MEGA SILVER INC.

(FORMERLY TREAT SYSTEMS INC.)

(A DEVELOPMENT STAGE COMPANY)

INTERIM FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008

(EXPRESSED IN CANADIAN DOLLARS UNLESS OTHERWISE NOTED)

(UNAUDITED)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements of Mega Silver Inc. (A Development Stage Company) (formerly Treat Systems Inc.) were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the December 31, 2007 audited financial statements. Only changes in accounting policies have been disclosed in these unaudited interim financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company’s circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim financial statements and (ii) the unaudited interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

NOTICE TO READER

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 the financial statements have not been reviewed by an auditor.

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 unaudited interim 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.

MEGA SILVER INC.
(FORMERLY TREAT SYSTEMS INC.)
(A DEVELOPMENT STAGE COMPANY)
Interim Balance Sheets
(Expressed in Canadian Dollars unless otherwise noted)
(Unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	**$ 53,008**	$ 811,736
Short term investments	**13,000,000**	-
Subscription receipts proceeds in escrow	**-**	13,000,000
Accounts receivable and prepaids	**452,121**	89,087
	13,505,129	13,900,823
Office equipment (note 5)	**134,301**	-
Mineral property interests (Statement of Mineral Properties and note 6)	**256,012**	-
	$ 13,895,442	$ 13,900,823
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,369,342**	$ 540,016
Shareholders' equity		
Share capital (statement and note 7)	**33,228,516**	18,080,471
Subscription receipts	**-**	12,670,806
Contributed surplus (statement)	**3,244,136**	184,000
Accumulated deficit (statement)	**(23,946,552)**	(17,574,470)
	12,526,100	13,360,807
	$ 13,895,442	$ 13,900,823

Nature and continuance of operations (note 1)
Subsequent event (note 14)

The accompanying notes are an integral part to the unaudited interim financial statements.

MEGA SILVER INC.
(FORMERLY TREAT SYSTEMS INC.)
(A DEVELOPMENT STAGE COMPANY)
Interim Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars unless otherwise noted)
(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Cumulative from inception (January 1, 2008 to September 30, 2008)
Expenses					
Amortization	**$ 6,560**	$ -	**$ 9,203**	$ -	$ 9,203
Investor relations and promotion	**19,471**	-	**86,980**	-	86,980
Office and administration	**87,188**	11,080	**273,397**	29,683	273,397
Professional fees	**45,029**	-	**232,138**	-	232,138
Regulatory fees	**7,216**	-	**33,248**	-	33,248
Salaries and management fees	**108,306**	-	**239,226**	-	239,226
Travel	**19,932**	-	**58,804**	-	58,804
Property examinations	**-**	-	**5,733**	-	5,733
Stock-based compensation (note 8)	**535,011**	428	**2,044,278**	40,801	2,044,278
	828,713	11,508	**2,983,007**	70,484	2,983,007
Net loss before the under noted	**(828,713)**	(11,508)	**(2,983,007)**	(70,484)	(2,983,007)
Interest income	**121,944**	9,570	**365,195**	25,015	365,195
Write-off of mineral properties	**(3,754,270)**	-	**(3,754,270)**	-	(3,754,270)
Net loss and comprehensive loss	**$ (4,461,039)**	$ (1,938)	**$ (6,372,082)**	$ (45,469)	$ (6,372,082)
Loss per share - basic and fully diluted	**$ (0.17)**	$ (0.00)	**$ (0.25)**	$ (0.00)	
Weighted average number of common shares	**26,898,696**	9,709,984	**25,397,615**	9,709,984	

The accompanying notes are an integral part to the unaudited interim financial statements.

MEGA SILVER INC.
(FORMERLY TREAT SYSTEMS INC.)
(A DEVELOPMENT STAGE COMPANY)
Interim Statements of Cash Flows
(Expressed in Canadian Dollars unless otherwise noted)
(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Cumulative from inception (January 1, 2008 to September 30, 2008)
Cash provided by (used in)					
OPERATING ACTIVITIES					
Net loss	**$ (4,461,039)**	$ (1,938)	**$ (6,372,082)**	$ (45,469)	$ (6,372,082)
Items not involving cash:					
Amortization	**6,560**	-	**9,203**	-	9,203
Write-off of mineral properties	**3,754,270**	-	**3,754,270**	-	3,754,270
Stock-based compensation (note 8)	**535,011**	428	**2,044,278**	40,801	2,044,278
	(165,198)	(1,510)	**(564,331)**	(4,668)	(564,331)
Changes in non-cash working capital items					
Amounts receivable and prepaids	**49,563**	18,611	**(363,034)**	12,826	(363,034)
Accounts payable and accrued liabilities	**369,547**	322	**829,326**	6,702	829,326
	253,912	17,423	**(98,039)**	14,860	(98,039)
INVESTING ACTIVITIES					
Acquisition of mineral property interests	**(1,809,010)**	-	**(3,493,532)**	-	(3,493,532)
Redemption (purchase) of short term investments	**1,500,000**	-	**(13,000,000)**	-	(13,000,000)
Purchase of property and equipment	**(85,407)**	-	**(143,504)**	-	(143,504)
	(394,417)	-	**(16,637,036)**	-	(16,637,036)
FINANCING ACTIVITIES					
Securities issued for cash	**-**	-	**3,025,000**	-	3,025,000
Release of subscription receipts proceeds in escrow	**-**	-	**13,000,000**	-	13,000,000
Exercise of options for cash	**-**	-	**137,500**	-	137,500
Share issuance costs	**-**	-	**(186,153)**	-	(186,153)
	-	-	**15,976,347**	-	15,976,347
Change in cash and cash equivalents	**(140,505)**	17,423	**(758,728)**	14,860	(758,728)
Cash and cash equivalents, beginning of period	**193,513**	892,463	**811,736**	895,026	811,736
Cash and cash equivalents end of period	**$ 53,008**	$ 909,886	**$ 53,008**	$ 909,886	$ 53,008

The accompanying notes are an integral part to the unaudited interim financial statements.

MEGA SILVER INC.
(FORMERLY TREAT SYSTEMS INC.)
(A DEVELOPMENT STAGE COMPANY)
Interim Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars unless otherwise noted)
(Unaudited)

	Number of common shares	Nine months ended September 30, 2008	Number of common shares	Year ended December 31, 2007	Number of common shares	Cumulative from inception (January 1, 2008 to September 30, 2008)
Share Capital						
Authorized						
The Company's authorized share capital consists of 100,000,000 common shares						
Common shares issued and outstanding:						
Balance, beginning of period	**9,709,984**	**$ 18,080,471**	9,709,984	$ 18,080,471	9,709,984	$ 18,080,471
Shares issued on conversion of subscription receipts	**13,632,000**	**13,632,000**	-	-	13,632,000	13,632,000
Shares issued to acquire mineral property interests	**525,000**	**516,750**	-	-	525,000	516,750
Flow-through shares issued	**2,750,000**	**3,025,000**	-	-	2,750,000	3,025,000
Shares issued upon exercise of stock options	**300,000**	**137,500**	-	-	300,000	137,500
Fair value of shares issued upon exercise of stock options transferred from contributed surplus	-	**83,000**	-	-	-	83,000
Cost of issue - brokers subscription receipts	**-**	**(632,000)**	-	-	-	(632,000)
Cost of issue - brokers warrants valuation	**-**	**(1,098,858)**	-	-	-	(1,098,858)
Cost of issue - cash	**-**	**(515,347)**	-	-	-	(515,347)
Balance, end of period	**26,916,984**	**$ 33,228,516**	9,709,984	$ 18,080,471	26,916,984	$ 33,228,516
Subscription receipts						
Balance, beginning of period		**$ 12,670,806**		$ -		$ 12,670,806
Subscription receipts issued, net of costs		**-**		12,670,806		-
Transfer of subscription receipts issued upon issue of common shares		**(12,670,806)**		-		(12,670,806)
Balance, end of period		**$ -**		$ 12,670,806		$ -

The accompanying notes are an integral part to the unaudited interim financial statements.

MEGA SILVER INC.
(FORMERLY TREAT SYSTEMS INC.)
(A DEVELOPMENT STAGE COMPANY)
Interim Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars unless otherwise noted)
(Unaudited)

	Nine months ended September 30, 2008	Year ended December 31, 2007	Cumulative from inception (January 1, 2008 to September 30, 2008)
Contributed surplus			
Balance, beginning of period	**$ 184,000**	$ 143,199	$ 184,000
Stock-based compensation (note 8)	**2,044,278**	40,801	2,044,278
Fair value of broker warrants issued	**1,098,858**	-	1,098,858
Fair value of stock options exercised	**(83,000)**	-	(83,000)
Balance, end of period	**$ 3,244,136**	$ 184,000	$ 3,244,136
Accumulated deficit			
Balance, beginning of period	**$ (17,574,470)**	$(17,335,024)	$(17,574,470)
Net loss	**(6,372,082)**	(239,446)	(6,372,082)
Balance, end of period	**$ (23,946,552)**	$(17,574,470)	$(23,946,552)
Total shareholders' equity	**$ 12,526,100**	$ 13,360,807	$ 12,526,100

The accompanying notes are an integral part to the unaudited interim financial statements.

MEGA SILVER INC.
(FORMERLY TREAT SYSTEMS INC.)
(A DEVELOPMENT STAGE COMPANY)
Interim Statement of Mineral Properties
(Expressed in Canadian Dollars unless otherwise noted)
(Unaudited)

	Three months ended September 30, 2008	2007	Nine months ended September 30, 2008	2007	Cumulative from inception (January 1, 2008 to September 30, 2008)
Promontorio Project, Durango, Mexico (note 6(1))					
Opening balance	**$ 1,180,600**	$ -	**$ -**	$ -	$ -
Property acquisition costs	**-**	-	**150,000**	-	150,000
Management fees	**-**	-	**52,083**	-	52,083
Exploration	**642,875**	-	**1,129,713**	-	1,129,713
Office and administrative	**-**	-	**86,213**	-	86,213
Drilling	**358,533**	-	**753,667**	-	753,667
Assays	**68,750**	-	**68,750**	-	68,750
Professional fees	**544**	-	**3,732**	-	3,732
Travel and accommodation	**310**	-	**6,850**	-	6,850
Meals and entertainment	**114**	-	**718**	-	718
Activity during the period	**1,071,126**	-	**2,251,726**	-	2,251,726
Write-off during the period	**(2,251,726)**	-	**(2,251,726)**	-	(2,251,726)
Closing balance	**$ -**	$ -	**$ -**	$ -	$ -
Montoros Project, Durango, Mexico (note 6(2))					
Opening balance	**$ 472,588**	$ -	**$ -**	$ -	$ -
Property acquisition costs	**-**	-	**150,000**	-	150,000
Management fees	**-**	-	**52,083**	-	52,083
Exploration	**140,514**	-	**333,257**	-	333,257
Office and administrative	**2,564**	-	**79,193**	-	79,193
Professional fees	**-**	-	**1,133**	-	1,133
Travel and accommodation	**588**	-	**588**	-	588
Meals and entertainment	**401**	-	**401**	-	401
Activity during the period	**144,067**	-	**616,655**	-	616,655
Write-off during the period	**(616,655)**	-	**(616,655)**	-	(616,655)
Closing balance	**$ -**	$ -	**$ -**	$ -	$ -

The accompanying notes are an integral part to the unaudited interim financial statements.

MEGA SILVER INC.
(FORMERLY TREAT SYSTEMS INC.)
(A DEVELOPMENT STAGE COMPANY)
Interim Statement of Mineral Properties
(Expressed in Canadian Dollars unless otherwise noted)
(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Cumulative from inception (January 1, 2008 to September 30, 2008)
Virginia Silver Property, British Columbia, Canada (note 6(3))					
Opening balance	**$ 37,452**	$ -	**$ -**	$ -	$ -
Property acquisition costs	**-**	-	**25,000**	-	25,000
Exploration	**3,575**	-	**3,575**	-	3,575
Office and administrative	**2,270**	-	**11,841**	-	11,841
Drilling	**113,003**	-	**113,003**	-	113,003
Equipment rentals and leases	**2,958**	-	**3,221**	-	3,221
Geological	**8,817**	-	**8,817**	-	8,817
Professional fees	**3,195**	-	**4,257**	-	4,257
Travel and accommodation	**39,730**	-	**40,870**	-	40,870
Meals and entertainment	**1,047**	-	**1,463**	-	1,463
Activity during the period	**174,595**	-	**212,047**	-	212,047
Write-off during period	**(212,047)**	-	**(212,047)**	-	(212,047)
Closing balance	**$ -**	$ -	**$ -**	$ -	$ -
Strategic Properties, Yukon, Canada (note 6(4))					
Opening balance	**$ 423,882**	$ -	**$ -**	$ -	$ -
Property acquisition costs	**-**	-	**350,000**	-	350,000
Exploration	**12,337**	-	**12,337**	-	12,337
Office and administrative	**25,920**	-	**50,845**	-	50,845
Geological	**6,210**	-	**10,560**	-	10,560
Professional fees	**83,119**	-	**104,833**	-	104,833
Camp supplies	**7,367**	-	**20,746**	-	20,746
Travel and accommodation	**112,968**	-	**121,900**	-	121,900
Meals and entertainment	**2,039**	-	**2,621**	-	2,621
Activity during the period	**249,960**	-	**673,842**	-	673,842
Write-off during period	**(673,842)**	-	**(673,842)**	-	(673,842)
Closing balance	**$ -**	$ -	**$ -**	$ -	$ -

The accompanying notes are an integral part to the unaudited interim financial statements.

MEGA SILVER INC.
(FORMERLY TREAT SYSTEMS INC.)
(A DEVELOPMENT STAGE COMPANY)
Interim Statement of Mineral Properties
(Expressed in Canadian Dollars unless otherwise noted)
(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Cumulative from inception (January 1, 2008 to September 30, 2008)
Spider-Mann Property, Yukon, Canada (note 6(5))					
Opening balance	**$ 20,000**	$ -	**$ -**	$ -	$ -
Property acquisition costs	**-**	-	**20,000**	-	20,000
Office and administrative	**1,034**	-	**1,034**	-	1,034
Geological	**7,715**	-	**7,715**	-	7,715
Travel and accommodation	**1,820**	-	**1,820**	-	1,820
Activity during the period	**10,569**	-	**30,569**	-	30,569
Closing balance	**$ 30,569**	$ -	**$ 30,569**	$ -	$ 30,569
Fisher Property, Yukon, Canada (note 6(6))					
Opening balance	**$ -**	$ -	**$ -**	$ -	$ -
Property acquisition costs	**76,750**	-	**76,750**	-	76,750
Exploration	**90,068**	-	**90,068**	-	90,068
Office and administrative	**1,995**	-	**1,995**	-	1,995
Equipment rentals and leases	**13,608**	-	**13,608**	-	13,608
Geological	**26,040**	-	**26,040**	-	26,040
Travel and accommodation	**16,287**	-	**16,287**	-	16,287
Meals and entertainment	**695**	-	**695**	-	695
Activity during the period	**225,443**	-	**225,443**	-	225,443
Closing balance	**$ 225,443**	$ -	**$ 225,443**	$ -	$ 225,443
Total mineral property interests	**$ 256,012**	$ -	**$ 256,012**	$ -	$ 256,012

The accompanying notes are an integral part to the unaudited interim financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Mega Silver Inc. (the “Company” or "Mega Silver") (formerly Treat Systems Inc.) is a junior Canadian-based silver exploration and development company with exploration projects in Mexico and Canada. In January 2008, the Company completed a change of business to become a silver exploration and development company. The principal business of the Company is the acquisition, exploration and development of high value silver opportunities globally. Mega Silver is considered a development stage company, as defined by Accounting Guideline 11 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for mineral property interests is dependent upon completion of the acquisition of the mineral property interests, the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and future profitable production or, alternatively, upon disposition of such property at a profit. Changes in future conditions could require material write-downs of the carrying values of mineral property interests.

Although the Company has taken steps to verify title to its mineral property interests, in accordance with industry standards for the current stage of exploration of such property, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, aboriginal claims, and noncompliance with regulatory requirements.

The Company has no revenues and the ability of the Company to ensure continuing operations is dependent on the Company, raising sufficient funds to finance exploration activities, identifying a commercial ore body, developing such mineral property interests, and upon the future profitable production or proceeds from the disposition of the mineral property interests. Management of the Company believes that it has sufficient funds to pay its ongoing administration expenses and meet its liabilities for the ensuring twelve months as they fall due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”). The preparation of the financial statements is based on accounting policies and practices consistent with those used in the preparation of the audited annual financial statements except as noted below. The accompanying unaudited interim financial statements should be read in conjunction with the notes to the Company’s audited financial statements for the year ended December 31, 2007, since they do not contain all disclosures required by GAAP for annual financial statements. These unaudited interim financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital disclosures and financial instruments – disclosures and presentation (Continued)

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 non-compliance. The Company has included disclosures recommended by the new Handbook section in note 3 to these unaudited 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 4(b) to these unaudited interim financial statements.

General Standard of Financial Statement Presentation

In June 2007, the CICA amended Handbook Section 1400, Going Concern, to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. Section 1400 is effective for interim and annual reporting periods beginning on or after January 1, 2008. The application of this new standard had no impact on the Company's unaudited interim financial statements as at and for the three and nine months ended September 30, 2008.

Property and equipment amortization

Property and equipment is stated at cost less accumulated amortization. Furniture and equipment and leasehold improvement are amortized on a declining balance basis at 20% per annum. Computer equipment and software is amortized on a declining balance basis at 30% per annum.

Mineral property interests

The Company accounts for exploration property costs in accordance with the CICA Handbook Section 3061, "Property, plant and equipment" ("CICA 3061"), and abstract EIC 126, "Accounting by Mining Enterprises for Exploration Costs" ("EIC 126") of the Emerging Issues Committee. CICA 3061 provides for the capitalization of acquisition and exploration costs of an exploration property where such costs are considered to have the characteristics of property, plant and equipment.

Mineral property interests are carried at cost until they are brought into production, at which time they are depleted on a unit-of production method based on proven and probable reserves. If a property is subsequently determined not to be economic, the property and related deferred costs are written down to net realizable value. Other general exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned or sold and their related deferred exploration costs are charged to operations in the current year.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of exploration properties. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mineral property interests (Continued)

EIC 126 provides that an exploration stage enterprise with initially capitalized exploration costs that has not objectively established mineral reserves and therefore does not have a basis for preparing a projection of the estimated future cash flow from a property, is not obliged to conclude that the capitalized costs have been impaired. However, EIC 126 references certain conditions that should be considered in determining subsequent write downs, such as changes or abandonment of a work program or poor exploration results, and management reviews such conditions to determine whether a write down of capitalized costs is required. When the carrying value of a property exceeds its net recoverable amount, provision is made for the impairment in value.

Flow-Through Financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to mineral properties. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

Short term investments

Short term investments consist of investment-grade short-term deposit certificates issued by banks with which the Company keeps its bank accounts with original maturities less than one year and greater than 90 days at the date of acquisition.

Future accounting changes

International Financial Reporting Standards ("IFRS")
In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of IFRS on its financial statements.

Goodwill and Intangible Assets
In November 2007, the CICA approved Handbook Section 3064, "Goodwill and Intangible Assets" which replaces the existing Handbook Sections 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009, with earlier application encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The Company is currently assessing the impact of this new accounting standard on its financial statements.

3. CAPITAL MANAGEMENT

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on 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 an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the three and nine months ended September 30, 2008. The Company is not subject to externally imposed capital requirements.

4. PROPERTY AND FINANCIAL RISK FACTORS

a) Property risk

The Company's major mineral properties are the Promontorio Project, Montoros Project, Spider-Mann Property and Fisher Property. Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon these four properties. If no additional major mineral properties are acquired by the Company, any adverse development affecting these four properties would have a material adverse effect on the Company's financial condition and results of operations.

b) Financial risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk [including interest rate, foreign exchange rate, and commodity and equity price risk].

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, short term investments and accounts receivable. Cash and cash equivalents and short term investments are held with reputable Canadian chartered banks which are closely monitored by management. Financial instruments included in accounts receivable consist of sales tax receivable from government authorities in Canada and Mexico, accrued interest and deposits held with service providers, which are in good standing as at September 30, 2008. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents, short term investments and accounts receivable is minimal.

4. PROPERTY AND FINANCIAL RISK FACTORS (Continued)

b) Financial risk (Continued)

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2008, the Company had a cash and cash equivalents and short term investments balance of $13,053,008 (December 31, 2007 - $811,736) to settle current liabilities of $1,369,342 (December 31, 2007 - $540,016). Most of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company is also committed to spending approximately $2.3 million in Canadian exploration expenditures by December 31, 2009. If the Company does not spend these funds in compliance with the government of Canada flow-through regulations, it may be subject to litigation from various counterparties. The Company intends to fulfill all flow-through commitments within the given time constraints.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in certificates of deposit or interest bearing accounts of major Canadian chartered banks. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its Canadian chartered banks. As of September 30, 2008, the Company had $13,000,000 (December 31, 2007 - $nil) invested in certificates of deposit with a Canadian chartered bank.

Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in Mexico on a cash call basis from the operator of the Mexican projects using Canadian currency. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. As a result, the Company's exposure to foreign currency risk is minimal.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices as it relates to silver to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

The Company has, for accounting purposes, designated its cash and cash equivalents and short term investments as held-for-trading, which are measured at fair value. Accounts receivable are classified for accounting purposes as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at September 30, 2008, the carrying and fair value amounts of the Company's financial instruments related to cash and cash equivalents, short term investments, accounts receivable and accounts payable and accrued liabilities are the same.

(Expressed in Canadian Dollars unless otherwise noted)

4. PROPERTY AND FINANCIAL RISK FACTORS (Continued)

Sensitivity analysis (Continued)

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a nine month period:

(i) Interest rate risk is minimal as the interest rates on the Company's short term investments have fixed interest rates.

(ii) The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

(iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of silver. Silver prices have fluctuated widely in recent years. There is no assurance that, even as commercial quantities of silver may be produced in the future, a profitable market will exist for them. A decline in the market price of silver may also require the Company to reduce its mineral resources, which could have a material and adverse effect on the Company's value.

As of September 30, 2008, the Company is not a silver producer. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

5. OFFICE EQUIPMENT

	Cost	Accumulated amortization	Net carrying value
Furniture and equipment	$ 90,979	$ 5,157	$ 85,822
Computer equipment	22,855	2,353	20,502
Software	5,396	479	4,917
Leasehold improvement	24,274	1,214	23,060
	$ 143,504	$ 9,203	$ 134,301

6. MINERAL PROPERTY INTERESTS

On a quarterly basis, management of the Company review mineral property interests to determine if expenditures are eligible for capitalization. Specific changes to mineral properties that occurred from January 1, 2008 to September 30, 2008 are as follows:

(1) Promontorio Project

Pursuant to an agreement dated September 17, 2007 (the "Silverstone Promontorio Option Agreement") Silverstone Resources S.A. de C.V. ("Silverstone"), a company incorporated pursuant to the laws of Mexico and owned by Silverstone Resources Corp. (TSXV: SST) has granted Mega Silver an option to acquire a 60% interest or a 70% interest, as hereinafter provided, in the Silverstone interest in the Promontorio Gold/Silver Project, which project comprises 2,093.87 hectares in the Municipality of El Oro, State of Durango, Mexico (the "Promontorio Project"). The Promontorio Project consists of 33 concessions.

Pursuant to an amended and restated option agreement between Silverstone, Silverstone Resources Corp. and Grupo Minero Bacis S.A. de C.V. ("Bacis"), Silverstone was granted the right to acquire an undivided 90% interest in the Promontorio Project (among other properties), subject to a 1.5% net smelter return royalty in favour of Bacis (Bacis retaining a 10% carried interest). The amended and restated option agreement also provides that Silverstone may acquire the remaining 10% carried interest, after completion of a feasibility study, if Bacis elects to exercise its right to cause the 10% carried interest to be purchased by Silverstone. Bacis may also at anytime elect to exchange the 10% carried interest with Silverstone for the right to receive an additional 1.5% net smelter return royalty. Silverstone also has a right of first refusal in respect of any intended sale by Bacis of such 10% carried interest.

Pursuant to the Silverstone Promontorio Option Agreement, Mega Silver has the right to acquire a 60% interest in the Silverstone interest in the Promontorio Project (such interest to reflect the interest Silverstone has or acquires pursuant to Bacis' exercise of its above stated rights concerning the 10% carried interest), upon:

(i) incurring an aggregate of $5.0 million in expenditures over a five year period (with $1.0 million of such expenditures to be incurred on or prior to the first anniversary of the effective date of the Silverstone Promontorio Option Agreement).

To date, Mega Silver has incurred costs of $2,251,726 on the Promontorio Project.

(ii) Mega Silver issuing to Silverstone and Bacis an aggregate of 150,000 common shares in its capital on or before the later of 2 days after TSXV approval of the Silverstone Promontorio Option Agreement or the completion of a financing of not less than $10,000,000 by Mega Silver.

On February 1, 2008, Mega Silver issued 150,000 common shares to Silverstone for the acquisition of the Promontorio Project.

(iii) Mega Silver issuing to Silverstone an additional 150,000 common shares on or before such first anniversary date and an additional 250,000 common shares in its capital to Silverstone on or before the second anniversary date. As at September 30, 2008, the Company has not issued the 150,000 common shares yet.

Mega Silver may acquire an additional 10% interest in the Silverstone interest in the Promontorio Project (as the same may be then or in the future constituted), upon Mega Silver delivering a completed feasibility study to Silverstone on or before December 31, 2017.

Silverstone has a back-in option to re-acquire a 20% interest in the Silverstone interest in the property (for an aggregate 50% legal and beneficial interest).

As at September 30, 2008, management has decided to relinquish its interest in this property and all costs to date have been written off. The Company, in order to meet its obligations under the property agreement, will incur additional costs in the fourth quarter of 2008. These costs will be written off as incurred.

6. MINERAL PROPERTY INTERESTS (Continued)

(2) Montoros Project

Pursuant to an agreement dated September 17, 2007 (the "Silverstone Montoros Option Agreement") Silverstone, has granted Mega Silver an option to acquire a 60% interest or a 70% interest, as hereinafter provided, in the Silverstone interest in the Montoros Project, which project comprises 2,147 hectares, located 190 kilometres northwest of Durango City, situated in the Santiago Papasquiro Municipality in the State of Durango, Mexico (the "Montoros Project"). The Montoros Project consists of 13 exploitation and four exploration concessions. The Montoros Project is an exploration stage property. The Montoros Project is situated within the belt of gold-silver vein mines and significant prospects in Sierra Madre Occidental Province of Mexico.

The terms and conditions of the Silverstone Montoros Option Agreement mirror the terms and conditions of the Silverstone Promontorio Option Agreement as set forth above in note 6(1).

To date, Mega Silver has incurred costs of $616,655 on the Montoros Project.

On February 1, 2008, Mega Silver issued 150,000 common shares to Silverstone for the acquisition of the Montoros Project.

As at September 30, 2008, management has decided to relinquish its interest in this property and all costs to date have been written off. The Company, in order to meet its obligations under the property agreement, will incur additional costs in the fourth quarter of 2008. These costs will be written off as incurred.

(3) Virginia Silver Property

Pursuant to an agreement dated September 14, 2007 (the "Endurance Option Agreement") Endurance, a company continued pursuant to the laws of the Province of British Columbia (TSXV: EDG), has granted Mega Silver an option to acquire a 75% interest in the claims and permits held by Endurance (or in which Endurance has an option to earn a 100% interest) in the Smithers area of northwestern British Columbia, Canada, comprising 10 claims and covering 3,041 hectares of land and known as the Virginia Silver Property (the "Virginia Silver Property").

Pursuant to the Endurance Option Agreement, to exercise the option, Mega Silver must incur an aggregate of $3.0 million in expenditures (or make commensurate cash payments to Endurance) on or before August 7, 2009, a minimum of $250,000 to be expended within the first year following execution and delivery of definitive agreements. Mega Silver must also make additional cash payments to Endurance as follows: (i) $25,000 on execution and delivery of the definitive agreements; (ii) $75,000 on the first anniversary of the date of the execution and delivery of the definitive agreements; (iii) $100,000 on the second anniversary; and (iv) $150,000 on August 7, 2009 (being the last day of the option period).

If Mega Silver duly exercises the option, within 15 days, Mega Silver and Endurance must, on a pro rata basis, make a final property payment to the original vendor of the Endurance Properties in the aggregate amount of $250,000.

To date, Mega Silver has incurred costs of $212,047 on Virginia Silver Property.

On February 14, 2008, Mega Silver paid $25,000 cash to Endurance for the acquisition of Virginia Silver Property.

As at September 30, 2008, management has decided to relinquish its interest in this property and all costs to date have been written off. The Company, in order to meet its obligations under the property agreement, will incur additional costs in the fourth quarter of 2008. These costs will be written off as incurred.

6. MINERAL PROPERTY INTERESTS (Continued)

(4) Strategic Properties

Pursuant to an agreement dated as of September 17, 2007 (the “Strategic Option Agreement”) Strategic, a company continued pursuant to the laws of the Province of British Columbia (TSXV: SMD), has granted Mega Silver an option to acquire a 100% undivided interest in certain mineral tenures situated in the Yukon Territories, which include the Uno, Jake and Rogue properties known as the Selwyn Silver Project (the “Strategic Properties”).

Pursuant to the Strategic Option Agreement, Mega Silver must pay to Strategic a cash fee in the amount of $200,000 and issue to Strategic 150,000 common shares, on the effective date. Additionally, Mega Silver must incur an aggregate of $3,000,000 in expenditures on the Strategic Properties within two years of the effective date, of which a minimum of $1,000,000 must be incurred within the first year of the effective date on any of the Strategic Properties, in order to preserve the option on all of the Strategic Properties. On the exercise of the option with respect to any of the Strategic Properties, Mega Silver must issue to Strategic an additional 1,000,000 common shares for each of the Strategic Properties for which the option is exercised (being up to a maximum of 3,000,000 common shares).

To date, Mega Silver has incurred costs of $673,842 on Strategic Properties.

On February 1, 2008, Mega Silver issued 150,000 common shares to Strategic for the acquisition of the Strategic Properties.

On February 5, 2008, Mega Silver paid $200,000 cash to Strategic for the acquisition of the Strategic Properties.

On April 24, 2008 the agreement with Strategic was amended reducing the minimum first year aggregate work expenditure to $250,000. The overall $3,000,000 work expenditure remain unchanged.

As at September 30, 2008, management has decided to relinquish its interest in this property and all costs to date have been written off. The Company, in order to meet its obligations under the property agreement, will incur additional costs in the fourth quarter of 2008. These costs will be written off as incurred.

(5) Spider-Mann Property

On March 12, 2008, Mega Silver paid $20,000 cash to acquire 100% interest in the five Quartz mineral claims ("Spider-Mann Property") located in the Mayo Mining District, Yukon Territories, Canada.

To date, Mega Silver has incurred costs of $30,569 on Spider-Mann Property.

6. MINERAL PROPERTY INTERESTS (Continued)

(6) Fisher Property

Pursuant to an agreement dated as of July 2, 2008 (the "StrataGold Option Agreement) StrataGold Corporation ("StrataGold"), a company continued pursuant to the laws of the Province of British Columbia (TSXV: SGV), has granted Mega Silver an option to acquire a 100% interest in the Fisher claims on StrataGold's Aurex property, Yukon Territory. The Fisher claims represent 67 out of the 465 contiguous quartz mining claims that make up the Aurex Property in the Mayo Mining District, Yukon Territory.

Pursuant to the StrataGold Option Agreement, to exercise the option, Mega Silver must:

i) Incur an aggregate of $4,000,000 in exploration expenditure over four years, $200,000 on or before the first anniversary, $700,000 on or before the second anniversary, $1,100,000 on or before the third anniversary and $2,000,000 on or before the fourth anniversary.

ii) Make total cash payments of $625,000 over four years to StrataGold, $10,000 within five days of Exchange approval (paid), $50,000 on or before the first anniversary, $90,000 on or before the second anniversary, $100,000 on or before the third anniversary and $375,000 on or before the fourth anniversary.

iii) Issue 1,000,000 common shares of Mega Silver over four years to StrataGold, 75,000 within five days of Exchange approval (issued), 75,000 on or before the first anniversary, 150,000 on or before the second anniversary, 350,000 on or before the third anniversary and 350,000 on or before the fourth anniversary.

To date, Mega Silver has incurred costs of $225,443 on Fisher Property.

(Expressed in Canadian Dollars unless otherwise noted)

7. SHARE CAPITAL

(a) Authorized: 100,000,000 common shares

(b) Common shares issued and outstanding:

	# of Shares	Amount
Balance, December 31, 2007	9,709,984	$ 18,080,471
Shares issued on conversion of subscription receipts (i)	13,632,000	13,632,000
Shares issued to acquire mineral property interests (notes 6(1)(2)(4)(6))	525,000	516,750
Flow-through shares issued (ii)	2,750,000	3,025,000
Shares issued upon exercise of stock options	300,000	137,500
Fair value of shares issued upon exercise of stock options transferred from contributed surplus	-	83,000
Cost of issue - brokers subscription receipts (i)	-	(632,000)
Cost of issue - brokers warrants valuation (i)(ii)(notes 9(a)(b))	-	(1,098,858)
Cost of issue - cash	-	(515,347)
Balance, September 30, 2008	26,916,984	$ 33,228,516

(i) On January 17, 2008, the release conditions of the subscription receipts were satisfied and on January 22, 2008, each subscription receipt was exercised for no additional consideration into one unit of Mega Silver. The Company received gross proceeds of $13,000,000 plus $65,477 in interest revenue from escrow. The subscription receipts were converted into: 13,632,000 common shares (13,000,000 to investors and 632,000 to brokers); 6,816,000 warrants exercisable at $1.50 per share expiring November 2, 2009; and 825,800 broker warrants exercisable at $1.00 per unit (note 9). Each unit consists of one common share and one-half of one common share purchase warrant ("Warrant"). Each whole warrant is exercisable into one common share of the Company at an exercise price of $1.50 per share expiring November 2, 2009.

The 632,000 common shares issued to brokers for their services were valued at $1 per share, which is the price paid for one subscription receipt.

(ii) On January 29, 2008, the Company completed a non-brokered flow-through financing of 2,750,000 flow-through units at a price of $1.10 per unit for gross proceeds of $3,025,000. Each flow-through unit consists of one flow-through common share and one-half of one common share purchase warrant at an exercise price of $1.60 expiring on January 29, 2010. In connection with the financing , the Company paid a cash commission of $151,250 and 137,500 broker warrants (note 9). Each broker warrant will entitle the holder to purchase one common share at a price of $1.50 per share expiring January 29, 2010. The flow-through funds raised from the issuance of the flow-through units will be used for general exploration expenditures, which will constitute Canadian Exploration Expenses (as defined in the Income Tax Act (Canada)) and will be renounced for the 2008 taxation year.

Pursuant to the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. As a result, the Company is required to recognize a foregone tax benefit of approximately $877,250 at the time of renouncement.

(Expressed in Canadian Dollars unless otherwise noted)

8. SHARE PURCHASE OPTION PLAN

The continuity of share purchase options is as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2007	500,000	$ 0.60
Granted (a)(b)(c)(d)	1,865,000	1.55
Exercised	(300,000)	0.46
Balance, September 30, 2008	2,065,000	$ 1.48

(a) On February 21, 2008, a total of 400,000 options, exercisable at $1.55 and expiring on February 20, 2013 were issued to Mega Silver's investor relations consultant. These options vest 25% immediately and then 25% every three months thereafter. The value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%, expected volatility 144.8%, risk-free interest rate 3.44% and an expected life of 5 years. As a result, the fair value of the options was estimated as $693,600 and will be recognized over the vesting periods. During the three and nine months period ended September 30, 2008, $113,494 and $656,262 were expensed and charged to contributed surplus, respectively.

(b) On February 28, 2008, a total of 1,180,000 options, exercisable at $1.79 and expiring on February 27, 2013 were issued to certain officers, directors and employees of Mega Silver. These options vest at the rate of 1/6th of the grant at the end of each three month period over an 18 month period. The value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%, expected volatility 151.1%, risk-free interest rate 3.35% and an expected life of 5 years. As a result, the fair value of the options was estimated as $1,935,200 and will be recognized over the vesting periods. During the three and nine months period ended September 30, 2008, $409,320 and $1,366,460 were expensed and charged to contributed surplus, respectively.

(c) On May 7, 2008, a total of 50,000 options, exercisable at $1.00 and expiring on May 6, 2013 were issued to certain employees of Mega Silver. These options vest at the rate of 1/6th of the grant at the end of each three month period over an 18 month period. The value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%, expected volatility 96.94%, risk-free interest rate 3.10% and an expected life of 5 years. As a result, the fair value of the options was estimated as $38,015 and will be recognized over the vesting periods. During the three and nine months period ended September 30, 2008, $11,756 and $21,115 were expensed and charged to contributed surplus, respectively.

(d) On September 25, 2008, a total of 235,000 options, exercisable at $0.46 and expiring on September 25, 2013 were issued to certain employees of Mega Silver. These options vest at the rate of 1/6th of the grant at the end of each three month period over an 18 month period. The value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%, expected volatility 112.4%, risk-free interest rate 3.17% and an expected life of 5 years. As a result, the fair value of the options was estimated as $87,185 and will be recognized over the vesting periods. Subsequently, the employee who was granted 200,000 of the 235,000 stock options valued at $74,200 resigned and as such forfeited his right to the options before they vested, therefore no stock based compensation expense has been charged during the period. During the three and nine months period ended September 30, 2008, $441 and $441 were expensed and charged to contributed surplus, respectively.

As a result, the weighted average grant date fair value of the options granted was $1.48.

(Expressed in Canadian Dollars unless otherwise noted)

8. SHARE PURCHASE OPTION PLAN (Continued)

As at September 30, 2008, the Company had the following stock options outstanding:

Weighted Average Remaining Contractual Life (years)	Options Granted	Options Vested	Exercise Price	Expiry Date
0.61	25,000	25,000	$0.55	May 12, 2009
2.01	50,000	50,000	$0.30	October 2, 2010
2.03	25,000	25,000	$0.30	October 11, 2010
2.26	100,000	100,000	$1.25	January 2, 2011
4.39	400,000	300,000	$1.55	February 20, 2013
4.41	1,180,000	393,333	$1.79	February 27, 2013
4.60	50,000	8,333	$1.00	May 6, 2013
4.99	235,000	-	$0.46	September 25, 2013
4.24	2,065,000	901,666		

9. WARRANTS

The continuity of warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2007	-	$ -
Granted (a)(b)	9,154,300	1.47
Balance, September 30, 2008	9,154,300	$ 1.47

(a) See note 7(b)(i), 6,816,000 warrants exercisable at $1.50 per share expiring November 2, 2009 and 825,800 broker warrants exercisable at $1.00 per unit expiring November 2, 2009. The value assigned to the broker warrants was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%, expected volatility 147.0%, risk-free interest rate 3.13% and an expected life of 2 years. As a result, the fair value of the warrants was estimated as $949,670.

(b) See note 7(b)(ii), 1,375,000 warrants exercisable at $1.60 per share expiring January 29, 2010 and 137,500 broker warrants exercisable at $1.50 per share expiring January 29, 2010. The value assigned to the broker warrants was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%, expected volatility 150.9%, risk-free interest rate 3.25% and an expected life of 2 years. As a result, the fair value of the warrants was estimated as $149,188.

As at September 30, 2008, the following warrants were outstanding:

	Fair Value of Warrants	Warrants Granted	Exercise Price	Expiry Date
	$ -	6,816,000	$1.50	November 2, 2009
	949,670	825,800	1.00	November 2, 2009
	-	1,375,000	1.60	January 29, 2010
	149,188	137,500	1.50	January 29, 2010
Total	$ 1,098,858	9,154,300		

(Expressed in Canadian Dollars unless otherwise noted)

10. LOSS PER SHARE

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net loss	**$ (4,461,039)**	$ (1,938)	**$ (6,372,082)**	$ (45,469)
Loss per share - basic and fully diluted	**$ (0.17)**	$ (0.00)	**$ (0.25)**	$ (0.00)
Weighted average number of common shares	**26,898,696**	9,709,984	**25,397,615**	9,709,984

The effect of potential issuances of shares under stock options and warrants would be anti-dilutive, and accordingly basic and diluted loss per share are the same.

11. RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Management fees to current director and officer	$ 112,400	$ -
Administrative and accounting fees to a company owned by an officer of Mega Silver	45,000	-
	$ 157,400	$ -

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted as at September 30, 2008.

13. COMMITMENTS NOT DISCLOSED ELSEWHERE

The Company is committed to spending $2.3 million associated with the flow-through offering that was completed on January 29, 2008 (note 7(b)(ii)). The Company is in the process of complying with its flow-through contractual obligations with subscribers with respect to the requirements of the Income Tax Act (Canada). It is expected that the Company may institute the look-back rule which will require the Company to spend the funds within 12 months from the effective date of renunciation.

14. SUBSEQUENT EVENT

On November 4, 2008, the Company renegotiated its agreement with Doyle Investments Inc. ("Doyle") for the provision of investor relations services to Mega Silver. The new agreement provides for a reduced fee of $2,500 per month plus expenses, and the Company has agreed to grant to Doyle an additional 100,000 stock options, exercisable at $0.50 per share for a term of five years. The options are subject to a four-month hold period and vest quarterly over a period of 10 months in accordance with the Company's stock option plan.

On November 12, 2008 the Company entered into an option agreement with Avino Silver & Gold Mines Ltd. ("Avino") to earn the exclusive right and option to acquire a 100% title and interest in the Eagle Property located in the historic Keno Hill silver district.

To earn a 75% interest in the Eagle Property, Mega Silver must:
• Incur Exploration Costs totalling $7.1 million over five years.
• Make total cash payments of $400,000 over five years to Avino.
• Issue 500,000 common shares of Mega Silver in Years 4 and 5 to Avino.

After earning a 75% interest, Mega Silver may either elect to form a Joint Venture with Avino, or earn an additional 25% interest, whereby Mega Silver must:
• Take the property into production within 3 years, subject to a 2.5% Net Smelter Return and minimum $200,000 annual advance royalty payments payable for 5 years or until production begins.