

SILVERMEX RESOURCES LTD
(AN EXPLORATION STAGE COMPANY)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2007

(UNAUDITED)

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

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

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

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

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

<u>ASSETS</u>	<u>October 31, 2007 (Unaudited)</u>	<u>April 30, 2007 (Audited)</u>
Current		
Cash and cash equivalents	\$ 265,201	\$ 1,223,282
Accounts receivable (Note 3)	262,232	151,453
Prepaid expenses	<u>38,166</u>	<u>40,591</u>
	565,599	1,415,326
Equipment (Note 5)	111,917	105,700
Resource properties (Note 6)	3,301,316	2,160,658
Deferred financing costs	<u>10,602</u>	<u>-</u>
	<u>\$ 3,989,434</u>	<u>\$ 3,681,684</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 778,417	\$ 123,826
Due to related parties (Note 7)	108,747	48,010
Promissory notes (Note 9)	<u>195,000</u>	<u>-</u>
	1,082,164	171,836
Shareholders' equity		
Share capital (Note 8)	4,837,338	4,645,643
Contributed surplus (Note 8)	487,894	196,716
Deficit, per accompanying statement	<u>(2,417,962)</u>	<u>(1,332,511)</u>
	<u>2,907,270</u>	<u>3,509,848</u>
	<u>\$ 3,989,434</u>	<u>\$ 3,681,684</u>

Continuance of operations (Note 1)

Commitments (Note 11)

Contingencies (Note 12)

Subsequent events (Note 13)

Approved by the Board:

"Bruce Bragagnolo"
 Director

"Darcy Krohman"
 Director

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

Silvermex Resources Ltd.
(An Exploration Stage Company)
Interim Consolidated Statements of Operations and Deficit
(Unaudited)

	For the three months ended October 31		For the six months ended October 31	
	2007	2006	2007	2006
General and Administrative Expenses				
Accounting and audit fees (Note 7)	\$ 54,868	\$ 9,807	\$ 92,648	\$ 15,807
Amortization	7,899	5,365	15,616	5,365
Consulting (Note 7)	50,154	12,161	120,600	41,746
Bank charges and interest	25,240	(2,916)	25,240	12,845
Foreign exchange loss/(gain)	89,505	15,426	42,275	24,589
Investor relations	90,275	44,465	161,245	54,465
Legal (Note 7)	13,032	32,365	29,551	47,405
Management fees (Note 7)	-	7,048	-	64,389
Office and miscellaneous	26,099	10,881	57,494	13,883
Rent	9,821	6,605	20,337	13,146
Regulatory and filing fees	30,417	5,556	34,773	14,517
Salaries and wages	68,671	15,819	146,847	15,819
Stock-based compensation expense (Note 8)	128,122	496,303	291,673	496,303
Telephone	3,115	7,662	5,029	9,055
Travel	25,457	19,903	47,641	22,593
	(622,675)	(686,450)	(1,090,969)	(851,927)
Interest income	832	-	5,518	-
Net loss for the period	(621,843)	(686,450)	(1,085,451)	(851,927)
Deficit, beginning of period	(1,796,119)	(383,359)	(1,332,511)	(217,882)
Deficit, end of period	\$ (2,417,962)	\$ (1,069,809)	\$ (2,417,962)	\$ (1,069,809)
Loss per share – basic and diluted	\$ (0.03)	\$ (0.04)	\$ (0.05)	\$ (0.05)
Weighted average number of shares outstanding	22,806,102	19,110,911	22,726,535	15,710,911

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
(Unaudited)

	For the three months ended October 31,		For the six months ended October 31,	
	2007	2006	2007	2006
Cash flows provided by (used in)				
Operating activities				
Loss for the period	\$ (621,843)	\$ (686,450)	\$ (1,085,451)	\$ (851,927)
Add items not affecting cash:				
Amortization	7,899	5,365	15,616	5,365
Stock-based compensation expense	128,122	496,303	291,673	496,303
	(485,822)	(184,782)	(778,162)	(350,259)
Changes in non-cash working capital items:				
Accounts receivable	(32,600)	(58,968)	(110,779)	(68,709)
Prepaid expenses	493	(19,100)	2,425	(18,183)
Accounts payable and accrued liabilities	548,886	(124,664)	654,591	(105,401)
Due to related parties	86,779	-	60,737	-
	117,736	(387,514)	(171,188)	(542,552)
Investing activity				
Purchase of equipment	3,328	(107,103)	(21,833)	(107,103)
Expenditures on resource properties	(521,972)	(514,177)	(1,113,408)	(588,791)
	(518,644)	(621,280)	(1,135,241)	(695,894)
Financing activities				
Loans payable	-	-	-	(65,000)
Proceeds from promissory notes	195,000	-	195,000	-
Issuance of common shares	162,750	34,350	163,950	1,848,760
Deferred financing charges	(10,602)	-	(10,602)	141,300
Share subscriptions	-	8,850	-	8,850
	347,148	43,200	348,348	1,933,910
Increase (decrease) in cash during the period	(53,760)	(965,594)	(958,081)	695,464
Cash, beginning of period	318,961	1,682,001	1,223,282	20,943
Cash, end of period	\$ 265,201	\$ 716,407	\$ 265,201	\$ 716,407
Cash consists of :				
Cash and cash equivalents	\$ 195,702	\$ 626,407	\$ 195,702	\$ 626,407
Cash – restricted (Note 4)	69,499	90,000	69,499	90,000
	\$ 265,201	\$ 716,407	\$ 265,201	\$ 716,407
Cash paid during the period for bonuses on promissory notes	\$ -	\$ -	\$ -	\$ 13,100
Cash paid during the period for income taxes	\$ -	\$ -	\$ -	\$ -
Non – cash activity				
Shares issued on acquisition of resource property	\$ -	\$ 300,000	\$ -	\$ 300,000
Fair value of securities granted	\$ 27,250	\$ 112,356	\$ 27,250	\$ 112,356
Fair value of securities exercised	\$ 495	\$ -	\$ 495	\$ -

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

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

1. COMPANY ACTIVITY AND CONTINUANCE OF OPERATIONS

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

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management will need to target sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which could assure continuation of the Company’s operations and exploration programs. The Company is dependent upon its ability to generate such financing in order for it to meet its liabilities as they come due, and to continue its operations. There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. The net realizable value of the Company’s assets may be materially less than the amounts recorded in these financial statements should the Company be unable to realize its assets and discharge its liabilities in the normal course of business.

	October 31, 2007	April 30, 2007
Working capital (deficit)	\$ (516,565)	\$ 1,243,490
Deficit	\$ (2,417,962)	\$ (1,332,511)

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The consolidated financial statements have, in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Interim financial statements

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

(b) Principle of consolidation

These financial statements include the accounts of the Company and its Subsidiary. The Subsidiary was incorporated on March 23, 2005. All significant inter-company balances and transactions have been eliminated.

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

2. SIGNIFICANT ACCOUNTING POLICIES - (continued)

(c) Basis of presentation

The interim financial statements do not include in all respects the annual disclosure requirements of GAAP and should be read in conjunction with the most recent annual statements.

(d) Cash and cash equivalents

Cash and cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a maturity of 12 months or less at acquisition, that are readily convertible to contracted amounts of cash. Cash of \$265,201 as of October 31, 2007, consists of deposits in bank and trust accounts with no restriction for disposals of cash flow.

(e) Equipment

Equipment is recorded at cost less accumulated amortization. Additions made during the year are amortized at one-half rates. Amortization is provided annually over the estimated useful life using the following methods:

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

(f) Resource properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value.

Costs of producing properties will be amortized on a unit of production basis and the costs of abandoned properties are written-off in the period in which the decision by management is made. Proceeds received on the sale of interests in mineral properties will be credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to an impairment in value will be charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize an impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property, or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

(g) Deferred financing costs

Deferred financing costs represent the cost of the short form offering (Note 13). Subsequently these costs were charged against the related proceeds from the sale of shares once the offering completed.

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

2. SIGNIFICANT ACCOUNTING POLICIES - (continued)

(h) 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.

(i) Impairment of long-lived assets

Long-lived assets, such as equipment and resource properties, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows. An impairment charge is recognized by the amount by which the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of their carrying amount, or fair value less costs to sell, and amortization of these assets ceases.

(j) 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.

(k) Foreign currency translation

The Subsidiary's financial statements were prepared in Mexican pesos, and have been translated into Canadian dollars using the temporal method. Any conversion differences have been reported as exchange gains or losses in the statement of loss and deficit. The temporal method involves translating assets, liabilities, revenues and expenses in a manner that retains their basis of measurement in terms of the Canadian dollar, the parent company's reporting currency. Under this method:

- i) Monetary items are translated at the exchange rate in effect at the balance date;
- ii) Non-monetary items, principally the resource properties, are translated at historical exchange rates; and
- iii) Revenue and expenses are translated at the average rates of exchange during the period, other than depletion and amortization which are translated at historical rates.

(l) 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.

Silvermex Resources Ltd.
(An Exploration Stage Company)
Notes to the Interim Consolidated Financial Statements
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(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES - (continued)

(m) Loss per share

Basic loss per share is calculated using the weighted average number of shares and special warrants outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon the exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

(n) Stock-based compensation

The Company accounts for options granted under its stock option plan (the "Plan") using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of the grant is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(o) Environmental expenditures and asset retirement obligations

The operations of the Company may be affected by changes in environmental regulations, including those relating to future reclamation and site restoration. Both the likelihood of new regulations and their overall effect upon the Company are unknown and unpredictable. The fair value of a liability for an asset retirement obligation will be recognized in the year in which it is incurred, if a reasonable estimate of fair value can be made. The associated asset retirement costs will be capitalized as part of the carrying amount of the long-lived asset and will subsequently be amortized over the asset's useful life. As at October 31, 2007, the Company has made no provision for site restoration costs or potential environmental liabilities as all its properties are still in the exploration stage. Factors such as further exploration, inflation and changes in technology may materially change a cost estimate previously made.

(p) Financial instruments

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments - Recognition and Measurement; and Section 3865, Hedges, retroactively without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments, and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with GAAP. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit.

Silvermex Resources Ltd.
(An Exploration Stage Company)
Notes to the Interim Consolidated Financial Statements
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(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES - (continued)

(q) Financial instruments - (continued)

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading, financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and income taxes receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, due to/from related parties, and promissory notes are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments during the financial year ended April 30, 2007, or the six months ended October 31, 2007.

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

3. ACCOUNTS RECEIVABLE

	October 31, 2007	April 30, 2007
Interest receivable	\$ 431	\$ -
GST and value added tax	261,801	151,453
	<u>\$ 262,232</u>	<u>\$ 151,453</u>

The Company can request that value added tax ("VAT") paid to suppliers be refunded by the tax authorities when such tax exceeds VAT charged to clients. Since the Company is in the development stage, all VAT paid to suppliers should be refunded to the Company subject to restrictions imposed by the tax authorities.

4. CASH - RESTRICTED

Funds were placed in trust in accordance with an employment agreement with a director and officer of the Company. These funds will only be distributed to the director if certain specified events occur.

5. EQUIPMENT

	Net Book Value, April 30, 2007	Additions	Accumulated Amortization	Net Book Value, October 31, 2007
Computer equipment	\$ 17,401	\$ 825	\$ 3,573	\$ 14,653
Leasehold improvements	8,419	-	1,052	7,367
Office furniture and equipment	41,945	458	4,463	37,940
Vehicle	37,935	20,550	6,528	51,957

Silvermex Resources Ltd.
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Notes to the Interim Consolidated Financial Statements
October 31, 2007
(Unaudited)

\$ 105,700 \$ 21,833 \$ 15,616 \$ 111,917

6. RESOURCE PROPERTIES

Schedule of Resource Property Costs

	Balance April 30, 2007	Expenditures for the period	Balance October 31, 2007
PEÑASCO QUEMADO PROJECT (Note 6a)			
Acquisition and holding costs			
Acquisition costs	\$ 678,635	\$ 103,124	\$ 781,759
Claim staking	19,380	-	19,380
Mining taxes	22,270	14,323	36,593
Surface rights and rights of way	38,031	12,070	50,101
	<u>758,316</u>	<u>129,517</u>	<u>887,833</u>
Deferred exploration costs			
Assaying	106,769	6,261	113,030
Camp and accommodation	41,959	3,055	45,014
Communications	1,211	69	1,280
Drafting, reporting and reproduction	12,513	-	12,513
Drilling	321,015	-	321,015
Engineering and feasibility	5,053	-	5,053
Equipment rental	11,906	-	11,906
Legal cost	33,514	-	33,514
Miscellaneous exploration expenses	115,339	424	115,763
Office expenses	604	-	604
Geophysics	-	107,277	107,277
Other	7,538	-	7,538
Salaries and consulting fees	339,057	32,762	371,819
Travel expenses	45,191	3,026	48,217
Trenching and road construction	40,108	-	40,108
	<u>1,081,777</u>	<u>152,874</u>	<u>1,234,651</u>
Total Peñasco Quemado Project	<u>1,840,093</u>	<u>282,391</u>	<u>2,122,484</u>
LOBOS PROJECT (Note 6b)			
Acquisition and holding costs			
Claim staking	7,257	-	7,257
Mining taxes	2,686	2,294	4,980
	<u>9,943</u>	<u>2,294</u>	<u>12,237</u>
Deferred exploration costs			
Geophysics	-	16,137	16,137
Camp and accommodation	94	2,643	2,737
Miscellaneous exploration expenses	5,215	1,056	6,271
Salaries and consulting fees	-	1,542	1,542
Other	19	-	19
	<u>5,328</u>	<u>21,378</u>	<u>26,706</u>
Total Lobos Project	<u>\$ 15,271</u>	<u>\$ 23,672</u>	<u>\$ 38,943</u>

Silvermex Resources Ltd.
(An Exploration Stage Company)
Notes to the Interim Consolidated Financial Statements
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(Unaudited)

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

Schedule of Resource Property Costs - (continued)

	Balance April 30, 2007	Expenditures for the period	Balance October 31, 2007
CERRO DE PLATA PROJECT (Note 6c)			
Acquisition and holding costs			
Acquisition costs	\$ 62,339	\$ 20,655	\$ 82,994
Claim staking	6,441	4,497	10,938
Mining taxes	149	5,314	5,463
	<u>68,929</u>	<u>30,466</u>	<u>99,395</u>
Deferred exploration costs			
Assaying	5,739	30,813	36,552
Camp and accommodation	8,432	13,892	22,324
Communications	46	1,933	1,979
Drafting, reporting and reproduction	1,561	7,918	9,479
Drilling	33,611	195,566	229,177
Equipment rental	-	431	431
Geophysical survey	-	101,965	101,965
Legal cost	1,830	21,670	23,500
Miscellaneous exploration expenses	17,999	66,003	84,002
Other	303	303	606
Salaries and consulting fees	63,833	185,953	249,786
Travel expenses	13,852	14,726	28,578
Trenching and road construction	-	118,839	118,839
	<u>147,206</u>	<u>760,012</u>	<u>907,218</u>
Total Cerro de Plata Project	<u>216,135</u>	<u>790,478</u>	<u>1,006,613</u>
LETY PROJECT (Note 6d)			
Acquisition costs and holding costs			
Acquisition costs	57,856	37,501	95,357
Claim staking	8,520	1,760	10,280
Mining taxes	-	198	198
Total Lety Project	<u>66,376</u>	<u>39,459</u>	<u>105,835</u>
EL RAYO PROJECT (Note 6e)			
Acquisition and holding costs			
Acquisition costs	17,177	-	17,177
Claim staking	5,606	-	5,606
Mining taxes	-	1,511	1,511
Total Rayo Project	<u>\$ 22,783</u>	<u>\$ 1,511</u>	<u>\$ 24,294</u>

Silvermex Resources Ltd.
(An Exploration Stage Company)
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(Unaudited)

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

Schedule of Resource Property Costs – (continued)

	Balance April 30, 2007	Expenditures for the period	Balance October 31, 2007
SAN MARCIAL PROJECT (Note 6f)			
Deferred exploration costs			
Camp and accommodation	\$ -	\$ 1,085	\$ 1,085
Miscellaneous exploration expenses	-	2,062	2,062
Total San Marcial Project	-	3,147	3,147
Total Resource Property Costs	\$ 2,160,658	\$ 1,140,658	\$ 3,301,316

(a) **Peñasco Quemado Project**

On October 29, 2004, Francisca Adelina Salgado Valle, the owner of three exploration concessions (the Lista Negra, Peñasco Quemado and Ballesteros properties) located in Tubutama, in the State of Sonora, Mexico, entered into an exploration option agreement (the Salgado Agreement) with the option to acquire a 100% undivided interest in such properties with Santos Jaime Castillo Romo. In consideration for this interest, a total of US\$600,000 has to be paid by Francisca Adelina Salgado Valle as follows:

- i) US\$ 5,000 on letter of intent agreement (paid);
- ii) US\$ 10,000 on closing (paid);
- iii) US\$ 20,000 on April 29, 2005 (paid);
- iv) US\$ 30,000 on October 29, 2005 (paid);
- v) US\$ 30,000 on April 29, 2006 (paid);
- vi) US\$ 70,000 on October 29, 2006 (paid);
- vii) US\$ 70,000 on April 29, 2007 (paid);
- viii) US\$ 100,000 on October 29, 2007 (paid);
- ix) US\$ 100,000 on April 29, 2008;
- x) US\$ 165,000 on October 29, 2008.

In May 26, 2005, Santos Jaime Castillo Romo transferred the contractual rights, obligations and commitments under the Salgado Agreement to the Company. In consideration for this transfer, the Company paid US\$50,000 and issued 500,000 common shares to Santos Jaime Castillo Romo.

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

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(Unaudited)

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

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

During the year ended April 30, 2006, the Company staked another three exploration concessions (9,180 hectares) and received property titles issued by the Mexican General Mining Bureau. These concessions are located in Tubutama and Atil in the State of Sonora, Mexico and have been included in the Peñasco Quemado Project.

(b) **Lobos Project**

In January 2006, the Company staked one concession (2,830 hectares) and received a property title issued by the Mexican General Mining Bureau. This concession is located in Caborca and Pitiquito in the State of Sonora, Mexico.

(c) **Cerro de Plata Project**

On October 20, 2006, the Company entered into an option agreement to acquire up to a 100% interest in the 10,000 hectare mining concession located in Northern Sonora, Mexico. In consideration for this interest, the Company will pay a total of US\$400,000 and issue 500,000 common shares as follows:

- i) US\$ 20,000 and 50,000 common shares on Exchange acceptance (paid and issued) (Note 8b);
- 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;
- 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.

(d) **Lety Project**

In July 2007, the Company signed an option agreement to acquire a 100% interest in the Lety property located in the municipality of Santa Maria del Oro, State of Durango, Mexico. In consideration for this interest, the Company will pay a total of US\$250,000 (US\$50,000 paid) and issue 250,000 shares over a two year option period, with US\$50,000 payable every six months. In addition, the Company must spend a minimum of US\$500,000 during the first year of the option, and a further US\$500,000 during the second year. The vendor will retain the right to be paid an additional 250,000 shares or US\$1,000,000, at the owner's option, on or before the earlier of commencement of production of the project, or five years as of the date of signing of the option agreement, whichever comes first.

The Company will pay a finder's fee of 250,000 shares to an arm's length third party. 25,000 shares were issued on August 21, 2007 (Note 8e), and six future releases of 37,500 shares each are to be made every six months thereafter.

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

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

(e) **El Rayo Project**

On May 28, 2007, the Company concluded the final option agreement for the El Rayo property. In consideration for its interest, the Company will pay US\$315,000 over four years of which US\$15,000 has been paid) and issue 250,000 shares for every 10,000,000 oz of measured and indicated silver mineral resources.

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

(f) **San Marcial Project**

On October 5, 2007, the Company entered into an option agreement with Silver Standard to purchase a 100% interest in the San Marcial silver project located in Sinaloa State, Mexico.

In consideration for this interest, the Company will issue 1,000,000 common shares (subsequently issued, Note 13) upon Exchange acceptance, a further 1,000,000 shares on each of the first and second anniversaries, and 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.

7. **RELATED PARTY TRANSACTIONS**

During the period ended October 31, 2007, the Company entered into the following transactions with related parties:

- (a) The Company incurred \$99,181 for services related to resource property development (2006 - \$46,000 of management fees) to the president and director of the Company. As of October 31, 2007, \$47,858 was owed to the president and director.
- (b) The Company incurred \$Nil of legal fees (2006 - \$109,498 legal fees and share issue costs) to a company controlled by a director and officer. As of October 31, 2007, \$910 (April 30, 2007 - \$5,650) was owed to this company, and \$Nil (April 30, 2007 - \$50) was held in trust by this firm.
- (c) During fiscal 2007, \$90,000 was placed in trust with a law firm pursuant to the Company's employment agreement with a director and officer. As of October 31, 2007, \$69,499 (April 30, 2007 - \$68,334) was held in trust by the law firm.
- (d) During the six months ended October 31, 2007, \$10,000 of consulting fees (2006 - \$3,000) were paid to a director and an officer of the Company.

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7. RELATED PARTY TRANSACTIONS - (continued)

- (e) As of October 31, 2007, an amount of \$12,668 (April 30, 2007 - \$48,010) is due to directors and officers of the Company. The amount is non-interest bearing and has no terms of repayment.
- (f) During the six months ended October 31, 2007, rent of \$20,337 (2006 - \$Nil) was charged by a company related by common directors and officers for shared office premises. As of October 31, 2007, \$6,940 (April 30, 2007 - \$Nil) was owed to this company.
- (g) During the six months ended October 31, 2007, the Company incurred \$29,000 (2006 - \$Nil) for accounting services provided by a private company of which a director of the Company is a vice-president. As of October 31, 2007, \$5,830 (April 30, 2007 - \$Nil) was owed to that company.
- (d) During the six months ended October 31, 2007, the Company incurred \$55,000 of consulting fees (2006 - \$Nil) to a company controlled by its corporate secretary. As of October 31, 2007, \$15,000 (April 30, 2007 - \$Nil) was owed to this company..
- (e) During the six months ended October 31, 2007, a director and Chief Executive Officer loaned \$20,000 to the Company. The loan was evidenced by way of a promissory note, was unsecured and non-interest bearing. It was repaid in full subsequent to October 31, 2007. This amount is included in related parties.

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.

8. SHARE CAPITAL

	<u>Number</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Authorized:			
Unlimited number of common shares			
Balance, April 30, 2006	11,240,001	\$ 682,050	\$ 79,657
Issued:			
IPO (Note 8a)	6,900,000	2,070,000	-
Agent's corporate finance shares (Notes 8a and c)	180,000	69,000	-
Agent's commission shares (Notes 8a and c)	470,000	221,000	-
Property acquisition (Note 8b)	1,050,000	340,000	-
Private placement (Note 8c)	2,000,000	1,600,000	-
Options exercised (Note 8d)	425,000	160,000	-
Agent's warrants exercised (Note 8a)	386,500	115,950	-
Share issue costs (Notes 8a and c)	-	(741,436)	180,846
Fair value on stock options and agent's warrants exercised (Notes 8a and d)	-	129,079	(129,079)
Stock –based compensation	-	-	65,292
Balance, April 30, 2007	22,651,501	4,645,643	196,716
Issued:			
Warrants exercised (Notes 8a and c)	166,750	164,445	(495)
Finder's fee (Note 8e)	25,000	27,250	-
Stock –based compensation	-	-	291,673
Balance, October 31, 2007	22,843,251	\$ 4,837,338	\$ 487,894

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

- a) On July 10, 2006, the Company completed its IPO and issued 6,900,000 common shares at a price of \$0.30 per unit for gross proceeds of \$2,070,000. The Company paid an agent's fee of \$93,300 in cash and 310,000 agent's commission shares, and issued 828,000 non-transferable agent's warrants which are exercisable into one common share at a price of \$0.30 up to July 31, 2008. The fair value of the agent's warrants of \$102,522 was recognized. The agent was also paid a corporate finance fee of 150,000 common shares. During fiscal 2007, 386,500 agent's warrants issued under the IPO were exercised for total proceeds of \$115,950 and fair value of \$47,856, using Black-Scholes, was recognized on these exercised warrants. During the period ended October 31, 2007, 4,000 agent's warrants were exercised for total proceeds of \$1,200 and fair value of \$495 was recognized on these exercised warrants.
- b) During the year ended April 30, 2007, 1,000,000 common shares at a price of \$0.30 were issued on the Peñasco Quemado property acquisition and 50,000 shares at a price of \$0.56 were issued for the Cerro de Plato property acquisition.
- c) On April 4, 2007, the company closed a brokered private placement of 2,000,000 units at a price of \$0.80 per Unit (the "Units") for total gross proceeds of \$1,600,000. Each Unit consists of one common share and one-half non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$1.00 per share until April 4, 2009. During the period ended October 31, 2007, 162,750 of these warrants were exercised.

The agent's compensation consisted of a total of 190,000 units (160,000 agent's commission units and 30,000 corporate finance units) under the same terms as the Units, and 160,000 agent's warrants exercisable into one common share at a price of \$0.80 up to April 4, 2009. The fair value of the agent's warrants of \$78,324 using Black-Scholes was recognized.

- d) During the year ended April 30, 2007, 125,000 stock options at a price of \$0.56 were exercised for gross proceeds of \$70,000 and 300,000 stock options at a price of \$0.30 were exercised for gross proceeds of \$90,000. The fair value of these options at the date of grant of \$81,223 was transferred from contributed surplus on the exercise of these options.
- e) During the period ended October 31, 2007, the Company issued 25,000 common shares as a finder's fee for the acquisition of the Lety project (Note 6d).

Warrants

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, April 30, 2006	-	\$ -
Issued	2,083,000	0.70
Exercised	(386,500)	0.30
Outstanding, April 30, 2007	1,696,500	0.80
Exercised	(166,750)	0.98
Outstanding, October 31, 2007	1,529,750	\$ 0.78

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

Warrants outstanding at October 31, 2007 are as follows:

Number of Warrants	Exercise Price	Expiry Date
437,500	\$ 0.30	July 31, 2008
932,250	\$ 1.00	April 4, 2009
160,000	\$ 0.80	April 4, 2009
<u>1,529,750</u>		

Stock Options

The Company has a Plan for directors, senior officers, employees, consultants and management. The Plan provides for the issuance of stock options to acquire up to a maximum of 10% of the issued and outstanding common shares of the company. Options are granted for a term not exceeding five years. Options granted to directors, senior officers, employees and consultants vest fully upon the expiry of the four month hold period. Options granted to consultants performing investor relation activities vest over a period of twelve months.

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

	Shares	Weighted Average Exercise Price
Outstanding, April 30, 2006	1,500,000	\$ 0.30
Granted	1,150,000	0.85
Exercised	(425,000)	0.38
Cancelled	(200,000)	0.30
<u>Outstanding, April 30, 2007 and October 31, 2007</u>	<u>2,025,000</u>	<u>\$ 0.60</u>

Stock options outstanding at October 31, 2007 are as follows:

Number of Options	Exercise Price	Expiry Date
1,000,000	\$ 0.30	July 31, 2011
375,000	\$ 0.56	September 22, 2011
550,000	\$ 1.11	April 12, 2012
100,000	\$ 0.96	April 12, 2012
<u>2,025,000</u>		

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

Stock-based Compensation

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. The fair value of stock option granted is recognized in income on a straight line basis over the vesting period. Total fair value of stock options vested during the period ended October 31, 2007 was \$291,673 (2006 - \$496,303).

The following weighted average assumptions were used for the Black-Scholes valuation of stock options and agents' compensation options granted during 2007 and 2006:

	2007	2006
Risk-free interest rate	4.12%	3.92%
Expected life of options	5 years	5 years
Annualized volatility	84%	80%
Dividend rate	0.00%	0.00%

Escrow

6,000,000 common shares were placed in escrow in accordance with the escrow agreement dated February 17, 2006. 1,500,000 common shares were released in fiscal 2007, and 900,000 common shares were released in the period ended October 31, 2007, leaving a balance of 3,600,000 common shares held in escrow (April 30, 2007 - 4,500,000).

9. **PROMISSORY NOTES**

During the period ended October 31, 2007, the Company issued three promissory notes (the "Notes") totalling \$195,000. The Notes are unsecured, pay a bonus of 10% of the principal amount, and is payable on the earlier of five days after the completion of a financing (subsequently completed, Note 13) or December 15, 2007. The Notes are convertible, at the option of the holders, at any time and in any amount into shares or warrants of the Company. Subsequent to October 31, 2007, the Notes, as well as bonuses totalling \$19,500, were paid in full.

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
October 31, 2007				
Canada	\$ 1,040,721	\$ 52,403	\$ 787,108	\$ 201,210
Mexico	2,948,713	59,515	2,514,208	374,990
	\$ 3,989,434	\$ 111,918	\$ 3,301,316	\$ 576,200

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10. SEGMENTED INFORMATION - (continued)

	Total Assets	Equipment	Resource Properties	Other Assets
April 30, 2007				
Canada	\$ 774,505	\$ 60,365	\$ -	\$ 714,140
Mexico	2,907,179	45,335	2,160,658	701,186
	<u>\$ 3,681,684</u>	<u>\$ 105,700</u>	<u>\$ 2,160,658</u>	<u>\$ 1,415,326</u>

11. COMMITMENTS

The Company has agreed to reimburse a company with directors in common one-half of its rental cost of the Vancouver office. The Company's portion amounts to \$45,773 annually, from March 1, 2007 to March 31, 2011.

On July 1, 2007, the Company entered into a consulting agreement with Share Capital Advisors ("SCA") to perform public and investor relations and communications. The Company will pay SCA consulting fees of \$10,000 per month for an initial term of six months (which shall automatically renew for a further four month term).

12. CONTINGENCIES

A former director, officer and employee, and a former consultant of the Company have separately initiated action against the Company for damages for breach of contract/wrongful dismissal and for the right to the exercise their stock options originally granted under the Company's stock option plan. The Company cancelled these options when the individuals were dismissed. The Company has commenced an action against the former director, officer and employee and the Company's transfer agent seeking cancellation of performance shares granted to this individual. Legal counsel to the Company is unable to assess the Company's potential liability, if any, resulting from these actions. Any settlement will be reflected as a charge to deficit in the year incurred. No provision for possible loss has been included in these financial statements.

13. SUBSEQUENT EVENTS

- (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 of one 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 the agent's warrants of \$83,075 using Black-Scholes was recognized. The securities issued to purchasers who have subscribed for 40,000 units or more (a total of 425,000 units), and the Agent's corporate finance fee are subject to restrictive legends expiring on March 16, 2008.
- (b) The Company issued 1,000,000 common shares on the acquisition of San Marcial Project (Note 8f).
- (c) The Notes and the bonuses payable on the Notes were paid.