

**SILVERMEX RESOURCES LTD**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**July 31, 2008**

**Silvermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Interim Consolidated Balance Sheets**

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<u>ASSETS</u>	<u>July 31, 2008 (Unaudited)</u>	<u>April 30 2008 (Audited)</u>
<b>Current</b>		
Cash	\$ 485,990	\$ 1,455,130
Amounts receivable	504,753	409,449
Prepaid expenses	68,010	94,770
	<u>1,058,753</u>	<u>1,959,349</u>
<b>Equipment</b> (Note 3)	111,708	121,869
<b>Resource properties</b> (Note 4)	<u>6,672,016</u>	<u>6,069,370</u>
	\$ 7,842,477	\$ 8,150,588

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**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 101,515	\$ 184,065
Due to related parties (Note 5)	31,671	5,250
	<u>133,186</u>	<u>189,315</u>
<b>Shareholders' equity</b>		
Share capital (Note 6)	10,470,510	10,108,838
Contributed surplus (Note 6)	1,514,055	1,549,282
Deficit, per accompanying statement	<u>(4,275,274)</u>	<u>(3,696,847)</u>
	<u>7,709,291</u>	<u>7,961,273</u>
	\$ 7,842,477	\$ 8,150,588

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**Nature and continuance of operations** (Note 1)  
**Commitments** (Note 8)  
**Contingencies** (Note 9)  
**Subsequent event** (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, Comprehensive Loss and Deficit**  
**For the Three Months Ended July 31**  
**(Unaudited)**

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	2008	2007
<b>General and administrative expenses</b>		
Accounting and audit (Note 5)	\$ 16,000	\$ 37,780
Amortization	11,790	7,717
Bank charges and interest	939	-
Consulting	37,486	70,446
Foreign exchange gain	(30,290)	(47,230)
Investor relations	76,712	70,970
Legal	8,536	16,519
Office and miscellaneous	22,429	31,395
Rent	7,377	10,516
Regulatory and filing fees	2,048	4,356
Salaries and wages	286,198	78,176
Stock-based compensation (Note 6)	117,522	163,551
Telephone	5,744	1,914
Travel	27,973	22,184
	<u>(590,464)</u>	<u>(468,294)</u>
<b>Other items</b>		
Interest income	12,037	4,686
<b>Net loss and comprehensive loss for the period</b>	<b>(578,427)</b>	<b>(463,608)</b>
<b>Deficit, beginning of period</b>	<b>(3,696,847)</b>	<b>(1,332,511)</b>
<b>Deficit, end of period</b>	<b>\$ (4,275,274)</b>	<b>\$ (1,796,119)</b>
<b>Loss per share – basic and diluted</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of shares outstanding</b>	<b>29,632,631</b>	<b>22,652,675</b>

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

**Sivermex Resources Ltd.**  
**(An Exploration Stage Company)**  
**Interim Consolidated Statements of Cash Flows**  
**For the Three Months Ended July 31**  
**(Unaudited)**

	2008	2007
<b>Cash flows from (to) operating activities</b>		
Loss for the period	\$ (578,427)	\$ (463,608)
Items not affecting cash:		
Amortization	11,790	7,717
Stock-based compensation	117,522	163,551
	(449,115)	(292,340)
Changes in non-cash working capital items:		
Amounts receivable	(95,304)	(78,179)
Prepaid expenses	26,760	1,932
Accounts payable and accrued liabilities	(82,550)	105,705
Due to related parties	26,421	(26,042)
<b>Cash flows used in operating activities</b>	(573,788)	(288,924)
<b>Cash flows from (to) investing activities</b>		
Purchase of equipment	(1,629)	(25,161)
Expenditures on resource properties	(602,646)	(591,436)
<b>Cash flows to investing activities</b>	(604,275)	(616,597)
<b>Cash flows from (to) financing activities</b>		
Issuance of common shares	211,350	1,200
Share issue costs	(2,427)	-
<b>Cash flows from financing activities</b>	208,923	1,200
<b>Decrease in cash and cash equivalents during the period</b>	(969,140)	(904,321)
<b>Cash, beginning of period</b>	1,455,130	1,223,282
<b>Cash, end of period</b>	\$ 485,990	\$ 318,961
Cash paid during the period for income taxes and interest	\$ -	\$ -
<b>Non – cash activities</b>		
Fair value of securities granted	\$ 117,522	\$ -
Fair value of securities exercised	\$ 152,749	\$ -

*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, 2008**

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**1. NATURE 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 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. 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.

**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.

**Cash and cash equivalents**

Cash and cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a maturity of three months or less at acquisition, that are readily convertible to contracted amounts of cash.

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

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

**Equipment**

Equipment is recorded at cost less accumulated amortization. Additions made during the year are amortized at one-half of the annual rate subsequent to being put into use. Amortization is provided annually over the estimated useful life using the following methods:

Computer equipment	45 - 55% declining balance method
Leasehold improvements	20% straight line method
Office furniture and equipment	10% - 20% declining balance method
Vehicles	25% declining balance method

**Resource properties**

The Company defers the cost of acquiring, maintaining, 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 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 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.

**Property investigation expenses and administrative expenses**

Property investigation expenses are the costs of investigating prospective property acquisitions; administrative expenses are the costs required to maintain the Company and allow it to carry on its other activities. Both of these expenses include salaries and wages, travel, consulting, accounting and legal fees, office rent and utilities, among others, and are included in the consolidated statement of operations, comprehensive loss and deficit.

**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 Consolidated Financial Statements**  
**July 31, 2008**

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

**Impairment of long-lived assets**

An impairment loss is recognized for long-lived assets including resource properties and deferred expenditures, and equipment, when events or changes in circumstances cause its carrying value to exceed the total undiscounted future cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value, determined based on discounted cash flows, of the asset from its carrying value.

**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.

**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 operations. 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 measurement and reporting currency. Under this method:

- i) Monetary items are translated at the exchange rate in effect at the balance sheet 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.

**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. Significant areas that involve estimates by management include valuation of stock based compensation, impairment of long lived assets, amortization of charges and valuation allowance of future income tax costs.

**Loss per share**

Basic loss per share is calculated using the weighted average number of shares 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 Consolidated Financial Statements**  
**July 31, 2008**

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

**Cost of maintaining resource properties**

The Company does not accrue the estimated future costs of maintaining its resource properties in good standing.

**Asset retirement obligations**

The Company will recognize contractual, statutory and legal obligations associated with the retirement of mining properties when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for asset retirement obligations will be recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost will be added to the carrying amount of that asset and the cost will be amortized as an expense over the economic life of the related asset, once production of that asset commences. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability could be increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows to settle the obligation. As at July 31, 2008, the Company has made no provision for site restoration costs or potential environmental liabilities as the ultimate liability is not reasonably determinable and neither is it currently material.

**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 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.

**Accounting policy changes**

On May 1, 2008, the Company adopted the following new presentation and disclosure standards issued by the Canadian Institute of Chartered Accountants ("CICA"). There was no material impact on the Company's financial condition or operating results as a result of the adoption of these new standards:

- (a) Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories.
- (b) Section 3863 – Financial Instruments – Presentation, to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows (Note 7).
- (c) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed (Note 11). Under this standard, the Company will be required to disclose the following:
  - qualitative information about its objectives, policies and processes for managing capital;
  - summary quantitative data about what it manages as capital;
  - whether during the period it complied with any externally imposed capital requirement to which it is subject; and
  - when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

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

(d) Section 1400 – General Standards of Financial Statement Presentation, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern (see Note 1).

**Convergence with International Financial Reporting Standards**

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**

	Net Book Value, April 30, 2008	Additions	Accumulated Amortization	Net Book Value, July 31, 2008
Computer equipment	\$ 10,606	\$ 1,629	\$ 2,113	\$ 10,122
Leasehold improvements	6,735	-	1,052	5,683
Office furniture and equipment	37,072	-	3,245	33,827
Vehicle	67,456	-	5,380	62,076
	<u>\$ 121,869</u>	<u>\$ 1,629</u>	<u>\$ 11,790</u>	<u>\$ 111,708</u>

	Net Book Value April 30, 2007	Additions	Accumulated Amortization	Net Book Value April 30, 2008
Computer equipment	\$ 17,401	\$ 853	\$ 12,566	\$ 10,606
Leasehold improvements	8,419	-	3,789	6,735
Office furniture and equipment	41,945	3,196	12,464	37,072
Vehicles	37,935	43,597	19,441	67,456
	<u>\$ 105,700</u>	<u>\$ 122,483</u>	<u>\$ 48,260</u>	<u>\$ 121,869</u>

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

**4. RESOURCE PROPERTIES**

	April 30, 2007	Additions	April 30, 2008	Additions	July 31, 2008
<b>PEÑASCO QUEMADO PROJECT</b>					
<b>(Note 4a)</b>					
Acquisition and holding costs					
Acquisition costs	\$ 678,635	\$ 196,178	\$ 874,813	\$ -	\$ 874,813
Claim staking	19,380	-	19,380	-	19,380
Mining taxes	22,270	20,948	43,218	14,004	57,222
Surface rights and rights of way	38,031	17,112	55,143	5,604	60,747
	<u>758,316</u>	<u>234,238</u>	<u>992,554</u>	<u>19,608</u>	<u>1,012,162</u>
Deferred exploration costs					
Assaying	106,769	39,659	146,428	28,364	174,792
Camp and accommodation	41,959	16,542	58,501	4,775	63,276
Communications	1,211	2,086	3,297	1,152	4,449
Drafting, reporting and reproduction	12,513	278	12,791	144	12,935
Drilling	321,015	372,218	693,233	-	693,233
Engineering and feasibility	5,053	-	5,053	-	5,053
Equipment rental	11,906	-	11,906	-	11,906
Geophysics	-	110,517	110,517	-	110,517
Legal cost	33,514	7,724	41,238	292	41,530
Miscellaneous exploration expenses	123,481	17,058	140,539	11,187	151,726
Salaries and consulting fees	339,057	370,337	709,394	31,614	741,008
Travel expenses	45,191	1,062	46,253	530	46,783
Trenching and road construction	40,108	13,620	53,728	581	54,309
	<u>1,081,777</u>	<u>951,101</u>	<u>2,032,878</u>	<u>78,639</u>	<u>2,111,517</u>
<b>Total Peñasco Quemado Project</b>	<b>1,840,093</b>	<b>1,185,339</b>	<b>3,025,432</b>	<b>98,247</b>	<b>3,123,679</b>
<b>LOBOS PROJECT (Note 4b)</b>					
Acquisition and holding costs					
Claim staking	7,257	-	7,257	-	7,257
Mining taxes	2,686	4,130	6,816	7,625	14,441
Surface rights and rights of way	-	-	-	989	989
	<u>9,943</u>	<u>4,130</u>	<u>14,073</u>	<u>8,614</u>	<u>22,687</u>
Deferred exploration costs					
Assaying	-	7,055	7,055	-	7,055
Camp and accommodation	94	2,770	2,864	-	2,864
Communications	-	353	353	-	353
Miscellaneous exploration expenses	5,234	1,436	6,670	-	6,670
Salaries and consulting fees	-	1,594	1,594	-	1,594
Travel expenses	-	130	130	-	130
	<u>5,328</u>	<u>13,338</u>	<u>18,666</u>	<u>-</u>	<u>18,666</u>
<b>Total Lobos Project</b>	<b>15,271</b>	<b>17,468</b>	<b>32,739</b>	<b>8,614</b>	<b>41,353</b>

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

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

	April 30, 2007	Additions	April 30, 2008	Additions	July 31, 2008
<b>CERRO DE PLATA PROJECT (Note 4c)</b>					
Acquisition and holding costs					
Acquisition costs	62,339	124,435	186,774	-	186,774
Claim staking	6,441	4,563	11,004	-	11,004
Mining taxes	149	18,525	18,674	6,862	25,536
	<u>68,929</u>	<u>147,523</u>	<u>216,452</u>	<u>6,862</u>	<u>223,314</u>
Deferred exploration costs					
Assaying	5,739	40,673	46,412	-	46,412
Camp and accommodation	8,432	15,140	23,572	-	23,572
Communications	46	3,910	3,956	-	3,956
Drafting, reporting and reproduction	1,561	2,008	3,569	-	3,569
Drilling	33,611	295,701	329,312	-	329,312
Equipment rental	-	438	438	-	438
Geophysics	-	106,497	106,497	-	106,497
Legal cost	1,830	22,112	23,942	-	23,942
Field work	-	11,650	11,650	-	11,650
Miscellaneous exploration expenses	17,999	60,222	78,221	-	78,221
Other	303	1,300	1,603	-	1,603
Salaries and consulting fees	63,833	246,407	310,240	-	310,240
Travel expenses	13,852	18,221	32,073	-	32,073
Trenching and road construction	-	117,116	117,116	-	117,116
	<u>147,206</u>	<u>941,395</u>	<u>1,088,601</u>	<u>-</u>	<u>1,088,601</u>
<b>Total Cerro de Plata Project</b>	<b>216,135</b>	<b>1,088,918</b>	<b>1,305,053</b>	<b>6,862</b>	<b>1,311,915</b>
<b>LETY PROJECT (Note 4d)</b>					
Acquisition costs and holding costs					
Acquisition costs	57,856	145,451	203,307	29,656	232,963
Claim staking	8,520	496	9,016	-	9,016
Mining taxes	-	3,989	3,989	2,396	6,385
	<u>66,376</u>	<u>149,936</u>	<u>216,312</u>	<u>32,052</u>	<u>248,364</u>
Deferred exploration costs					
Camp and accommodation	-	2,646	2,646	1,634	4,280
Communications	-	264	264	201	465
Drafting, reporting and reproduction	-	166	166	-	166
Miscellaneous exploration expenses	-	7,977	7,977	2,232	10,209
Salaries and consulting fees	-	25,346	25,346	16,010	41,356
Travel expenses	-	335	335	-	335
	<u>-</u>	<u>36,734</u>	<u>36,734</u>	<u>20,077</u>	<u>56,811</u>
<b>Total Lety Project</b>	<b>66,376</b>	<b>186,670</b>	<b>253,046</b>	<b>52,129</b>	<b>305,175</b>

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

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

	April 30, 2007	Additions	April 30, 2008	Additions	July 31, 2008
<b>EI RAYO PROJECT (Note 4e)</b>					
Acquisition and holding costs					
Acquisition costs	17,177	20,156	37,333	-	37,333
Claim staking	5,606	-	5,606	-	5,606
Mining taxes	-	2,563	2,563	1,145	3,708
	<u>22,783</u>	<u>22,719</u>	<u>45,502</u>	<u>1,145</u>	<u>46,647</u>
Deferred exploration costs					
Assaying	-	1,720	1,720	1,066	2,786
Camp and accommodation	-	153	153	2,689	2,842
Communications	-	140	140	283	423
Drafting, reporting and reproduction	-	-	-	4	4
Miscellaneous exploration expenses	-	1,971	1,971	1,374	3,345
Legal cost	-	181	181	-	181
Salaries and consulting fees	-	1,315	1,315	5,754	7,069
Trenching and road construction	-	11,672	11,672	4,457	16,129
	<u>-</u>	<u>17,152</u>	<u>17,152</u>	<u>15,627</u>	<u>32,779</u>
<b>Total El Rayo Project</b>	<b>22,783</b>	<b>39,871</b>	<b>62,654</b>	<b>16,772</b>	<b>79,426</b>
<b>SAN MARCIAL PROJECT (Note 4f)</b>					
Acquisition and holding costs					
Acquisition costs	-	1,280,000	1,280,000	-	1,280,000
Mining taxes	-	7,041	7,041	7,790	14,831
	<u>-</u>	<u>1,287,041</u>	<u>1,287,041</u>	<u>7,790</u>	<u>1,294,831</u>
Deferred exploration costs					
Assaying	-	119	119	1,168	1,287
Camp and accommodation	-	3,276	3,276	5,577	8,853
Communications	-	191	191	630	821
Drafting, reporting and reproduction	-	-	-	134	134
Drilling	-	-	-	137,229	137,229
Geological	-	11,494	11,494	-	11,494
Miscellaneous exploration expenses	-	40,219	40,219	48,313	88,532
Field work	-	7,422	7,422	-	7,422
Salaries and consulting fees	-	5,000	5,000	135,118	140,118
Travel expenses	-	1,498	1,498	1,962	3,460
Trenching and road construction	-	15,426	15,426	39,611	55,037
	<u>-</u>	<u>84,645</u>	<u>84,645</u>	<u>369,742</u>	<u>454,387</u>
<b>Total San Marcial Project</b>	<b>-</b>	<b>1,371,686</b>	<b>1,371,686</b>	<b>377,532</b>	<b>1,749,218</b>

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

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

	April 30, 2007	Additions	April 30, 2008	Additions	July 31, 2008
<b>LA FRAZADA PROJECT (Note 4g)</b>					
Acquisition and holding costs					
Mining taxes	-	-	-	140	140
				140	140
Deferred exploration costs					
Camp and accommodation	-	-	-	2,721	2,721
Communications	-	-	-	545	545
Drafting, reporting and reproduction	-	-	-	183	183
Miscellaneous exploration expenses	-	-	-	10,273	10,273
Salaries and consulting fees	-	-	-	27,894	27,894
Travel expenses	-	-	-	734	734
	-	-	-	42,350	42,350
<b>Total La Frazada Project</b>	-	-	-	<b>42,490</b>	<b>42,490</b>
<b>OTHER PROJECTS (Note 4g)</b>					
Deferred exploration costs					
Geophysics	-	16,137	16,137	-	16,137
Field work	-	232	232	-	232
Reports and maps	-	720	720	-	720
Salaries and consulting fees	-	1,671	1,671	-	1,671
<b>Total Other Projects</b>	-	<b>18,760</b>	<b>18,760</b>	-	<b>18,760</b>
<b>Total Property Expenditures</b>	<b>\$ 2,160,658</b>	<b>\$ 3,908,712</b>	<b>\$ 6,069,370</b>	<b>\$ 602,646</b>	<b>\$ 6,672,016</b>

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

In May 26, 2005, the Company was assigned the contractual rights, obligations and commitments under an option agreement. In consideration for this transfer, the Company paid US\$50,000 and issued 500,000 common shares. The Company will pay the following for its interest:

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 (paid);
ix)	US\$	100,000	on April 29, 2008 (paid);
x)	US\$	165,000	on October 29, 2008 (see Subsequent Event)
	US\$	<u>600,000</u>	

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

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

**(a) Peñasco Quemado Project (continued)**

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.

**(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 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 50,000 common shares on Exchange acceptance (paid and issued);
- ii) US\$ 20,000 six months from Exchange acceptance (paid);
- iii) US\$ 25,000 and 100,000 common shares on or before January 3, 2008 (paid and issued) (Note 6c);
- iv) US\$ 30,000 and 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 250,000 common shares (provided that the feasibility study is acceptable) on or before January 3, 2011.

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

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

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

In July 2007, the Company signed an option agreement 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\$130,000 paid) and issue 250,000 shares over a two year option period with US\$50,000 payable every six months. During the current period the option agreement was amended to eliminate the Company's requirement to 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 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 (Note 6c), and six future releases of 37,500 shares (first 37,500 shares issued, Note 6c, second 37,500 shares issued subsequent to period end) each are to be made every six months thereafter.

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 for the El Rayo Project. In consideration for its interest, the Company will pay US\$315,000 over four years, of which US\$35,000 has been paid, and issue 250,000 shares for every 10,000,000 ounces of measured and indicated silver mineral resources (estimated in accordance with Canadian Institute of Mines definitions).

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

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

On October 5, 2007, the Company entered into an option agreement with Silver Standard to purchase a 100% interest in the San Marcial Project.

In consideration for this interest, the Company (i) issued 1,000,000 common shares (Note 6c) upon Exchange acceptance; (ii) a further 1,000,000 shares will be issued on each of the first and second anniversaries; and (iii) a lump sum payment in either cash or shares at the election of Silver Standard, on the third anniversary. The lump sum payment will be calculated by deducting the deemed value of the above share issuances from either US\$15,000,000 if the price of silver is \$15.00 per ounce or less, or US\$18,000,000 if the price of silver is above US\$15.00 per ounce. The Company must also expend US\$3.5 million on exploration over three years and provide Silver Standard with an updated resource estimate based on such expenditures. The Company is also obligated to pay Silver Standard an additional US\$0.50 per ounce of silver in any resource category in excess of 14.26 million ounces. Further, if the resource increases to 100 million ounces of silver equivalent (silver and gold), Silver Standard has the option to back-in for 50% of the property by spending an additional \$10.5 million on exploration. Silver Standard will then become the operator of the project. This right does not expire.

**(g) Other Projects**

Other Projects includes the La Frazada Project, which is a concession staked by the Company in the state of Nayarit, Mexico.

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

**5. RELATED PARTY TRANSACTIONS**

During the three months ended July 31, 2008, the Company entered into the following transactions with related parties:

- (a) The Company incurred \$50,589 for services related to resource property development (2007 - \$62,388 of management fees) to the president and director of the Company. As of July 31, 2008, \$524 owed to the president and director was included in accounts payable.
- (b) During the three months ended July 31, 2008, \$Nil of consulting fees (2007 - \$10,000) were paid to a director and an officer of the Company.
- (c) During the three months ended July 31, 2008, \$56,634 (2007 - \$11,704) was charged by a company related by common directors and common officers for shared office premises. As of July 31, 2008, \$25,896 (April 30, 2008 - \$Nil) was owed to this company.
- (d) The Company paid \$16,000 (2007 - \$13,000) for accounting services provided by a private company of which a director of the Company is a vice-president. As of July 31, 2008, \$5,775 (April 30, 2008 - \$5,520) 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.

**6. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

	<u>Number</u>	<u>Amount</u>	<u>Contributed Surplus</u>
<b>Balance, April 30, 2007</b>	<b>22,651,501</b>	<b>\$ 4,645,643</b>	<b>\$ 196,716</b>
Issued:			
Private placement (Note 6a)	2,197,500	1,777,470	420,030
Private placement (Note 6b)	2,906,000	2,598,782	307,218
Property acquisition (Note 6c)	1,162,500	1,433,625	-
Warrants exercised (Note 6d)	162,750	162,750	-
Agent's warrants exercised (Note 6d)	157,000	47,100	-
Options exercised (Note 6e)	150,000	84,000	-
Share issue costs (Notes 6a and b)	-	(738,319)	170,375
Fair value on stock options and agent's warrants exercised (Notes 6d and e)	-	97,787	(97,787)
Stock-based compensation	-	-	552,730
<b>Balance, April 30, 2008</b>	<b>29,387,251</b>	<b>10,108,838</b>	<b>1,549,282</b>
Options exercised (Note 6f)	225,000	126,000	-
Agent's warrants exercised (Note 6e)	248,500	85,350	-
Share issue costs (Note 6b)	-	(2,427)	-
Fair value on stock options and agent's warrants exercised (Notes 6e and f)	-	152,749	(152,749)
Stock-based compensation	-	-	117,522
<b>Balance, July 31, 2008</b>	<b>29,890,751</b>	<b>\$ 10,470,510</b>	<b>\$ 1,514,055</b>

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

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

- a) On November 15, 2007, the Company closed a brokered private placement of 2,000,000 units at a price of \$1.00 per unit for gross proceeds of \$2,000,000. Each unit consists of one common share and one half non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$1.25 per share until November 15, 2008. The agent's compensation consisted of a total of 197,500 units (160,000 agent's commission units and 37,500 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 \$1.00 up to November 15, 2008. The fair value of \$87,490 was recognized on the agent's warrants and \$420,030 was assigned to the warrants.
- b) On April 4, 2008, the Company closed a brokered private placement of 2,411,000 units at a price of \$1.00 per unit for gross proceeds of \$2,411,000 and its non-brokered private placement of 495,000 units for gross proceeds of \$495,000. Each unit consists of one common share and one half non-transferable share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$1.25 until April 4, 2009.

The Company paid an agents' fee of \$192,880 and corporate finance fee of \$25,000 in cash and issued 192,880 brokers' options. Each brokers' option is exercisable into a unit with the same terms as the private placement units until April 4, 2009. The fair value of \$82,885 was recognized on the broker's options and \$307,218 was assigned to the warrants. The assumptions used to determine the fair value of the warrants are consistent with those disclosed under "Stock-based Compensation" below.

In the period ended July 31, 2008, an additional \$2,427 of share issue costs were recorded.

- c) During the year ended April 30, 2008, the Company issued 62,500 common shares valued at \$75,625 as a finder's fee for the acquisition of the Lety project, 1,000,000 common shares with a fair value of \$1,280,000 were issued for the San Marcial property acquisition, and 100,000 shares with a fair value of \$78,000 were issued for the Cerro de Plata property acquisition (Note 4).
- d) During fiscal 2008, 162,750 warrants and 157,000 agent's warrants were exercised for total proceeds of \$47,100 and fair value of \$19,439 was recognized on these exercised warrants. During the period ended July 31, 2008, 248,500 agent's warrants were exercised for total proceeds of \$85,350 and fair value of \$35,227 was recognized on these exercised warrants.
- e) During the year ended April 30, 2008, 150,000 stock options at a price of \$0.56 were exercised for gross proceeds of \$84,000. The fair value of the options at the date of the grant of \$78,348 was transferred from contributed surplus on the exercise of these options.
- f) During the period ended July 31, 2008, 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.

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

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

**Warrants**

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, April 30, 2007	1,696,500	\$ 0.80
Granted	2,711,750	1.24
Exercised	(319,750)	0.66
Outstanding, April 30, 2008	4,088,500	1.10
Exercised	(284,500)	0.30
Outstanding, July 31, 2008	3,804,000	\$ 1.16

Warrants outstanding at July 31, 2008 are as follows:

Number of Warrants	Exercise Price	Expiry Date
1,098,750	\$ 1.25	November 15, 2008
160,000	\$ 1.00	November 15, 2008
160,000	\$ 0.80	April 4, 2009
932,250	\$ 1.00	April 4, 2009
1,453,000	\$ 1.25	April 4, 2009
3,804,000		

**Brokers' options**

	Number of Options	Exercise price	Expiry Date
Outstanding, April 30, 2007	-	\$ -	-
Issued (Note 6b)	192,880	1.00	April 4, 2009
Outstanding, April 30, 2008 and July 31, 2008	192,880	\$ 1.00	

**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.

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

**6. 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, 2007	2,025,000	\$ 0.60
Exercised	(150,000)	0.56
Outstanding, April 30, 2008	1,875,000	0.60
Exercised	(225,000)	0.56
Outstanding, July 31, 2008	1,650,000	\$ 0.61

Stock options outstanding at July 31, 2008 are as follows:

Number of Options	Number of Options Exercisable	Exercise Price	Expiry Date
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
1,650,000	1,650,000		

**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. The total fair value of stock options vested during the fiscal 2008 was \$117,522 (2007 - \$163,551).

The following assumptions were used for the Black-Scholes valuation of stock options and agents' compensation options granted during 2008 and 2007:

	2008	2007
Risk-free interest rate	2.73 - 3.76	3.88-4.16%
Expected life of options	1-5 years	2 - 5 years
Annualized volatility	79-81%	71-84%
Dividend rate	0.00%	0.00%

**Escrow**

6,000,000 shares were placed in escrow in accordance with the escrow agreement dated February 17, 2006. At July 31, 2008, 4,200,000 shares had been released from escrow, leaving a balance of 1,800,000 common shares held in escrow. The remaining shares held in escrow are to be released over semi-annual installments to July 31 2009.

## **7. FINANCIAL INSTRUMENTS**

The Company's operations consist of the acquisition, exploration and development 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 price 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 cost 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.

#### **(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 we invest 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.

#### **(iii) Derivative financial instruments**

As at July 31, 2008, the Company has no derivative financial instruments. We may in the future enter into derivative financial instruments and in order to manage credit risk, we will only enter into derivative financial instruments with highly rated investment grade counterparties.

### **(b) Liquidity risk**

The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements and its exploration and development plans. The annual budget is approved by the Board of Directors. The Company ensures that there are sufficient cash balances to meet its short-term business requirements.

The Company's overall liquidity risk has not changed significantly from the prior year.

### **(c) 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 our costs of operations in Mexico. A decrease in the United States dollar against the Canadian dollar will result in a loss on our books to the extent we hold funds in United States dollars. The Company is also exposed to inflation risk in Mexico.

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

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

(d) Interest rate risk

The Company's interest revenue earned on cash and cash equivalents and on short term investments is exposed to interest rate risk.

(e) Fair values 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.

The carrying value of the long term debt approximates its fair value as it has been discounted at an interest rate approximating current market rates.

**8. 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.

The Company was required to issue 500,000 common shares to a director and officer in terms of its employment agreement with the director and officer. The Company was also responsible for satisfying the director and officer's personal income tax liability created by the issuance of these shares.

**9. CONTINGENCIES**

A former director, officer and employee, and a former consultant of the Company had 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 had 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. Subsequent to the period end the actions initiated by the former director, officer and employee and the Company were settled by way of mediation. The amount of the settlement will be reflected as a charge to operations in the subsequent period. The action against the Company made by the former consultant is yet to be resolved. 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 operations in the year incurred. Based on management's assessment no provision for possible loss has been included in these financial statements.

**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, 2008</b>				
Canada	\$ 419,483	\$ 40,080	\$ -	\$ 379,403
Mexico	7,422,994	71,628	6,672,016	679,350
	<u>\$ 7,842,477</u>	<u>\$ 111,708</u>	<u>\$ 6,672,016</u>	<u>\$ 1,058,753</u>

**SILVERMEX RESOURCES LTD.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**July 31, 2008**

**10. SEGMENTED INFORMATION – (continued)**

	Total Assets	Equipment	Resource Properties	Other Assets
<b>April 30, 2008</b>				
Canada	\$ 1,104,612	\$ 44,838	\$ -	\$ 1,059,774
Mexico	7,045,976	77,031	6,069,370	899,575
	<u>\$ 8,150,588</u>	<u>\$ 121,869</u>	<u>\$ 6,069,370</u>	<u>\$ 1,959,349</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.

**12. SUBSEQUENT EVENT**

Subsequent to the period end, the optionor of the Peñasco Quemado Project agreed to extend the date of the last option payment to December 15, 2008, subject to an annual interest rate of 6.5%. If a further extension is required, the interest rate will increase to an annual rate of 10%.