Endeavour Silver Corp.

(formerly Endeavour Gold Corp.)

Consolidated Financial Statements

Years Ended

February 28, 2005, February 29, 2004 and February 28, 2003

SHAREHOLDER UPDATE

Bradford Cooke, Chairman and CEO of Endeavour Silver Corp. ("Endeavour") (EDR:TSXV), provides shareholders with the following overview of the Company.

In many respects, fiscal 2005 was a remarkable year for Endeavour.

Thanks mainly to our successful acquisition of interests in the optioned Santa Cruz silver mine and Guanacevi process plant, Endeavour expects to enjoy operating income strongly leveraged to both our rapidly growing production and rising silver prices.

After announcing the option agreements in January 2004, we were able to raise CAD$10 million and complete the acquisition agreement by May 2004. Field work commenced last June and in a scant six months, we started an exploration drilling program, discovered the high grade North Porvenir silver ore-body, drilled out an initial 8.6 million oz silver resource, drove a 600 m access ramp into it and developed the new North Porvenir mine into production.

Once production resumes, we are now forecasting a tripling of production to 1.3 million oz silver in 2005, and a further tripling by 2007 to 4.0 million oz silver per year, just to fill the capacity of the plant. That should allow Endeavour to join the ranks of top primary silver producers worldwide.

In 2005, management plans to aggressively expand its landholdings in Guanacevi, effectively consolidating the district. Endeavour will also expand its exploration drilling programs to facilitate our resource and production growth.

Our success at discovering a brand new, high grade silver ore-body within the same vein as, and only one km away from, a 400 year old historic Spanish mine leads us to believe there is much more potential for new silver discoveries throughout the Guanacevi district.

Regarding silver, the new secular bull market is only 21 months old and its fundamentals remain strong. Demand in 2004 once again exceeded supply for the 16th consecutive year, led by strong growth in consumption for electronics (up 36%) and higher off-take for investment (up four-fold).

Although both silver and Endeavour appreciated only 5% on the year, to US $7.35 per oz and CAD$1.85 per share respectively, both substantially outperformed their peer groups. From a technical point of view, the stock charts of both silver and Endeavour remain firmly entrenched in strong up-trends.

To enhance shareholder liquidity in 2005, we will look at listing Endeavour's shares on the TSX and Frankfurt stock exchanges, as well as filing with the SEC to become a fully registered foreign private issuer in the U.S.A.

In 2004, Endeavour significantly strengthened its senior management with a number of key additions to the team. We are particularly appreciative of the hard work and dedication of our Mexican staff under the leadership of Miguel Ordaz and our employees at head office in Vancouver.

I would also like to take this opportunity to thank you for your continuing support as a shareholder. The current year is shaping up to be just as rewarding as 2004.

On Behalf Of The Board Of Directors

ENDEAVOUR SILVER CORP.

/s/ Bradford J. Cooke

Bradford J. Cooke   June 28, 2005
Chairman and CEO

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Endeavour Silver Corp. (formerly Endeavour Gold Corp.) as at February 28, 2005 and February 29, 2004 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended February 28, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2005 and February 29, 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 2005 in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada
May 13, 2005

ENDEAVOUR SILVER CORP.

(formerly Endeavour Gold Corp.)

CONSOLIDATED BALANCE SHEETS

(expressed in Canadian dollars)

	Notes		**February 28, 2005**		February 29, 2004
ASSETS					
CURRENT					
Cash and cash equivalents		**$**	**4,957,883**	$	542,868
Receivables			**700,569**		10,059
Prepaids and advances			**13,644**		46,290
Due from related parties	7(a) and (b)		**365,285**		-
			6,037,381		599,217
NON-CURRENT					
Buildings and equipment	3		**101,700**		-
Mineral properties	4		**5,106,919**		29,097
Advance on acquisition	4(a)		**-**		132,824
			5,208,619		161,921
		$	**11,246,000**	$	761,138
LIABILITIES					
CURRENT					
Accounts payable and accrued liabilities		**$**	**411,562**	$	55,932
Due to related party	7(a)		**-**		14,232
			411,562		70,164
SHAREHOLDERS' EQUITY					
Share capital	5(a)		**16,708,303**		5,461,867
Contributed surplus	5(c)		**1,664,230**		201,720
Deficit			**(7,538,095)**		(4,972,613)
			10,834,438		690,974
		$	**11,246,000**	$	761,138

Nature of operations	1
Commitments and contingencies	4
Subsequent events	4(a) and 5(d)

Refer to accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

/s/ Bradford Cooke — Director

/s/ Godfrey Walton — Director

ENDEAVOUR SILVER CORP.

(formerly Endeavour Gold Corp.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(expressed in Canadian dollars)

		Year Ended		
	Notes	**February 28, 2005**	February 29, 2004	February 28, 2003
EXPENSES				
Accounting and legal		**$ 253,373**	$ 42,413	$ 26,643
Amortization		**4,805**	316	431
Employees and directors remuneration		**308,818**	-	-
Financing		**-**	2,398	12,449
Foreign exchange		**(74,743)**	2,637	-
Management and consulting		**149,371**	42,500	30,892
Office and sundry	7(c)	**97,520**	29,094	19,662
Regulatory		**27,566**	20,126	19,858
Shareholder relations		**198,309**	62,688	10,000
Stock-based compensation	5(d)	**1,498,700**	210,900	-
Travel		**81,906**	3,829	-
Loss before the undernoted		**(2,545,625)**	(416,901)	(119,935)
Royalty income, net	4(a)	**221,617**	-	-
Gain on sale of investment		**-**	-	11,664
Interest income		**104,960**	-	-
Property investigations		**(302,861)**	(310,700)	(70,964)
Write-off of mineral properties	4	**(43,573)**	(51,100)	(6,612)
LOSS FOR THE YEAR		**(2,565,482)**	(778,701)	(185,847)
Deficit, beginning of the year		**(4,972,613)**	(4,193,912)	(4,008,065)
DEFICIT, END OF YEAR		**$ (7,538,095)**	$ (4,972,613)	$ (4,193,912)
Basic and diluted loss per share		**$ (0.15)**	$ (0.11)	$ (0.06)
Weighted average number of shares outstanding		**17,664,000**	6,994,323	3,263,684

Refer to accompanying notes to the consolidated financial statements.

ENDEAVOUR SILVER CORP.

(formerly Endeavour Gold Corp.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

	Year Ended		
	February 28, 2005	February 29, 2004	February 28, 2003
CASH PROVIDED FROM (USED FOR):			
OPERATIONS			
Loss for the year	**$ (2,565,482)**	$ (778,701)	$ (185,847)
Items not affecting cash:			
Amortization	**4,805**	316	431
Financing costs	**-**	-	10,000
Stock-based compensation	**1,498,700**	210,900	-
Gain on sale of investments	**-**	-	(11,664)
Write-off of mineral properties	**43,573**	51,100	6,612
	(1,018,404)	(516,385)	(180,468)
Net changes in non-cash working capital items:			
Receivables	**(690,510)**	(5,691)	(4,020)
Prepaids and advances	**32,646**	(44,165)	(759)
Accounts payable and accrued liabilities	**355,630**	25,188	24,009
Due from (to) related parties	**(346,366)**	14,232	-
	(1,667,004)	(526,821)	(161,238)
FINANCING			
Issuance of common shares, net of issue costs	**11,210,246**	1,097,870	300,000
Loans payable	**-**	(26,584)	23,084
	11,210,246	1,071,286	323,084
INVESTMENTS			
Proceeds from sale of investments	**-**	-	23,440
Acquisition of buildings and equipment	**(109,563)**	-	-
Acquisition and exploration of resource properties	**(4,985,513)**	(20,347)	(36,100)
Loan receivable from Minera Santa Cruz	**(33,151)**	-	-
Advance for acquisition	**-**	(132,824)	-
	(5,128,227)	(153,171)	(12,660)
NET CASH INFLOWS	**4,415,015**	391,294	149,186
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**542,868**	151,574	2,388
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 4,957,883**	$ 542,868	$ 151,574

Supplemental disclosure with respect to cash flows (Note 6)

Refer to accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS

Endeavour Silver Corp. (formerly Endeavour Gold Corp.) (the "Company") was incorporated under the laws of the Province of British Columbia on March 11, 1981 and its principal business activities are the acquisition, exploration and development of mineral properties. Effective September 13, 2004, the Company changed its name from Endeavour Gold Corp. to Endeavour Silver Corp.

The Company has acquired interests in mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves in its mineral properties, the ability of the Company to arrange appropriate financing to complete the development of its properties, confirmation of the Company's interest in the underlying properties, the receipt of necessary permitting and upon future profitable production or proceeds from the disposition of these interests.

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred significant operating losses to date. At February 28, 2005, the Company had a working capital of $5,625,819, which although expected to be sufficient to fund its operations in the next fiscal year, will not be sufficient to meet its planned business objectives. Management recognizes that the Company will need to generate additional financial resources in order to meet its planned business objectives. The Company has financed its activities principally by the sale of equity securities. The Company's ability to continue as a going concern is dependent on the continued financial support from its shareholders and other related parties, the ability of the Company to raise equity financing, and the attainment of profitable operations to fund its operations. However, there can be no assurances that the Company will continue to obtain adequate additional financing and/or achieve profitability or positive cash flows. Furthermore, failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents consist of deposits in banks and highly liquid investments with an original maturity of ninety days or less.

(c) Buildings and equipment

Buildings and equipment are recorded at cost and amortized using the declining balance method at rates varying from 10% to 30% annually.

(d) Mineral properties

Amounts shown as mineral properties have been capitalized on an area of interest basis and include direct costs of acquiring, maintaining and exploring properties, the costs of structures and equipment which are employed directly in the exploration process and other direct costs related to specific properties. All other costs, including administrative overhead, are expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Mineral properties (continued)

Management periodically reviews the carrying value of its mineral properties with internal and external mining related professionals. A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of reserves, anticipated future prices, anticipated future costs of exploring, developing and operating a producing mine, expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration. The Company does not set a pre-determined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and their carrying values are appropriate.

If any area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the period of abandonment or determination that the carrying value exceeds its fair value. The amounts recorded as mineral properties represent costs incurred to date and do not necessarily reflect present or future values.

The accumulated costs of mineral properties that are developed to the stage of commercial production will be amortized using the units of production basis.

(e) Share capital

Common shares issued for consideration other than cash are recorded at the quoted market value of the shares as of the agreement date.

(f) Stock-based compensation

The Company has a share option plan which is described in Note 5(d). The Company records all stock-based compensation for options granted on or after March 1, 2003 using the fair value method.

Effective March 1, 2003, in connection with amendments to the Canadian Institute of Chartered Accountants Handbook Section 3870 “Stock-Based Compensation and Other Stock-Based Payments”, the Company changed its method of measuring stock-based compensation associated with stock options granted to employees from the settlement method to the fair value method. Options granted to non-employees in fiscal 2003 were accounted for using the fair value method. Prior to fiscal 2003, all stock-based compensation was accounted for using the settlement method.

Under the fair value method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable and are charged to operations over the vesting period. The offset is credited to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

(g) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future tax assets are recognized to the extent that they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Asset retirement obligations

During the year ended February 28, 2005, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110 "Asset Retirement Obligations" ("HB 3110"). This new standard recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the accretion of discounted underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset.

Prior to the adoption of HB 3110, the Company had accounted for reclamation and closure costs by accruing an amount associated with the retirement of tangible long-lived assets as a charge to operations over the life of the asset. The Company adopted HB 3110 retroactively with a restatement of prior periods presented. However, the adoption of HB 3110 resulted in no changes to amounts previously presented.

(i) Loss per share

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of shares outstanding during the year. For all years presented, loss available to common shareholders equals the reported loss. The Company uses the treasury stock method for calculating diluted earnings per share. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year. In the Company's case, diluted loss per share presented is the same as basic loss per share as the effect of outstanding options and warrants in the loss per share calculation would be anti-dilutive.

(j) Foreign currency translation

The Company uses the Canadian dollar as its reporting currency, and accounts denominated in currencies other than the Canadian dollar have been translated as follows:

- Revenue and expense items at the rate of exchange in effect on the transaction date;
- Non-monetary assets and liabilities at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rate in effect on the balance sheet date; and
- Monetary assets and liabilities at the exchange rate at the balance sheet date.

Exchange gains and losses are recorded in the statement of operations in the period in which they occur.

(k) Use of estimates

The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to impairment of mineral properties, determination of asset retirement obligations, valuation allowances for future income tax assets, and assumptions used in determining the fair value of non-cash stock-based compensation. Actual results could differ from those estimates.

(expressed in Canadian dollars, unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Fair value of financial instruments

The fair values of the Company's cash and cash equivalents, receivables, and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity. It is not practicable to determine the fair values of amounts due from or to related parties due to their related party nature and the absence of a secondary market for such instruments.

(m) Comparative figures

Certain of the prior years' comparative figures have been reclassified to conform to the presentation adopted in the current year.

3. BUILDINGS AND EQUIPMENT

	February 28, 2005			February 29, 2004		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Buildings (under construction)	$ 24,039	$ -	$ 24,039	$ -	$ -	$ -
Machinery and equipment	12,198	387	11,811	2,370	2,370	-
Transportation and vehicles	66,332	7,183	59,149	-	-	-
Office equipment	6,994	293	6,701	3,725	3,725	-
	$ 109,563	$ 7,863	$ 101,700	$ 6,095	$ 6,095	$ -

4. MINERAL PROPERTIES

At February 28, 2005, February 29, 2004 and February 28, 2003, the Company's mineral properties are comprised of properties located in Mexico and Canada. Expenditures incurred on mineral properties during the years ended February 28, 2005, February 29, 2004 and February 28, 2003 are as follows:

	Santa Cruz (Mexico)	El Taco (Mexico)	San Jose (Mexico)	Total
Balance, February 29, 2004	$ -	$ 21,569	$ 7,528	$ 29,097
Additions during the year:				
Acquisition costs	3,864,750	-	13,284	3,878,034
Exploration costs:				
Assays and surveys	51,754	-	1,192	52,946
Camp and supplies	270,477	-	-	270,477
Drilling	619,420	-	-	619,420
Geologists and consultants	229,929	-	-	229,929
Repair, maintenance and sundry	18,303	-	-	18,303
Transportation	52,286	-	-	52,286
Mineral properties written-off	-	(21,569)	(22,004)	(43,573)
Balance, February 28, 2005	$ 5,106,919	$ -	$ -	$ 5,106,919

(expressed in Canadian dollars, unless otherwise noted)

4. MINERAL PROPERTIES (continued)

	El Taco (Mexico)	San Jose (Mexico)	Otish Mountain (Canada)	Total
Balance, February 28, 2003	$ -	$ -	$ 51,100	$ 51,100
Additions during the year:				
Acquisition costs	15,176	-	-	15,176
Exploration costs:				
Assays	6,393	7,528	-	13,921
Mineral properties written-off	-	-	(51,100)	(51,100)
Balance, February 29, 2004	$ 21,569	$ 7,528	$ -	$ 29,097

	Otish Mountain (Canada)	Ham (Canada)	Ocock (Canada)	Total
Balance, February 28, 2002	$ -	$ 4,612	$ 2,000	$ 6,612
Additions during the year:				
Acquisition costs	47,750	-	-	47,750
Exploration costs:				
Assays and surveying	3,350	-	-	3,350
Mineral properties written-off	-	(4,612)	(2,000)	(6,612)
Balance, February 29, 2003	$ 51,100	$ -	$ -	$ 51,100

(a) Santa Cruz property and plant (Durango, Mexico)

In May 2004, the Company entered into option agreements to acquire a 100% interest in the producing Santa Cruz silver-gold mine, certain mining concessions and the Guanacevi mineral processing plant, all located in Durango, Mexico. In February 2004, the Company advanced US$100,000 to the vendors in connection with these agreements.

The option agreement provides that the acquisition of the mine will be accomplished through the acquisition of all the issued and outstanding shares of Minera Santa Cruz y Garibaldi S.A. de C.V. (“Minera Santa Cruz”). The Company will acquire 51% of the outstanding shares of Minera Santa Cruz on completion of initial payments totalling US$1,275,714 on or before January 28, 2006. To February 28, 2005, the Company made advance payments totalling $1,097,773 (US$852,143). The remaining 49% of the shares of Minera Santa Cruz can be acquired on or before January 28, 2008 through annual payments totalling US$1,275,716. On exercise of the option and completion of the acquisition, it is anticipated that substantially all of the purchase price of the shares of Minera Santa Cruz will be allocated to the mineral property.

The Company also entered into an option agreement to acquire mining concessions from Minera Santa Cruz for a total cost of US$448,571. The Company will acquire a 51% beneficial ownership interest in the mining concessions on or before January 28, 2006 on completion of initial payments totalling US$438,571. To February 28, 2005, the Company made advance payments totalling $558,548 (US$428,571) and subsequent to February 28, 2005, a further advance payment of US$5,000 was made. The remaining 49% beneficial ownership interest in the mining concessions can be acquired on or before January 28, 2008 through annual payments totalling US$10,000.

4. MINERAL PROPERTIES (continued)

(a) Santa Cruz property and plant (Durango, Mexico) (continued)

In addition, the Company entered into an option agreement to acquire a processing plant from an unrelated Mexican company for a total cost of US$4,000,000. The Company will acquire a 51% beneficial ownership interest in these assets on or before January 28, 2006 on completion of initial payments totalling US$2,285,715. To February 28, 2005, the Company made advance payments totalling $2,208,429 (US$1,714,286). The remaining 49% beneficial ownership interest in the processing plant can be acquired on or before January 28, 2008 through annual payments totalling US$1,714,285.

In addition to the above payments, the Company committed to spend US$1,000,000 on exploration and development of the Santa Cruz property on or before May 17, 2005. To February 28, 2005, the Company spent $1,242,169.

Pursuant to a May 2004 loan agreement, the Company agreed to loan up to US$425,000 to Minera Santa Cruz for development of an access ramp at the Santa Cruz mine. Any unpaid amounts on the loan as at January 28, 2005 bore interest at 9%, were secured by certain mining concessions held by Minera Santa Cruz, and were to be repaid from the proceeds of certain minerals produced. At February 28, 2005, the loan balance due from Minera Santa Cruz was US$26,921, which included accrued interest of US$1,921, and the loan, including accrued interest, was repaid in full subsequent to February 28, 2005. Furthermore, pursuant to the loan agreement, the Company also earned a 25% net profits royalty from ore mined by Minera Santa Cruz from the related mining concessions up to January 28, 2005.

As the above agreements are options, the Company, but not the vendors, has the right to cancel the above agreements at any time. However, if cancellation occurs at any time before January 28, 2006, the Company would forfeit any advance payments already made to the vendors, and would relinquish any rights to the shares of Minera Santa Cruz and the interests in the processing plant and mining concessions.

(b) El Taco property (Sonora, Mexico)

In August 2003, the Company entered into an option agreement for the El Taco property located in Sonora, Mexico. The Company had the option to earn a 100% interest in the property by making cash payments of US$100,000 and issuing 200,000 common shares over a 4 year period, subject to a 2% net smelter return royalty. In fiscal 2004, the Company paid US$5,000 and issued 25,000 common shares to the optionor. The Company subsequently terminated this option agreement and accordingly, deferred mineral property costs of $21,569 were written off in fiscal 2005.

(c) San Jose property (Sinaloa, Mexico)

In July 2003, the Company entered an agreement to acquire a 100% interest in the San Jose property located in Sinaloa, Mexico, for cash payments of US$300,000 over a four year period. In March 2004, the Company made a US$10,000 option payment. The Company subsequently terminated this option agreement and accordingly, deferred mineral property costs of $22,004 were written off in fiscal 2005.

(d) Otish Mountain properties (Quebec, Canada)

Pursuant to an agreement dated June 20, 2002, the Company acquired a 50% interest in two properties located in the Mistassini-Otish area of northern Quebec. In consideration, the Company paid $31,000 and issued 150,000 common shares to the vendor in fiscal 2003. Subsequent to the transaction, the vendor became President and a director of the Company. During fiscal 2004, the Company determined that it would no longer pursue the property and accordingly, wrote-off the $51,100 of costs incurred on the property.

(e) Ham property (British Columbia, Canada)

Pursuant to an option agreement dated October 9, 2001, the Company was granted an option to earn up to a 100% interest in a mineral claim located in British Columbia in consideration of cash payments in the aggregate of $30,000 ($2,700 paid) and issuing an aggregate of 50,400 common shares over a three year period (12,600 common shares issued). During fiscal 2003, the Company determined that it would no longer pursue the property and accordingly, wrote-off total costs incurred on the property in the amount of $4,612.

(expressed in Canadian dollars, unless otherwise noted)

4. MINERAL PROPERTIES (continued)

(f) Ocock property (British Columbia, Canada)

During fiscal 2002, the Company acquired the Ocock mineral claim located in British Columbia in consideration of incurring certain exploration expenditures on the property. During fiscal 2003, the Company determined that it would no longer pursue the property and accordingly, wrote-off total costs incurred on the property in the amount of $2,000.

(g) Mineral property contingencies

Management believes the Company has diligently investigated rights of ownership of all of the mineral properties to a level which is acceptable by prevailing industry standards with respect to the current stage of development of each property in which it has an interest and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, all properties may be subject to prior claims, agreements or transfers, and rights of ownership may be affected by undetected defects.

5. SHARE CAPITAL

(a) Authorized and issued

Authorized share capital consists of unlimited (2004 - 100,000,000) common shares without par value. During the year ended February 28, 2005, the Company increased its authorized share capital from 100,000,000 common shares without par value to an unlimited number of common shares without par value in connection with the required change from the Company Act (British Columbia) to the new Business Corporations Act (British Columbia). During fiscal 2003, the Company consolidated its authorized and issued share capital on a four old for one new basis. All share references prior to the share consolidation have been restated for this share consolidation.

As at February 28, 2005 and February 29, 2004, a total of 93,750 common shares are held in escrow, the release of which is subject to regulatory approval.

Details of shares issued are as follows:

	Number of Shares		Amount
Balance, February 28, 2002	2,757,050	$	4,002,617
Issued during the year:			
For cash from private placement (Note 5(b)(i))	3,000,000		300,000
For mineral property (Note 4(d))	150,000		15,000
For loan bonuses (Note 7(d))	100,000		10,000
For settlement of debt (Note 7(e))	184,500		18,450
Balance, February 28, 2003	6,191,550		4,346,067
Issued during the year:			
For cash from private placement (Note 5(b)(ii))	3,050,000		872,570
From exercise of share purchase options	165,000		30,480
For cash from exercise of warrants	1,700,000		204,000
For mineral property (Note 4(b))	25,000		8,750
Balance, February 29, 2004	11,131,550		5,461,867
Issued during the year:			
For cash from private placement (Note 5(b)(iii)), net of issue costs	7,264,719		10,699,496
From exercise of share purchase options	419,000		112,440
For cash from exercise of warrants	2,058,000		434,500
Balance, February 28, 2005	20,873,269	$	16,708,303

(expressed in Canadian dollars, unless otherwise noted)

5. SHARE CAPITAL (continued)

(b) Private placements

(i) In January 2003, the Company completed a private placement for 3,000,000 units at a price of $0.10 per unit. Each unit consisted of one common share and one share purchase warrant exercisable to acquire one additional common share at a price of $0.12 per share until November 29, 2004.

(ii) In December 2003, the Company completed a private placement for 3,050,000 units at a price of $0.30 per unit. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of $0.35 per share until October 6, 2005.

(iii) In April 2004, the Company completed brokered and non-brokered private placements to raise a total of $9,916,000 to finance the acquisition of the Santa Cruz silver-gold mine and the Guanacevi processing plant (Note 4(a)). The Company completed a brokered private placement for 5,022,500 units at $1.60 per unit for gross proceeds of $8,036,000. Each unit consisted of one common share and one-half of one share purchase warrant, with each whole warrant giving the holder the right to purchase an additional common share at $2.00 per share until October 22, 2005. The Company also completed a non-brokered private placement for 1,175,000 units at the same price and the same terms as the brokered private placement for an additional $1,880,000 in gross proceeds. Share issuance costs consist of finders' fees of $90,000, agents' fees of 25,000 corporate finance units (with the same terms as the units in the private placement), commission of $571,950, 19,219 agents' units (with the same terms as the units in the private placement) and 602,700 agents' warrants (with the same terms as the warrants in the private placement). The 624,809 warrants issued to the agents have a fair value of $391,238 and have been recorded in share capital on a net basis.

In February 2005, the Company completed brokered and non-brokered private placements to raise a total of $1,636,800. The Company completed a brokered private placement for 312,500 units at $1.60 per unit for gross proceeds of $500,000. Each unit consisted of one common share and one share purchase warrant, exercisable to acquire one common share at an exercise price of $2.10 until February 1, 2006 and $2.30 thereafter until February 1, 2007. The Company also completed a non-brokered private placement for 710,500 units at the same price and the same terms as the brokered private placement for an additional $1,136,800 in gross proceeds. Share issuance costs consist of agents' fees of $37,500 and 40,000 agents' warrants (with the same terms as the warrants in the private placement). The 40,000 warrants issued to the agent have a fair value of $22,000 and have been recorded in share capital on a net basis.

(c) Contributed surplus

Balance at February 28, 2003 and 2002	$ -
Changes during the year:	
Stock-based compensation (Note 5(d))	210,900
Exercise of share purchase options	(9,180)
Balance at February 29, 2004	201,720
Changes during the year:	
Stock-based compensation (Note 5(d))	1,498,700
Exercise of share purchase options	(36,190)
Balance at February 28, 2005	$ 1,664,230

(expressed in Canadian dollars, unless otherwise noted)

5. SHARE CAPITAL (continued)

(d) Share purchase options

Options to purchase common shares have been granted to directors, officers, employees and consultants pursuant to the Company's stock option plan approved by the Company's shareholders in fiscal 2004 at exercise prices determined by reference to the market value on the date of the grant. Vesting periods are at the discretion of the Board of Directors but historically, options have vested immediately on the date of grant. The following table summarizes the status of the Company's stock option plan as at February 28, 2005, February 29, 2004 and February 28, 2003, and changes during the years ended on those dates:

	Year Ended					
	February 28, 2005		February 29, 2004		February 28, 2003	
	Number of Shares	Weighted average exercise price	Number of Shares	Weighted average exercise price	Number of Shares	Weighted average exercise price
Outstanding, beginning of year	860,000	$0.37	275,000	$0.10	990,000	$0.10
Granted	1,480,000	$1.57	750,000	$0.42	275,000	$0.10
Exercised	(419,000)	$0.18	(165,000)	$0.13	-	-
Cancelled	(50,000)	$1.41	-	-	(990,000)	$0.10
Outstanding, end of year	1,871,000	$1.33	860,000	$0.37	275,000	$0.10
Options exercisable at year-end	1,871,000		860,000		-	

The following tables summarizes information about stock options outstanding at February 28, 2005:

	Options Outstanding and Exercisable		
Price Intervals	Number Outstanding and Exercisable at February 28, 2005	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices
$0.01 - $0.49	171,000	0.6	$0.34
$0.50 - $0.99	260,000	3.9	$0.66
$1.00 - $1.49	200,000	1.7	$1.39
$1.50 - $1.99	1,240,000	4.5	$1.60
	1,871,000	3.8	$1.33

During the year ended February 28, 2005, the Company recognized stock-based compensation expense of $1,498,700 (2004 - $210,900 and 2003 - $Nil) based on the fair value of options granted on or after March 1, 2002 that were earned by the provision of services during the year. There would be no material impact on net loss and loss per share during the year ended February 28, 2003 had the Company determined compensation cost for director, officers and employees using the fair value method.

(expressed in Canadian dollars, unless otherwise noted)

5. SHARE CAPITAL (continued)

(d) Share purchase options (continued)

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

The weighted average fair values of stock options granted and the assumptions used to calculate compensation expense have been estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Year Ended		
	February 28, 2005	February 29, 2004	February 28, 2003
Weighted average fair value of options granted during the year	$1.01	$0.27	$0.10
Risk-free interest rate	2.51%	3.13%	3.37%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	104%	121%	221%
Expected option life in years	3	2	2

Subsequent to February 28, 2005, the Company granted stock options to directors, officers, employees and consultants to acquire up to 339,900 common shares at an exercise price of $2.52 per share and an expiry date of March 22, 2010.

(e) Warrants

At February 28, 2005, the Company had outstanding warrants to purchase an aggregate 5,553,559 common shares as follows:

Exercise Prices	Expiry Dates	Oustanding at February 29, 2004	Issued	Exercised	Expired	Oustanding at February 28, 2005
$0.12	November 29, 2004	1,300,000	-	(1,300,000)	-	-
$0.35	October 6, 2005	1,525,000	-	(750,000)	-	775,000
$2.00	October 22, 2005	-	3,475,559	(8,000)	-	3,467,559
$2.00	October 28, 2005	-	248,000	-	-	248,000
$2.10 / $2.30	February 1, 2006 / February 1, 2007	-	1,063,000	-	-	1,063,000
		2,825,000	4,786,559	(2,058,000)	-	5,553,559

(expressed in Canadian dollars, unless otherwise noted)

5. SHARE CAPITAL (continued)

(e) Warrants (continued)

At February 29, 2004, the Company had outstanding warrants to purchase an aggregate 2,825,000 common shares as follows:

Exercise Prices	Expiry Dates	Oustanding at February 28, 2003	Issued	Exercised	Expired	Oustanding at February 29, 2004
$0.12	November 29, 2004	3,000,000	-	(1,700,000)	-	1,300,000
$0.35	October 6, 2005	-	1,525,000	-	-	1,525,000
		3,000,000	1,525,000	(1,700,000)	-	2,825,000

At February 28, 2003, the Company had outstanding warrants to purchase an aggregate 3,000,000 common shares as follows:

Exercise Prices	Expiry Dates	Oustanding at February 28, 2002	Issued	Exercised	Expired	Oustanding at February 28, 2003
$0.12	November 29, 2004	-	3,000,000	-	-	3,000,000
		-	3,000,000	-	-	3,000,000

(f) Shares reserved for issuance

	Number of Shares
Issued and outstanding, February 28, 2005	20,873,269
Stock options	1,871,000
Warrants	5,553,559
Fully diluted, February 28, 2005	28,297,828

(expressed in Canadian dollars, unless otherwise noted)

6. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Year Ended February 28, 2005	Year Ended February 29, 2004	Year Ended February 28, 2003
Non-cash financing and investing activities:			
Amortization included in mineral properties	$ 3,058	$ -	$ -
Advance on acquisition included in mineral properties (Note 4(a))	$ 132,824	$ -	$ -
Shares issued on acquisition of mineral properties (Note 4)	$ -	$ 8,750	$ 15,000
Shares issued on settlement of debts (Note 7(e))	$ -	$ -	$ 18,450
Fair value of stock options allocated to shares issued on exercise of stock options	$ 36,190	$ 9,180	$ -
Supplemental cash flow information:			
Cash paid during the year for:			
Interest and financing costs	$ -	$ 1,896	$ 865
Income taxes	$ -	$ -	$ -

7. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

(a) As at February 28, 2005, an amount of $6,861 is due from a company with certain common directors (2004 - $14,232 due to a company with certain common directors). Other amounts due from (to) related parties represent amounts owed by (to) companies with certain common directors, which do not bear any interest and provide for no specific terms of repayment.

(b) As at February 28, 2005, a total of $358,424 was due from Minera Santa Cruz (Note 4(a)). This consists of the loan balance and accrued interest of $33,151 (Note 4(a)), the net profits royalty on ore mined to January 28, 2005 (Note 4(a)) totalling $222,498, and advances to Minera Santa Cruz to fund exploration and mine development expenditures incurred by Minera Santa Cruz totalling $102,775. The net profits royalty receivable and the exploration and mine development advances are unsecured, non-interest bearing and due on demand.

(c) Rent of $18,000 (2004 - $18,000; 2003 - $14,000) was incurred and paid to a company with certain common directors.

(d) The Otish Mountain properties were acquired in fiscal 2003 from a vendor who subsequently became President and a director of the Company (Note 4(d)).

(e) During fiscal 2003, the Company received two loans in the amount of $25,000 each to assist in the reactivation of the Company. The loans bore interest at the rate of 9% per annum with repayment of principal and interest due on or before September 30, 2002. One of the loans was received from a company controlled by a director of the Company. This loan was repaid in full, with interest in the amount of $865, on October 30, 2002. The other loan was repaid in December 2003 including interest of $3,480. The lenders received an aggregate of 100,000 common shares of the Company valued at $10,000 as a loan bonus (Note 5(a)).

(f) Accounts payable of $18,450 owed to a director of the Company as at February 28, 2002 was settled with the issuance of 184,500 common shares in fiscal 2003 (Note 5(a)).

(expressed in Canadian dollars, unless otherwise noted)

8. INCOME TAXES

Substantially all of the difference between the actual income tax expense (recovery) of $nil ($nil for 2004 and 2003) and the expected tax recovery based on statutory rates relates to the benefit of losses which have been offset by a full valuation allowance.

The tax effect of the temporary differences that gives rise to future tax assets as of February 28, 2005 (tax rate 35.62%) and February 29, 2004 (tax rate 35.62%) is presented below:

	February 28, 2005	February 29, 2004
Future income tax assets:		
Tax loss carryforwards	$ 987,000	$ 314,000
Mineral properties	689,780	674,000
Buildings and equipment	5,000	5,000
Total future income tax assets	1,681,780	993,000
Valuation allowance	(1,681,780)	(993,000)
Future income tax assets, net	$ -	$ -

As at February 28, 2005, the Company had available the following amounts for deduction against future Canadian earnings:

Non-capital losses, expiring as follows:	
2006	$ 10,000
2007 to 2009	-
2010	117,000
2011	276,000
2012	1,033,000
	$ 1,436,000
Capital losses	$ 887,000
Financing costs	$ 739,000

(expressed in Canadian dollars, unless otherwise noted)

9. SEGMENT DISCLOSURES

The Company has one operating segment, being the exploration and development of mineral properties. All of the Company's assets are located in Mexico and Canada (Note 4). Segmented disclosures are as follows:

	February 28, 2005		
	Canada	Mexico	Total
Cash	$ 4,548,645	$ 409,238	$ 4,957,883
Receivables	26,209	674,360	700,569
Due from related parties	6,861	358,424	365,285
Buildings and equipment	-	101,700	101,700
Mineral properties	-	5,106,919	5,106,919
Net (loss) income	(2,694,126)	128,644	(2,565,482)

As at February 29, 2004, all of the Company's assets are located in Canada, except for mineral properties and advance on acquisition, both of which are located in Mexico. For fiscal 2005, substantially all capital expenditures were incurred in Mexico.

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ENDEAVOUR SILVER CORP.

(formerly Endeavour Gold Corp.)
(the "Company")

Management's Discussion and Analysis
For the Year Ended February 28, 2005

CAUTION – FORWARD LOOKING STATEMENTS

Certain statements contained herein regarding the Company and its operations constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. All statements that are not historical facts, including without limitation statements regarding future estimates, plans, objectives, assumptions or expectations of future performance, are "forward-looking statements". We caution you that such "forward looking statements" involve known and unknown risks and uncertainties that could cause actual results and future events to differ materially from those anticipated in such statements. Such risks and uncertainties include fluctuations in precious metal prices, unpredictable results of exploration activities, uncertainties inherent in the estimation of mineral reserves and resources, fluctuations in the costs of goods and services, problems associated with exploration and mining operations, changes in legal, social or political conditions in the jurisdictions where the Company operates, lack of appropriate funding and other risk factors, as discussed in the Company's filings with Canadian and American Securities regulatory agencies. The Company expressly disclaims any obligation to update any forward-looking statements.

1.0 Preliminary Information

The following Management's Discussion and Analysis ("MD&A") of Endeavour Silver Corp. (formerly Endeavour Gold Corp.) (the "Company") should be read in conjunction with the accompanying audited consolidated financial statements for the years ended February 28, 2005, February 29, 2004 and February 28, 2003, which are available at the SEDAR website at www.sedar.com.

All financial information in this MD&A is prepared in accordance with Canadian generally accepted accounting principles ("CAD GAAP"), and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

All information contained in the MD&A is as of June 23, 2005 unless otherwise indicated.

1.1 Background

The Company is engaged in the evaluation, acquisition, exploration, development and exploitation of mineral properties. Previously the Company focused its activities principally in Canada but in fiscal 2004 the Company was more active in seeking properties of merit in Mexico.

In May 2004, the Company signed formal option agreements to acquire up to a 100% interest in the producing Santa Cruz silver-gold mine, certain other mining concessions and the Guanacevi mineral processing plant in Durango, Mexico. Terms of the agreement give the Company the option to acquire a 51% interest in these operating assets by paying a total of US$4 million to the vendors and incurring US$1 million in mine exploration and development within one year. The balance of the 49% interest can be earned by paying a further US$3 million over the period to January 2008. To complete the acquisition of the initial 51% interest, payments totalling US$1 million must be made on or before January 28, 2006; otherwise any interest earned by the Company up to that date will be forfeited, and all rights and title and ownership of the Santa Cruz silver-gold mine, certain other mining concessions and the Guanacevi mineral processing plant shall be returned to their original vendors. As at June 23, 2005, the Company has paid the vendors US$3 million and invested more than US$1 million in mine exploration and development.

(expressed in Canadian dollars unless otherwise noted)

North Povenir Zone

In the second quarter of fiscal 2005, the Company implemented a US$1.1 million Phase 1 exploration program for Minera Santa Cruz y Garibaldi S.A. de C.V.'s ("Santa Cruz") silver-gold mine on two prospective ore zones, North Porvenir and San Guillermo. Work included underground ramps and diamond drilling for the purpose of outlining mineable resources in each zone and preparing them for production in 2005. Approximately 1,000 metres of ramp access plus related crosscuts, sublevels and raises were expected to be completed in order to explore and to prepare the North Porvenir mine for production. In connection with these activities, the Company advanced US$425,000 to Minera Santa Cruz as a loan for the ramp development which was subsequently repaid. To complement the underground development program, a 6,000 metre surface drilling program was also implemented for the North Porvenir zone and focused on outlining the mineralization on 50 metre centres.

In early December 2004, consistently high-grade silver vein mineralization had been outlined by underground sampling in the North Porvenir zone of the Santa Cruz mine. Two sill levels 2308 and 2310 (horizontal tunnels driven along the mineralized vein in preparation for production) returned an average 689 gpt silver (20.1 opt) and 1.30 gpt gold (0.04 opt) over an average 2.97 metre (9.7 feet) horizontal width along a 140 metre (459 feet) strike length.

By the end of December 2004, a total of 1,160 metres of underground development was completed, including 410 metres of a new access ramp, a 161 metre ventilation raise, eleven crosscuts into the vein totalling 141 metres, two sill levels totalling 135 metres and related underground workings. Moreover, an exploration program of 4,160 metres of diamond drilling in 12 holes was completed in the North Porvenir zone.

In February 2005, results from the exploration program extended the North Povenir zone over 600 metres in length by at least 300 metre in depth, still open in all directions. The Company also identified seven prospective mineralized zones on the Santa Cruz mine property, which will be drilled in 2005.

During the fiscal year ended February 28, 2005, trial mining was completed at North Porvenir in order to assess the potential production rate, mining method and metallurgical recovery of this exciting new discovery and to repay the Company's US$425,000 loan. Trial mining had a major impact on the rate of silver production from the Santa Cruz mine. In June 2004, the combined mine and plant operations were averaging 23,500 oz Ag equivalent production per month (Ag equivalents are about 91% Ag), which increased by 180% to 66,350 oz Ag equivalents in December 2004. The mine is not currently producing as the Company continues to complete its mine development and exploration activities.

In May 2005, the Company confirmed an initial estimate of 8.6 million oz silver resource (9.8 million oz. Ag equivalents) according to an independent National Instrument 43-101 ("NI 43-101") report dated May 5, 2005, as amended May 10, 2005. Watts, Griffis and McOuat Limited was retained by the Company to audit and validate the polygonal resource estimate by the Company for the North Povenir zone as follows:

Classification	Tonnes	Silver (gpt)	Gold (gpt)	Silver (oz)	Ag. Eq. (oz)
Measured	18,700	698	1.2	420,000	463,000
Indicated	23,500	682	1.2	515,000	570,000
Inferred	245,700	482	1.2	3,839,000	4,408,000

The above-noted North Porvenir resource is in compliance with NI 43-101 and was estimated using a 335 gpt Ag cutoff grade, a minimum 1.0 m mining width and a US$6.50 silver price. Twenty-one surface drill holes, five underground cross-cuts and 135 m of underground channel sampling within a 575 m strike length were utilized in the resource estimate but 155 m of that strike length were omitted as drilling is still in progress in these areas. The

North Porvenir zone remains open at depth and to a certain extent along strike.

For the month of February 2005, production at the North Porvenir zone resulted in 6,863 tonnes of development waste and 837 tonnes of vein ore grading approximately 600 grams per tonne silver.

From February 2005 to early May 2005, an additional 524 metres of underground ramp, drifts, cross-cuts and raises have been completed. In addition, the North Porvenir ramp was widened over a 674 metre length and a new 223 metre ventilation raise was completed, thereby allowing for accelerated development of the next production sill level 40 metre vertically deeper than the initial trial stope completed in January 2005.

Santa Cruz Mine

For the month of February 2005, mine development at the Santa Cruz mine resulted in 432 tonnes of development waste and 658 tonnes of vein ore grading 234 grams per tonne silver being mined. The mining was focused in the Victor Breccia zone of the Santa Cruz mine. More exploration, including drilling, is required to define resources for future mining in the Santa Cruz mine. A major program of 5,000 metres of drilling is planned in various parts of the mine to locate and to define mineral resources.

San Guillermo Zone

About 100 metres of access ramp were completed and sampling was underway in two prospective ore shoots at the San Guillermo zone. Development of this zone resulted in 50 to 100 tonnes per day of moderate grade ore to the Guanacevi plant by the end of 2004.

Guanacevi Processing Plant

In addition to the Phase 1 exploration program at the Santa Cruz mine, the Company also implemented metallurgical testing and mill optimization programs at the Guanacevi processing plant in order to improve recoveries of silver and gold. RDI Resource Development Inc., metallurgical consultants, completed a millsite tour and concluded that the mill and processing equipment was in good condition, plant personnel are highly experienced operators, and a third pump station plus expansion of the tailings pond should increase the reprocessing of old oxidized tailings from 450 tonnes per day to 750 tonnes per day. Also, Summit Valley Equipment and Engineering Inc. was commissioned to conduct a comprehensive review of the plant, including the condition of all equipment, the capacity of each circuit and the efficiency of plant operations. Some of its findings include a clean and well-maintained plant, brand name equipment and a well-trained and reliable work force. The plant is fully permitted with operating facilities complete with land ownership, townsite and all related infrastructure. Although by February 2005, the plant was averaging 220 tpd, which represent a significant increase from one year ago, it is still operating at well below its design capacity of 1,400 tpd.

Fiscal period ending December 31, 2005

In order to improve the operating capacities and efficiencies of the mine and plant, the Company plans an aggressive investment program totaling US$4.83 million in the fiscal period ending December 31, 2005 on capital projects, including US$0.52 million for the plant, US$1.34 million on mine facilities and US$2.97 million on exploration. Management believes these expenditures should allow the total ore mined and processed to more than double from 275 tonnes per day in the first quarter to 700 tonnes per day in the fourth quarter for the fiscal period ending December 31, 2005.

1.2 <u>Overall Performance</u>

The Company is engaged in the evaluation, acquisition, exploration, development and exploitation of mineral properties. The business philosophy of the Company has historically been to identify, to explore and to develop mineral targets. The Company financed its operating and exploration activities principally by the issuance of common shares.

(expressed in Canadian dollars unless otherwise noted)

Previously the Company focused its activities principally in Canada but in fiscal 2004 the Company was more active in seeking properties of merit in Mexico. This culminated in the Company entering into formal option agreements to acquire up to a 100% interest in the producing Santa Cruz silver-gold mine properties, certain mining concessions, and the Guanacevi mineral processing plant, all of which are located in Durango, Mexico. An equity financing in the first quarter of fiscal 2005 was completed to provide the financial resources needed for the Company to further develop its business and realize its objectives for its projects and properties in Mexico.

Silver markets continued to show strength as the cumulative average increased from US$4.5995 per ounce in 2002 to US$4.8758 in 2003, to US$6.6711 in 2004 and then to US$7.0610 from January 2005 to late June 2005. Silver prices peaked in March 2004 and in the last quarter of 2004, when prices reached highs of over US$7.00 and traded with monthly averages of over US$7.00 in the first half of 2005.

The Company had raised significant equity financing for gross proceeds totalling $11,552,800 in fiscal 2005 from brokered and non-brokered private placements. The private placements were used, in part, to fund the interests acquired in the Santa Cruz mine, certain mining concessions and the Guanacevi processing plant. Also, the Company incurred expenditures related to mine development and exploration programs for Santa Cruz. As at February 28, 2005, the Company invested approximately $5.0 million for these Mexican mineral properties and exploration efforts. Also the significantly heightened level of operating activity in fiscal 2005 is reflected in a net loss of $2,565,284, which is substantially higher relative to prior years.

1.3 Selected Annual Information

Selected annual information for the Company for each of the three years ended February 28, 2005, February 29, 2004 and February 28, 2003 are as follows:

	Years Ended (1)		
	February 28, 2005	February 29, 2004	February 28, 2003
Total revenues	$ -	$ -	$ -
Loss before discontinued operations and extraordinary items:			
(i) Total	$ (2,565,482)	$ (778,701)	$ (185,847)
(ii) Basic per share	$ (0.15)	$ (0.11)	$ (0.06)
(iii) Diluted per share	$ (0.15)	$ (0.11)	$ (0.06)
Net loss:			
(i) Total	$ (2,565,482)	$ (778,701)	$ (185,847)
(ii) Basic per share	$ (0.15)	$ (0.11)	$ (0.06)
(iii) Diluted per share	$ (0.15)	$ (0.11)	$ (0.06)
Total assets	$ 11,246,000	$ 761,138	$ 209,483
Total long-term liabilities	$ -	$ -	$ -
Dividends per share	$ -	$ -	$ -

(1) Total assets and long-term liabilities are as at February 28, 2005, February 29, 2004 and February 28, 2003.

Total assets and net losses increased significantly relative to prior years given that in fiscal 2005 the Company invested $3,864,750 pursuant to option agreements related to its 51% interests in the mine, mining concessions and processing plant and $1,242,169 in mineral exploration expenditures for its Mexican mineral properties, raised gross proceeds of $11,552,800 from brokered and non-brokered private placements, and increased its level of operations with the commensurate increases in expenses and net loss in fiscal 2005.

1.4 Results of Operations

Fiscal Year 2005 – Years ended February 28, 2005 and February 29, 2004

The Company incurred a net loss of $2.6 million for the year ended February 28, 2005 in contrast to the net loss of $779,000 for the year ended February 29, 2004. In most expense categories for fiscal 2005, the Company incurred higher expenses relative to fiscal 2004 reflecting the operating, due diligence and property investigation efforts and other ancillary functions to support the increased corporate and financing and exploration and mine development activities of the Company. In the second quarter of fiscal 2005, the Company developed and implemented its Phase 1 exploration program of US$1.1 million which continued into the fourth quarter for its optioned Santa Cruz silver mine which contributed to higher operating expenses for staff and support services. Stock-based compensation expense reflects the granting of 1,480,000 stock options in fiscal 2005 which also significantly increased the loss for the year ended February 28, 2005. The Company's property investigation expenses were incurred essentially for seeking properties of merit and further concessions in Mexico.

For the year ended February 28, 2005, pursuant to the May 2004 loan agreement with Minera Santa Cruz, the Company earned a 25% royalty from ore mined from certain mining concessions using funds advanced by the Company to Minera Santa Cruz to build an access ramp in the mine, all of which occurred prior to January 28, 2005. Thereafter, mining activities temporarily ceased as the Company focused on mine development and exploration efforts on two prospective zones on the optioned Santa Cruz mine. In February 2005, the lack of ore from the Santa Cruz mine contributed to a nominal loss to the Company from the operation of the Guanacevi processing plant which was working at significantly below capacity, as it relies upon the Santa Cruz mine for most of its ore processing revenues. During February 2005, the Guanacevi plant processed 6,735 dry tonnes of ore with a recovery of 79,540 oz. silver and 224 oz. gold.

Through its subsidiaries in Mexico, the Company incurred further operating expenses attributable to preliminary ongoing activities related to its acquisition of the Santa Cruz silver-gold mine and Guanacevi mineral processing plant in Durango, Mexico. Such expenses include Mexican consulting and professional fees incurred in the acquisitions and in obtaining mining and exploration concessions. Also, expenses were attributable to implementing the Company's Phase 1 exploration program. As at February 28, 2005, the Company incurred and deferred $1.2 million in exploration expenditures to identify mineable resources in two ore zones in the Santa Cruz property.

In July 2003, the Company entered into an agreement to acquire a 100% interest in the San Jose property in Mexico for cash payments of US$300,000 over a four year period. In March 2004, the Company made a cash payment of US$10,000 and incurred $1,192 in exploration related expenditures. The property was written off in the second quarter of fiscal 2005.

The Company's El Taco property in Mexico was written off in first quarter of fiscal 2005 as the Company determined not to pursue further work on the property.

For the years ended February 28, 2005 and February 29, 2004, expenditures on the Company's mineral properties were comprised of the following:

(expressed in Canadian dollars unless otherwise noted)

	Santa Cruz (Mexico)	El Taco (Mexico)	San Jose (Mexico)	Total
Balance, February 29, 2004	$ -	$ 21,569	$ 7,528	$ 29,097
Additions during the year:				
Acquisition costs	3,864,750	-	13,284	3,878,034
Exploration costs:				
Assays and surveys	51,754	-	1,192	52,946
Camp and supplies	270,477	-	-	270,477
Drilling	619,420	-	-	619,420
Geologists and consultants	229,929	-	-	229,929
Repair, maintenance and sundry	18,303	-	-	18,303
Transportation	52,286	-	-	52,286
Mineral properties written-off	-	(21,569)	(22,004)	(43,573)
Balance, February 28, 2005	$ 5,106,919	$ -	$ -	$ 5,106,919

	El Taco (Mexico)	San Jose (Mexico)	Otish Mountain (Canada)	Total
Balance, February 28, 2003	$ -	$ -	$ 51,100	$ 51,100
Additions during the year:				
Acquisition costs	15,176	-	-	15,176
Exploration costs:				
Assays	6,393	7,528	-	13,921
Mineral properties written-off	-	-	(51,100)	(51,100)
Balance, February 29, 2004	$ 21,569	$ 7,528	$ -	$ 29,097

To complete the initial acquisition of the Company's 51% interests, the Company must make payments totalling US$1 million on January 28, 2006 for the Santa Cruz mine, the mining concessions and the Guanacevi processing plant. To earn the remaining 49% thereafter, payments of US$1.5 million must be made on January 28, 2007 and another US$1.5 million on January 28, 2008.

1.5 <u>Summary of Quarterly Results</u>

The following table presents selected financial information of the Company for each of the last eight quarters ended February 28, 2005:

(expressed in Canadian dollars unless otherwise noted)

	Fiscal 2005				Fiscal 2004			
	Feb 28, 2005	Nov 30, 2004	Aug 31, 2004	May 31, 2004	Feb 29, 2004	Nov 30, 2003	Aug 31, 2003	May 31, 2003
Total revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loss before discontinued operations and extraordinary items:								
(i) Total	$ (649,481)	$ (454,827)	$ (402,895)	$ (1,058,279)	$ (566,160)	$ (84,162)	$ (62,255)	$ (66,125)
(ii) Basic per share	$ (0.04)	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.08)	$ (0.01)	$ (0.02)	$ (0.01)
(iii) Diluted per share	$ (0.04)	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.08)	$ (0.01)	$ (0.02)	$ (0.01)
Net loss:								
(i) Total	$ (649,481)	$ (454,827)	$ (402,895)	$ (1,058,279)	$ (566,160)	$ (84,162)	$ (62,255)	$ (66,125)
(ii) Basic per share	$ (0.04)	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.08)	$ (0.01)	$ (0.02)	$ (0.01)
(iii) Diluted per share	$ (0.04)	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.08)	$ (0.01)	$ (0.02)	$ (0.01)

The Company significantly increased its operating and due diligence activities in seeking and acquiring projects in Mexico, as can be supported by commensurate increases in net losses for each quarter during the year ended February 28, 2005 and for the fourth quarter of fiscal 2004. The lower level of business activities for the same periods in the prior fiscal year was attributed to the Company's lack of financial resources which restricted its ability to seek and to research projects of merit.

Lower property investigation efforts were expended in the third and fourth quarters of fiscal 2005 than in each of the first two quarters, as the Company focused more on exploration efforts to outline mineable resources in two prospective ore zones in the optioned Santa Cruz mine and to prepare them for production by year-end, rather than just seeking additional properties of merit. The granting of stock options in quarter ended February 28, 2005 contributed to higher losses from recognizing the stock-based compensation expense of $688,800 from such stock option grant. Partially offsetting these higher expenses was the realization of a 25% royalty from certain mining concessions at the Minera Santa Cruz mine.

1.6 Liquidity and Capital Resources

The following table contains selected financial information of the Company's liquidity:

	February 28, 2005	February 29, 2004
Cash and cash equivalents	$ 4,957,883	$ 542,868
Working capital	$ 5,625,819	$ 529,053

The Company had significantly more cash and cash equivalents and working capital at February 28, 2005 than at February 29, 2004. In May 2004, the Company completed a major financing comprised of brokered and non-brokered private placements for gross proceeds of approximately $9.9 million to finance the acquisition of the Santa Cruz silver-gold mine and the Guanacevi mill. The Company engaged Canaccord Capital Corporation and Dundee Securities Corporation to act as Agents in a brokered private placement for 5,022,500 units at $1.60 per unit for gross proceeds of $8 million. Each unit consisted of one common share and one half of one share purchase warrant, with each whole warrant giving the holder the right to purchase an additional common share at $2.00 by October 22, 2005. The Company also completed a non-brokered private placement for 1,175,000 units at the same price and the same terms as the brokered private placement for an additional $1.9 million in gross proceeds. The net proceeds from both placements will be used towards the costs of acquisition of the Santa Cruz mine and Guanacevi processing plant, exploration drilling, underground development and production optimization, as well as for working capital.

In February 2005, the Company completed brokered and non-brokered private placements for $1,636,800. The Company engaged Leede Financial Markets Inc. to act as Agent in a brokered private placement for 312,500 units at $1.60 per unit for gross proceeds of $500,000. Each unit consisted of one common share and one share purchase warrant, exercisable to acquire one common share at an exercise price of $2.10 until February 1, 2006 and $2.30 thereafter until February 1, 2007. The Company also completed a non-brokered private placement for 710,500 units at the same price and the same terms as the brokered private placement for an additional $1,136,800 in gross proceeds.

1.7 Capital Resources

Item 1.6 provides further details.

1.8 Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

1.9 Transactions with Related Parties

For the year ended February 28, 2005, the following transactions involve related parties:

(a) As at February 28, 2005, an amount of $6,861 is due from a company with certain common directors.

(b) As at February 28, 2005, a total of $358,424 was due from Minera Santa Cruz. This consists of the loan balance and accrued interest of $33,151, the net profits royalty on ore mined to January 28, 2005 totalling $222,498, and advances to Minera Santa Cruz to fund exploration and mine development expenditures incurred by Minera Santa Cruz totalling $102,775. The net profits royalty receivable and the exploration advances are unsecured, non-interest bearing and due on demand.

(c) Rent of $18,000 was incurred and paid to a company with certain common directors.

1.10 Fourth Quarter

Items 1.4 and 1.5 provide further details.

1.11 Proposed Transactions

There are no proposed asset or business acquisitions or dispositions, other than those in the ordinary course, before the board of directors for consideration.

1.12 Critical Accounting Estimates

The preparation of financial statements requires the Company to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to mineral properties.

Acquisition costs of mineral properties and exploration and development expenditures incurred thereto are capitalized and deferred. The costs related to a property from which there is production will be amortized using the unit-of-production method. Capitalized costs are written down to their estimated recoverable amount if the property is subsequently determined to be uneconomic. The amounts shown for mineral properties represent costs incurred to date, less recoveries and write-downs, and do not reflect present or future values.

1.13 Changes in Accounting Policies Including Initial Adoption

Asset retirement obligations:

During the year ended February 28, 2005, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110 "*Asset Retirement Obligations*" ("HB 3110"). This new standard recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset.

Prior to the adoption of HB 3110, the Company had accounted for reclamation and closure costs by accruing an amount associated with the retirement of tangible long-lived assets as a charge to operations over the life of the asset. The Company adopted HB 3110 retroactively with a restatement of prior periods presented. However, the adoption of HB 3110 resulted in no changes to amounts previously presented.

1.14 Financial Instruments and Other Instruments

There are no financial instruments or other instruments.

1.15 Other MD&A Requirements

1.15.1 Other MD&A Requirements

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

1.15.2 Additional Disclosure for Venture Issuers without Significant Revenue

(a) capitalized or expensed exploration and development costs;

The required disclosure is presented in the notes to the Company's consolidated financial statements.

(b) expensed research and development costs;

Not applicable.

(c) deferred development costs;

(expressed in Canadian dollars unless otherwise noted)

Not applicable.

(d) general and administrative expenses; and

The required disclosure is presented in the Company's consolidated financial statements.

(e) any material costs, whether capitalized, deferred or expensed, not referred to in (a) through (d);

None.

1.15.3 Outstanding Share Data

The Company's authorized share capital is comprised of unlimited common shares without par value.

Changes in the Company's share capital for the year ended February 28, 2005 were as follows:

	Number of Shares		Amount
Balance, February 29, 2004	11,131,550	$	5,461,867
Issued during the period:			
For cash from private placements	7,264,719		10,699,496
For cash from exercise of stock options	419,000		112,440
For cash from exercise of warrants	2,058,000		434,500
Balance, February 28, 2005	20,873,269	$	16,708,303

As at June 23, 2005, the Company had 21,192,233 common shares issued and outstanding.

At February 28, 2005, the Company had outstanding options to purchase an aggregate 1,871,000 common shares as follows:

	February 28, 2005	
	Number of Shares	Weighted average exercise price
Outstanding, beginning of year	860,000	$0.37
Granted	1,480,000	$1.57
Exercised	(419,000)	$0.18
Cancelled	(50,000)	$1.41
Outstanding, end of year	1,871,000	$1.33
Options exercisable at year-end	1,871,000	

In March 2005, the Company granted options to purchase 339,900 shares and which have an exercise price of $2.52 per share and an expiry date of March 22, 2010. At June 23, 2005, options for 2,039,900 shares remain outstanding.

At February 28, 2005, the Company had outstanding warrants to purchase an aggregate 5,553,559 common shares as follows:

(expressed in Canadian dollars unless otherwise noted)

Exercise Prices	Expiry Dates	Oustanding at February 29, 2004	Issued	Exercised	Expired	Oustanding at February 28, 2005
$0.12	November 29, 2004	1,300,000	-	(1,300,000)	-	-
$0.35	October 6, 2005	1,525,000	-	(750,000)	-	775,000
$2.00	October 22, 2005	-	3,475,559	(8,000)	-	3,467,559
$2.00	October 28, 2005	-	248,000	-	-	248,000
$2.10 / $2.30	February 1, 2006 / February 1, 2007	-	1,063,000	-	-	1,063,000
		2,825,000	4,786,559	(2,058,000)	-	5,553,559

At June 23, 2005, warrants for 5,405,595 shares remain outstanding.

Outlook

The acquisitions in Mexico coupled with the completion of the $11.5 million financing in fiscal 2005 have provided exciting opportunities for the Company as it becomes an operating entity as opposed to an exploration one. The Company now has the financial resources to satisfy commitments in the current fiscal year pursuant to the option agreements in the acquisition of the Santa Cruz silver-gold mine and the Guanacevi mill, and for exploration drilling, underground development and production optimization, in which such exploration is currently being undertaken.

The equity capital provided from the brokered and non-brokered private placements will provide financial resources to the Company to realize its operating, mining and exploration objectives in the coming fiscal year for its mine and mill in Mexico. These acquisitions and equity financings will allow the Company to proceed towards becoming a top primary silver producer in the world.