



**(AN EXPLORATION STAGE COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**July 31, 2009**

**SILVERMEX RESOURCES LTD.**  
(An Exploration Stage Company)  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited in Canadian dollars)

	<u>July 31, 2009</u>	<u>April 30, 2009</u>
<b><u>ASSETS</u></b>		
<b>Current</b>		
Cash	\$ 79,010	\$ 160,327
Amounts receivable	34,046	48,053
Prepaid expenses	61,677	74,640
	<u>174,733</u>	<u>283,020</u>
<b>Equipment</b> (Note 3)	75,812	82,690
<b>Resource properties</b> (Note 4)	5,944,288	6,377,971
	<u>\$ 6,194,833</u>	<u>\$ 6,743,681</u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 148,838	\$ 34,899
Due to related parties (Note 5)	78,583	51,781
Promissory notes (Note 7)	220,000	-
	<u>447,421</u>	<u>86,680</u>
<b>Shareholders' equity</b>		
Share capital (Note 6)	10,772,136	11,196,436
Warrants (Note 6)	1,335,358	1,376,933
Contributed surplus (Note 6)	1,071,716	1,069,692
Deficit	(7,431,798)	(6,986,060)
	<u>5,747,412</u>	<u>6,657,001</u>
	<u>\$ 6,194,833</u>	<u>\$ 6,743,681</u>

**Nature of operations and going concern** (Note 1)

**Commitments** (Note 9)

**Subsequent events** (Note 12)

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

**SILVERMEX RESOURCES LTD.**

(An Exploration Stage Company)

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(In Canadian dollars except for share and per share amounts)

(Unaudited)

	<b>Three months ended July 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Accounting and audit	\$ 38,281	\$ 16,000
Amortization	6,878	11,790
Bank charges and interest (Note 7)	20,251	939
Consulting (Note 5)	102,867	37,486
Exploration expenditures on properties written off	10,191	-
Foreign exchange loss	7,745	(30,290)
Investor relations	108,722	76,712
Legal	426	8,536
Office and miscellaneous	23,394	22,429
Rent	11,342	7,377
Regulatory and filing fees	1,619	2,048
Salaries and wages	71,984	286,198
Stock-based compensation (Note 6)	2,024	117,522
Telephone	11,267	5,744
Travel	28,747	27,973
	(445,738)	(590,464)
<b>OTHER ITEMS</b>		
Interest income	-	12,037
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (445,738)</b>	<b>\$ (578,427)</b>
<b>Loss per share – basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of shares outstanding</b>	<b>48,650,338</b>	<b>29,632,631</b>

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

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

	<b>Three months ended July 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM (TO) OPERATING ACTIVITIES</b>		
Loss for the year	\$ (445,738)	\$ (578,427)
Items not affecting cash:		
Amortization	6,878	11,790
Stock-based compensation	2,024	117,522
Accrued interest on promissory notes	20,000	-
	<u>(416,836)</u>	<u>(449,115)</u>
Changes in non-cash working capital items:		
Amounts receivable	14,007	(95,304)
Prepaid expenses	12,963	26,760
Accounts payable and accrued liabilities	113,939	(82,550)
Due to related parties	26,802	26,421
Cash flows used in operating activities	<u>(249,125)</u>	<u>(573,788)</u>
<b>CASH FLOWS FROM (TO) INVESTING ACTIVITIES</b>		
Purchase of equipment	-	(1,629)
Expenditures on resource properties	(96,317)	(602,646)
Cash flows to investing activities	<u>(96,317)</u>	<u>(604,275)</u>
<b>CASH FLOWS FROM (TO) FINANCING ACTIVITIES</b>		
Issuance of common shares	64,125	211,350
Share issue costs	-	(2,427)
Promissory notes	200,000	-
Cash flows from financing activities	<u>264,125</u>	<u>208,923</u>
<b>Decrease in cash during the period</b>	<b>(81,317)</b>	<b>(969,140)</b>
<b>Cash, beginning of period</b>	<b>160,327</b>	<b>1,455,130</b>
<b>Cash, end of period</b>	<b>\$ 79,010</b>	<b>\$ 485,990</b>
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ -
<b>Non – cash activities</b>		
Revaluation of shares issued on acquisition of resource property	\$ (530,000)	\$ -
Fair value of securities granted and issued	\$ -	\$ 117,522
Fair value of options and warrants exercised	\$ 41,575	\$ 152,749

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

**SILVERMEX RESOURCES LTD.**

(An Exploration Stage Company)

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(Unaudited in Canadian dollars)

	<b>Number of common shares</b>	<b>Amount</b>	<b>Warrants</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Total shareholders' equity</b>
<b>Balance, April 30, 2008</b>	<b>29,387,251</b>	<b>\$ 10,108,838</b>	<b>\$ 727,248</b>	<b>\$ 822,034</b>	<b>\$ (3,696,847)</b>	<b>\$ 7,961,273</b>
Issued:						
Private placements (Note 6e)	18,735,000	966,855	906,645	-	-	1,873,500
Options exercised (Note 6a)	225,000	278,750	-	(152,750)	-	126,000
Agent's warrants exercised (Note 6b)	284,500	85,350	-	-	-	85,350
Property acquisition (Note 6c)	75,000	30,750	-	-	-	30,750
Shares returned to treasury (Note 6d)	(75,000)	(75)	-	75	-	-
Share issue costs (Note 6e)	-	(274,032)	(256,960)	280,787	-	(250,205)
Stock-based compensation	-	-	-	119,546	-	119,546
Net loss for the year	-	-	-	-	(3,289,213)	(3,289,213)
<b>Balance, April 30, 2009</b>	<b>48,631,751</b>	<b>\$ 11,196,436</b>	<b>\$ 1,376,933</b>	<b>\$ 1,069,692</b>	<b>\$ (6,986,060)</b>	<b>\$ 6,657,001</b>
Issued:						
Warrants exercised (Note 6g)	427,500	105,700	(41,575)	-	-	64,125
Re-issuance of property acquisition shares (Note 6f)	-	(530,000)	-	-	-	(530,000)
Stock-based compensation	-	-	-	2,024	-	2,024
Net loss for the period	-	-	-	-	(445,738)	(445,738)
<b>Balance, July 31, 2009</b>	<b>49,059,251</b>	<b>\$ 10,772,136</b>	<b>\$ 1,335,358</b>	<b>\$ 1,071,716</b>	<b>\$ (7,431,798)</b>	<b>\$ 5,747,412</b>

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

## **1. NATURE OF OPERATIONS AND GOING CONCERN**

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

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. However, the Company has incurred losses since inception of \$7,431,798 and the ability of the Company to continue as a going-concern depends upon its ability to continue to raise adequate financing and to develop profitable operations. The Company is facing an immediate cash shortfall but plans to (a) continue to negotiate deferrals on some option payments; (b) obtain interim short term funding (Note 12a); and, (c) complete a further private placement in 2009. Management will need to continue 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 secure sufficient additional financing and therefore be in a position to realize its assets and discharge its liabilities in the normal course of business.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of presentation**

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

### **Principles of consolidation**

These financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant inter-company balances and transactions have been eliminated.

### **New accounting standards**

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning on or after January 1, 2009. The Company will adopt the requirements on the date specified in each respective section and is considering the impact this will have on the consolidated financial statements.

#### **a) Section 3064 – Goodwill and intangible assets**

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

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

**b) Section 1582 Business combinations, Section 1601 consolidated financial statements and Section 1602 non-controlling interests**

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

**c) Credit risk and the fair value of financial assets and financial liabilities**

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

**d) Mining exploration costs**

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

**International Financial Reporting Standards ("IFRS")**

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

**3. EQUIPMENT**

	July 31, 2009			April 30, 2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 26,266	\$ 19,668	\$ 6,598	\$ 26,266	\$ 18,164	\$ 8,102
Leasehold improvements	10,524	6,420	4,104	10,524	5,893	4,631
Office furniture and equipment	49,536	20,262	29,274	49,536	19,319	30,217
Vehicles	77,242	41,406	35,836	77,242	37,502	39,740
	<u>\$ 163,568</u>	<u>\$ 87,756</u>	<u>\$ 75,812</u>	<u>\$ 163,568</u>	<u>\$ 80,878</u>	<u>\$ 82,690</u>

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2009**  
(All amounts in Canadian dollars, except for share amounts)

**4. RESOURCE PROPERTIES**

	April 30, 2008	Additions (Write offs)	April 30, 2009	Additions	July 31, 2009
<b>PEÑASCO QUEMADO PROJECT (Note 4a)</b>					
<i>Acquisition and holding costs</i>					
Acquisition costs	\$ 874,813	\$ 210,385	\$ 1,085,198	\$ -	\$ 1,085,198
Claim staking	19,380	-	19,380	-	19,380
Mining taxes	43,218	31,244	74,462	-	74,462
Surface rights and rights of way	55,143	17,501	72,644	-	72,644
	992,554	259,130	1,251,684	-	1,251,684
<i>Deferred exploration costs</i>					
Assaying	146,428	54,750	201,178	-	201,178
Camp and accommodation	58,501	11,897	70,398	689	71,087
Communications	3,297	1,605	4,902	-	4,902
Drafting, reporting and reproduction	12,791	792	13,583	-	13,583
Drilling	693,233	-	693,233	-	693,233
Engineering and feasibility	5,053	-	5,053	-	5,053
Equipment rental	11,906	-	11,906	-	11,906
Geophysics	110,517	40,231	150,748	-	150,748
Legal expenses	41,238	292	41,530	-	41,530
Miscellaneous exploration expenses	140,539	53,904	194,443	2,188	196,631
Salaries and consulting fees	709,394	120,157	829,551	12,718	842,269
Travel expenses	46,253	634	46,887	252	47,139
Trenching and road construction	53,728	3,484	57,212	-	57,212
	2,032,878	287,746	2,320,624	15,847	2,336,471
<b>Total Peñasco Quemado Project</b>	<b>3,025,432</b>	<b>546,876</b>	<b>3,572,308</b>	<b>15,847</b>	<b>3,588,155</b>
<b>LOBOS PROJECT (Note 4b)</b>					
<i>Acquisition and holding costs</i>					
Claim staking	7,257	1,618	8,875	-	8,875
Mining taxes	6,816	15,071	21,887	-	21,887
Surface rights and rights of way	-	7,028	7,028	-	7,028
	14,073	23,717	37,790	-	37,790
<i>Deferred exploration costs</i>					
Assaying	7,055	2,190	9,245	-	9,245
Camp and accommodation	2,864	-	2,864	-	2,864
Communications	353	-	353	-	353
Miscellaneous exploration expenses	6,670	158	6,828	-	6,828
Salaries and consulting fees	1,594	7,082	8,676	-	8,676
Travel expenses	130	-	130	-	130
	18,666	9,430	29,167	-	29,167
<b>Total Lobos Project</b>	<b>32,739</b>	<b>33,147</b>	<b>65,886</b>	<b>-</b>	<b>65,886</b>
<b>CERRO DE PLATA PROJECT (Note 4c)</b>					
<i>Acquisition and holding costs</i>	216,452	15,292	231,744	-	231,744
<i>Deferred exploration costs</i>	1,088,601	(1,320,345)	(231,744)	-	(231,744)
<b>Total Cerro de Plata Project</b>	<b>1,305,053</b>	<b>(1,305,053)</b>	<b>-</b>	<b>-</b>	<b>-</b>

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2009**  
(All amounts in Canadian dollars, except for share amounts)

**4. RESOURCE PROPERTIES – (continued)**

	April 30, 2008	Additions (Write offs)	April 30, 2009	Additions	July 31, 2009
<b>LETY PROJECT (Note 4d)</b>					
<i>Acquisition costs and holding costs</i>					
Acquisition costs	203,307	98,146	301,453	10,867	312,320
Claim staking	9,016	-	9,016	-	9,016
Mining taxes	3,989	4,634	8,623	166	8,788
	<u>216,312</u>	<u>102,780</u>	<u>319,092</u>	<u>11,033</u>	<u>330,124</u>
<i>Deferred exploration costs</i>					
Assaying	-	6,776	6,776	-	6,776
Camp and accommodation	2,646	3,728	6,374	-	6,374
Communications	264	201	465	-	465
Drafting, reporting and reproduction	166	-	166	-	166
Miscellaneous exploration expenses	7,977	2,232	10,209	47	10,256
Salaries and consulting fees	25,346	24,234	49,580	9,526	59,106
Travel expenses	335	-	335	-	335
	<u>36,734</u>	<u>37,170</u>	<u>73,904</u>	<u>9,573</u>	<u>83,478</u>
<b>Total Lety Project</b>	<b>253,046</b>	<b>139,950</b>	<b>392,996</b>	<b>20,606</b>	<b>413,602</b>
<b>EL RAYO PROJECT (Note 4e)</b>					
<i>Acquisition and holding costs</i>	45,502	10,122	55,624	-	55,624
<i>Deferred exploration costs</i>	17,152	(72,776)	(55,624)	-	(55,624)
<b>Total El Rayo Project</b>	<b>62,654</b>	<b>(62,654)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>SAN MARCIAL PROJECT (Note 4f)</b>					
<i>Acquisition and holding costs</i>					
Acquisition costs	1,280,000	-	1,280,000	(530,000)	750,000
Mining taxes	7,041	14,917	21,958	93	22,051
Surface rights and rights of way	-	9,520	9,520	-	9,520
	<u>1,287,041</u>	<u>24,437</u>	<u>1,311,478</u>	<u>(529,907)</u>	<u>781,571</u>
<i>Deferred exploration costs</i>					
Assaying	119	14,447	14,566	214	14,780
Camp and accommodation	3,276	10,480	13,756	1,886	15,642
Communications	191	914	1,105	29	1,134
Drafting, reporting and reproduction	-	1,309	1,311	-	1,311
Drilling	-	374,886	374,886	-	374,886
Field work	7,422	16,806	24,228	2,600	26,828
Geophysics	-	29,127	29,127	1,246	30,373
Geological	11,494	-	11,494	-	11,494
Miscellaneous exploration expenses	40,219	63,036	103,253	4,927	108,180
Salaries and consulting fees	5,000	207,380	212,380	36,455	248,835
Travel expenses	1,498	2,269	3,767	303	4,070
Trenching and road construction	15,426	67,556	82,982	2,494	85,476
	<u>84,645</u>	<u>788,210</u>	<u>872,855</u>	<u>50,154</u>	<u>923,009</u>
<b>Total San Marcial Project</b>	<b>1,371,686</b>	<b>812,647</b>	<b>2,184,333</b>	<b>(479,753)</b>	<b>1,704,580</b>

**SILVERMEX RESOURCES LTD.**  
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**Notes to the Consolidated Financial Statements**  
**July 31, 2009**  
(All amounts in Canadian dollars, except for share amounts)

**4. RESOURCE PROPERTIES – (continued)**

	2008	Additions (Write offs)	2009	Additions	July 31, 2009
<b>LA FRAZADA PROJECT (Note 4g)</b>					
<i>Acquisition and holding costs</i>					
Acquisition costs	-	21,157	21,157	-	21,157
Mining taxes	-	369	369	-	369
		21,526	21,526	-	21,526
<i>Deferred exploration costs</i>					
Assaying	-	9,837	9,837	165	10,002
Camp and accommodation	-	13,517	13,517	778	14,295
Communications	-	606	606	35	641
Drafting, reporting and reproduction	-	183	183	-	183
Geophysics	-	21,181	21,181	1,246	22,427
Miscellaneous exploration expenses	-	11,259	11,259	1,516	12,775
Salaries and consulting fees	1,671	60,974	62,645	5,577	68,222
Travel expenses	-	1,005	1,005	-	1,005
	-	118,562	120,233	9,317	129,550
<b>Total La Frazada Project</b>	<b>1,671</b>	<b>140,088</b>	<b>141,759</b>	<b>9,317</b>	<b>151,076</b>
<b>OTHER PROJECTS (Note 4g)</b>					
<i>Deferred exploration costs</i>					
Geophysics	16,137	-	16,137	-	16,137
Field work	232	3,600	3,832	300	4,132
Reports and maps	720	-	720	-	720
<b>Total Other Projects</b>	<b>17,089</b>	<b>3,600</b>	<b>20,689</b>	<b>300</b>	<b>20,989</b>
<b>Total Property Expenditures</b>	<b>\$ 6,069,370</b>	<b>\$ 308,601</b>	<b>\$ 6,377,971</b>	<b>\$ (433,683)</b>	<b>\$ 5,944,288</b>

(a) **Peñasco Quemado Project, Tubutama, Sonora, Mexico**

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

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

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

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

**4. RESOURCE PROPERTIES – (continued)**

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

In January 2006, the Company staked one concession (2,830 hectares) and received a property title issued by the Mexican General Mining Bureau.

**(c) Cerro de Plata Project, Sonora, Mexico**

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

**(d) Lety Project, Santa Maria del Oro, Durango, Mexico**

In May 2007, the Company signed an option agreement, amended on February 25, 2008, January 14, 2009, and June 10, 2009, to acquire a 100% interest in the Lety Project. In consideration for this interest, the Company will pay a total of US\$250,000 (US\$180,000 paid) and issue 250,000 shares over a two year option period:

- i) US\$ 50,000 on signing (paid);
- ii) US\$ 50,000 by November 17, 2007 (paid);
- iii) US\$ 50,000 by May 17, 2008 (paid);
- iv) US\$ 10,000 by November 17, 2008 (paid);
- v) US\$ 20,000 on or before February 28, 2009 (paid);
- vi) US\$ 20,000 on or before October 15, 2009;
- vii) US\$ 50,000 and 250,000 common shares on December 28, 2009.

The vendor will also receive 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 an arm's length third party. 25,000 shares were issued on August 21, 2007 and six future releases of 37,500 shares (112,500 shares issued) each are to be made every six months thereafter (Note 12e).

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

**(e) El Rayo Project, Magdalena de Keno, Sonora, Mexico**

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

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

**(f) San Marcial Project, Sinaloa, Mexico**

In October 2007, the Company executed a term sheet and on March 19, 2009 finalized the formal agreement with Silver Standard to earn a 100% interest in the San Marcial Project. Under this agreement, the Company can acquire a 100% interest by issuing 3,000,000 common shares in three stages by February 1, 2011. The first 1,000,000 shares were issued on at the deemed price of \$0.75 (Note 6f); all the subsequent issuances will be valued based on the market price of the shares of the Company at the time of the issuance. The Company must also pay US\$15 million (less the deemed value of the 3 million common shares issued) in either cash or shares at the election of Silver Standard, by February 1, 2012. The Company must also expend US\$1 million on exploration by February 1, 2011. The Company is also obligated to pay Silver Standard US\$100,000 per month commencing after commercial production has begun. These payments will be credited against the purchase price. There is also a 3% net smelter return on the property, and the Company is also obligated to pay US\$100,000 to International American Resources Inc. as a production payment.

**(g) La Frazada Project, Nayarit, Mexico**

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

**(h) Rosario Project, Sinaloa, Mexico**

On June 15, 2009, the Company signed a Letter of Intent ("LOI"), amended on August 14, 2009 (Note 12c), with Aurcana Corp. ("Aurcana") to acquire a 100% interest in the Rosario property.

**5. RELATED PARTY TRANSACTIONS**

- a) The Company incurred \$53,298 for consulting services, including services related to resource property development (2008 - \$50,589 of consulting fees) provided by three of the Company's directors and officers. As of July 31, 2009, \$3,515 (April 30, 2009 - \$Nil) was owed to these directors.
- b) The Company advanced \$16,702 (2008 - \$6,658) to a nominee company incorporated in Mexico. These funds were used to pay the salaries of the Company's employees in Mexico. As of July 31, 2009, \$4,531 (April 30, 2009 - \$8,022) was payable to this company.
- c) During the three months ended July 31, 2009, \$35,310 (2008 - \$56,634) was charged by companies related by common directors and common officers for shared office premises and expenses. As of July 31, 2009, \$47,985 (April 30, 2009 - \$26,675) was owed to these companies.
- d) On August 20, 2008, the Company acquired the La Frazada Project for US\$20,000 from a company related by common directors and common officers (Note 4g). The company had staked the project as the Company's agent. As of July 31, 2009, US\$20,000 (April 30, 2009 - US\$20,000) was owed to this company.
- e) During the three months ended July 31, 2009, the Company incurred \$30,000 of consulting fees (2008 - \$56,634) to a company controlled by its corporate secretary. As of July 31, 2009, \$Nil (April 30, 2008 - \$2,500) was prepaid 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.

**6. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

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

- a) In fiscal 2009, 225,000 stock options at a price of \$0.56 were exercised for gross proceeds of \$126,000. The fair value of the options at the date of the grant of \$117,522 was recognized and transferred from contributed surplus on the exercise of these options.
- b) In fiscal 2009, 284,500 agent's warrants were exercised for total proceeds of \$85,350 and fair value of \$35,228 was recognized on these exercised warrants.
- c) In fiscal 2009, the Company issued 75,000 common shares valued at \$30,750 as a finder's fee for the acquisition of the Lety project (Note 4).
- d) On February 10, 2009, the Company cancelled 75,000 escrowed shares at a price of \$0.001 per share. The stock value of \$75 was transferred to contributed surplus.
- e) In fiscal 2009, the Company closed a private placement financing totaling \$1,837,500 in two tranches. The first brokered tranche, closed on January 30, 2009, consisted of 15,000,000 units for gross proceeds of \$1,500,000. The second non-brokered tranche, closed on February 2, 2009, consisted of 3,635,000 units for gross proceeds of \$363,500. Each unit has a price of \$0.10 per unit and consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share until July 30, 2010 at a price of \$0.15 per share.

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

- f) During the period ended July 31, 2009, the 1,000,000 shares issued on the acquisition of the San Marcial property and valued at a price of \$1.28 were returned to treasury and reissued at a deemed price of \$0.75 in compliance with the formal agreement and Exchange policies (Note 4f).
- g) During the period ended July 31, 2009, 427,500 warrants at \$0.15 were exercised for total proceeds of \$64,125. A fair value of \$41,575 was recognized on these warrants.

**Warrants**

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, April 30, 2008	4,088,500	\$ 1.10
Exercised	(284,500)	0.30
Expired	(3,804,000)	1.16
Issued	9,367,500	0.15
Outstanding, April 30, 2009	9,367,500	0.15
Exercised	(427,500)	0.15
Outstanding, July 31, 2009	8,940,000	\$ 0.15

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2009**  
(All amounts in Canadian dollars, except for share amounts)

**6. SHARE CAPITAL AND CONTRIBUTED SURPLUS - (continued)**

Warrants outstanding at July 31, 2009 are as follows:

Number of Warrants	Exercise Price	Expiry Date
7,122,500	\$ 0.15	July 30, 2010*
1,817,500	\$ 0.15	July 30, 2010
8,940,000		

\* Subsequent to the period end, 96,000 of these warrants were exercised.

**Options**

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

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

	Shares	Weighted Average Exercise Price
Outstanding, April 30, 2008	1,875,000	\$ 0.60
Exercised	(225,000)	0.56
Outstanding, April 30, 2009 and July 31, 2009	1,750,000	\$ 0.59

Stock options outstanding at July 31, 2009 are as follows:

Number of Options	Number of Options Exercisable	Exercise Price	Expiry Date
100,000	50,000	\$ 0.25	November 12, 2010
1,000,000	1,000,000	\$ 0.30	July 31, 2011
550,000	550,000	\$ 1.11	April 12, 2012
100,000	100,000	\$ 0.90	April 12, 2012
1,750,000	1,700,000		

**Agents' options**

	Number of Options	Weighted Average Exercise Price	Expiry Date
Outstanding, April 30, 2008	192,880	1.00	
Expired	(192,880)	1.00	
Issued (Note 6e)	1,350,000	0.10	July 30, 2010
Outstanding, April 30, 2009 and July 31, 2009	1,350,000	\$ 0.10	

**6. SHARE CAPITAL AND CONTRIBUTED SURPLUS - (continued)**

**Stock-based compensation**

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. The fair value of stock options granted is recognized in income on a straight line basis over the vesting period. The total fair value of stock options vested during the fiscal 2009 was \$2,024 (2008 - \$117,522).

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

	2009
Risk-free interest rate	1.25 – 1.73%
Expected life of options	1.5 - 2 years
Annualized volatility	100 – 133%
Dividend rate	0.00%

**Escrow**

6,000,000 shares were placed in escrow in accordance with the escrow agreement dated February 17, 2006. 5,100,000 shares had been released from escrow as at April 30, 2009, leaving a balance of 900,000 common shares held in escrow. The remaining 900,000 shares held in escrow were released on July 31, 2009.

**7. PROMISSORY NOTES**

The Company wrote two promissory notes for \$100,000 each. A bonus of 10% is payable on each promissory note. The principal amounts and the bonuses are convertible at any time into common shares and/or warrants of the Company on the same terms and at a conversion rate equal to the price of the next financing undertaken by the Company before August 28, 2009 (Note 12b).

**8. FINANCIAL INSTRUMENTS**

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

(a) Credit risk

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

(i) Trade credit risk

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

(ii) Cash and cash equivalents

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

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2009**  
(All amounts in Canadian dollars, except for share amounts)

**8. FINANCIAL INSTRUMENTS – (continued)**

(iii) Derivative financial instruments

As at April 30, 2009, the Company has no derivative financial instruments. It may in the future enter into derivative financial instruments and in order to manage credit risk, it will only enter into derivative financial instruments with highly rated investment grade counterparties.

(b) Liquidity risk

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

	For the year ended April 30		
	2010	2011	2012
Property payments:			
Lety	70,000		
San Marcial			14,250,000
Exploration commitment:			
San Marcial		1,000,000	

(1) All amounts are denominated are in US dollars

The Company's accounts payable are all current and are normally payable within 60 – 90 days of the liability being incurred.

The Company is facing a cash shortfall. In an effort to ensure that there are sufficient cash balances to meet its short-term business requirements, the Company will raise interim short term financing (Note 12a); complete a private placement in 2009, and continue to renegotiate some of its option payments.

(c) Interest rate risk

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

(d) Fair value disclosures

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

(e) Currency risk

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

The sensitivity of the Company's net loss and other comprehensive loss for the quarter ended July 31, 2009, due to changes in the exchange rate for the Mexican peso in relation to the Canadian dollar is summarized in the following table expressed as an increase in the net loss and comprehensive loss for each 10% appreciation in the Canadian dollar:

Net loss and other comprehensive loss	\$	2,567
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A 10% depreciation of the Mexican peso against the Canadian dollar would have a similar decrease in net loss.

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2009**  
(All amounts in Canadian dollars, except for share amounts)

**8. FINANCIAL INSTRUMENTS – (continued)**

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

Net loss and other comprehensive loss	\$	2,366
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A 10% depreciation of the US dollar against the Canadian dollar would have a similar decrease in net loss.

**9. COMMITMENTS**

- a) 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 of future minimum lease payments for the fiscal years ended as follows:

2010	\$	30,415
2011	\$	40,553
2012	\$	3,380

- b) On June 12, 2009, the Company contracted Lincoln Peck Financial Inc. as its financial advisor for a five month period.. This advisor is paid \$10,000 a month.

**10. SEGMENTED INFORMATION**

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

	Total Assets	Equipment	Resource Properties	Other Assets
<b>July 31, 2009</b>				
Canada	\$ 133,106	\$ 32,031	\$ -	\$ 101,074
Mexico	6,061,727	43,781	5,944,288	73,659
	<u>\$ 6,194,833</u>	<u>\$ 75,812</u>	<u>\$ 5,944,288</u>	<u>\$ 174,733</u>
<b>April 30, 2009</b>				
Canada	\$ 110,895	\$ 34,413	\$ -	\$ 76,482
Mexico	6,631,117	48,277	6,376,302	206,537
	<u>\$ 6,742,012</u>	<u>\$ 82,690</u>	<u>\$ 6,376,302</u>	<u>\$ 283,020</u>

## **11. MANAGEMENT OF CAPITAL RISK**

The Company manages its cash and cash equivalents, common shares, stock options and warrants as capital (Note 6). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

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

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

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

## **12. SUBSEQUENT EVENTS**

- a) The Company announced and closed a non-brokered private placement raising gross proceeds of \$774,180. The private placement consists of 4,554,000 units at a price of \$0.17 per unit. Each unit consists of one common share and one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.20 before September 11, 2010. Finders' fees of \$17,666 are payable.
- b) A holder of a promissory note elected to convert \$102,000 of the total amount outstanding into 600,000 shares in the private placement (Note 12a).
- c) 171,000 warrants at \$0.15 were exercised for total proceeds of \$25,650.
- d) On August 14, 2009, the Company revised and restated the LOI with Aurcana (Note 4h) pursuant to which the Company may acquire all of the issued and outstanding shares of Aurcana de Mexico SA de CV ("Aurcana Mexico") on or before September 30, 2009. Under this LOI, the Company will pay Aurcana an aggregate of US\$3,750,000 and issue 2,250,000 shares over three years as follows: 250,000 shares on Exchange acceptance; 1,000,000 shares upon execution of the purchase and sale agreement ("Agreement"); and, 1,000,000 shares upon the earlier of 24 months from the execution of the Agreement and the commencement of commercial production. The shares will be held in escrow and released at a rate of 25% every three months commencing three months from issuance.

The Company will also make the following payments: US\$350,000 plus IVA and interest on August 14, 2009 to Industrial Minera Mexico, S.A. de C.V. ("IMM"); \$250,000 to Aurcana by November 15, 2009; US\$650,000 plus IVA and interest on February 7, 2010; US\$500,000 to Aurcana upon the earlier of 30 months of execution of the Agreement or six months after the commencement of commercial production; a further US\$500,000 within the following six months; US\$500,000 to Aurcana or 500,000 shares at the option of Aurcana, within 18 months following the commencement of commercial production; US\$500,000 to Aurcana or 500,000 shares at the option of Aurcana, within 24 months following the commencement of commercial production; and, US\$500,000 to Aurcana within 30 months following commencement of commercial production, or 500,000 shares at the option of Aurcana.

## **12. SUBSEQUENT EVENTS – (continued)**

**SILVERMEX RESOURCES LTD.**

**(An Exploration Stage Company)**

**Notes to the Consolidated Financial Statements**

**July 31, 2009**

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

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Due diligence has been completed. The agreement is subject to IMM's consent to change the ownership of the shares of Aurcana Mexico and the conclusion of a definitive agreement.

The Company has paid US\$366,893 and issued 250,000 common shares to Aurcana/Aurcana Mexico.

- e) A further 37,500 shares were issued as the finder's fee for the Lety property.