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## **Audited Consolidated Financial Statements**

### **April 30, 2010 and 2009**

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## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Southern Silver Exploration Corp. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. Smythe Ratcliffe LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the consolidated financial statements and their report is included herein.

"Lawrence Page"

Lawrence Page, Q.C.  
President and Chief Executive Officer

"Mahesh Liyanage"

Mahesh Liyanage, CA  
Chief Financial Officer

July 22, 2010  
Vancouver, British Columbia

## Auditors' Report

### To the Shareholders of Southern Silver Exploration Corp.

(an exploration stage company)

We have audited the consolidated balance sheets of Southern Silver Exploration Corp. (an exploration stage company) as at April 30, 2010 and 2009 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*"Smythe Ratcliffe LLP" (signed)*

Chartered Accountants

Vancouver, British Columbia  
July 22, 2010, except as to Note 12  
which is as of July 27, 2010.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Consolidated Balance Sheets as at April 30,**

|  | 2010                    | 2009                |
|--|-------------------------|---------------------|
| <b>Assets</b>                            |                         |                     |
| <b>Current</b>                           |                         |                     |
| Cash                                     | \$ 656,457              | \$ 449,203          |
| Receivables                              | 38,607                  | 21,696              |
| Prepays                                  | 42,979                  | 35,821              |
|  | <b>738,043</b>          | <b>506,720</b>      |
| Mineral properties                       | Note 5<br>3,312,020     | 3,277,042           |
| Reclamation bonds                        | Note 5<br>54,000        | 65,241              |
|  | <b>\$ 4,104,063</b>     | <b>\$ 3,849,003</b> |
| <b>Liabilities</b>                       |                         |                     |
| <b>Current</b>                           |                         |                     |
| Accounts payable and accrued liabilities | \$ 82,080               | \$ 50,310           |
| Due to related parties                   | Note 6<br>5,116         | 2,465               |
|  | <b>87,196</b>           | <b>52,775</b>       |
| <b>Shareholders' Equity</b>              |                         |                     |
| Share capital                            | Note 7<br>21,008,918    | 19,000,984          |
| Contributed surplus                      | Note 7 (a)<br>3,281,090 | 2,702,685           |
| Deficit                                  | (20,273,141)            | (17,907,441)        |
|  | <b>4,016,867</b>        | <b>3,796,228</b>    |
|  | <b>\$ 4,104,063</b>     | <b>\$ 3,849,003</b> |

Nature of operations and going concern (Note 1)

Contingencies and commitments (Note 11)

Subsequent events (Note 12)

**Approved on behalf of the Board**

"Lawrence Page"

"Terry Eyton"

**Lawrence Page, Q.C.**

**Terry Eyton**

See notes to consolidated financial statements.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Consolidated Statements of Operations and Deficit for the years ended April 30,**

|  | 2010                 | 2009                 |
|--|----------------------|----------------------|
| <b>Expenses</b>                                      |                      |                      |
| Administration                                       | \$ 96,000            | \$ 96,000            |
| Amortization   | -                    | 13,564               |
| Consulting   |                      |                      |
| Services   | 278,638              | 275,413              |
| Stock-based compensation                             | 247,500              | 9,998                |
| Independent directors' fees                          |                      |                      |
| Services   | 37,411               | 37,500               |
| Stock-based compensation                             | 48,750               | -                    |
| Investor relations                                   | 105,271              | 135,050              |
| Office and general                                   | 63,544               | 103,821              |
| Professional fees                                    | 178,107              | 211,565              |
| Regulatory fees and taxes                            | 28,906               | 17,645               |
| Shareholders' communications                         | 11,060               | 6,765                |
| Transfer agent                                       | 13,287               | 15,320               |
| Travel and promotion                                 | 40,075               | 38,319               |
| Staff costs  |                      |                      |
| Stock-based compensation                             | 108,750              | -                    |
|  | <b>1,257,299</b>     | <b>960,960</b>       |
| <b>Other Items</b>                                   |                      |                      |
| Interest income                                      | (651)                | (68,465)             |
| Foreign exchange loss (gain)                         | 77,366               | (214,609)            |
| General exploration                                  | 62,255               | 108,492              |
| Share purchase warrants modification                 | 109,494              | -                    |
| Write-off of mineral properties                      | 859,937              | 4,130,122            |
|  | <b>1,108,401</b>     | <b>3,955,540</b>     |
| <b>Net Loss and Comprehensive Loss for Year</b>      | <b>2,365,700</b>     | <b>4,916,500</b>     |
| <b>Deficit, Beginning of Year</b>                    | <b>17,907,441</b>    | <b>12,990,941</b>    |
| <b>Deficit, End of Year</b>                          | <b>\$ 20,273,141</b> | <b>\$ 17,907,441</b> |
| Loss per share - basic and diluted                   | \$ 0.05              | \$ 0.11              |
| Weighted average number of common shares outstanding | 51,157,165           | 42,765,690           |

See notes to consolidated financial statements.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Consolidated Statements of Cash Flows for the years ended April 30,**

|  | 2010           | 2009           |
|--|----------------|----------------|
| Net loss for the year                                      | \$ (2,365,700) | \$ (4,916,500) |
| <b>Items not involving cash:</b>                           |                |                |
| Amortization   | -              | 13,564         |
| Stock-based compensation                                   | 405,000        | 9,998          |
| Share purchase warrants modification                       | 109,494        | -              |
| Unrealized foreign exchange gain (loss)                    | 43,113         | (22,275)       |
| Write-off of mineral properties                            | 859,937        | 4,130,122      |
|  | (948,156)      | (785,091)      |
| <b>Changes in non-cash working capital</b>                 |                |                |
| Receivables  | (16,911)       | 127,302        |
| Prepays  | (7,158)        | 201,548        |
| Accounts payable and accrued liabilities                   | 24,363         | (14,924)       |
| Due to related parties                                     | (119)          | (49,292)       |
|  | 175            | 264,634        |
| <b>Cash Used in Operating Activities</b>                   | (947,981)      | (520,457)      |
| <b>Investing Activities</b>                                |                |                |
| Expenditures on mineral properties                         | (799,488)      | (1,630,905)    |
| Reclamation bonds  | 9,282          | (252)          |
| <b>Cash Used in Investing Activities</b>                   | (790,206)      | (1,631,157)    |
| <b>Financing Activities</b>                                |                |                |
| Proceeds from issuance of shares, net of share issue costs | 1,608,818      | -              |
| Proceeds from warrant exercise                             | 377,778        | -              |
| <b>Cash Provided by Financing Activities</b>               | 1,986,596      | -              |
| <b>Foreign Exchange Effect on Cash</b>                     | (41,155)       | 25,593         |
| <b>Increase (Decrease) in Cash During the Year</b>         | 207,254        | (2,126,021)    |
| <b>Cash , Beginning of Year</b>                            | 449,203        | 2,575,224      |
| <b>Cash , End of Year</b>                                  | \$ 656,457     | \$ 449,203     |

Supplemental cash flow information (Note 10)

See notes to consolidated financial statements.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

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**1. Nature of Operations and Going Concern**

Southern Silver Exploration Corp. (the "Company") is an exploration stage company incorporated under the laws of British Columbia. The Company and its subsidiaries are engaged in the acquisition and exploration of mineral properties and do not have any mineral properties in production.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that any of the Company's current or future exploration programs will result in profitable mining operations. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete their exploration and development, and establish future profitable operations, or realize proceeds from their sale. The carrying value of the Company's mineral properties does not reflect current or future value.

These consolidated financial statements were prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at April 30, 2010, the Company had working capital of \$650,847 (2009 - \$453,945).

The Company does not hold any revenue generating properties and therefore continues to incur losses. The Company has an accumulated deficit of \$20,273,141 as at April 30, 2010 (2009 - \$17,907,441).

The Company has relied mainly upon the issuance of share capital to finance its activities. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company intends to continue relying upon the issuance of share capital to finance its future activities but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. Inability to secure future financing would have a material adverse effect on the Company's business, results of operations and financial condition.

These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

**2. Summary of Significant Accounting Policies**

**(a) Basis of Presentation and Consolidation**

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars, and include the accounts of the Company and its wholly-owned integrated subsidiaries, Minera Plata del Sur S.A de C.V., incorporated in Mexico, Southern Silver Exploration (US) Corp., incorporated in the US, and Southern Silver Holdings Ltd., incorporated in the British Virgin Islands.

All intercompany accounts and transactions were eliminated upon consolidation.

Certain prior year's comparative figures have been reclassified to conform to the presentation adopted in the current year.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
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**2. Summary of Significant Accounting Policies, continued**

**(b) Mineral Properties**

The Company defers all costs related to investments in mineral properties on a property-by-property basis. Such costs include mineral property acquisition costs and exploration expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral properties are either developed or the Company's mineral rights are allowed to lapse.

All deferred mineral property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

From time to time the Company may acquire or dispose of a mineral property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

**(c) Reclamation Bonds**

Reclamation bonds are recorded at cost and held in Mexican pesos and US dollars by Mexican and US government agencies, respectively.

**(d) Foreign Currency**

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses (excluding amortization, which is translated at the same rate as the related asset), at the exchange rates in effect on the date of the transaction.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss.



**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

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**2. Summary of Significant Accounting Policies, continued**

**(e) Equipment**

Equipment and software are carried at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the assets using the declining balance method at an annual rate of 45% for computers and equipment and 100% for software, except in the period of acquisition when one-half of the annual rate is used.

**(f) Share Capital Units**

The Company uses the residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The proceeds from the issue of units is allocated between common shares and share purchase warrants on a residual value basis, wherein the fair value of the common shares is based on the market value on the date of the announcement of the placement and the balance, if any, is allocated to the attached warrants.

Share issue costs are netted against share proceeds.

**(g) Stock-Based Compensation**

The Company accounts for stock-based compensation using a fair value-based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company does not incorporate an estimated forfeiture rate for options that will not vest, but rather accounts for actual forfeitures as they occur.

**(h) Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided against future tax assets when it is more likely than not that the tax asset will not be utilized.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

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**2. Summary of Significant Accounting Policies, continued**

**(i) Loss per Share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

**(j) Financial Instruments**

Financial instruments are classified as one of the following: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net loss. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The Company categorizes its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**(k) Use of Estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of environmental obligations, asset retirement obligations ("ARO"), receivables, accrued liabilities, the impairment and resulting carrying value of mineral properties, determination of the valuation allowance for future tax assets and the assumptions used in the calculation of stock-based compensation. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

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**2. Summary of Significant Accounting Policies, continued**

**(l) Revenue Recognition**

Interest income earned is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method

**(m) Asset Retirement Obligations**

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount will be depleted on a straight-line basis over the estimated life of the asset. The liability amount will be increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present the Company has determined that it has no material AROs to record in the financial statements.

**(n) Accounting Change**

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company adopted this section on May 1, 2009 with no impact the Company's consolidated financial statements.

**(o) Future Accounting Changes**

**(i) International Financial Reporting Standards ("IFRS")**

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim consolidated financial statements for the three months ended July 31, 2011, which must include restated interim results for the period ended July 31, 2010 prepared on the same basis. The conversion to IFRS will impact the Company's accounting policies, information technology and data system, internal control over financial reporting, and disclosure controls and procedures.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
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**2. Summary of Significant Accounting Policies, continued**

**(o) Future Accounting Changes, continued**

**(i) International Financial Reporting Standards (“IFRS”), continued**

The Company has identified current GAAP applicable to the Company that will be affected by the changeover and differences with the corresponding IFRSs and has outlined appropriate policy choices allowed under IFRS. Management submitted a document outlining the differences between current GAAP and IFRS, appropriate policy choices, and their impact on the Company’s financial statements and business processes to the Audit Committee for discussion.

**(ii) Business Combinations**

In January 2009, the CICA issued Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners.

Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to the Company’s interim and annual consolidated financial statements relating to fiscal years beginning on January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

**3. Financial Instruments**

The carrying value of financial assets by category at April 30, 2010 and 2009 are as follows:

| Financial Assets  | 2010              |                       | 2009              |                       |
|-------------------|-------------------|-----------------------|-------------------|-----------------------|
|                   | Held-for-trading  | Loans and Receivables | Held-for-trading  | Loans and Receivables |
| Cash              | \$ 656,457        | \$ -                  | \$ 449,203        | \$ -                  |
| Reclamation bonds | -                 | 54,000                | -                 | 65,241                |
| Receivables       | -                 | 8,905                 | -                 | -                     |
|                   | <b>\$ 656,457</b> | <b>\$ 62,905</b>      | <b>\$ 449,203</b> | <b>\$ 65,241</b>      |

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

**3. Financial Instruments, continued**

The carrying value of financial liabilities by category at April 30, 2010 and 2009 are as follows:

|  | 2010                               | 2009                               |
|--|------------------------------------|------------------------------------|
| <b>Financial Liabilities</b>             | <b>Other financial Liabilities</b> | <b>Other financial Liabilities</b> |
| Accounts payable and accrued liabilities | \$ 82,080                          | \$ 50,310                          |
| Due to related parties                   | 5,116                              | 2,465                              |
|  | <b>\$ 87,196</b>                   | <b>\$ 52,775</b>                   |

**Fair Value**

The carrying values of cash, receivables, accounts payable and accrued liabilities, and due to related parties approximate their fair values due to their short term to maturity. The reclamation bonds are non-interest-bearing and the carrying values approximate their fair value.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

**(a) Credit Risk**

The Company is exposed to credit risk with respect to managing its cash position. This risk is mitigated by risk management policies that require deposits or short-term investments to be invested with Canadian chartered banks rated BBB or better, or commercial paper issuers R1/A2/P2 or higher. All investments must be less than one year in duration and the Company has no exposure to asset-backed commercial paper.

**(b) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due by forecasting cash flows for operations and anticipated investing and financing activities. The Company normally maintains sufficient cash and cash equivalents to meet the Company's business requirements. However, at April 30, 2010 the cash balance of \$656,457 (2009 - \$449,203) would be insufficient to meet the cash requirements for the Company's administrative overhead, maintaining its mineral interests and continuing with its exploration program in the coming year. Therefore, the Company will be required to raise additional capital in order to fund its operations in 2010/2011. At April 30, 2010, the Company had accounts payable and accrued liabilities of \$82,080 (2009 - \$50,310) and amounts due to related parties of \$5,116 (2009 - \$2,465), due within 30 days.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

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**3. Financial Instruments, continued**

**(c) Market Risk**

The significant market risks to which the Company is exposed are interest rate risk, currency risk and other price risk. These are discussed further below:

**(i) Interest Rate Risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash consists of cash held in bank accounts that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value as of April 30, 2010.

**(ii) Currency Risk**

The Company is exposed to currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily US dollars and Mexican pesos). The Company does not manage currency risk through hedging or other currency management tools.

As at April 30, 2010, the Company has financial instruments denominated in foreign currencies and is exposed to currency risk as follows:

|  | US \$          | Peso           |
|--|----------------|----------------|
| Cash                                     | 232,254        | 77,124         |
| Reclamation bonds                        | 11,457         | 510,000        |
| Accounts payable and accrued liabilities | (11,015)       | (113,403)      |
|  | <b>232,696</b> | <b>473,721</b> |
| Canadian dollar equivalent               | 235,395        | 39,186         |

Based on the above, assuming all other variables remain constant, a 10% weakening or strengthening of the Canadian dollar against the US dollar would result in an increase/decrease of \$24,000 in the Company's deficit, or a corresponding change in the Mexico peso would result in an increase/decrease of \$4,000 in the Company's deficit.

**(iii) Other Price Risk**

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to any other price risks.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

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**4. Management of Capital**

The Company's objective in managing its capital is to maintain the ability to continue as a going concern and to continue to explore the Company's mineral properties for the benefit of its stakeholders.

The Company's capital includes components of shareholders' equity. Capital requirements are driven by the Company's exploration activities on its mineral property interests. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place setting out the expenditures required to meet its strategic goals. The Company compares actual expenses to budget on all exploration projects and overhead to manage costs, commitments and exploration activities.

As the Company is in the exploration stage, its operations have been funded by the issuance of common shares and convertible notes to investors in the past. The Company will continue these financing methods in the future depending upon market and economic conditions at the time. There were no changes in the Company's approach to capital management during the year ended April 30, 2010. The Company is not subject to externally imposed capital requirements.

**5. Mineral Properties**

The Company has interests in base and precious metal properties as follows:

- **Mexico**
  - (i) Minas de Ameca
    - (a) Magistral properties, which include Magistral I and El Magistral
    - (b) Quila property (relinquished the rights to the property during the year)
    - (c) Altavista (relinquished the rights to the property during the year)
  - (ii) Pinabete property
  - (iii) San Juan property (Note 12 (b))
- **USA**
  - (i) Oro property
  - (ii) Dragoon properties

**Southern Silver Exploration Corp.**  
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**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

**5. Mineral Properties, continued**

Deferred mineral property costs by property for the year ended April 30, 2010 are as follows:

| <b>Mineral Properties</b>                            | <b>Minas de</b>  |                 |                 |                  |                | <b>Total</b>     |
|--|------------------|-----------------|-----------------|------------------|----------------|------------------|
|  | <b>Ameca</b>     | <b>Pinabete</b> | <b>San Juan</b> | <b>Oro</b>       | <b>Dragoon</b> |                  |
|  | \$               | \$              | \$              | \$               | \$             | \$               |
| <b>Acquisition</b>                                   |                  |                 |                 |                  |                |                  |
| Balance as at April 30, 2009                         | 341,807          | 196,847         | -               | 320,296          | 68,895         | 927,845          |
| Additions during the year                            | 80,513           | 40,202          | 53,996          | 173,957          | 7,728          | 356,396          |
| Write-offs during the year                           | (213,908)        | -               | -               | -                | -              | (213,908)        |
| <b>Balance as at April 30, 2010</b>                  | <b>208,412</b>   | <b>237,049</b>  | <b>53,996</b>   | <b>494,253</b>   | <b>76,623</b>  | <b>1,070,333</b> |
| <b>Exploration</b>                                   |                  |                 |                 |                  |                |                  |
| Balance as at April 30, 2009                         | 2,114,946        | -               | -               | 187,560          | 46,691         | 2,349,197        |
| Additions during the year                            |                  |                 |                 |                  |                |                  |
| Assays and geochemistry                              | 137              | -               | 1,406           | 28,544           | -              | 30,087           |
| Camp, utilities and supplies                         | 7,426            | -               | 5,162           | 4,396            | -              | 16,984           |
| Drilling services                                    | -                | -               | -               | 234,300          | -              | 234,300          |
| Equipment/rentals/supplies                           | 7,270            | -               | 6,103           | 9,738            | -              | 23,111           |
| Geological and geophysics                            | 2,860            | -               | 4,473           | 44,669           | 8,566          | 60,568           |
| General exploration                                  | 1,458            | -               | 272             | 1,898            | 825            | 4,453            |
| Project supervision                                  | 69,241           | -               | 38,239          | 45,098           | 3,008          | 155,586          |
| Project support                                      | 2,591            | -               | 2,583           | -                | -              | 5,174            |
| Travel   | 1,650            | -               | 3,143           | 1,579            | -              | 6,372            |
| Environmental  | 1,884            | -               | -               | -                | -              | 1,884            |
| Total additions during the year                      | 94,517           | -               | 61,381          | 370,222          | 12,399         | 538,519          |
| Write-offs during the year                           | (646,029)        | -               | -               | -                | -              | (646,029)        |
| <b>Balance as at April 30, 2010</b>                  | <b>1,563,434</b> | <b>-</b>        | <b>61,381</b>   | <b>557,782</b>   | <b>59,090</b>  | <b>2,241,687</b> |
| <b>Total mineral properties as at April 30, 2010</b> | <b>1,771,846</b> | <b>237,049</b>  | <b>115,377</b>  | <b>1,052,035</b> | <b>135,713</b> | <b>3,312,020</b> |



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**5. Mineral Properties, continued**

Deferred mineral property costs by property for the year ended April 30, 2009 are as follows:

| <b>Mineral Properties</b>                                | <b>Minas de<br/>Ameca</b> | <b>Pinabete</b> | <b>Tombstone</b> | <b>Oro</b>     | <b>Dragoon</b> | <b>Total</b>     |
|--|---------------------------|-----------------|------------------|----------------|----------------|------------------|
|  | \$                        | \$              | \$               | \$             | \$             | \$               |
| <b>Acquisition</b>                                       |                           |                 |                  |                |                |                  |
| Balance as at April 30, 2008                             | 501,693                   | 181,691         | 189,983          | 180,682        | 34,458         | 1,088,507        |
| Additions during the year                                | 87,034                    | 15,156          | 115,819          | 139,614        | 34,437         | 392,060          |
| Write-offs during the year                               | (246,920)                 | -               | (305,802)        | -              | -              | (552,722)        |
| <b>Balance as at April 30, 2009</b>                      | <b>341,807</b>            | <b>196,847</b>  | <b>-</b>         | <b>320,296</b> | <b>68,895</b>  | <b>927,845</b>   |
| <b>Exploration</b>                                       |                           |                 |                  |                |                |                  |
| Balance as at April 30, 2008                             | 2,735,693                 | 915,131         | 1,118,382        | 96,846         | 33,467         | 4,899,519        |
| Additions during the year                                |                           |                 |                  |                |                |                  |
| Assays and geochemistry                                  | 29,968                    | 1,820           | 1,398            | 3,898          | -              | 37,084           |
| Camp, utilities and supplies                             | 22,521                    | 393             | 17,556           | 5,819          | 458            | 46,747           |
| Drilling services  | 172,035                   | 65,079          | 174,514          | -              | -              | 411,628          |
| Equipment/rentals/supplies                               | 36,184                    | 673             | 28,835           | 3,089          | 135            | 68,916           |
| Geological and geophysics                                | 90,659                    | 979             | 100,526          | 73,194         | 11,571         | 276,929          |
| General exploration                                      | 29,263                    | 781             | 9,470            | 2,283          | 124            | 41,921           |
| Project supervision                                      | 102,325                   | 5,754           | 3,217            | 274            | 359            | 111,929          |
| Project support  | 16,528                    | 226             | -                | -              | -              | 16,754           |
| Travel   | 11,358                    | 120             | 958              | 2,157          | 577            | 15,170           |
| Total additions during the year                          | 510,841                   | 75,825          | 336,474          | 90,714         | 13,224         | 1,027,078        |
| Write-offs during the year                               | (1,131,588)               | (990,956)       | (1,454,856)      | -              | -              | (3,577,400)      |
| <b>Balance as at April 30, 2009</b>                      | <b>2,114,946</b>          | <b>-</b>        | <b>-</b>         | <b>187,560</b> | <b>46,691</b>  | <b>2,349,197</b> |
| <b>Total mineral properties as at<br/>April 30, 2009</b> | <b>2,456,753</b>          | <b>196,847</b>  | <b>-</b>         | <b>507,856</b> | <b>115,586</b> | <b>3,277,042</b> |

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**5. Mineral Properties, continued**

Terms of the agreements for these properties are described below:

**(a) Minas de Ameca – Mexico**

**Magistral Property**

Pursuant to an agreement dated July 4, 2006 with Fury Explorations Ltd. (“Fury”), the Company obtained an option to acquire a 65% interest in the Magistral I mining exploration concession (“Magistral”) located in Mexico.

Pursuant to the agreement, the Company’s commitments are as follows:

- (i) Issue 50,000 common shares on or before July 26, 2006 (issued);
- (ii) Issue 50,000 common shares and incur in the aggregate a minimum of US \$100,000 in exploration expenditures on or before July 21, 2007 (issued and incurred);
- (iii) Issue 50,000 common shares and incur in the aggregate a minimum of US \$450,000 in exploration expenditures on or before July 21, 2008 (issued and incurred);
- (iv) Issue 50,000 common shares and incur in the aggregate a minimum of US \$950,000 in exploration expenditures on or before July 21, 2009 (issued and incurred);
- (v) Issue 50,000 common shares and incur in the aggregate a minimum of US \$1,800,000 in exploration expenditures on or before July 21, 2010 (\*); and
- (vi) Issue 250,000 common shares and incur in the aggregate a minimum of US \$3,000,000 in exploration expenditures on or before July 21, 2011.

\* Not issued or paid as at July 22, 2010, management is currently renegotiating the option payments.

Upon earning its interest, the Company will enter into a joint venture agreement (the “JV Agreement”) with Fury for the development of Magistral and contribute 65% of all costs associated with the development of Magistral.

The JV Agreement provides for pro-rata dilution should either party fail to pay its share of such costs and expenses. Should either party allow their interest to dilute to less than a 10% interest, its joint venture interest will automatically convert to a 1% net smelter return (“NSR”) royalty.

On October 18, 2006, the Company won a bid in an auction conducted by the Mexican federal government with respect to the sale of the El Magistral mineral concession in the Ameca region in the State of Jalisco, Mexico. The Company purchased the 1,366 hectare mineral concession by paying \$15,600 (Mexican peso 150,000) to earn a 100% interest. The mineral concession is subject to a 1% NSR payable to the Mexican government.

The El Magistral concession is considered part of the Magistral I concession pursuant to the terms of the option agreement with Fury. As such, all expenditures incurred on the property will be attributed to the Magistral I concession pursuant to the terms of the agreement with Fury as described above.

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**5. Mineral Properties, continued**

**(a) Minas de Ameca – Mexico, continued**

A non-interest-bearing reclamation bond of \$42,362 (Mexican peso 510,000 in regard to the 1% NSR royalty) is being held in escrow by the Mexican government as security for future reclamation costs and is refundable upon completion of the exploration and reclamation program on the properties.

**Quila Property**

Pursuant to an agreement dated January 19, 2007 with Soltoro Ltd., the Company obtained an option to acquire a 70% interest in the Quila Claims, Jalisco, Mexico.

Pursuant to this agreement, the Company's commitments are as follows:

- (i) Issue 50,000 common shares on or before February 1, 2007 (issued);
- (ii) Issue 75,000 common shares and incur in the aggregate a minimum of US \$150,000 exploration in expenditures on or before January 19, 2008 (issued and incurred);
- (iii) Issue 75,000 common shares and incur in the aggregate a minimum of US \$500,000 in exploration expenditures on or before January 19, 2009 (issued and incurred);
- (iv) Issue 100,000 common shares and incur in the aggregate a minimum of US \$1,000,000 in exploration expenditures on or before January 19, 2010 (see below);
- (v) Issue 100,000 common shares and incur in the aggregate a minimum of US \$1,900,000 in exploration expenditures on or before January 19, 2011; and
- (vi) Issue 100,000 common shares and incur in the aggregate a minimum of US \$3,000,000 in exploration expenditures on or before January 19, 2012.

On January 13, 2010, the Company relinquished its right to the above property and, accordingly, \$814,641 (acquisition costs of \$168,612 and \$646,029 in exploration cost) was written off and included in the statements of operations.

**Altavista de Ramos Property**

Pursuant to an agreement dated July 5, 2007 with Porfirio Prieto Torres and Juan Amilcar Flores Reynaga, the Company obtained an option to acquire a 100% interest in the Altavisa Claims, Jalisco, Mexico.

Pursuant to this agreement, the Company's commitments are as follows:

- (i) US \$20,000 upon signing of the contract (paid);
- (ii) US \$20,000 on or before July 5, 2008 (paid);
- (iii) US \$20,000 on or before July 5, 2009 (see below);
- (iv) US \$40,000 on or before July 5, 2010; and
- (v) US \$100,000 on or before July 5, 2011.

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**5. Mineral Properties, continued**

**(a) Minas de Ameca – Mexico, continued**

**Altavista de Ramos Property, continued**

On July 5, 2009, the Company relinquished its right to the above property and, accordingly, \$45,296 (acquisition costs of \$45,296 and \$Nil in exploration cost) was written off and included in the statements of operations.

**(b) Pinabete Property - Mexico**

Pursuant to an agreement dated August 16, 2004 and incorporated into an option agreement dated April 6, 2005, Anglo American Mexico S.A. de C.V. ("Anglo American") granted the Company an option to acquire a 100% undivided interest in the Pinabete Mineral Concessions ("Pinabete") located in southern Chihuahua, Mexico.

To exercise the option, the Company is required to:

- (i) Issue an initial 200,000 common shares to Anglo American (issued);
- (ii) Issue a further 50,000 common shares and incur in the aggregate a minimum of US \$200,000 in exploration expenditures on or before December 12, 2005 (issued and incurred);
- (iii) Issue a further 50,000 common shares and incur in the aggregate a minimum of US \$400,000 in exploration expenditures on or before December 12, 2006 (issued and incurred);
- (iv) Issue a further 50,000 common shares and incur in the aggregate a minimum of US \$700,000 in exploration expenditures on or before December 12, 2007 (issued and incurred); and
- (v) Issue a further 50,000 common shares (issued) and incur in the aggregate a minimum of US \$2,000,000 in exploration expenditures on or before December 12, 2010 (amended February 25, 2009).

Upon exercise of the option, the Company would acquire a 100% undivided interest in Pinabete subject to a 1.5% NSR payable to Anglo American. Alternatively, in lieu of the 1.5% NSR, Anglo American has the right, for a period of 90 days after such election, to reduce the Company's interest from a 100% to a 40% working interest by paying to the Company an amount equal to 200% of its total expenditures incurred on Pinabete. Anglo American has the right to further reduce the Company's interest to a 35% working interest by completing a pre-feasibility study.

On February 25, 2009, the option agreement was amended to extend the exploration commitment date from December 12, 2008 to December 12, 2010 in consideration for the Company issuing an additional 100,000 common shares to Anglo American. The property was written down by \$990,956 during the year ended April 30, 2009 as the Company plans to focus exploration efforts on other mineral interests.

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**5. Mineral Properties, continued**

**(c) San Juan Property - Mexico (Note 12)**

Pursuant to an agreement dated January 25, 2010, the Company obtained an option to acquire a 100% interest in the San Juan property in consideration of cash payments totaling US \$1,000,000 over four years as follows:

- (i) US \$10,000 upon signing (paid);
- (ii) US \$40,000 60 days later (paid);
- (iii) US \$50,000 July 25, 2010;
- (iv) US \$50,000 January 25, 2011;
- (v) US \$75,000 July 25, 2011;
- (vi) US \$75,000 January 25, 2012;
- (vii) US \$75,000 July 25, 2012;
- (viii) US \$75,000 January 25, 2013;
- (ix) US \$50,000 July 25, 2013; and
- (x) US \$500,000 January 25, 2014.

**(d) Oro Property – New Mexico, USA**

Pursuant to an agreement dated August 28, 2006, the Company acquired an option to acquire a 100% interest in the Oro Claims, Grant County, New Mexico. To exercise the option, the Company paid US \$10,000 on August 28, 2006 and is required to make staged payments totaling US \$680,000 over the next five years as follows:

- (i) US \$10,000 on or before February 28, 2007 (paid);
- (ii) US \$20,000 on or before August 28, 2007 (paid);
- (iii) US \$50,000 on or before August 28, 2008 (paid);
- (iv) US \$100,000 on or before August 28, 2009 (paid);
- (v) US \$200,000 on or before August 28, 2010; and
- (vi) US \$300,000 on or before August 28, 2011.

Upon exercise of the option, the Company would acquire a 100% undivided interest in the Oro property subject to a 2% NSR payable to the optionors. The optionors have granted the Company an option to purchase the NSR at any time in 0.5% increments at US \$500,000 for each increment.

Pursuant to an agreement effective December 1, 2007 the Company acquired a 100% interest in the American Mine claims, New Mexico, USA, consisting of eight patented lode mining claims and surface rights to a contiguous property. The American Mine claims are adjacent to the Oro property claims and will be reported under Oro property claims.

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**5. Mineral Properties, continued**

**(d) Oro Property – New Mexico, USA, continued**

Under this agreement, the Company is required to make staged payments totaling US \$350,000 as follows:

- (i) US \$50,000 upon signing of the agreement (paid);
- (ii) US \$50,000 on or before December 1, 2008 (paid);
- (iii) US \$50,000 on or before December 1, 2009 (paid);
- (iv) US \$50,000 on or before December 1, 2010;
- (v) US \$75,000 on or before December 1, 2011; and
- (vi) US \$75,000 on or before December 1, 2012.

A non-interest-bearing reclamation bond in the amount of \$11,638 (US \$11,457) is held in escrow by the US Department of the Interior – Bureau of Land Management as security for future reclamation costs.

**(e) Dragoon Property – Arizona, USA**

Pursuant to an agreement dated August 28, 2007, the Company has obtained an option to acquire a 100% interest in certain claims located in the state of Arizona referred to as the Dragoon property.

To exercise the option, the Company paid US \$20,000 on September 11, 2007 and is required to make staged payments totaling US \$670,000 over the next five years as follows:

- (i) US \$20,000 on or before August 28, 2008 (paid);
- (ii) US \$50,000 on or before August 28, 2009 (paid by FMEC);
- (iii) US \$100,000 on or before August 28, 2010;
- (iv) US \$200,000 on or before August 28, 2011; and
- (v) US \$300,000 on or before August 28, 2012.

Upon exercise of the option, the Company will acquire a 100% interest in the Dragoon property subject to a 2% NSR payable to the optionors. The optionors have granted the Company an option to purchase the NSR at any time in 0.5% increments at US \$500,000 for each increment.

On August 26, 2009 the Company signed an earn-in agreement with Freeport-McMoRan Exploration Corporation (“FMEC”) for the property. FMEC has the exclusive right and option to acquire a 70% ownership interest in the property by spending US \$3,000,000 on the property by December 31, 2012, which includes drilling one hole of approximately 300 metres on or before December 31, 2010. FMEC will assume all annual property maintenance requirements with the state and federal authorities as well as assuming all payments pertaining to the underlying option agreement.

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**5. Mineral Properties, continued**

**(f) General**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history of many mineral properties. The Company has investigated title to its mineral property interests in accordance with industry standards for the current stage of exploration of such properties and, to the best of its knowledge, title to its properties are in good standing; however, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

**(g) Environmental**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the properties may be diminished or negated.

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**6. Related Party Balances and Transactions**

The Company entered into the following related party transactions during the year ended April 30, 2010.

- (a) Under the service agreement, as amended, between the Company and a company privately held by a director and an officer of the Company, the Company was charged as follows:
- \$96,000 in respect of office space and general administration services (2009 - \$96,000) (Note 11);
  - \$61,515 in respect of professional services (2009 - \$76,120);
  - \$58,443 in respect of consulting services (2009 - \$55,454);
  - \$56,827 in respect of investor relations services (2009 - \$34,759);
  - \$23,153 in respect of geological consulting services in relation to mineral properties (2009 - \$36,854);
  - \$4,967 in respect of the mark-up on out-of-pocket expenses (2009 - \$5,247); and
  - \$5,175 in respect of administrative services (2009 - \$33,405).

As of April 30, 2010, prepayment of \$11,025 (2009 - \$18,333) was made in relation to the office space and administration services, and consulting services.

- (b) Pursuant to the consulting agreement, as amended, between the Company and the President of the Company, the Company was charged \$112,320 (2009 - \$111,600) for consulting services. The amount prepaid was \$Nil (2009 - \$5,000).
- (c) Fees in the amount of \$59,218 (2009 - \$46,162) were charged by a law firm controlled by a director and an officer of the Company and included in investor relations, professional fees, share issue costs and mineral property expenditures. Amounts payable as at April 30, 2010 were \$2,576 (2009 - \$2,465).
- (d) Fees in the amount of \$147,000 (2008 - \$54,000) were charged by a private company controlled by a director and an officer of the Company and included in consulting and share issue costs.
- (e) Consulting fees relating to office administration of \$24,000 (2009 - \$24,000) were charged by a private company controlled by a director and an officer of the Company.
- (f) Fees in the amount of \$2,540 (2009 - \$Nil) were charged by a director of the Company for geological services. Amounts payable as at April 30, 2010 were \$2,540 (2009 - \$Nil).



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**7. Share Capital**

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

**(a) Issued and Outstanding**

The issued common shares are as follows:

|                                      | Number of<br>Shares | Amount               | Contributed<br>Surplus |
|--------------------------------------|---------------------|----------------------|------------------------|
| <b>Balance as at April 30, 2008</b>  | 42,699,321          | \$ 18,981,258        | \$ 2,692,687           |
| Issued                               |                     |                      |                        |
| To acquire mineral properties        | 175,000             | 19,726               | -                      |
| Stock-based compensation             | -                   | -                    | 9,998                  |
| <b>Balance as at April 30, 2009</b>  | 42,874,321          | 19,000,984           | 2,702,685              |
| Issued                               |                     |                      |                        |
| Private placement                    | 18,160,000          | 1,816,000            | -                      |
| Issued to acquire mineral properties | 100,000             | 10,250               | -                      |
| Exercised share purchase warrants    | 3,777,775           | 377,778              | -                      |
| Fair value of warrants exercised     | -                   | 63,637               | (63,637)               |
| Stock-based compensation             | -                   | -                    | 480,000                |
| Share purchase warrants modification | -                   | -                    | 109,494                |
|                                      | 64,912,096          | 21,268,649           | 3,228,542              |
| Share issuance cost                  | -                   | (259,731)            | 52,548                 |
| <b>Balance as at April 30, 2010</b>  | <b>64,912,096</b>   | <b>\$ 21,008,918</b> | <b>\$ 3,281,090</b>    |

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**7. Share Capital, continued**

**(b) Private Placements**

A non-brokered unit private placement was announced on November 24, 2009 and amended on December 10, 2009 to issue up to 18,000,000 common shares at a price of \$0.10 per unit to raise \$1,800,000. Each unit consisted of one common share and one share purchase warrant with each warrant exercisable into one common share at \$0.20 for a period of two years. The private placement closed in two tranches, December 10, 2009 and December 24, 2009.

The first tranche, for 14,570,000 units at \$0.10 per unit, closed on December 10, 2009 for gross proceeds of \$1,457,000. The final tranche, of 3,590,000 units at \$0.10 per unit, closed on December 24, 2010 for gross proceeds of \$359,000. The placement was oversubscribed and the Company issued a total of 18,160,000 common shares for gross proceeds of \$1,816,000.

The Company incurred total share issuance costs of \$259,731 comprised of \$87,420 finder's fees, \$119,763 general share issue costs and \$52,548 representing the fair value of agent's warrants issued (820,200 warrants exercisable at \$0.20 per unit expiring December 24, 2015) and calculated using the Black-Scholes option pricing model.

No private placements were announced or completed by the Company during the year ended April 30, 2009.

**(c) Shares Issued for Mineral Properties**

During the year ended April 30, 2010, the Company issued 100,000 (2009 - 175,000) common shares valued at \$10,250 (2009 - \$19,726) as follows:

- (i) 50,000 common shares at a fair value of \$0.085 per share, \$4,250 in total, pursuant to an option to acquire a 65% interest in the Magistral I, Mexican mining exploration concession (Note 5 (a)) (2009 - 50,000 common shares at \$0.22 per share).
- (ii) 50,000 common shares at a fair value of \$0.12 per share, \$6,000 in total, pursuant to an option agreement to acquire a 100% undivided interest in the Pinabete property, Mexico (Note 5 (b)) (2009 - 50,000 common shares at \$0.08 per share).
- (iii) No common shares were issued in the year pursuant to an option agreement to acquire a 70% undivided interest in the Quila property, Mexico (Note 5 (a)) (2009 - 75,000 common shares at \$0.08 per share).

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**7. Share Capital, continued**

**(d) Stock Options**

As at April 30, 2010 and 2009, the Company had a stock option plan (the "Plan") allowing for the reservation of common shares issuable under the Plan to a maximum 10% of the number of issued and outstanding common shares of the Company at any given time. The terms of any stock option granted under the Plan may not exceed five years and the exercise price may not be less than the closing price of the Company's shares on the last business day immediately preceding the date of grant, less any permitted discount.

Except those options issued to persons providing investor relation services, which vest in stages over 12 months with no more than one-quarter of such options so granted vesting in any three-month period, the Board of Directors shall have complete discretion to set the terms of any vesting schedule at the date of grant. On an annual basis, the Plan requires approval by the Company's shareholders and submission for regulatory review and acceptance.

On January 8, 2010, the Company granted a total of 3,200,000 stock options to directors, officers, consultants and management company employees exercisable at \$0.16 per share with immediate vesting and expiring five years after the date of the grant.

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7. Share Capital, continued

(d) Stock Options, continued

As at April 30, 2010, 6,360,000 (2009 – 4,132,500) options were outstanding and exercisable as follows (Note 12):

| Exercise Price   | Grant Date Fair Value | Expiry Date       | Balance April 30, 2009 | Granted          | Cancelled or Expired | Balance April 30, 2010 |
|--|-----------------------|-------------------|------------------------|------------------|----------------------|------------------------|
| \$0.65   | \$0.34                | December 10, 2009 | 827,500                | -                | 827,500              | -                      |
| \$0.30   | \$0.27                | October 13, 2010  | 205,000                | -                | -                    | 205,000                |
| \$0.51   | \$0.43                | November 8, 2010  | 415,000                | -                | 15,000               | 400,000                |
| \$0.83   | \$0.64                | January 16, 2011  | 190,000                | -                | 15,000               | 175,000                |
| \$0.82   | \$0.72                | March 27, 2011    | 125,000                | -                | -                    | 125,000                |
| \$0.88   | \$0.80                | June 1, 2011      | 460,000                | -                | 25,000               | 435,000                |
| \$0.58   | \$0.54                | March 1, 2012     | 1,210,000              | -                | 65,000               | 1,145,000              |
| \$0.58   | \$0.41                | March 26, 2012    | 100,000                | -                | -                    | 100,000                |
| \$0.58   | \$0.37                | October 19, 2012  | 25,000                 | -                | -                    | 25,000                 |
| \$0.58   | \$0.39                | December 4, 2012  | 25,000                 | -                | -                    | 25,000                 |
| \$0.21   | \$0.12                | March 26, 2013    | 550,000                | -                | 25,000               | 525,000                |
| \$0.16   | \$0.15                | January 8, 2015   | -                      | 3,200,000        | -                    | 3,200,000              |
|  |                       |                   | <b>4,132,500</b>       | <b>3,200,000</b> | <b>972,500</b>       | <b>6,360,000</b>       |
| Weighted average exercise price                        |                       |                   | \$0.58                 | \$0.16           | \$0.64               | \$0.35                 |
| Weighted average remaining contractual life (in years) |                       |                   |                        |                  |                      | 3.14                   |

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

7. Share Capital, continued

(d) Stock Options, continued

| Exercise Price                               | Grant Date Fair Value | Expiry Date       | Balance April 30, 2008 | Cancelled or Expired | Balance April 30, 2009 |
|--|-----------------------|-------------------|------------------------|----------------------|------------------------|
| \$0.65                                       | \$0.34                | December 10, 2009 | 827,500                | -                    | 827,500                |
| \$0.30                                       | \$0.27                | October 13, 2010  | 205,000                | -                    | 205,000                |
| \$0.51                                       | \$0.43                | November 8, 2010  | 435,000                | 20,000               | 415,000                |
| \$0.83                                       | \$0.64                | January 16, 2011  | 205,000                | 15,000               | 190,000                |
| \$0.82                                       | \$0.72                | March 27, 2011    | 125,000                | -                    | 125,000                |
| \$0.88                                       | \$0.80                | June 1, 2011      | 460,000                | -                    | 460,000                |
| \$0.58                                       | \$0.54                | March 1, 2012     | 1,235,000              | 25,000               | 1,210,000              |
| \$0.58                                       | \$0.41                | March 26, 2012    | 100,000                | -                    | 100,000                |
| \$0.58                                       | \$0.37                | October 19, 2012  | 25,000                 | -                    | 25,000                 |
| \$0.58                                       | \$0.39                | December 4, 2012  | 25,000                 | -                    | 25,000                 |
| \$0.21                                       | \$0.12                | March 26, 2013    | 625,000                | 75,000               | 550,000                |
|  |                       |                   | <b>4,267,500</b>       | <b>135,000</b>       | <b>4,132,500</b>       |
| Weighted average exercise price              |                       |                   | \$0.57                 | \$0.39               | \$0.58                 |
| Weighted average contractual life (in years) |                       |                   |                        |                      | 2.18                   |

(e) Share Purchase Warrants

On December 10, 2008, the Company extended the expiry date of 6,500,000 share purchase warrants from February 24, 2009 to February 24, 2010 (exercise price \$0.60). These warrants were issued pursuant to a private placement of 13,000,000 common shares with 6,500,000 share purchase warrants attached, which closed on February 23, 2007. The extension of the share purchase warrants resulted in \$Nil addition to stock-based compensation expense.

The Company amended the exercise price of the share purchase warrants from \$0.60 per share to \$0.10 per share on May 6, 2009 with a provision to accelerate the expiry to 30 days if the closing trading price of the Company's common shares is \$0.135 or greater for a period of 10 consecutive trading days.

The re-pricing of the warrants resulted in a non-cash expense of \$109,494, derived using the Black-Scholes option pricing model and included in the statements of operations.

The Company gave notice to the warrant holders on November 17, 2009, that the Company accelerated the date upon which the 6,500,000 warrants will expire from February 24, 2010 to December 23, 2009 since the Company's shares have traded at a closing price of \$0.135 or more per share for a period of ten consecutive trading days. As a result 3,777,775 warrants were exercised for total proceeds of \$377,778 and 2,722,225 warrants expired unexercised.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

**7. Share Capital, continued**

**(e) Share Purchase Warrants, continued**

The Company's share purchase warrants for the years ended April 30, 2010 and 2009 are summarized as follows:

| Exercise Price   | Expiry Date       | Balance          |                   | Cancelled or Expired | Exercised        | Balance           |
|--|-------------------|------------------|-------------------|----------------------|------------------|-------------------|
|  |                   | April 30, 2009   | Granted           |                      |                  |                   |
| \$0.60   | February 24, 2010 | 6,500,000        | -                 | 2,722,225            | 3,777,775        | -                 |
| \$0.20   | December 10, 2011 | -                | 15,223,400        | -                    | -                | 15,223,400        |
| \$0.20   | December 24, 2011 | -                | 3,756,800         | -                    | -                | 3,756,800         |
|  |                   | <b>6,500,000</b> | <b>18,980,200</b> | <b>2,722,225</b>     | <b>3,777,775</b> | <b>18,980,200</b> |
| Weighted average exercise price                        |                   | \$0.60           | \$0.20            | \$0.60               | \$0.10           | \$0.20            |
| Weighted average remaining contractual life (in years) |                   |                  |                   |                      |                  | 1.62              |

| Exercise Price   | Expiry Date       | Balance          |          | Cancelled or Expired | Exercised | Balance          |
|--|-------------------|------------------|----------|----------------------|-----------|------------------|
|  |                   | April 30, 2008   | Granted  |                      |           |                  |
| \$0.60   | February 24, 2010 | 6,500,000        | -        | -                    | -         | 6,500,000        |
| \$0.60   | February 24, 2009 | 164,700          | -        | 164,700              | -         | -                |
|  |                   | <b>6,664,700</b> | <b>-</b> | <b>164,700</b>       | <b>-</b>  | <b>6,500,000</b> |
| Weighted average exercise price                        |                   | \$0.60           | -        | \$0.60               | -         | \$0.60           |
| Weighted average remaining contractual life (in years) |                   |                  |          |                      |           | 0.82             |

**(f) Fair Value Determination**

The fair value of stock options and warrants granted were estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

|                                       | 2010    |          | 2009    |          |
|---------------------------------------|---------|----------|---------|----------|
|                                       | Options | Warrants | Options | Warrants |
| Risk-free interest rate               | 2.69%   | 1.31%    | N/A     | 1.21%    |
| Expected share price volatility       | 112.08% | 137.00%  | N/A     | 89.51%   |
| Expected option/warrant life in years | 5       | 2        | N/A     | 1.2      |
| Expected dividend yield               | 0%      | 0%       | N/A     | 0%       |

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

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**7. Share Capital, continued**

**(f) Fair Value Determination, continued**

The total calculated fair value of stock-based compensation included in Operations for the years ended April 30, 2010 and 2009 is as follows

|                             | 2010              | 2009            |
|-----------------------------|-------------------|-----------------|
| Consulting                  | \$ 247,500        | \$ 9,998        |
| Independent directors' fees | 48,750            | -               |
| Wages and benefits          | 108,750           | -               |
| <b>Total</b>                | <b>\$ 405,000</b> | <b>\$ 9,998</b> |

**8. Income Taxes**

The Company has available approximate non-capital losses that may be carried forward to apply against future years' income for income tax purposes. The losses expire as follows:

| Available to | Amount               |
|--------------|----------------------|
| 2014         | \$ 138,000           |
| 2015         | 541,000              |
| 2016         | 1,292,000            |
| 2017         | 1,384,000            |
| 2018         | 1,930,000            |
| 2019         | 735,000              |
| 2020         | 486,000              |
| 2026         | 830,000              |
| 2027         | 1,206,000            |
| 2028         | 1,148,000            |
| 2029         | 761,600              |
| 2030         | 1,051,600            |
|              | <b>\$ 11,503,200</b> |

The tax losses above include approximately \$5,900,000 that may be applied against future taxable income in Mexico, which expire in stages over a 10-year period; and tax losses of approximately \$24,000 that may be applied against future taxable income in the United States over a 20-year period.

**Southern Silver Exploration Corp.**  
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**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

**8. Income Taxes, continued**

The future benefits of these losses and deductions have not been recorded in the accounts. A reconciliation of income tax provision computed at statutory rates to the reported income tax provision is provided as follows:

|   | 2010       | 2009         |
|---|------------|--------------|
| Income tax benefit computed at Canadian statutory rates | \$ 696,961 | \$ 1,497,864 |
| Permanent differences                                   |            |              |
| Stock-based compensation                                | (119,475)  | (3,050)      |
| Other permanent differences                             | (1,820)    | (10,715)     |
| Temporary differences                                   |            |              |
| Share issue costs                                       | 33,148     | 18,428       |
| Write-off of mineral properties                         | (236,489)  | (1,259,688)  |
| Mineral properties additions expensed                   | 80,339     | 210,101      |
| Other temporary differences                             | 993        | 3,669        |
| Differences due to tax rates of other countries         | (6,542)    | (18,320)     |
| Change resulting from timing differences                | 154,024    | 1,056,210    |
| Change in valuation allowance                           | (480,944)  | (1,328,574)  |
| Change resulting from tax rate reduction                | (120,195)  | (165,925)    |
|   | \$ -       | \$ -         |

Significant components of the Company's future income tax assets, after applying enacted corporate income tax rates, are as follows:

|   | 2010        | 2009        |
|---|-------------|-------------|
|   | 25%         | 26%         |
| Future income tax assets                        |             |             |
| Tax value over book value of mineral properties | \$ 649,861  | \$ 527,491  |
| Net tax losses carried forward                  | 3,056,775   | 2,733,601   |
| Tax value over book value of assets             | 7,302       | 7,563       |
| Share issuance costs                            | 66,233      | 30,568      |
|   | 3,780,171   | 3,299,223   |
| Valuation allowance                             | (3,780,171) | (3,299,223) |
| <b>Future income tax assets, net</b>            | <b>\$ -</b> | <b>\$ -</b> |



**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

**9. Segmented Information**

The Company has one business segment, the acquisition and exploration of mineral properties. The Company's total assets are distributed by geographic area as follows:

|        | 2010             |             | 2009             |
|--------|------------------|-------------|------------------|
|        | \$               | %           | \$               |
|        | \$               | %           | \$               |
| Canada | 622,799          | 15%         | 383,053          |
| Mexico | 2,281,879        | 56%         | 2,821,348        |
| USA    | 1,199,385        | 29%         | 644,602          |
|        | <b>4,104,063</b> | <b>100%</b> | <b>3,849,003</b> |

**10. Supplemental Cash Flow Information**

|   | 2010      | 2009      |
|---|-----------|-----------|
| <b>Cash Items</b>   |           |           |
| Interest received   | \$ 651    | \$ 68,465 |
| Income tax paid   | \$ -      | \$ -      |
| Interest paid   | \$ -      | \$ -      |
| <b>Non-Cash Items</b>                                     |           |           |
| <b>Investing Activities</b>                               |           |           |
| Mineral property costs included in accounts payable       | \$ 16,251 | \$ 8,844  |
| Mineral property costs included in due to related parties | \$ 2,770  | \$ -      |
| Stock-based compensation included in mineral properties   | \$ 75,000 | \$ -      |
| <b>Financing Activities</b>                               |           |           |
| Shares issued for mineral property                        | \$ 10,250 | \$ 19,726 |
| Share issuance costs                                      | \$ 52,548 | \$ -      |
| Fair value of warrants exercised                          | \$ 63,637 | \$ -      |

**11. Contingencies and Commitments**

Certain claims have been filed against the Company as follows:

- (a) A claim for US \$80,000 plus 50,000 common shares of the Company relating to a property option agreement. The Company has relinquished the subject property and management believes that the claim has no merit. The claim was initiated in October 1998 and since then no further claims or legal proceedings have taken place.
- (b) A claim for \$6,905 exists relating to a property option agreement. Management believes that the claim has no merit.

**Southern Silver Exploration Corp.**  
**(Exploration Stage Company)**  
**Notes to Consolidated Financial Statements**  
**Years ended April 30, 2010 and 2009**

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**11. Contingencies and Commitments, continued**

These financial statements do not reflect the liability, if any, which may result from these claims as the outcome of either claim is indeterminable at this time. The impact to any outcome will be recorded at the time of settlement and, accordingly, may impact future results of operations and cash flows.

Under a service agreement, as amended, between the Company and a company privately held by a director and an officer of the Company, the Company is charged \$8,000 monthly for office space and general administration services. The agreement may be cancelled at any time upon one year's notice and expires on June 30, 2012. The fee commitment for the next three years is as follows:

| <b>Year ending<br/>April 30,</b> | <b>Commitment<br/>\$</b> |
|----------------------------------|--------------------------|
| 2011                             | 96,000                   |
| 2012                             | 96,000                   |
| 2013                             | 16,000                   |

**12. Subsequent Events**

The following events occurred subsequent to April 30, 2010:

**(a) Stock Options**

Pursuant to the Company stock option plan (Note 7 (d)), 115,000 stock options issued were cancelled subsequent to April 30, 2010.

- 65,000 stock options with an exercise price of \$0.88 and expiry date of June 1, 2011;
- 10,000 stock options with an exercise price of \$0.58 and expiry date of March 1, 2012;
- 15,000 stock options with an exercise price of \$0.58 and expiry date of March 26, 2013; and
- 25,000 stock options with an exercise price of \$0.58 and expiry date of January 15, 2015.

**(b) Mineral Properties**

**San Juan Property**

Subsequent to the year end, management obtained mineral sampling results for the San Juan property which did not meet their expectations and accordingly has terminated the Company's interest in the property. The capitalized acquisition and exploration costs in the amount of \$115,377 as of April 30, 2010 will be written off during the period ended July 31, 2010.



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## **Management's Discussion and Analysis**

In respect of the twelve months ended April 30, 2010

**Dated: August 19, 2010**

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## **Southern Silver Exploration Corp. (An Exploration Stage Company)**

### **Management's Discussion and Analysis**

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#### **A. Introduction**

The following Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of Southern Silver Exploration Corp., formerly known as Newcoast Silver Mines Ltd., (the "Company") compares results for the twelve months ended April 30, 2010 to the same period in the previous year. These statements should be read in conjunction with the audited consolidated financial statements for the twelve months ended April 30, 2010. All notes referenced herein may be found in the audited consolidated financial statements for the twelve months ended April 30, 2010.

The Company's financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and include the accounts of the Company and its wholly owned subsidiaries Minera Plata Del Sur SA De SV (Mexico), Southern Silver Exploration (US) Corp. (USA), and Southern Silver Holdings Ltd. (British Virgin Islands). This MD&A, dated August 19, 2010, was prepared to conform with National Instrument 51-102 F1 and was approved by the Board of Directors prior to its release.

The Company is a reporting issuer in British Columbia and Alberta and its shares trade on the Tier 2 Board of the TSX Venture Exchange ("TSX") under the symbol SSV and on the Frankfurt Stock Exchange under the symbol "SEG.F".

The Company's reporting currency is the Canadian dollar and all dollar amounts are in Canadian dollars, unless otherwise indicated.

Certain forward-looking statements are discussed in the MD&A with respect to the Company's activities and future financial results. These are subject to significant risks and uncertainties that may cause actual results or events to differ materially from projected results or events.

Additional information relating to the Company, including detailed drill results previously disclosed in news releases, is available on the Company's website at [www.southernsilverexploration.com](http://www.southernsilverexploration.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **B. Qualified Persons**

Robert W. J. Macdonald, P. Geo., is the qualified person under National Instrument 43-101 *Standards for Disclosure for Mineral Properties* ("NI 43-101") responsible for the technical information included in this MD&A and the supervision of work done in association with the exploration and development programs. Mr. Macdonald graduated with a B.Sc. degree from Memorial University of Newfoundland and a M.Sc. from the University of B.C. His work has focused on vein and intrusive-related gold systems and massive sulfide deposits.

**Southern Silver Exploration Corp. (An Exploration Stage Company)**

Management's Discussion and Analysis

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**B. Qualified Persons, continued**

Adrian Robles Salazar, provides consulting services to the Company as Exploration Manager for Mexico. Mr. Robles has extensive experience with Mexican projects that was gained through his association with Minera Kennecott S.A. de C.V. and Western Silver Corporation.

**C. Exchange Information and Conversion Tables**

For ease of reference, the following information is provided:

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|                         | Canadian Dollars per US Dollar <sup>(1)</sup> |                  |
|-------------------------|---|------------------|
|                         | Year ended                                    | Year ended       |
|                         | April 30<br>2010                              | April 30<br>2009 |
| Rate at end of period   | 1.0624  | 1.1930           |
| Average rate for period | 1.0536  | 1.2442           |
| High for period         | 1.0819  | 1.2991           |
| Low for period          | 1.0234  | 1.1930           |

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| Conversion Table <sup>(2)</sup> |           |             |
|---------------------------------|-----------|-------------|
| Imperial                        |           | Metric      |
| 1 Acre                          | 0.404686  | Hectares    |
| 1 Foot                          | 0.304800  | Meters      |
| 1 Mile                          | 1.609344  | Kilometres  |
| 1 Ton                           | 0.907185  | Tonnes      |
| 1 Ounce (troy)/ton              | 34.285700 | Grams/Tonne |

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**Southern Silver Exploration Corp. (An Exploration Stage Company)**

Management's Discussion and Analysis

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**C. Exchange Information and Conversion Tables, continued**

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| Precious metal units and conversion factors <sup>(2)</sup> |                         |               |          |      |                    |
|--|-------------------------|---------------|----------|------|--------------------|
| ppb  | - Part per billion      | 1 ppb         | 0.0010   | ppm  | = 0.000030 oz/t    |
| ppm  | - Part per million      | 100 ppb       | 0.1000   | ppm  | = 0.002920 oz/t    |
| oz   | - Ounce (troy)          | 10,000 ppb    | 10.0000  | ppm  | = 0.291670 oz/t    |
| oz/t   | - Ounce per ton (avdp.) | 1 ppm         | 1.0000   | ug/g | = 1.000000 g/tonne |
| g  | - Gram                  |               |          |      |                    |
| g/tonne  | - gram per metric ton   | 1 oz/t        | 34.2857  | ppm  |                    |
| mg   | - milligram             | 1 Carat       | 41.6660  | mg/g |                    |
| kg   | - kilogram              | 1 ton (avdp.) | 907.1848 | kg   |                    |
| ug   | - microgram             | 1 oz (troy)   | 31.1035  | g    |                    |

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(1) Information from [www.bankofcanada.ca](http://www.bankofcanada.ca)

(2) Information from [www.onlineconversion.com](http://www.onlineconversion.com)

**D. Description of Business**

The Company acquires and explores mineral properties in North America. It is currently exploring for precious and base metals in Mexico (Jalisco, Sinaloa and Chihuahua) and the USA (Arizona and New Mexico).

**E. Description of Mineral Properties**

**i) Minas de Ameca Project - Jalisco, Mexico**

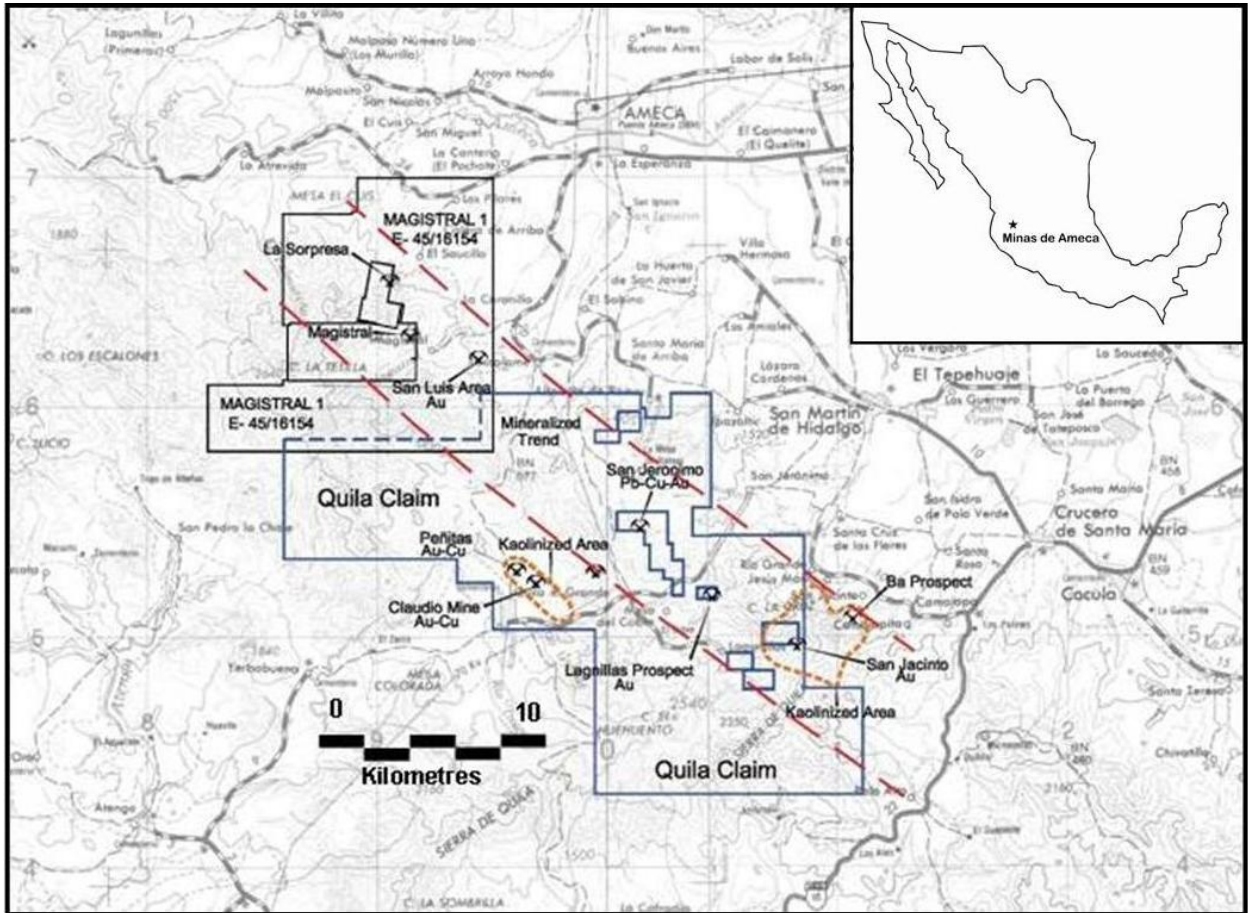
The **Minas de Ameca project** encompasses a 131 sq. km claim package assembled in part through option agreements between the Company and Fury Explorations Ltd. now merged with Golden Predator Mines Inc. and with the purchase from the Mexican Government of the El Magistral claim which includes a historic producing mine from which copper was extracted, with some gold credits, from chalcopyrite, bornite and oxide ores. The concessions that make up the project include the Magistral I claims and the El Magistral claims. The LaSorpresa and Quila concessions, which previously formed part of the project was relinquished during the quarters ended October 31, 2008 and January 31, 2010.

**Southern Silver Exploration Corp. (An Exploration Stage Company)**  
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**E. Description of Mineral Properties, continued**

**i) Minas de Ameca Project - Jalisco, Mexico, continued**



The district is located along the western margin of the Sierra Madre Occidental terrane. Geological reconnaissance has identified several strongly mineralized, copper-rich breccias located at volcanic-intrusive contacts and numerous structurally controlled, quartz-hematite vein systems which occur along a 8 km long mineralized trend extending southeast through the project area.

**Magistral I**

Pursuant to an agreement dated July 4, 2006 with Fury Explorations Ltd. ("Fury"), the Company has an option to acquire a 65% interest in the property (see Note 5 (a) to the audited consolidated financial statements dated April 30, 2010).

The Magistral I property is accessible via a series of gravel roads from the town of Ameca (population 50,000), which is located 80 kilometers southwest of Guadalajara.

**Southern Silver Exploration Corp. (An Exploration Stage Company)**

Management's Discussion and Analysis

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**E. Description of Mineral Properties, continued**

**i) Minas de Ameca Project - Jalisco, Mexico, continued**

**Magistral I, continued**

Since acquisition, the Company has initiated a systematic program of target generation and evaluation, which utilizes newly available reprocessed airborne geophysical and satellite data, ground geophysics and systematic mapping and sampling of the newly defined target areas. The initial target generated from this work is the San Luis – Cerro de la Cruz vein systems, which was tested in 2007 and 2008.

Results from the first phase include **an 8.0 metre interval of 1.05 g/t Au and 0.49% Cu within a 30 metre interval grading 0.39 g/t Au and 0.17% Cu**. The second hole reported a **6.85 metre interval of 1.05 g/t Au, 15.7 g/t Ag and 0.55% Cu** within a longer, **14.5 metre interval**, that carried **0.62 g/t Au, 8.78 g/t Ag and 0.31% Cu**. Estimated true thicknesses have not been calculated for these intervals, however, the mineralized zone is believed to be steeply dipping.

A total of 4,832 metres of drilling was completed in 20 drill holes over two phases of drilling on the San Luis vein system and adjacent targets. Seventeen drill holes had tested an 800 metre strike length of the main **San Luis** vein structure and to depths of up to 500 metres. Additional drill holes tested the Cerrito de la Cruz vein system and two adjacent geophysical anomalies.

Most recently, 25 line-kilometers of detailed gradient IP geophysics was been completed over portions of the San Luis vein system. The survey showed some correlation between chargeability anomalies and Cu- and Au-enriched drill hole intercepts. Several untested chargeability highs occur to the north of previously tested veins and may represent additional veins within the mineralizing system.

Final target for an 10-hole 1,500 metre diamond drilling program on the San Luis prospect have been selected. Drilling, which is anticipated to begin in mid 2010 will test the internal continuity and the on-strike and down-dip potential of the San Luis vein system.



**Southern Silver Exploration Corp. (An Exploration Stage Company)**

Management's Discussion and Analysis

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Dated August 19, 2010

**E. Description of Mineral Properties, continued**

**i) Minas de Ameca Project - Jalisco, Mexico, continued**

**Magistral I, continued**

Significant assays from the 2007-08 drilling program include:

| Drill Hole<br>Number | Collar Data |            |            | From<br>m     | To<br>m       | Interval<br>m | Est. True    |             |              |             |
|----------------------|-------------|------------|------------|---------------|---------------|---------------|--------------|-------------|--------------|-------------|
|                      | AZ<br>Deg   | Dip<br>Deg | Depth<br>m |               |               |               | Thcknss<br>m | Au<br>g/t   | Ag<br>g/t    | Cu<br>%     |
| 07SL-03              | 180         | -71        | 237.00     | 179.50        | 199.20        | 19.70         | 9.60         | 1.01        | 11.20        | 0.95        |
| Includes             |             |            |            | <b>195.85</b> | <b>199.20</b> | <b>3.35</b>   | <b>1.92</b>  | <b>5.07</b> | <b>49.81</b> | <b>4.32</b> |
|                      |             |            |            | 214.10        | 216.90        | 2.80          | 1.61         | 1.33        | 9.20         | 0.84        |
| 07SL-04**            | 180         | -60        | 149.80     | 24.60         | 35.25         | 10.65         | 9.00         | 0.13        | 6.00         | 0.82        |
|                      |             |            |            | 65.85         | 69.45         | 3.60          | 2.20         | 0.51        | 10.00        | 1.18        |
|                      |             |            |            | 103.25        | 113.50        | 10.26         | 7.25         | 2.05        | 12.88        | 0.34        |
| Includes             |             |            |            | <b>107.80</b> | <b>110.30</b> | <b>2.50</b>   | <b>1.77</b>  | <b>4.58</b> | <b>30.80</b> | <b>0.65</b> |
| 07SL-05**            | 180         | -60        | 246.00     | 155.25        | 159.25        | 4.00          | 3.00         | 0.37        | 11.80        | 1.04        |
|                      |             |            |            | 174.95        | 196.35        | 21.40         | 15.13        | 1.03        | 12.15        | 0.58        |
| Includes             |             |            |            | <b>187.30</b> | <b>189.80</b> | <b>2.50</b>   | <b>1.77</b>  | <b>3.44</b> | <b>6.10</b>  | <b>2.29</b> |
| 07SL-06              | 0           | -65        | 351.00     | 115.15        | 116.10        | 0.95          | 0.61         | 0.52        | 2.40         | 0.06        |
| 07SL-07              | 180         | -46        | 299.20     | 247.90        | 250.00        | 2.10          | 1.89         | 0.51        | 13.70        | 0.58        |
| 07SL-08              | 190         | -50        | 328.00     | <b>258.30</b> | <b>260.40</b> | <b>2.10</b>   | <b>1.82</b>  | <b>1.01</b> | <b>25.79</b> | <b>1.52</b> |
| Includes             |             |            |            | 273.75        | 284.35        | 10.60         | 9.18         | 1.14        | 7.70         | 0.86        |
| Includes             |             |            |            | <b>279.80</b> | <b>282.00</b> | <b>2.20</b>   | <b>1.91</b>  | <b>4.14</b> | <b>11.70</b> | <b>2.40</b> |
| 07SL-09              | 180         | -55        | 270.00     | 159.00        | 161.20        | 2.20          | 2.20         | 0.60        | 12.92        | 0.75        |
|                      |             |            |            | 189.90        | 190.60        | 0.70          | 0.55         | 0.31        | 13.00        | 1.22        |
|                      |             |            |            | 202.90        | 207.60        | 4.70          | 3.85         | 0.45        | 5.13         | 0.31        |
| 07SL-11              | 180         | -55        | 152.20     | 81.40         | 93.60         | 12.20         | 10.57        | 1.50        | 1.26         | 0.28        |
| Includes             |             |            |            | <b>86.60</b>  | <b>88.60</b>  | <b>2.00</b>   | <b>1.73</b>  | <b>5.92</b> | <b>2.60</b>  | <b>0.23</b> |
|                      |             |            |            | 98.00         | 100.00        | 2.00          | 1.73         | 1.96        | 4.20         | 0.31        |
| 07SL-12              | 180         | -50        | 199.85     | 122.80        | 125.20        | 2.40          | 1.50         | 0.52        | 5.40         | 0.18        |
| 07SL-16              | 0           | -50        | 198.00     | 57.15         | 59.75         | 2.60          | 2.00         | 1.20        | 2.90         | 0.08        |
| 07SL-17              | 180         | -75        | 290.00     | 211.10        | 215.25        | 4.15          | 2.70         | 0.47        | 4.70         | 0.57        |
| 07SL-18              | 180         | -61        | 459.00     | 102.95        | 109.80        | 6.85          | 4.00         | 2.02        | 14.00        | 0.84        |
|                      |             |            |            | 289.50        | 292.30        | 2.80          | 2.80         | 0.30        | 22.00        | 1.93        |
| 08SL-19              | 180         | -74        | 650.00     | 163.05        | 166.60        | 3.55          | 2.50         | 0.12        | 13.00        | 0.86        |

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**E. Description of Mineral Properties, continued**

**i) Minas de Ameca Project - Jalisco, Mexico, continued**

**El Magistral – Mexico**

On October 18, 2006, the Company announced that it was the successful bidder in an auction conducted by the Mexican federal government with respect to the sale of the El Magistral mineral concession in the Ameca region in the State of Jalisco, Mexico.

The Company has agreed to purchase the 1,366 hectare mineral concession by the payment of \$15,600 (Mexican Peso 150,000) over a twenty-four month period (paid) to earn a 100% interest. During the fiscal year the company earned 100% interest. (see Note 5 (a) in the audited consolidated financial statements for the year ended April 30, 2010).

The El Magistral concession adjoins to the south La Sorpresa claims and in turn is bound, to the east and south by the Magistral I concession. This concession forms part of the Magistral I property subject to the terms of its options agreement.

Five core drill holes, of which three were completed to target depth, tested the Magistral Mine target for a total of 747.1 metres of drilling. Several narrow intervals of anomalous silver, copper and precious metal values were returned from three of the drill holes. Only weakly anomalous values were returned from the drilling.

**Quila Property – Jalisco, Mexico**

On January 19, 2007, the Company signed an agreement to acquire a 70% interest in the Quila Claims, Jalisco, Mexico. (see Note 5 (a) in the audited consolidated financial statements for the year ended April 30, 2010).

A total of 1,435 metres of core drilling in eight holes were completed on the property.

Quarter ended January 31, 2010, the Company relinquished its right to the property and, accordingly, \$814,641 acquisition (\$168,612) and exploration (\$646,029) costs was written off and included in the statement of operations.

Quarter ended July 31, 2009, the Company relinquished its right to the 92 ha Altavista de Ramos property which partially overlaps the Altavista prospect and, accordingly, \$45,296 acquisition costs was written off and included in the statement of operations.

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**E. Description of Mineral Properties, continued**

**ii) San Juan Property – Sinaloa, Mexico**

On January 25, 2010, the Company signed a Letter of Intent with a private vendor to acquire a 100% interest in the San Juan gold-silver project in Sinaloa State, Mexico.

In order to acquire 100% interest the Company should make the following stage payments.

- (i) US \$10,000 upon signing (paid);
- (ii) US \$40,000 60 days later (paid);
- (iii) US \$50,000 July 25, 2010;
- (iv) US \$50,000 January 25, 2011;
- (v) US \$75,000 July 25, 2011;
- (vi) US \$75,000 January 25, 2012;
- (vii) US \$75,000 July 25, 2012;
- (viii) US \$75,000 January 25, 2013;
- (ix) US \$50,000 July 25, 2013; and
- (x) US \$500,000 January 25, 2014.

The Company can terminate the contract by giving written notice at any time with out any penalties.

The property comprises eight concessions totaling 1850 hectares and lies within the **Sierra Madre Mineral Belt**, of west-central Mexico. Small-scale mining, which has been active on the property since the beginning of the 19<sup>th</sup> century, has traced the near surface, low-angle mineralized structure for approximately 800 metres and includes both higher-grade gold veins, from 1 to 4 metres thick, and additional mineralization in the fractured hangingwall.

The Company has conducted surface mapping and sampling on the property. Results from this sampling did not meet the Company's expectations for the property and notification has been given to the owner of Southern Silver intent to terminate the contract on the property.

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**E. Description of Mineral Properties, continued**

**iii) Pinabete Property – Chihuahua, Mexico**

During the quarter ended October 31, 2008, the Company decided to relinquish its right to the property. The decision to relinquish the property was mainly driven by availability of cash in the treasury and adverse market conditions for equity financing.

However on February 25, 2009, Parties to the option agreement amended the option agreement to extend the exploration commitment date from December 12, 2008 to December 12, 2010 and to issue 100,000 additional common shares subject to regulatory approval.

The Company has written down the property by \$990,956 during the year ended April 30, 2009. The Company is considering, further exploration of the property or to identify joint-venture partnership opportunities.

**iv) Oro Property – New Mexico, USA**

On August 28, 2006, the Company entered into an agreement to acquire a 100% interest in the Oro Claims, a prospect in Grant County, New Mexico from Philip Sterling.

On October 26, 2007, the Company entered into an agreement to earn a 100% interest in the American Mine claims, New Mexico, USA consisting of eight patented lode-mining claims inclusive of surface rights to contiguous property. The American Mine claims are adjacent to Oro property claims and are reported under Oro property claims. (See Note 5 (d) in the audited consolidated financial statements for the year ended April 30, 2010 for further details on these agreements).

The Company has compiled available historical data, mapped the area and carried out a rock and biogeochemical sampling over a mineralized corridor largely untested by modern exploration. Geological mapping indicates the presence of a prospective northwest trending structural zone.

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**E. Description of Mineral Properties, continued**

**iv) Oro Property – New Mexico, USA, continued**

Grab samples of vein material and the biogeochemical survey consistently returned high values of gold, silver, copper, lead and zinc and anomalous values of manganese and antimony which are indicative of a widespread and zoned mineral system with the potential to develop both copper-gold porphyry and silver-rich, polymetallic skarn/carbonate replacement deposits.

A phase one drilling program, consisting of 1,200 metres in five core holes has been completed on the property. The drill holes tested several targets below levels of historic mining and prospective Cretaceous-age stratigraphy within the mineralized corridor identified through surface mapping. Samples have been delivered to the assay laboratory, results are pending.

**v) Dragoon Property – Arizona, USA**

On August 28, 2007, the Company, through its subsidiary in the USA, signed a letter agreement to enter into an option to acquire a 100% interest in Dragoon claims, Cochise County, Arizona (see Note 5 (e) in the audited consolidated financial statements for the year ended April 30, 2010).

On August 26, 2009, the Company signed an earn-in agreement with Freeport-McMoRan Exploration Corporation ("FMEC"), for the property. FMEC has the exclusive right and option to acquire a 70% ownership interest in the property by spending US\$ 3 million on the property by December 31, 2012 which includes drilling one hole of approximately 300 metres on or before December 31, 2010. FMEC will assume all annual property maintenance requirements with the State and Federal authorities as well as assuming all payments pertaining to the underlying option agreement.

The Dragoon property is a contiguous block of 1,280 ha comprising 68 unpatented mining claims and four State leases that contain areas of exposed Cu-Mo mineralization, Laramide-age monzogranite porphyry and geothitic "leached capping" which occur in the eastern part of the property and a larger down-dropped block of prospective Paleozoic stratigraphy in the gravel-covered western portion of the property. .

In August 2010, FMEC indicated it completed a single RC/core drill hole to a depth of 1,065 metres within the gravel covered western side of the project area. This hole, which was drilled beyond the target depth of 900 metres, tested a down-thrown fault block of prospective Paleozoic stratigraphy adjacent to an exposed Laramide-age porphyry system in the eastern part of the property.

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**E. Description of Mineral Properties, continued**

**v) Dragoon Property – Arizona, USA, continued**

FMEC reported that the hole intersected thick gravel cover to 380 metres depth followed by variable to strong skarn alteration and silicification within the underlying Paleozoic stratigraphy. Extensive oxidation of the primary sulphide minerals is noted to a depth of 820 metres where the hole then intersected, across a faulted contact, a sulphide-bearing footwall schist.

Southern is encouraged by the extent of alteration of the host lithologies in the drill hole and overall thickness of the oxidized rock.

FMEC has advised that decision for further work on the project is pending the receipt of assays and the results of geophysical surveys over the gravel covered areas of the property.

Historic exploration and drilling on the Dragoon property by Kennecott, Noranda and US Borax found evidence of a widespread mineralizing system including hematite-sericite-altered intrusive rocks, low-grade chalcopyrite and chalcocite mineralization and thick intervals of "leached capping". The presence and relative thickness of this leached oxide zone is significant as it may overlie supergene-enriched copper oxides at depth in the relatively under-explored gravel covered western portion of the property.

Exploration on the Dragoon property is targeting a deeply buried porphyry Copper-Molybdenum system. Arizona is a major producer of copper and is host to "World-Class" copper deposits (>5mT Cu) including Resolution (1.34gT averaging 1.51% Cu), **Morenci** (4.7gT averaging 0.52%Cu) and **Ray** (1.6gT averaging 0.68%).

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**F. Mineral Properties Deferred Costs**

Information on all mineral property expenses by property can be found in Note 5 to the audited consolidated financial statements for the twelve months ended April 30, 2010. The deferred mineral property costs as at April 30, 2010 were as follows:

|                | Balance as at    | Additions/(Write-offs) |                |                  |               |               | Balance as at    |
|----------------|------------------|------------------------|----------------|------------------|---------------|---------------|------------------|
|                | April 30, 2010   | Year to Date           | Q4             | Q3               | Q2            | Q1            | April 30, 2009   |
|                | \$               | \$                     | \$             | \$               | \$            | \$            | \$               |
| Minas de Ameca | 1,771,846        | (684,907)              | 3,810          | (709,519)        | 24,857        | (4,055)       | 2,456,753        |
| Pinabete       | 237,049          | 40,202                 | -              | 33,236           | -             | 6,966         | 196,847          |
| Oro            | 1,052,035        | 544,179                | 120,659        | 406,276          | 14,482        | 2,762         | 507,856          |
| Dragoon        | 135,713          | 20,127                 | 1,040          | 407              | 12,453        | 6,227         | 115,586          |
| San Juan       | 115,377          | 115,377                | 88,067         | 27,310           | -             | -             | -                |
| <b>Total</b>   | <b>3,312,020</b> | <b>34,978</b>          | <b>213,576</b> | <b>(242,290)</b> | <b>51,792</b> | <b>11,900</b> | <b>3,277,042</b> |

|                                 | Minas de Ameca   | Pinabete       | Oro              | Dragoon        | San Juan       | Total            |
|---------------------------------|------------------|----------------|------------------|----------------|----------------|------------------|
|                                 | \$               | \$             | \$               | \$             | \$             | \$               |
| Acquisitions/ Land and property | 208,412          | 237,049        | 494,253          | 76,623         | 53,996         | 1,070,333        |
| Assays & geochemistry           | 56,813           | -              | 39,542           | -              | 1,406          | 97,761           |
| Camp, utilities and supplies    | 31,726           | -              | 14,768           | 1,321          | 5,162          | 52,977           |
| Drilling services               | 669,352          | -              | 234,300          | -              | -              | 903,652          |
| Equipment/rentals/supplies      | 124,046          | -              | 19,984           | 766            | 6,103          | 150,899          |
| Geological & geophysics         | 278,444          | -              | 171,114          | 46,489         | 4,473          | 500,520          |
| General exploration             | 61,310           | -              | 7,381            | 1,897          | 272            | 70,860           |
| Project supervision/Manex       | 225,844          | -              | 50,430           | 6,207          | 38,239         | 320,720          |
| Project support                 | 88,424           | -              | 10,841           | 1,395          | 2,583          | 103,243          |
| Travel                          | 25,706           | -              | 9,422            | 1,015          | 3,143          | 39,286           |
| Environmental                   | 1,769            | -              | -                | -              | -              | 1,769            |
| <b>Total</b>                    | <b>1,771,846</b> | <b>237,049</b> | <b>1,052,035</b> | <b>135,713</b> | <b>115,377</b> | <b>3,312,020</b> |

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**G. Results of Operations**

|                                      | Twelve months ended April 30, |           | Variance            |        |
|--------------------------------------|-------------------------------|-----------|---------------------|--------|
|                                      | 2010                          | 2009      | Increase/(Decrease) |        |
|                                      | \$                            | \$        | \$                  | %      |
| <b>Expenses</b>                      |                               |           |                     |        |
| Administration                       | 96,000                        | 96,000    | -                   | N/A    |
| Consulting                           | 278,638                       | 275,413   | 3,225               | 1%     |
| Independent directors' fees          | 37,411                        | 37,500    | (89)                | 0%     |
| Investor relations                   | 105,271                       | 135,050   | (29,779)            | (22)%  |
| Office and general                   | 63,544                        | 103,821   | (40,277)            | (39)%  |
| Professional fees                    | 178,107                       | 211,565   | (33,458)            | (16)%  |
| Regulatory fees and taxes            | 28,906                        | 17,645    | 11,261              | 64%    |
| Shareholders' communications         | 11,060                        | 6,765     | 4,295               | 63%    |
| Transfer agent fees                  | 13,287                        | 15,320    | (2,033)             | (13)%  |
| Travel and promotion                 | 40,075                        | 38,319    | 1,756               | 5%     |
| Stock-based compensation             | 405,000                       | 9,998     | 395,002             | 3951%  |
| <b>Other Items</b>                   |                               |           |                     |        |
| Interest income                      | (651)                         | (68,465)  | 67,814              | (99)%  |
| Foreign exchange loss/(gain)         | 77,366                        | (214,609) | 291,975             | (136)% |
| Share purchase warrants modification | 109,494                       | -         | 109,494             | N/A    |
| General exploration                  | 62,255                        | 108,492   | (46,237)            | (43)%  |
| Write-off of mineral properties      | 859,937                       | 4,130,122 | (3,270,185)         | (79)%  |

The Company reported a net loss of \$2,365,700 for the twelve months ended April 30, 2010 ("2010") compared to a net loss of \$4,916,500 for the twelve months ended April 30, 2009 ("2009"). This decrease in net loss of \$2,550,800 was primarily due to write-off of mineral properties amounting to \$859,937 during the twelve months ended April 30, 2010 compared to \$4,130,122 during the twelve months ended April 30, 2009.

Stock-based compensation is a non-cash item representing the fair value determined under the Black-Scholes model, which was allocated to the consolidated statement of operations and Deficit. During the twelve months ended April 30, 2010 the Company recognized \$109,494 as cost of share purchase warrants modification and \$405,000 as stock-based compensation. During the twelve months ended April 30, 2009 the Company recognized \$ Nil as cost of share purchase warrants modification and \$9,998 as stock-based compensation.



## **Southern Silver Exploration Corp. (An Exploration Stage Company)**

### **Management's Discussion and Analysis**

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#### **G. Results of Operations, continued**

Excluding write-off of mineral properties, share purchase warrant modification and stock-based compensation, the net loss in 2010 was \$991,269 compared to the net loss of \$776,380 in 2009. The \$214,889 increase in loss was primarily due to increase in foreign exchange losses as a consequence of unfavorable foreign exchange rate prevailed during the period. Other variances are summarized below.

- i) Investor relations fees decreased due to decrease in investor relations activities.
- ii) Office and general expenses decreased due to decrease in the time expended administering the company.
- iii) Professional fees decreased due to decreased requirement for professional services.
- iv) Regulatory fees and taxes and shareholders' communications increased since increased activities such as warrant re-price, extension of expiry dates for warrants etc.
- v) Travel and promotion costs increased due to no travels made for trade shows and analyst meetings during the period in relation to the financing.
- vi) Interest income decreased due to decrease in cash available for placement.
- vii) General exploration expenses decreased due to a decrease in the consideration of potential new properties.

#### **H. Quarterly Results**

Operating expenses showed a declining trend on a quarterly basis starting from the quarter ended April 30, 2009. This declining trend is mainly related to continuing decrease in investor relation expenses, travel and promotion, and office and general expenses. Management had expected the deterioration in the market conditions and in early 2008 started reviewing its planned spending and had taken some initial measures to conserve cash where possible.

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**H. Quarterly Results**

The following financial data was derived from the Company's consolidated financial statements for the current and eight previous quarters:

|                                      | Three months ended |                  |                |                |                  |                |                  |                |                |
|--------------------------------------|--------------------|------------------|----------------|----------------|------------------|----------------|------------------|----------------|----------------|
|                                      | Apr 30,            | Jan 31,          | Oct 31,        | Jul 31,        | Apr 30,          | Jan 31,        | Oct 31,          | Jul 31,        | Apr 30,        |
|                                      | 2010               | 2010             | 2009           | 2009           | 2009             | 2009           | 2008             | 2008           | 2008           |
|                                      | \$                 | \$               | \$             | \$             | \$               | \$             | \$               | \$             | \$             |
| Operating expenses                   | 233,833            | 269,489          | 173,237        | 175,741        | 206,309          | 217,366        | 218,340          | 308,947        | 292,837        |
| Interest earned                      | (249)              | (402)            | -              | -              | (44,197)         | (13,593)       | (3,316)          | (7,359)        | (17,647)       |
| Foreign exchange loss (gain)         | 49,159             | (3,490)          | 725            | 30,972         | 29,748           | (23,261)       | (197,900)        | (23,196)       | (11,000)       |
| General exploration                  | (17,852)           | 9,518            | 23,396         | 47,193         | 32,521           | 29,602         | 34,124           | 12,245         | (1,334)        |
| Write off of mineral property        | -                  | 814,641          | -              | 45,296         | 1,569,846        | -              | 2,560,276        | -              | 158,313        |
| Loss before the following items:     | 264,891            | 1,089,756        | 197,358        | 299,202        | 1,794,227        | 210,114        | 2,611,524        | 290,637        | 421,169        |
| Share purchase warrants modification | -                  | -                | -              | 109,493        | -                | -              | -                | -              | -              |
| Stock-based compensation             | -                  | 405,000          | -              | -              | -                | -              | -                | 9,998          | 110,631        |
| <b>Net Loss</b>                      | <b>264,891</b>     | <b>1,494,756</b> | <b>197,358</b> | <b>408,695</b> | <b>1,794,227</b> | <b>210,114</b> | <b>2,611,524</b> | <b>300,635</b> | <b>531,800</b> |
| Loss per share - basic and diluted   | \$0.01             | \$0.03           | \$0.00         | \$0.01         | \$0.04           | \$0.00         | \$0.06           | \$0.01         | \$0.01         |

**I. 4th Quarter Ended April 30, 2010**

There were no significant events in the fourth quarter.

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**J. Selected Annual Consolidated Financial Information**

The following financial data was derived from the Company's consolidated financial statements as at the following dates:

|  | 2010         | 2009         | 2008         |
|--|--------------|--------------|--------------|
| Total revenues                           | \$ 651       | \$ 68,465    | \$ 181,335   |
| Net loss for the year                    | \$ 2,365,700 | \$ 4,916,500 | \$ 1,737,112 |
| Basic and fully diluted loss per share   | \$ 0.05      | \$ 0.11      | \$ 0.04      |
| Total assets                             | \$ 4,104,063 | \$ 3,849,003 | \$ 9,031,488 |
| Total long-term financial liabilities    | \$ -         | \$ -         | \$ -         |
| Cash dividends declared per common share | \$ -         | \$ -         | \$ -         |

**K. Related Parties Transactions**

The Company entered into the following related party transactions during the twelve months ended April 30, 2010:

- (a) Under the service agreement, as amended, between the Company and a company privately held by a director and an officer of the Company, the Company was charged for office accommodation and management services, professional services, consulting services, investor relations services, geological services and a mark-up for out-of-pocket expenses. Total expenses charged for the twelve months ended April 30, 2010 were \$306,080 (2009-\$337,839). As at April 30, 2010, \$11,025 (2009-\$18,333) was prepaid in respect of office accommodation and management services.
- (b) Pursuant to the consulting agreement, as amended, between the Company and the President of the Company, the Company was charged \$112,320 (2009-\$111,600) for consulting services.
- (c) Fees in the amount of \$59,218 (2009-\$46,162) were charged by a law firm controlled by a director and an officer of the Company and included in investor relations, professional fees and mineral property expenditures. Amounts payable as at April 30, 2010 were \$2,576 (2009-\$2,465).
- (d) Consulting fees relating to corporate development of \$147,000 (2009-\$54,000) were charged by a private company controlled by a director and an officer of the Company.

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**K. Related Parties Transactions, continued**

- (e) Consulting fees relating to office administration of \$24,000 (2009-\$24,000) were charged by a private company controlled by a director and an officer of the Company.
- (f) Fees in the amount of \$2,540 (2009 - \$Nil) were charged by a director of the Company for geological services. Amounts payable as at April 30, 2010 were \$2,540 (2009 - \$Nil).

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Amounts due to related parties are unsecured, non-interest bearing, and have no formal terms of repayment.

For information regarding related party expenditures, refer to Note 6 in the audited consolidated financial statements for the twelve months ended April 30, 2010.

**L. Financial Conditions, Liquidity and Capital Resources**

The Company has limited financial resources and finances its operations by raising capital in the equity markets. For the near future, the Company will need to rely on the sale of such securities and/or enter into joint venture agreements with third parties to provide working capital and to finance its mineral property acquisition and exploration activities.

Since the Company does not generate any revenue from operations, its long-term profitability will be directly related to the success of its mineral property acquisition and exploration activities.

Although the Company has been successful in obtaining financing through sale of its securities, there can be no assurance that the Company will be able to obtain adequate financing in the future in light of factors such as the market demand for its securities, the general state of financial markets and other relevant factors. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects with a possible loss of some properties and reduction or termination of operations.

The Company had a working capital of \$650,847 as at April 30, 2010 compared to working capital of \$453,945 as at April 30, 2009. Cash totaled \$656,457 and \$449,203 respectively.

**Southern Silver Exploration Corp. (An Exploration Stage Company)**

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**L. Financial Conditions, Liquidity and Capital Resources, continued**

**i) Equity financings**

A non-brokered unit private placement was announced on November 24, 2009 and amended on December 10, 2009 to issue up to 18,000,000 common shares at a price of \$0.10 per unit to raise \$1,800,000. Each unit consisted of one common share and one share purchase warrant with each warrant exercisable to one common share at \$0.20 per share for a period of two years. The proceeds will fund the drill programs in New Mexico, USA and Jalisco, Mexico properties.

The private placement closed in two tranches. On December 10, 2009 and December 24, 2009.

The first tranche was closed on December 10, 2009 for gross proceeds of \$1,457,000 (14,570,000 units @ \$0.10). The final tranche was closed on December 24, 2009 for gross proceeds of \$359,000 (3,590,000 units @ \$0.10).

The Company incurred total share issuance cost of \$259,731 comprised of \$87,420 finder's fees, \$119,763 due diligence and other general share issue cost and \$52,548 representing the cost of agent's warrants issued (820,200 exercisable at \$0.20) and calculated using Black-Scholes option pricing model.

**ii) Funds raised by stock options and share purchase warrants exercise**

During the year ended April 30, 2010, 3,777,775 share purchase warrants were exercised for gross proceeds of \$377,778.

**iii) Mineral properties expenditures**

During the year ended April 30, 2010, the Company expended \$429,304 on mineral properties (net of shares issued for acquisition costs and ending balance of accounts payable for mineral properties).

**iv) Amounts receivable**

As at April 30, 2010, the Company had \$29,704 refund owed for GST and the equivalent tax in Mexico and Germany and \$8,903 other receivables.

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**L. Financial Conditions, Liquidity and Capital Resources, continued**

**v) Commitments**

**Mineral properties interests**

Over the next two years, pursuant to the terms of its option agreements and amendments thereto, the Company has the following commitments to maintain the properties and earn its interests therein:

(a) Magistral properties:

- Incur an aggregate of at least US\$ 1,800,000 by July 21, 2010 (The management is negotiating an extension of the commitment);
- Incur an aggregate of at least US\$ 3,000,000 by July 21, 2011;
- Issue 50,000 common shares to Fury Explorations Ltd. on or before July 21, 2010.
- Issue 250,000 common shares to Fury Explorations Ltd. on or before July 21, 2011.

(b) Oro property:

- US \$200,000 on or before August 28, 2010 ;
- US \$50,000 on or before December 1, 2010;
- US \$300,000 on or before August 28, 2011.;
- US \$75,000 on or before December 1, 2011;

**Other commitments**

Pursuant to an agreement dated November 01, 2007 (see Note K (a) of this MD&A) the Company has committed to pay \$96,000 per year (\$8,000 per month) to a company privately held by a director and an officer of the Company for office accommodation and management services. The agreement may be cancelled at any time upon one year's notice and expires on June 30, 2012.

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**L. Financial Conditions, Liquidity and Capital Resources, continued**

**vi) Contingencies**

(a) A claim for US \$80,000 plus 50,000 common shares of the Company relating to a property option agreement. The Company has relinquished the subject property and management believes that the claim has no merit. The claim was instigated in October 1998 and since then no further claims or legal proceedings have taken place.

(b) A claim for \$6,905 exists relating to a property option agreement. Management believes that the claim has no merit.

Financial statements of the Company do not reflect the liability, if any, which may result from these claims as the outcome of either claim, is indeterminable at this time. The impact to any outcome will be recorded at the time of settlement and, accordingly, may impact future results of operations and cash flows.

**M. Outstanding Shares, Options and Share Purchase Warrants**

**i) Issued and outstanding shares**

The authorized share capital of the Company is unlimited. The issued share capital as at August 19, 2010 is as follows:

|                                      | <b>Number<br/>of Shares</b> | <b>Total<br/>\$</b> |
|--------------------------------------|-----------------------------|---------------------|
| Balance as at April 30, 2010         | 64,912,096                  | 21,008,918          |
| Transaction for the period           | -                           | -                   |
| <b>Balance as at August 19, 2010</b> | <b>64,912,096</b>           | <b>21,008,918</b>   |

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**M. Outstanding Shares, Options and Share Purchase Warrants, continued**

**ii) Share Purchase Warrants**

Warrants outstanding at August 19, 2010 are as follows:

| <b>Exercise Price</b>                                | <b>Expiry Date</b> | <b>Balance April 30, 2010</b> | <b>Granted</b> | <b>Exercised</b> | <b>Balance August 19, 2010</b> |
|--|--------------------|-------------------------------|----------------|------------------|--------------------------------|
| \$0.20   | December 10, 2011  | 14,570,000                    | -              | -                | 14,570,000                     |
| \$0.20   | December 10, 2011  | 653,400                       | -              | -                | 653,400                        |
| \$0.20   | December 24, 2011  | 3,590,000                     | -              | -                | 3,590,000                      |
| \$0.20   | December 24, 2011  | 166,800                       | -              | -                | 166,800                        |
|  |                    | <b>18,980,200</b>             | <b>-</b>       | <b>-</b>         | <b>18,980,200</b>              |
| Weighted average exercise price                      |                    | \$0.20                        | -              | -                | \$0.20                         |
| Weighted average remaining contractual life in years |                    |                               |                |                  | 1.32                           |

**iii) Stock Options**

Stock options outstanding at August 19, 2010 are as follows:

| <b>Exercise Price</b>           | <b>Expiry Date</b> | <b>Balance as at April 30, 2010</b> | <b>Expired</b> | <b>Balance as at August 19, 2010</b> |
|---------------------------------|--------------------|-------------------------------------|----------------|--------------------------------------|
| \$0.30                          | October 13, 2010   | 205,000                             | -              | 205,000                              |
| \$0.51                          | November 8, 2010   | 400,000                             | -              | 400,000                              |
| \$0.83                          | January 16, 2011   | 175,000                             | -              | 175,000                              |
| \$0.82                          | March 27, 2011     | 125,000                             | -              | 125,000                              |
| \$0.88                          | June 1, 2011       | 435,000                             | 65,000         | 370,000                              |
| \$0.58                          | March 1, 2012      | 1,145,000                           | 10,000         | 1,135,000                            |
| \$0.58                          | March 26, 2012     | 100,000                             | -              | 100,000                              |
| \$0.58                          | October 19, 2012   | 25,000                              | -              | 25,000                               |
| \$0.58                          | December 4, 2012   | 25,000                              | -              | 25,000                               |
| \$0.21                          | March 26, 2013     | 525,000                             | 15,000         | 510,000                              |
| \$0.16                          | January 8, 2015    | 3,200,000                           | 25,000         | 3,175,000                            |
|                                 |                    | <b>6,360,000</b>                    | <b>115,000</b> | <b>6,245,000</b>                     |
| Weighted average exercise price |                    | \$0.35                              | 0.61           | \$0.35                               |



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**N. Subsequent Events and Outlook**

There are no events subsequent to the date of this document.

**O. Financial Instruments**

The carrying values of cash, receivables, accounts payable and accrued liabilities, and related parties' accounts payable approximate their fair values because of the short-term maturity of these financial instruments.

**P. Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements and does not contemplate having them in the foreseeable future.

**Q. Use of Estimates**

Preparing financial statements requires management to make estimates and assumptions that affect the reported results. The estimates are based on historical experience and other assumptions believed to be reasonable under the circumstances. Critical accounting policies are disclosed in the annual audited financial statements.

**R. Disclosure Controls and Procedures**

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee is composed of three independent directors, who meet at least quarterly with management and, at least annually with the external auditors to review accounting, internal control, financial reporting, and audit matters.

Effective August, 2005, the Audit Committee adopted resolutions authorizing the establishment of procedures for complaints received regarding accounting, internal controls or auditing matters, and for a confidential, anonymous submission procedure for employees who have concerns regarding questionable accounting or auditing matters. The implementation of the whistleblower policy is in accordance with new requirements pursuant to Multilateral Instrument 52-110 Audit Committees, National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices.

## **Southern Silver Exploration Corp. (An Exploration Stage Company)**

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#### **S. Risks and Uncertainties**

The principal business of the Company is the acquisition, exploration and development of mineral properties. Given the nature of the mining business, the limited extent of the Company's assets and the present stage of development, the following risk factors, among others, should be considered.

The Company does not hold any known mineral reserves of any kind and does not generate any revenues from production. The Company's success will depend largely upon its ability to locate commercially productive mineral reserves. Mineral exploration is highly speculative in nature, involves many risks and frequently is non productive. There is no assurance that exploration efforts will be successful. Success in establishing reserves is a result of a number of factors, including the quality of management, the level of geological and technical expertise, and the quality of property available for exploration.

Once mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves through drilling and bulk sampling, to determine the optimal metallurgical process to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that our exploration programs will result in the establishment or expansion of resources or reserves.

Since the Company does not generate any revenues, it may not have sufficient financial resources to undertake by itself all of its planned mineral property acquisition and exploration activities. Operations will continue to be financed primarily through the sale of securities.

The Company will need to continue its reliance on the sale of such securities for future financing, which may result in dilution to existing shareholders. Furthermore, the amount of additional funds required may not be available under favourable terms, if at all, and will depend largely on the acquisition and exploration activities pursued.

The ability to attract capital to the Company is dependent on movements in commodity prices. Commodity prices fluctuate on a daily basis and they are affected by a number of factors beyond the control of the Company. If, because of a sustained decline in prices, financing were not available to meet cash operating costs, the feasibility of continuing operations would be evaluated and, if warranted, discontinued.

The resource industry is intensively competitive in all of its phases, and the Company competes with many other companies possessing much greater financial and technical resources. Competition is particularly intense with respect to the acquisition of desirable undeveloped properties. The principal competitive factors in the acquisition of prospective properties include the staff and data necessary to identify and investigate such properties, and the financial resources necessary to acquire and develop the projects. Competition could adversely affect the Company's ability to acquire suitable prospects for exploration.

## **Southern Silver Exploration Corp. (An Exploration Stage Company)**

### **Management's Discussion and Analysis**

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#### **S. Risks and Uncertainties, continued**

The Company conducts exploration activities in Mexico and the USA, and is subject to various federal, provincial, state laws, rules and regulations, including environmental legislation. The Company has adopted environmental practices designed to ensure that it continues to comply with environmental regulations currently applicable to it. All of the Company's activities are in compliance in all material respects with applicable environmental legislation. Environmental hazards may exist on the Company's properties, which may have been caused by previous or existing owners or operators of the properties. The Company is not aware of any environmental hazards on any of the properties held by the Company.

Although the Company has exercised the usual due diligence with respect to title to properties in which it has a material interest, there is no guarantee that title to the properties will not be challenged or impugned. The Company's mineral property interest may be subject to prior unregistered agreements or transfers, aboriginal land claims, government expropriation and title may be affected by undetected defects. In addition, certain of the mining claims in which the Company has an interest are not recorded in the name of the Company and cannot be recorded until certain steps are taken by other parties.

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

#### **T. Changes in Accounting Policies, Including Initial Adoptions**

##### **(i) Goodwill**

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Adoption of the new Section did not have an impact on the Company's financial statements since the Company does not have any goodwill or intangible assets that are accounted for in accordance with this section.

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**T. Changes in Accounting Policies, Including Initial Adoptions, continued**

**(ii) International Financial Reporting Standards ("IFRS")**

In February 2008, the Canadian Accounting Standards Board confirmed that the publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than in the first quarter ending July 31, 2011, with restatement of comparative information presented. The conversion to IFRS will impact the Company's accounting policies, information technology and data system, internal control over financial reporting, and disclosure controls and procedures.

The Company has established an implementation team to develop and implement the changeover plan to IFRS on a timely basis.

As at August 19, 2010 the Company has identified the differences between the current GAAP that will be affected by the changeover and the corresponding IFRS and is currently considering the policy choices allowed under IFRS. The management submitted a document outlining the differences between current GAAP and IFRS, appropriate policy choices and their impact on the Company's financial statements and business processes to the Audit Committee for discussion.

The report defined the following accounting policies under IFRS with the greatest impact on the Company's current accounting policies: business combinations, interest in joint ventures, related parties transactions, share-based payments, provisions, and exploration costs if the Company decides to expense all exploration costs instead of capitalizing them as is the Company's current accounting policy.

Transition to the IFRS will have a medium impact on the Company's current IT system and accounting staff and will be managed with a certain amount of additional resources, mainly in respect of documentation of the new policies, drafting additional disclosure notes, and possible restatements related to expensing of exploration and evaluation costs and recognizing provisions.

The Audit Committee has not decided on the policy choices yet. Possible major impact that management expects IFRS will have on the Company's financial position are summarized in the following table. IFRS will also have more extensive disclosure and analysis of balances and transactions in the notes to the financial statements.

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**T. Changes in Accounting Policies, Including Initial Adoptions, continued**

**(ii) International Financial Reporting Standards ("IFRS"), continued**

| Key areas   | Canadian GAAP  | IFRS  | Preliminary analysis  |
|---|--|---|---|
| Mineral properties and deferred exploration costs | Exploration, evaluation and development costs can be either capitalized or expensed when incurred.   | IFRS has only limited guidance on this topic and currently allows the Company to carry its current treatment.   | Recommend to expense the exploration evaluation and development cost.   |
| Stock-based compensation                          | Stock-based compensation is determined using the Black Scholes option pricing model. Allows the option to use straight-line method or accelerated method to account for graded vesting features. | Stock-based compensation is determined using the Black Scholes option pricing model. For graded-vesting features, each installment is to be treated as a separate share option grant because each installment has a different vesting period, and hence the fair value of each installment will differ. | The recognition of the value of stock-based compensation will be higher at the early vesting stage and will decrease as options are near the final vesting stage. |

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**T. Changes in Accounting Policies, Including Initial Adoptions, continued**

**(iii) Business Combinations**

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interest". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners.

Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

**U. Licenses and Permits**

The operations of the Company require licenses and permits from various government authorities. The Company believes that it holds all necessary licenses and permits under applicable laws and regulations for work in progress and believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in various circumstances. There can be no guarantee that the Company will be able to obtain or maintain all necessary licenses and permits that may be required to explore and develop its properties, commence construction or operation of mining facilities or to maintain continued operations that economically justify the cost.

**V. Proposed Transactions**

Other than normal course review of monthly submittals, there are no new acquisitions or proposed transactions contemplated as at the date of this report.

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**W. Forward-Looking Statements**

Some of the statements contained in this MD&A may be deemed "forward-looking statements." These include estimates and statements that describe the Company's future plans, objectives or goals, and expectations of a stated condition or occurrence.

Forward-looking statements may be identified by the use of words such as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", or "plan". Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Actual results relating to, among other things, results of exploration, reclamation, capital costs, and the Company's financial condition and prospects, could differ materially from those currently anticipated in such statements for many reasons such as but not limited to; changes in general economic conditions and conditions in the financial markets; changes in demand and prices for the minerals the Company expects to produce; litigation, legislative, environmental and other judicial, regulatory, political and competitive developments; technological and operational difficulties encountered in connection with the Company's activities; and changing foreign exchange rates and other matters discussed in this MD&A.

Readers should not place undue reliance on the Company's forward-looking statements. Further information regarding these and other factors, which may cause results to differ materially from those projected in forward-looking statements, are included in the filings by the Company with securities regulatory authorities. The Company does not assume any obligation to update or revise any forward-looking statement that may be made from time to time by the Company or on its behalf, except in accordance with applicable securities laws, whether as a result of new information, future events or otherwise.