

SILVERMET INC.

(An exploration and development stage enterprise)

CONSOLIDATED FINANCIAL STATEMENTS

**NINE MONTHS ENDED SEPTEMBER 30, 2008
(UNAUDITED)**

Silvermet Inc.

(An exploration and development stage enterprise)

Management's Responsibility for Financial Reporting

The consolidated financial statements were prepared by the management of Silvermet Inc., reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Management is responsible for the presentation of the consolidated financial statements and believes that they fairly represent the Company's financial position and the results of its operations in accordance with Canadian generally accepted accounting principles. Management has included amounts in the Company's financial statements based on estimates, judgments, and policies that it believes reasonable in the circumstances.

The interim consolidated financial statements have not been reviewed by the Company's auditors.

SILVERMET INC.

(An Exploration and Development Stage Enterprise)

Consolidated Balance Sheets

	Sept. 30, 2008 (unaudited)	December 31, 2007 (audited)
ASSETS		
Current		
Cash and cash equivalents	\$ 1,531,149	\$ 4,689,882
Accounts receivable (note 11(a))	231,790	157,835
Prepaid expenses	83,707	107,039
Investment (note 3)	23,333	81,667
	<u>1,869,979</u>	<u>5,036,423</u>
Deferred exploration expenditures (note 4)	-	8,130,270
Deferred development costs (note 5)	-	2,594,305
Equipment	55,379	65,380
Long term investment (note 4)	285,348	282,931
	<u>\$ 2,210,706</u>	<u>\$ 16,109,309</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 716,744	\$ 1,425,235
	<u>716,744</u>	<u>1,425,235</u>
SHAREHOLDERS' EQUITY		
Share capital (note 6)	13,489,164	12,518,388
Contributed surplus	1,918,922	1,802,676
Warrants (note 7)	2,530,467	2,462,848
Deficit	(16,444,591)	(2,099,838)
	<u>1,493,962</u>	<u>14,684,074</u>
	<u>\$ 2,210,706</u>	<u>\$ 16,109,309</u>

Going concern (note 1)**Commitments (note 10)**

On behalf of the Board:

"Stephen G. Roman"

Stephen G. Roman

"Charles Vickers"

Charles Vickers

See accompanying notes to consolidated financial statements

SILVERMET INC.

(An Exploration and Development Stage Enterprise)

**Consolidated Statements of Loss and Comprehensive Loss and Deficit
(Unaudited)**

	Three months ended		Nine months ended		Cumulative from
	Sept. 30,	Sept. 30,	Sept. 30,	Sept. 30,	inception on
	2008	2007	2008	2007	January 31, 2005
REVENUE					
Interest income	\$ 12,838	\$ 82,549	\$ 64,359	\$ 112,247	\$ 243,484
EXPENSES					
Amortization	4,797	6,634	14,391	8,661	34,927
Bank charges	865	333	1,373	6,322	9,718
Listing fees	-	53,365	14,195	55,538	88,413
Management fees (note 11(b))	70,000	46,440	161,000	118,940	323,440
Office and general	41,928	28,042	179,567	109,152	386,476
Professional fees (note 11(f))	70,308	73,362	215,324	237,383	1,259,613
Promotion and investor relations	7,227	5,731	20,562	16,162	91,967
Rental and occupancy (note 11(a))	25,421	16,841	59,547	40,272	179,788
Stock option expense (note 8)	32,446	114,640	32,446	626,576	789,992
Travel	8,183	6,813	42,942	23,509	374,117
Foreign exchange loss (gain)	(9,157)	157	16,113	423	30,921
Loss (gain) on investment (note 3)	15,000	(61,667)	58,334	(11,667)	120,000
Wages and benefits	39,875	52,120	123,549	109,374	383,373
Reverse takeover costs	-	-	-	-	271,569
Impairment provision (notes 4 & 5)	14,433,129	-	14,433,129	-	14,433,129
Borrowing costs (note 11(d))	-	-	-	102,743	158,543
	14,740,022	342,811	15,372,472	1,443,388	18,935,986
Loss before income taxes	(14,727,184)	(260,262)	(15,308,113)	(1,331,141)	(18,692,502)
Future income tax recovery (note 9)	-	-	963,360	439,020	1,402,380
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(14,727,184)	(260,262)	(14,344,753)	(892,121)	(17,290,122)
Deficit, beginning of period	(1,717,407)	(1,623,615)	(2,099,838)	(1,035,089)	-
Effect of adopting new accounting policy	-	-	-	43,333	43,333
Recapitalization adjustment	-	-	-	-	(51,287)
Reduction in stated capital	-	-	-	-	853,485
Deficit, end of period	\$ (16,444,591)	\$ (1,883,877)	\$ (16,444,591)	\$ (1,883,877)	\$ (16,444,591)
Basic and diluted income (loss) per share	(\$0.17)	(\$0.00)	(\$0.18)	(\$0.02)	
Weighted average number of shares outstanding (basic)	88,042,550	73,278,182	80,891,532	58,546,409	

Going concern (note 1)

See accompanying notes to consolidated financial statements

SILVERMET INC.

(An Exploration and Development Stage Enterprise)

**Consolidated Statements of Cash Flows
(Unaudited)**

	Three months ended		Nine months ended		Cumulative from
	Sept. 30,	Sept. 30,	Sept. 30,	Sept. 30,	inception on
	2008	2007	2008	2007	January 31, 2005
OPERATING ACTIVITIES					
Net income (loss)	\$ (14,727,184)	\$ (260,262)	\$ (14,344,753)	\$ (892,121)	\$ (17,290,122)
Add items not affecting cash:					
Future income tax recovery	-	-	(963,360)	(439,020)	(1,402,380)
Stock option expense	32,446	114,640	32,446	626,576	789,992
Impairment provision (notes 4 & 5)	14,433,129	-	14,433,129	-	14,433,129
Warrants issued as consideration for short-term loan (note 11(d))	-	-	-	102,743	158,543
Unrealized loss(gain) on investment (note 3)	15,000	(61,667)	58,334	(11,667)	120,000
Amortization	4,797	6,634	14,391	8,661	34,927
	(241,812)	(200,655)	(769,813)	(604,828)	(3,155,911)
Net changes in non-cash working capital balances:					
Receivables	18,697	(234,889)	(73,955)	(182,796)	(264,020)
Prepaid expenses	54,798	6,553	23,332	(69,067)	(51,174)
Accounts payable and accrued liabilities	(369,951)	398,424	(708,491)	1,154,659	(629,032)
Due to a shareholder	-	-	-	(26,709)	-
	(538,268)	(30,567)	(1,528,927)	271,259	(4,100,137)
FINANCING ACTIVITIES					
Shares issued for cash	-	1,084,000	1,641,930	10,673,000	18,928,331
Share issue costs	-	(61,079)	(143,042)	(559,872)	(1,200,425)
Debt repayment	-	-	-	-	(2,206)
Short-term loan proceeds (note 11(d))	-	-	-	250,000	250,000
Short-term loan repayment (note 11(d))	-	-	-	(50,000)	(50,000)
Warrants exercised	-	-	586,667	276,500	863,167
Cash received from reverse takeover	-	-	-	-	4,660
	-	1,022,921	2,085,555	10,589,628	18,793,527
INVESTING ACTIVITIES					
Deferred exploration expenditures	(545,559)	(2,145,927)	(1,732,077)	(4,272,914)	(15,898,980)
Deferred development costs	(202,667)	(757,240)	(1,976,477)	(1,104,748)	3,210,517
Acquisition of equipment	(1,855)	(62,938)	(4,390)	(64,211)	(88,430)
Long term investment	40	(279,862)	(2,417)	(279,862)	(385,348)
	(750,041)	(3,245,967)	(3,715,361)	(5,721,735)	(13,162,241)
INCREASE IN CASH AND CASH EQUIVALENTS					
CASH, BEGINNING OF PERIOD	(1,288,309)	(2,253,613)	(3,158,733)	5,139,152	1,531,149
CASH, END OF PERIOD	\$ 1,531,149	\$ 6,603,531	\$ 1,531,149	\$ 6,603,531	\$ 1,531,149

See accompanying notes to consolidated financial statements

SILVERMET INC.

(An exploration and development stage enterprise)

Notes to Consolidated Financial Statements **For the nine months ended September 30, 2008 and 2007** **(Unaudited)**

1. NATURE OF OPERATIONS AND GOING CONCERN

Silvermet Inc. (the “Company”) is a corporation continued under the laws of Ontario and its principal business activity is mineral exploration and development. These financial statements reflect the results of operations for the three and nine month periods ended September 30, 2008 and 2007, and assets, liabilities and shareholders’ equity as at September 30, 2008 and December 31, 2007.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business. The Company is in the exploration and development stage and is subject to the risks and challenges similar to other companies in a comparable stage of development. These risks include, but are not limited to, dependence on key individuals, successful development and the ability to secure adequate financing to meet the minimum capital required to successfully complete projects and continue as a going concern. There is no assurance that these initiatives will be successful and as a result, there is substantial doubt regarding the going concern assumption. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated financial statements have been prepared in accordance with Canadian GAAP for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

The interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual audited consolidated financial statements for the year ended December 31, 2007 and the new accounting standards described below. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2007.

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on January 1, 2008.

Capital Disclosures

Handbook Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in note 12 to these interim financial statements.

Financial Instruments

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in note 13 to these interim financial statements.

3. INVESTMENT

The Company holds an investment in Logan Resources Ltd., which trades on the TSXV. The investment is classified as a held-for-trading instrument, and accordingly, is recorded at its quoted market value on the Balance Sheet, of \$0.07 per share. For the nine months ended September 30, 2008 the Company recorded an unrealized loss of \$58,334 on the Statement of Loss as a result of the change in market value of the investment, including a loss of \$15,000 during the three months ended September 30, 2008.

4. DEFERRED EXPLORATION EXPENDITURES AND LONG TERM INVESTMENT

Deferred Exploration Expenditures

Year Ended December 31, 2007	Canada	Turkey	Total
	Muskox	Tufanbeyli	
Property acquisition costs			
Balance, December 31, 2006	\$ 545,441	\$ 119,741	\$ 665,182
Acquisition costs	106,607	80,642	187,249
Total acquisition costs	652,048	200,383	852,431
Deferred exploration costs			
Balance, December 31, 2006	574,182	1,350,447	1,924,629
Project management	56,357	-	56,357
Drilling	2,794,654	1,027,574	3,822,228
Assaying	217,794	39,980	257,774
Geophysics, geology and mapping	334,019	7,930	341,949
Camp	377,147	34,440	411,587
Travel	19,169	55,487	74,656
Licenses and permits	-	77,064	77,064
Filing and assessments	-	26,695	26,695
Stock-based compensation	283,652	-	283,652
Miscellaneous	50	1,198	1,248
Total deferred exploration costs	4,657,024	2,620,815	7,277,839
Balance, December 31, 2007	\$ 5,309,072	\$ 2,821,198	\$ 8,130,270

Nine Months Ended September 30, 2008	Canada	Turkey	Total
	Muskox	Tufanbeyli	
Property acquisition costs			
Balance, December 31, 2007	\$ 652,048	\$ 200,383	\$ 852,431
Acquisition costs	6,632	-	6,632
Total acquisition costs	<u>658,680</u>	<u>200,383</u>	<u>859,063</u>
Deferred exploration costs			
Balance, December 31, 2007	4,657,024	2,620,815	7,277,839
Project management	74,078	291,897	365,975
Drilling	342,659	610,959	953,618
Assaying	61,449	56,741	118,190
Geophysics, geology and mapping	120,430	-	120,430
Camp	83,335	13,348	96,683
Travel	-	10,244	10,244
Licenses and permits	15,994	18,266	34,260
Filing and assessments	-	17,146	17,146
Miscellaneous	8,898	-	8,898
Total deferred exploration costs	<u>5,363,867</u>	<u>3,639,416</u>	<u>9,003,283</u>
Impairment provision	<u>(6,022,547)</u>	<u>(3,839,799)</u>	<u>(9,862,346)</u>
Balance, September 30, 2008	\$ -	\$ -	\$ -

Muskox Option Agreement

The Company entered into an option agreement, dated December 7, 2005, with Prize Mining Corporation (“Prize”) and Muskox Holdings Ltd. (“Muskox”) to earn a 70% interest and be the operator of the Muskox Property. The Muskox Property is an early-stage copper-nickel-platinum group exploration property in Nunavut.

Under the terms of the option agreement, the Company is required to make the following payments:

- (a) Fund \$10 million of expenditures by December 7, 2010 of which at least \$4 million must be funded by June 30, 2008, which requirement has been met.
- (b) Fund the cost of a technical report in respect of projected expenditures and provide this report to Prize by July 31, 2008, which report has been provided.
- (c) Payment of \$50,000 upon signing of the agreement and make payments in escrow in the sum of \$150,000 by April 1, 2006 and a further \$150,000 by June, 2006. These amounts have been paid.

Within 30 days of the Company earning and acquiring its 70% interest in the Muskox Property, Muskox has the option to transfer to the Company its 30% interest in the property in return for a 10% net profits interest on the entire property. Within 30 days of receiving notice from Muskox, the Company has the option to purchase 50% of the net profits interest for \$5 million. The Muskox Property is subject to two royalties held by arm’s length parties equal to 2.5% and 3%, respectively, of the proceeds from the mining of metals and minerals on the property.

The Company has the right to terminate this agreement upon providing 6 months written notice to Prize. Upon termination of the agreement, no further expenditures are required.

Exploration and development of the Muskox Property will likely be a lengthy process, requiring significant investment. In view of the downturn in the global economy and commodity prices, and the resultant impact on the Company’s ability to raise equity funds to support on-going work on the Muskox Property, the Company has concluded that there is significant uncertainty about the fair value of its investment and its ability to recover the exploration expenditures that are recorded as a long lived asset on its balance sheet. Accordingly, an impairment provision has been recorded against the carrying value of the Muskox Property. The Company expects to expense any future costs related to the Muskox Property as such costs are incurred.

Tufanbeyli Property Option Agreement

The Company entered into an option agreement, dated June 21, 2005, with Anatolia Minerals Development Limited (“Anatolia”) and other related companies of Anatolia to earn and acquire a 65% interest in and be the operator of the

Tufanbeyli Property, a zinc exploration project in Turkey. The Company has chosen to discontinue any further exploration work on the Tufanbeyli Property and accordingly, an impairment provision has been recorded against the deferred exploration expenditures related to this property.

Long Term Investment

In connection with the Muskox Option Agreement, the Company holds an Inuit Owned Lands (“IOL”) license, issued by the Kitikmeot Inuit Association (“KIA”) which expires on October 1, 2009. The IOL license allows the Company to enter upon, and conduct exploration and drilling work on land over which the KIA holds title to. In connection with the license, the Company deposited a letter of credit in the amount of \$280,000 as security. Under the license, the KIA may draw upon the letter of credit if certain environmental conditions of the license are breached. The letter of credit has not been drawn upon and no conditions of the license have been breached. As security for the letter of credit, the Company has deposited \$280,000 with the bank that issued the letter of credit. At September 30, 2008, this deposit is invested in a bankers’ acceptance amounting to \$285,388 and has been classified as a long term investment on the balance sheet.

5. DEFERRED DEVELOPMENT COSTS

In 2006, the Company engaged SNC Lavalin Inc. (“SNC”) to prepare a Capital and Operating Cost Study for a Waelz Kiln Project, including a zinc oxide ore upgrading plant in Turkey. The study included the costs for SNC to monitor and control the expenses of outside specialists and consultants in Germany and Turkey.

Balance, December 31, 2006	\$	441,504
Project management		163,850
Reports and studies		872,800
Assaying		80,760
Geophysics, geology and mapping		377,536
Travel		353,389
Stock-based compensation		171,158
Miscellaneous		133,308
Balance, December 31, 2007	\$	2,594,305
Project management		215,359
Reports and studies		1,358,487
Assaying		47,744
Geophysics, geology and mapping		77,649
Travel		223,892
Stock-based compensation		-
Miscellaneous		53,345
Impairment provision		-4,570,781
Balance, September 30, 2008	\$	-

In view of current global financial conditions and the Company’s strategic shift away from the processing of zinc oxide ores to only the processing of electric arc furnace dust (“EAFD”), the Waelz Kiln sizing and location has been changed from that contemplated in the SNC study. Furthermore, the Company now believes that its initial entry to the market for processing EAFD in Turkey will now occur by way of an acquisition (see Note 16), rather than a Greenfield project. While the knowledge gained in its analysis and study of the Kayseri Waelz Kiln Project is of some value, the Company has concluded that it is inappropriate to carry forward the deferred development costs on the Waelz Kiln study that relate to the Kayseri location and accordingly, has recorded an impairment provision against such costs.

6. SHARE CAPITAL

Authorized:

Unlimited common shares

Issued and Outstanding:

	Number	Amount
Silvermet Inc.		
As at December 31, 2006	46,258,855	\$ 4,374,453
Renunciation of flow-through expenditures	-	(439,020)
Exercise of broker warrants	321,665	134,456
Exercise of Unit warrants	400,000	212,800
Issue of Flow-through shares for cash (i)	6,085,000	2,434,000
Issue of Units for cash (i)	5,400,000	2,160,000
Issue of Units for cash (i)	10,300,000	4,120,000
Issue of Flow-through shares for cash (i)	2,835,000	1,134,000
Issue of Units for cash (i)	2,062,500	825,000
Shareholder loan conversion (ii)	500,000	200,000
Allocated to warrants	-	(1,821,346)
Allocated to broker warrants	-	(231,629)
Share issue costs	-	(447,657)
Allocated to warrants	-	(17,997)
Share issue costs	-	(118,672)
Balance as at December 31, 2007	74,163,020	\$ 12,518,388
Renunciation of flow-through expenditures	-	(963,360)
Issue of Units for cash (i)	7,740,198	1,161,030
Issue of Units for cash (i)	3,205,999	480,900
Allocated to warrants	-	(175,521)
Allocated to warrants	-	(85,992)
Allocated to broker warrants	-	(95,240)
Share issue costs	-	(143,042)
Exercise of Unit warrants	2,933,333	792,000
Balance as at September 30, 2008	88,042,550	\$ 13,489,164

(i) *Equity Offerings, 2007 & 2008*

On May 25, 2007, the Company closed a private placement of 6,085,000 flow-through common shares at an issue price of \$0.40 per flow-through common share for gross proceeds of \$2,434,000 and 5,400,000 Units comprised of one common share and one-half of one common share purchase warrant at an issue price of \$0.40 per unit for gross proceeds of \$2,160,000. Each whole warrant entitles the holder to acquire one common share at an exercise price of \$0.50 per share. The warrants are exercisable until expiry on November 25, 2008. The estimated fair value of the warrants was \$576,826 (note 7), which has been allocated to the warrant component of the Units.

On May 25, 2007, the Company closed a non-brokered private placement of 10,300,000 Units with Greyling Investments Inc., a company controlled by a director, on the same terms as the brokered placement above for gross proceeds of \$4,120,000 (note 11(e)). The estimated fair value of the warrants was \$1,100,242 (note 7), which has been allocated to the warrant component of the Units.

On August 16, 2007, the Company closed a non-brokered private placement with identical terms to the May 25, 2007 issue. The Company issued 2,835,000 flow-through common shares at an issue price of \$0.40 per flow-through common share for gross proceeds of \$1,134,000 and 2,062,500 Units comprised of one common share and one-half of one common share purchase warrant at an issue price of \$0.40 per Unit for gross proceeds of \$825,000. Each whole warrant entitles the holder to acquire one common share at an exercise price of \$0.50 per share. The warrants are exercisable until expiry on February 16, 2009. The estimated fair value of the warrants was \$162,275 (note 7) which has been allocated to the warrant component of the Units.

On April 30, 2008, the Company closed a private placement of 7,740,198 units (“Units”) at a price of \$0.15 per Unit for aggregate gross proceeds of approximately \$1,161,030. Each Unit consists of one common share and one half of one purchase warrant. Each whole warrant entitles the holder thereof to purchase one additional common share at a price of \$0.25 for a period of twelve months following the closing of the placement. The estimated fair value of the warrants was \$175,521 (note 7) which has been allocated to the warrant component of the Units.

On June 6, 2008, the Company closed a private placement of 3,205,999 units (“Units”) at a price of \$0.15 per Unit for aggregate gross proceeds of approximately \$480,900. Each Unit consists of one common share and one half of one purchase warrant. Each whole warrant entitles the holder thereof to purchase one additional common share at a price of \$0.25 for a period of twelve months following the closing of the placement. The estimated fair value of the warrants was \$85,991 (note 7) which has been allocated to the warrant component of the Units.

(ii) Shareholder Loan Conversion

As described in note 11 (d), on April 12, 2007 companies related to two directors loaned \$250,000 to the Company for working capital purposes. On May 25, 2007, \$200,000 of the loan was converted to 500,000 common shares at \$0.40 per share. The balance of \$50,000 was repaid on May 30, 2007.

7. WARRANTS

	Number	Value	Weighted Average Exercise Price	Expiry
Balance as at December 31, 2006	11,144,996	\$ 950,209	\$ 0.36	
Broker warrants exercised	(321,665)	(37,956)	0.30	June 29, 2007
Broker warrants expired	(1,273,332)	(150,253)	0.30	June 29, 2007
Unit warrants exercised	(400,000)	(32,800)	0.45	June 29, 2007
Unit warrants expired	(5,366,666)	(440,067)	0.45	June 29, 2007
Unit warrants (i)	2,700,000	576,826	0.50	November 25, 2008
Unit warrants (i)	5,150,000	1,100,242	0.50	November 25, 2008
Unit warrants (i)	843,750	144,278	0.50	December 30, 2008
Broker warrants (i)	689,100	206,698	0.40	May 31, 2009
Warrants issued as loan consideration (ii)	312,500	102,743	0.40	October 12, 2008
Unit warrants (i)	187,500	17,997	0.50	February 16, 2009
Broker warrants (i)	229,500	24,931	0.40	August 16, 2009
Balance as at December 31, 2007	13,895,683	\$ 2,462,848	\$0.42	
Unit warrants exercised	(2,933,333)	(205,333)	0.20	June 29, 2008
Unit warrants expired	(400,000)	(28,000)	0.20	June 29, 2008
Warrants expired	(450,000)	(55,800)	0.50	June 29, 2008
Unit warrants	3,870,099	175,521	0.25	April 30, 2009
Unit warrants	1,602,999	85,991	0.25	June 6, 2009
Broker warrants	1,094,619	95,240	0.15	December 6, 2009
Balance as at September 30, 2008	16,680,067	\$ 2,530,467	\$0.39	

(i) The Unit warrants issued during 2007, with expiry dates of November 25, 2008, December 30, 2008, and February 16, 2009, and the Broker warrants issued with expiry dates of May 31, 2009 and August 16, 2009, were the result of the 2007 equity offerings (note 6).

(ii) The warrants issued as loan consideration, with an expiry date of October 12, 2008, were issued to companies related to two directors of the Company (note 11 (d)).

(iii) The Unit warrants issued during 2008, with expiry dates of April 30 and June 6, 2009, and, and the Broker warrants issued with expiry dates of December 6, 2009, were the result of the 2008 equity offerings (note 6).

The fair market values of the warrants are estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	2.74 – 4.65%
Expected dividend yield	NIL
Expected stock price volatility	100% - 129%
Expected life	1 - 2 years

8. STOCK OPTION PLAN

The Company has established a stock option plan for directors, officers, consultants, and other service providers. The plan limits the number of common shares reserved for issuance under the plan to a number which is equal to 10% of the number of common shares outstanding. All options vest immediately on issuance.

The Company had the following options outstanding and exercisable:

	Number of Options	Allocated Value	Weighted Average Exercise Price
Balance, December 31, 2006	4,100,000	123,000	\$ 0.15
Options issued	1,470,000	511,936	0.50
Options issued (i)	800,000	283,652	0.44
Options issued	1,120,000	293,768	0.50
Balance, December 31, 2007 and June 30, 2008	7,490,000	\$ 1,212,356	\$ 0.30
Options expired	(820,000)	(91,616)	0.28
Options issued	450,000	32,446	0.15
Balance September 30, 2008	7,120,000	\$ 1,153,186	\$ 0.29

Number of Options	Exercise Price Per Share	Expiry Date
2,500,000	\$ 0.15	May 18, 2010
450,000	\$ 0.15	July 24, 2013
1,100,000	\$ 0.15	October 5, 2010
800,000	\$ 0.44	May 28, 2012
2,270,000	\$ 0.50	May 31, 2012

(i) The market value of the Company's stock on the date of grant was greater than the exercise price of these options. For all other options, the market price of the Company's stock on the date of grant was less than the exercise price of the related options.

The fair market value of stock options used to calculate stock option expense is estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	3.37 – 4.55%
Expected dividend yield	NIL
Expected stock price volatility	100% - 120%
Expected life	5 years

9. INCOME TAXES

As tax deductible expenditures exceed taxable revenue in the periods, taxable income is nil. Based upon the level of historical taxable income, it cannot be reasonably determined at this time that it is more likely than not that the Company will realize the benefits from future income tax assets or the amounts owing from current and future income tax liabilities.

Consequently, the future recovery or loss arising from differences in tax values and accounting values has been reduced by an equivalent estimated taxable temporary difference valuation allowance. The estimated taxable temporary difference valuation allowance will be adjusted at such future date that it is determined that it is more likely than not that some portion or all of the future tax assets or future tax liabilities will be realized.

During the first quarter of 2008, the Company renounced \$3,568,000 of Canadian exploration expenditures to the holders of flow-through shares. Applying the expected income tax rate of 27% results in a future tax liability of \$963,360, which was charged to Share Capital in 2008. The Company released valuation allowances on non-capital losses which are expected to be realized against the future tax liability, which is shown on the Statements of Loss as a future income tax recovery in 2008.

During the first quarter of 2007, the Company renounced \$1,625,999 of Canadian exploration expenditures to the holders of flow-through shares. Applying the expected income tax rate of 27% results in a future tax liability of \$439,020, which was charged to Share Capital in 2007. The Company released valuation allowances on non-capital losses which are expected to be realized against the future tax liability, which is shown on the Statements of Loss as a future income tax recovery in 2007.

10. COMMITMENTS

a) The Company has entered into a lease agreement for a period of five years commencing July 1, 2007 and ending June 30, 2012. The annual commitments are estimated as follows:

2008	\$210,654
2009	\$213,454
2010	\$216,255
2011	\$219,055
2012	\$110,228

Companies with a director or directors in common, share the office space and reimburse the Company for a share of the rent and salaries.

b) The Company raised \$3,568,000 in 2007 from the issue of flow-through shares of which \$256,000 must be expended in the final three months of 2008 (see Note 6 (i)).

11. RELATED PARTY TRANSACTIONS

a) During the nine months ended September 30, 2008, the Company received reimbursement for rent, salary and other expenses from companies with a director, or directors, in common to Silvermet Inc. These transactions were conducted in the normal course of business on terms that approximate market value and measured at the exchange amounts. The Company charged a total of \$106,331 (nine months ended September 30, 2007 - \$58,370) during the year to the related companies concerning these expenses. Included in receivables is \$34,582 (\$51,664 at December 31, 2007) related to these amounts which are due on demand.

b) During the three months ended September 30, 2008 the Company accrued or paid \$70,000 (three months ended September 30, 2007 - \$46,400) to related parties or companies controlled by related parties for management services provided to the Company. These transactions were in the normal course of operations and recorded at exchange value.

c) The amount of \$26,709 due to a shareholder, in accordance with a February 1, 2003 agreement, was repaid during the first quarter of 2007.

d) In April 2007, two companies related to two directors of the Company loaned \$250,000 to the Company for working capital purposes. The loans were evidenced by convertible promissory notes with a term of one year with

simple interest at the rate of 1% per month. Each promissory note granted a right of conversion to its holder pursuant to which the holder had the right to convert the outstanding principal amount of the promissory note into common shares of the Company at a conversion price equal to the greater of \$0.40 or the issue price per security on the Company's next financing. In consideration for granting the loan, the Company issued common share purchase warrants ("Warrants") to the shareholders to acquire up to an aggregate of 312,500 common shares of the Company. Each Warrant entitles the holder to acquire one common share of the Company until expiry on October 12, 2008, at an exercise price per share of the greater of \$0.40 or the issue price per security on the Company's next financing. The estimated fair value of these warrants was \$102,743 and was recorded as short-term borrowing costs. As part of the financing completed on May 25, 2007, described under note 6, \$200,000 of the loan was converted to 500,000 common shares. The balance of \$50,000 was repaid on May 30, 2007.

e) On May 25, 2007, the Company closed a non-brokered private placement of 10,300,000 units with Greyling Investments Inc., a company controlled by a director, for gross proceeds of \$4,120,000. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.50 per share. Warrants are exercisable until expiry on November 25, 2008.

f) For the three months ended September 30, 2008, the Company accrued fees of \$56,079 to the law firm of which a current director of the Company is a partner (three months ended September 30, 2007, \$54,304 was paid to a law firm of which a former director was a partner).

12. CAPITAL MANAGEMENT

The Company's primary objectives when managing capital are to (a) safeguard the Company's ability to explore and develop mineral properties and related projects in which it has an interest, and (b) provide a sound capital structure for raising capital at a reasonable cost for the funding of ongoing exploration, development and new growth initiatives. The Board of Directors does not establish quantitative capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has interests are in the exploration and development stage. The Company is dependent on external financing to fund its activities. In order to carry out planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

13. FINANCIAL INSTRUMENTS

Risk Management

The Company has exposure to the following risks associated with its financial instruments.

Currency Risk

The Company operates internationally and is exposed to foreign exchange risk as certain expenditures are denominated in non-Canadian dollar currencies. The exposure is predominantly to the Turkish Lira (TRY). TRY denominated balances generate foreign exchange gains and losses that are reported on the Statement of Operations. A strengthening of \$0.01 in the Canadian Dollar against the Turkish Lira would not have a material impact on net loss.

Balances in non-Canadian dollar currencies are as follows:

	Turkish Lira
Cash and cash equivalents	38,319
Accounts receivable	53,889
Accounts payable and accrued liabilities	13,856
	<u>106,064</u>

Interest Rate Risk

The Company has cash balances and no interest-bearing debt. The Company currently invests its excess cash in short-term bankers' acceptances issued by Canadian banking institutions. The Company manages its interest rate risk on these investments by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest on cash and cash equivalents do not have a significant impact on the Company's results of operations due to the short term maturity of the investments. The effect of a one basis point increase or decrease on the short-term investments to net loss is not material.

Credit Risk

The Company's credit risk is primarily attributable to bankers' acceptances and accounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of bankers' acceptances that have been invested with a Canadian banking institution with short-term maturities. Management believes the risk of loss is remote. Accounts receivable consist of goods and services tax due from the Federal Government of Canada, refundable VAT in respect of Turkish operations and an amount due from related parties (note 11). Management believes that the credit risk associated with accounts receivable is remote.

Liquidity Risk

The Company manages its liquidity risk by preparing and monitoring forecasts of cash expenditures to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities generally have maturities of less than 90 days. At September 30, 2008, the Company had cash and cash equivalents of \$1,531,149 to settle current liabilities of \$716,744.

14. SEGMENTED INFORMATION

a) Operating Segment

The Company's only operating segment is the acquisition, exploration and development of mineral resource properties.

b) Geographic Information

Details of these operations by geographic areas are as follows:

(Loss) gain for the nine months ended September 30,	2008	2007
Canada	\$ (5,925,770)	\$ (892,121)
Turkey	(8,418,983)	-
	<u>\$ (14,344,753)</u>	<u>\$ (892,121)</u>
	Sept 30,	December 31,
Location of assets	2008	2007
Canada	\$ 2,111,745	\$ 10,659,765
Turkey	98,961	5,449,544
Total assets	<u>\$ 2,210,706</u>	<u>\$ 16,109,309</u>

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. Net loss previously reported has not been affected by this reclassification.

16. SUBSEQUENT EVENT

On October 31, 2008, the Company entered into an Agreement to acquire Metoks Madencilik Metalurji Tasimacilik Sanayi ve Ticaret A.S. ("Metoks"), an existing Waelz kiln operation in Turkey for a purchase price of US \$9 million. Under the Agreement, Silvermet will assume the Metoks' liabilities of US \$4.9 million and the balance of US \$4.1 million will be paid to the owners of Metoks over 5 years. The Agreement is subject to satisfactory completion of due diligence by Silvermet. Silvermet's acquisition of Metoks is expected to close by January 31, 2009.