50,154 (2006: \$12,161) primarily incurred for primarily incurred for increased market activity and contracting out to marketing and promotional consultants.

- b. A foreign exchange loss of \$89,505 (2006: \$15,426) was incurred because the majority of the Company's payments are required to be made in US dollars. As a result the Company must hold a portion of its monetary assets in US dollars despite its policy of limiting exposure to this currency by retaining funds in Canadian dollars until such time that payments are due.
- c. Investor relation charges of \$90,275 (2006: \$161,245) for corporate communications work performed by the Company's investor relation consultants. This can be attributed to a dedicated marketing and promotions campaign in North America and Europe.
- d. Charges for stock-based compensation amounted to \$128,122 (2006: \$496,303). These charges are non-cash transactions and are based on the fair value of 2,025,000 options at an exercise price of between \$0.30 and \$1.11 using the Black-Scholes option pricing model. Please refer to Note 8 of the interim consolidated financial statements for further details. No stock options were granted in this period.
- e. Accounting and audit fees of \$54,868 (2006: \$9,807) of which \$16,000 was related to accounting services provided by private company of which a director of the Company is a vice-president. The balance of this expense relates to audit fees.

Overall, the Company's general and administrative expenses increased significantly due to its increased activity on its Cerro de Plata and Peñasco Quemado silver project in Sonora, Mexico, and increased marketing and investor relation activities. As the Company had only completed its initial public offering and TSX-V listing in July 2006, the Company believes any comparative analysis for comparable periods would be inappropriate.

### Summary of Quarterly Results

The following is a summary of the Company's financial results for the six most recently completed quarters. Quarterly information for the previous two quarters is not available as the Company was not a reporting issuer at that time.

|                          | Q2<br>October 31,<br>2007 | Q1<br>July 31,<br>2007 | Q4<br>April 30,<br>2007 | Q3<br>January 31,<br>2007 | Q2<br>October 31,<br>2006 | Q1<br>July 31,<br>2006 |
|--------------------------|---------------------------|------------------------|-------------------------|---------------------------|---------------------------|------------------------|
| Total revenues           | \$ Nil                    | \$ Nil                 | \$ 2,814                | \$ 7,878                  | \$ Nil                    | \$ 492                 |
| Net loss                 | \$ 621,843                | \$463,608              | \$ 56,656               | \$ 206,046                | \$ 686,450                | \$ 165,477             |
| Basic loss per share (1) | \$ 0.03                   | \$ 0.02                | \$ 0.00                 | \$ 0.01                   | \$ 0.04                   | \$ 0.01                |

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

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

## Comparison of Actual and Proposed Use of Proceeds from Private Placement

The table below details the proposed versus actual use of proceeds of the funds raised in the April 5<sup>th</sup>, 2007, private placement:

|     |   | <b>Proposed Use of Proceeds (CDN\$)</b> | <b>Actual Use of Proceeds* (CDN\$)</b> |
|-----|---|---|--|
| (a) | To pay the balance of the estimated remaining costs of the private placement  | Nil                                     | \$50,000                               |
| (b) | To pay the Agent's commission   | \$128,000                               | Nil**                                  |
| (c) | To pay for exploration expenditures on the Cerro de Plata property including drilling <sup>(1)</sup>  | \$700,000                               | \$760,012                              |
| (d) | To pay for exploration expenditures on the Peñasco Quemado property   | \$500,000                               | \$324,710                              |
| (e) | To make property payments, stake claims and other acquisition costs on the Peñasco Quemado, Cerro de Plata, Lety, Lobos and El Rayo properties <sup>2</sup> | Nil                                     | \$203,247                              |
| (f) | To provide general working capital to meet general and administrative costs and fund ongoing operations <sup>3</sup>  | \$272,000                               | \$262,031                              |
|     | <b>Total</b>  | <b>\$1,600,000</b>                      | <b>\$1,600,000</b>                     |

\* To October 31, 2007

\*\* The Agent exercised its option to be paid in Units.

Exploration expenditures on the Cerro de Plata property were slightly higher than budgeted, as additional costs for road construction and trenching were incurred. Property payments that were not budgeted for in the use of proceeds were made, resulting in less funds available to spend on the Peñasco Quemado property.

### Liquidity

The interim consolidated financial statements for the six month period ended October 31, 2007 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 \$265,201 as at October 31, 2007 compared to \$1,223,282 as at April 30, 2007. The Company had a working capital deficiency of \$516,565 as at October 31, 2007 compared to working capital \$1,243,490 at April 30, 2007. (See Capital Resources.)

## 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.

The Company will need additional capital to finance ongoing exploration of its properties. This capital could be derived from the exercise of outstanding stock options and warrants, and/or the completion of private placements. As at October 31, 2007, the Company owed \$20,000 in a non-interest bearing loan to a director and officer. This loan was subsequently repaid. The Company also repaid \$200,000 in promissory notes (plus bonuses totalling \$21,500) subsequent to the period end.

Subsequent to the period end, on November 16, 2007, the Company completed a short form offering of 2,000,000 units at a price of \$1.00 per unit for gross proceeds of \$2,000,000. Each unit consisted of one common share and one half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of 12 months at a price of \$1.25 per share. The securities issued to purchasers who have subscribed for 40,000 units or more (a total of 425,000 units) and the Agent's corporate finance fee are subject to restrictive legends expiring on March 16, 2008. The proceeds of the offering have been used or will be used to pay the expenses of the offering, including the agent's commission, eliminate the Company's working capital deficit, exploration of the Company's properties (principally the Peñasco Quemado Project), property payments, and general working capital.

## Transactions with Related Parties

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

|                             | <u>Six months ended<br/>October 31, 2007</u> |
|-----------------------------|--|
| Mineral property costs:     |  |
| - field work and consulting | \$ 99,181                                    |
| Accounting                  | 29,000                                       |
| Rent for shared premises    | 20,337                                       |
| Consulting                  | <u>65,000</u>                                |
|                             | <u>\$ 213,518</u>                            |

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

Accounts payable and accrued liabilities outstanding with related parties are unsecured, non-interest bearing and have no fixed terms of repayment. Included in accounts payable and accrued liabilities at October 31, 2007 are the following related party amounts:

|  | <u>Six months ended<br/>October 31, 2007</u> |
|--|--|
| Accounts payable and accrued liabilities | <u>\$ 108,747</u>                            |

The details of the above transactions with related parties are as follows:

- (a) The Company incurred \$99,181 for services related to resource property development to the president and director of the Company.
- (b) During the six months ended October 31, 2007, \$10,000 of consulting fees (2006 - \$3,000) were paid to a director and an officer of the Company.
- (c) As of October 31, 2007, an amount of \$12,668 is due to directors and officers of the Company. The amount is non-interest bearing and has no terms of repayment.
- (d) During the six months ended October 31, 2007, rent of \$20,337 was charged by a company related by common directors and officers for shared office premises.
- (e) During the six months ended October 31, 2007, the Company incurred \$29,000 for accounting services provided by a private company of which a director of the Company is a vice-president.
- (f) During the six months ended October 31, 2007, the Company incurred \$55,000 of consulting fees to a company controlled by its corporate secretary.
- (g) During the six months ended October 31, 2007, a director and Chief Executive Officer loaned \$20,000 to the Company. The loan was evidenced by way of a promissory note, was unsecured and non-interest bearing. It was repaid in full subsequent to October 31, 2007.

### **Proposed Transactions**

The Company is contemplating raising additional capital through a private placement of its securities in the near future. However, it has not entered into any formal agreement with respect to this proposed financing. Assuming the Company is able to raise sufficient funds, they will be used to finance a first phase drill program on its newly acquired San Marcial Property, first phase surface exploration and possible drill programs on its Lobos and El Rayo Properties and any additional work deemed once the third phase drill program on the Peñsco Quemado property has been completed.

### **Critical Accounting Estimates**

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

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

## **Changes in Accounting Policies**

The interim consolidated financial statements for the six month period ended October 31, 2007, 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, including 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.

## **Investor Relations Agreements**

During the six month period ended October 31, 2007, the Company entered into an investor relation agreement for an initial term of six months for \$10,000 plus GST per month, which will automatically renew for a period of four months.

## **Directors and officers**

|                  |                                       |
|------------------|---------------------------------------|
| Arturo Bonillas  | Director, President                   |
| Bruce Bragagnolo | Director, CEO (appointed May 1, 2007) |
| Miguel Soto      | Director & COO                        |
| Duane Nelson     | Secretary                             |
| Darcy Krohman    | Director, Vice President & CFO        |
| Hallein Darby    | Director (appointed May 1, 2007)      |

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 27, 2007. 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 six month period ended October 31, 2007, the Company initiated and completed a first phase exploration program on its Cerro de Plata mineral property. The Company is encouraged with the initial results however management does not expect a second phase program will be completed prior to the end of the current fiscal year end because of a lack of human and financial resources.

During the period, the Company completed an induced polarization geophysical survey on the Peñasco Quemado property. The principal focus of the next phase of exploration on the property is concentrating on expanding the resource base identified on the Peñasco Quemado Zone, and in identifying the geological and structural controls responsible for the mineralization at the Stockwork, San Luis and Low Angle Zones. The diamond drill program is expected to begin early in early January 2008.

The Company also entered into an option agreement to acquire a 100% interest in the San Marcial Property. Subsequent to year end the Company filed a technical report prepared in accordance with NI 43-101 confirming the property hosts an Inferred Mineral Resource of 14.26 million ounces of silver (2.31 million tonnes grading 191.79 g/t silver). Road rehabilitation, surface sampling and detailed geological mapping are currently underway at the newly acquired San Marcial Property. A first phase drill program is planned for February/March 2008. The objective of the program will to be to expand the current resource.

The Company is also very encouraged with the initial results from its earlier stage Lobos and El Rayo Properties. Access to the Lobos property is restricted until March 2008, however the Company is planning an extensive surface sampling, geological mapping and, should the results warrant, a drill program for the second quarter of 2008. Surface and underground sampling and detailed geological mapping of the El Rayo Property is currently underway.

The Company currently has sufficient funds to complete its planned exploration and drill program on the Peñasco Quemado Property. The Company will, however, require additional capital to proceed with programs on the San Marcial, Lobos and El Rayo properties. 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).