

SILVERMEX RESOURCES LTD.
(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

AND AUDITORS' REPORT

APRIL 30, 2007 AND 2006

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charlton

Charlton & Company
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To: the Shareholders of
Silvermex Resources Ltd.

We have audited the consolidated balance sheets of Silvermex Resources Ltd. (an exploration stage company) as at April 30, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the year ended April 30, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2007 and 2006 and the results of its operations and cash flows for the year ended April 30, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.

“Charlton & Company”

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
August 15, 2007

Silvermex Resources Ltd.
(An Exploration Stage Company)
Consolidated Balance Sheets
As of April 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current		
Cash and cash equivalents	\$ 1,223,282	\$ 20,943
Accounts receivable (Note 3)	151,453	53,130
Prepaid expenses	<u>40,591</u>	<u>13,082</u>
	1,415,326	87,155
Deferred financing charges (Note 5)	-	141,300
Equipment (Note 6)	105,700	-
Resource properties (Note 7)	<u>2,160,658</u>	<u>543,749</u>
	<u>\$ 3,681,684</u>	<u>\$ 772,204</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 123,826	\$ 150,711
Due to related parties (Note 8)	48,010	12,668
Loans payable (Note 8)	<u>-</u>	<u>65,000</u>
	171,836	228,379
Shareholders' equity		
Share capital (Note 9)	4,645,643	682,050
Contributed surplus (Note 9)	196,716	79,657
Deficit, per accompanying statement	<u>(1,332,511)</u>	<u>(217,882)</u>
	<u>3,509,848</u>	<u>543,825</u>
	<u>\$ 3,681,684</u>	<u>\$ 772,204</u>

Continuance of operations (Note 1)

Commitments (Note 12)

Contingencies (Note 13)

Subsequent events (Note 14)

Approved by the Board:

"Bruce Bragagnolo"
 Director

"Darcy Krohman"
 Director

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

Silvermex Resources Ltd.
(An Exploration Stage Company)
Consolidated Statements of Operations and Deficit
For the Years Ended April 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
General and Administrative Expenses		
Accounting and audit fees	\$ 50,113	\$ 9,346
Amortization	16,783	-
Consulting	219,657	10,500
Foreign exchange loss	41,847	7,115
Investor relations	202,482	18,978
Interest and bank charges	22,397	-
Legal (Note 8)	76,663	27,651
Management fees (Note 8)	64,498	-
Office and miscellaneous	51,378	10,990
Rent	28,829	-
Regulatory and filing fees	33,332	2,065
Salaries and wages	185,668	36,403
Stock-based compensation expense (Note 9)	65,292	79,657
Telephone	29,208	2,172
Travel	37,666	13,005
	<u>(1,125,813)</u>	<u>(217,882)</u>
Interest income	<u>11,184</u>	<u>-</u>
Net loss for the year	<u>(1,114,629)</u>	<u>(217,882)</u>
Deficit, beginning of year	<u>(217,882)</u>	<u>-</u>
Deficit, end of year	<u>\$ (1,332,511)</u>	<u>\$ (217,882)</u>
Loss per share – basic and diluted	<u>\$ (0.06)</u>	<u>\$ (0.03)</u>
Weighted average number of shares outstanding	<u>18,052,035</u>	<u>7,911,466</u>

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

Silvermex Resources Ltd.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
For the years ended April 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows provided by (used in)		
Operating activities		
Loss for the year	\$ (1,114,629)	\$ (217,882)
Add items not affecting cash:		
Amortization	16,783	-
Stock-based compensation expense	<u>65,292</u>	<u>79,657</u>
	(1,032,554)	(138,225)
Changes in non-cash working capital items:		
Accounts receivable	(98,323)	(53,130)
Prepaid expenses	(27,509)	(13,082)
Accounts payable and accrued liabilities	(26,885)	150,711
Due to related parties	<u>35,342</u>	<u>12,668</u>
	<u>(1,149,929)</u>	<u>(41,058)</u>
Investing activity		
Purchase of equipment	(122,483)	-
Expenditures on resource properties	<u>(1,276,909)</u>	<u>(493,749)</u>
	<u>(1,399,392)</u>	<u>(493,749)</u>
Financing activities		
Loans payable	(65,000)	65,000
Issuance of common shares	4,235,950	632,049
Share issue costs	(560,590)	-
Deferred financing charges	<u>141,300</u>	<u>(141,300)</u>
	<u>3,751,660</u>	<u>555,749</u>
Increase in cash during the year	1,202,339	20,942
Cash, beginning of year	<u>20,943</u>	<u>1</u>
Cash, end of year	<u>\$ 1,223,282</u>	<u>\$ 20,943</u>
Cash consists of:		
Cash and cash equivalents	1,154,948	20,943
Cash – restricted (Note 4)	<u>68,334</u>	<u>-</u>
	<u>\$ 1,223,282</u>	<u>\$ 20,943</u>
Cash paid during the year for bonuses on promissory notes	\$ 6,100	\$ Nil
Cash paid during the year for income taxes	\$ Nil	\$ Nil
Non-cash investing activity		
Shares issued on acquisition of resource property (Note 7)	\$ 340,000	\$ 50,000

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
April 30, 2007 and 2006

1. COMPANY ACTIVITY AND CONTINUANCE OF OPERATIONS

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 subsidiary, Minera Terra Plata, S.A. de C.V ("Subsidiary"). The Company is listed for trading on the TSX Venture Exchange ("TSX-V"). The Company is in the exploration and development 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 this activity

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management will need to target sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which could assure continuation of the Company's operations and 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 realize its assets and discharge its liabilities in the normal course of business.

	2007	2006
Working capital/ (working capital deficiency)	\$ 1,243,490	\$ (141,224)
Deficit	\$ (1,332,511)	\$ (217,882)

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and framework of the significant accounting policies summarized below:

(a) Principle of consolidation

These financial statements include the accounts of the Company and its Subsidiary. The Subsidiary was incorporated on March 23, 2005. All significant inter-company balances and transactions have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a maturity of 12 months or less at acquisition, that are readily convertible to contracted amounts of cash. Unrestricted cash of \$1,154,948 as of April 30, 2007, consists of deposits in bank and trust accounts with no restriction for disposals of cash flow.

Silvermex Resources Ltd.
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
April 30, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES - (continued)

(c) Equipment

Equipment is recorded at cost less accumulated amortization. Additions made during the year are amortized at one-half rates. Amortization is provided annually over the estimated useful life using the following methods:

Computer equipment	45% declining balance method
Leasehold improvements	20% straight line method
Office furniture and equipment	10% - 20% declining balance method
Vehicles	25% declining balance method

(d) Resource properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value.

Costs of producing properties will be amortized on a unit of production basis and the costs of abandoned properties are written-off in the period in which the decision by management is made. Proceeds received on the sale of interests in mineral properties will be credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to an impairment in value will be charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize an impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property, or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

(e) Income taxes

Future income taxes are recorded using the asset and liability method. Using this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company provides a valuation allowance against the excess to the extent that it does not consider it more likely than not a future tax asset will be recovered. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

(f) Impairment of long-lived assets

Long-lived assets, such as equipment and resource properties, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows. An impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and amortization of these assets ceases.

Silvermex Resources Ltd.
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
April 30, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES - (continued)

(g) Commitments and contingencies

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the financial statements. Contingent revenues, earnings or assets are not recognized until their realization is virtually assured.

(h) Foreign currency translation

The Subsidiary's financial statements were prepared in Mexican pesos, and have been translated into Canadian dollars using the temporal method. Any conversion differences have been reported as exchange gains or losses in the statement of loss and deficit. The temporal method involves of translating assets, liabilities, revenues and expenses in a manner that retains their basis of measurement in terms of the Canadian dollar, the parent company's reporting currency. Under this method:

- i) Monetary items are translated at the exchange rate in effect at the balance date;
- ii) Non-monetary items, principally the resource properties, are translated at historical exchange rates; and
- iii) Revenue and expenses are translated at the average rates of exchange during the period, other than depletion and amortization which is translated at historical rates.

(i) Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

(j) Loss per share

Basic loss per share is calculated using the weighted average number of shares and special warrants outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon the exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

(k) Stock-based compensation

The Company accounts for options granted under its fixed stock option plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of the grant is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Silvermex Resources Ltd.
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
April 30, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES - (continued)

(l) Environmental expenditures and asset retirement obligations

The operations of the Company may be affected by changes in environmental regulations, including those relating to future reclamation and site restoration. Both the likelihood of new regulations and their overall effect upon the Company are unknown and unpredictable. The fair value of a liability for an asset retirement obligation will be recognized in the year in which it is incurred, if a reasonable estimate of fair value can be made. The associated asset retirement costs will be capitalized as part of the carrying amount of the long-lived asset and will subsequently be amortized over the asset's useful life. As at April 30, 2007, the Company has made no provision for site restoration costs or potential environmental liabilities as all its properties are still in the exploration stage. Factors such as further exploration, inflation and changes in technology may materially change a cost estimate previously made.

(m) Financial instruments

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments - Recognition and Measurement; and Section 3865, Hedges, retroactively without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit.

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading, financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and income taxes receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and due to/from related parties are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments during the financial year ended April 30, 2007.

The Company had no "other comprehensive income or loss" transactions during the financial year ended April 30, 2007, and no opening or closing balances for accumulated other comprehensive income or loss.

Silvermex Resources Ltd.
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
April 30, 2007 and 2006

3. ACCOUNTS RECEIVABLE

As of April 30, 2007, accounts receivable included the following:

	April 30, 2007	April 30, 2006
Expense advances and amount receivable	\$ -	\$ 6,473
GST and value added tax	151,453	46,657
	<u>\$ 151,453</u>	<u>\$ 53,130</u>

The Company can request that value added tax (“VAT”) paid to suppliers be refunded by the tax authorities when such tax exceeds VAT charged to clients. Since the Company is in the development stage, all VAT paid to suppliers should be refunded to the Company subject to restrictions imposed by the tax authorities.

4. CASH - RESTRICTED

Pursuant to an employment agreement with a director and officer of the Company, funds were placed in trust in accordance with the terms of the agreement. These funds will only be distributed to the director if certain specified events occur.

5. DEFERRED FINANCING CHARGES

Upon completion of the initial public offering (“IPO”), deferred financing costs were charged against the related proceeds from the sale of shares during the year ended April 30, 2007.

6. EQUIPMENT

	Balance, April 30, 2006	Additions	Accumulated Amortization	Net Book Value, April 30, 2007
Computer equipment	\$ -	\$ 22,319	\$ 4,918	\$ 17,401
Leasehold improvements	-	10,524	2,105	8,419
Office furniture and equipment	-	46,340	4,395	41,945
Vehicle	-	43,300	5,365	37,935
	<u>\$ -</u>	<u>\$ 122,483</u>	<u>\$ 16,783</u>	<u>\$ 105,700</u>

Silvermex Resources Ltd.
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
April 30, 2007 and 2006

7. RESOURCE PROPERTIES

Schedule of Resource Properties Costs

	Expenditures to, and balance at April 30, 2006	Expenditures for the year	Balance April 30, 2007
PEÑASCO QUEMADO PROJECT (Note 7a)			
Acquisition costs and holding costs			
Acquisition costs	\$ 174,979	\$ 503,656	\$ 678,635
Claim staking	13,589	5,791	19,380
Mining taxes	8,740	13,530	22,270
Surface rights and rights of way	16,124	21,907	38,031
	<u>213,432</u>	<u>544,884</u>	<u>758,316</u>
Deferred exploration costs			
Assaying	37,168	69,601	106,769
Camp and accommodation	14,631	27,328	41,959
Communications	-	1,211	1,211
Drafting, reporting and reproduction	10,595	1,918	12,513
Drilling	76,116	244,899	321,015
Engineering and feasibility	-	5,053	5,053
Equipment rental	-	11,906	11,906
Legal cost	-	33,514	33,514
Miscellaneous exploration expenses	13,330	102,009	115,339
Office expenses	409	195	604
Other	1,442	6,096	7,538
Salaries and consulting fees	153,166	185,891	339,057
Travel expenses	16,090	29,101	45,191
Trenching and road work	-	40,108	40,108
	<u>322,947</u>	<u>758,830</u>	<u>1,081,777</u>
Total Peñasco Quemado Project	<u>536,379</u>	<u>1,303,714</u>	<u>1,840,093</u>
LOBO PROJECT (Note 7b)			
Acquisition costs and holding costs			
Claim staking	\$ 7,257	\$ -	\$ 7,257
Mining taxes		2,686	2,686
	<u>7,257</u>	<u>2,686</u>	<u>9,943</u>
Deferred exploration costs			
Camp and accommodation	94	-	94
Miscellaneous exploration expenses	-	5,215	5,215
Other	19	-	19
	<u>113</u>	<u>5,215</u>	<u>5,328</u>
Total Lobo Project	<u>\$ 7,370</u>	<u>\$ 7,901</u>	<u>\$ 15,271</u>

Silvermex Resources Ltd.
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
April 30, 2007 and 2006

7. **RESOURCE PROPERTIES - (continued)**

Schedule of Resource Properties Costs - (continued)

	Expenditure to and balance at April 30, 2006	Expenditures for the year	Balance April 30, 2007
CERRO DE PLATA PROJECT (Note 7c)			
Acquisition costs and holding costs			
Acquisition costs	\$ -	\$ 62,339	\$ 62,339
Claim staking	-	6,441	6,441
Mining taxes	-	149	149
	-	68,929	68,929
Deferred exploration costs			
Assaying	-	5,739	5,739
Camp and accommodation	-	8,432	8,432
Communications	-	46	46
Drafting, reporting and reproduction	-	1,561	1,561
Drilling	-	33,611	33,611
Legal cost	-	1,830	1,830
Miscellaneous exploration expenses	-	17,999	17,999
Other	-	303	303
Salaries and consulting fees	-	63,833	63,833
Travel expenses	-	13,852	13,852
	-	147,206	147,206
Total Cerro de Plata Project	-	216,135	216,135
LETY PROJECT (Note 7d)			
Acquisition costs and holding costs			
Acquired for cash	-	57,856	57,856
Claim staking	-	8,520	8,520
	-	66,376	66,376
Total Lety Project	-	66,376	66,376
RAYO PROJECT (Note 7e)			
Acquisition costs and holding costs			
Acquired for cash	-	17,177	17,177
Claim staking	-	5,606	5,606
	-	22,783	22,783
Total Rayo Project	-	22,783	22,783
Total Resource Properties Costs	\$ 543,749	\$ 1,616,909	\$ 2,160,658

Silvermex Resources Ltd.
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
April 30, 2007 and 2006

7. **RESOURCE PROPERTIES** - (continued)

(a) **Peñasco Quemado Project**

On October 29, 2004, Francisca Adelina Salgado Valle, the owner of three exploration concessions (the Lista Negra, Peñasco Quemado and Ballesteros properties) located in Tubutama, in the State of Sonora, Mexico, entered into an exploration option agreement (the Salgado agreement) with the option to acquire a 100% undivided interest in such properties with Santos Jaime Castillo Romo. In consideration for this interest, a total of US\$600,000 has to be paid by Francisca Adelina Salgado Valle as follows:

i)	US\$	5,000	on letter of intent agreement (paid);
ii)	US\$	10,000	on closing (paid);
iii)	US\$	20,000	on April 29, 2005 (paid);
iv)	US\$	30,000	on October 29, 2005 (paid);
v)	US\$	30,000	on April 29, 2006 (paid);
vi)	US\$	70,000	on October 29, 2006 (paid);
vii)	US\$	70,000	on April 29, 2007 (paid);
viii)	US\$	100,000	on October 29, 2007;
ix)	US\$	100,000	on April 29, 2006;
x)	US\$	165,000	on October 29, 2008.

In May 26, 2005, Santos Jaime Castillo Romo transferred the Salgado agreement contractual rights, obligations and commitments to the Company. In considerations for this transfer, the Company paid US\$50,000 and issued 500,000 common shares to Santos Jaime Castillo Romo.

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 the Company 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, and may increase its interest to 90% by paying all costs required to place the project into commercial production.

On August 2, 2006, pursuant to a purchase agreement between the Company and Silver Standard dated April 28, 2006, the Company repurchased the option to acquire the final 20% interest by issuing of 1,000,000 common shares of the Company (Note 9b).

The Funding Agreement contains a right of first offer provision whereby Silver Standard has a right of first refusal on the interest of the Company in the property. 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 Returns.

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 the State of Sonora, Mexico and have been included in the Peñasco Quemado Project.

Silvermex Resources Ltd.
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Notes to the Consolidated Financial Statements
April 30, 2007 and 2006

7. **RESOURCE PROPERTIES - (continued)**

(b) **The Lobo Project**

In January 2006, the Company staked one concession (2,830 hectares) and received a property title issued by the Mexican General Mining Bureau. This concession is located in Caborca and Pitiquito in the State of Sonora, Mexico and is identified as the Lobo Project.

(c) **Cerro de Plata Project**

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 located in the Northern Sonora, Mexico. In consideration for this interest, the Company will pay a total of US\$400,000 and issue 500,000 common shares as follows:

- | | | | |
|------|------|--------|---|
| i) | US\$ | 20,000 | and issuance of 50,000 common shares on Exchange acceptance (paid and issued) (Note 9b); |
| ii) | US\$ | 20,000 | six months from the Exchange acceptance (subsequently paid - Note 14f); |
| iii) | US\$ | 25,000 | and issuance of 100,000 common shares on or before January 3, 2008; |
| iv) | US\$ | 30,000 | and issuance of 100,000 common shares on or before January 3, 2009; |
| v) | US\$ | 30,000 | on or before January 3, 2010; |
| | | 275,00 | |
| vi) | US\$ | 0 | and issuance of 250,000 common shares (provided that the feasibility study is acceptable) on or before January 3, 2011; |

(d) **The Lety Project**

On January 24, 2007, the Company entered into a binding promise contract, and in May 2007, signed an option agreement to acquire a 100% interest in the Lety property located in the Municipality of Santa Maria del Oro, State of Durango, Mexico (Note 14a).

During the year ended April 30, 2007, the Company staked 5,000 hectare claim fully surrounding the Lety property and included it in the project.

(e) **The El Rayo Project**

On February 19, 2007, the Company entered into a letter of intent with Joel Eulogio Rodriguez Barraza, to acquire a 100% interest in the El Rayo and El Viento properties, located in the municipalities of Santa Ana and Magdalena de Kino, State of Sonora, Mexico. The owner was paid US\$15,000 on signing of the letter of intent (Note 14(b)).

During the year ended April 30, 2007, the Company staked a 2,203 hectare claim surrounding the El Rayo and El Viento properties.

Silvermex Resources Ltd.
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
April 30, 2007 and 2006

8. RELATED PARTY TRANSACTIONS

During the year ended April 30, 2007, the Company entered into the following transactions with related parties:

- (a) The Company incurred \$95,654 management fees, vehicle rental and other services (2006 - \$72,551 for services related to property development) to a president and director of the Company.
- (b) The Company incurred \$45,980 of legal fees (2006 - \$2,651 financing fees and \$75,000 legal fees) to a company controlled by a director (and subsequently an officer). As of April 30, 2007, \$5,650 (2006 - \$1,000) included in accounts payable was owed to this company, and \$50 (2006 - \$9,512) was held in trust by this company.
- (c) During the year ended April 30, 2007, a director (and subsequently an officer) of the Company loaned the Company \$6,000 (2006 - two directors lent the Company a total of \$65,000). The loan was evidenced by way of an unsecured promissory note. A bonus of 10% of the principal amount owing was payable as consideration for the loan. During the year ended April 30, 2007, the promissory notes and bonuses of \$6,100 were repaid in full.
- (d) During the year ended April 30, 2007, \$90,000 was placed in trust with a legal firm pursuant to the Company's employment agreement with a director and officer. As of April 30, 2007, \$68,334 (2006 - \$Nil) was held in trust by the legal company.
- (e) During the year ended April 30, 2007, \$52,500 of consulting fees (2006 - \$Nil) were incurred by a director, an officer and a former director of the Company.
- (f) As of April 30, 2007, an amount of \$48,010 (2006 - \$12,668) is due to directors and officers of the Company, is non-interest bearing and has no terms of repayment.
- (g) During the year ended April 30, 2007, recovery of rent of \$10,704 (2006 - \$Nil) pertains to rent charged by a company related by common directors and common officers for shared office premises.

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.

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9. SHARE CAPITAL

	<u>Number</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Authorized:			
Unlimited number of common shares			
Balance, April 30, 2005	1	\$ 1	\$ -
Issued:			
Escrow shares	6,000,000	6,000	-
Seed shares (net)	4,740,000	626,049	-
Property acquisition	500,000	50,000	-
Stock –based compensation	-	-	79,657
Balance, April 30, 2006	11,240,001	682,050	79,657
Issued:			
IPO (Note 9a)	6,900,000	2,070,000	-
Agent’s corporate finance shares (Notes 9a and c)	180,000	69,000	-
Agent’s commission shares (Notes 9a and c)	470,000	221,000	-
Property acquisition (Note 9b)	1,050,000	340,000	-
Private placement (Note 9c)	2,000,000	1,600,000	-
Options exercised (Note 9d)	425,000	160,000	-
Agent’s warrants exercised (Note 9a)	386,500	115,950	-
Share issue costs (Notes 9a and c)	-	(741,436)	180,846
Fair value on stock options and agent’s warrants exercised (Notes 9a and d)		129,079	(129,079)
Stock –based compensation	-	-	65,292
Balance, April 30, 2007	22,651,501	\$ 4,645,643	\$ 196,716

- a) On July 10, 2006, the Company completed its IPO and issued 6,900,000 common shares at a price of \$0.30 per unit for gross proceeds of \$2,070,000. The Company paid an agent’s fee of \$93,300 in cash and 310,000 agent’s commission shares, and issued 828,000 non-transferable agent’s warrants which are exercisable into one common share at a price of \$0.30 up to July 31, 2008. The fair value of the agent’s warrants of \$102,522 was recognized. The agent was also paid a corporate finance fee of 150,000 common shares. During the year, 386,500 agent’s warrants issued under the IPO were exercised for total proceeds of \$115,950 and fair value of \$47,856, using Black-Scholes, was recognized on these exercised warrants.
- b) During the year ended April 30, 2007, 1,000,000 common shares at a price of \$0.30 were issued on the Peñasco Quemado property acquisition and 50,000 shares at a price of \$0.56 were issued for the Cerro de Plato property acquisition.

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9. **SHARE CAPITAL** - (continued)

- c) On April 4, 2007, the company closed a brokered private placement of 2,000,000 units at a price of \$0.80 per Unit (the "Units") for total gross proceeds of \$1,600,000. Each Unit consists of one common share and one-half non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$1.00 per share until April 4, 2009.

The agent's compensation consisted of a total of 190,000 units (160,000 agent's commission units and 30,000 corporate finance units) under the same terms as the Units, and 160,000 agent's warrants exercisable into one common share at a price of \$0.80 up to April 4, 2009. The fair value of the agent's warrants of \$78,324 using Black-Scholes was recognized.

- d) During the year ended April 30, 2007, 125,000 stock options at a price of \$0.56 were exercised for gross proceeds of \$70,000 and 300,000 stock options at a price of \$0.30 were exercised for gross proceeds of \$90,000. The fair value of these options at the date of grant of \$81,223 was transferred from contributed surplus on the exercise of these options.

Warrants

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, April 30, 2006	-	\$ -
Issued	2,083,000	0.70
Exercised	(386,500)	0.30
Outstanding, April 30, 2007	1,696,500	\$ 0.80

Warrants outstanding at April 30, 2007 are as follows:

Number of Warrants	Exercise Price	Expiry Date
441,500	\$ 0.30	July 31, 2008*
1,095,000	\$ 1.00	April 4, 2009
160,000	\$ 0.80	April 4, 2009
1,696,500		

* Subsequently, 4,000 of these warrants were exercised (Note 14d)

Stock Options

The Company has a stock option plan (the "Plan") for directors, senior officers, employees, consultants and management. The Plan provides for the issuance of stock options to acquire up to a maximum of 10% of the issued and outstanding common shares of the company. Options are granted for a term not exceeding five years. Options granted to directors, senior officers, employees and consultants vest when granted. Options granted to consultants performing investor relations activities vest over a period of twelve months.

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9. **SHARE CAPITAL** - (continued)

Stock Options - (continued)

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

	Shares	Weighted Average Exercise Price
Outstanding, April 30, 2005	-	\$ -
Granted	1,500,000	0.30
Outstanding, April 30, 2006	1,500,000	0.30
Granted	1,150,000	0.85
Exercised	(425,000)	0.38
Cancelled	(200,000)	0.30
Outstanding, April 30, 2007	2,025,000	0.58

Stock options outstanding at April 30, 2007 are as follows:

Number of Options	Exercise Price	Expiry Date
1,000,000	\$ 0.30	July 31, 2011*
375,000	\$ 0.56	September 22, 2011
550,000	\$ 1.11	April 12, 2012
100,000	\$ 0.96	April 12, 2012
2,025,000		

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 option granted is recognized in income on a straight line basis over the vesting period. Total fair value of stock options vested during the year ended April 30, 2007 was \$65,292 (2006 - \$79,567).

The following weighted average assumptions were used for the Black-Scholes valuation of stock options and agents' compensation options granted during 2007 and 2006:

	2007	2006
Risk-free interest rate	3.88-4.16%	3.92%
Expected life of options	2-5 years	5 years
Annualized volatility	71-84%	0%
Dividend rate	0.00%	0.00%

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9. **SHARE CAPITAL** - (continued)

Escrow

6,000,000 common shares were placed in escrow in accordance with the escrow agreement dated February 17, 2006. During fiscal 2007, 1,500,000 common shares were released, leaving a balance of 4,500,000 common shares held in escrow as at April 30, 2007 (April 30, 2006 - 6,000,000) (Note 14e).

10. **INCOME TAX AND ASSET TAX**

A reconciliation of income taxes at the statutory rate with the reported taxes follows:

Loss for the year	\$	<u>(1,114,629)</u>
Income tax recovery at statutory rate of 34.12%		(380,311)
Net adjustments for amortization, deductible and non-deductible items		7,053
Increase in valuation allowance		<u>373,258</u>
Future income taxes recovery		<u>-</u>

Details of future income taxes are as follows:

Future income tax assets		
Non-capital loss carry forwards	\$	419,812
Cumulative foreign resource expenses		174,173
Share issuance costs		202,382
Valuation allowance for future tax assets		<u>(796,367)</u>
		-

At April 30, 2007, the Company has non-capital losses carried forward for Canadian income tax purposes totalling approximately \$1,080,000 (2006 - \$102,000), expiring in various periods from 2016 to 2027. In addition, the Company has undeducted foreign resource expenses of \$510,471 (2006 - \$117,125) available to be claimed against future taxable income on a discretionary basis.

According to Mexican Income Tax Law, inflationary effects generated by monetary assets or liabilities have to be recognized as tax deductible items for income tax purposes, even if the Company is in the development stage; additional expenses not related to exploration are to be expensed for tax purposes. The Company has non-capital losses carried forward for Mexican income tax purposes totalling approximately \$145,000 (2006 - \$34,000), expiring in various periods from 2016 to 2017.

An asset tax is applied at 1.25% on the net amount of certain of the Subsidiary's assets and liabilities, when the amount of this tax exceeds income tax. During 2006 and 2007, the Subsidiary was exempt for the payment of the asset tax according to the current tax legislation, as the Subsidiary is in the development stage.

At April 30, 2007, management considers that it is not "more likely than not" that these losses will be utilized and accordingly a full valuation allowance has been recognized against these tax losses.

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11. SEGMENTED INFORMATION

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

	Total Assets	Equipment	Resource Properties	Other Assets
2007				
Canada	\$ 774,505	\$ 60,365	\$ -	\$ 714,140
Mexico	2,907,179	45,335	2,160,658	701,186
	<u>\$ 3,681,684</u>	<u>\$ 105,700</u>	<u>\$ 2,160,658</u>	<u>\$ 1,415,326</u>
2006				
Canada	\$ 178,273	\$ -	\$ -	\$ 178,273
Mexico	593,931	-	543,749	50,182
	<u>\$ 772,204</u>	<u>\$ -</u>	<u>\$ 543,749</u>	<u>\$ 228,455</u>

12. COMMITMENTS

The Company has agreed to reimburse a company with directors in common one-half of its rental cost of the Vancouver office. The Company's portion amounts to \$45,773 annually, from March 1, 2007 to March 31, 2011.

13. CONTINGENCIES

A former director, officer and employee, and a former consultant of the Company have separately initiated action against the Company for damages for breach of contract/wrongful dismissal and for the right to the exercise their stock options originally granted under the Company's stock option plan. The Company cancelled these options when the individuals were dismissed. The Company has commenced an action against the former director, officer and employee and the Company's transfer agent seeking cancellation of performance shares granted to this individual. Legal counsel to the Company is unable to assess the Company's potential liability, if any, resulting from these actions. Any settlement will be reflected as a charge to deficit in the year incurred. No provision for possible loss has been included in these financial statements.

14. SUBSEQUENT EVENTS

- a) In July 2007, the Company signed an option agreement to acquire a 100% interest in the Lety property located in the municipality of Santa Maria del Oro, State of Durango, Mexico. In consideration for this interest, the Company will pay a total of US \$250,000 and issue 250,000 shares over a two year option period, with US\$50,000 payable every six months. In addition, the Company must spend a minimum of US\$500,000 during the first year of the option, and a further US\$500,000 during the second year. The vendor will retain the right to be paid an additional 250,000 shares or US\$1,000,000, at the owner's option, on or before the earlier of the commencement production of the project or five years as of the date of signing of the option agreement, which ever comes first.

The Company will pay a finder's fee of 250,000 shares to Guillermo Garcia Hoyos, with 25,000 shares issuable upon exchange acceptance and six future releases of 37,500 shares every six months from the issuance date.

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14. **SUBSEQUENT EVENTS** – (continued)

- b) On May 28, 2007, the Company concluded the final option agreement for the El Rayo property. In consideration for this interest, the Company will pay US\$315,000 over four years (of which US\$15,000 has been paid) and issue 250,000 shares for every 10,000,000 oz of measured and indicated silver mineral resources.
- c) On July 1, 2007, the Company entered into a consulting agreement with Share Capital Advisors (“SCA”) to perform public and investor relations and communications. The Company will pay SCA consulting fees of \$10,000 per month for an initial term of six months (which shall automatically renew for a further four month term).
- d) Subsequent to April 30, 2007, 4,000 warrants were exercised.
- e) Subsequent to April 30, 2007, 900,000 escrowed shares were released leaving a balance of 3,600,000 held in escrow.
- f) Subsequent to April 30, 2007, and on receipt of acceptance from the Exchange, the Company made the requisite US\$20,000 payment on the Cerro de Plata Project.