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**Condensed Consolidated Interim Financial Statements
Three Months Ended July 31, 2012 and 2011
(Expressed in Canadian Dollars)
(Unaudited)**

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NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed consolidated interim financial statements of the Company for the three months ended July 31, 2012 and comparatives for the three months ended July 31, 2011 were prepared by management and have not been reviewed or audited by the Company's auditors.

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Comprehensive Loss

(Expressed in Canadian Dollars, Unaudited)

		Three Months Ended	
		July 31,	
	Note	2012	2011
Expenses			
Administration	4	\$ 26,500	\$ 24,000
Consulting	4	41,199	56,925
Exploration and evaluation	3(e) & 4	347,384	320,729
Independent directors' fees	4	6,886	8,048
Investor relations	4	39,181	98,565
Office and general	4	14,295	18,324
Professional fees	4	25,638	33,289
Regulatory fees and taxes		100	2,529
Share-based payments	5(c)	22,909	-
Shareholders' communications		1,889	8,452
Transfer agent		2,132	2,247
Travel and promotion		1,971	30,851
		530,084	603,959
Other Items			
Interest income		(178)	(1,484)
Foreign exchange (gain) loss		(6,425)	(11,906)
		(6,603)	(13,390)
Net Loss and Comprehensive Loss for the Period		\$ 523,481	\$ 590,569
Loss per share - basic and diluted		\$ 0.00	\$ 0.01
Weighted average number of common shares outstanding		128,240,913	96,471,580

The accompanying notes form an integral part of these condensed consolidated interim financial statements

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian Dollars, Unaudited)

As at	Note	July 31, 2012	April 30, 2012
Assets			
Current			
Cash		\$ 16,893	\$ 452,344
Taxes and other receivables		17,651	47,681
Prepays		29,984	20,303
		64,528	520,328
Non-current			
Reclamation bonds	3(b)/(c)	114,816	113,932
Mineral properties	3	2,867,163	2,541,772
		\$ 3,046,507	\$ 3,176,032
Liabilities			
Current			
Accounts payable and accrued liabilities	4(h)	\$ 812,093	\$ 557,411
Due to related parties	4	156,324	39,959
		968,417	597,370
Shareholders' Equity			
Share capital	5	28,345,365	28,345,365
Share-based payments reserve		1,053,244	1,297,771
Warrants reserve		66,270	66,270
Deficit		(27,386,789)	(27,130,744)
		2,078,090	2,578,662
		\$ 3,046,507	\$ 3,176,032

Approved on behalf of the Board

"Lawrence Page"

Lawrence Page, Q.C.

"Terry Eyton"

Terry Eyton, FCA

The accompanying notes form an integral part of these condensed consolidated interim financial statements

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Changes in Equity

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

	Share Capital		Share-based	Subscriptions Received	Warrants Reserve	Deficit	Total
	Number of Shares	Amount	Payments Reserve				
Balance as at April 30, 2011	94,238,796	\$ 24,045,028	\$ 1,874,998	\$ -	\$ -	(23,281,062)	\$ 2,638,964
Issued							
Private placements	14,151,706	2,405,790	-	-	-	-	2,405,790
Shares for finders' fees	1,176,471	200,000	-	-	-	-	200,000
Shares for mineral property payment	250,000	42,500	-	-	-	-	42,500
Exercised share purchase warrants	38,200	7,640	-	-	-	-	7,640
Share issue costs	-	(463,411)	4,479	-	-	-	(458,932)
Subscriptions received	-	-	-	140,845	-	-	140,845
Fair value of warrants exercised	-	2,191	(2,191)	-	-	-	-
Fair value of options and warrants expired	-	-	(280,000)	-	-	280,000	-
Net loss for the period	-	-	-	-	-	(590,569)	(590,569)
Balance as at July 31, 2011	109,855,173	26,239,738	1,597,286	140,845	-	(23,591,631)	4,386,238
Balance as at April 30, 2012	128,240,913	28,345,365	1,297,771	-	66,270	(27,130,744)	2,578,662
Fair value of options and warrants expired	-	-	(267,436)	-	-	267,436	-
Share-based payments	-	-	22,909	-	-	-	22,909
Net loss for the period	-	-	-	-	-	(523,481)	(523,481)
Balance as at July 31, 2012	128,240,913	\$ 28,345,365	\$ 1,053,244	\$ -	\$ 66,270	\$ (27,386,789)	\$ 2,078,090

The accompanying notes form an integral part of these condensed consolidated interim financial statements

Southern Silver Exploration Corp.
(An Exploration Stage Company)
Condensed Consolidated Interim Statements of Cash Flows
Three Months Ended July 31, 2012 and 2011
(Expressed in Canadian Dollars)

	2012	2011
Operating Activities		
Net loss for the period	\$ (523,481)	\$ (590,569)
Items not involving cash:		
Unrealized foreign exchange (gain) loss	(6,173)	5,288
Share-based payments	22,909	-
	(506,745)	(585,281)
Changes in non-cash working capital		
Taxes and other receivables	30,030	(79,921)
Prepays	(9,681)	(26,081)
Accounts payable and accrued liabilities	254,682	(101,051)
Due to related parties	116,365	41,381
	391,396	(165,672)
Cash Used in Operating Activities	(115,349)	(750,953)
Investing Activities		
Mineral property acquisition costs	(325,391)	(324,934)
Reclamation bonds	-	(36,165)
Cash Used in Investing Activities	(325,391)	(361,099)
Financing Activities		
Proceeds from issuance of shares, net of share issue costs	-	2,154,498
Subscriptions received	-	140,845
Cash Provided by Financing Activities	-	2,295,343
Foreign Exchange Effect on Cash	5,289	(5,288)
Increase (Decrease) in Cash During the Period	(435,451)	1,178,003
Cash, Beginning of Period	452,344	1,125,169
Cash, End of Period	\$ 16,893	\$ 2,303,172

Supplemental cash flow information (Note 7)

The accompanying notes form an integral part of these condensed consolidated interim financial statements

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Cash Flows

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Southern Silver Exploration Corp. (the "Company") is an exploration stage company incorporated under the laws of British Columbia, Canada. The Company's shares are listed on the TSX Venture Exchange.

The Company's principal business activities include the acquisition, exploration, and development of natural resource properties located in Mexico and the United States. The Company's registered office is 1710 - 1177 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2L3.

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

These condensed consolidated interim financial statements were prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at July 31, 2012, the Company had a working capital deficiency of \$903,889 (April 30, 2012 - \$77,042). The Company incurred a net loss of \$523,481 for the three months ended July 31, 2012 (2011 - \$590,569) and had an accumulated deficit of \$27,386,789 as at July 31, 2012 (April 30, 2012 - \$27,130,744).

As at July 31, 2012, the Company does not have sufficient working capital to meet its administrative overheads and continue its exploration programs. The Company has relied mainly upon the issuance of share capital to finance its activities. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company will be required to issue share capital to finance future activities through private placements and the exercise of options and warrants and is actively seeking additional equity financing. There can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. Inability to secure future financing would have a material adverse effect on the Company's business, results of operations and financial condition.

These condensed consolidated interim financial statements do not include the adjustments to assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

2. Basis of Preparation and Summary of Significant Accounting Policies

(a) Basis of Preparation

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standards 34: *Interim Financial Reporting* on a historical cost basis using the accrual basis of accounting, except for cash flow information and financial instruments measured at fair value, and include the accounts of the Company and its wholly-owned integrated subsidiaries, Minera Plata del Sur S.A de C.V. and Exploraciones Magistral S.A de C.V., both incorporated in Mexico, Southern Silver Exploration (US) Corp., incorporated in the United States, and Southern Silver Projects Ltd. and Southern Silver Holdings Ltd., both incorporated in the British Virgin Islands.

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

2. Basis of Preparation and Summary of Significant Accounting Policies, continued

(a) Basis of Preparation, continued

All inter-company transactions and balances have been eliminated upon consolidation.

They do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended April 30, 2012.

The same accounting policies are used in the preparation of these condensed consolidated interim financial statements as for the most recent audited annual consolidated financial statements and reflect all the adjustments necessary for fair presentation in accordance with International Financial Reporting Standards ("IFRS") of the results for the interim periods presented.

The Company's functional and presentation currency is the Canadian dollar.

3. Mineral Properties

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

• Mexico

- (i) Cerro Las Minitas
- (ii) Minas de Ameca - Magistral properties, which include Magistral I and El Magistral

• United States

- (i) Oro
- (ii) Dragoon

A summary of total mineral property acquisition costs as at July 31, 2012 is as follows:

Mineral Properties	Mexico		USA		Total
	Minas de Ameca	Cerro Las Minitas	Oro	Dragoon	
	\$	\$	\$	\$	\$
Acquisition					
Balance as at April 30, 2011	241,560	400,717	818,535	77,480	1,538,292
Additions during the year	89,835	640,381	273,264	-	1,003,480
Balance as at April 30, 2012	331,395	1,041,098	1,091,799	77,480	2,541,772
Additions during the period	-	323,939	801	651	325,391
Balance as at July 31, 2012	331,395	1,365,037	1,092,600	78,131	2,867,163

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

3. Mineral Properties, continued

Terms of the agreements for the above properties are described below:

(a) Cerro Las Minitas - Mexico

Pursuant to an agreement dated November 18, 2010, the Company can earn a 100% interest in the Cerro Las Minitas property located in Durango, Mexico.

Remaining staged payments are due as follows (plus applicable local taxes):

- (i) US \$800,000 on November 18, 2012;
- (ii) US \$1,000,000 on May 18, 2013; and
- (iii) US \$1,000,000 on November 18, 2013 (to be reduced to US \$600,000 if optionor fails to deliver registered title to certain claims upon closing).

(b) Minas de Ameca (Magistral Properties) - Mexico

Pursuant to an agreement dated July 4, 2006, as amended July 21, 2010, the Company can earn a 65% interest in the Magistral I mining exploration concession ("Magistral") located in Mexico.

Remaining exploration commitments are due as follows:

- (i) Incur in the aggregate a minimum of US \$1,800,000 in exploration expenditures on or before July 21, 2011 (*); and
- (ii) Incur in the aggregate a minimum of US \$3,000,000 in exploration expenditures on or before July 21, 2012 (*).

* The Company has not complied with all the aforementioned terms of the property agreement and is currently renegotiating an amendment to the commitment terms.

Upon earning its interest, the Company will enter into a joint venture agreement (the "JV Agreement") with the optionor for the development of Magistral and contribute 65% of all costs associated with the development of Magistral. The JV Agreement provides for pro-rata dilution should either party fail to pay its share of such costs and expenses. Should either party allow their interest to dilute to less than a 10% interest, its joint venture interest will automatically convert to a 1% net smelter return ("NSR") royalty.

On October 18, 2006, the Company purchased a 100% interest in the 1,366 hectare El Magistral mineral concession in the Ameca region in the State of Jalisco, Mexico. The mineral concession is subject to a 1% NSR payable to the Mexican government and is considered part of the Magistral I concession pursuant to the terms of the above option agreement.

A non-interest-bearing reclamation bond of \$39,586 (Mexican peso 523,778) (April 30, 2012 - \$39,828) in regard to the 1% NSR royalty is being held in escrow by the Mexican government as security for future reclamation costs and is refundable upon completion of the exploration and reclamation program.

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

3. Mineral Properties, continued

(c) Oro Property - New Mexico, USA

Pursuant to an agreement dated August 28, 2006, as amended, the Company can earn a 100% interest in several patented and unpatented mining claims in the Eureka Mining District, Grant County, New Mexico.

Remaining staged payments are due as follows:

- (i) US \$150,000 on or before August 28, 2012 (*)

* The Company is currently renegotiating an amendment to the commitment terms.

The property is subject to a 2% NSR payable to the optionors whom have granted the Company an option to purchase the NSR at any time in 0.5% increments at US \$500,000 for each increment.

Pursuant to an agreement effective December 1, 2007, the Company can acquire a 100% interest in the American Mine claims consisting of eight patented lode mining claims and surface rights to a contiguous property. The American Mine claims are adjacent to the above claims.

Remaining staged payments are due as follows:

- (i) US \$75,000 on or before December 1, 2012.

A non-interest-bearing reclamation bond of \$44,047 (US \$43,920) (April 30, 2012 - \$43,389) is being held in escrow by the US government as security for future reclamation costs and is refundable upon completion of the exploration and reclamation program.

Pursuant to a lease with option to purchase agreement dated May 1, 2011, the Company can earn a 100% interest in six unpatented lode mining claims in the Eureka Mining District, Grant County, New Mexico.

Remaining lease payments are due as follows:

- (i) US \$6,000 annually from May 1, 2013 to May 1, 2017;
- (ii) US \$30,000 annually from May 1, 2018 to May 1, 2024; and
- (iii) US \$60,000 annually from May 1, 2025 to May 1, 2031.

The Company can purchase the property at any time by paying any amounts remaining under the lease. The property is subject to a 1% NSR payable to the optionors, which terminates when aggregate payments thereunder equal US \$500,000.

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

3. Mineral Properties, continued

(d) Dragoon Property - Arizona, USA

Pursuant to an agreement dated August 28, 2007, as amended, the Company can earn a 100% interest in certain claims located in the state of Arizona.

Remaining staged payments are due as follows:

- (i) US \$300,000 on or before August 28, 2013.

The property is subject to a 2% NSR payable to the optionors whom have granted the Company an option to purchase the NSR at any time in 0.5% increments at US \$500,000 for each increment.

On August 26, 2009, the Company signed an earn-in agreement with Freeport-McMoRan Exploration Corporation ("FMEC") for the property. FMEC had the exclusive right and option to acquire a 70% ownership interest in the property by spending US \$3,000,000 on the property by December 31, 2012. FMEC terminated the agreement on August 15, 2012.

(e) Exploration and Evaluation Expenses

Exploration expenditures incurred for the three months ended July 31, 2012 were as follows:

Mineral Properties	Mexico		USA		Total
	Minas de Ameca	Cerro Las Minitas	Oro	Dragoon	
	\$	\$	\$	\$	\$
Assays and geochemistry	-	20,704	-	-	20,704
Camp, utilities and supplies	-	2,462	1,607	-	4,069
Drilling	-	128,430	-	-	128,430
Environmental	-	146	113	-	259
Equipment, rentals and supplies	-	6,812	14	-	6,826
Field supplies	-	2,697	-	-	2,697
Geological and geophysics	-	633	915	-	1,548
Project supervision	-	86,186	1,629	1,184	88,999
Project support	-	5,708	-	-	5,708
Taxes	-	76,517	-	-	76,517
	-	330,295	4,278	1,184	335,757
General exploration - other					11,627
					347,384

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

3. Mineral Properties, continued

(e) Exploration and Evaluation Expenses, continued

Exploration expenditures incurred for the three months ended July 31, 2011 were as follows:

Mineral Properties	Mexico		USA		Total
	Minas de	Cerro Las	Oro	Dragoon	
	Ameca	Minitas			
	\$	\$	\$	\$	\$
Assays and geochemistry	-	7,604	1,022	-	8,626
Camp, utilities and supplies	-	5,308	-	-	5,308
Drilling services	-	167,726	-	-	167,726
Equipment, rentals and supplies	-	7,225	-	-	7,225
Geological and geophysics	-	22,712	2,666	-	25,378
Project supervision	-	84,996	2,216	680	87,892
Project support	-	8,950	-	-	8,950
Travel	-	152	679	-	831
	-	304,673	6,583	680	311,936
General exploration - other					8,793
					<u>320,729</u>

4. Related Party Balances and Transactions

The Company entered into the following related party transactions during the three months ended July 31, 2012.

(a) Under the service agreement, as amended, between the Company and a company privately held by a director and an officer of the Company, the Company was charged as follows:

- \$26,500 in respect of office space and general administration services (2011 - \$24,000);
- \$10,537 in respect of professional services (2011 - \$15,570);
- \$4,569 in respect of consulting services (2011 - \$12,030);
- \$17,948 in respect of investor relations services (2011 - \$42,188);
- \$21,105 in respect of geological consulting services in relation to mineral properties (2011 - \$33,973);
- \$1,333 in respect of the mark-up on out-of-pocket expenses (2011 - \$4,024); and
- \$300 in respect of office and general (2011 - \$1,425).

Amounts payable as at July 31, 2012 were \$64,864 (April 30, 2012 - \$16,977).

(b) Pursuant to a consulting agreement, as amended, between the Company and a director and an officer of the Company, the Company was charged \$28,080 (2011 - \$28,080) for consulting services. Amounts payable as at July 31, 2012 were \$31,450 (April 30, 2012 - \$nil).

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

4. Related Party Balances and Transactions, continued

- (c) Fees in the amount of \$9,443 (2011 - \$131,099) were charged by a law firm controlled by a director and an officer of the Company and included in professional fees, share issue costs and mineral property expenditures. Amounts payable as at July 31, 2012 were \$19,558 (April 30, 2012 - \$8,982).
- (d) Consulting fees relating to office administration of \$nil (2011 - \$6,000) were charged by a private company controlled by a director and an officer of the Company. Agreement expired effective February 1, 2012.
- (e) Fees in the amount of \$19,203 (2011 - \$9,815) were charged by a director of the Company for geological services. Amounts payable as at July 31, 2012 were \$18,052 (April 30, 2012 - \$nil).
- (f) Fees in the amount of \$7,500 (2011 - \$nil) were charged by an officer of the Company for consultancy services. Amounts payable as at April 30, 2012 were \$14,000 (April 30, 2012 - \$5,600).
- (g) Fees in the amount of \$nil (2011 - \$7,500) were charged by a private company controlled by a former director and officer of the Company for consultancy services. Amounts payable as at July 31, 2012 were \$8,400 (April 30, 2012 - \$8,400).
- (h) Fees of \$6,886 (2011 - \$8,048) were payable to independent directors. As at July 31, 2012, \$24,818 was outstanding and included in accounts payable and accrued liabilities (April 30, 2012 - \$18,204).

These transactions were in the normal course of operations and were measured at the fair value of the services rendered. Amounts due to related parties are unsecured, non-interest-bearing, and have no formal terms of repayment.

The key management personnel of the Company are the directors and officers of the Company. One executive officer is entitled to termination benefits in the event of a change of control equal to one hundred percent of the compensation that would have been paid during the unexpired term of their agreement. The remaining balance payable under the agreement as at July 31, 2012 was \$215,280. The Company has no other employee or post-employment benefits and compensation awarded to key management during the three months ended July 31, 2012 was as follows:

	2012	2011
Consulting and professional fees	\$ 35,580	\$ 41,580
Exploration and evaluation	19,203	9,815
Independent directors' fees	6,886	8,048
Total	\$ 61,669	\$ 59,443

5. Share Capital

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

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

5. Share Capital, continued

(a) Stock Options

The Company has a rolling stock option plan (the "Plan") that allows 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 stock options granted under the Plan may not exceed ten 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.

On June 5, 2012, the Company entered into a consultancy agreement for a period of one year. As part of this agreement, the Company granted 350,000 fully vested stock options at an exercise price of \$0.10 per share exercisable for a period of five years.

As at July 31, 2012 and 2011 options were outstanding and exercisable as follows:

Exercise Price	Grant Date Fair Value	Expiry Date	Balance			Balance July 31, 2012
			April 30, 2012	Granted	Expired	
\$0.58	\$0.37	October 19, 2012	25,000	-	-	25,000
\$0.21	\$0.12	March 26, 2013	455,000	-	20,000	435,000
\$0.16	\$0.15	January 8, 2015	2,515,000	-	60,000	2,455,000
\$0.17	\$0.13	November 29, 2015	2,380,000	-	50,000	2,330,000
\$0.17	\$0.11	December 13, 2015	315,000	-	-	315,000
\$0.15	\$0.13	November 8, 2016	500,000	-	-	500,000
\$0.15	\$0.10	February 2, 2017	150,000	-	-	150,000
\$0.10	\$0.06	June 5, 2017	-	350,000	-	350,000
Options outstanding			6,340,000	350,000	130,000	6,560,000
Options exercisable			6,227,500			6,485,000
Weighted average exercise price (outstanding and exercisable)			\$0.17	\$0.10	\$0.17	\$0.16
Weighted average remaining life in years (outstanding)			3.13			2.99
Weighted average remaining life in years (exercisable)			3.10			2.97

Exercise Price	Grant Date Fair Value	Expiry Date	Balance			Balance July 31, 2011
			April 30, 2011	Granted	Expired	
\$0.88	\$0.80	June 1, 2011	350,000	-	350,000	-
\$0.58	\$0.54	March 1, 2012	1,090,000	-	-	1,090,000
\$0.58	\$0.41	March 26, 2012	100,000	-	-	100,000
\$0.58	\$0.37	October 19, 2012	25,000	-	-	25,000
\$0.21	\$0.12	March 26, 2013	455,000	-	-	455,000
\$0.16	\$0.15	January 8, 2015	2,565,000	-	-	2,565,000
\$0.17	\$0.13	November 29, 2015	2,380,000	-	-	2,380,000
\$0.17	\$0.11	December 13, 2015	315,000	-	-	315,000
			7,280,000	-	350,000	6,930,000
Weighted average exercise price			\$0.27		\$0.88	\$0.24
Weighted average remaining life in years			3.27			3.18

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

5. Share Capital, continued

(b) Share Purchase Warrants

As at July 31, 2012 and 2011 share purchase warrants were outstanding as follows:

Exercise Price	Expiry Date	Balance				Balance July 31, 2012
		April 30, 2012	Granted	Expired	Exercised	
\$0.20	June 10, 2012	11,847,500	-	11,847,500	-	-
\$0.20	June 24, 2012	2,740,000	-	2,740,000	-	-
\$0.20	October 27, 2012	9,900,000	-	-	-	9,900,000
\$0.20	October 27, 2012	597,000	-	-	-	597,000
\$0.20	November 26, 2012	10,601,000	-	-	-	10,601,000
\$0.20	November 26, 2012	843,500	-	-	-	843,500
\$0.20	December 10, 2012	4,499,000	-	-	-	4,499,000
\$0.20	December 10, 2012	375,000	-	-	-	375,000
\$0.22	July 20, 2013	14,151,706	-	-	-	14,151,706
\$0.22	July 20, 2013	1,176,471	-	-	-	1,176,471
\$0.22	July 20, 2013	72,000	-	-	-	72,000
\$0.22	August 16, 2013	4,818,206	-	-	-	4,818,206
\$0.22	August 16, 2013	328,421	-	-	-	328,421
\$0.22	August 29, 2013	43,534	-	-	-	43,534
\$0.22	August 29, 2013	2,000	-	-	-	2,000
\$0.20	December 5, 2013	6,417,000	-	-	-	6,417,000
\$0.20	December 5, 2013	404,000	-	-	-	404,000
\$0.20	January 5, 2014	430,000	-	-	-	430,000
\$0.20	January 5, 2014	10,000	-	-	-	10,000
\$0.17	April 23, 2015	6,627,000	-	-	-	6,627,000
\$0.17	April 23, 2015	182,000	-	-	-	182,000
		76,065,338	-	14,587,500	-	61,477,838
Weighted average exercise price		\$0.20		\$0.20		\$0.20
Weighted average remaining life in years		0.97				0.92

Exercise Price	Expiry Date	Balance				Balance July 31, 2011
		April 30, 2011	Granted	Expired	Exercised	
\$0.20	December 10, 2011	11,851,500	-	-	4,000	11,847,500
\$0.20	December 10, 2011	547,200	-	-	34,200	513,000
\$0.20	December 24, 2011	2,740,000	-	-	-	2,740,000
\$0.20	December 24, 2011	154,800	-	-	-	154,800
\$0.20	October 27, 2012	9,900,000	-	-	-	9,900,000
\$0.20	October 27, 2012	597,000	-	-	-	597,000
\$0.20	November 26, 2012	10,601,000	-	-	-	10,601,000
\$0.20	November 26, 2012	843,500	-	-	-	843,500
\$0.20	December 10, 2012	4,499,000	-	-	-	4,499,000
\$0.20	December 10, 2012	375,000	-	-	-	375,000
\$0.22	July 20, 2013	-	14,151,706	-	-	14,151,706
\$0.22	July 20, 2013	-	1,176,471	-	-	1,176,471
\$0.22	July 20, 2013	-	72,000	-	-	72,000
		42,109,000	15,400,177	-	38,200	57,470,977
Weighted average exercise price		\$0.20	\$0.22		\$0.20	\$0.21
Weighted average remaining life in years		1.21				1.23

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

5. Share Capital, continued

(c) Fair Value Determination

The fair value of stock options and finders' share purchase warrants granted were calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	2011
	Options	Finders' Warrants
Risk-free interest rate	1.20%	1.52%
Expected share price volatility	121.09%	95.97%
Expected option/warrant life (years)	5.00	2.00
Expected dividend yield	0.00%	0.00%

Expected share price volatility was determined based on historical movements in the closing price of the Company's stock for a length of time equal to the expected life of the options and warrants.

The total calculated fair value of share-based payments for the three months ended July 31, 2012 and 2011 were included in the respective condensed consolidated interim statements of comprehensive loss or changes in equity as follows:

	2012	2011
Statements of Comprehensive Loss		
Directors, officers and employees	\$ -	\$ -
Consultants	22,909	-
	22,909	-
Statements of Changes in Equity (agent warrants)	-	4,479
Total	\$ 22,909	\$ 4,479

6. Segmented Information

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

	July 31, 2012		April 30, 2012	
	\$	%	\$	%
Canada	64,110	2%	513,279	16%
Mexico	1,736,436	57%	1,419,369	45%
USA	1,245,961	41%	1,243,384	39%
	3,046,507	100%	3,176,032	100%

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

7. Supplemental Cash Flow Information

	2012	2011
Cash items		
Interest received	\$ 178	\$ 1,484
Income tax paid	\$ -	\$ -
Interest paid	\$ -	\$ -
Non-cash items		
Financing activities		
Shares issued for mineral property	\$ -	\$ 42,500
Share issuance costs	\$ -	\$ 204,479

8. Contingencies and Commitments

Contingencies

Certain claims have been filed against the Company as follows:

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

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

Commitments

Effective July 1, 2012, under an amended service agreement between the Company and a company privately held by a director and officer of the Company, the Company will be charged \$10,500 per month for office accommodation and services ("Basic Rent") and \$1,750 per month per dedicated office ("Specific Rent"). The Company may terminate the agreement through written notice at any time by paying the Basic and Specific Rents for the lesser of 24 months or the remainder of the term. The agreement expires on August 31, 2017, and the remaining minimum fee commitment based on current rental space as at July 31, 2012 was \$252,000.

Southern Silver Exploration Corp.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three Months Ended July 31, 2012 and 2011

(Expressed in Canadian Dollars, Unaudited)

9. Events After the Reporting Period

In addition to the events disclosed elsewhere in these condensed consolidated interim financial statements, the following occurred subsequent to July 31, 2012:

- On August 13, 2012, 60,000 stock options with exercise prices between \$0.16 and \$0.21 per share expired unexercised.
- During August 2012, the Company entered into two loan agreements, one with a private company controlled by a director and the other with a private company controlled by a consultant, for \$33,000 and \$15,000 respectively.

Interest is payable quarterly at prime plus two per cent per annum and the terms of the loans are for an initial period of six months, after which time all outstanding balances are repayable on demand.

As further consideration for providing the loans, the lenders are also entitled to a bonus equal to ten per cent of the loan amount in common shares.

The Company, in its sole discretion, can elect to repay all interest and loan balances by the issuance of common shares.

The loan agreements remain subject to TSX Venture Exchange approval.



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**Management's Discussion and Analysis
For the Three Months Ended July 31, 2012
Dated: September 25, 2012**

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Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

A. Introduction

The following Management's Discussion and Analysis ("MD&A") of the consolidated operating results and financial condition of Southern Silver Exploration Corp. (the "Company") is for the three months ended July 31, 2012 and is dated September 25, 2012. This MD&A was prepared to conform to National Instrument 51-102F1 and was approved by the Board of Directors prior to its release. This analysis should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three months ended July 31, 2012, and the Company's audited consolidated financial statements for the year ended April 30, 2012 and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company's shares trade on both the TSX Venture Exchange ("TSX.V") under the symbol "SSV" and on the Frankfurt Stock Exchange under the symbol "SEG.F".

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

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

B. Qualified Persons

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 British Columbia. His work has focused on vein and intrusive-related gold systems and massive sulfide deposits.

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

C. Exchange Information and Conversion Tables

For ease of reference, the following information is provided:

Canadian Dollars per US Dollar ⁽¹⁾			Conversion Table ⁽²⁾		
	Three Months ended				
	July 31 2012	July 31 2011	Imperial	=	Metric
Rate at end of period	1.0029	0.9538	1 Acre	=	0.404686 Hectares
Average rate for period	1.0170	0.9670	1 Foot	=	0.304800 Meters
High for period	1.0397	0.9861	1 Mile	=	1.609344 Kilometres
Low for period	0.9858	0.9449	1 Ton	=	0.907185 Tonnes
			1 Ounce (troy)/ton	=	34.285700 Grams/Tonne

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

C. Exchange Information and Conversion Tables (Continued)

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

(1) Information from www.bankofcanada.ca

(2) Information from www.onlineconversion.com

D. Summary of Mineral Properties

The Company is currently exploring for precious and base metals in Mexico (Jalisco, Sinaloa and Chihuahua) and the USA (Arizona and New Mexico).

Cerro Las Minitas - Durango, Mexico

The property lies within the Faja de Plata (Belt of Silver), is located about 70 kilometres to the northeast of the city of Durango in Durango State, Mexico, and is accessed easily by road. The property comprises 18 concessions totaling 15,125 hectares in one of the most significant silver producing regions in the world with current reserves/resources and historic production in excess of 3 billion ounces of silver. Certain claims are subject to receipt of registered title, failing receipt of which, will result in a reduction to final option payment obligations.

Small-scale mining, which has been active on the property since colonial times, has identified several types of silver-, lead- and zinc-enriched massive-sulphide pipes, veins and replacement deposits distributed in the skarn-altered margins of a large intrusive body in a similar geological environment that of major Mexican Carbonate Replacement Deposits (CRDs) such as Santa Eulalia (45Mt of 310g/t Ag, 7.1% Zn and 8.2% Pb) and Skarn deposits such as San Martin (60Mt of 118g/t silver, 0.9% copper and 3.9% zinc). The more recent discovery and development of the Nuestra Senora mine by Scorpio Mining Ltd. (6.3Mt of 106g/t Ag, 0.4% Cu, 1.4% Pb, 3.2% Zn), provides a more modern example of the development of these highly productive Mexican deposits.

Blind Zone

Multiple mineralized intercepts have been identified in most drill holes and are open in all directions. A preliminary interpretation of the drill data suggests good continuity within three main mineralized structures associated with monzonitic and felsic intrusives and several secondary footwall and hanging wall zones. Drilling continues to extend the mineralized zones.

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

D. Summary of Mineral Properties (Continued)

Cerro Las Minitas - Durango, Mexico (Continued)

Blind Zone (Continued)

Drilling highlights for the three months ended July 31, 2012 include:

Hole No.	From m	To m	Interval m	Ag g/t	Au g/t	Cu %	Pb %	Zn %	AgEq g/t
12CLM-047	162.55	166.95	4.40	185.55	0.02	0.16	5.62	4.56	470.54
inc	162.55	165.50	2.95	254.00	0.02	0.18	7.82	4.88	608.57
12CLM-051	50.90	70.85	19.95	142.84	0.04	0.02	2.43	0.64	228.35
inc	60.70	66.90	6.20	237.97	0.05	0.01	3.24	0.15	331.86
inc	63.00	63.90	0.90	833.00	0.14	0.02	8.78	0.15	1,079.13
12CLM-054	169.00	170.70	1.70	230.00	0.01	0.23	6.21	9.33	663.45
12CLM-059	12.00	31.05	19.05	29.62	0.02	0.01	0.63	0.19	53.17
12CLM-061	86.25	96.80	10.55	76.21	0.01	0.02	1.88	0.61	144.72
inc	86.25	87.50	1.25	382.00	0.02	0.18	9.92	5.13	798.50
12CLM-062	280.00	282.55	2.55	160.00	0.01	0.47	3.65	2.89	376.90
inc	291.60	292.10	0.50	177.00	0.01	0.60	5.52	9.02	618.04

El Sol Zone

Initial drilling in early 2011 identified high-grade silver mineralization in the El Sol zone, an area located approximately 150 metres to the east of the Blind zone mineralization. Further drilling continues to expand this zone mineralization both at depth and along strike.

Geological modeling of the Blind and El Sol Zones using a nominal 80g/t AgEq cut-off has identified multiple distinct mineralized structures with a 820 metre cumulative strike-length, with depth projections of up to 300 metres below surface. Mineralization occurs in sub-vertical structures that demonstrate good continuity between drill holes. True thickness of the mineralized intervals are estimated at 60% to 70% of the down hole thicknesses.

La Bocona

Drill hole 12CLM-058 tested a northwest extension of the deposit and returned a 1.3 metre interval grading 466g/t silver. Mineralization occurs within skarn and hornfels limestone on the eastern margin of a thick northwest-trending felsic dyke. This is a new target area located 750 metres to the northeast of the Blind Zone deposit and mineralization is open along strike for several hundred metres.

Additional drilling is planned to further test and delineate this new zone of mineralization.

South Skarn

Drilling in 2012 identified a new highly encouraging zone of gold-copper mineralization. The new zone is gravel covered and is located approximately 1.5 kilometres to the southeast of the Blind Zone deposit and is open in all directions.

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

D. Summary of Mineral Properties (Continued)

Cerro Las Minitas - Durango, Mexico (Continued)

South Skarn (Continued)

Drill hole 12CLM-055 intersected an outer zone of weakly to moderately altered limestone followed by a 37 metre thick diatreme breccia, an intermixed zone of hematite breccia, skarn-hornfels and aplite dyke before entering variably altered monzonite/feldspar porphyry. Strongly anomalous gold mineralization was identified over a 20 metre interval within the hematite breccia which averaged 0.8g/t gold and included a 4.3 metre interval averaging 2.8g/t gold and 28g/t silver. A second 4.3 metre interval averaging 1.4g/t gold, 89g/t silver and 1.8% copper was intersected further down hole and is hosted in chlorite-garnet skarn related to the adjacent intrusions.

Additional drilling is planned to further test and delineate this new zone of mineralization.

2012-2013 Exploration Program

The Company contemplates a further 5,000 to 10,000 metres of core drilling in 2012-2013, with the aim of completing a NI 43-101 compliant resource on the Blind Zone and El Sol Zone deposits and developing additional target areas throughout the property. This will be the initial milestone toward the Company's goal of delineating a larger, multi-million tonne, high-grade, silver-enriched polymetallic resource on the project.

Minas de Ameca - Jalisco, Mexico

The Minas de Ameca project encompasses a 131 sq. km claim package located along the western margin of the Sierra Madre Occidental terrane. Geological reconnaissance has identified several strongly mineralized, copper-rich breccia located at volcanic-intrusive contacts and numerous structurally controlled, quartz-hematite vein systems which occur along an 8 kilometre long mineralized trend extending southeast through the project area.

The concessions that make up the project include the Magistral I claims and the El Magistral claims which includes a historic producing mine from which copper was extracted, with some gold credits, from chalcopyrite, bornite and oxide ores.

Magistral I

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

Since acquisition, the Company has completed a total of 4,832 metres of drilling in 20 drill holes in two states on the San Luis vein system and adjacent targets. Seventeen drill holes have tested an 800 metre strike length of the main San Luis vein structure to depths of up to 500 metres. The system remains open along strike and down dip. Final targets for a 10-hole 1,500 metre diamond drilling program on the San Luis prospect have been selected. Future drilling will test the on-strike and down-dip potential of the San Luis vein system and for additional adjacent veins.

El Magistral

The El Magistral 1,366 hectare mineral concession adjoins to the south La Sorpresa claims and, in turn, is bound to the east and south by the Magistral I concession.

Exploration to date tested the Magistral Mine target for a total of 747.1 metres of drilling. Several narrow intervals of anomalous silver, copper and precious metal values were returned from three of the drill holes with only weakly anomalous values.

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

D. Summary of Mineral Properties (Continued)

Oro - New Mexico, USA

The Oro Project comprises a contiguous block of Federal, State and Private land totaling 17.2 square kilometres in the historic Eureka mining district in Grant County, New Mexico and is located approximately 40 kilometres southwest of the Silver City porphyry copper district. The Company also recently acquired two parcels of New Mexico State Land, which are critical to the further evaluation of the Oro property and which had previously hampered exploration due to fragmented land holdings in the district.

The Company is evaluating the results of its latest diamond drill program and soliciting advice from an expert in porphyry copper deposits. Down hole electrodes are going to be used by a planned IP geophysical survey to further delineate drill targets.

Mapping and sampling peripheral to the main altered area at the property has identified the Stock pond disseminated gold target. Permits have been received for additional drill testing of up to 14 holes that is expected to be completed later this year.

Dragoon Property - Arizona, USA

The Dragoon property is a contiguous block of 1,280 ha, located 90 kilometers southeast of Tucson, Arizona, comprising 68 unpatented mining claims and 4 state leases that contain areas of exposed Cu-Mo mineralization, Laramide-age monzogranite porphyry and geothitic "leached capping" which occur in the eastern part of the property and a larger down-dropped block of prospective Paleozoic stratigraphy in the gravel-covered western portion of the property.

The property was previously subject to an earn-in agreement with Freeport-McMoRan Exploration Corp. ("FMEC"). FMEC advised the Company that it has terminated the earn-in agreement and has delivered to the Company geological data which is currently being analyzed by the Company's consultants with the intent to recommend further exploration work on the property.

Acquisition costs

The Company's accounting policy related to expenditures incurred for the acquisition of mineral properties is to capitalize on a property-by-property basis, net of recoveries. During the three months ended July 31, 2012, the Company incurred acquisition costs on its mineral properties as follows:

	Balance	Additions	Balance
	April 30, 2012	Q1	July 31, 2012
	\$	\$	\$
Minas de Ameca	331,395	-	331,395
Cerro Las Minitas	1,041,098	323,939	1,365,037
Oro	1,091,799	801	1,092,600
Dragoon	77,480	651	78,131
Total	2,541,772	325,391	2,867,163

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

D. Summary of Mineral Properties (Continued)

Exploration costs

The Company's accounting policy related to expenditures incurred for the exploration and development of mineral properties is to expense to the consolidated statement of comprehensive loss in the period in which they are incurred. During the three months ended July 31, 2012, the Company incurred exploration costs on its mineral properties as follows:

	Incurred to April 30, 2012	Additions Q1	YTD	Incurred to July 31, 2012
	\$	\$	\$	\$
Minas de Ameca	1,579,189	-	-	1,579,189
Cerro Las Minitas	3,260,628	330,295	330,295	3,590,923
Oro	1,233,646	4,278	4,278	1,237,924
Dragoon	83,052	1,184	1,184	84,236
General Exploration		11,627	11,627	
		347,384	347,384	

E. Results of Operations

During the three months ended July 31, 2012, the Company incurred a net loss and comprehensive loss of \$523,481 (July 31, 2011 - \$590,569). The following table summarizes the variances in the condensed consolidated interim statements of comprehensive loss prepared in accordance with IFRS:

	2012	2011	Variance	
	\$	\$	\$	%
Expenses				
Administration	26,500	24,000	2,500	10%
Consulting	41,199	56,925	(15,726)	(28%)
Exploration and evaluation	347,384	320,729	26,655	8%
Independent directors' fees	6,886	8,048	(1,162)	(14%)
Investor relations	39,181	98,565	(59,384)	(60%)
Office and general	14,295	18,324	(4,029)	(22%)
Professional fees	25,638	33,289	(7,651)	(23%)
Regulatory fees and taxes	100	2,529	(2,429)	(96%)
Share-based payments	22,909	-	22,909	-
Shareholders' communications	1,889	8,452	(6,563)	(78%)
Transfer agent	2,132	2,247	(115)	(5%)
Travel and promotion	1,971	30,851	(28,880)	(94%)
Other Items				
Interest income	(178)	(1,484)	(1,306)	(88%)
Foreign exchange (gain) loss	(6,425)	(11,906)	(5,481)	(46%)

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

E. Results of Operations (Continued)

Consulting, investor relations, professional fees, shareholders' communications and travel and promotion expenses fluctuate based on the number of conferences and trade shows attended and other work performed in preparation of financing and reporting activities.

As per the Company's mandate to acquire, explore, and develop mineral resource properties, the Company has steadily invested in its mineral properties and exploration expenditures incurred have increased compared to 2011.

Non-cash share-based payments with respect to granting of stock options increased as there were no stock options granted or vesting in the three months ended July 31, 2011.

F. Summary of Quarterly Results

The following financial data was derived from the Company's consolidated financial statements for the eight previous quarters prepared in accordance with IFRS:

	Jul 31, 2012 \$	Apr 30, 2012 \$	Jan 31, 2012 \$	Oct 31, 2011 \$	Jul 31, 2011 \$	Apr 30, 2011 \$	Jan 31, 2011 \$	Oct 31, 2010 \$
Net and comprehensive loss	523,481	1,721,296	1,627,000	870,701	590,569	953,334	900,510	387,491
Basic and diluted loss per share	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01

The Company earned no revenue during the periods presented other than minimal interest income due to the nature of current operations.

Quarterly fluctuations mainly relate to recognition of share-based payments which varies as stock options are granted or terms of outstanding options and warrants are modified, foreign exchange gains and losses which vary with market rates and mineral property exploration expenses or impairments which occur as projects are identified and drilling results are analyzed.

G. Related Party Information

The Company entered into the following related party transactions during the three months ended July 31, 2012.

(a) Under a service agreement, as amended, between the Company and a company privately held by a director and an officer of the Company, the Company was charged as follows:

- \$26,500 in respect of office space and general administration services (2011 - \$24,000);
- \$10,537 in respect of professional services (2011 - \$15,570);
- \$4,569 in respect of consulting services (2011 - \$12,030);
- \$17,948 in respect of investor relations services (2011 - \$42,188);
- \$21,105 in respect of geological consulting services in relation to mineral properties (2011 - \$33,973);
- \$1,333 in respect of the mark-up on out-of-pocket expenses (2011 - \$4,024); and
- \$300 in respect of office and general (2011 - \$1,425).

Amounts payable as at July 31, 2012 were \$64,864 (April 30, 2012 - \$16,977).

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

G. Related Party Information (Continued)

- (b) Pursuant to a consulting agreement, as amended, between the Company and a director and an officer of the Company, the Company was charged \$28,080 (2011 - \$28,080) for consulting services. Amounts payable as at July 31, 2012 were \$31,450 (April 30, 2012 - \$nil).
- (c) Fees in the amount of \$9,443 (2011 - \$131,099) were charged by a law firm controlled by a director and an officer of the Company and included in professional fees, share issue costs and mineral property expenditures. Amounts payable as at July 31, 2012 were \$19,558 (April 30, 2012 - \$8,982).
- (d) Consulting fees relating to office administration of \$nil (2011 - \$6,000) were charged by a private company controlled by a director and an officer of the Company. Agreement expired effective February 1, 2012.
- (e) Fees in the amount of \$19,203 (2011 - \$9,815) were charged by a director of the Company for geological services. Amounts payable as at July 31, 2012 were \$18,052 (April 30, 2012 - \$nil).
- (f) Fees in the amount of \$7,500 (2011 - \$nil) were charged by an officer of the Company for consultancy services. Amounts payable as at April 30, 2012 were \$14,000 (April 30, 2012 - \$5,600).
- (g) Fees in the amount of \$nil (2011 - \$7,500) were charged by a private company controlled by a former director and officer of the Company for consultancy services. Amounts payable as at July 31, 2012 were \$8,400 (April 30, 2012 - \$8,400).
- (h) Fees of \$6,886 (2011 - \$8,048) were payable to independent directors. As at July 31, 2012, \$24,818 was outstanding and included in accounts payable and accrued liabilities (April 30, 2012 - \$18,204).

These transactions were in the normal course of operations and were measured at the fair value of the services rendered. Amounts due to related parties are unsecured, non-interest-bearing, and have no formal terms of repayment.

The key management personnel of the Company are the directors and officers of the Company. One executive officer is entitled to termination benefits in the event of a change of control equal to one hundred percent of the compensation that would have been paid during the unexpired term of their agreement. The remaining balance payable under the agreement as at July 31, 2012 was \$215,280. The Company has no other employee or post-employment benefits and compensation awarded to key management during the three months ended July 31, 2012 was as follows:

	2012	2011
Consulting and professional fees	\$ 35,580	\$ 41,580
Exploration and evaluation	19,203	9,815
Independent directors' fees	6,886	8,048
Total	\$ 61,669	\$ 59,443

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

H. Financial Condition, Liquidity and Capital Resources

The Company has limited financial resources and finances its operations by raising capital in the equity markets. For the near future, the Company will need to rely on the sale of such securities and/or enter into joint venture agreements with third parties to provide working capital and to finance its mineral property acquisition and exploration activities. Since the Company does not generate any revenue from operations, its long-term profitability will be directly related to the success of its mineral property acquisition and exploration activities.

Although the Company has been successful in obtaining financing through sale of its securities, there can be no assurance that the Company will be able to obtain adequate financing in the future in light of factors such as the market demand for its securities, the general state of financial markets and other relevant factors.

Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects with a possible loss of some properties and reduction or termination of operations.

As at July 31, 2012, the Company had a working capital deficiency of \$903,889 (April 30, 2012 - \$77,042). The Company has been reducing general and administration costs, where possible, negotiating extended payment terms of its trade payables, and reviewing its capital expenditure plan and future commitments to identify opportunities to reduce or delay spending and payments.

However, as at July 31, 2012, the cash balance of \$16,893 would be insufficient to meet the cash requirements for the Company's administrative overhead and maintaining its mineral interests in the year to come, therefore, the Company will be required to raise additional capital in order to fund its operations.

Contingencies

Certain claims have been filed against the Company as follows:

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

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

Commitments

Effective July 1, 2012, under an amended service agreement between the Company and a company privately held by a director and officer of the Company, the Company will be charged \$10,500 per month for office accommodation and services ("Basic Rent") and \$1,750 per month per dedicated office ("Specific Rent"). The Company may terminate the agreement through written notice at any time by paying the Basic and Specific Rents for the lesser of 24 months or the remainder of the term. The agreement expires on August 31, 2017, and the remaining minimum fee commitment based on current rental space as at July 31, 2012 was \$252,000.

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

H. Financial Condition, Liquidity and Capital Resources (Continued)

Loans

During August 2012, the Company entered into two loan agreements, one with a private company controlled by a director and the other with a private company controlled by a consultant, for \$33,000 and \$15,000 respectively.

Interest is payable quarterly at prime plus two per cent per annum and the terms of the loans are for an initial period of six months, after which time all outstanding balances are repayable on demand.

As further consideration for providing the loans, the lenders are also entitled to a bonus equal to ten per cent of the loan amount in common shares.

The Company, in its sole discretion, can elect to repay all interest and loan balances by the issuance of common shares.

The loan agreements remain subject to TSX Venture Exchange approval.

I. Outstanding Equity and Convertible Securities

i) Issued and Outstanding Shares

As at July 31, 2012 and September 25, 2012, the Company had 128,240,913 common shares issued and outstanding. No shares were issued, cancelled or re-issued between July 31, 2012 and September 25, 2012.

ii) Stock Options

As at September 25, 2012, the Company had stock options outstanding as follows:

Exercise Price	Expiry Date	Balance		Balance
		July 31, 2012	Expired	September 25, 2012
\$0.58	October 19, 2012	25,000	-	25,000
\$0.21	March 26, 2013	435,000	20,000	415,000
\$0.16	January 8, 2015	2,455,000	20,000	2,435,000
\$0.17	November 29, 2015	2,330,000	20,000	2,310,000
\$0.17	December 13, 2015	315,000	-	315,000
\$0.15	November 8, 2016	500,000	-	500,000
\$0.15	February 2, 2017	150,000	-	150,000
\$0.10	June 5, 2017	350,000	-	350,000
Options outstanding		6,560,000	60,000	6,500,000
Options exercisable		6,485,000		6,462,500
Weighted average exercise price (outstanding and exercisable)		\$0.16	\$0.18	\$0.16
Weighted average remaining life in years (outstanding)		2.99		2.85
Weighted average remaining life in years (exercisable)		2.97		2.84

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

I. Outstanding Equity and Convertible Securities (Continued)

iii) Share Purchase Warrants

As at September 25, 2012, the Company had share purchase warrants outstanding as follows:

Exercise Price	Expiry Date	Balance July 31, 2012	Balance September 25, 2012
\$0.20	October 27, 2012	9,900,000	9,900,000
\$0.20	October 27, 2012	597,000	597,000
\$0.20	November 26, 2012	10,601,000	10,601,000
\$0.20	November 26, 2012	843,500	843,500
\$0.20	December 10, 2012	4,499,000	4,499,000
\$0.20	December 10, 2012	375,000	375,000
\$0.22	July 20, 2013	14,151,706	14,151,706
\$0.22	July 20, 2013	1,176,471	1,176,471
\$0.22	July 20, 2013	72,000	72,000
\$0.22	August 16, 2013	4,818,206	4,818,206
\$0.22	August 16, 2013	328,421	328,421
\$0.22	August 29, 2013	43,534	43,534
\$0.22	August 29, 2013	2,000	2,000
\$0.20	December 5, 2013	6,417,000	6,417,000
\$0.20	December 5, 2013	404,000	404,000
\$0.20	January 5, 2014	430,000	430,000
\$0.20	January 5, 2014	10,000	10,000
\$0.17	April 23, 2015	6,627,000	6,627,000
\$0.17	April 23, 2015	182,000	182,000
		61,477,838	61,477,838
Weighted average exercise price		\$0.20	\$0.20
Weighted average remaining life in years		0.92	0.77

J. Subsequent Events and Outlook

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

K. Financial Instruments

The Company's financial instruments include cash, other receivables, reclamation bonds, accounts payable and amounts due to related parties.

Other than cash, the Company's financial instruments have no material risk exposure. Risk is managed with respect to cash by risk management policies that require cash deposits or short-term investments be invested with Canadian chartered banks rated BBB or better, or commercial paper issuers R1/A2/P2 or higher. In addition, all investments must be less than one year in duration.

L. Off-Balance Sheet Arrangements

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

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

M. Disclosure Controls and Procedures

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control.

The Audit Committee is composed of three independent directors, who meet at least quarterly with management and, at least annually with the external auditors to review accounting, internal control, financial reporting, and audit matters.

There have been no significant changes to the Company's internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

The audit committee has established 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 Whistleblower policy is in accordance with National Instrument 52-110 Audit Committees, National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices.

Being a venture issuer, the Company is exempted from the certification on Disclosure Controls and Procedures and Internal Control Over Financial Reporting. The Company is required to file Form 52-109FV1 for annual reporting and Form 52-109FV2 for interim reporting.

N. Risks and Uncertainties

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

Exploration Stage Company

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

Once mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves through drilling and bulk sampling, to determine the optimal metallurgical process to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities.

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

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

N. Risks and Uncertainties (Continued)

No Operating History and Availability of Financial Resources

The Company does not have an operating history and has no operating revenues and is unlikely to generate any significant amount in the foreseeable future. Hence, 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 issuance of securities.

The Company will need to continue its reliance on the issuance 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. Failure to obtain additional funding on a timely basis could result in delay or indefinite postponement of further exploration and development and could cause the Company to forfeit its interests in some or all of its properties or to reduce or discontinue its operations.

Price Volatility and Lack of Active Market

In recent months, the securities markets in Canada and elsewhere have experienced a high level of price and volume volatility, and the market prices of securities of many public companies have experienced significant fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. It may be anticipated that any quoted market for the Company's securities will be subject to such market trends and that the value of such securities may be affected accordingly. If an active market does not develop, the liquidity of the investment may be limited and the market price of such securities may decline below the subscription price.

Competition

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

Government Regulations and Environmental Risks and Hazards

The Company conduct is subject to various federal, provincial, state laws, rules and regulations, including environmental legislation. Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the resource property interests, the potential for production on the property may be diminished or negated.

The Company has adopted environmental practices designed to ensure that it continues to comply with environmental regulations currently applicable to it. All of the Company's activities are in compliance in all material respects with applicable environmental legislation. Environmental hazards may exist on the Company's properties, which may have been caused by previous or existing owners or operators of the properties. The Company is not aware of any existing environmental hazards related to any of its current property interests that may result in material liability to the Company.

Southern Silver Exploration Corp. (An Exploration Stage Company)

Management's Discussion and Analysis

For the Three Months Ended July 31, 2012

N. Risks and Uncertainties (Continued)

Title to Property

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

Dependence on Key Personnel

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

Licenses and Permits

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

O. Proposed Transactions

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

P. Forward-Looking Statements

Some of the statements contained in this MD&A may be deemed "forward-looking statements." These include estimates and statements that describe the Company's future plans, objectives or goals, and expectations of a stated condition or occurrence. Forward-looking statements may be identified by the use of words such as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", or "plan". Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties.

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

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