

SILVERMEX RESOURCES LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2006

(Unaudited)

THE ACCOMPANYING INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED JULY 31, 2006 HAVE NOT BEEN REVIEWED OR AUDITED BY THE COMPANY'S AUDITORS.

SILVERMEX RESOURCES LTD.
INTERIM CONSOLIDATED BALANCE SHEETS
July 31, 2006 and April 30, 2006
(Unaudited)

	<u>July 31</u> <u>2006</u>	<u>April 30,</u> <u>2006</u>
<u>ASSETS</u>		
Current		
Cash	\$ 1,682,001	\$ 20,943
Accounts receivable	62,871	53,130
Prepaid expenses	<u>12,165</u>	<u>13,082</u>
	1,757,037	87,155
Mineral properties – Notes 2, 6, 8 and Schedule 1	618,363	543,749
Deferred costs	<u>-</u>	<u>141,300</u>
	<u>\$ 2,375,400</u>	<u>\$ 772,204</u>
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities – Note 6	\$ 169,974	\$ 150,711
Advances due to related parties – Note 6	12,668	12,668
Loans payable – Notes 4 and 6	<u>-</u>	<u>65,000</u>
	<u>182,642</u>	<u>228,379</u>
<u>SHAREHOLDERS' EQUITY</u>		
Share capital – Notes 5 and 8	2,248,060	682,050
Contributed surplus – Note 5	328,057	79,657
Deficit	<u>(383,359)</u>	<u>(217,882)</u>
	<u>2,192,758</u>	<u>543,825</u>
	<u>\$ 2,375,400</u>	<u>\$ 772,204</u>
Subsequent Events – Note 8		

SEE ACCOMPANYING NOTES

SILVERMEX RESOURCES LTD.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
for the three months ended July 31, 2006 and 2005
(Unaudited)

	Three months ended July 31,	
	<u>2006</u>	<u>2005</u>
General and Administrative Expenses		
Accounting and audit	\$ 6,000	\$ -
Bank charges and interest	16,253	-
Consulting	29,585	3,000
Foreign exchange loss/(gain)	9,163	1,196
Investor relations	10,000	-
Legal – Note 6	15,040	-
Management fees – Note 6	57,341	-
Office and miscellaneous	3,002	-
Rent	6,541	-
Telephone	1,393	860
Transfer agent and regulatory	8,961	-
Travel	<u>2,690</u>	<u>-</u>
Loss before other item	<u>(165,969)</u>	<u>(5,056)</u>
Other item:		
Interest income	<u>492</u>	<u>-</u>
Net loss for the period	(165,477)	-
Deficit, beginning of the period	<u>(217,882)</u>	<u>-</u>
Deficit, end of the period	<u>\$ (383,359)</u>	<u>\$ (5,056)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>
Weighted average number of shares outstanding	<u>11,800,001</u>	<u>5,000,000</u>

SEE ACCOMPANYING NOTES

SILVERMEX RESOURCES LTD.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended July 31, 2006 and 2005
(Unaudited)

	Three months ended July 31,	
	2006	2005
Operating Activities		
Net loss for the period	\$ (165,477)	\$ (5,056)
Changes in non-cash working capital balances:		
Receivables	(9,741)	(52)
Prepaid expenses	917	-
Exploration advances	-	(125,016)
Accounts payable and accrued liabilities	<u>19,263</u>	<u>-</u>
	<u>(155,038)</u>	<u>(130,124)</u>
Investing Activity		
Mineral property costs	<u>(74,614)</u>	<u>-</u>
Financing Activities		
Decrease in promissory notes	(65,000)	-
Deferred costs	141,300	-
Issuance of common shares	<u>1,814,410</u>	<u>235,463</u>
	<u>1,890,710</u>	<u>235,463</u>
Change in cash during the period	1,661,058	105,339
Cash, beginning of the period	<u>20,943</u>	<u>-</u>
Cash, end of the period	<u>\$ 1,682,001</u>	<u>\$ 105,339</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	<u>\$ 7,100</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash Transaction – Note 7		

SEE ACCOMPANYING NOTES

SILVERMEX RESOURCES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2006
(Unaudited)

Note 1 Interim Reporting

The interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These interim consolidated financial statements should be read together with the Company's annual audited consolidated financial statements and the accompanying notes for the year ended April 30, 2006. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

These interim consolidated financial statements have been prepared on a going-concern basis. As at July 31, 2006, the Company has not yet achieved profitable operations and has incurred losses of \$383,359 since inception. The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to meet its obligations and to repay its liabilities arising from normal business operations when they come due. These interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue as a going concern.

Note 2 Mineral Properties – Schedule 1

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as the potential for problems arising from the frequently ambiguous conveyance history characteristic of mineral properties. The Company has investigated title to its mineral properties and, to the best of its knowledge, title to its properties are in good standing. The properties in which the Company has committed to earn an interest are located in Mexico and the Company is therefore relying on title opinion by legal counsel who is basing such opinions on the laws of Mexico. As there were no mineral property acquisitions or deferred exploration performed during the three months ended July 31, 2005 there is no comparative schedule provided.

	Balance, April 30, <u>2006</u>	<u>Additions</u>	Balance, July 31, <u>2006</u>
Penasco Quemado Project	\$ 536,379	\$ 73,318	\$ 609,697
Lobo Project	<u>7,370</u>	<u>1,296</u>	<u>8,666</u>
	<u>\$ 543,749</u>	<u>\$ 74,614</u>	<u>\$ 618,363</u>

Note 2 Mineral Properties – Schedule 1 – (cont'd)

Penasco Quemado Project

- a) By agreement dated May 26, 2005 and amended November 14, 2005, the Company was transferred an option to acquire a 100% interest for three exploration concessions located in Tubutama in the State of Sonora, Mexico. Consideration for the option is US\$600,000 payable as follows:
- i. US\$5,000 on agreement of terms of the letter of intent (paid by original optionor);
 - ii. US\$10,000 upon signature of the letter of intent (paid by original optionor);
 - iii. US\$20,000 on or before April 29, 2005 (paid);
 - iv. US\$30,000 on or before October 29, 2005 (paid);
 - v. US\$30,000 on or before April 29, 2006 (paid);
 - vi. US\$70,000 on or before October 29, 2006;
 - vii. US\$70,000 on or before April 29, 2007;
 - viii. US\$100,000 on or before October 29, 2007;
 - ix. US\$100,000 on or before April 29, 2008;
 - x. US\$165,000 on or before October 29, 2008.

Consideration for the transfer of the option is the payment of US\$50,000 (paid) and the issuance of 500,000 common shares (issued) of the Company on or before fifteen days of the completion of its IPO.

- b) The Company has entered into a Funding Agreement (the “Funding Agreement”) dated April 28, 2005 with Silver Standard Resources Inc. (“Silver Standard”), which grants Silver Standard an option to enter into a joint venture with the Corporation with respect to the Penasco Quemado Project (the “Property”) 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 Corporation and 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 Property. Silver Standard would also be responsible for reimbursing the Corporation 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. Under the Funding Agreement, Silver Standard had the right to increase its interest to 90% by paying all costs required to place the Property into commercial production. Pursuant to a Purchase Agreement between the Corporation and Silver Standard dated April 28, 2006 (the “Purchase Agreement”), the Corporation has agreed to purchase the right to acquire this final 20% interest in exchange for the issuance of 1,000,000 common shares (subsequently issued – See Note 8) of the Corporation within 15 days of the completion of the Offering, or August 15, 2006, whichever is earlier. 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 Royalty.

Note 2 Mineral Properties – Schedule 1 – (cont'd)

Penasco Quemado Project – (cont'd)

- c) During the year ended April 30, 2006, the Company received property title of three exploration concessions (9,180 hectares) issued by the Ministry of Economy. These concessions are located in Tubutama and Atil in the State of Sonora, Mexico and have been included in the Penasco Quemado Project.

Lobo Project

During the year ended April 30, 2006, the Company received property title of one concession (2,830 hectares) issued by the Ministry of Economy. This concession is located in Caborca and Pitiquito in the State of Sonora, Mexico and is identified as the Lobo Project.

Note 4 Loans Payable

During the year ended April 30, 2006, the Company secured loans by way of Loans Payable of \$65,000. A further \$6,000 was advanced to the Company during the period ended July 31, 2006. The loans are repayable for the principal amount plus a 10% bonus of the principal. During the period ended July 31, 2006, the Company repaid \$78,100 in full satisfaction of the Loans Payable outstanding.

Note 5 Share Capital – Note 8

a) Authorized:

Unlimited number of common shares without par value

b) Issued:

	<u>Number of Shares</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, April 30, 2006	11,240,001	\$ 682,050	\$ 79,657
For cash:			
Pursuant to Initial Public Offering – at \$0.30	6,900,000	2,070,000	-
Pursuant to Agent's Commission – at \$0.30	310,000	93,000	-
Pursuant to Agent's Corporate Finance			
Shares – at \$0.30	150,000	45,000	-
Agents' broker warrants	-	-	248,400
Less: share issue costs	-	(641,990)	-
Balance, July 31, 2006	<u>18,600,001</u>	<u>\$ 2,248,060</u>	<u>\$ 328,057</u>

Note 5 Share Capital – (cont'd)

On July 31, 2006, the Company issued 6,900,000 shares for a price of \$0.30 per share for gross proceeds of \$2,070,000 pursuant to an Initial Public Offering. The agent received 828,000 broker warrants exercisable into one common share of the Company at an exercise price of \$0.30 per share expiring July 31, 2008.

c) Stock Options

Stock-based Compensation Plan

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.

c) Stock Options – (cont'd)

Stock-based Compensation Plan

Share purchase options outstanding at July 31, 2006 and April 30, 2006 are as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
<u>1,500,000</u>	\$0.30	July 31, 2011

d) Share Purchase Warrants:

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

	Three months ended July 31,	
	<u>2006</u>	<u>2005</u>
Outstanding, beginning of the period	-	-
Granted	<u>828,000</u>	<u>-</u>
Outstanding, end of the period	<u>828,000</u>	<u>-</u>

Note 5 Share Capital – (cont'd)

d) Share Purchase Warrants – (cont'd):

As at July 31, 2006, there are 828,000 Agent's warrants outstanding with a fair value of \$248,400 entitling the holders thereof the right to purchase one common share for each warrant held exercisable at \$0.30 per common share until July 31, 2008.

e) Escrow:

At July 31, 2006, 5,400,000 (April 30, 2006: 6,000,000) common shares were held in escrow subject to the approval of the regulatory authorities. Uniform terms of automatic timed-release escrow apply to principals of exchange-listed issuers and the following automatic timed releases apply to securities held by its principals:

e) Escrow

On the listing date	1/10 of the escrow securities
6 months after the listing date	1/6 of the remaining escrow shares
12 months after the listing date	1/5 of the remaining escrow shares
18 months after the listing date	1/4 of the remaining escrow shares
24 months after the listing date	1/3 of the remaining escrow shares
30 months after the listing date	1/2 of the remaining escrow shares
36 months after the listing date	The remaining escrow shares

Note 6 Related Party Transactions

- a) The Company was charged the following by directors of the Company or companies with common directors:

	Three months ended July 31,	
	<u>2006</u>	<u>2005</u>
Mineral property costs:		
- deferred exploration costs – field work and consulting	\$ 28,591	\$ -
Legal fees	15,040	-
Management fees	<u>57,341</u>	<u>-</u>
	<u>\$ 100,972</u>	<u>\$ -</u>

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

Note 6 Related Party Transactions – (cont'd)

- b) Accounts payable and accrued liabilities outstanding with related parties are unsecured, non-interest bearing and have no fixed terms of repayment. Included in accounts payable and accrued liabilities at July 31, 2006 and April 30, 2006 are the following related party amounts:

	July 31, <u>2006</u>	April 30, <u>2006</u>
Accounts payable and accrued liabilities	\$ <u>138,416</u>	\$ <u>75,000</u>

- c) Advances due to related parties are unsecured, do not bear interest and are payable on demand.

	July 31, <u>2006</u>	April 30, <u>2006</u>
Advances due to related parties	\$ <u>12,668</u>	\$ <u>12,668</u>

- d) Loans payable are unsecured, repayable for the principal amount plus a 10% bonus of the principal and have no fixed term of repayment.

	July 31, <u>2006</u>	April 30, <u>2006</u>
Loans payable	\$ <u>-</u>	\$ <u>55,000</u>

Note 6 Segmented Information

The Company operates in one segment, the exploration and development of resource properties. As at July 31, 2006 all resource properties are located in Mexico.

Note 7 Non-cash Transaction

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the cash flow statements. During the three-month period ended July 31, 2006, the following transaction was excluded from the statement of cash flows:

- a) the Company recorded the fair value of agents' warrants at an estimated fair value of \$248,400.

Note 8 Subsequent Events

Subsequent to July 31, 2006, the Company:

- a) issued 1,000,000 common shares to Silver Standard pursuant to the terms of the Funding Agreement to re-acquire its 20% interest in the Penasco Quemado Project for a total of a 30% interest.
- b) granted 500,000 stock options at an exercise price of \$0.70 per share which were amended to \$0.56 per share exercisable until September 6, 2011 subject to regulatory approval.

Schedule 1

SILVERMEX RESOURCES LTD.
INTERIM CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES
for the three months ended July 31, 2006
(Unaudited)

	Penasco Quemado <u>Project</u>	Lobo <u>Project</u>	<u>Total</u>
Acquisition costs and holding costs			
Balance, April 30, 2006	\$ 204,692	\$ 7,257	\$ 211,949
Government and maintenance fees	5,279	1,296	6,575
Surface rights	<u>5,297</u>	<u>-</u>	<u>5,297</u>
Subtotal, acquisition costs	<u>215,268</u>	<u>8,553</u>	<u>223,821</u>
Deferred Exploration Costs			
Balance, April 30, 2006	331,687	113	331,800
Administration	870	-	870
Assays	1,109	-	1,109
Camp and field costs	7,374	-	7,374
Exploration expense	4,683	-	4,683
Field work and consulting	48,186	-	48,186
Reports, drafting and maps	372	-	372
Travel and accommodation	<u>148</u>	<u>-</u>	<u>148</u>
Subtotal, deferred exploration costs	<u>394,429</u>	<u>113</u>	<u>394,542</u>
Balance, July 31, 2006	<u>\$ 609,697</u>	<u>\$ 8,666</u>	<u>\$ 618,363</u>