



(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010

NOTICE OF AUDITOR'S REVIEW OF
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

	<u>July 31, 2010</u>	<u>April 30, 2010</u>
<u>ASSETS</u>		
Current		
Cash	\$ 4,819,352	\$ 5,543,925
Amounts receivable	230,735	235,394
Prepaid expenses	42,101	43,973
	<u>5,092,188</u>	<u>5,823,292</u>
Prepaid property permits (Note 3)	16,526	16,630
Property, plant and equipment (Note 4)	1,275,666	1,267,895
Resource properties (Note 6)	5,033,848	4,510,883
	<u>\$ 11,418,228</u>	<u>\$ 11,618,700</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current		
Accounts payable and accrued liabilities	\$ 191,432	\$ 231,689
Due to related parties (Note 7)	41,616	33,027
	<u>233,048</u>	<u>264,716</u>
Asset retirement obligations (Note 8)	189,055	189,055
Deferred acquisition costs (Note 5)	1,432,397	1,405,997
	<u>1,854,500</u>	<u>1,859,768</u>
Shareholders' equity		
Share capital (Note 9)	20,582,165	20,039,570
Share purchase warrants (Note 9)	1,656,616	1,877,257
Contributed surplus (Note 9)	2,341,718	1,757,518
Deficit	(15,016,771)	(13,915,413)
	<u>9,563,728</u>	<u>9,758,932</u>
	<u>\$ 11,418,228</u>	<u>\$ 11,618,700</u>

Nature of operations and going concern (Note 1)
Subsequent events (Note 13)

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 amounts)

(Unaudited)

	Three months ended July 31,	
	2010	2009
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting and audit	\$ 19,280	\$ 38,281
Amortization	42,994	6,878
Bank charges and interest	792	20,251
Consulting	65,948	102,867
Foreign exchange loss	110,859	7,745
Investor relations	94,222	108,722
Legal	33,654	426
Miscellaneous exploration expenditures	5,596	-
Office and miscellaneous	32,563	23,394
Rent	10,554	11,342
Regulatory and filing fees	2,280	1,619
Salaries and wages	81,222	71,984
Stock-based compensation	588,360	2,024
Telephone	3,348	11,267
Travel	15,424	28,747
Write-off of resource property (Note 6)	-	10,191
	<u>1,107,096</u>	<u>(445,738)</u>
OTHER ITEMS		
Interest income	5,738	-
	<u>1,112,834</u>	<u>(445,738)</u>
Net loss and comprehensive loss for the period	\$ (1,101,358)	\$ (445,738)
Loss per share – basic and diluted	\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding	83,831,705	48,650,338

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

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

	Three months ended July 31,	
	2010	2009
CASH FLOWS FROM (TO) OPERATING ACTIVITIES		
Net loss for the period:	\$ (1,101,358)	\$ (445,738)
Items not affecting cash:		
Amortization	42,994	6,878
Stock-based compensation	588,360	2,024
Foreign exchange adjustment	26,400	-
Accrued interest on promissory notes	-	20,000
	<u>(443,604)</u>	<u>(416,836)</u>
Changes in non-cash working capital items:		
Amounts receivable	4,659	14,007
Prepaid expenses	1,976	12,963
Accounts payable and accrued liabilities	(40,257)	113,939
Due to related parties	8,589	26,802
Cash flows used in operating activities	<u>(468,637)</u>	<u>(249,125)</u>
CASH FLOWS FROM (TO) INVESTING ACTIVITIES		
Purchase of equipment	(50,765)	-
Expenditures on resource properties	(522,965)	(96,317)
Cash flows to investing activities	<u>(573,730)</u>	<u>(96,317)</u>
CASH FLOWS FROM (TO) FINANCING ACTIVITIES		
Issuance of common shares	317,794	64,125
Promissory notes	-	200,000
Cash flows from financing activities	<u>317,794</u>	<u>264,125</u>
Decrease in cash during the period	(724,573)	(81,317)
Cash, beginning of period	5,543,925	160,327
Cash, end of period	\$ 4,819,352	\$ 79,010
<hr/>		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest on promissory notes	\$ -	\$ -
Non – cash activities		
Fair value of securities granted and issued	\$ 589,772	\$ 1,306,977
Fair value of securities returned to treasury	\$ -	\$ 75
Fair value of options and warrants exercised	\$ 226,213	\$ 152,750

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 except for share amounts)

	Number of common shares	Amount	Share purchase warrants	Contributed surplus	Deficit	Total shareholders' equity
Balance, April 30, 2009	48,631,751	\$ 11,196,436	\$ 1,376,933	\$ 1,069,692	\$ (6,986,060)	\$ 6,657,001
Issued:						
Private placements (Notes 9b and c)	19,889,655	6,535,260	1,139,965	-	-	7,675,225
Agents' units (Note 9c)	460,000	178,612	28,388	-	-	207,000
Warrants exercised (Note 9e)	9,858,875	2,216,963	(644,982)	-	-	1,571,981
Agent's options exercised (Note 9f)	1,330,000	309,049	100,578	(276,627)	-	133,000
Options exercised (Note 9g)	1,250,000	643,465	-	(310,465)	-	333,000
Property acquisitions (Note 9d)	2,287,500	809,000	-	-	-	809,000
Re-issuance of property acquisition shares (Note 9a)	-	(1,088,000)	-	-	-	(1,088,000)
Share issue costs (Notes 9b and c)	-	(761,215)	(123,625)	264,547	-	(620,293)
Stock-based compensation	-	-	-	1,010,371	-	1,010,371
Net loss for the year	-	-	-	-	(6,929,353)	(6,929,353)
Balance, April 30, 2010	83,707,781	20,039,570	1,877,257	1,757,518	(13,915,413)	9,758,932
Issued:						
Warrants exercised (Note 9h)	2,090,625	537,847	(222,053)	-	-	315,794
Agent's options exercised (Note 9i)	20,000	4,748	1,412	(4,160)	-	2,000
Stock-based compensation	-	-	-	588,360	-	588,360
Net loss for the period	-	-	-	-	(1,101,358)	(1,101,358)
Balance, July 31, 2010	85,818,406	\$20,582,165	\$1,656,616	\$2,341,718	\$(15,016,771)	\$9,563,728

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

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Silvermex Resources Ltd. (the Company) was incorporated on April 17, 2005 under the laws of the Province of British Columbia. The Company is in the business of acquiring, exploring and evaluating mineral resource properties in Mexico, through its wholly-owned subsidiaries, Minera Terra Plata, S.A. de C.V. (Terra Plata) and Minera La Rastra S.A. de C.V. (La Rastra) (formerly called Aurcana de Mexico S.A. de C.V.). 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 as a going-concern. Although the Company recently completed a private placement, it will still need to target sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions to assure continuation of the Company's exploration programs. There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. The net realizable value of the Company's assets may be materially less than the amounts recorded in these financial statements should the Company be unable to secure sufficient additional financing in the future and therefore be in a position to realize its assets and discharge its liabilities in the normal course of business.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Changes in accounting policies

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

CICA sections 1582, 1601 and 1602 replace the former CICA 1581, Business Combinations and CICA 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. 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. The adoption of this standard is not expected to have a material impact on the Company's results of operations or its financial position.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES - (continued)**b) Comprehensive revaluation of assets and liabilities**

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

c) International Financial Reporting Standards (IFRS)

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

3. PREPAID PROPERTY PERMITS

The Company's subsidiary, La Rastra, entered into an agreement with the Ejido La Rastra which permitted La Rastra to occupy the Rosario property for twenty years. The annual rent payable has been negotiated for the first five years of the agreement.

4. EQUIPMENT

	July 31, 2010			April 30, 2010		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	\$899,417	\$ -	\$899,417	\$ 899,417	\$ -	\$ 899,417
Computer equipment	27,880	17,154	10,726	20,537	16,643	3,894
Leasehold improvements	10,586	1,032	9,554	10,586	530	10,056
Exploration equipment	318,018	39,471	278,547	313,515	-	313,515
Office furniture and equipment	52,801	24,905	27,896	52,294	23,332	28,962
Vehicles	50,464	938	49,526	12,051	-	12,051
	\$1,359,166	\$83,500	\$1,275,666	\$1,308,400	\$40,505	\$1,267,895

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

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

5. AURCANA ACQUISITION

On November 30, 2009, the Company acquired all of the issued and outstanding shares of La Rastra from Aurcana Corporation (Aurcana). La Rastra holds the rights to the Rosario property. The acquisition was treated as an acquisition of assets. The Company retained an independent appraiser to provide the estimated fair value of property, plant and equipment acquired. This appraised value approximated the fair value assigned by management.

The preliminary purchase price allocation for 100% of the La Rastra shares is as follows:

<u>Consideration (in terms of the agreement):</u>	
<i>Completed:</i>	
Cash less equipment sold to Aurcana	\$ 122,157
Personnel payments	17,836
Reimbursement of operating expenses	85,000
Common shares – issued (Note 9d)	350,000
	<u>574,993</u>
<i>Accrued:</i>	
Future cash payments	1,057,400
Common shares to be issued	400,000
Total purchase price	<u>\$ 2,032,393</u>
<u>Assets and liabilities acquired:</u>	
Cash	\$ 726
Other current assets	287,980
Prepaid property permits	13,664
Property, plant and equipment	1,311,717
Resource properties	1,766,693
Current liabilities	(21,239)
IMMSA loan assumed	(1,243,939)
Asset retirement obligation	(83,209)
	<u>\$2,032,393</u>

The agreement provides for the following:

Payments made and shares issued: 1,250,000 common shares issued to Aurcana (Note 9d); \$250,000 to Aurcana less \$127,843 for certain equipment sold to Aurcana by November 30, 2009 (paid); \$85,000 to Aurcana for operating expenses incurred commencing August 1, 2009 (paid); \$17,836 as personnel payments (paid); US\$1,098,393 (\$1,191,555) to Industrial Minera Mexico, S.A. de C.V. (IMMSA) (paid);

Payments to be made (including contingent) and shares to be issued:

A further 1,000,000 shares to be issued upon the earlier of October 9, 2011 (accrued as \$470,000 as of July 31, 2010 as deferred acquisition costs) or the commencement of production; US\$500,000 to Aurcana upon the earlier of April 9, 2012 (\$516,200 accrued as deferred acquisition costs) or six months after the commencement of commercial production; a further US\$500,000 by October 9, 2012 (\$516,200 accrued as deferred acquisition costs); US\$500,000 to Aurcana or 500,000 shares at the option of Aurcana within 18 months following the commencement of commercial production; US\$500,000 to Aurcana or 500,000 shares at the option of Aurcana within 24 months following the commencement of commercial production; and, US\$500,000 to Aurcana within 30 months following commencement of commercial production or 500,000 shares at the option of Aurcana. An NSR is also payable.

All common shares issued to Aurcana are placed in escrow (Note 9).

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

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

6. RESOURCE PROPERTIES

	April 30, 2009	Additions (Write offs)	April 30,2010	Additions (Write offs)	July 31, 2010
PEÑASCO QUEMADO PROJECT					
<i>Acquisition and holding costs</i>	\$1,251,684	\$26,278	\$1,277,962	\$ -	\$1,277,962
<i>Deferred exploration costs</i>	2,320,624	61,672	2,382,296	-	2,382,296
Write-off of property	-	(3,660,258)	(3,660,258)	-	(3,660,258)
Total Peñasco Quemado Project	3,572,308	(3,572,308)	-	-	-
LOBOS PROJECT (Note 6a)					
<i>Acquisition and holding costs</i>					
Claim staking	8,875	-	8,875	-	8,875
Mining taxes	21,887	31,339	53,226	-	53,226
Surface rights and rights of way	7,028	-	7,028	-	7,028
	37,790	31,339	69,129	-	69,129
<i>Deferred exploration costs</i>					
Assaying	9,245	-	9,245	-	9,245
Camp and accommodation	2,864	-	2,864	-	2,864
Communications	353	-	353	-	353
Miscellaneous exploration expenses	6,828	-	6,828	-	6,828
Salaries and consulting fees	8,676	8,215	16,891	-	16,891
Travel expenses	130	-	130	-	130
	28,096	8,215	36,311	-	36,311
Total Lobos Project	65,886	39,554	105,440	-	105,440
LETY PROJECT					
<i>Acquisition costs and holding costs</i>	319,092	78,036	397,128	-	397,128
<i>Deferred exploration costs</i>	73,904	25,469	99,373	-	99,373
Write-off of property	-	(496,501)	(496,501)	-	(496,501)
Total Lety Project	392,996	(392,996)	-	-	-
SAN MARCIAL PROJECT (Note 6b)					
<i>Acquisition and holding costs</i>					
Acquisition costs	1,280,000	(638,000)	642,000	-	642,000
Claim staking	-	11,353	11,353	-	11,353
Mining taxes	21,958	12,942	34,900	45,969	80,869
Surface rights and rights of way	9,520	43	9,563	-	9,563
	1,311,478	(613,662)	697,816	45,969	743,785
<i>Deferred exploration costs</i>					
Assaying	14,566	20,204	34,770	9,542	44,312
Camp and accommodation	13,756	2,263	16,019	30,426	46,445
Communications	1,105	29	1,134	-	1,134
Drafting, reporting and reproduction	1,311	-	1,311	-	1,311
Drilling	374,886	42,173	417,059	224,787	641,846
Field work	24,228	88,552	112,780	(2,835)	109,945
Geophysics	29,127	9,404	38,531	-	38,531
Geological	11,494	5,400	16,894	-	16,894
Miscellaneous exploration expenses	103,253	9,574	112,827	822	113,649
Salaries and consulting fees	212,380	76,656	289,036	39,217	328,253
Travel expenses	3,767	4,577	8,344	-	8,344
Trenching and road construction	82,982	51,105	134,087	2,567	136,654
	872,855	309,937	1,182,792	304,526	1,487,318
Total San Marcial Project	2,184,333	(303,725)	1,880,608	350,495	2,231,103

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

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

6. RESOURCE PROPERTIES – (continued)

	April 30, 2009	Additions (Write offs)	April 30, 2010	Additions	July 31, 2010
LA FRAZADA PROJECT					
<i>Acquisition and holding costs</i>					
Acquisition costs	21,157	-	21,157	-	21,157
Mining taxes	369	269	638	-	638
	<u>21,526</u>	<u>269</u>	<u>21,795</u>	<u>-</u>	<u>21,795</u>
<i>Deferred exploration costs</i>					
Assaying	9,837	165	10,002	-	10,002
Camp and accommodation	13,517	778	14,295	-	14,295
Communications	606	35	641	-	641
Drafting, reporting and reproduction	183	-	183	-	183
Geophysics	21,181	1,767	22,948	-	22,948
Miscellaneous exploration expenses	11,259	4,804	16,063	-	16,063
Salaries and consulting fees	62,645	17,856	80,501	-	80,501
Travel expenses	1,005	-	1,005	-	1,005
	<u>120,233</u>	<u>25,405</u>	<u>145,638</u>	<u>-</u>	<u>145,638</u>
Total La Frazada Project	141,759	25,674	167,433	-	167,433
ROSARIO PROJECT (Note 5 and Note 6c)					
<i>Acquisition and holding costs</i>					
Acquisition costs	-	1,656,301	1,656,301	-	1,656,301
ARO	-	189,055	189,055	-	189,055
Mining taxes	-	73,830	73,830	44,443	118,273
	<u>-</u>	<u>1,919,186</u>	<u>1,919,186</u>	<u>44,443</u>	<u>1,963,629</u>
<i>Deferred exploration costs</i>					
Assaying	-	1,016	1,016	-	1,016
Camp and accommodation	-	12,832	12,832	7,482	20,314
Drafting, reporting and reproduction	-	6,410	6,410	-	6,410
Electrical	-	8,543	8,543	4,915	13,458
Miscellaneous exploration expenses	-	46,769	46,769	40,683	87,452
Mining services	-	228,447	228,447	4,375	232,822
Salaries and consulting fees	-	86,656	86,656	53,209	139,865
Trenching	-	18,304	18,304	15,460	33,764
	<u>-</u>	<u>408,977</u>	<u>408,977</u>	<u>126,124</u>	<u>535,101</u>
Total Rosario Project	-	2,328,163	2,328,163	170,567	2,498,730
OTHER PROJECTS					
<i>Deferred exploration costs</i>					
Geophysics	16,137	-	16,137	-	16,137
Field work	3,832	8,550	12,382	1,903	14,285
Reports and maps	720	-	720	-	720
Total Other Projects	20,689	8,553	29,239	1,903	31,142
Total Property Expenditures	\$6,377,971	\$(1,867,085)	\$4,510,883	\$522,965	\$5,033,848

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

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

SILVERMEX RESOURCES LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2010

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

6. RESOURCE PROPERTIES – (continued)

b) San Marcial Project, Sinaloa, Mexico

In October 2007, the Company executed a term sheet and on March 19, 2009, finalized the formal agreement with Silver Standard to earn a 100% interest in the San Marcial Project. Under this agreement, the Company can acquire a 100% interest by issuing 3,000,000 common shares in three stages by February 1, 2011. The first 1,000,000 shares were originally issued at a price of \$1.28, however, they were subsequently returned to treasury during fiscal 2010 to be re-issued at a deemed price of \$0.75 as required under the agreement (Note 9a). All subsequent shares issuances will be valued based on the market price of the shares of the Company at the time of issue (Note 9d). On August 4, 2010, the agreement was amended as follows: the Company must also pay \$6 million in either cash or shares at the election of Silver Standard, by February 1, 2012, and a 1% NSR capped at \$13,750,000 less the \$6,000,000 payment and the value of the 1,000,000 shares to be issued to Silver Standard in February 2011. The Company must also expend US\$1 million on exploration by February 1, 2011. The Company believes that it has met this obligation.

The Company is obligated to pay Silver Standard US\$100,000 per month if commercial production commences on the San Marcial Project while the project is still under option from Silver Standard. 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.

c) Rosario Project, Sinaloa, Mexico

On November 30, 2009, the Company acquired all of the issued and outstanding shares of Aurcana Mexico from Aurcana. Aurcana Mexico holds the rights to, amongst others, the Rosario, San Juan and Plomosas concessions (cumulatively referred to as Rosario) (Note 5).

7. RELATED PARTY TRANSACTIONS

During the three months ended July 31, 2010, the Company:

Incurred \$57,441 (2009 - \$Nil) of consulting fees to its president. As of July 31, 2010, \$41,646 (April 30, 2010 - \$15,000) was owed to this officer.

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

8. ASSET RETIREMENT OBLIGATIONS

	2010
Initial recognition	83,209
Change in estimate	105,846
Balance, April 30, 2010 and July 31, 2010	189,055

During the year ended April 30, 2010, the Company assessed its asset retirement obligation estimate based on independent technical reports. The total undiscounted amount of estimated cash flows required to settle the retirement obligations is US\$231,000. The asset retirement obligations consist of reclamation, rehabilitation and post-closure follow up on the Company's San Marcial and Rosario properties. The Company anticipates that spending related to the asset retirement obligation will occur over a period that may extend through to 2030. The credit adjusted risk free rate at which the current amount has been discounted is 6.7%, where required. The discount rate was determined by reference to rates used by companies with similar risk profiles.

SILVERMEX RESOURCES LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2010

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

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

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

- a) During the year ended April 30, 2008, the Company issued 1,000,000 shares at \$1.28 per share on the acquisition of the San Marcial Property. During the current year certain of the original terms were amended which resulted in the cancellation of the original share certificate and the reissuance of 1,000,000 shares at \$0.192 per share, being the trading price on the date of issuance (Note 6d). For purposes of the acquisition agreement the shares were issued at a deemed value of \$0.75 per share.
- b) The Company closed a non-brokered private placement for gross proceeds of \$774,180. The private placement consisted of 4,554,000 units at a price of \$0.17 per unit. Each unit consists of one common share and one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 before September 11, 2010. A fair value of \$193,545 was assigned to these warrants. The assumptions used to determine the fair value of the warrants are consistent with those disclosed under Stock-based Compensation below. Finders' fees of \$15,558 were paid.
- c) The Company closed its private placement of 15,335,655 units at a price of \$0.45 per unit for gross proceeds of \$6,901,045. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase a common share at a price of \$0.65 per share until February 12, 2012. A fair value of \$946,420 was assigned to these warrants.

The Company paid \$320,783 in finders' fees, issued 360,000 agent compensation units and 100,000 corporate finance units, both with the same terms as the units and 1,003,244 agents' options exercisable into units at a price of \$0.45 until February 12, 2012. A fair value of \$264,545 was recognized on the agent's options, \$22,217 was assigned to the warrants issued on agent's compensation units, and \$6,171 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.

- d) 1,250,000 common shares were issued on the acquisition of Aurcana Mexico (Notes 5 and 6e). These shares were valued at \$350,000. 37,500 common shares valued at \$9,000 were issued as a finder's fee for the acquisition of the Lety project (Note 6c). 1,000,000 common shares were issued on the acquisition of San Marcial property and valued at \$450,000. (Note 6d).
- e) 9,858,875 warrants at a price ranging from \$0.15 to \$0.20 were exercised for total proceeds of \$1,571,981. A fair value at the date of the issue of \$644,982 was transferred to share capital.
- f) 1,330,000 agent's options at \$0.10 were exercised for total proceeds of \$133,000. A fair value of \$276,627 was recognized on these options and \$100,578 transferred to share capital was assigned to the warrants issued with the agent's options (Note 9e).
- g) 200,000 options at a price of \$0.30 and 1,050,000 options at a price of \$0.26 were exercised for total proceeds of \$333,000. A fair value at the date of the grant of \$310,465 was transferred to share capital.
- h) 2,090,625 warrants at a price ranging from \$0.15 to \$0.20 were exercised for total proceeds of \$315,794. A fair value at the date of the issue of \$222,053 was transferred to share capital.
- i) 20,000 agent's options at \$0.10 were exercised for total proceeds of \$2,000. A fair value of \$4,160 was recognized on these options and \$1,412 transferred to share capital was assigned to the warrants issued with the agent's options (Note 9h).

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Warrants

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, April 30, 2009	9,367,500	\$0.15
Issued	21,014,655	0.54
Exercised (Note 9e)	(9,858,875)	0.16
Outstanding, April 30, 2010	20,523,280	0.54
Issued	10,000	0.15
Exercised (Note 9h)	(2,090,625)	0.15
Outstanding, July 31, 2010	18,442,655	\$0.59

Warrants outstanding at July 31, 2010 are as follows:

Number of Warrants	Exercise Price	Expiry Date
2,647,000	\$ 0.20	September 11, 2010*
15,795,655	\$ 0.65	February 12, 2012
18,442,655		

* Subsequently, all these warrants were exercised (Note 13)

The valuation parameters used are as disclosed in stock-based compensation.

Options

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

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

Number of Options	Number of Options Exercisable	Exercise Price	Expiry Date
100,000	100,000	\$ 0.25	November 12, 2010
500,000	500,000	\$ 0.30	July 31, 2011
1,750,000	1,750,000	\$ 0.26	February 9, 2014*
1,350,000	675,000	\$ 0.34	December 4, 2014
2,650,000	662,500	\$ 0.41	May 12, 2015
1,500,000	375,000	\$ 0.32	June 21, 2015
7,850,000	4,062,500		

* Subsequently, 150,000 of these options were exercised (Note 13).

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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS - (continued)

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

	Shares	Weighted Average Exercise Price
Outstanding, April 30, 2009	1,750,000	\$ 0.59
Expired	(1,200,000)	0.72
Exercised (Note 9g)	(1,250,000)	0.27
Granted	4,400,000	0.29
Outstanding, April 30, 2010	3,700,000	0.29
Granted	4,150,000	0.38
Outstanding, July 31, 2010	7,850,000	\$ 0.34

Agents' options

	Number of Options	Weighted Average Exercise Price	Expiry Date
Outstanding, April 30, 2009	1,350,000	\$ 0.10	
Issued (Note 9c)	1,003,244	0.45	February 12, 2012
Exercised (Note 9f)	(1,330,000)	0.10	
Outstanding, April 30, 2010	1,023,244	0.44	
Exercised (Note 9i)	(20,000)	0.10	
Outstanding, July 31, 2010	1,003,224	\$0.45	

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 three month ended July 31, 2010 was \$588,360 (2009 - \$2,024).

The following assumptions were used for the Black-Scholes valuation of stock options and agents' compensation options vested during fiscal 2011 and 2010:

	July 31, 2010	July 31, 2009
Risk-free interest rate	1.46 – 2.26%	1.84 – 2.40%
Expected life of options	1.3 – 5 years	1.5 - 5 years
Annualized volatility	97% – 127%	50% - 145%
Dividend rate	0.00%	0.00%

Escrow

1,000,000 shares were placed in escrow in accordance with the escrow agreement dated November 30, 2009. These shares are to be released at a rate of 25% every three months, commencing three months from issuance. The release calculation is based on the full amount of 2,000,000 shares which will have been issued and escrowed to Aurcana over time. 500,000 shares were released in fiscal 2010, leaving a balance of 500,000 shares held in escrow.

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10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Categories of Financial Assets and Liabilities

In accordance with Canadian generally accepted accounting principles, financial instruments are classified into one of the five following categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. Cash and cash equivalents are designated as held-for-trading and their carrying value approximates fair value as they are cash or they are readily convertible to cash in the normal course. Amounts receivable and amounts due from related parties are classified as loans and receivables. Their carrying value approximates fair value due to their limited time to maturity and ability to convert them to cash in the normal course. Accounts payable and accrued liabilities, and other long term debt are classified as other financial liabilities.

Amended CICA section 3862 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1- quoted prices in active markets for identical assets or liabilities;

Level 2- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3- inputs for the asset or liability that are not based upon observable market data.

At July, 2010, the following table sets forth the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized in the balance sheet. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Level 1
Cash and cash equivalents	\$ 4,819,352

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies. At July 31, 2010, there were no financial assets or liabilities measured and recognized in the balance sheet at fair value that would be categorized as Level 2 and 3 in the fair value hierarchy above.

a) Risk Management

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.

(i) 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, as well as cash balances which may exceed any federally guaranteed amounts. The Company expects to recover the outstanding amounts in full.

(a) 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.

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

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT– (continued)**(b) 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.

(c) Derivative financial instruments

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

(ii) Liquidity risk

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

	For the year ended April 30 (1)		
	2011	2012	2013
Property payments: San Marcial (2)	-	6,000,000	-
Acquisition payment: Aurcana Mexico	-	500,000	500,000

(1) All amounts are denominated are in US dollars

(2) Maximum amount payable as Silver Standard may elect to be paid in shares

(iii) 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.

(iv) Fair value disclosures

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

(v) 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. The Company's options to acquire properties in Mexico may result in option payments by the Company denominated in Mexican pesos or in United States dollars. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign exchange rates. Appreciation in the Mexican peso against the Canadian dollar will increase the cost of operations in Mexico. A decrease in the United States dollar against the Canadian dollar will result in a book loss to the extent funds are held in United States dollars. The Company is also exposed to inflation risk in Mexico.

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

Net loss and other comprehensive loss	\$	12,760
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10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT– (continued)

A 10% depreciation of the Mexican peso against the Canadian dollar would have a similar decrease in net loss.

A 10% appreciation in the US dollar in relation to the Canadian dollar would have increased the Company's net loss and comprehensive loss for the three months ended July 31, 2010, by:

Net loss and other comprehensive loss	\$	15,514
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A 10% depreciation of the US dollar against the Canadian dollar would have a similar decrease in net loss.

11. SEGMENTED INFORMATION

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

	Total Assets	Equipment	Resource Properties	Other Assets
July 31, 2010				
Canada	\$4,895,880	\$ 31,312	\$ -	\$4,864,569
Mexico	6,522,348	1,244,354	5,033,848	244,145
	<u>\$11,418,228</u>	<u>\$1,275,666</u>	<u>\$5,033,848</u>	<u>\$ 5,108,714</u>

	Total Assets	Equipment	Resource Properties	Other Assets
April 30, 2010				
Canada	\$5,614,936	\$ 33,161	\$ -	\$5,581,775
Mexico	6,003,764	1,234,734	4,510,883	258,147
	<u>\$11,618,700</u>	<u>\$ 1,267,895</u>	<u>\$ 4,510,883</u>	<u>\$5,839,922</u>

12. MANAGEMENT OF CAPITAL RISK

The Company manages its cash and cash equivalents, common shares, stock options and warrants as capital (Note 9). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic condition 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 assessing financing alternatives for its exploration plans and operations throughout its operating period. The Company is not subject to externally imposed financing restrictions.

SILVERMEX RESOURCES LTD.

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Notes to the Consolidated Financial Statements

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13. SUBSEQUENT EVENTS

- a) 2,647,000 warrants at \$0.20 were exercised for proceeds of \$529,400.
- b) 150,000 stock options at a price of \$0.26 were exercised for proceeds of \$39,000.
- c) On September 20, 2010, the Company announced that it had entered into a definitive agreement with Genco Resources Ltd. (Genco) to combine their respective businesses in an all-share transaction. The transaction will be carried out by way of a plan of arrangement, and is subject to court approval and approval by both the Company's shareholders and Genco's shareholders, applicable regulatory approvals and the satisfaction of certain other conditions. Prior to the completion of the transaction, Genco will subdivide all of the outstanding Genco common shares (Genco Common Shares) on a 1.1-for-one basis. Under the terms of the Agreement, all of the Company's common shares (the Silvermex Common Shares) issued and outstanding immediately prior to the completion of the transaction will be exchanged into Genco Common Shares on the basis of 1:1.