



(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010

NOTICE OF AUDITOR'S REVIEW OF
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

SILVERMEX RESOURCES LTD.

(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS

(Unaudited in Canadian dollars)

	<u>January 31, 2010</u>	<u>April 30, 2009</u>
<u>ASSETS</u>		
Current		
Cash	\$ 2,751,672	\$ 160,327
Amounts receivable	168,453	48,053
Prepaid expenses	94,960	74,640
	<u>3,015,085</u>	<u>283,020</u>
Prepaid property permits (Note 3)	13,606	-
Equipment (Note 4)	248,607	82,690
Resource properties (Note 6)	8,230,964	6,377,971
Deferred financing costs (Note 14)	10,000	-
	<u>\$ 11,518,262</u>	<u>\$ 6,743,681</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current		
Accounts payable and accrued liabilities	\$ 1,188,144	\$ 34,899
Due to related parties (Note 7)	91,126	51,781
Promissory notes (Note 9)	118,000	-
	<u>1,397,270</u>	<u>86,680</u>
Asset retirement obligation	83,107	-
Deferred acquisition costs (Note 5)	1,057,395	-
	<u>2,537,772</u>	<u>86,680</u>
Shareholders' equity		
Share capital (Note 8)	13,490,592	11,196,436
Share subscriptions (Note 14)	2,382,548	-
Warrants (Note 8)	1,017,446	1,376,933
Contributed surplus (Note 8)	1,592,533	1,069,692
Deficit	(9,502,629)	(6,986,060)
	<u>8,980,490</u>	<u>6,657,001</u>
	<u>\$ 11,518,262</u>	<u>\$ 6,743,681</u>

Nature of operations and going concern (Note 1)**Commitments** (Note 11)**Subsequent events** (Note 14)

The accompanying notes are an integral part of these consolidated financial statements

SILVERMEX RESOURCES LTD.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited, in Canadian dollars except for share and per share amounts)

	Three months ended January 31,		Nine months ended January 31,	
	2010	2009	2010	2009
GENERAL AND ADMINISTRATIVE EXPENSES				
Accounting and audit	\$ 10,500	\$ 4,500	\$ 51,281	\$ 50,889
Amortization	10,572	7,573	24,159	25,029
Bank charges and interest (Note 9)	1,215	(1,034)	21,877	175
Consulting	179,159	39,390	261,244	124,319
Financing fees	12,873	-	12,873	-
Foreign exchange loss	117,469	21,291	123,705	84,700
Investor relations	95,187	140,021	378,354	272,736
Legal	24,999	2,455	35,129	42,776
Miscellaneous exploration expenditures	11,350	139	22,326	2,567
Office and miscellaneous	29,462	15,801	92,535	63,038
Rent	15,652	11,442	34,555	33,974
Regulatory and filing fees	9,933	2,738	26,794	20,409
Salaries and wages	62,907	145,793	206,477	577,825
Stock-based compensation	678,111	-	682,160	117,522
Telephone	11,429	6,449	28,262	20,984
Travel	28,847	3,059	64,098	34,993
Write-off of resource property (Note 6)	451,155	-	451,155	-
	(1,750,820)	(399,617)	(2,516,984)	(1,471,936)
OTHER ITEMS				
Interest income	415	337	415	13,404
Net loss and comprehensive loss for the period	\$ (1,750,405)	\$ (399,280)	\$ (2,516,569)	\$ (1,458,532)
Loss per share – basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.05)	\$ (0.05)
Weighted average number of shares outstanding	58,547,555	30,098,381	53,762,946	29,991,516

The accompanying notes are an integral part of these consolidated financial statements

SILVERMEX RESOURCES LTD.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited in Canadian dollars)

	Three months ended January 31,		Nine months ended January 31,	
	2010	2009	2010	2009
CASH FLOWS FROM (TO) OPERATING ACTIVITIES				
Loss for the period	\$ (1,750,405)	\$ (399,280)	\$ (2,516,569)	\$ (1,458,532)
Items not affecting cash:				
Amortization	10,572	7,573	24,159	25,029
Stock-based compensation	678,111	-	682,160	117,522
Accrued interest on promissory notes	-	-	18,000	-
Write-off of resource property	451,155	-	451,155	-
	(610,567)	(391,707)	(1,341,095)	(1,315,981)
Changes in non-cash working capital items:				
Amounts receivable	(132,173)	181,102	(120,400)	326,835
Prepaid expenses	(62,378)	(2,667)	(33,926)	34,219
Accounts payable and accrued liabilities	139,088	(2,580)	297,896	251,718
Due to related parties	58,048	(67,940)	39,345	117,623
Cash flows used in operating activities	(607,982)	(283,792)	(1,158,180)	(585,586)
CASH FLOWS FROM (TO) INVESTING ACTIVITIES				
Purchase (sale) of equipment	(190,076)	-	(190,076)	6,561
Expenditures on resource properties	(2,577,295)	(224,285)	(2,742,041)	(1,392,790)
Deferred acquisition costs	2,571,033	-	2,162,744	-
Cash flows to investing activities	(196,338)	(224,285)	(769,373)	(1,386,229)
CASH FLOWS FROM (TO) FINANCING ACTIVITIES				
Issuance of common shares	1,175,825	1,500,000	2,066,530	1,711,350
Share issue costs	-	(190,406)	(20,180)	(192,833)
Share subscriptions	2,382,548	202,500	2,382,548	202,500
Deferred financing costs	(10,000)	-	(10,000)	-
Promissory notes	-	-	200,000	-
Repayment of promissory note	-	-	(100,000)	-
Cash flows from financing activities	3,548,373	1,512,094	4,518,898	1,721,017
Decrease in cash during the period	2,744,053	1,004,017	2,591,345	(250,798)
Cash, beginning of period	7,619	200,315	160,327	1,455,130
		\$		
Cash, end of period	\$ 2,751,672	1,204,332	\$ 2,751,672	\$ 1,204,332
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -
Cash paid for interest	\$ -	\$ -	\$ -	\$ -
Non – cash activities				
Revaluation of shares issued on acquisition of resource property	\$ -	\$ -	\$ (530,000)	\$ -
Shares issued on acquisition of subsidiary	\$ (102,500)	\$ -	\$ 250,000	\$ -
Shares issued on acquisition of resource property	\$ -	\$ -	\$ 9,000	\$ 13,125
Fair value of securities granted and issued	\$ 714,290	\$ 369,952	\$ 1,068,949	\$ 383,077
Fair value of options and warrants exercised	\$ 808,218	\$ 152,748	\$ 905,595	\$ 152,748

The accompanying notes are an integral part of these consolidated financial statements

SILVERMEX RESOURCES LTD.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited in Canadian dollars)

	Number of common shares	Amount	Warrants	Contributed surplus	Share Subscription	Deficit	Total shareholders' equity
Balance, April 30, 2008	29,387,251	\$ 10,108,838	\$ 727,248	\$ 822,034	\$ -	\$ (3,696,847)	\$ 7,961,273
Issued:							
Private placements (Note 8e)	18,735,000	966,855	906,645	-	-	-	1,873,500
Options exercised (Note 8a)	225,000	278,750	-	(152,750)	-	-	126,000
Agent's warrants exercised (Note 8b)	284,500	85,350	-	-	-	-	85,350
Property acquisition (Note 8c)	75,000	30,750	-	-	-	-	30,750
Shares returned to treasury (Note 8d)	(75,000)	(75)	-	75	-	-	-
Share issue costs (Note 8e)	-	(274,032)	(256,960)	280,787	-	-	(250,205)
Stock-based compensation	-	-	-	119,546	-	-	119,546
Net loss for the year	-	-	-	-	-	(3,289,213)	(3,289,213)
Balance, April 30, 2009	48,631,751	11,196,436	1,376,933	1,069,692	-	(6,986,060)	6,657,001
Issued:							
Private placement (Note 8g)	4,554,000	443,977	330,203	-	-	-	774,180
Warrants exercised (Note 8h)	7,871,000	1,962,024	(746,274)	-	-	-	1,215,750
Agent's warrants exercised (Note 8j)	766,000	179,335	56,584	(159,319)	-	-	76,600
Property acquisitions (Note 8i)	1,287,500	259,000	-	-	-	-	259,000
Re-issuance of property acquisition shares (Note 8f)	-	(530,000)	-	-	-	-	(530,000)
Share issue costs (Note 8g)	-	(20,180)	-	-	-	-	(20,180)
Share subscriptions received (Note 14)	-	-	-	-	2,382,548	-	2,382,548
Stock-based compensation	-	-	-	682,160	-	-	682,160
Net loss for the period	-	-	-	-	-	(2,516,569)	(2,516,569)
Balance, January 31, 2010	63,110,251	\$ 13,490,592	\$ 1,017,446	\$ 1,592,533	\$ 2,382,548	\$ (\$9,502,629)	\$ 8,980,490

The accompanying notes are an integral part of these consolidated financial statements

SILVERMEX RESOURCES LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

January 31, 2010

(All amounts in Canadian dollars, except for share amounts)

1. NATURE OF OPERATIONS AND GOING CONCERN

Silvermex Resources Ltd. (the “Company”) was incorporated on April 17, 2005 under the laws of the Province of British Columbia. The Company is in the business of acquiring, exploring and evaluating mineral resource properties in Mexico, through its wholly-owned subsidiaries, Minera Terra Plata, S.A. de C.V (“Terra Plata”) and Aurcana de Mexico S.A. de C.V. (Aurcana Mexico). The Company is listed for trading on the TSX Venture Exchange (“Exchange”). The Company is in the exploration stage. The recovery of the Company's investment in its resource properties is dependent upon the discovery, development and sale of mineral products, and the ability to raise sufficient capital to finance these activities.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. However, the Company has incurred losses since inception of \$9,502,629 and the ability of the Company to continue as a going-concern depends upon its ability to continue to raise adequate financing and to develop profitable operations. Although the Company has completed a private placement, in the future it will still need to target sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions to assure continuation of the Company's exploration programs. The Company is dependent upon its ability to generate such financing in order for it to meet its liabilities as they come due, and to continue its operations. There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. The net realizable value of the Company's assets may be materially less than the amounts recorded in these financial statements should the Company be unable to secure sufficient additional financing in the future and therefore be in a position to realize its assets and discharge its liabilities in the normal course of business.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”). The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements. These unaudited interim financial statements do not include in all respects the annual disclosure requirements of GAAP and should be read in conjunction with the most recent audited annual statements. The accounting principles used include:

Changes in accounting policies

a) Goodwill and Intangible Assets

CICA section 3064 replaces the former CICA 3062 – Goodwill and other intangible assets and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. CICA 3064 is effective for interim and annual financial statements for years beginning on or after January 1, 2009. The Company adopted this section effective April 1, 2009. There was no material change to the results of operations or financial position of the Company.

b) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009 the CICA issued EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities” which requires the Company to consider its own credit risk as well as the credit risk of its counterparties when determining the fair value of financial assets and liabilities, including derivative instruments. The accounting treatments provided in EIC-173 have been applied in the preparation of these financial statements and as required have been applied retrospectively without restatement of prior periods. The adoption of this standard did not have a material impact on the valuation of financial assets or liabilities.

SILVERMEX RESOURCES LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

January 31, 2010

(All amounts in Canadian dollars, except for share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES - (continued)

c) Mining Exploration Costs

In March 2009 the CICA issued EIC-174, "Mining Exploration Costs" which provides guidance to mining enterprises related to the measurement of exploration costs and the conditions that a mining enterprise should consider when determining the need to perform an impairment review of such costs. The accounting treatments provided in EIC-174 have been applied in the preparation of these financial statements and did not have an impact on the valuation of exploration assets.

New accounting pronouncements

CICA has issued new standards which may affect the financial disclosures and results of operations of the Company. The Company will adopt the requirements on the date specified in each respective section and is considering the impact this will have on the consolidated financial statements.

a) Business combinations, consolidated financial statements and non-controlling interests

CICA sections 1582, 1601 and 1602 replace the former CICA 1581, Business Combinations and CICA 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to FASB Statements No. 141(R), Business Combinations and No. 160 Non-controlling Interests in Consolidated Financial Statements. CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

b) Financial Instruments - Disclosures

In June 2009 the CICA amended Section 3862, Financial Instruments-Disclosures, to include enhanced disclosures on the liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. The Company will apply these amendments to its 2010 annual consolidated financial statements. The impact of the amendments to the fair value measurement and liquidity risk disclosure requirements of the Company are not expected to be significant.

c) Comprehensive revaluation of assets and liabilities

In August 2009, the CICA amended Section 1625, Comprehensive revaluation of assets and liabilities. This section has been amended as a result of issuing Business combinations, Section 1582, Consolidated financial statements, Section 1601, and Non-controlling interests, Section 1602, in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. If the Company adopts this section for a fiscal year beginning before January 1, 2011, it also adopts Section 1582. The adoption of this standard is not expected to have a material impact on the Company's results of operations or its financial position.

SILVERMEX RESOURCES LTD.
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
January 31, 2010

(All amounts in Canadian dollars, except for share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES - (continued)

d) Financial instruments-recognition and measurement

In August 2009, the CICA amended Section 3855, Financial Instruments-Recognition and Measurement. This Section has been amended to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply to reclassifications made on or after July 1, 2009. Earlier adoption is permitted. Also, this Section has been amended to:

- change the categories into which a debt instrument is required or permitted to be classified;
- change the impairment model for held-to-maturity financial assets to the incurred credit loss model of Impaired loans, Section 3025; and
- require reversal of previously recognized impairment losses on available-for sale financial assets in specified circumstances.

These amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. This standard is not expected to have a material impact on the Company's financial condition or operation results.

e) International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than in the first quarter of 2011, with restatement of comparative information presented. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency activities, certain contractual arrangements, capital requirements and compensation arrangements. The Company is currently evaluating the future impact of IFRS on its financial statements and will continue to invest in training and additional resources to ensure a timely conversion.

3. PREPAID PROPERTY PERMITS

On March 15, 2008, Aurcana Mexico signed an agreement with the Ejido La Rastra which permitted Aurcana Mexico to occupy the Rosario property for twenty years. The annual rent payable has been negotiated for the first five years of the agreement.

4. EQUIPMENT

	January 31, 2010			April 30, 2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	\$ 42,916	\$ -	\$ 42,916	\$ -	\$ -	\$ -
Computer equipment	19,482	16,008	3,474	26,266	18,164	8,102
Leasehold improvements	10,524	7,472	3,052	10,524	5,893	4,631
Exploration equipment	167,504	3,392	164,112			
Office furniture and equipment	44,862	21,666	23,196	49,536	19,319	30,217
Vehicles	12,373	516	11,857	77,242	37,502	39,740
	<u>\$ 297,661</u>	<u>\$ 49,054</u>	<u>\$ 248,607</u>	<u>\$ 163,568</u>	<u>\$ 80,878</u>	<u>\$ 82,690</u>

During the period ended January 31, 2010, Minera Terra Plata sold out its furniture, equipment, and vehicle at its book value of \$35,212.

SILVERMEX RESOURCES LTD.**(An Exploration Stage Company)****Notes to the Consolidated Financial Statements****January 31, 2010**(All amounts in Canadian dollars, except for share amounts)

5. AURCANA ACQUISITION

On November 30, 2009, the Company acquired from Aurcana Corporation. ("Aurcana") all of the issued and outstanding shares of Aurcana Mexico. Aurcana Mexico holds the rights to the Rosario property. The purchase price for the Rosario property was \$1,429,557. The acquisition was treated as an acquisition of assets.

The purchase price equation for 100% of the Aurcana shares is:

<u>Consideration:</u>	
Cash	\$ 1,179,557
Common shares	250,000
Total purchase price	<u><u>\$ 1,429,557</u></u>
<u>Assets and liabilities acquired:</u>	
Assets including Rosario property	\$ 2,756,705
Assumption of debt to IMMSA	(1,243,939)
Asset retirement obligation	(83,209)
	<u><u>\$ 1,429,557</u></u>

The agreement provides for the following payments: 1,250,000 common shares issued to Aurcana (Note 8i); \$250,000 to Aurcana less \$127,843 for certain equipment sold to Aurcana by November 30, 2009 (paid); US\$30,000 a month to a maximum of \$85,000 to Aurcana for operating expenses incurred commencing August 1, 2009 (paid); \$17,836 as personnel payments (paid); US\$366,893 to Industrial Minera Mexico, S.A. de C.V. ("IMMSA") (paid); US\$731,500 (plus IVA and interest) to IMMSA (paid subsequently); a further 1,000,000 shares to be issued upon the earlier of October 9, 2011 or the commencement of production; US\$500,000 to Aurcana upon the earlier of April 9, 2012 or six months after the commencement of commercial production; a further US\$500,000 by October 9, 2012; US\$500,000 to Aurcana or 500,000 shares at the option of Aurcana within 18 months following the commencement of commercial production; US\$500,000 to Aurcana or 500,000 shares at the option of Aurcana within 24 months following the commencement of commercial production; and, US\$500,000 to Aurcana within 30 months following commencement of commercial production or 500,000 shares at the option of Aurcana. An NSR is also payable.

As of January 31, 2010, the Company has paid a total of \$818,090 and issued 1,250,000 common shares valued at the date of the announcement at \$250,000, of which 1,000,000 were placed in escrow (Note 8). Subsequent to January 31, 2010, a further US\$731,500 (plus IVA and interest) was paid to IMMSA.

SILVERMEX RESOURCES LTD.**(An Exploration Stage Company)****Notes to the Consolidated Financial Statements****January 31, 2010**

(All amounts in Canadian dollars, except for share amounts)

6. RESOURCE PROPERTIES

	April 30, 2008	Additions (Write offs)	April 30, 2009	Additions (Write offs)	January 31, 2010
PEÑASCO QUEMADO PROJECT (Note 6a)					
<i>Acquisition and holding costs</i>					
Acquisition costs	\$ 874,813	\$ 210,385	\$ 1,085,198	\$ -	\$ 1,085,198
Claim staking	19,380	-	19,380	-	19,380
Mining taxes	43,218	31,244	74,462	13,131	87,593
Surface rights and rights of way	55,143	17,501	72,644	-	72,644
	<u>992,554</u>	<u>259,130</u>	<u>1,251,684</u>	<u>13,131</u>	<u>1,264,815</u>
<i>Deferred exploration costs</i>					
Assaying	146,428	54,750	201,178	-	201,178
Camp and accommodation	58,501	11,897	70,398	1,383	71,781
Communications	3,297	1,605	4,902	-	4,902
Drafting, reporting and reproduction	12,791	792	13,583	-	13,583
Drilling	693,233	-	693,233	-	693,233
Engineering and feasibility	5,053	-	5,053	-	5,053
Equipment rental	11,906	-	11,906	-	11,906
Geophysics	110,517	40,231	150,748	-	150,748
Legal expenses	41,238	292	41,530	-	41,530
Miscellaneous exploration expenses	140,539	53,904	194,443	2,357	196,800
Salaries and consulting fees	709,394	120,157	829,551	55,546	885,097
Travel expenses	46,253	634	46,887	252	47,139
Trenching and road construction	53,728	3,484	57,212	-	57,212
	<u>2,032,878</u>	<u>287,746</u>	<u>2,320,624</u>	<u>59,538</u>	<u>2,380,162</u>
Total Peñasco Quemado Project	3,025,432	546,876	3,572,308	72,669	3,644,977
LOBOS PROJECT (Note 6b)					
<i>Acquisition and holding costs</i>					
Claim staking	7,257	1,618	8,875	-	8,875
Mining taxes	6,816	15,071	21,887	13,639	35,526
Surface rights and rights of way	-	7,028	7,028	-	7,028
	<u>14,073</u>	<u>23,717</u>	<u>37,790</u>	<u>13,639</u>	<u>51,429</u>
<i>Deferred exploration costs</i>					
Assaying	7,055	2,190	9,245	-	9,245
Camp and accommodation	2,864	-	2,864	-	2,864
Communications	353	-	353	-	353
Miscellaneous exploration expenses	6,670	158	6,828	-	6,828
Salaries and consulting fees	1,594	7,082	8,676	5,587	14,263
Travel expenses	130	-	130	-	130
	<u>18,666</u>	<u>9,430</u>	<u>28,096</u>	<u>5,587</u>	<u>33,683</u>
Total Lobos Project	32,739	33,147	65,886	19,226	85,112
CERRO DE PLATA PROJECT (Note 6c)					
<i>Acquisition and holding costs</i>	216,452	15,292	231,744	-	231,744
<i>Deferred exploration costs</i>	1,088,601	(1,320,345)	(231,744)	-	(231,744)
Total Cerro de Plata Project	1,305,053	(1,305,053)	-	-	-
EL RAYO PROJECT (Note 6d)					
<i>Acquisition and holding costs</i>	45,502	10,122	55,624	-	55,624
<i>Deferred exploration costs</i>	17,152	(72,776)	(55,624)	-	(55,624)
Total El Rayo Project	62,654	(62,654)	-	-	-

SILVERMEX RESOURCES LTD.**(An Exploration Stage Company)****Notes to the Consolidated Financial Statements****January 31, 2010**

(All amounts in Canadian dollars, except for share amounts)

6. RESOURCE PROPERTIES – (continued)

	April 30, 2008	Additions (Write offs)	April 30, 2009	Additions (Write offs)	January 31, 2010
LETY PROJECT (Note 6e)					
<i>Acquisition costs and holding costs</i>					
Acquisition costs	203,307	98,146	301,453	30,172	331,625
Claim staking	9,016	-	9,016	-	9,016
Mining taxes	3,989	4,634	8,623	3,353	11,976
	<u>216,312</u>	<u>102,780</u>	<u>319,092</u>	<u>33,525</u>	<u>352,617</u>
<i>Deferred exploration costs</i>					
Assaying	-	6,776	6,776	-	6,776
Camp and accommodation	2,646	3,728	6,374	-	6,374
Communications	264	201	465	-	465
Drafting, reporting and reproduction	166	-	166	-	166
Miscellaneous exploration expenses	7,977	2,231	10,208	108	10,316
Salaries and consulting fees	25,346	24,234	49,580	24,526	74,106
Travel expenses	335	-	335	-	335
	<u>36,734</u>	<u>37,170</u>	<u>73,904</u>	<u>24,634</u>	<u>98,538</u>
Write-off of property	-	-	-	(451,155)	(451,155)
Total Lety Project	253,046	139,950	392,996	(392,996)	-
SAN MARCIAL PROJECT (Note 6f)					
<i>Acquisition and holding costs</i>					
Acquisition costs	1,280,000	-	1,280,000	(530,000)	750,000
Mining taxes	7,041	14,917	21,958	7,045	29,003
Surface rights and rights of way	-	9,520	9,520	-	9,520
	<u>1,287,041</u>	<u>24,437</u>	<u>1,311,478</u>	<u>(522,955)</u>	<u>788,523</u>
<i>Deferred exploration costs</i>					
Assaying	119	14,447	14,566	214	14,780
Camp and accommodation	3,276	10,480	13,756	2,263	16,019
Communications	191	914	1,105	29	1,134
Drafting, reporting and reproduction	-	1,309	1,311	-	1,311
Drilling	-	374,886	374,886	-	374,886
Field work	7,422	16,806	24,228	37,481	61,709
Geophysics	-	29,127	29,127	1,768	30,895
Geological	11,494	-	11,494	-	11,494
Miscellaneous exploration expenses	40,219	63,036	103,253	8,702	111,955
Salaries and consulting fees	5,000	207,380	212,380	66,193	278,573
Travel expenses	1,498	2,269	3,767	1,298	5,065
Trenching and road construction	15,426	67,556	82,982	3,877	86,859
	<u>84,645</u>	<u>788,210</u>	<u>872,855</u>	<u>121,825</u>	<u>994,680</u>
Total San Marcial Project	1,371,686	812,647	2,184,333	(401,131)	1,783,202

SILVERMEX RESOURCES LTD.**(An Exploration Stage Company)****Notes to the Consolidated Financial Statements****January 31, 2010**

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6. RESOURCE PROPERTIES – (continued)

	2008	Additions (Write offs)	2009	Additions (Write offs)	January 31, 2010
LA FRAZADA PROJECT (Note 6g)					
<i>Acquisition and holding costs</i>					
Acquisition costs	-	21,157	21,157	-	21,157
Mining taxes	-	369	369	145	514
		21,526	21,526	145	21,671
<i>Deferred exploration costs</i>					
Assaying	-	9,837	9,837	165	10,002
Camp and accommodation	-	13,517	13,517	778	14,295
Communications	-	606	606	35	641
Drafting, reporting and reproduction	-	183	183	-	183
Geophysics	-	21,181	21,181	1,767	22,948
Miscellaneous exploration expenses	-	11,259	11,259	4,804	16,063
Salaries and consulting fees	1,671	60,974	62,645	17,142	79,787
Travel expenses	-	1,005	1,005	-	1,005
	-	118,562	120,233	24,691	144,924
Total La Frazada Project	1,671	140,088	141,759	24,836	166,595
ROSARIO PROJECT (Note 5)					
<i>Acquisition and holding costs</i>					
Acquisition costs	-	-	-	1,901,666	1,901,666
	-	-	-	1,901,666	1,901,666
<i>Deferred exploration costs</i>					
Camp and accommodation	-	-	-	573,438	573,438
Salaries and consulting fees	-	-	-	55,285	55,285
	-	-	-	628,723	628,723
Total Rozario Project	-	-	-	2,530,389	2,530,389
OTHER PROJECTS					
<i>Deferred exploration costs</i>					
Geophysics	16,137	-	16,137	-	16,137
Field work	232	3,600	3,832	-	3,832
Reports and maps	720	-	720	-	720
Total Other Projects	17,089	3,600	20,689	-	20,689
Total Property Expenditures	\$ 6,069,370	\$ 308,601	\$ 6,377,971	\$ 1,852,993	\$ 8,230,964

a) Peñasco Quemado Project, Tubutama, Sonora, Mexico

In April 2009, the Company fulfilled its contractual obligations under the option agreement transferred to the Company on May 26, 2005 and has acquired a 100% interest in the Peñasco Quemado Project by paying a total of US\$600,000 and issuing 500,000 common shares over a four year period.

On April 28, 2005, the Company entered into a funding agreement (“Funding Agreement”) with Silver Standard Resources Inc. (“Silver Standard”), which granted Silver Standard an option to enter into a joint venture with respect to the project upon notification by the Company that it has prepared a resource estimate that meets or exceeds an aggregate of 30 million ounces of silver in the measured, indicated and inferred mineral resource categories. Upon such notification, Silver Standard may elect to enter into a joint venture by expending the greater of double the expenditures incurred to that date by the Company or US\$1,000,000. Upon the formation of the joint venture, Silver Standard would acquire a 51% interest and would be the operator of the project. Silver Standard would also be responsible for reimbursing the Company for all property payments made to that date. Silver Standard may increase its interest to 70% by paying all costs required to complete a feasibility study.

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6. RESOURCE PROPERTIES – (continued)

The Funding Agreement contains a right of first offer provision whereby Silver Standard has a right of first refusal on the Company's interest in the project. The Funding Agreement also contains a dilution provision which provides that in the event either party's interest is diluted below 10%, it shall relinquish its participating interest to the other party in return for a 1% net smelter return.

During the year ended April 30, 2006, the Company staked another three exploration concessions (9,180 hectares) and received property titles issued by the Mexican General Mining Bureau. These concessions are located in Tubutama and Atil in Sonora, Mexico and have been included in the Peñasco Quemado Project. These concessions are not part of the Funding Agreement with Silver Standard.

b) Lobos Project, Caborca/Pitiquito, Sonora, Mexico.

In January 2006 the Company staked one concession and received a property title issued by the Mexican General Mining Bureau.

c) Cerro de Plata Project, Sonora, Mexico

On October 20, 2006, the Company entered into an option agreement to acquire up to a 100% interest in the 10,000 hectare mining concession. In July 2009 the Company decided to abandon the property, resulting in all expenditures on this property being written-off in fiscal 2009.

d) El Rayo Project, Magdalena de Keno, Sonora, Mexico

On May 28, 2007, the Company entered into an option agreement, amended on March 19, 2009, for the El Rayo Project. During the year ended April 30, 2007, the Company staked a 2,203 hectare claim surrounding the El Rayo and El Viento properties. In July 2009 the Company decided to abandon the property, resulting in all expenditures on this property being written-off in fiscal 2009.

e) Lety Project, Santa Maria del Oro, Durango, Mexico

In May 2007, the Company signed an option agreement, amended on February 25, 2008, January 14, 2009, and June 10, 2009, to acquire a 100% interest in the Lety Project. In consideration for this interest, the Company paid a total of US\$200,000 and issued 175,000 shares over a two year option period. During the year ended April 30, 2007, the Company staked a 5,000 hectare claim fully surrounding the Lety property and has included it in the project.

In the period ended January 31, 2010, the Company abandoned the property, resulting in all expenditures on this property being written-off.

f) San Marcial Project, Sinaloa, Mexico

In October 2007, the Company executed a term sheet and on March 19, 2009 finalized the formal agreement with Silver Standard to earn a 100% interest in the San Marcial Project. Under this agreement, the Company can acquire a 100% interest by issuing 3,000,000 common shares in three stages by February 1, 2011. The first 1,000,000 shares were originally issued at a price of \$1.28, however, they were subsequently returned to treasury during the period to be re-issued at a deemed price of \$0.75 as required under the agreement (Note 8f). All subsequent shares issuances will be valued based on the market price of the shares of the Company at the time of issue (Note 14d). The Company must also pay US\$15 million (less the deemed value of the 3,000,000 common shares issued) in either cash or shares at the election of Silver Standard, by February 1, 2012. The Company must also expend US\$1 million on exploration by February 1, 2011, and the Company is obligated to pay Silver Standard US\$100,000 per month commencing after commercial production has begun which will be credited toward the purchase price. These payments will be credited against the purchase price. There is also a 3% net smelter return on the property, and the Company is also obligated to pay US\$100,000 to International American Resources Inc. as a production payment.

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6. RESOURCE PROPERTIES - (continued)

g) La Frazada Project, Nayarit, Mexico

On August 20, 2008, the Company staked the La Frazada Project for US\$20,000.

7. RELATED PARTY TRANSACTIONS

- a) The Company incurred \$35,966 for consulting services, including services related to resource property development (2009 - \$53,669) provided by a director.
- b) The Company advanced \$5,030 (2008 - \$26,152) to a nominee company incorporated in Mexico. These funds were used to pay the salaries of the employees of one of the Company's subsidiaries in Mexico. As of January 31, 2010, \$132,434 (April 30, 2009 - \$8,022) was advanced to this company.
- c) During the nine months ended January 31, 2010, \$60,301 (2008 - \$198,342) was charged by a company related by common directors and common officers for shared office premises and expenses. As of January 31, 2010, \$87,976 (April 30, 2009 - \$26,675) was owed to this company.
- d) On August 20, 2008, the Company acquired the La Frazada Project for US\$20,000 from a company related by common directors and common officers (Note 6g). The company had staked the project as the Company's agent. As of January 31, 2010, US\$20,000 (April 30, 2009 - US\$20,000) was owed to this company.
- e) During the nine months ended January 31, 2010, the Company incurred \$80,000 of consulting fees (2009 - \$90,000) to a company controlled by its chief executive officer. As of January 31, 2010, \$12,500 (April 30, 2009 - \$2,500) was advances to this company.
- f) During the nine months ended January 31, 2010, the Company incurred \$27,000 of consulting fees (2009 - \$Nil) to its chief financial officer. As of January 31, 2010, \$3,150 (April 30, 2009 - \$Nil) was owed to this officer.
- g) During the nine months ended January 31, 2010, a subsidiary sold its furniture, equipment, and vehicle at its book value of \$35,212 to a company related by common directors. The subsidiary no longer requires these assets.
- h) During the nine months ended January 31, 2010, the Company incurred \$24,095 of consulting fees (2009 - \$Nil) to its president.

The transactions with related parties were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the parties.

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS

The authorized share capital of the Corporation consists of an unlimited number of common shares.

- a) In fiscal 2009, 225,000 stock options at a price of \$0.56 were exercised for gross proceeds of \$126,000. The fair value of the options at the date of the grant of \$117,522 was recognized and transferred from contributed surplus on the exercise of these options.
- b) In fiscal 2009, 284,500 agent's warrants were exercised for total proceeds of \$85,350 and fair value of \$35,228 was recognized on these exercised warrants.
- c) In fiscal 2009, the Company issued 75,000 common shares valued at \$30,750 as a finder's fee for the acquisition of the Lety project (Note 6e).
- d) On February 10, 2009, the Company cancelled 75,000 escrowed shares at a price of \$0.001 per share. The stock value of \$75 was transferred to contributed surplus.

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8. SHARE CAPITAL AND CONTRIBUTED SURPLUS - (continued)

- e) In fiscal 2009, the Company closed a private placement financing totaling \$1,837,500 in two tranches. The first brokered tranche, closed on January 30, 2009, consisted of 15,000,000 units for gross proceeds of \$1,500,000. The second non-brokered tranche, closed on February 2, 2009, consisted of 3,635,000 units for gross proceeds of \$363,500. Each unit has a price of \$0.10 per unit and consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share until July 30, 2010 at a price of \$0.15 per share.

The Agent's compensation consisted of \$135,000 in cash, 100,000 corporate finance units with the same terms as the units, and 1,350,000 agent's options exercisable into units at a price of \$0.10 until July 30, 2010. In addition, the agent received a corporate finance fee of \$25,000 and a work fee of \$5,000. A fair value of \$280,787 was recognized on the agent's options, \$901,782 was assigned to the warrants, and \$4,863 was assigned to the warrants issued on corporate finance units. The assumptions used to determine the fair value of the warrants are consistent with those disclosed under "Stock-based Compensation" below. Finders' fees of \$21,550 were paid.

- f) In the period ended January 31, 2010, the 1,000,000 shares previously issued on the acquisition of the San Marcial property and valued at a price of \$1.28 were returned to treasury and reissued at a deemed price of \$0.75 in compliance with the formal agreement and Exchange policies (Note 6f).
- g) On September 11, 2009, the Company closed a non-brokered private placement for gross proceeds of \$774,180. The private placement consisted of 4,554,000 units at a price of \$0.17 per unit. Each unit consists of one common share and one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 before September 11, 2010. A fair value of \$330,203 was assigned to these warrants. The assumptions used to determine the fair value of the warrants are consistent with those disclosed under "Stock-based Compensation" below. Finders' fees of \$15,558 were paid.
- h) During the period ended January 31, 2010, 7,169,000 warrants at \$0.15 and 702,000 warrants at \$0.20 were exercised for total proceeds of \$1,215,750. A fair value of \$746,274 was recognized on these warrants.
- i) During the period ended January 31, 2010, 1,250,000 common shares were issued on the acquisition of Aurcana Mexico (Note 5). These shares were valued at \$250,000. 37,500 common shares valued at \$9,000 were issued as a finder's fee for the acquisition of the Lety project (Note 6e).
- j) During the period ended January 31, 2010, 766,000 agent's options at \$0.10 were exercised for total proceeds of \$76,600. A fair value of \$159,319 was recognized on these options and \$56,584 was assigned to the warrants issued with agent's options (Note 8e).

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, April 30, 2008	4,088,500	\$ 1.10
Exercised (Note 8b)	(284,500)	0.30
Expired	(3,804,000)	1.16
Issued	9,367,500	0.15
Outstanding, April 30, 2009	9,367,500	0.15
Exercised (Note 8h)	(7,871,000)	0.15
Issued	4,937,000	0.20
Outstanding, January 31, 2010	6,433,500	\$ 0.18

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8. SHARE CAPITAL AND CONTRIBUTED SURPLUS - (continued)

Warrants outstanding at January 31, 2010 are as follows:

Number of Warrants	Exercise Price	Expiry Date
2,581,500	\$ 0.15	July 30, 2010
3,852,000	\$ 0.20	September 11, 2010
6,433,500*		

* Subsequently, a total of 1,049,125 warrants were exercised (Note 14)

Options

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers, directors, employees and consultants. The Company at no time may have more than 10% of the outstanding issued common shares reserved for incentive stock options granted to any one individual. Options granted under the plan will have a term not to exceed five years, have an exercise price not less than the Discounted Market Price as defined by the TSX Corporate Finance Manual and may be subject to vesting terms as determined by the board of directors. Options granted to consultants performing investor relations activities vest over a period of twelve months.

Stock options outstanding at January 31, 2010 are as follows:

Number of Options	Number of Options Exercisable	Exercise Price	Expiry Date
100,000	100,000	\$ 0.25	November 12, 2010
1,000,000	1,000,000	\$ 0.30	July 31, 2011*
3,000,000	2,250,000	\$ 0.26	February 9, 2014*
1,400,000	1,400,000	\$ 0.34	December 4, 2014
5,500,000	4,750,000		

* Subsequently, a total of 600,000 options were exercised (Note 14)

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Shares	Weighted Average Exercise Price
Outstanding, April 30, 2008	1,875,000	\$ 0.60
Exercised (Note 8a)	(225,000)	0.56
Outstanding, April 30, 2009	1,750,000	0.59
Expired	(650,000)	1.11
Granted	4,400,000	0.29
Outstanding, January 31, 2010	5,500,000	\$ 0.29

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8. SHARE CAPITAL AND CONTRIBUTED SURPLUS - (continued)**Agents' options**

	Number of Options	Weighted Average Exercise Price	Expiry Date
Outstanding, April 30, 2008	192,880	\$ 1.00	
Expired	(192,880)	1.00	
Issued (Note 8e)	1,350,000	0.10	July 30, 2010
Outstanding, April 30, 2009	1,350,000	0.10	
Exercised (Note 8j)	(776,000)	0.10	
Outstanding, January 31, 2010	574,000*	\$ 0.10	

* Subsequently, 465,000 agent's options were exercised (Note 14)

Stock-based compensation

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. The fair value of stock options granted is recognized in income on a straight line basis over the vesting period. The total fair value of stock options vested during the fiscal 2009 was \$682,160 (2008 - \$117,522).

The following assumptions were used for the Black-Scholes valuation of stock options and agents' compensation options vested during 2009 and 2008:

	2009	2008
Risk-free interest rate	1.32 - 2.40%	2.73 - 3.76%
Expected life of options	1.5 - 5 years	2 - 5 years
Annualized volatility	115 - 140%	79 - 81%
Dividend rate	0.00%	0.00%

Escrow

1,000,000 shares were placed in escrow in accordance with the escrow agreement dated November 30, 2009. These shares are to be released at a rate of 25% every three months (based on the full 2,000,000 shares to be escrowed) commencing three months from issuance.

9. PROMISSORY NOTES

The Company wrote two promissory notes for \$100,000 each. A bonus of 10% is payable on each promissory note. The principal amounts and the bonuses were convertible at any time into common shares and/or warrants of the Company on the same terms and at a conversion rate equal to the price of the financing which closed on September 11, 2009. A holder of one of the promissory notes elected to convert \$100,000 of the promissory note and \$2,000 of the bonus into 600,000 shares in this private placement (Note 8g). The remaining promissory note for \$100,000 and \$18,000 in bonuses related to both promissory notes were repaid subsequent to January 31, 2010.

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10. FINANCIAL INSTRUMENTS

The Company's operations consist of the acquisition and exploration of mineral resource properties in Mexico. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and other risks. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Credit risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements. The Company's credit risk is predominantly limited to the recovery of IVA from the Mexican tax authorities. The Company expects to recover the full amount.

(i) Trade credit risk

The Company is in the exploration stage and has not yet commenced commercial production or sales. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

(ii) Cash and cash equivalents

In order to manage credit and liquidity risk the Company invests only in highly rated investment grade instruments that have maturities of three months or less. Limits are also established based on the type of investment, the counterparty and the credit rating.

(iii) Derivative financial instruments

The Company has no derivative financial instruments. It may in the future enter into derivative financial instruments and in order to manage credit risk, it will only enter into derivative financial instruments with highly rated investment grade counterparties.

(b) Liquidity risk

The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements and its exploration and development plans. The Company has the following cash commitments related to its properties for the following three fiscal years:

	For the year ended April 30		
	2010	2011	2012
Property payments: San Marcial (2)	-	-	15,000,000
Acquisition payment: Aurcana Mexico	-	-	500,000
Exploration commitment: San Marcial	-	1,000,000	-

(1) All amounts are denominated are in US dollars

(2) Maximum amount payable as Silver Standard may elect to be paid in shares; and, this payment is reduced by deemed value of 3,000,000 shares issued

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10. FINANCIAL INSTRUMENTS – (continued)

(c) Interest rate risk

The Company's interest revenue earned on cash and on short term investments is exposed to interest rate risk. The Company does not enter into derivative contracts to manage this risk, and the Company's exposure to interest rate is very low as the Company has limited short term investments.

(d) Fair value disclosures

The carrying values of cash and cash equivalents, amounts receivable, prepaid expenses, and accounts payable and accrued liabilities approximate their fair value based on their short term nature.

(e) Currency risk

The Company's functional currency is the Canadian dollar and therefore the Company's net loss and other comprehensive loss are impacted by fluctuations in the value of foreign currencies in relation to the Canadian dollar. The Company's foreign currency exposures comprise cash and cash equivalents and accounts payable and accrued liabilities denominated in Mexican pesos and United States dollars. Several of the Company's options to acquire properties in Mexico may result in option payments by the Company denominated in Mexican pesos or in United States dollars. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign exchange rates. Appreciation in the Mexican peso against the Canadian dollar will increase the cost of operations in Mexico. A decrease in the United States dollar against the Canadian dollar will result in a book loss to the extent funds are held in United States dollars. The Company is also exposed to inflation risk in Mexico.

The sensitivity of the Company's net loss and other comprehensive loss for the quarter ended January 31, 2010, due to changes in the exchange rate for the Mexican peso in relation to the Canadian dollar is summarized in the following table expressed as an increase in the net loss and comprehensive loss for each 10% appreciation in the Canadian dollar:

Net loss and other comprehensive loss	\$	10,825
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A 10% depreciation of the Mexican peso against the Canadian dollar would have a similar decrease in net loss.

A 10% appreciation in the US dollar in relation to the Canadian dollar would have increased the Company's net loss and comprehensive loss for the year ended October 30, 2009, by:

Net loss and other comprehensive loss	\$	84,792
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A 10% depreciation of the US dollar against the Canadian dollar would have a similar decrease in net loss.

11. COMMITMENTS

- a) In June 2009, the Company contracted Ute Koesler as an investor relations consultant for a twelve month period. This consultant is paid \$10,000 a month. The contract was subsequently terminated.
- b) The Board of Directors granted two of its directors a signing bonus, subject to receipt of the required regulatory approvals, of an aggregate of 1,750,000 common shares. These common shares will be issued in increments over a two-year period from the date of receiving all necessary approvals and will be subject to certain conditions.

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12. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition, exploration and evaluation of mineral properties. However, the Company operates in two geographical segments, Canada and Mexico. Geographic information is as follows:

	Total Assets	Equipment	Resource Properties	Other Assets
January 31, 2010				
Canada	\$ 2,746,955	\$ 27,268	\$ -	\$ 2,719,687
Mexico	8,771,307	221,339	8,230,964	319,004
	<u>\$ 11,518,262</u>	<u>\$ 248,607</u>	<u>\$ 8,230,964</u>	<u>\$ 3,038,691</u>
April 30, 2009				
Canada	\$ 110,895	\$ 34,413	\$ -	\$ 76,482
Mexico	6,631,117	48,277	6,376,302	206,537
	<u>\$ 6,742,012</u>	<u>\$ 82,690</u>	<u>\$ 6,376,302</u>	<u>\$ 283,020</u>

13. MANAGEMENT OF CAPITAL RISK

The Company manages its cash and cash equivalents, common shares, stock options and warrants as capital (Note 8). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets, or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. The Company is currently assessing financing alternatives for its exploration plans and operations through its current operating period. The Company is not currently subject to externally imposed financing restrictions.

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14. SUBSEQUENT EVENTS

- a) 1,049,125 warrants at \$0.15 were exercised for proceeds of \$157,369.
- b) 600,000 options at \$0.26 were exercised for proceeds of \$156,000.
- c) 465,000 agents' options at \$0.10 were exercised for proceeds of \$46,500.
- d) On February 1, 2010, the Company issued 1,000,000 shares for the acquisition of the San Marcial Project (Note 6f).
- e) The Company closed its private placement of 15,335,680 units at a price of \$0.45 per unit for gross proceeds of \$6,901,056. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase a common share for a period of 24 months from closing at a price of \$0.65 per share. The Company paid \$320,783 in finders' fees, issued 360,000 agent's compensation units and 100,000 corporate finance units and granted 1,003,244 agents' options, all exercisable into units with the same terms as the private placement units.
- f) The promissory note and remaining bonuses were repaid.
- g) The final payment of US\$731,500 (plus IVA and interest) was made on the IMMSA debt.