



Interim Consolidated Financial Statements
For the Six months ended October 31, 2006 and 2005

Notice of No Auditor Review of Interim Statements

These interim consolidated financial statements of the Company for the six months ended October 31, 2006, were prepared by management and have not been reviewed or audited by the Company's auditors.

Southern Silver Exploration Corp.
Consolidated Balance Sheets

		October 31, 2006	April 30, 2006
Assets			
Current			
Cash and cash equivalents		\$ 1,672,749	\$ 2,326,667
Receivables		48,053	113,155
Prepaid and deposits		25,035	32,326
		1,745,837	2,472,148
Mineral properties	Note 3	2,098,226	1,488,214
		\$ 3,844,063	\$ 3,960,362
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 26,273	\$ 133,858
Due to related parties	Note 4	25,428	3,977
		51,701	137,835
Shareholders' Equity			
Share capital	Note 5 (a)	12,039,891	11,676,096
Contributed surplus	Note 5 (a)	1,362,904	999,464
Deficit		(9,610,433)	(8,853,033)
		3,792,362	3,822,527
		\$ 3,844,063	\$ 3,960,362

Nature and continuance of operations (Note 1)

Subsequent events (Note 9)

Approved on behalf of the Board



Lawrence Page, Q.C.



Robert Gayton, FCA

Southern Silver Exploration Corp.

Consolidated Statements of Operations for the six months ended October 31, 2006 and 2005

	Three months ended		Period ended	
	October 31		October 31	
	2006	2005	2006	2005
Expenses				
Administration	\$ 15,000	\$ 15,000	\$ 30,000	\$ 30,000
Amortization	-	-	-	-
Consulting	56,886	51,053	90,679	70,553
Foreign exchange loss (gain)	11,740	1,825	(15,162)	(350)
General exploration	15,984	8,369	18,068	8,369
Investor relations	39,118	93,321	91,635	164,605
Office and administration	37,141	35,144	54,829	59,051
Professional fees	37,881	39,470	53,862	51,119
Regulatory fees and taxes	1,445	16,087	3,825	21,692
Shareholders communications and printing	3,550	-	4,882	-
Stock based compensation	22,526	128,521	414,783	128,521
Transfer agent	1,207	4,570	3,300	11,570
Travel and promotion	30,094	20,113	41,717	54,352
Wages and benefits	3,496	-	6,528	-
Loss before the undernoted	276,068	413,473	798,946	599,482
Interest income	(19,184)	(2,486)	(41,546)	(2,486)
Net loss for the period	256,884	410,987	757,400	596,996
Deficit, beginning of the period	9,353,549	7,569,845	8,853,033	7,383,836
Deficit, end of the period	\$ 9,610,433	\$ 7,980,832	\$ 9,610,433	\$ 7,980,832
Loss per share - basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.04)
Weighted average number of shares	25,900,986	16,581,063	25,437,722	16,514,977

Southern Silver Exploration Corp.

Consolidated Statements of Cash Flows for the six months ended October 31, 2006 and 2005

Cash provided by (used for):	Three Months ended		Six months ended	
	October 31,		October 31,	
	2006	2005	2006	2005
Operating Activities				
Net loss for the year	\$ (256,884)	\$ (410,987)	\$ (757,400)	\$ (596,996)
Items not involving cash:				
Stock based compensation	22,526	128,521	414,783	128,521
Interest income accrued	1,934	(495)	1,934	(495)
Write off of accrued liabilities	-	-	-	-
Operating Cash Flow	(232,424)	(282,961)	(340,683)	(468,970)
Change in Non-Cash Working Capital				
Receivables	64,194	(39,755)	63,168	(88,183)
Prepaid and deposits	5,973	-	7,291	-
Accounts payable and accrued liabilities	(36,376)	620	(123,102)	49,957
Due to related parties	37,169	29,557	21,451	37,269
	70,960	(9,578)	(31,192)	(957)
Cash used in Operating Activities	(161,464)	(292,539)	(371,875)	(469,927)
Investing Activities				
Expenditures on mineral properties	(259,824)	(292,033)	(560,995)	(630,021)
Cash used in Investing Activities	(259,824)	(292,033)	(560,995)	(630,021)
Financing Activities				
Shares issued for cash, net	12,064	446,249	278,952	485,749
Cash provided by financial Activities	12,064	446,249	278,952	485,749
Increase (decrease) in cash and cash equivalents	(409,224)	(138,323)	(653,918)	(614,199)
Cash, beginning of period	2,081,973	1,556,416	2,326,667	2,032,292
Cash, end of period	\$ 1,672,749	\$ 1,418,093	\$ 1,672,749	\$ 1,418,093

Supplemental cash flow information (Note 7).

Southern Silver Exploration Corp.

Notes to the Consolidated Financial Statements

For the six months ended October 31, 2006 and 2005

1. Nature and Continuance of Operations

Southern Silver Exploration Corp. (the "Company") is an exploration stage corporation with mineral properties located in Mexico and Arizona.

After a period of dormancy, the Company was reinstated on the NEX Board of the TSX (for inactive issuers) in May 2004 and on July 16, 2004 the Company completed a seven-for-one consolidation of its common shares and changed its name to Southern Silver Exploration Corp. from Newcastle Silver Mines Ltd. In fiscal 2005, the Company initiated a reactivation plan that included: a private placement financing; the settlement of debt with certain creditors for shares in the Company; and the negotiation of option agreements on mineral properties in Mexico.

The TSX Venture Exchange ("TSX") gave final approval to the Company's financial and property agreements and the listing was elevated to the Tier 2 Board and, effective December 10, 2004, trading resumed under the symbol SSV.

2. Basis of Presentation and Consolidation

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiary Minera Plata Costa del Plata S.A de C.V., incorporated in Mexico.

All intercompany accounts and transactions were eliminated upon consolidation.

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

3. Mineral Properties

The Company has interests in base and precious metal prospects in Mexico, referred to as the Pinabete, Cristoforos and La Sorpresa properties as well as an option to acquire a 100% interest in a project in Arizona called Tombstone. Terms of the agreements are described below. Deferred mineral property costs, by property, were as follows:

Southern Silver Exploration Corp.
Notes to the Consolidated Financial Statements
For the six months ended October 31, 2006 and 2005

3. Mineral Properties, continued

Period ended October 31, 2006	Pinabete	Tombstone	Cristoforos	La Sorpresa	Other	Total
	\$	\$	\$	\$	\$	\$
Acquisition	129,736	115,684	73,213	85,264	65,142	469,039
Assays and analysis	52,496	2,390	-	30,461	-	85,347
Camp and supplies	5,406	524	-	1,026	76	7,032
Consulting and project supervision	3,775	27,555	-	60,530	13,592	105,452
Drilling	427,428	-	-	258,567	-	685,995
Equipment rental	43,373	396	-	39,468	2,944	86,181
Exploration and other	25,676	3,254	233	73,842	-	103,005
Field supplies	-	-	369	11,100	92	11,561
Geological and geophysics services	161,556	63,926	-	132,915	23,176	381,573
Project support	18,908	503	344	34,531	8,561	62,847
Repair and maintenance	23,594	2,314	-	-	-	25,908
Travel	16,473	9,048	785	38,522	1,104	65,932
Vehicle costs	1,839	2,248	-	1,449	2,818	8,354
Total	910,260	227,842	74,944	767,675	117,505	2,098,226

Property	Balance		Additions		Balance
	April 30, 2006	Q1	Q2	Year to date	Oct 31, 2006
	\$	\$		\$	\$
Pinabete	900,836	5,957	3,467	9,424	910,260
Tombstone	156,173	53,866	17,803	71,669	227,842
Cristoforos	63,773	11,171	-	11,171	74,944
La Sorpresa	367,432	213,549	186,694	400,243	767,675
Other	-	50,128	67,377	117,505	117,505
Total	1,488,214	334,671	275,341	610,012	2,098,226

Southern Silver Exploration Corp.

Notes to the Consolidated Financial Statements

For the six months ended October 31, 2006 and 2005

3. Mineral Properties, continued

Year ended April 30, 2006	Pinabete	Tombstone	Cristoforos	La Sorpresa	Santo Domingo	Total
	\$	\$	\$	\$	\$	\$
Acquisition	124,162	69,316	62,042	81,924	7,111	344,555
Assays and analysis	52,496	2,390	-	6,549	-	61,435
Camp and supplies	5,406	-	-	-	-	5,406
Consulting and project supervision	-	26,984	-	22,582	-	49,566
Drilling	427,428	-	-	-	-	427,428
Equipment rental	43,373	-	-	21,019	-	64,392
Exploration and other	25,677	3,254	233	71,031	1,260	101,455
Field supplies	-	-	369	9,959	-	10,328
Geological and geophysics services	161,556	46,033	-	111,351	-	318,940
Project support	18,832	-	344	18,071	-	37,247
Repair and maintenance	23,594	1,800	-	-	-	25,394
Travel	16,473	6,396	785	24,330	-	47,984
Vehicle costs	1,839	-	-	616	-	2,455
Write-down of mineral property	-	-	-	-	(8,371)	(8,371)
Total	900,836	156,173	63,773	367,432	-	1,488,214

(a) Pinabete Property - Chihuahua, Mexico

Pursuant to a letter agreement dated August 16, 2004 and incorporated into an option agreement April 6, 2005, Anglo American Mexico S.A. de C.V. ("Anglo American") agreed to grant the Company an option to acquire a 100% undivided interest in the 4,649-hectare Pinabete Mineral Concessions located in southern Chihuahua, Mexico ("Pinabete"). To exercise the option the Company is required to incur a minimum of US\$2 million in exploration expenditures over four years and to issue a total of 400,000 common shares in staged amounts.

If the Company meets the terms and conditions and elects to exercise the option, the Company would acquire a 100% undivided interest in Pinabete subject to a 1.5% net smelter returns royalty ("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.

Southern Silver Exploration Corp.

Notes to the Consolidated Financial Statements

For the six months ended October 31, 2006 and 2005

3. Mineral Properties, continued

(a) Pinabete Property - Chihuahua, Mexico, continued

To exercise the option the Company is required to:

- a. Issue an initial 200,000 common shares to Anglo American (issued, December 2004 at \$0.20 per share, refer to Note 5 (a)).
- b. Issue a further 50,000 common shares to Anglo American on each subsequent anniversary of the approval date (the approval date being December 12, 2004) until exercise of the option. (Issued)
- c. Incur a minimum US\$2,000,000 of expenditures on Pinabete before the fourth anniversary of the approval date, as follows:
 - (i) Not less than US\$200,000 on or before December 12, 2005. (Incurred)
 - (ii) An aggregate US\$400,000 on or before December 12, 2006. (Incurred)
 - (iii) An aggregate US\$700,000 on or before December 12, 2007.
 - (iv) An aggregate US\$2,000,000 on or before December 12, 2008.

(b) Cristoforos Property - Chihuahua, Mexico

In June 2005, the Company reached an agreement with the owners of certain mineral concessions in Chihuahua, Mexico to acquire a 100% interest in the Cristoforos property. These claims are contiguous to the Pinabete property.

Pursuant to a letter agreement, the Company made an advance minimum royalty payment ("AMR") of \$62,042 (US\$50,000) on June 22, 2005 and to complete the purchase the Company will be required to make additional AMR payments totaling US\$250,000 over the next three years, as follows:

- a. US\$10,000 on or before June 22, 2006. (Paid)
- b. US\$75,000 on or before June 22, 2007.
- c. US\$165,000 on or before June 22, 2008.

There are no minimum exploration expenditure commitments on these mineral concessions.

Southern Silver Exploration Corp.

Notes to the Consolidated Financial Statements

For the six months ended October 31, 2006 and 2005

3. Mineral Properties, continued

(c) Santo Domingo Project – Durango, Mexico

In September 2005, the Company signed a letter agreement to acquire a 100% interest in the Santo Domingo, El Coyote project in Durango, Mexico, comprising of four mineral concessions covering 5,496 hectares. Upon signing the letter agreement the Company paid \$7,111, (US\$6,000) for the right to conduct an on site due diligence investigation of the property.

In addition to acquisition costs of \$7,111, (US\$6,000) the Company incurred \$1,260 in exploration on the Santo Domingo project for the year ended October 31, 2006. The Company decided not to pursue exploration on this project and thus, \$8,371 was expensed to general exploration.

(d) La Sorpresa Property – Mexico

On October 18, 2005, the Company signed a letter of intent with the optionors of the La Sorpresa mineral concessions in Jalisco, Mexico to acquire a 100% interest in the project, comprising four mining concessions covering 360 hectares approximately 80 kilometers from Guadalajara City.

In December 2005, a formal contract was signed and registered with the Mexican authorities and the Company paid an initial \$78,243 (US\$67,000). To complete the purchase the Company will be required to make the following additional payments:

- a. US\$33,000 on or before December 19, 2006.
- b. US\$100,000 on or before December 19, 2007.
- c. US\$200,000 on or before December 19, 2008.
- d. US\$600,000 on or before December 19, 2009.

(e) Tombstone Prospect – Arizona

Pursuant to an agreement dated May 26, 2005, the Company acquired an exclusive option to acquire an undivided 100% interest in certain claims located in the state of Arizona exploration prospect referred to as Tombstone. To acquire a 100% interest in the property, the Company paid US\$20,000 upon signing the agreement and is required to make US\$670,000 in staged payments over the next five years as follows:

- a. US\$20,000 on or before June 1, 2006. (Paid)
- b. US\$50,000 on or before June 1, 2007.
- c. US\$100,000 on or before June 1, 2008.
- d. US\$200,000 on or before June 1, 2009.
- e. US\$300,000 on or before June 1, 2010.

Southern Silver Exploration Corp.

Notes to the Consolidated Financial Statements

For the six months ended October 31, 2006 and 2005

3. Mineral Properties, continued

(e) Tombstone Prospect – Arizona, continued

If the Company meets the above terms and conditions and elects to exercise the option, the Company would acquire a 100% undivided interest in Tombstone subject to a 2% NSR payable to the optionors. The optionors have granted to the Company the option to purchase the NSR at any time in 0.5% increments at US\$500,000 for each such increment.

(f) Other properties - Magistral I Property - Mexico

In July 2006, the Company signed a letter agreement with Fury Explorations Ltd, (“Fury”) to acquire a 65% interest in the Magistral I Mexican mining exploration concession (“the concession”). Regulatory approval was received from the TSX Venture Exchange on July 21, 2006 (“the receipt”).

Pursuant to this agreement the Company’s commitments would be as follows:

- a. Issue an initial 50,000 common shares to Fury before July 26, 2006. (Issued)
- b. Issue 50,000 common shares to Fury on the first, second, third and fourth anniversaries of the receipt.
- c. Issue 250,000 shares on the fifth anniversary of the receipt.
- d. Incur a minimum US\$3,000,000 of expenditures on the concession on or before the fifth anniversary of the receipt, as follows:
 - (i) An aggregate of at least US\$100,000 by July 21, 2007.
 - (ii) An aggregate of at least US\$450,000 by July 21, 2008.
 - (iii) An aggregate of at least US\$950,000 by July 21, 2009.
 - (iv) An aggregate of at least US\$1,800,000 by July 21, 2010.
 - (iv) An aggregate of at least US\$3,000,000 by July 21, 2011.

Upon earning its interest in the concession, in accordance with the above commitments, the Company shall enter into a Joint Venture agreement (the “JV Agreement”) with Fury for the development of the concession. The Company shall have a 65% interest in the joint venture with the pro-rata funding of all costs and expenses associated with the development of the concession.

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 10% interest, the joint venture interest will automatically convert to a 1% NSR royalty

Southern Silver Exploration Corp.

Notes to the Consolidated Financial Statements

For the six months ended October 31, 2006 and 2005

3. Mineral Properties, continued

(g) Other properties – Oro Claims – Mexico

On August 28, 2006, the Company signed a letter agreement to acquire a 100% interest in the Oro Claims, Grant Country, New Mexico.

The following staged payments are required over the next five years:

- a. US \$10,000 on or before February 28, 2007.
- b. US \$20,000 on or before August 28, 2007.
- c. US \$50,000 on or before August 28, 2008.
- d. US \$100,000 on or before August 28, 2009.
- e. US \$200,000 on or before August 28, 2010
- f. US\$300,000 on or before August 28, 2011.

If the Company meets the above terms and conditions and elects to exercise the option, the Company would acquire a 100% undivided interest in Oro subject to a 2% NSR payable to the optionors. The optionors have granted to the Company the option to purchase the NSR at any time in 0.5% increments at US \$500,000 for each such increment.

(h) General

Title to mining 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 conveyancing history of many mining properties. The Company has investigated title to its mineral property interests and, to the best of its knowledge, title to its properties is in good standing.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, 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.

Southern Silver Exploration Corp.

Notes to the Consolidated Financial Statements

For the six months ended October 31, 2006 and 2005

4. Related Party Balances and Transactions

The amount payable to related parties of \$25,428 (April 30, 2006: \$3,977) were due to directors and senior officers of the Company or by private companies controlled by them.

For the six months ended October 31, 2006 ("Q2 2007") and 2005 ("Q2 2006"), the following is a summary of related party expenditures not disclosed elsewhere in these financial statements:

- (a) The Administration fee of \$30,000 (Q2 2006: \$30,000) was charged by a company controlled by a director.
- (b) Consulting fees of \$76,069 (Q2 2006: \$66,803) were charged by companies controlled by directors or officers of the Company.
- (c) Investor relations fees includes \$19,739 (Q1 2006: \$46,676) charged by companies controlled by a director or officer of the Company.
- (d) Office and Administration includes \$40,081 (Q2 2006: \$32,767) billed, on a costs recovery basis, by either private companies controlled by directors of the Company or by a director or officer of the Company.
- (e) Professional fees includes accounting fees of \$14,063 (Q2 2006: \$11,760) billed on a cost recovery basis by a private company controlled by a director. In Q2 2006 legal fees of \$12,078 were incurred by an association of lawyers in which an officer of the Company is a member. There were no related party legal fees in Q2 2007.
- (f) Travel and promotions includes \$36,287, (Q2 2006: Nil) billed on a cost recovery basis by companies controlled by directors or officers of the Company.
- (g) Various expenses of \$8,088 (Q2 2006: \$3,675) were billed on a cost recovery basis by a private company controlled by a director.
- (h) Mineral properties includes amounts billed by private companies controlled by directors of the Company for geological, consulting and legal services in the amount of \$11,380 (Q2 2006: \$12,703). These costs were capitalized to following properties:
 - (i) Q2 2007 Nil (Q2 2006 \$7,625) to Pinabete.
 - (ii) \$2,755 (Q2 2006: \$5,078) to Tombstone.
 - (iii) \$6,890 (Q2 2006: Nil) to La Sorpresa.
 - (iv) \$1,415 (Q2 2006: Nil) to Magistral.
 - (v) \$320 (Q2 2006: Nil) to Oro property.

These transactions were made in the normal course of operations for consideration established and accepted by the Company and related parties.

Southern Silver Exploration Corp.
Notes to the Consolidated Financial Statements
For the six months ended October 31, 2006 and 2005

5. Share Capital

(a) Issued and Outstanding

The authorized share capital of the Company is unlimited. The issued share capital as at October 31, 2006 is as follows:

		No. of Shares	Amount	Contributed Surplus
Balance as at April 30, 2005		16,409,921	9,115,640	394,593
Issued				
Private Placements	Note 5 (b)	4,600,000	1,600,000	-
Exercised share purchase warrants		3,549,000	926,900	-
Exercised Options		295,000	96,900	-
Issued to acquire Pinabete Property	Note 3 (a)	50,000	37,000	-
Fair value of stock options exercised		-	69,024	(69,024)
Stock based compensation		-	-	553,977
Subtotal before share issue costs		8,494,000	2,729,824	484,953
Share issue costs	Note 5 (b) (iii)	230,000	(169,368)	119,918
Balance as at April 30, 2006		25,133,921	\$ 11,676,096	\$ 999,464
Issued				
Exercised share purchase warrants		582,500	220,500	-
Exercised options		145,000	60,400	-
Issued to acquire Magistral Property	Note 3 (f)	50,000	33,500	-
Fair value of stock options exercised		-	51,343	(51,343)
Stock based compensation		-	-	414,783
Subtotal before share issue costs		777,500	365,743	363,440
Share issue costs		-	(1,948)	-
Balance as at October 31, 2006		25,911,421	\$ 12,039,891	\$ 1,362,904

Southern Silver Exploration Corp.

Notes to the Consolidated Financial Statements

For the six months ended October 31, 2006 and 2005

5. Share Capital, continued

(b) Private Placements

There were no private placements during the six months ended October 31, 2006.

Year ended April 30, 2006

In April 2006, the Company completed a private placement of 600,000 units at \$1.00 per unit for gross proceeds of \$600,000. Each unit consisted of one common share and one share purchase warrant exercisable at \$1.00 for a two year period. The Company incurred share issuance costs of \$3,500 resulting in net proceeds of \$596,500.

In October 2005, the Company completed a private placement of 4,000,000 units at \$0.25 per unit for gross proceeds of \$1,000,000. Each unit consisted of one common shares and one share purchase warrants exercisable at \$0.30 for a two year period. The Company incurred share issuance costs of \$165,868 resulting in net proceeds of \$834,132

Issuance costs were as follows:

- (i) Finders' fees of \$33,107 being 7% of the value of the units subscribed by clients.
- (ii) Other general cash issuance costs were \$12,843.
- (iii) 230,000 units were issued to the agents involved, consisting of 230,000 common shares and 230,000 share purchase warrants exercisable at \$0.30 for a two year period.
- (iv) The common shares issued to the agents were valued at \$0.25 per share (total \$57,500) and the warrants were valued at \$0.27 per warrant (total \$62,418) using the Black-Scholes option pricing model (Note 5 (e)).

The Company realized net proceeds of \$1,430,632 from these private placements.

(c) Stock Options

As at October 31, 2006 and 2005, the Company had a stock option plan (the "Plan") allowing for the reservation of common shares issuable under the Plan to a maximum of 10% of the number of issued and outstanding common shares of the Company at any given time. The term 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. On an annual basis, the Plan requires approval by the Company's shareholders and submission for regulatory review and acceptance.

The purpose of the Plan is to provide directors, officers and key employees of, and certain other persons who provided services to, the Company and its subsidiaries with an increased incentive to contribute to the future success and prosperity of the Company.

Southern Silver Exploration Corp.

Notes to the Consolidated Financial Statements

For the six months ended October 31, 2006 and 2005

5. Share Capital, continued.**(c) Stock Options, continued**

2,428,750 of the options outstanding as at October 31, 2006 were exercisable with the remaining 68,750 vesting over the next twelve months. Transactions for the six months ended October 31, 2006 and the year ended April 30, 2005 were as follows:

Exercise Price	Expiry Date	Balance April 30, 2006	Options Granted	Cancelled or Expired	Options Exercised	Balance Oct. 31, 2006
\$0.65	December 10, 2009	927,500	-	-	-	927,500
\$0.30	October 13, 2010	310,000	-	-	95,000	215,000
\$0.51	November 8, 2010	480,000	-	-	30,000	450,000
\$0.83	January 16, 2011	250,000	-	-	20,000	230,000
\$0.82	March 27, 2011	125,000	-	-	-	125,000
\$0.88	June 1, 2011	-	550,000	-	-	550,000
		2,092,500	550,000	-	145,000	2,497,500
Weighted average exercise price		\$0.60	\$0.88	\$0.00	\$0.42	\$0.67

1,992,500 of the options outstanding as at April 30, 2006 were exercisable with the remaining 100,000 vesting over the next eighteen months.

Exercise Price	Expiry Date	Balance April 30, 2005	Options Granted	Cancelled or Expired	Options Exercised	Balance April 30, 2006
\$0.70	September 13, 2005	77,143	-	77,143	-	-
\$0.65	December 10, 2009	1,085,000	-	157,500	-	927,500
\$0.30	October 13, 2010	-	565,000	-	255,000	310,000
\$0.51	November 8, 2010	-	520,000	-	40,000	480,000
\$0.83	January 16, 2011	-	250,000	-	-	250,000
\$0.82	March 27, 2011	-	125,000	-	-	125,000
		1,162,143	1,460,000	234,643	295,000	2,092,500
Weighted average exercise price		\$0.65	\$0.51	\$0.67	\$0.33	\$0.60

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Notes to the Consolidated Financial Statements

For the six months ended October 31, 2006 and 2005

5. Share Capital, continued

(d) Share Purchase Warrants

The Company's share purchase warrants for the six months ended October 31, 2006 and the year ended April 30, 2005 are summarized as follows:

Exercise Price	Expiry Date	Balance April 30, 2006	Warrants Granted	Cancelled or Expired	Warrants Exercised	Balance Oct. 31, 2006
\$0.20	December 14, 2006	645,000	-	-	-	645,000
\$0.60	April 11, 2007	1,652,500	-	-	102,500	1,550,000
\$0.60	April 11, 2007	197,500	-	-	50,000	147,500
\$0.30	October 31, 2007	3,140,000	-	-	430,000	2,710,000
\$0.30	October 31, 2007	97,500	-	-	-	97,500
\$1.00	April 7, 2008	600,000	-	-	-	600,000
		6,332,500	-	-	582,500	5,750,000
Weighted average exercise price		\$0.44	\$0.00	\$0.00	\$0.38	\$0.45

Exercise Price	Expiry Date	Balance April 30, 2005	Warrants Granted	Cancelled or Expired	Warrants Exercised	Balance April 30, 2006
\$0.15	December 14, 2005	695,000	-	-	695,000	-
\$0.15	December 14, 2005	1,000,000	-	-	1,000,000	-
\$0.20	December 14, 2006	1,000,000	-	-	355,000	645,000
\$0.60	April 11, 2007	2,092,500	-	-	440,000	1,652,500
\$0.60	April 11, 2007	264,000	-	-	66,500	197,500
\$0.30	October 31, 2007	-	4,000,000	-	860,000	3,140,000
\$0.30	October 31, 2007	-	230,000	-	132,500	97,500
\$1.00	April 7, 2008	-	600,000	-	-	600,000
		5,051,500	4,830,000	-	3,549,000	6,332,500
Weighted average exercise price		\$0.37	\$0.39	\$0.00	\$0.26	\$0.44

Southern Silver Exploration Corp.

Notes to the Consolidated Financial Statements

For the six months ended October 31, 2006 and 2005

5. Share Capital, continued

(e) Fair Value Determination

The fair value of share options or share purchase warrants granted is estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	Options		Warrants	
	Q1 2007	Year Ended 2006	Q1 2007	Year Ended 2006
Risk free interest rate	4.19%	3.68%	N/A	3.41%
Expected stock price volatility	189.69%	171.21%	N/A	164.10%
Expected life in years	2.00	2.63	N/A	2.00
Expected dividend yield	-	-	N/A	-

The option pricing model requires the input of highly subjective assumptions and is particularly sensitive to the expected share price volatility which can affect the fair value estimate.

The calculated value of call stock options issued is as follows:

Six months ended October 31, 2006

- a. 550,000 options issued in June 2006 with a fair value of \$392,257 being \$0.71 per option.
- a. 100,000 options of the 125,000 issued in March 2006 remain to be vested as at April 30, 2006. In the period ended October 31, 2006 a further 31,250 options or 25% became available to the optionee. These options were given a fair value of \$22,526 being \$0.72 per option which was expensed to the income statement. The remaining 68,750 options or 55% will be released over a 12 month period with a fair value of \$49,558. This amount will be expensed when the options are vested.
- f. The total calculated fair value for the period ended October 31, 2006 was \$414,783 which was expensed to the income statement.

Year ended April 30, 2006

- b. 565,000 options issued in October 2005 with a fair value of \$150,625 being \$0.27 per option.
- c. 520,000 options issued in November 2005 with a fair value of \$224,319 being \$0.43 per option.
- d. 250,000 options issued January 2006 with fair value of \$161,012 being \$0.65 per option.

5. Share Capital, continued

(e) Fair Value Determination, continued

- e. 125,000 options issued in March 2006 gave a fair value of \$90,105 being \$0.72 per option. These options are vested over an 18 month period, with 20%, or 25,000 options being available to the optionee at April 30, 2006 with a fair value of \$18,021. This amount was expensed as at April 30, 2006. The remaining fair value will be expensed when the options are vested.
- f. The total calculated fair value for year ended April 31, 2006 was \$553,977 which was expensed to the income statement.

In fiscal 2006 the fair value for the 230,000 warrants issued to agents as finders' fees using the Black-Scholes model was calculated to be \$0.27 per warrant giving a calculated total fair value of \$62,418 and is included in share issue costs and contributed surplus.

6. Segmented Disclosure

The Company has one operating segment, mineral exploration and its non current assets by geographic locations are as follows:

	October 31, 2006		April 30, 2006		October 31, 2005
Mexico	\$ 1,870,384	\$	1,332,041	\$	936,018
USA	227,842		156,173		65,165
	\$ 2,098,226	\$	1,488,214	\$	1,001,183

Southern Silver Exploration Corp.
Notes to the Consolidated Financial Statements
For the six months ended October 31, 2006 and 2005

7. Supplemental Cash Flow Information

Supplemental cash flow information	Three months ended		Period Ended	
	October 31,		October 31,	
	2006	2005	2006	2005
Cash Items				
Interest received	\$ 17,250	\$ 1,991	\$ 39,612	\$ 1,991
Share issued Costs				
Cash items				
Share issue costs	\$ (64)	\$ 41,251	\$ 1,948	\$ 44,751
Non-cash items				
Fair value of agent warrants included in share issue costs	\$ -	\$ 85,056	\$ -	\$ 142,556
Non-cash financing activities				
Shares issued for subscriptions receivable	\$ -	\$ 527,500	\$ -	\$ 502,500
Shares granted as finders' fees	\$ -	\$ 57,500	\$ -	\$ 57,500
Shares issued for mineral properties	\$ -	\$ -	\$ 33,500	\$ -
Accounts payable for mineral properties	\$ 15,517	\$ 248,592	\$ 15,517	\$ 248,592

8. Contingent Liabilities

Certain claims have been filed against the Company. Details are as follows:

- (a) A claim for US \$80,000 plus 50,000 shares of the Company exists relating to a property option agreement. The Company has dropped 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.

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.

9. Subsequent Events

Subsequent to October 31, 2006, 510,000 warrants were exercised for proceeds of \$102,000



Management's Discussion and Analysis

In respect of the six months ended October 31, 2006

Dated: December 13, 2006

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Southern Silver Exploration Corp.

Management's Discussion and Analysis

In respect to the six months ended October 31, 2006

A. Introduction

The following Management Discussion and Analysis ("MD&A") of the operating results and financial condition of Southern Silver Exploration Corp., formerly known as Newcastle Silver Mines Ltd., (the "Company") compares results for the six months ended October 31, 2006 to the same period in the previous year. These statements should be read in conjunction with the audited consolidated financial statements for the year ended April 30, 2006. All notes referenced herein may be found in the consolidated financial statements.

The Company's financial statements were prepared in accordance with Canadian generally accepted accounting principles. This MD&A, dated as of December 13, 2006, was prepared to conform with National Instrument 51-102 F1 and it was approved by the Board of Directors prior to 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.

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 projected results or events to differ materially from actual results or events.

Additional information relating to the Company, including detailed drill results previously disclosed in news releases, is available on SEDAR at www.sedar.com.

B. Qualified Person

Robert W. J. Macdonald, P. Geo. is the qualified person under National Instrument 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.

The Company engaged Adrian Robles Salazar and Dr. Linus Keating, two highly regarded geologists with specialized experience in Mexico and Arizona, respectively, to provide consulting services. 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. Dr. Keating is an accomplished exploration geologist with many years of international experience, including 14 years with Rio Tinto (Kennecott), supervising work on porphyry and precious metals projects in Arizona. He has a B.Sc. in Geological Engineering from the University of Arizona, and a Doctor of Science in Geology from the University of Brussels, Belgium.

Southern Silver Exploration Corp.

Management's Discussion and Analysis

In respect to the six months ended October 31, 2006

C. Exchange information and conversion tables.

For ease of reference, the following information is provided:

	U.S. Dollar to Canadian Dollars			
	Three months ended		Years ended	
	October 31,	July 31,	April 30,	
	2006	2006	2006	2005
Rate at end of period	1.12120	1.13170	1.13170	1.25860
Average rate for period	1.12148	1.11709	1.18717	1.27011
High for period	1.14110	1.14560	1.27320	1.40030
Low for period	1.10280	1.09260	1.11600	1.17140

www.oanda.com

Conversion Table			
Imperial			Metric
1 Acre	=	0.404686	Hectares
1 Foot	=	0.304800	Metres
1 Mile	=	1.609344	Kilometres
1 Ton	=	0.907185	Tonnes
1 Ounce (troy)/ton	=	34.285700	Grams/Tonne

Information from www.onlineconversion.com

Precious metal units and conversion factors

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

Information from www.onlineconversion.com

Southern Silver Exploration Corp.

Management's Discussion and Analysis

In respect to the six months ended October 31, 2006

D. Description of Business

The Company acquires and explores mineral properties in the Americas. It is currently exploring for precious and base metals in Mexico and Arizona.

E. Description of Mineral Properties

i) La Sorpresa Property – Mexico

The La Sorpresa prospect in Jalisco, Mexico, consists of four mining concessions covering 360 hectares located approximately 80 kilometers west-southwest of Guadalajara City. This is a copper prospect with the potential to develop both high-grade copper-rich quartz-tourmaline breccias and bulk tonnage targets of disseminated copper sulphides hosted by altered granodiorite.

On October 18, 2005, the Company signed a letter of intent with the optionors of the La Sorpresa mineral concessions to acquire a 100% interest in the project for a total cost of US\$1 million.

Both parties signed a formal contract and in December 2005, the Company paid an initial US \$67,000. Terms were consistent with the letter of intent previously signed. To complete the purchase the Company will be required to pay an additional US\$933,000 in staged amounts over four years.

The La Sorpresa claims cover an area of mineralized quartz-tourmaline breccias hosted by andesitic volcanics and quartz-monzonite to granodiorite intrusive. Mapping and surface sampling on the property has revealed several areas of copper mineralization (>1% Cu) within the breccias. The area of the Main Breccia has been explored by shallow adits and cross-cuts in an area 180 meters x 70 meters wide. Up to 2,700 tonnes at a grade of 2% Cu is reported to have been mined in the late 1990's. Representative chip samples from these historic underground workings, collected in the Fall of 2005, returned 32 meters of 2.1% Cu and 9g/t Ag.

Surface mapping on the property in the Fall and Winter of 2005/06 identified copper mineralization distributed as disseminations in argillized quartz monzonite intrusive and in breccia zones located on the periphery of the intrusive. Surface channel sampling along a 120 meter strike length through this area returned four highly anomalous intervals, ranging from 56 meters of 0.45% Cu and 4.57g/t Ag, 26 meters of 0.66% Cu and 10.9g/t Ag, 24 meters of 0.67% Cu and 2.0g/t Ag to a high of 18.2 meters of 1.22% Cu and 1.44g/t Ag. Individual samples returned values as high as 2.17% Cu and 33g/t Ag. Sampling tested both mineralized quartz-tourmaline breccias and disseminated sulphides in altered intrusive.

Southern Silver Exploration Corp.

Management's Discussion and Analysis

In respect to the six months ended October 31, 2006

E. Description of Mineral Properties, continued

i) La Sorpresa Property – Mexico, continued

In January and February 2006, the Company completed 20 line-kilometers of 3D-IP geophysics over the property and identified coincident high-chargeability and low-resistivity anomalies, which occur in three areas and may indicate zones of increased disseminated mineralization.

On July 31, 2006 the Company announced the results from nine of twelve drill holes from the first-phase drilling program. Drilling totaled 1,645 meters in twelve drill holes and identified thick, highly anomalous zones of copper oxides and coarse disseminated chalcopyrite in the areas of the Main Breccia and South Breccia. Drilling proceeded under difficult conditions. Core recovery was unsatisfactorily low through portions of the main mineralized zones due to significant grinding of the fragments and washing of the matrix material in some critical intervals. Chalcopyrite mineralization is contained mainly in matrix and washing and loss of this material may have resulted in reported values for these intervals that may not be truly representative of the mineralization in these zones.

Reportable assays of mineralized zones from the Main Breccia grade up to **0.26% Cu over 61.5 metres**. Higher-grade intervals, which include **1.94% Cu over 2.4 metres** and **0.37% Cu over 10.6 metres**, may in part represent sub-vertical feeder structures to the manto-styled breccia zones. Breccia zones appear as resistivity lows in IP geophysical surveys and can be traced laterally from the area of the historic working. Mineralization in the area of the Main Breccia remains open to the north and to the southwest and sources for this upper level manto-styled mineralization have yet to be determined.

A second thick zone of mineralized quartz-tourmaline breccia was tested at the South Breccia and includes reportable higher-grade intervals of up to **0.55% Cu over 10.1 metres**. This mineralization is associated with a broad IP geophysical anomaly that extends to the south and west under post-mineral cover.

Two drill holes, which tested the north extension of the Main Breccia also intersected copper mineralization, however the drill holes were abandoned prior to completion due to poor drilling conditions. The results from these two holes are pending.

On October 20 2006, the Company announced the consolidation of the Magistral/Sorpresa land package and the start of drilling at the La Sorpresa property. Up to 2,500m of drilling is anticipated as part of the phase II program, which will utilize a dual RC and diamond drill rig to test the extension of several near surface mineralized zones at La Sorpresa and at least one new target on the expanded land position. Results are pending.

Southern Silver Exploration Corp.

Management's Discussion and Analysis

In respect to the six months ended October 31, 2006

E. Description of Mineral Properties, continued**i) La Sorpresa Property – Mexico, continued**

Summary of the Drill Results from Phase I Drilling at La Sorpresa Property, Jalisco Mexico were as follows:

Drill Hole	Azimuth	Dip	From (m)	To (m)	Interval (m)	Est. True Thickness	Cu %	
LS06-01	280	-50	Abandoned after 10 metres					
LS06-02	80	-50	NSV					
LS06-03	270	-50	9.15	89.40	80.25	61.47	0.26	
		inc	49.80	89.40	39.60	30.33	0.38	
		inc	70.85	82.00	11.15	8.54	0.64	
LS06-04	280	-50	15.95	78.00	62.05	47.53	0.11	
LS06-05	45	-54	NSV					
LS06-06	40	-45	17.65	66.15	48.50	34.29	0.07	
		and	69.40	83.65	14.25	10.07	0.55	
LS06-07	20	-50	75.10	85.90	10.80	8.27	0.12	
LS06-08	85	-50	NSV					
LS06-09	85	-45	18.35	78.05	59.70	42.21	0.15	
LS06-10	85	-75	14.20	56.70	42.50	40.80	0.17	
		inc	14.20	25.25	11.05	10.61	0.37	
LS06-11	350	-80	Assays Pending					
LS06-12	90	-45	Assays Pending					

Assays were provided by BSI Inspectorate, Reno Nevada and ALS Chemex, Vancouver British Columbia using multi-acid digestion followed by ICPAES and AAs analytical methods.

As at October 31, 2006, the Company had incurred exploration costs of \$682,411 (US\$601,462) on La Sorpresa with acquisition costs of \$85,264 (US\$73,141), giving total expenditures of \$767,675 (US\$674,603). As at April 30, 2006, the Company had incurred exploration costs of \$285,508 (US\$246,814) on La Sorpresa with acquisition costs of \$81,924 (US\$70,151), giving total expenditures of \$367,432 (US\$316,965). As at October 31, 2005, the Company had not started work on this property and therefore had incurred no exploration.

ii) Magistral I Property – Mexico

In July 2006, the Company announced an agreement to acquire a 65% interest in the Magistral I copper prospect in Jalisco, Mexico from Fury Explorations Ltd. (FUR-TSX.V). The Magistral I claims border the 100 percent-owned La Sorpresa project. The agreement with Fury Explorations Ltd. also includes the acquisition of data from a 1997 airborne geophysical survey, which covers both the La Sorpresa claims and a significant portion of the Magistral I claim within a total flown area of 81 square kilometers.

The Magistral I concession, which covers 9,400 hectares and adjoins the La Sorpresa claim on the North, East and West borders, is significantly larger than the original 360 hectare La Sorpresa claim block and includes multiple untested magnetic, electromagnetic and radiometric geophysical anomalies, some of which overlap the boundaries between the two claim blocks.

Southern Silver Exploration Corp.

Management's Discussion and Analysis

In respect to the six months ended October 31, 2006

E. Description of Mineral Properties, continued

ii) Magistral I Property – Mexico, continued

The Company may acquire 65% interest in the property by issuing a total of 500,000 shares vested as to 50,000 shares upon signing the option agreement, 50,000 shares in each of the first four years of the option term and 250,000 shares in year five, as well as, expending US\$3 million on exploration expenditures in staged increments, over five years.

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.

Since acquisition, the Company has initiated a systematic program of target generation and evaluation, which utilizes newly available reprocessed airborne geophysical and satellite data coupled with systematic mapping and sampling of the target areas. To date the San Luis area, located in the eastern part of the Magistral I claim block, has been targeted for drill follow-up as part of the current phase II drill program. Several other areas have been identified for more detailed surface work in order to advance the prospects to the drill targeting stage.

As at October 31, 2006, the Company had incurred exploration costs of \$41,668 (US\$37,163) on Magistral with acquisition costs of \$51,699 (US\$42,267), giving total expenditures of \$93,367 (US\$83,430). As at April 30, 2006, the Company had not started work on this property and therefore had incurred no exploration.

iii) El Magistral – Mexico

On October 20, 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 P\$150,000 (CDN\$ 15,600) over a twenty-four month period to earn a 100% interest. The mineral concession is subject to a 1% NSR payable to the Mexican Government.

The EL Magistral claim forms part of a 110 square kilometer Sorpresa-Magistral project consolidated by the company during the past two years. The Magistral I and El Magistral properties surround the La Sorpresa claims upon which the company has carried out a first phase of surface exploration and drilling, and is currently undertaking a second phase drilling program.

Surface exploration on the EL Magistral claim position will initially focus on the historic El Magistral Mine and La Soledad targets where initial sampling has returned highly anomalous copper and gold mineralization from select chip and grab samples. This work will be conducted in conjunction with reconnaissance and follow-up exploration of the entire La Sorpresa, Magistral I and El Magistral land package.

Southern Silver Exploration Corp.

Management's Discussion and Analysis

In respect to the six months ended October 31, 2006

E. Description of Mineral Properties, continued

iv) Tombstone Property – Arizona

Pursuant to an agreement dated May 26, 2005, the Company obtained an option to acquire the Tombstone project, a multi-target, precious and base metal exploration prospect located six kilometers southwest of the town of Tombstone, Arizona. To acquire a 100% interest in the property, the Company paid an initial US \$20,000 and is required to pay US \$670,000 in staged amounts over the next five years. The vendors retain a 2% net smelter royalty ("NSR"), which the Company may purchase by paying US \$500,000 for each one-half percent acquired.

Mineralization on the property is hosted along a series of east-northeast-trending structures up to 600 meters in exposed length. Mineralized fault breccias along these structures progress easterly and southerly from silver-lead-manganese-rich on the west, to more copper-silver-rich towards the east gravel-covered target area. Mineralization along these structures is interpreted as leakage from a more robust mineralizing system hosted by more favorable lithologies at depth and to the east. Recent staking has expanded the original 200 hectare claim block by approximately 1600 hectares to enclose a discrete magnetic high located 1.8 kilometers to the east of the original claims.

Geochemical sampling and vein alteration styles provide an exploration vector from the known zones of surface mineralization on the west towards the relatively unexplored gravel-covered area to the south and east. Recently acquired airborne magnetic geophysics reveals that this same gravel-covered area hosts a prominent magnetic high centered 1.8 kilometers to the east of the eastern-most surface vein sampling. The pattern of magnetic lows peripheral to the magnetic high is reminiscent of a classic geophysical expression of a buried porphyry system. Coupled with geochemical and alteration vectors, this magnetic high provides a large and promising district-scale target for future exploration.

In May 2006, 28 additional Federal claims were staked on the NE margin of the claim block. Reconnaissance mapping and sampling within this area identified additional mineralized structures containing anomalous amounts of base and precious metals parallel to the main trend previously identified on the property.

As at October 31, 2006, the Company had incurred exploration costs of \$115,684 on the Tombstone property with acquisition costs of \$112,158, giving total expenditures of \$277,842. As at April 30, 2006, the Company had incurred exploration costs of \$86,857 on the Tombstone property with acquisition costs of \$69,316, giving total expenditures of \$156,173. As at October 31, 2005, the Company had incurred exploration costs of \$6,905 on the Tombstone property with acquisition costs of \$29,261, giving total expenditures of \$36,166.

v) Pinabete Property – Mexico

The Company has an option to acquire a 100% undivided interest in the 4,649-hectare Pinabete Mineral Concessions located in southern Chihuahua, Mexico ("Pinabete"). The Property occurs along the southern extension of the Sierra Madre Occidental, which is one of the most historically prolific regions of silver-lead-zinc carbonate replacement deposits (CRD) in the world.

Southern Silver Exploration Corp.

Management's Discussion and Analysis

In respect to the six months ended October 31, 2006

E. Description of Mineral Properties, continued

v) Pinabete Property – Mexico, continued

Previous work by Anglo American confirmed a large area of hydrothermal alteration, corresponding to a 5 kilometer long under-explored belt of historical mineral showings and favourable lithology stretching across the property. Anglo American conducted a short three hole diamond-drilling program that identified high-grade silver-lead-zinc mineralization over 7.7 meters and several priority targets for follow-up mapping, sampling and drill testing.

In August 2004, the Company received a technical report on the property and thereafter completed financing in preparation for a diamond-drilling program. A ten-hole drill program began in May 2005. Drilling results from this program indicated the potential for discovery of mineralization in two separate zones in the large property: the Pinabete zone and the El Papalote zone. Induced Polarization ("IP") and Ground Magnetic geophysics were undertaken to define the geometry and distribution of the host structures and to assist in identifying new buried targets on the property. The option on the Pinabete property was acquired pursuant to a non-binding letter agreement dated August 16, 2004, as incorporated into a binding option agreement dated April 6, 2005, with Anglo American Mexico S.A. de C.V. ("Anglo American").

In December 2004, upon reactivation, the Company issued 200,000 common shares, valued at \$0.20 per share, to Anglo American. To exercise the option the Company must meet minimum staged exploration commitments over the next four years, totaling US \$2 million by December 12, 2008. The Company will also be required to issue 50,000 common shares each year on the anniversary date of regulatory approval, being December 12, until it exercises the option or it fails to meet minimum expenditure commitments.

Should the Company obtain a 100% interest in the property, a 1.5% NSR would be payable to Anglo American. Anglo American is entitled to reduce the Company's interest to 40% and then 35%, by paying to the Company an amount equal to 200% of its total expenditures incurred on Pinabete and by completing a pre-feasibility study, respectively.

A follow-up diamond drill program began in late August 2005, results of which were disclosed in a news release made November 29, 2005. Three holes were drilled in the El Papalote zone to test wide spread, fracture controlled mineralization and another three holes were drilled in the Pinabete zone to test deeper geophysical targets.

Phase II drilling extended a 30 to 40 meter wide mineralized fracture zone an additional 85 meters to the southeast from the holes previously drilled in the Phase I program. Mineralization through the zone averages greater than 1% combined lead and zinc with narrower higher grade intervals returning up to 1.8% Pb and 3.6% Zn. Skarn mineralization with highs of 2.1% Pb and 4.1% Zn over 1.7 meters were tested along the margins of the lower felsite intrusive in the Pinabete zones.

The Company is currently evaluating and compiling IP and ground geophysical and drilling data in preparation for a further phase of drilling.

Southern Silver Exploration Corp.

Management's Discussion and Analysis

In respect to the six months ended October 31, 2006

E. Description of Mineral Properties, continued

v) Pinabete Property – Mexico, continued

As at October 31, 2006, the Company had incurred exploration costs of \$780,524 (US\$640,816) on the Pinabete property with acquisition costs of \$129,736 (US\$107,668), giving total expenditures of \$910,260 (US\$748,484). As at April 30, 2006, the Company had incurred exploration costs of \$776,674 (US\$637,374) on the Pinabete property with acquisition costs of \$124,162 (US\$102,686), giving total expenditures of \$900,836 (US\$740,060). As at October 31, 2005, the Company had incurred exploration costs of \$415,346 on the Pinabete property with acquisition costs of \$83,199, giving total expenditures of \$498,545.

vi) Cristoforos Property – Mexico

In June 2005, the Company reached an agreement with the owners of certain mineral concessions in Chihuahua, Mexico, referred to as the Cristoforos property, to acquire an 100% interest. These claims are contiguous to the Pinabete property, discussed above, within the same belt of CRD's that have potential silver-lead-zinc mineralization.

Pursuant to a letter agreement, the Company made an advance minimum royalty payment ("AMR") of \$62,000, (US \$50,000), and to complete the purchase the Company is required to make additional AMR payments totaling US \$250,000 in stages over the next three years, on or before the June 22 anniversary dates.

The Company is not required to make minimum exploration expenditures on these mineral concessions.

As at October 31, 2006, the Company had incurred exploration costs of \$1,731 (US\$1,505) on the Cristoforos property with acquisition costs of \$73,213 (US\$60,081), giving total expenditures of \$74,944 (US\$61,586). As at April 30, 2006, the Company had incurred exploration costs of \$1,731 (US\$1,505) on the Cristoforos property with acquisition costs of \$62,042 (US\$50,081), giving total expenditures of \$63,773 (US\$51,585). As at October 31, 2005, the Company had incurred no exploration costs on the Cristoforos property but acquisition costs were \$62,042 (US\$50,081).

vii) Oro Claims – Grant County, New Mexico

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

The following stage payments are required over the next five years:

- a. US \$10,000 on or before February 28, 2007.
- b. US \$20,000 on or before August 28, 2007.
- c. US \$50,000 on or before August 28, 2008.
- d. US \$100,000 on or before August 28, 2009.
- e. US \$200,000 on or before August 28, 2010
- f. US\$300,000 on or before August 28, 2011.

E. Description of Mineral Properties, continued

vii) Oro Claims – Grant County, New Mexico, continued

If the Company meets the above terms and conditions and elects to exercise the option, the Company would acquire a 100% undivided interest in Oro subject to a 2% NSR payable to the optionors. The optionors have granted to the Company the option to purchase the NSR at any time in 0.5% increments at US \$500,000 for each such increment.

F. Mineral Properties Expenditures

All mineral property expenditures, detailed by property, can be found in Note 3 of the consolidated financial statements dated October 31, 2006. The deferred mineral property costs as at October 31, 2006, were as follows:

Period ended October 31, 2006	Pinabete	Tombstone	Cristoforos	La Sorpresa	Other	Total
	\$	\$	\$	\$	\$	\$
Acquisition	129,736	115,684	73,213	85,264	65,142	469,039
Assays and analysis	52,496	2,390	-	30,461	-	85,347
Camp and supplies	5,406	524	-	1,026	76	7,032
Consulting and project supervision	3,775	27,555	-	60,530	13,592	105,452
Drilling	427,428	-	-	258,567	-	685,995
Equipment rental	43,373	396	-	39,468	2,944	86,181
Exploration and other	25,676	3,254	233	73,842	-	103,005
Field supplies	-	-	369	11,100	92	11,561
Geological and geophysics services	161,556	63,926	-	132,915	23,176	381,573
Project support	18,908	503	344	34,531	8,561	62,847
Repair and maintenance	23,594	2,314	-	-	-	25,908
Travel	16,473	9,048	785	38,522	1,104	65,932
Vehicle costs	1,839	2,248	-	1,449	2,818	8,354
Total	910,260	227,842	74,944	767,675	117,505	2,098,226

Of the total mineral expenditures of \$2,098,226, 43% was spent on the Pinabete property, 37% on La Sorpresa, 11% Tombstone, 6% on Magistral and Oro (other properties), and 3% on Cristoforos.

G. Results of Operations

In the six months ended October 31, 2006, ("Q2") the Company had a net loss of \$757,400 compared to a net loss of \$596,996 for the comparative period last year. Share based compensation was \$414,783 in Q2 (Q2 2006: \$128,521), which was the fair value of options vesting during the period, as calculated using the Black-Scholes option pricing model.

G. Results of Operations, continued

Excluding stock-based compensation, the loss in Q2 was \$342,617 (Q2 2006: \$468,475). This decrease of \$125,858 was primarily due to the following:

- i) Consulting fees increased to \$90,679 in Q2 compared to \$70,553 for Q2 2006. This increase of \$20,126 is due mostly to \$19,750 paid in respect to consulting regarding equity markets.
- ii) The Company reported a net foreign currency gain of \$15,162 in Q2, compared to a net foreign exchange gain of \$350 for Q2 2006. Since all current assets and liabilities held in US dollars have to be translated to Canadian dollars, on consolidation, at the period end exchange rate of 1.1212 this can create either an exchange gain or loss depending on the strengthening or weakening of the US dollar compared to the Canadian dollar during the period.

The majority of transactions for the Company are in US dollars and, to a lesser extent, Mexican Pesos, and therefore foreign exchange fluctuations can arise.

- iii) General exploration increased to \$18,068 in Q2 compared to \$8,369 for Q2 2006. This increase of \$9,699 is due to the consideration of potential new properties.
- iv) Investor relations decreased to \$91,635 in Q2 compared to \$164,605 for Q2 2006. This represents a decrease of \$72,970 and is due to the reduction in activity for Q2 compared to Q2 2006 when expenses were incurred in association with promotions at financial centres in Canada, the U.S. and Europe.
- v) Regulatory fees and taxes decreased to \$3,825 in Q2 compared to \$21,692 for Q2 2006. This decrease of \$17,867 is due to a decrease in taxes paid in Mexico.
- vi) Travel and promotion decreased to \$41,717 in Q2 compared to \$54,352 for Q2 2006. This represents a decrease of \$12,635 and is due to the reduction in travel for Q2 compared to Q2 2006 when expenses were incurred in association with travel to financial centres in Canada, the U.S. and Europe.
- vii) Interest income increased to \$41,546 in Q2 compared to \$2,486 for Q2 2006. This increase of \$39,060 is due to placement of cash on various term deposits during Q2.

H. Quarterly Results

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

	Oct 31, 2006 \$	July 31, 2006 \$	April 30, 2006 \$	Jan 31 2006 \$	Oct 31 2005 \$	July 31 2005 \$	April 30 2005 \$	Jan 31 2005 \$	Oct 31 2004 \$
Operating expenses	253,542	130,621	184,182	287,715	284,952	186,010	153,827	81,430	51,925
Interest earned	(19,184)	(22,362)	(13,106)	(12,047)	(2,486)	-	-	-	-
Loss before the undernoted	234,358	108,259	171,076	275,668	282,466	186,010	153,827	81,430	51,925
Stock-based compensation	22,526	392,257	55,341	370,115	128,521	-	234,091	135,365	
Net Loss	256,884	500,516	226,417	645,783	410,987	186,010	387,918	216,795	51,925
Loss per share - basic and diluted	0.01	0.02	0.01	0.04	0.02	0.01	0.03	0.03	0.03

I. Related Party Transactions

The Company has no employees. Private companies controlled by directors and an officer provided management, administration and corporate development services to the Company. These services were provided in the normal course of operations for consideration established and accepted by the Company and related parties, which management believes was reasonable under the circumstances.

For information regarding related party expenditures, refer to Note 4 of the consolidated financial statements dated October 31, 2006.

J. 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.

The Company had a working capital balance of \$1,694,136 as at October 31, 2006 compared to \$2,334,313 as at April 30, 2006 and \$1,557,980 at October 31, 2005. Cash and cash equivalents totaled \$1,672,749, \$2,326,667 and \$1,418,093, respectively.

J. Financial Conditions, Liquidity and Capital Resources, continued

i) Equity financings

The Company completed a private placement for gross proceeds of \$600,000 in April 2006, (Quarter 4, 2006).

The Company completed a private placement for gross proceeds of \$1,000,000 in October 2005, (Quarter 2, 2006).

After going through a reactivation process in fiscal 2005 and the re-instatement of the Company's shares on the TSX Tier 2 Board, the Company completed private placements for gross proceeds of \$2.7 million, of which \$2 million was raised in April, 2005 (Quarter 4, 2005) and the remainder in December 2004 (Quarter 3, 2005).

ii) Funds raised by Stock options and share purchase warrants

During the Q2, 40,000 stock options were exercised for proceeds of \$12,000. No share purchase warrants were exercised

During the Q1, 582,500 share purchase warrants were exercised for gross proceeds of \$220,500 and 105,000 stock options were exercised for proceeds of \$48,400 giving total proceeds of \$268,900.

During the year ended April 30, 2006, 3,549,000 share purchase warrants were exercised for proceeds of \$926,900 and 295,000 stock options were exercised for proceeds of \$96,900 giving total proceeds of \$1,023,800.

iii) Exploration expenditures

During Q2, the Company spent \$259,824 on mineral expenditure, (including acquisition costs but excluding amounts accrued for exploration costs payable), of which 68% was directed towards the La Sorpresa property, 15% Magistral, 9% Oro, 7% Tombstone and 1% Pinabete.

During Q1, the Company spent \$291,887 on mineral property expenditures, (including acquisition costs but excluding amounts accrued for exploration costs payable), of which 64% was directed towards the La Sorpresa property, 16% Tombstone, 15% Magistral, 3% Cristoforos and 2% Pinabete.

For further information on these expenditures see Note E of this MD&A and Note 3 of the consolidated financial statements dated October 31, 2006.

iv) Amounts receivable

At the six months ended October 31, 2006, the Company had \$20,733 receivable for IVA paid to the Mexican government on exploration expenditures. IVA is a 15% value added tax applied to expenditures at source, which is considered recoverable. This amount is included in Receivables on the balance sheet

J. Financial Conditions, Liquidity and Capital Resources, continued

v) Commitments

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

- (a) The Company is required to make payments for the Cristoforos property.
 - a. US \$75,000 on or before June 22, 2007.
 - b. US \$165,000 on or before June 22, 2008.
- (b) The Company is required to make payments for La Sorpresa property.
 - a. US \$33,000 on or before December 19, 2006.
 - b. US \$100,000 on or before December 19, 2007
- (c) The Company is required to make payments for the Tombstone prospect.
 - a. US \$50,000 on or before June 1, 2007.
 - b. US \$100,000 on or before June 1, 2008
- (d) The Company is required to incur, on or before December 31, 2007 minimum expenditure in aggregate of not less than US\$700,000 for the Pinabete property.
- (e) The Company is required to issue 50,000 common shares to Fury Explorations Ltd on or before July 26, 2007 and incur minimum expenditure in aggregate of not less than US\$100,000 for the Magistral property.
- (f) The Company is required to make a payment for Oro property.
 - a. US \$10,000 on or before February 28, 2007.
 - b. US \$20,000 on or before August 28, 2007
 - c. US \$50,000 on or before August 28, 2008

vi) Outstanding Stock options and share purchase warrants

As at December 13, 2006, 2,942,500 share purchase warrants and 215,000 stock options are “in the money” (the exercise price is less than the current share trading price). If these outstanding warrants and options were exercised, the Company would realize approximately \$933,750 in additional capital; \$869,250 from the exercise of the warrants and \$64,500 from the exercise of options.

For further information on Options and Warrants see Note K of this MD&A and Note 5 of the consolidated financial statements dated October 31, 2006.

K. 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 December 13, 2006 is as follows:

	Number of Shares	Total \$
Balance as at October 31, 2006	25,911,421	\$12,039,891
Issued subsequent to year end		
Exercise of share purchase warrant	510,000	102,000
Balance as at December 13, 2006	26,421,421	\$12,141,891

ii) Share Purchase Warrants

As at October 31, 2006, there were 5,750,000 share purchase warrants outstanding with a weighted average exercise price of \$0.45 per share. Subsequent to the period end, 510,000 share purchase warrants were exercised. Warrants outstanding at December 13, 2006 are as follows:

Exercise Price	Expiry Date	Balance Oct 31, 2006	Warrants Granted	Cancelled or Expired	Warrants Exercised	Balance Dec 13, 2006
\$0.20	December 14, 2006	645,000	-	-	510,000	135,000
\$0.60	April 11, 2011	1,550,000	-	-	-	1,550,000
\$0.60	April 11, 2011	147,500	-	-	-	147,500
\$0.30	October 31, 2007	2,710,000	-	-	-	2,710,000
\$0.30	October 31, 2007	97,500	-	-	-	97,500
\$1.00	April 7, 2008	600,000	-	-	-	600,000
		5,750,000	-	-	510,000	5,240,000
Weighted average exercise price		\$0.45	\$0.00	\$0.00	\$0.20	\$0.47

K. Outstanding Shares, Options and Share Purchase Warrants, continued

iii) Stock Options

As at October 31, 2006, there were 2,497,500 stock options outstanding with a weighted average exercise price of \$.67 per share. No stock options were granted or exercised subsequent to the period end. Stock options outstanding at December 13, 2006 are as follows:

Exercise Price	Expiry Date	Balance Oct 31, 2006	Granted	Cancelled or Expired	Exercised	Balance Dec 13, 2006
\$0.65	December 10, 2009	927,500	-	-	-	927,500
\$0.30	October 13, 2010	215,000	-	-	-	215,000
\$0.51	November 8, 2010	450,000	-	-	-	450,000
\$0.83	January 16, 2011	230,000	-	-	-	230,000
\$0.82	March 27, 2011	125,000	-	-	-	125,000
\$0.88	June 1, 2011	550,000	-	-	-	550,000
		2,497,500	-	-	-	2,497,500
Weighted average exercise price		\$0.67	\$0.00	\$0.00	\$0.00	\$0.67

L. Subsequent Events and Outlook

Significant events that occurred after year-end are disclosed in Note 9 of the consolidated financial statements dated October 31, 2006 and elsewhere in this MD&A.

510,000 warrants were exercised after the period ended October 31, 2006. For detailed information see Note K in this MD&A or Note 9 of the consolidated financial statements dated October 31, 2006.

M. Off Balance Sheet

The Company did not enter into any off balance sheet transactions or commitments as defined by National Instrument 51-102.

N. Management's Responsibility for Financial Information

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 that are believed to be reasonable under the circumstances. Critical accounting policies were disclosed in the annual audited financial statements.

N. Management's Responsibility for Financial Information, continued

Consistent with accepted policies of the Canadian junior mining industry, the Company capitalizes exploration expenditures. This decision, and the timing of the possible recognition of impairment in the mineral property value, can materially affect the reported earnings of the Company.

Management has prepared the information and representations in this annual report. The financial statements have been prepared to conform to generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgment. The financial information presented throughout this MD&A is consistent with the data presented in the financial statements.

The Company maintains adequate systems of internal accounting and administrative controls. These systems were designed to provide reasonable assurance that relevant and reliable financial information is produced. The independent auditors have the responsibility of auditing the financial statements as at year end April 30, and expressing an opinion on them.

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 directors, two of which are independent, who meet at least quarterly with management and at least annually with the external auditors to review accounting, auditing, internal controls and financial reporting matters.

O. Risks and Uncertainties

The principal business of the Company is the 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 other, 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 our 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, the quality of land available for exploration as well as various other factors.

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. Due to these uncertainties, no assurance can be given that the exploration programs will result in the establishment or expansion of resources or reserves.

O. Risks and Uncertainties, continued

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 such as common shares. 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 favorable 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 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, would be 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 gold and silver 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.

P. 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 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.

Q. Whistleblower Policy

Effective August, 2005, the audit committee adopted resolutions that authorized 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 the 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.

R. Forward-Looking Statements

Some of the statements contained in this MD&A are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur.

Forward-looking statements may be identified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", or "plan". Such forward-looking statements are made pursuant to the safe harbour provisions of the United States Private Securities Litigation Reform Act of 1995. 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; 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.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. These and other factors should be considered carefully and 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 undertake to update 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.