

Oremex Silver Inc.
(Formerly Oremex Resources Inc.)

**Management's Discussion and Analysis of Financial Position and
Results of Operations ("MD&A")**

The following information, prepared as of October 29, 2012, should be read in conjunction with the unaudited condensed consolidated interim financial statements of Oremex Silver Inc. ("Oremex" or the "Company"), formerly Oremex Resources Inc. for the three and nine months ended August 31, 2012, as well as the audited financial statements for the years ended November 30, 2011 and 2010 and the related management's discussion and analysis (the "Annual MD&A"). The August 31, 2012 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Figures referenced in this MD&A from periods prior to and including November 30, 2010 are in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All amounts are expressed in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Forward-looking statements may include words such as "plans", "intends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "suggests" and similar expressions.

This MD&A and in particular the "Outlook" section, contains forward-looking statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors. Information concerning the interpretation of drill results may also be considered a forward-looking statement, as such information constitutes a prediction of what mineralization might be found to be present if and when a project is actually developed.

It is important to note that:

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of October 29, 2012.
- Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize.
- Subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

The material assumptions that were applied in making the forward looking statements in this MD&A include: execution of the Company's existing plans or exploration programs for each of its properties, either of which may change due to changes in the views of the Company or if new information arises which makes it prudent to change such plans or programs; and the accuracy of current interpretation of drill and other exploration results.

For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks and Uncertainties".

Incorporation

The Company was incorporated by articles of incorporation on March 22, 1995 under the *Canada Business Corporations Act*. The Company's shares are traded on the TSX Venture Exchange under the trading symbol OAG (formerly ORM).

General

The Company is a Canadian-based mineral exploration company with a focus on the acquisition and development of silver properties in Mexico. The Company presently holds interests in seven mineral projects, each with one to multiple mining concessions. The three main properties of interest are Tejaman, San Lucas and Chalchihuites. Tejaman is the Company's flag ship silver property with a NI 43-101 mineral resource of 50.8 million ounces of silver with P.E.A.

Previously, the Company was focused on the development of silver and gold properties in Mexico. During the third quarter of fiscal 2011, the Company concluded to focus on developing its silver properties only. The Company spun out its gold properties into another public company called Oremex Gold Inc. ("Oremex Gold"). Presently, Oremex Silver Inc. is a pure silver-focus exploration and development company.

Mineral Properties

Tejaman Property, State of Durango

Tejaman is the Company's most advanced project. The property, located 130 kilometres northwest of Durango, the capital of the State of Durango, consists of 22 mineral concessions covering approximately 1,672 hectares. Access is by paved highway from Durango to Nuevo Ideal, and by 10 kilometres of good gravel road from Nuevo Ideal to Tejaman.

In 2006, the Company released results of a NI 43-101 compliant Technical Report prepared by Wardrop Engineering Inc. ("Wardrop"). Based on the 36,000 metres of reverse circulation drilling completed between December 2003 and November 2005, Wardrop calculated an Inferred Mineral Resource of 50.8 million ounces in 22.6 million tonnes at a grade of 66.9 grams per tonne silver (gpt) and 0.05 gpt gold (a silver-equivalent grade of 69.8 gpt).

In late 2006 Snowden Mining Industry Consultants completed a NI 43-101 compliant Technical Report, an independent Preliminary Assessment Study, on Tejaman concluding that mineral resource could support a 10,000 tonne per day, open pit mine and heap leach processing system. They also concluded that Tejaman could generate a significant return on investment with a pre-tax net present value of US\$155.5 million at a silver price of US\$15.00 per ounce.

Oremex owns 100% of the mineral rights at Tejaman. In 2007, the Company's surface access rights expired. The federal government of Mexico holds the surface rights and through the Reforma Agraria began a process in 2009 to award surface title. The Company can begin surface access negotiations with the title holders once the award has been made. This title award decision is expected at any time although no formal time line has been provided.

During 2008, the Company completed a new topographical survey in Los Mantos area and relogged core/cuttings to ensure consistency of data, redesigned the pit wall in Los Mantos to minimize impact on the local village and determined equipment requirements for mining. The Company has been assisting various levels of government, municipal, state and federal to ensure that all parties have complete and accurate information.

During Fiscal 2009, the Company took a more direct approach in working with the community of Tejaman in support of the awarding of the access rights. The Company has been much more visible in the community and very proactive in having regular dialogue with the community itself to outline the nature of the benefits to the community that mining activity will bring. In April 2009 the Company announced that it had been formally invited by the community of Tejaman to begin a strategic infrastructure program. The program has begun and the Company is funding the hiring of local villagers to upgrade and enhance the local infrastructure.

During 2010, the Company continued to strengthen the support it receives from the local community, through the employment programs it operates within the village. Oremex has been supportive of the Tejaman Community Association's ("TCA") initiative to become the legal owner of the surface title.

During 2011 and 2012, the Company continued to support the Agricultural Reform ("Reforma Agraria") as they worked to award surface title.

San Lucas Property, State of Durango

The San Lucas Property ("San Lucas"), located 86 kilometres north of the city of Durango and accessed via paved highway, consists of 12 mineral concessions covering 1,290 hectares. San Lucas consists of a series of northeast trending mineralized shear zones in volcanic and sedimentary rocks.

In 2005, the Company drilled 19 reverse circulation drill holes totaling 3,042 metres across one of the mineralized zones. Drill holes, spaced approximately 100 metres apart along the northeast striking structure, indicate a disseminated silver-lead-zinc system. The mineralization was traced by drilling for 1,700 metres. Surface mapping has traced the zone for over four kilometers and has identified a separate sub parallel structure.

In 2007, the Company negotiated a long-term lease with the Ejido of San Lucas for the use of surface rights at San Lucas. The Company completed a 7,000 metre reverse circulation drill program to test extensions down dip and along trend of mineralization. That program intersected high grade silver mineralization at surface with a zone of lower grade lead-zinc mineralization at depth. A detailed assessment of results along with historic underground data has led to the conclusion that there is potential to define a large, low grade deposit of zinc-lead mineralization. Significant higher-grade silver plus base metal mineralization exists at depth. No work was performed on the property during fiscal 2008; however the company is continuing to hold the property and has identified significant gold mineralization at the surface.

During fiscal 2009 the Company re-evaluated this property and as part of that project collected and analyzed 39 chip samples. These samples returned gold values up to 0.77 g/t.

During 2010, the Company has followed up the 2009 results. Field work has been focused to define drill targets to test the gold mineralization present in a silicified dacite dike (note text removed), which outcrops extensively on the concessions. A total of 220 samples have been collected along the silicified dacite dike, which also has cross cutting mineralized dikes, significantly adding to tonnage potential. The dike has three more intensely mineralized segments; the 330m long North zone reports silver grades to 1,856 g/t and gold grades to 1.06 g/t, the 800m long Central Zone reports gold grades to 1.68 g/t and the 180m long South Zone reports gold grades to 0.82 g/t. The mapped strike length of the silicified dacite dike has increased from 1.5km to 2.0 km. Also during the third quarter the Company secured access rights to the San Lucas property for a period of 30 years, renewable at the Company's option for another 30 years.

During fiscal 2011, the Company commenced a first pass drilling program of approximately 2,000 meters. As a result of this program, an independent geologist recommended further drilling to establish resource and follow up high grade zones of 1,856 g/t of silver. During the third quarter of fiscal 2011, the Company spun-out its gold assets into Oremex Gold that included San Lucas mineral concessions with the presence of gold mineralization. Presently, the Company possesses San Lucas mineral concessions with high grade silver mineralization only.

During the nine month period ended August 31, 2012, the Company focused on reviewing drill targets for the upcoming core drilling program and continued compiling surface sampling assay results and mapping. In June 2012, the Company received positive results from a surface outcrop sampling program in the El Doctor zone of the San Lucas silver project. The El Doctor zone had not been previously sampled at the surface. In 2007, the Company completed drilling nearby that is being re-examined for a better understanding of the potential of the previously unrecognized gold-silver mineralization. The El Doctor zone is located in the middle portion of the precious metal-mineralized San Lucas trend. Approximately a dozen old surface and underground workings are in the immediate area, including two shafts. The mineralization occurs with elevated levels of lead and zinc mineralization. Two parallel gold-silver mineralized shear zones are evident over a strike length of over 270 meters. The mineralized shear zones are approximately 70 meters apart and strike north-easterly, as is typical of the San Lucas trend. The mineralized shear zones range from 5 meters to 10 meters in width where exposed on surface. Base metal sulphides and iron oxides associated with quartz-sericite alteration characterize the mineralized zones which are hosted by volcanic rocks. A total of 90 channel samples were collected and the gold grades range from 0.02 g/t to 110 g/t, averaging 4.4 g/t. The average gold grade of the 89 samples exclusive of the high grade 110 g/t sample is 3.2 g/t. 72 of 90 samples contained gold grades over 0.50 g/t. The silver grades range from trace to 168 g/t, averaging 53.2 g/t. The average silver grade of the 89 samples excluding the high grade 168 g/t sample is 51.9 g/t.

Chalchihuites Property, State of Zacatecas

Chalchihuites is a drill-ready exploration project located about 75 kilometers northwest of the state capital city of Zacatecas. Access from either Zacatecas or Durango is by paved highway which skirts the edge of the project. The property consists of four concessions totaling approximately 48.15 hectares and is 100% owned by Oremex Silver Inc.

Mines in the Chalchihuites district have produced silver since colonial times. The property has only seen exploration and production by small miners through those years. A group of miners at the immediately adjacent Dolores mine are producing ores which they ship directly to the smelter at Torreon. The Dolores structure projects onto the property where it is covered by hillside rubble. Elsewhere in the Chalchihuites district, First Majestic Silver Corporation is continuing with construction of their mine-mill operation and Pan American Silver is adding reserves to their silver producing La Colorado complex.

Mineralization on the Chalchihuites property is hosted by two-parallel, silver, gold and base metal mineralized shear zones, separated by approximately 100 meters and hosted by a granodiorite stock in rhyolite dikes and in limestone adjacent to the stocks. Mineralization can be traced over a WNW zone with a map area of approximately 900 meters long by 200 meters wide. The shear zones have a proven vertical extent of about 300 meters and 75 meters along strike length. Chip samples yielded grades up to 3,540 g/t Ag, 0.99 g/t Au + 1.6% Pb.

In fourth quarter of 2011, the Company commenced a 524 meter (4 hole) underground drill program designed to delineate the extent of the high grade mineralization sampled. In first fiscal quarter 2012, the underground drill program as well as surface mapping and sampling were completed with assay results confirming the presence of high grade mineralization that was previously sampled. Additionally, the Company acquired the Navidad Group concessions adjacent to Chalchihuites silver project. The Navidad Group consists of four exploration concessions totalling 392.53 hectares.

During the nine month period ended August 31, 2012, the Company completed the underground and surface mapping and sampling at the Chalchihuites project. The combined surface and underground sampling indicated grades of up to 3,450 g/t silver, 3.4 g/t gold, 0.30% copper, 20.6% lead and 12.5% zinc over sample length ranging from 0.22 to 3.9 meters. The Company is re-applying for an environmental permit in order to support a drill program.

Results of Operations

During the three months ended August 31, 2012, the Company reported a net loss of (\$463,106) (\$0.00 per share) compared to a net gain of \$2,870,810 (\$0.02 per share) reported in 2011. The significant decrease in net income from the prior year is a result of the sale of gold assets to Oremex Gold (see Sale of Gold Assets section below). As a result of the sale, the Company recorded a gain of \$3,930,000. Offsetting this gain was higher spending in 2011 on investor relations, and business development activities. The 2012 loss also includes loss on equity investment of \$102,167 (2011 - \$NIL). This is related to the Company's 39.94% interest in Oremex Gold Inc. and represents the Company's share of Oremex Gold Inc.'s loss, accounted for using the equity method.

During the nine months ended August 31, 2012, the Company reported a net loss of (\$1,755,723) (\$0.01 per share) compared to a net gain of \$1,085,911 (\$0.02 per share) reported in 2011. The decrease in net income is due to the gain on the sale of gold assets in 2011 previously mentioned. The 2012 loss includes loss on equity investment of \$433,256 (2011 - \$NIL) and a decrease in stock based compensation from \$944,238 in 2011 to \$NIL in 2012, since no stock options have been granted this fiscal year to date.

Fiscal 2011 saw the Company sell its gold assets as detailed in the section below, and focus more on its Chalchihuites property while continuing to work with the government and other groups to facilitate the awarding of the surface rights in Tejaman. During the nine months ended August 31, 2012, the Company established its pure-silver focus by finalizing the disposition of its Cerro del Oro Gold Project to Oremex Gold Inc., completed the Chalchihuites underground drill program and continues to support the Tejaman Community Association in anticipation of the surface title being granted in the future.

Capital Expenditures

Total exploration spending for the nine month period ended August 31, 2012 decreased to \$520,197 from \$981,594 incurred in 2011. The decrease is primarily a result of reduced exploration work done on the San Lucas property. Significant work was done in 2011 in preparation for the spin out of the gold assets.

Financing Activities

During the nine month period ended August 31, 2012, the Company closed a private placement offering for gross proceeds of \$108,410 through the issuance of 2,168,200 units comprised of one common share and one common share purchase warrant of the Company. Each warrant is exercisable for one common share at a price of \$0.10 until July 27, 2015. In connection with the offering, the Company paid cash commissions of \$2,236 and issued 42,000 non-transferable compensation warrants to eligible finders. Each compensation warrant entitles the holder to subscribe for one common share at a price of \$0.10 per share until July 27, 2015.

The Company also raised net proceeds of \$58,374 from the exercise of options and warrants. This compares to \$2,315,747 that was raised in the nine month period ended August 31, 2011 from the exercise of options and warrants.

Additional financing has been obtained subsequent to August 31, 2012. See discussion on subsequent events below.

Summary of Quarterly Results (unaudited)

Three months ended	Aug 31, 2012	May 31, 2012	Feb 29, 2012	Nov 30, 2011	Aug 31, 2011	May 31, 2011	Feb 29, 2011	Nov 30, 2010
Total revenues	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Net and comprehensive income (loss)	\$(463,106)	\$(612,803)	\$(679,814)	\$(2,313,506)	\$2,870,810	\$(1,366,515)	\$(418,384)	\$(163,117)
Net earnings (loss) per share (basic and diluted)	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.02)	\$0.02	\$(0.01)	\$(0.00)	\$(0.01)

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the nine month period ended August 31, 2012 utilized cash of \$624,329. As at August 31, 2012, the Company had cash and cash equivalents of \$50,403 and working capital deficiency of \$269,339.

The Company is in the business of exploring for and mining minerals which by its nature involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of the mineral properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to obtain financing or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. All of the Company's mineral properties are located outside of Canada and are subject to the risks normally associated with foreign investment, including increases in taxes and royalties, recognition of contracts, currency exchange fluctuations and political uncertainty.

The Company is subject to various option agreements in connection with the acquisition of mineral interests. These agreements generally require the Company to make periodic payments over a varying number of years to maintain its interests. The Company can cancel these agreements at any time without completing the remaining payments and without penalty.

The Company is not in commercial production on any of its mineral properties and, accordingly, it does not generate cash from operations. The Company's planned exploration and development expenditures on existing properties require significant financial resources.

The fiscal 2012 plan is to commence and complete an exploratory surface drill program at Chalchihuites silver project. Following the completion of surface mapping and sampling at the San Lucas silver project, the Company plans to commence a drill program. The Company is also planning to commence a sampling and mapping program at the El Sol silver project. The initiatives to finalize the granting of surface title at the Tejamen project and the assessment of additional properties to acquire or enter into joint ventures are ongoing.

The Company is dependent on raising additional financing through the issuance of equity securities to fund further exploration and development requirements on existing properties, to fund property acquisitions and for general corporate costs. The Company is currently pursuing additional financing.

Transactions with Related Parties

The Company entered into the following transactions with related parties during the nine months period ended August 31, 2012:

- (a) The Company shares office space, administrative resources and various costs (collectively the "Shared Costs") with other companies that have common officers and directors. Included in accounts receivable is \$45,654 (2011 - \$7,372) related to Shared Costs. Included in accounts payable is \$152,912 (2011 - \$2,994) related to Shared Costs. These amounts are unsecured, non-interest bearing with no terms of repayment. During the nine month period ended August 31, 2012 the Company incurred approximately \$46,823 (2011 - \$41,626) for its share of rent and administrative costs.

- (b) Included in amounts receivable is \$40,000 (2011 - \$40,000) due from a company that has a common officer and director. The amount relates to legal fees that were billed in error to the Company. This amount is unsecured, non-interest bearing and has no specific terms of repayment.
- (c) Included in prepaid expenses is \$40,572 (2011 - \$18,972) related advances given to an officer and director of the Company.
- (d) During the nine month period ended August 31, 2012, certain officers and directors were granted bonuses aggregating \$25,000 (2011 - \$NIL). This amount is included in management fees and salaries.
- (e) Key management includes the Executive Chairman, the Chief Executive Officer, the Chief Financial Officer and directors. During the nine month period ended August 31, 2012, the cash compensation paid or payable to key management for services was \$264,380 (2011 - \$219,475).
- (f) During the nine month period ended August 31, 2012, the Company moved into new premises that it shares with other companies that have common officers and directors. In relation to this move, \$42,229 (2011 - \$NIL) is included in accounts payable and accrued liabilities for its share of the moving costs. This amount is payable on demand, unsecured and non-interest bearing.
- (g) During the nine month period ended August 31, 2012, the Company obtained a \$252,000 short-term loan from a company with common officers and directors. At August 31, 2012 the Company has repaid \$156,000. The loan is unsecured, due on demand and bears an interest rate of 3% per annum. Interest charges on the loan over the nine month period ending August 31, 2012 were \$2,253 (2011 - \$NIL). Subsequent to August 31, 2012 the Company has repaid the loan in full.

Transactions with related parties were in the normal course of operations and have been measured at their exchange amount, being the amount agreed to by the related parties.

Subsequent Events

On October 1, 2012 the Company completed the equity portion of the offering, raising gross proceeds of \$750,000 through the issue of 13,636,364 Share Units of the Company, with each Share Unit consisting of one common share and one common share purchase warrant at a purchase price of \$0.055 per unit. Each warrant is exercisable into shares at a price of \$0.10 per Share, expiring in five years from the date of issue. In connection with the equity private placement, the Company will pay a finder's fee consisting of 250,000 shares.

On October 9, 2012 the Company closed the convertible debenture portion of the financing for gross proceeds of \$727,500 through the issue of 72.75 Debenture Units, with each Debenture Unit consisting of \$10,000 principal amount of convertible debentures of the Company and 100,000 common share purchase warrants, at a purchase price of \$10,000 per Debenture Unit. Each warrant is exercisable into one common share of the Company at a price of \$0.10 per share, expiring in five years from the date of issue. The debentures are convertible into shares at a price of \$0.10 per share and mature in five years from the date of issue. The debentures bear interest at a rate of 16% per year; 8% is payable in cash and, at the option of the Company, 8% is payable in shares.

On October 19, 2012 the Company closed the first tranche of an additional non-brokered private placement, raising gross proceeds of \$318,850 through the issue of 5,314,166 units of the Company, with each unit consisting of one common share and one common share purchase warrant at a price of \$0.06 per unit. Each warrant is exercisable into shares at a price of \$0.10 per share, expiring five years from the date of issue. In connection with the private placement, the Company paid finders' fees of \$15,498 and issued 258,300 finders' warrants. The finder's warrants are exercisable into shares at a price of \$0.10 per share, expiring five years from the date of issue.

On October 26, 2012 the Company closed the second tranche of the private placement for gross proceeds of \$38,715 through the issue of 645,258 units of the Company, with each unit consisting of one common share and one common share purchase warrant. Terms of the warrants are the same as those issued during the first tranche. In connection with the second tranche, the Company paid finder's fees of \$1,029 and issued 17,150 finder's warrants. There was no change to the terms of the finder's warrants from the first tranche.

Subsequent to August 31, 2012 the Company had 10,309,777 share purchase warrants with an exercise price of \$0.14 expire unexercised.

Critical Accounting Estimates

This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and nine month period ended August 31, 2012 and the audited financial statements for the

year ended November 30, 2011 and the notes thereto. Those financial statements outline the accounting principles and policies used to prepare our financial statements. The critical accounting policies of the Company are outlined in our fiscal 2011 annual MD&A and remain substantially unchanged except for IFRS transitional requirements. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

International Financial Reporting Standards (“IFRS”)

For fiscal years commencing on or after January 1, 2011, Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS. The nine month period ended August 31, 2012 is the Company's second reporting period under IFRS. Due to the requirement to present comparative financial information, the effective transition date is December 1, 2010.

The Company's IFRS conversion team identified four phases to the Company's conversion: scoping and planning, detailed assessment, implementation and post-implementation. The Company has now completed its IFRS conversion project through the implementation phase. The post-implementation phase will continue in future periods, as outlined below.

Notes 2 and 15 of the accompanying condensed consolidated interim financial statements provide details of the Company's key Canadian GAAP to IFRS differences. The Company's previously released condensed consolidated interim financial statements for the three months ended February 29, 2012 provide details of accounting policy decisions and first-time adoption exemptions applied.

The conversion to IFRS has had a low impact on the financial record keeping, internal controls and financial disclosures of the Company due to the exploration and project development nature of the Company's business. Accounting systems have been assessed and re-configured to ensure accurate reporting under IFRS.

Transitional Financial Impact

The following is a summary of the adjustments to exploration and evaluation properties, deferred tax liability, share-based payment reserve and accumulated deficit for the nine months ended August 31, 2011 under IFRS (all of which are outlined in the notes to the accompanying condensed consolidated interim financial statements):

	August 31, 2011
	\$
Exploration and evaluation properties under Canadian GAAP	14,792,588
Adjustment – deferred income taxes (1)	<u>(1,471,847)</u>
Exploration and evaluation properties under IFRS	<u>13,320,741</u>
Deferred tax liability under Canadian GAAP	3,023,000
Adjustment – deferred income taxes (1)	<u>(790,000)</u>
Deferred tax liability under IFRS	<u>2,233,000</u>
Share-based payment reserve under Canadian GAAP	4,787,211
Adjustment – expired options and warrants (2)	<u>(3,540,874)</u>
Share-based payment reserve under IFRS	<u>1,246,337</u>
Accumulated deficit under Canadian GAAP	(11,415,414)
Adjustment – deferred income taxes (1)	(681,847)
Adjustment – expired options and warrants (2)	<u>3,540,874</u>
Accumulated deficit under IFRS	<u>(8,556,387)</u>

- (1) The Company has recognized deferred tax on temporary differences arising on acquisitions of assets where the carrying amount of the assets acquired exceeded the tax base. IFRS provides for a specific exemption from recording a deferred tax liability on initial recognition when the transaction is not a business combination and at the time of the transaction, affects neither accounting profit/loss nor tax profit/loss. As the acquisition of certain exploration and evaluation assets meets the IFRS exemption criteria, the recognition of deferred tax liabilities in relation to these assets acquired under Canadian GAAP is reversed under IFRS resulting in a \$1,471,847 reduction in exploration and evaluation assets and a \$1,471,847 reduction in the deferred tax liability as at August 31, 2011.

Under IFRS, in the determination of temporary differences, the carrying value of non-monetary assets and liabilities is translated into the functional currency at the historical rate and compared to its tax value translated into the functional currency at the current rate. The resulting temporary difference (measured in the functional currency) is then multiplied by the appropriate tax rate to determine the related deferred tax balance.

Under Canadian GAAP, in the determination of temporary differences related to non monetary assets and liabilities, the temporary differences computed in local currency are multiplied by the appropriate tax rate. The resulting deferred income tax amount is then translated into the Company's functional currency if it is different from the local currency.

On transition, the accounting under IFRS related to the determination of temporary differences of foreign currency non-monetary assets resulted in an opening statement of financial position adjustment to increase deferred tax liabilities and the deficit by approximately \$681,847 on transition to IFRS and at August 31, 2011.

- (2) On transition to IFRS, the Company elected to change its accounting policy for the treatment of expired options and warrants whereby amounts recorded for expired, unexercised stock options and warrants are transferred to deficit. Previously, these amounts were recorded in contributed surplus. As a result of this change, contributed surplus and deficit decreased by \$3,540,874 as at August 31, 2011.

All of the above adjustments are non-cash accounting adjustments. There was no impact on total assets, total liabilities, and total shareholders' equity on converting from Canadian GAAP to IFRS as at August 31, 2011

Post-Implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. The standard setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected. In particular, there may be additional new or revised IFRSs or IFRICs in relation to consolidation, financial instruments, and leases. The International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact the Company's financial statements primarily in the areas of capitalization of exploration costs and disclosures. The Company has processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC interpretations will be evaluated as they are drafted and published.

Future Accounting Changes:

IAS 1 Presentation of Financial Statements was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for the annual period beginning on December 1, 2012.

IFRS 9 Financial Instruments replaces the guidance in IAS 39 Financial Instruments Recognition and Measurement on the classification and measurement of financial assets. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost or financial assets measured at fair value. IFRS 9 also adds guidance on the classification and measurement of financial liabilities. Under IFRS 9, financial liabilities measured at fair value under the fair value option: changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income ("OCI"), with the remainder of the change recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. Amounts presented in OCI will not be reclassified to profit or loss at a later date. IFRS 9 also requires derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument to be measured at fair value. This new standard is applicable, for the annual period beginning December 1, 2015.

IFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 replaces SIC-12 Consolidation - Special Purpose Entities and parts of IAS 27 - Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on December 1, 2013.

IFRS 11 Joint Arrangements provides for reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.

Under IFRS 11 the choice between equity accounting and proportionate consolidation no longer exists; these entities must now use the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Venturers. This new standard is applicable for accounting periods beginning December 1, 2013.

IFRS 12 Disclosure of Interests in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on December 1, 2013.

IFRS 13 Fair Value Measurement replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. The Company intends to adopt IFRS 13 in its financial statements for the annual period beginning on December 1, 2013.

The Company has not early adopted any of these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

Sale of Gold Assets

Effective April 24, 2011, the board of directors of the Company approved an Amalgamation Agreement entered into with Black Birch Capital Acquisition I Corporation ("Black Birch") whereby the following took place:

- i. The Company spun out its gold assets to its wholly owned subsidiary, 7678576 Canada Inc. ("Oremex Gold"). The Company then sold its share in Oremex Gold to Black Birch, a Capital Pool Company (the "Transaction").
- ii. Black Birch acquired the one common share of Oremex Gold held by the Company in exchange for:
 - a. the issuance to the Company of an aggregate of 14,000,000 common shares of Black Birch;
 - b. the issuance to the Company of 2,000,000 warrants convertible into 2,000,000 common shares of Black Birch with an exercise price of \$0.50 per share expiring 24 months from the date of closing of the Transaction; and
 - c. \$250,000 to be settled by two equal cash payments to the Company due on the 12 and 24 month anniversaries of closing of the Transaction.

The Company recorded a gain on sale of investment of \$2,069,503 as a result of this transaction.

- iii. Concurrently with the completion of the Transaction, Oremex Gold completed an offering of subscription receipts for gross proceeds of \$4,356,000 at a price of \$0.25 per subscription receipt. Each subscription receipt was exercisable into one common share and a half common share purchase warrant of Oremex Gold for no additional consideration. Each full purchase warrant allows the holder to acquire an additional share by paying \$0.35 anytime during the 36 months following the closing of the transaction. These shares will then be exchanged for shares of Black Birch on a one-for-one basis.
- iv. Effective July 26, 2011, Oremex Gold became a direct wholly-owned subsidiary of Black Birch.
- v. Effective September 9, 2011, the Company was renamed Oremex Silver Inc., trading under the symbol OAG on the TSX Venture Exchange.
- vi. Effective September 20, 2011, Black Birch was renamed Oremex Gold Inc., trading under the symbol OAU on the TSX Venture Exchange.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivables, marketable securities and accounts payable and accrued liabilities. The Company has no asset backed commercial paper. The Company has classified cash and cash equivalents, amounts receivable and note receivable as loans and receivables and are carried at amortized cost. Marketable securities are classified as held-for-trading and are carried at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities and are carried at amortized cost. The majority of the Company's cash and cash equivalents are held through a major Canadian chartered bank. The Company also maintains deposits for ongoing working capital at large banks in the jurisdictions in which its foreign subsidiaries operate.

A portion of the Company's financial assets and liabilities is denominated in foreign currencies giving rise to risks from changes in foreign exchange rates. The Company is exposed to currency exchange rate risks to the extent of its foreign activities in Mexico. As at August 31, 2012, approximately \$48,794 of financial assets and liabilities were denominated in Mexican pesos. Based on this exposure as at August 31, 2012, a 10% change in exchange rates would not give rise to a material change to the Company. The Company does not use derivative financial instruments to reduce its foreign exchange exposure.

Outstanding Share Data

Authorized Capital:

An unlimited number of common shares and an unlimited number of preferred shares issuable in series

Issued and outstanding as at October 29, 2012:

144,869,695 common shares

Outstanding options, warrants, and convertible securities as at October 29, 2012:

Type of Security	Number	Exercise Price	Expiry Date
Share purchase warrants	664,885	Cdn. \$0.17	December 22, 2012
Share purchase warrants	2,347,326	Cdn. \$0.16	May 28, 2013
Share purchase warrants	2,168,200	Cdn. \$0.10	July 27, 2015
Share purchase warrants	42,000	Cdn. \$0.10	July 27, 2015
Share purchase warrants	13,636,364	Cdn. \$0.10	October 1, 2017
Share purchase warrants	7,275,000	Cdn. \$0.10	October 9, 2017
Share purchase warrants	5,314,166	Cdn. \$0.10	October 19, 2017
Share purchase warrants	258,300	Cdn. \$0.10	October 19, 2017
Share purchase warrants	645,258	Cdn. \$0.10	October 26, 2017
Share purchase warrants	17,150	Cdn. \$0.10	October 26, 2017
	32,368,649		

Type of Security	Number	Exercise Price	Expiry Date
Stock options	1,900,000	Cdn. \$0.10	March 30, 2014
Stock options	600,000	Cdn. \$0.15	December 20, 2014
Stock options	50,000	Cdn. \$0.10	July 29, 2015
Stock options	3,075,000	Cdn. \$0.32	April 26, 2016
Stock options	250,000	Cdn. \$0.26	August 5, 2016
Stock options	3,000,000	Cdn. \$0.19	November 9, 2016
	8,875,000		

Risks and Uncertainties

Exploration for mineral resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess.

The Company currently has no revenues from operations and no mineral reserves. The Company also has a low cash balance. If the Company's exploration programs are successful, additional funds will be required in order to complete the development of its properties. The only sources of future funds presently available to the Company are the sale of additional equity capital, selling or leasing the Company's interest in a property or the entering into joint venture arrangements or other strategic alliances in which the funding sources could become entitled to an interest in

the properties or the projects. The Company's capital resources are largely determined by the strength of the junior resource market and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. There is no assurance that the Company will be successful in raising additional funds in the future. If the Company does not have the necessary capital to meet its obligations under its contractual obligations, the Company may have to forfeit its interest in properties or prospects earned or assumed under such contracts. In addition, if the Company does not have sufficient funds to pursue its exploration programs, the viability of the Company could be jeopardized.

Beyond exploration and funding risk, the Company is faced with a number of other risk factors as detailed in the Annual MD&A.

Outlook

With the Company's recently completed financing and the success of the underground drill program at Chalchihuites that confirmed the presence of high grade mineralization, the focus is on planning a surface drilling program to expand and further define the boundaries of mineralized zones and the resource potential.

Other Information

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.oremexsilver.com.