

UNAUDITED CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

OREMEX SILVER INC.
(Formerly Oremex Resources Inc.)

FOR THE THREE AND NINE MONTHS ENDED
AUGUST 31, 2012

OREMEX SILVER INC.
(Formerly Oremex Resources Inc.)

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

The accompanying unaudited condensed consolidated 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.

OREMEX SILVER INC.

Condensed Consolidated Interim Statements of Financial Position
(Formerly Oremex Resources Inc.)
(Expressed in Canadian Dollars)

Unaudited

	Note	August 31, 2012	November 30, 2011 (Note 15)
Assets			
Current assets:			
Cash and cash equivalents		\$ 50,403	\$ 674,732
Amounts receivable	10(a),(b)	254,509	338,122
Prepaid expenses	10(c)	62,775	26,181
Note receivable - current	8	111,250	114,333
Total current assets		478,937	1,153,368
Equipment	4	170,093	205,799
Exploration and evaluation properties	5	13,723,068	13,302,790
Investment in associated company	9	1,829,897	2,263,153
Marketable securities	11	1,000	31,000
Note receivable – non-current	8	-	100,000
Total assets		\$ 16,202,995	\$ 17,056,110
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	10(a),(f)	\$ 748,276	\$ 225,229
Short-term loan	10(g)	98,253	-
Total current liabilities		846,529	225,229
Deferred tax liability		2,160,000	2,160,000
Total liabilities		3,006,529	2,385,229
Shareholders' equity:			
Share capital	6(a)	23,495,247	23,337,629
Share purchase warrants reserve	6(c)	789,160	806,137
Share-based payment reserve	7	1,668,820	1,715,829
Accumulated deficit		(12,756,761)	(11,188,714)
Total shareholders' equity		13,196,466	14,670,881
Total liabilities and shareholders' equity		\$ 16,202,995	\$ 17,056,110

Nature of operations and going concern (note 1)
Related party transactions (note 10)
Subsequent events (note 14)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board:

“John Carlesso” Director

“Michael R. Smith” Director

OREMEX SILVER INC.

Condensed Consolidated Interim Statements of Operations and Deficit
(Formerly Oremex Resources Inc.)
(Expressed in Canadian Dollars)

Unaudited

	Note	Three Months Ended August 31,		Nine Months Ended August 31,	
		2012	2011 (Note 14)	2012	2011 (Note 15)
Administrative expenses:					
Accounting and legal		\$ 91,428	\$ 84,905	\$ 167,641	\$ 148,009
Amortization		6,953	6,266	48,206	26,276
Director and committee fees		7,500	-	9,000	-
Insurance		3,839	11,195	19,596	20,030
Management fees and salaries	10(d),(e)	146,193	189,259	490,545	536,880
Office expenses	10(a)	16,063	40,870	78,397	89,671
Operating expenses		-	5,914	4,087	16,037
Regulatory and filing fees		23,577	17,304	46,300	39,747
Rent	10(a)	18,059	8,028	36,758	37,621
Investor relations		42,469	78,359	291,440	252,821
Stock based compensation		-	54,025	-	944,238
Business development		2,552	73,936	89,533	216,921
		358,633	570,061	1,281,503	2,328,251
Loss before undernoted items		(358,633)	(570,061)	(1,281,503)	(2,328,251)
Other income (expenses):					
Other income		-	-	-	4,829
Accretion income	8	6,417	2,583	21,917	2,583
Interest income		-	(2,511)	3,896	-
Interest and bank charges	10(g)	(2,412)	-	(2,785)	(8,242)
Equipment written-off		-	-	(33,412)	-
Loss on sale of equipment		-	-	(2,047)	-
Gain on sale of property	5(a)	-	-	5,138	-
Gain on sale of investment	13	-	3,930,000	-	3,930,000
Loss on disposal of properties		-	(464,177)	-	(464,177)
Equity loss in associated company	9	(102,167)	-	(433,256)	-
Unrealized loss on held-for-trading investments	11	(7,000)	-	(30,000)	-
Loss on foreign exchange		689	(25,024)	(3,671)	(50,831)
		(104,473)	3,440,871	(474,220)	3,414,162
Net loss and comprehensive loss for the period		\$ (463,106)	\$ 2,870,810	\$ (1,755,723)	\$ 1,085,911
Basic and diluted loss per share		\$ (0.00)	\$ 0.02	\$ (0.01)	\$ 0.01
Weighted average number of shares outstanding - basic and diluted		122,926,409	122,738,207	122,769,996	115,010,889

See accompanying notes to condensed consolidated interim financial statements.

OREMEX SILVER INC.

Condensed Consolidated Interim Statements of Changes in Equity
(Formerly Oremex Resources Inc.)
(Expressed in Canadian Dollars)

Unaudited

	Share Capital		Share Purchase Warrants Reserve \$	Share- Based Payments Reserve \$	Accumulated Deficit \$	Total \$
	Number	Amount \$				
Balance, December 1, 2010	106,617,152	20,248,519	1,353,280	524,534	(9,650,442)	12,475,891
Options granted	-	-	-	944,238	-	944,238
Shares issued on exercise of options	2,650,000	300,000	-	-	-	300,000
Transfer to share capital on exercise of options	-	222,435	-	(222,435)	-	-
Shares issued on exercise of warrants	6,923,423	2,015,747	-	-	-	2,015,747
Transfer to share capital on exercise of warrants	-	683,788	(683,788)	-	-	-
Warrants expired	-	-	(8,144)	-	8,144	-
Net income and comprehensive income for the period	-	-	-	-	1,085,911	1,085,911
Balance, August 31, 2011	116,190,575	23,470,489	661,348	1,246,337	(8,556,387)	16,821,787
Balance, December 1, 2011	122,493,207	23,337,629	806,137	1,715,829	(11,188,714)	14,670,881
Private placement – net of share issue costs	2,168,200	106,174	-	-	-	106,174
Warrants issued – net of share issue costs	-	(27,415)	27,415	-	-	-
Fair value of broker warrants issued	-	(546)	546	-	-	-
Shares issued on exercise of warrants	362,500	58,374	-	-	-	58,374
Transfer to share capital on exercise of warrants	-	21,031	(21,031)	-	-	-
Warrants expired	-	-	(140,667)	-	140,667	-
Warrants extended	-	-	116,760	-	-	116,760
Options expired	-	-	-	(47,009)	47,009	-
Net loss and comprehensive loss for the period	-	-	-	-	(1,755,723)	(1,755,723)
Balance, August 31, 2012	125,023,907	23,495,247	789,160	1,668,820	(12,756,761)	13,196,466

See accompanying notes to condensed consolidated interim financial statements.

OREMEX SILVER INC.

Condensed Consolidated Interim Statements of Cash Flows
(Formerly Oremex Resources Inc.)
(Expressed in Canadian Dollars)

Unaudited

	Note	Nine Months Ended	
		August 31, 2012	August 31, 2011
Cash provided by (used in):			
Operating:			
Loss for the period		\$ (1,755,723)	\$ (1,085,911)
Items not affecting cash:			
Amortization		48,206	26,276
Loss on sale of equipment		2,047	-
Equipment written-off		33,412	-
Gain on sale of investment		-	(3,930,000)
Gain on sale of property		(5,138)	-
Loss on disposal of properties		-	464,177
Accretion income		(21,917)	(2,583)
Warrants extended		116,760	-
Equity loss in associated company		433,256	-
Unrealized loss on held-for-trading investments		30,000	-
Share-based payments		-	944,238
		(1,119,097)	(1,411,981)
Changes in non-cash operating accounts:			
Amounts receivable		83,613	(92,246)
Prepaid expenses		(36,594)	(12,023)
Accounts payable and accrued liabilities		525,299	15,691
Net cash used in operating activities		(338,105)	(1,500,559)
Investing:			
Purchase of equipment		(55,958)	(83,610)
Proceeds from sale of equipment		8,000	-
Proceeds from sale of property		105,057	-
Proceeds from repayment of note receivable		125,000	-
Exploration and evaluation properties		(520,197)	(981,594)
Net cash used in investing activities		(338,098)	(1,065,204)
Financing:			
Proceeds from short-term loan		252,000	-
Repayment of short-term loans		(156,000)	-
Proceeds from equity issuance		164,548	2,315,747
Net cash provided by financing activities		260,548	2,315,747
Decrease in cash and cash equivalents		(624,329)	(250,016)
Cash and cash equivalents, beginning of period		674,732	1,679,619
Cash and cash equivalents, end of period		\$ 50,403	\$ 1,429,603
Cash and cash equivalents consist of:			
Cash		\$ 50,403	\$ 929,603
Cash equivalents		-	500,000
		\$ 50,403	\$ 1,429,603

See accompanying notes to condensed consolidated interim financial statements.

OREMEX SILVER INC.

Notes to Condensed Consolidated Interim Financial Statements
(Formerly Oremex Resources Inc.)
(Expressed in Canadian Dollars)

Three and Nine Months Ended August 31, 2012

1. Nature of Operations and Going Concern:

Oremex Silver Inc. (the "Company" or "Oremex"), formerly Oremex Resources Inc. was incorporated on March 22, 1995 under the Canada Business Corporations Act. The Company's shares are traded on the TSX Venture Exchange under the trading symbol OAG (formerly ORM). The Company is in the process of exploring and evaluating its mineral property interests in Mexico. The address of the Company's corporate office and principal place of business is 333 Bay Street, Suite 1200, Toronto, Ontario, Canada.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

The Company presently has no proven reserves, and on the basis of information to date, has not yet determined whether any of its property interests contain economically recoverable ore resources. The amounts recorded as mineral property interests represent deferred exploration costs incurred to date and do not necessarily represent present or future values. The Company is dependent on raising funds through the issuance of shares and/or attracting joint venture partners in order to undertake expanded exploration and development of its mineral properties and to ultimately realize profits through future production or sale of the properties.

The Company has incurred losses since inception and at August 31, 2012, had an accumulated deficit of \$12,756,761 which has been funded primarily by the issuance of equity. The ability of the Company to continue as a going concern is dependent upon its ability to raise sufficient funds to meet its obligations as they become due. Management believes that it will be able to obtain the necessary financing to meet the Company's requirements on an ongoing basis; however, there can be no assurance that the necessary financing will be obtained.

These condensed consolidated interim financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. They do not reflect adjustments to the carrying values of assets and liabilities which may be necessary should the Company be unable to do so and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the consolidated financial statements. Such adjustments could be material.

2. Basis of Presentation and Adoption of International Financial Reporting Standards:

These unaudited condensed consolidated interim financial statements have been prepared in accordance with and using accounting policies in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the three and nine months ended August 31, 2012 and 2011.

Previously, the Company prepared its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

These condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The accounting policies followed in these condensed consolidated interim financial statements are the same as those applied in the Company's condensed consolidated interim financial statements for the period ended February 29, 2012. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 15 discloses the impact of the transition to IFRS on the Company's reported equity as at August 31, 2011 and comprehensive loss for the three and nine months ended August 31, 2011, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended November 30, 2011.

OREMEX SILVER INC.

Notes to Condensed Consolidated Interim Financial Statements
(Formerly Oremex Resources Inc.)
(Expressed in Canadian Dollars)

Three and Nine Months Ended August 31, 2012

2. Basis of Presentation and Adoption of International Financial Reporting Standards (continued):

The accounting policies applied in these condensed consolidated interim financial statements are based on IFRS effective for the year ended November 30, 2012, as issued and outstanding as of October 29, 2012, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ended November 30, 2012 could result in restatement of these condensed consolidated interim financial statements, including transition adjustments recognized on change-over to IFRS.

The condensed consolidated interim financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended November 30, 2011, and the Company's condensed consolidated interim financial statements for the quarter ended February 29, 2012 prepared in accordance with IFRS applicable to interim financial statements.

3. Significant Accounting Policies:

These unaudited condensed consolidated interim financial statements have been prepared by the Company in accordance with IFRS, using the same accounting policies and methods as per the condensed consolidated interim financial statements for the period ended February 29, 2012.

4. Equipment:

	Computer Equipment	Office Furniture and Equipment	Software	Leasehold Improvements	Site Vehicles	Total
Cost, November 30, 2011	48,559	109,341	16,909	68,366	107,042	350,217
Additions	4,501	25,729	946	24,782	-	55,958
Disposals	-	(6,368)	-	(54,507)	-	(60,875)
Cost, August 31, 2012	\$ 53,060	\$ 128,702	\$ 17,855	\$ 38,641	\$ 107,042	\$ 345,300

	Computer Equipment	Office Furniture and Equipment	Software	Leasehold Improvements	Site Vehicles	Total
Accumulated Amortization, November 30, 2011	(36,635)	(54,261)	(10,406)	(17,802)	(25,314)	(144,418)
Charge for the period	(4,003)	(22,578)	(1,098)	12,179	(15,289)	(30,789)
Accumulated Amortization, August 31, 2012	\$ (40,638)	\$ (76,839)	\$ (11,504)	\$ (5,623)	\$ (40,603)	\$ (175,207)

	Computer Equipment	Office Furniture and Equipment	Software	Leasehold Improvements	Site Vehicles	Total
Net book value, November 30, 2011	\$ 11,924	\$ 55,080	\$ 6,503	\$ 50,564	\$ 81,728	\$ 205,799
Net book value, August 31, 2012	\$ 12,422	\$ 51,863	\$ 6,351	\$ 33,018	\$ 66,439	\$ 170,093

OREMEX SILVER INC.

Notes to Condensed Consolidated Interim Financial Statements
(Formerly Oremex Resources Inc.)
(Expressed in Canadian Dollars)

Three and Nine Months Ended August 31, 2012

5. Exploration and Evaluation Properties:

(a) Background:

The Company presently holds interests in seven mineral projects, each with one to multiple mining concessions. The three main properties of interest are Tejamen, San Lucas and Chalchihuites. Tejamen is the Company's flag ship silver property with a NI 43-101 mineral resource of 50.8 million ounces of silver with P.E.A.

The Company owns 100% of the mineral rights of Tejamen. It is the Company's most advanced project. The property, located 130 kilometres northwest of Durango, the capital of the State of Durango, consists of 22 mineral concessions covering approximately 1,672 hectares. Access is by paved highway from Durango to Nuevo Ideal, and by 10 kilometres of good gravel road from Nuevo Ideal to Tejamen.

In 2006, the Company released results of a NI 43-101 compliant Technical Report prepared by Wardrop Engineering Inc. ("Wardrop"). Based on the 36,000 metres of reverse circulation drilling completed between December 2003 and November 2005, Wardrop calculated an Inferred Mineral Resource of 50.8 million ounces in 22.6 million tonnes at a grade of 66.9 grams per tonne silver (gpt) and 0.05 gpt gold (a silver-equivalent grade of 69.8 gpt).

The San Lucas Property ("San Lucas"), located 86 kilometres north of the city of Durango and accessed via paved highway, consists of 12 mineral concessions covering 1,290 hectares. San Lucas consists of a series of northeast trending mineralized shear zones in volcanic and sedimentary rocks.

Chalchihuites is a drill-ready exploration project located about 75 kilometers northwest of the state capital city of Zacatecas. Access from either Zacatecas or Durango is by paved highway which skirts the edge of the project. The property consists of four concessions totaling approximately 48.15 hectares and is 100% owned by Oremex Silver Inc.

OREMEX SILVER INC.

Notes to Condensed Consolidated Interim Financial Statements
(Formerly Oremex Resources Inc.)
(Expressed in Canadian Dollars)

Three and Nine Months Ended August 31, 2012

5. Exploration and Evaluation Properties (continued):

(b) Exploration and Evaluation Expenditures:

	August 31, 2012				
	Tejamen	San Lucas	Chalchi-huites	Other	Total
Acquisition costs:					
Balance, beginning of period	\$ 2,976,736	\$ 404,806	\$ 10,227	\$ 5	\$ 3,391,774
Incurring during the period:					
Property option payments	-	-	10,057	48,679	58,736
Balance, end of period	\$ 2,976,736	\$ 404,806	\$ 20,284	\$ 48,684	\$ 3,450,510
Exploration expenditures:					
Balance, beginning of period	\$ 8,351,362	\$ 1,232,071	\$ 187,576	\$ 140,007	\$ 9,911,016
Incurring during the period:					
Administration	238,053	3,300	38,306	2,944	282,603
Camp costs and field supplies	26,521	47	15,930	563	43,061
Drilling, net	-	-	5,325	-	5,325
Geological consulting	71,259	6,426	30,904	1,821	110,410
Permitting and land holding costs	16,860	757	836	1,609	20,062
Disposal of assets	-	-	-	(99,919)	(99,919)
Balance, end of the period	\$ 8,704,055	\$ 1,242,601	\$ 278,877	\$ 47,025	\$ 10,272,558
Total exploration and evaluation properties	\$ 11,680,791	\$ 1,647,407	\$ 299,161	\$ 95,709	\$ 13,723,068

	November 30, 2011				
	Tejamen	San Lucas	Chalchi-Huites	Other	Total
Acquisition costs:					
Balance, beginning of year	\$ 2,976,736	\$ 404,806	\$ -	\$ 5	\$ 3,381,547
Incurring during the year:					
Property option payments	-	-	10,227	-	10,227
Balance, end of year	\$ 2,976,736	\$ 404,806	\$ 10,227	\$ 5	\$ 3,391,774
Exploration expenditures:					
Balance, beginning of year	\$ 7,783,891	\$ 1,623,616	\$ -	\$ 14,270	\$ 9,421,777
Incurring during the year:					
Administration	310,496	70,574	61,102	63,628	505,800
Camp costs and field supplies	53,016	21,037	42,783	6,231	123,067
Drilling, net	2,733	156,820	18,490	4,580	182,623
Geological consulting	167,009	78,903	64,059	45,379	355,350
Labour	23	-	-	-	23
Permitting and land holding costs	31,690	10,171	924	4,307	47,092
Transportation	2,504	4,447	218	1,612	8,781
Disposal of properties	-	(733,497)	-	-	(733,497)
Balance, end of the year	\$ 8,351,362	\$ 1,232,071	\$ 187,576	\$ 140,007	\$ 9,911,016
Total exploration and evaluation properties	\$ 11,328,098	\$ 1,636,877	\$ 197,803	\$ 140,012	\$ 13,302,790

During the nine month period ended August 31, 2012, the Company sold its 100% interest in Cerro del Oro for a cash payment of USD \$108,100 plus 16% VAT. This sale resulted in a gain of \$5,138.

OREMEX SILVER INC.

Notes to Condensed Consolidated Interim Financial Statements
(Formerly Oremex Resources Inc.)
(Expressed in Canadian Dollars)

Three and Nine Months Ended August 31, 2012

6. Share Capital:

(a) Common Shares:

Authorized: Unlimited number of common shares, without par value

Issued and outstanding common shares:

	August 31, 2012		November 30, 2011	
	Number	Amount	Number	Amount
Balance, beginning of period	122,493,207	\$ 23,337,629	106,617,152	\$ 20,248,519
Shares issued:				
Private placement (i)	2,168,200	78,213	-	-
Options exercised (ii)	-	-	2,650,000	548,543
Warrants exercised (iii)	362,500	79,405	13,226,055	2,540,567
Balance, end of period	125,023,907	\$ 23,495,247	122,493,207	\$ 23,337,629

- i. On August 28, 2012 the Company closed a private placement offering for gross proceeds of \$108,410 through the issuance of 2,168,200 units comprised of one common share and one common share purchase warrant of the Company. Each warrant is exercisable for one common share at a price of \$0.10 until July 27, 2015. Certain directors and officers of the company purchased an aggregate of 1,028,200 units of the offering. The fair value of the warrants has been estimated at \$28,133 and has been allocated to share purchase warrants ("warrants"). In connection with the offering, the Company paid cash commissions of \$2,236 and issued 42,000 non-transferable compensation warrants to eligible finders. Each compensation warrant entitles the holder to subscribe for one common share at a price of \$0.10 per share until July 27, 2015. \$576 of cash commissions paid has been allocated to warrants. The fair value of compensation warrants has been estimated at \$546, with \$142 being allocated to warrants.
 - ii. During the year ended November 30, 2011, various options were exercised resulting in the issuance of 2,650,000 common shares for proceeds of \$300,000. In addition, the Company reclassified \$248,543 that was previously recorded in share-based payment reserve. No options were exercised during the nine month period ended August 31, 2012.
 - iii. The Company received various warrant exercises during the nine month period ended August 31, 2012, resulting in the issuance of 362,500 (November 30, 2011 – 13,226,055) common shares for net proceeds of \$58,374 (November 30, 2011 - \$2,015,747). In addition, the Company has reclassified \$21,031 (November 30, 2011 - \$524,820) that was previously recorded as share purchase warrants reserve in the equity section to share capital. This amount represents the original value of the warrants that was classified separately from share capital when the warrants were issued.
- (b) Share Purchase Options:

In April 2004, the Company adopted a 10% rolling share purchase option plan whereby options may not exceed 10% of the total number of shares issued and outstanding of the Company from time to time on a non-diluted basis. Options granted under the Plan have an exercise price equal to the quoted market price of the Company's shares and vest at the discretion of the Board. This option plan was not re-approved at the Company's June 29, 2012 annual and special meeting, as such no new options will be eligible to be exercised until an approved option plan is in place.

OREMEX SILVER INC.

Notes to Condensed Consolidated Interim Financial Statements
(Formerly Oremex Resources Inc.)
(Expressed in Canadian Dollars)

Three and Nine Months Ended August 31, 2012

6. Share Capital (continued):

(b) Share Purchase Options (continued):

A summary of the status of the Company's stock option plan for the period ended August 31, 2012 is as follows:

	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Number of Years to Expiry
Balance, November 30, 2011	9,025,000	0.22	4.00
Expired	(150,000)	0.54	-
Balance, August 31, 2012	8,875,000	0.21	3.31

The following table provides detailed information about stock options outstanding at August 31, 2012:

Date of Grant	Number Outstanding	Number Exercisable	Exercise Price	Expiry Date	Contractual Remaining Life (Years)
March 30, 2009	1,900,000	1,900,000	0.10	March 30, 2014	1.58
December 20, 2009	600,000	600,000	0.15	December 20, 2014	2.30
July 29, 2010	50,000	50,000	0.10	July 29, 2015	2.91
April 27, 2011	3,075,000	3,075,000	0.32	April 26, 2016	3.66
August 5, 2011	250,000	250,000	0.26	August 5, 2016	3.93
November 9, 2011	3,000,000	3,000,000	0.19	November 9, 2016	4.19
	8,875,000	8,875,000			3.31

(c) Share Purchase Warrants Reserve:

Transactions involving the Company's share purchase warrants have been summarized as follows:

	Number Of warrants	Grant Date Fair Value (\$)	Weighted Average Exercise Price
Balance, November 30, 2011	15,684,488	806,137	0.15
Granted (i)	2,210,200	27,961	0.10
Exercised (ii)	(362,500)	(21,031)	0.16
Expired (iii)	(2,000,000)	(140,667)	0.17
Extended (iv)	-	116,760	0.16
Balance, August 31, 2012	13,321,988	789,160	0.14

- i. Represents 2,168,200 warrants and 42,000 compensation warrants granted in connection with the August 28, 2012 private placement, see note 6(a). The fair value of these warrants, net of issuance costs, has been estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.26%
Volatility	87.58%
Expected life of warrants	3 years
Dividend rate	0.00%

- ii. Represents the estimated grant date fair value attributable to warrants exercised in the period and transferred to share capital.
- iii. Represents the estimated grant date fair value attributable to warrants which expired in the period and transferred to deficit.

OREMEX SILVER INC.

Notes to Condensed Consolidated Interim Financial Statements
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(Expressed in Canadian Dollars)

Three and Nine Months Ended August 31, 2012

6. Share Capital (continued):

(c) Share Purchase Warrants Reserve (continued):

- iv. On December 19, 2011 (the "extension date"), the expiry date of 702,385 warrants was extended for one year, from December 22, 2011 to December 22, 2012. These warrants have an exercise price of \$0.17. The fair value of the extension of these warrants was estimated at the extension date using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.86%
Volatility	107.45%
Expected life of warrants	1 year
Dividend rate	0.00%

On May 17, 2012 (the "extension date"), the expiry date of 2,347,326 warrants was extended for one year, from May 28, 2012 to May 28, 2013. These warrants have an exercise price of \$0.16. The fair value of the extension of these warrants was estimated at the extension date using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.21%
Volatility	110.79%
Expected life of warrants	1 year
Dividend rate	0.00%

The following warrants are outstanding at August 31, 2012:

Number of Warrants	Exercise Price (\$)	Expiry Date
6,667,000	0.14	September 27, 2012
3,642,777	0.14	October 6, 2012
664,885	0.17	December 22, 2012
2,347,326	0.16	May 28, 2013
2,168,200	0.10	July 27, 2015
42,000	0.10	July 27, 2015
15,532,188		

7. Share-Based Payment Reserve:

Transactions involving the Company's share-based payments have been summarized as follows:

	Nine Months Ended August 31, 2012		Year Ended November 30, 2011	
Balance, beginning of period	\$	1,715,829	\$	524,534
Fair value of stock options granted and vested		-		1,439,838
Value of exercised options transferred to share capital		-		(248,543)
Options expired		(47,009)		-
Balance, end of period	\$	1,668,820	\$	1,715,829

For the year ended November 30, 2011, the Company recorded stock-based compensation expense of \$1,439,838. No options were granted during the nine month period ended August 31, 2012.

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8. Note Receivable:

On July 26, 2011, the Company received a \$250,000 promissory note from Oremex Gold Inc. (note 13). The balance is to be settled by two equal cash payments to the Company due on July 26, 2012 and July 26, 2013, representing the 12 and 24 month anniversaries of closing of the Transaction discussed in note 13. The note is non-interest bearing and has been discounted to its estimated fair value using an interest rate of 15%. The first repayment of \$125,000 was received on July 26, 2012. For the period ended August 31, 2012, the Company recorded accretion income of \$21,917 (2011 - \$2,583) with respect to this note.

9. Investment in Associated Company:

The investment in associated company consists of the following:

	August 31, 2012	November 30, 2011
Balance, beginning of period	\$ 2,263,153	\$ 2,506,000
Equity loss in associated company	(433,256)	(242,847)
Balance, end of period	\$ 1,829,897	\$ 2,263,153

As a result of the sale of gold assets discussed in note 13, the Company holds 14,000,000 common shares or approximately 39.94% of the outstanding shares in Oremex Gold as at August 31, 2012. The Company has determined that it exercises significant influence over Oremex Gold and therefore accounts for this investment using the equity method. The Company's share of Oremex Gold's earnings or losses is reported in operations. Upon the sale, the investment in Oremex Gold was valued at \$2,506,000 based on the value of Oremex Gold's shares. For the period ended August 31, 2012, the Company recorded a loss of \$433,256 (November 30, 2011 - \$242,847) relating to this investment.

10. Related Party Transactions:

- The Company shares office space, administrative resources and various costs (collectively the "Shared Costs") with other companies that have common officers and directors. Included in accounts receivable is \$45,654 (2011 - \$7,372) related to Shared Costs. Included in accounts payable is \$152,912 (2011 - \$2,994) related to Shared Costs. These amounts are unsecured, non-interest bearing with no terms of repayment. During the nine month period ended August 31, 2012 the Company incurred approximately \$46,823 (2011 - \$41,626) for its share of rent and administrative costs.
- Included in amounts receivable is \$40,000 (2011 - \$40,000) due from a company that has a common officer and director. The amount relates to legal fees that were billed in error to the Company. This amount is unsecured, non-interest bearing and has no specific terms of repayment.
- Included in prepaid expenses is \$40,572 (2011 - \$18,972) related advances given to an officer and director of the Company.
- During the nine month period ended August 31, 2012, certain officers and directors were granted bonuses aggregating \$25,000 (2011 - \$NIL). This amount is included in management fees and salaries.
- Key management includes the Executive Chairman, the Chief Executive Officer, the Chief Financial Officer and directors. During the nine month period ended August 31, 2012, the cash compensation paid or payable to key management for services was \$264,380 (2011 - \$219,475).
- During the nine month period ended August 31, 2012, the Company moved into new premises that it shares with other companies that have common officers and directors. In relation to this move, \$42,229 (2011 - \$NIL) is included in accounts payable and accrued liabilities for its share of the moving costs. This amount is payable on demand, unsecured and non-interest bearing.
- During the nine month period ended August 31, 2012, the Company obtained a \$252,000 short-term loan from a company with common officers and directors. At August 31, 2012 the Company has repaid \$156,000. The loan is unsecured, due on demand and bears an interest rate of 3% per annum. Interest charges on the loan over the nine month period ending August 31, 2012 were \$2,253 (2011 - \$NIL). Subsequent to August 31, 2012 the Company has repaid the loan in full.

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10. Related Party Transactions (continued):

Transactions with related parties were in the normal course of operations and have been measured at their exchange amount, being the amount agreed to by the related parties.

11. Marketable Securities:

As at August 31, 2012, the Company's marketable securities consisted of the following:

	Security Description	Fair Value	
		August 31, 2012	November 30, 2011
Oremex Gold Inc. (i)	2,000,000 warrants	\$ 1,000	\$ 31,000

i. Oremex Gold Inc.

On July 26, 2011, the Company received 2,000,000 warrants convertible into 2,000,000 common shares of Oremex Gold Inc. in relation to the sale of gold assets as discussed in note 13. The warrants have an exercise price of \$0.50 per share expiring on July 26, 2013.

The fair value of these warrants was originally estimated at \$93,000 on the date of sale using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 95%; risk free interest rate of 1.48% and expected life of 2 years. The estimated fair value of these warrants has been recorded as marketable securities on the statement of financial position.

The fair value of these warrants as at August 31, 2012 was estimated at \$1,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 95%; risk free interest rate of 1.15% and expected life of 1 year. The unrealized loss of \$30,000 has been recorded as an unrealized loss on held-for-trading investments in the statement of operations and deficit for the period ended August 31, 2012.

12. Segmented Information:

The Company operates in a single industry segment. Assets by geographic location are as follows:

	August 31, 2012	November 30, 2011
Mexico	\$ 13,950,215	\$ 13,692,977
Canada	2,240,111	3,363,133
	\$ 16,328,965	\$ 17,056,110

13. Sale of Gold Assets:

Effective April 24, 2011, the board of directors of the Company approved an Amalgamation Agreement entered into with Black Birch Capital Acquisition I Corporation ("Black Birch") whereby the following took place:

- i. The Company spun out its gold assets to its wholly owned subsidiary, 7678576 Canada Inc. ("Oremex Gold"). The Company then sold its share in Oremex Gold to Black Birch, a Capital Pool Company (the "Transaction").
- ii. Black Birch acquired the one common share of Oremex Gold held by the Company in exchange for:
 - (a) the issuance to the Company of an aggregate of 14,000,000 common shares of Black Birch;
 - (b) the issuance to the Company of 2,000,000 warrants convertible into 2,000,000 common shares of Black Birch with an exercise price of \$0.50 per share expiring 24 months from the date of closing of the Transaction; and

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13. Sale of Gold Assets (continued):

- c. \$250,000 to be settled by two equal cash payments to the Company due on the 12 and 24 month anniversaries of closing of the Transaction.

The Company recorded a gain on sale of gold properties of \$2,069,503 as a result of this transaction.

- iii. Concurrently with the completion of the Transaction, Oremex Gold completed an offering of subscription receipts for gross proceeds of \$4,356,000 at a price of \$0.25 per subscription receipt. Each subscription receipt was exercisable into one common share and a half common share purchase warrant of Oremex Gold for no additional consideration. Each full purchase warrant allows the holder to acquire an additional share by paying \$0.35 anytime during the 36 months following the closing of the transaction. These shares will then be exchanged for shares of Black Birch on a one-for-one basis.
- iv. Effective July 26, 2011, Oremex Gold became a direct wholly-owned subsidiary of Black Birch.
- v. Effective September 9, 2011, the Company was renamed Oremex Silver Inc., trading under the symbol OAG on the TSX Venture Exchange.
- vi. Effective September 20, 2011, Black Birch was renamed Oremex Gold Inc., trading under the symbol OAU on the TSX Venture Exchange.

14. Subsequent Events:

On October 1, 2012 the Company completed the equity portion of a non-brokered private placement, raising gross proceeds of \$750,000 through the issue of 13,636,364 Share Units of the Company, with each Share Unit consisting of one common share and one common share purchase warrant at a purchase price of \$0.055 per unit. Each warrant is exercisable into shares at a price of \$0.10 per Share, expiring in five years from the date of issue. In connection with the equity private placement, the Company will pay a finder's fee consisting of 250,000 shares.

On October 9, 2012 the Company closed the convertible debenture portion of the offering for gross proceeds of \$727,500 through the issue of 72.75 Debenture Units, with each Debenture Unit consisting of \$10,000 principal amount of convertible debentures of the Company and 100,000 common share purchase warrants, at a purchase price of \$10,000 per Debenture Unit. Each warrant is exercisable into one common share of the Company at a price of \$0.10 per share, expiring in five years from the date of issue. The debentures are convertible into shares at a price of \$0.10 per share and mature in five years from the date of issue. The debentures bear interest at a rate of 16% per year; 8% is payable in cash and, at the option of the Company, 8% is payable in shares.

On October 19, 2012 the Company closed the first tranche of an additional non-brokered private placement, raising gross proceeds of \$318,850 through the issue of 5,314,166 units of the Company, with each unit consisting of one common share and one common share purchase warrant at a price of \$0.06 per unit. Each warrant is exercisable into shares at a price of \$0.10 per share, expiring five years from the date of issue. In connection with the private placement, the Company paid finders' fees of \$15,498 and issued 258,300 finders' warrants. The finder's warrants are exercisable into shares at a price of \$0.10 per share, expiring five years from the date of issue.

On October 26, 2012 the Company closed the second tranche of the private placement for gross proceeds of \$38,715 through the issue of 645,258 units of the Company, with each unit consisting of one common share and one common share purchase warrant. Terms of the warrants are the same as those issued during the first tranche. In connection with the second tranche, the Company paid finder's fees of \$1,029 and issued 17,150 finder's warrants. There was no change to the terms of the finder's warrants from the first tranche.

Subsequent to August 31, 2012 the Company had 10,309,777 share purchase warrants with an exercise price of \$0.14 expire unexercised.

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15. Conversion to IFRS:

The Company adopted IFRS on December 1, 2011 with transition date of December 1, 2010 (the "Transition Date"). Under IFRS 1 *"First-time Adoption of International Financial Reporting Standards"*, the standards are applied retrospectively at the Transition Date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to deficit unless certain exemptions applied. These were no material adjustments on adopting IFRS.

Please refer to the Company's February 29, 2012 condensed interim financial statements for reconciliations of the consolidated statements of financial position as at December 1, 2010 and November 30, 2011 and the consolidated statement of loss and comprehensive loss for the year ended November 30, 2011.

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15. Conversion to IFRS (continued):

(a) Reconciliation between IFRS and Canadian GAAP

Reconciliation of assets, liabilities and equity

	Note	Cdn GAAP	August 31, 2011 Adj	IFRS
Assets				
Current assets				
Cash		1,429,603	-	1,429,603
Amounts receivable		249,802	-	249,802
Prepaid expenses		47,606	-	47,606
Note receivable		110,333	-	110,333
Total current assets		1,837,344	-	1,837,344
Equipment		204,546	-	204,546
Exploration and evaluation properties	(ii)	14,792,588	(1,471,847)	13,320,741
Investment in associated company		3,726,000	-	3,726,000
Note receivable		96,250	-	96,250
Total assets		20,656,728	(1,471,847)	19,184,881
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		130,094	-	130,094
Deferred tax liability	(ii)	3,023,000	(790,000)	2,233,000
Total liabilities		3,153,094	(790,000)	2,363,094
Shareholders' equity				
Share capital		23,470,489	-	23,470,489
Share purchase warrants reserve		661,348	-	661,348
Share-based payment reserve	(i)	4,787,211	(3,540,874)	1,246,337
Accumulated deficit	(i)	(11,415,414)	2,859,027	(8,556,387)
Total shareholder's equity		17,503,634	(681,847)	16,821,787
Total liabilities and shareholders' equity		20,656,728	(1,471,847)	19,184,881

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15. Conversion to IFRS (continued):

(a) Reconciliation between IFRS and Canadian GAAP (continued)

Reconciliation of loss and comprehensive loss

	Note	Three Months ended August 31,			Nine Months ended August 31,		
		2011			2011		
		Cdn GAAP	Adj	IFRS	Cdn GAAP	Adj	IFRS
General and administrative expenses							
Accounting and legal		84,905	-	84,905	148,009	-	148,009
Amortization		6,266	-	6,266	26,276	-	26,276
Insurance		11,195	-	11,195	20,030	-	20,030
Management fees and salaries		189,259	-	189,259	536,880	-	536,880
Office expenses		40,870	-	40,870	89,671	-	89,671
Operating expenses		5,914	-	5,914	16,037	-	16,037
Regulatory and filing fees		17,304	-	17,304	39,747	-	39,747
Rent		8,028	-	8,028	37,621	-	37,621
Investor relations		78,359	-	78,359	252,821	-	252,821
Share-based payments		54,025	-	54,025	944,238	-	944,238
Business development		73,936	-	73,936	216,921	-	216,921
		570,061	-	570,061	2,328,251	-	2,328,251
Loss before undernoted items		(570,061)	-	(570,061)	(2,328,251)	-	(2,328,251)
Other income (expenses)							
Other income		-	-	-	4,829	-	4,829
Interest expense		(2,511)	-	(2,511)	(8,242)	-	(8,242)
Accretion income		2,583	-	2,583	2,583	-	2,583
Gain on sale of investment		3,930,000	-	3,930,000	3,930,000	-	3,930,000
Loss on disposal of properties		(464,177)	-	(464,177)	(464,177)	-	(464,177)
Loss on foreign exchange		(25,024)	-	(25,024)	(50,831)	-	(50,831)
		3,440,871	-	3,440,871	3,414,162	-	3,414,162
Net income before taxes for the period		2,870,810	-	2,870,810	1,085,911	-	1,085,911
Total comprehensive income for the period		2,870,810	-	2,870,810	1,085,911	-	1,085,911

The restatement from Canadian GAAP to IFRS for the three and nine months ended August 31, 2011 had no impact on the reported cash flows generated by the Company, therefore no reconciliation has been presented.

i. Expired options and warrants

On transition to IFRS, the Company elected to change its accounting policy for the treatment of expired options and warrants whereby amounts recorded for expired, unexercised stock options and warrants are transferred to deficit. Previously, these amounts were recorded in contributed surplus. As a result of this change, contributed surplus and deficit decreased by \$3,540,874 as at August 31, 2011.

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15. Conversion to IFRS (continued):

(a) Reconciliation between IFRS and Canadian GAAP (continued)

ii. Deferred income taxes

The Company has recognized deferred tax on temporary differences arising on acquisitions of assets where the carrying amount of the assets acquired exceeded the tax base. IFRS provides for a specific exemption from recording a deferred tax liability on initial recognition when the transaction is not a business combination and at the time of the transaction, affects neither accounting profit/loss nor tax profit/loss. As the acquisition of certain exploration and evaluation assets meets the IFRS exemption criteria, the recognition of deferred tax liabilities in relation to these assets acquired under Canadian GAAP is reversed under IFRS resulting in a \$1,471,847 reduction in exploration and evaluation assets and a \$1,471,847 reduction in the deferred tax liability as at August 31, 2011.

Under IFRS, in the determination of temporary differences, the carrying value of non-monetary assets and liabilities is translated into the functional currency at the historical rate and compared to its tax value translated into the functional currency at the current rate. The resulting temporary difference (measured in the functional currency) is then multiplied by the appropriate tax rate to determine the related deferred tax balance.

Under Canadian GAAP, in the determination of temporary differences related to non monetary assets and liabilities, the temporary differences computed in local currency are multiplied by the appropriate tax rate. The resulting deferred income tax amount is then translated into the Company's functional currency if it is different from the local currency.

On transition, the accounting under IFRS related to the determination of temporary differences of foreign currency non-monetary assets resulted in an opening statement of financial position adjustment to increase deferred tax liabilities and the deficit by approximately \$681,847 on transition to IFRS and at August 31, 2011.