

**SILVERMEX RESOURCES LTD.  
(AN EXPLORATION STAGE COMPANY)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JULY 31, 2007**

**(Unaudited)**

**NOTICE OF NO AUDITOR REVIEW OF  
INTERIM 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 interim 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)**  
**Interim Consolidated Balance Sheets**

<u>ASSETS</u>	<u>July 31 2007 (Unaudited)</u>	<u>April 30 2007 (Audited)</u>
<b>Current</b>		
Cash and cash equivalents	\$ 318,961	\$ 1,223,282
Accounts receivable (Note 3)	229,632	151,453
Prepaid expenses	<u>38,659</u>	<u>40,591</u>
	587,252	1,415,326
<b>Equipment</b> (Note 5)	123,144	105,700
<b>Resource properties</b> (Note 6)	<u>2,752,094</u>	<u>2,160,658</u>
	<u>\$ 3,462,490</u>	<u>\$ 3,681,684</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 229,531	\$ 123,826
Due to related parties (Note 7)	<u>21,968</u>	<u>48,010</u>
	<u>251,499</u>	<u>171,836</u>
<b>Shareholders' equity</b>		
Share capital (Note 8)	4,647,338	4,645,643
Contributed surplus (Note 8)	359,772	196,716
Deficit, per accompanying statement	<u>(1,796,119)</u>	<u>(1,332,511)</u>
	<u>3,210,991</u>	<u>3,509,848</u>
	<u>\$ 3,462,490</u>	<u>\$ 3,681,684</u>

**Continuance of operations** (Note 1)

**Commitments** (Note 10)

**Contingencies** (Note 11)

**Subsequent events** (Note 12)

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)**  
**Interim Consolidated Statements of Operations and Deficit**  
**For the three months ended July 31, 2007 and 2006**  
**(Unaudited)**

	<u>2007</u>	<u>2006</u>
<b>General and Administrative Expenses</b>		
Accounting and audit fees	\$ 37,780	\$ 6,000
Amortization	7,717	-
Consulting	70,446	29,585
Foreign exchange loss/(gain)	(47,230)	9,163
Investor relations	70,970	10,000
Interest	-	16,253
Legal (Note 7)	16,519	15,040
Management fees (Note 7)	-	57,341
Office and miscellaneous	31,395	3,002
Rent	10,516	6,541
Regulatory and filing fees	4,356	8,961
Salaries and wages	78,176	-
Stock-based compensation expense (Note 8)	163,551	-
Telephone	1,914	1,393
Travel	22,184	2,690
	<u>(468,294)</u>	<u>(165,969)</u>
Interest income	<u>4,686</u>	<u>492</u>
<b>Net loss for the period</b>	<b>(463,608)</b>	<b>(165,477)</b>
<b>Deficit, beginning of period</b>	<b><u>(1,332,511)</u></b>	<b><u>(217,882)</u></b>
<b>Deficit, end of period</b>	<b>\$ (1,796,119)</b>	<b>\$ (383,359)</b>
<b>Loss per share – basic and diluted</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>	<b><u>22,652,675</u></b>	<b><u>11,800,001</u></b>

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

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Interim Consolidated Statements of Cash Flows**  
**For the three months ended July 31, 2007 and 2006**  
**(Unaudited)**

	<u>2007</u>	<u>2006</u>
<b>Cash flows provided by (used in)</b>		
<b>Operating activities</b>		
Loss for the period	\$ (463,608)	\$ (165,477)
Add items not affecting cash:		
Amortization	7,717	-
Stock-based compensation expense	<u>163,551</u>	<u>-</u>
	<u>(292,340)</u>	<u>(165,477)</u>
Changes in non-cash working capital items:		
Accounts receivable	(78,179)	(9,741)
Prepaid expenses	1,932	917
Accounts payable and accrued liabilities	105,705	19,263
Due to related parties	<u>(26,042)</u>	<u>-</u>
	<u>(288,924)</u>	<u>(155,038)</u>
<b>Investing activity</b>		
Purchase of equipment	(25,161)	-
Expenditures on resource properties	<u>(591,436)</u>	<u>(74,614)</u>
	<u>(616,597)</u>	<u>(74,614)</u>
<b>Financing activities</b>		
Loans payable	-	(65,000)
Issuance of common shares	1,200	1,814,410
Deferred financing charges	<u>-</u>	<u>141,300</u>
	<u>1,200</u>	<u>1,890,710</u>
<b>Increase (decrease) in cash during the period</b>	<b>(904,321)</b>	<b>1,661,058</b>
<b>Cash, beginning of period</b>	<u><b>1,223,282</b></u>	<u><b>20,943</b></u>
<b>Cash, end of period</b>	<u><b>\$ 318,961</b></u>	<u><b>\$ 1,682,001</b></u>
<b>Cash consists of:</b>		
Cash and cash equivalents	\$ 250,062	\$ 20,943
Cash – restricted (Note 4)	<u>68,899</u>	<u>-</u>
	<u><b>\$ 318,961</b></u>	<u><b>\$ 20,943</b></u>
<u>Cash paid during the period for bonuses on promissory notes</u>	<u>\$ -</u>	<u>\$ 7,100</u>
<u>Cash paid during the period for income taxes</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Non-cash investing activity</b>		
Shares issued on acquisition of resource property	<u>\$ -</u>	<u>\$ -</u>

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

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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**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.

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	July 31, 2007	April 30, 2007
Working capital	\$ 263,854	\$ 1,243,490
Deficit	\$ (1,796,119)	\$ (1,332,511)

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**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 within the framework of the significant accounting policies summarized below:

**(a) Interim financial statements**

These interim consolidated financial statements have been prepared in accordance with GAAP and follow the same accounting policies and methods of application as the annual financial statements. These interim consolidated financial statements do not include in all respects the annual disclosure requirements of GAAP and should be read in conjunction with the most recent annual statements.

**(b) 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.

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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**2. SIGNIFICANT ACCOUNTING POLICIES - (continued)**

**(c) Basis of presentation**

The 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 annual statements.

**(d) 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 \$250,062 as of July 31, 2007, consists of deposits in bank and trust accounts with no restriction for disposals of cash flow.

**(e) 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

**(f) 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.

**(g) 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.

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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**2. SIGNIFICANT ACCOUNTING POLICIES - (continued)**

**(h) 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 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.

**(i) 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.

**(j) 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 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 are translated at historical rates.

**(k) 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.

**(l) 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.

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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**2. SIGNIFICANT ACCOUNTING POLICIES - (continued)**

**(m) 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.

**(n) 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 July 31, 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.

**(o) 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 GAAP. 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.

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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**2. SIGNIFICANT ACCOUNTING POLICIES - (continued)**

**(o) Financial instruments - (continued)**

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, or the three months ended July 31, 2007.

The Company had no "other comprehensive income or loss" transactions during the three months ended July 31, 2007, and no opening or closing balances for accumulated other comprehensive income or loss.

**3. ACCOUNTS RECEIVABLE**

	July 31, 2007	April 30, 2007
Interest receivable	\$ 288	\$ -
GST and value added tax	229,344	151,453
	<u>\$ 229,632</u>	<u>\$ 151,453</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. EQUIPMENT**

	Net Book Value, April 30, 2007	Additions	Accumulated Amortization	Net Book Value, July 31, 2007
Computer equipment	\$ 17,401	\$ 914	\$ 1,707	\$ 16,608
Leasehold improvements	8,419	-	526	7,893
Office furniture and equipment	41,945	-	2,221	39,724
Vehicle	37,935	24,247	3,263	58,919
	<u>\$ 105,700</u>	<u>\$ 25,161</u>	<u>\$ 7,717</u>	<u>\$ 123,144</u>

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

**6. RESOURCE PROPERTIES**

**Schedule of Resource Property Costs**

	Expenditures to, and balance at April 30, 2007	Expenditures for the period	Balance July 31, 2007
<b>PEÑASCO QUEMADO PROJECT (Note 6a)</b>			
Acquisition costs and holding costs			
Acquisition costs	\$ 678,635	\$ 2,628	\$ 681,263
Claim staking	19,380	-	19,380
Mining taxes	22,270	15,242	37,512
Surface rights and rights of way	38,031	5,413	43,444
	<u>758,316</u>	<u>23,283</u>	<u>781,599</u>
Deferred exploration costs			
Assaying	106,769	10,387	117,156
Camp and accommodation	41,959	1,349	43,308
Communications	1,211	766	1,977
Drafting, reporting and reproduction	12,513	10,885	23,398
Drilling	321,015	2,075	323,090
Engineering and feasibility	5,053	3,560	8,613
Equipment rental	11,906	1,149	13,055
Legal cost	33,514	1,913	35,427
Miscellaneous exploration expenses	115,339	1,284	116,623
Office expenses	604	-	604
Other	7,538	-	7,538
Salaries and consulting fees	339,057	19,212	358,269
Travel expenses	45,191	17,618	62,809
Trenching and road work	40,108	640	40,748
	<u>1,081,777</u>	<u>70,838</u>	<u>1,152,615</u>
<b>Total Peñasco Quemado Project</b>	<b><u>1,840,093</u></b>	<b><u>94,121</u></b>	<b><u>1,934,214</u></b>
<b>LOBO PROJECT (Note 6b)</b>			
Acquisition costs and holding costs			
Claim staking	\$ 7,257	\$ -	\$ 7,257
Mining taxes	2,686	2,184	4,870
	<u>9,943</u>	<u>2,184</u>	<u>12,127</u>
Deferred exploration costs			
Camp and accommodation	94	-	94
Miscellaneous exploration expenses	5,215	79	5,294
Other	19	-	19
	<u>5,328</u>	<u>79</u>	<u>5,407</u>
<b>Total Lobo Project</b>	<b><u>\$ 15,271</u></b>	<b><u>\$ 2,263</u></b>	<b><u>\$ 17,534</u></b>

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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

**Schedule of Resource Property Costs - (continued)**

	Expenditure to and balance at April 30, 2007	Expenditures for the period	Balance July 31, 2007
<b>CERRO DE PLATA PROJECT (Note 6c)</b>			
Acquisition costs and holding costs			
Acquisition costs	\$ 62,339	\$ 85,840	\$ 148,179
Claim staking	6,441	5,083	11,524
Mining taxes	149	5,881	6,030
	<u>68,929</u>	<u>96,804</u>	<u>165,733</u>
Deferred exploration costs			
Assaying	5,739	5,479	11,218
Camp and accommodation	8,432	8,870	17,302
Communications	46	1,817	1,863
Drafting, reporting and reproduction	1,561	1,578	3,139
Drilling	33,611	153,306	186,917
Legal cost	1,830	12,007	13,837
Miscellaneous exploration expenses	17,999	33,955	51,954
Other	303	11,440	11,743
Salaries and consulting fees	63,833	101,919	165,752
Travel expenses	13,852	15,386	29,238
Trenching and road work	-	36,532	36,532
	<u>147,206</u>	<u>382,289</u>	<u>529,495</u>
<b>Total Cerro de Plata Project</b>	<b><u>216,135</u></b>	<b><u>479,093</u></b>	<b><u>695,228</u></b>
<b>LETY PROJECT (Note 6d)</b>			
Acquisition costs and holding costs			
Acquired for cash	57,856	11,762	69,618
Claim staking	8,520	1,933	10,453
Mining taxes	-	219	219
	<u>66,376</u>	<u>13,914</u>	<u>80,290</u>
<b>Total Lety Project</b>	<b><u>66,376</u></b>	<b><u>13,914</u></b>	<b><u>80,290</u></b>
<b>RAYO PROJECT (Note 6e)</b>			
Acquisition costs and holding costs			
Acquired for cash	17,177	304	17,481
Claim staking	5,606	69	5,675
Mining taxes	-	1,672	1,672
	<u>22,783</u>	<u>2,045</u>	<u>24,828</u>
<b>Total Rayo Project</b>	<b><u>22,783</u></b>	<b><u>2,045</u></b>	<b><u>24,828</u></b>
<b>Total Resource Property Costs</b>	<b><u>\$ 2,160,658</u></b>	<b><u>\$ 591,436</u></b>	<b><u>\$ 2,752,094</u></b>

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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6. **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, 2008;
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 consideration 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..

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

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**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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6. **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 8b);
- ii) US\$ 20,000 six months from the Exchange acceptance (paid);
- 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;
- vi) US\$ 275,000 and issuance of 250,000 common shares (provided that the feasibility study is acceptable) on or before January 3, 2011;

(d) **The Lety Project**

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 commencement of production of the project, or five years as of the date of signing of the option agreement, whichever comes first.

The Company will pay a finder's fee of 250,000 shares to Guillermo Garcia Hoyos. 25,000 shares were issued on August 21, 2007 (Note 12b), and six future releases of 37,500 shares each are to be made every six months thereafter.

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 May 28, 2007, the Company concluded the final option agreement for the El Rayo property. In consideration for its 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.

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 Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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**7. RELATED PARTY TRANSACTIONS**

During the three months ended July 31, 2007, the Company entered into the following transactions with related parties:

- (a) The Company incurred \$62,388 for services related to resource property development (2006 - \$57,341 of management fees) to the president and director of the Company. As of July 31, 2007, \$5,613 owed to the president and director was included in accounts payable.
- (b) The Company incurred \$Nil of legal fees (2006 - \$15,040) to a company controlled by a director and officer. As of July 31, 2007, \$910 (April 30, 2007 - \$5,650) included in accounts payable was owed to this company, and \$Nil (April 30, 2007 - \$50) was held in trust by this firm.
- (c) During the fiscal 2007, \$90,000 was placed in trust with a law firm pursuant to the Company's employment agreement with a director and officer. As of July 31, 2007, \$68,899 (April 30, 2007 - \$68,334) was held in trust by the law firm.
- (d) During the three months ended July 31, 2007, \$10,000 of consulting fees (2006 - \$Nil) were paid to a director and an officer of the Company.
- (e) As of July 31, 2007, an amount of \$12,668 (April 31, 2007 - \$12,668) is due to directors and officers of the Company. The amount is non-interest bearing and has no terms of repayment.
- (f) During the three months ended July 31, 2007, rent of \$11,704 (2006 - \$Nil) was charged by a company related by common directors and common officers for shared office premises. As of July 31, 2007, \$3,470 (April 30, 2007 - \$Nil) was owed to this company.
- (g) During the three months ended July 31, 2007, the Company incurred \$13,000 (2006 - \$Nil) with a private company of which a director of the Company is a vice-president. As of July 31, 2007, \$5,830 (April 30, 2007 - \$Nil) is owed to that company.
- (d) The Company incurred \$35,000 of consulting fees (2006 - \$Nil) to company controlled by its corporate secretary. As of July 31, 2007, \$5,000 (April 30, 2007 - \$Nil) included in accounts payable was owed to this company.

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.

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

**8. SHARE CAPITAL**

	<u>Number</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Authorized:			
Unlimited number of common shares			
Balance, April 30, 2006	11,240,001	682,050	79,657
Issued:			
IPO (Note 8a)	6,900,000	2,070,000	-
Agent's corporate finance shares (Notes 8a and c)	180,000	69,000	-
Agent's commission shares (Notes 8a and c)	470,000	221,000	-
Property acquisition (Note 8b)	1,050,000	340,000	-
Private placement (Note 8c)	2,000,000	1,600,000	-
Options exercised (Note 8d)	425,000	160,000	-
Agent's warrants exercised (Note 8a)	386,500	115,950	-
Share issue costs (Notes 8a and c)	-	(741,436)	180,846
Fair value on stock options and agent's warrants exercised (Notes 8a and d)		129,079	(129,079)
Stock –based compensation	-	-	65,292
<b>Balance, April 30, 2007</b>	<u>22,651,501</u>	<u>4,645,643</u>	<u>196,716</u>
Issued:			
Warrants exercised (Note 8a)	4,000	1,695	(495)
Stock –based compensation	-	-	163,551
<b>Balance, July 31, 2007</b>	<u><u>22,655,501</u></u>	<u><u>\$ 4,647,338</u></u>	<u><u>\$ 359,772</u></u>

- 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 fiscal 2007, 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. During the period ended July 31, 2007, 4,000 agent's warrants were exercised for total proceeds of \$1,200 and fair value of \$495 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.
- 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.

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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

- 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
Exercised	(4,000)	0.30
Outstanding, July 31, 2007	1,692,500	\$ 0.80

Warrants outstanding at July 31, 2007 are as follows:

Number of Warrants	Exercise Price	Expiry Date
437,500	\$ 0.30	July 31, 2008
1,095,000	\$ 1.00	April 4, 2009*
160,000	\$ 0.80	April 4, 2009
<u>1,692,500</u>		

\* Subsequently, 162,750 of these warrants were exercised (Note 12a).

**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.

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

8. **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 and July 31, 2007	2,025,000	\$ 0.58

Stock options outstanding at July 31, 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 period ended July 31, 2007 was \$163,551 (2006 - \$Nil).

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%

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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

**Escrow**

6,000,000 common shares were placed in escrow in accordance with the escrow agreement dated February 17, 2006. During the period ended July 31, 2007, 900,000 common shares were released, leaving a balance of 3,600,000 common shares held in escrow (April 30, 2007 – 4,500,000).

9. **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
<b>July 31, 2007</b>				
Canada	\$ 821,630	\$ 56,384	\$ 611,333	\$ 153,913
Mexico	2,640,860	66,760	2,140,761	433,339
	<u>\$ 3,462,490</u>	<u>\$ 123,144</u>	<u>\$ 2,752,094</u>	<u>\$ 587,252</u>
<b>April 30, 2007</b>				
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>

10. **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.

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).

11. **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.

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**July 31, 2007**  
**(Unaudited)**

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**12. SUBSEQUENT EVENTS**

- a) Subsequent to July 31, 2007, 162,750 warrants were exercised.
- b) Subsequent to July 31, 2007, 25,000 common shares of the Company were issued as a finder's fee for the acquisition of the Lety project (Note 8d).