Endeavour Silver Corp.

Consolidated Financial Statements

First Quarter Report

May 31, 2005 and 2004

(Unaudited – Prepared by Management)

SHAREHOLDER UPDATE

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

Silver production from the Guanacevi Project (including the Santa Cruz property, the old Santa Cruz mine, the new North Porvenir mine and the Guanacevi process plant) in Durango, Mexico rose sharply in the first full quarter (fiscal Q1 ended May 31, 2005) since the acquisition of its interest in January 2005.

Silver production rose 45% to 121,450 oz in Q1, 2005 compared to the same quarter last year when the mine and plant were still privately owned.

Endeavour anticipates an additional 126% increase in output to 275,000 oz silver in the next quarter (fiscal Q2 ending August 31, 2005) as shown by the continued growth of production in June 2005, which jumped to 86,025 oz silver. The mine expansion program now underway is well on track to meet the forecasted tripling of production to 1.3 million oz silver for Endeavour's first year ending February 28, 2006.

On a month to month basis, silver production from the Guanacevi Project averaged 21,392 oz per month in the first 9 months of 2004 and increased to 35,921 oz per month from October 2004 to February 2005 as a direct result of the discovery and development of the new North Porvenir ore-body.

Production rose again to 40,483 oz per month in Q1, 2005, notwithstanding the temporary closures of the North Porvenir and Santa Cruz mines during the quarter to allow for accelerated mine development. Now that the new North Porvenir mine is back online, the monthly production is expected to average 91,667 oz silver per month in Q2, 2005 and rise to 150,000 oz silver per month by year-end.

The increase in Q1, 2005 silver production compared to Q1, 2004 is attributable to a jump in daily mine output from 66 tonnes per day to 229 tpd and an increase in mine head grades from 133 grams per tonne (3.9 oz per ton) silver to 326 gpt silver (9.5 opt). Mine grades escalated to 505 gpt silver (14.7 opt) in June, 2005 reflecting renewed production from the North Porvenir mine.

Approximately 31,800 oz or 33% of the Q1, 2005 silver production came from the reprocessing of old mill tailings grading 122 gpt Ag. Endeavour expects an ongoing contribution of silver production from tailings but it will decline on a percentage basis as mine production continues to rise.

Endeavour also produced 449 oz gold during Q1, 2005, bringing the production on a silver equivalent basis to 148,383 oz Ag eq. However, the sale of by-product gold, lead, zinc and copper are treated as credits against cash costs.

Because Endeavour Silver Corp. had a February 28th year-end, in contrast to the December 31st year-end of its Mexican subsidiaries, the aforementioned production review and outlook is not consolidated into Endeavour's quarterly financial reports. Endeavour has received regulatory approval to change its next year-end to December 31, 2005.

Endeavour will therefore refer hereafter to its fiscal year-end as December 31, 2005 although fiscal Q2 will end August 31, 2005 and fiscal Q3 will be the four month period ending December 31, 2005. The revised annual production forecast is therefore 1.0 million oz silver for the ten month period of March through December, 2005.

In Q1, 2005, cash operating costs were approximately US $7.50 per oz silver but these costs should fall below US$ 5.50 per oz silver in Q2, 2005 as mine tonnages and grades rise. For the year, cash costs are expected to average about US$ 4.50 per oz silver.

Endeavour's focus during Q1, 2005 was on making the substantial capital investments necessary in both exploration drilling and mine development in order to fulfill our mine expansion program. A total of US$ 867,000 was invested in Q1, 2005 and an additional US$ 800,000 capital investment is planned in Q2, 2005.

During the period March through May 2005, Endeavour successfully delivered a number of accomplishments, as follows:

- The Guanacevi process plant received top marks from an independent engineering audit and its replacement value was estimated at US$ 19.4 million.

- Additional high grade drill results from the new North Porvenir ore-body included 956 gpt Ag over 2.25m (27.9 opt Ag over 7.4 ft) and 352 gpt Ag over 9.05 m (10.3 opt Ag over 29.7 ft).

- An initial NI 43-101 resource was estimated at 8.6 million oz silver, up from no reportable resource in 2004 and production rose 45% as reported herein.

- Completed capital investments included a new 230 m Robbins raise-bore ventilation raise, 124 m of main access ramp, 4787 m of diamond drilling and the upgrading of one of the tailings dams to bring it up to Endeavour's standards.

- Subsequent to quarter-end, Endeavour acquired nine silver properties in Guanacevi from Industrias Penoles, one of the largest industrial groups in Mexico, as well as a strategic alliance to acquire additional properties.

Godfrey Walton, President, stated, "Even though fiscal Q1, 2005 was budgeted as a capital intensive, reduced production period for the Guanacevi Project, we still managed to substantially grow both our silver production and resources. We anticipate the aggressive growth of both production and resources will continue through year-end. Looking forward over the next couple of years, Endeavour is targeting production growth up to 4 million oz silver per year by the end of 2007 just to fill the capacity of the plant."

In January 2004, Endeavour entered into an option agreement to purchase up to 100% of the Guanacevi Project for US$ 7 million in cash payments plus US$ 1 million in exploration and development expenses. By January 2005, the Company had paid the initial US$ 3 million, invested the minimum US$ 1 million and acquired a 51% interest as the new owner/operator. Endeavour has the option to purchase the remaining 49% interest by paying an additional US$ 4 million by January 2008. However, Endeavour actually controls 100% of the project cash-flows until all of its capital investments plus 9% interest are paid back.

On Behalf Of The Board Of Directors

ENDEAVOUR SILVER CORP.

/s/ Bradford J. Cooke

Bradford J. Cooke
Chairman and CEO

July 28, 2005

Notice to Readers of the Interim Unaudited Consolidated Financial Statements
For the Three Months Ended May 31, 2005

The interim unaudited consolidated financial statements of Endeavour Silver Corp. (the "Company") for the three months ended May 31, 2005 ("Financial Statements") have been prepared by management and have not been reviewed by the Company's auditors. The Financial Statements should be read in conjunction with the Company's audited financial statements for the year ended February 28, 2005 which are available at the SEDAR website at www.sedar.com. The Financial Statements are stated in terms of Canadian dollars, unless otherwise indicated, and are prepared in accordance with Canadian generally accepted accounting principles.

ENDEAVOUR SILVER CORP.

CONSOLIDATED BALANCE SHEETS

(Unaudited – Prepared by Management)
(expressed in Canadian dollars)

	Notes	May 31, 2005 (Unaudited)	February 28, 2005 (Audited)
ASSETS			
CURRENT			
Cash and cash equivalents		**$ 2,987,391**	$ 4,957,883
Receivables		**952,516**	700,569
Prepaids and advances		**242,975**	13,644
Due from related parties	7(a)	**1,199,323**	365,285
		5,382,205	6,037,381
NON-CURRENT			
Buildings and equipment	3	**128,442**	101,700
Mineral properties	4	**6,400,807**	5,106,919
		6,529,249	5,208,619
		$ 11,911,454	$ 11,246,000
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		**$ 1,227,677**	$ 411,562
SHAREHOLDERS' EQUITY			
Share capital	5(a)	**17,131,511**	16,708,303
Contributed surplus	5(b)	**2,247,315**	1,664,230
Deficit		**(8,695,049)**	(7,538,095)
		10,683,777	10,834,438
		$ 11,911,454	$ 11,246,000

Nature of operations	1
Commitments and contingencies	4
Subsequent events	9

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.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Unaudited – Prepaid by Management)
(expressed in Canadian dollars)

	Notes	Three Months Ended May 31, 2005	May 31, 2004
EXPENSES			
Accounting and legal		**$ 75,993**	$ 46,628
Employees and directors remuneration		**143,696**	34,490
Foreign exchange		**102,240**	(13,871)
Management and consulting		**38,616**	43,127
Office and sundry	7(b)	**73,202**	15,167
Regulatory		**3,296**	5,252
Shareholder relations		**59,520**	30,349
Stock-based compensation	5(c)	**628,815**	673,200
Travel		**21,373**	17,923
Loss before the undernoted		**(1,146,751)**	(852,265)
Income from ore and ore processing, net	4(a)	**(13,525)**	-
Interest income		**3,322**	12,831
Property investigations		**-**	(197,276)
Write-off of mineral properties		**-**	(21,569)
LOSS FOR THE PERIOD		**(1,156,954)**	(1,058,279)
Deficit, beginning of the period		**(7,538,095)**	(4,972,613)
DEFICIT, END OF PERIOD		**$ (8,695,049)**	$ (6,030,892)
Basic and diluted loss per share		**$ (0.05)**	$ (0.07)
Weighted average number of shares outstanding		**21,054,554**	14,144,180

Refer to accompanying notes to the consolidated financial statements.

ENDEAVOUR SILVER CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

	Three Months Ended	
	May 31, 2005	May 31, 2004
CASH PROVIDED FROM (USED FOR):		
OPERATIONS		
Loss for the period	**$ (1,156,954)**	$ (1,058,278)
Items not affecting cash:		
Stock-based compensation	**628,815**	673,200
Write-off of mineral properties	**-**	21,569
	(528,139)	(363,509)
Net changes in non-cash working capital items:		
Receivables	**(251,947)**	(237,585)
Prepaids and advances	**(229,331)**	39,646
Accounts payable and accrued liabilities	**816,115**	96,267
	(193,302)	(465,181)
FINANCING		
Loan receivable	**-**	(477,190)
Issuance of common shares, net of issue costs	**377,478**	9,270,052
	377,478	8,792,862
INVESTMENTS		
Acquisition of buildings and equipment	**(26,742)**	-
Acquisition and exploration of mineral properties	**(1,293,888)**	(41,744)
Loan receivable from Minera Santa Cruz	**(834,038)**	-
Advance for acquisition	**-**	(1,213,700)
	(2,154,668)	(1,255,444)
NET CASH (OUTFLOWS) INFLOWS	**(1,970,492)**	7,072,237
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**4,957,883**	542,868
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 2,987,391**	$ 7,615,105

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. (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.

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 May 31, 2005, the Company had a working capital of $4,154,528, which although expected to be sufficient to fund its operations in the current 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(c). 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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.

(h) 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 period. For all periods 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 period. 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.

(i) 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.

(j) 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)

(k) 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 related parties due to their related party nature and the absence of a secondary market for such instruments.

(l) Comparative figures

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

3. BUILDINGS AND EQUIPMENT

	May 31, 2005		
	Cost	Accumulated amortization	Net book value
Buildings	$ 24,039	$ -	$ 24,039
Machinery and equipment	11,800	298	11,502
Transportation and vehicles	59,510	3,839	55,671
Office equipment	37,946	716	37,230
	$ 133,295	$ 4,853	$ 128,442

4. MINERAL PROPERTIES

At May 31, 2005, the Company's mineral properties are comprised of properties located in Mexico. Expenditures incurred on mineral properties during the period ended May 31, 2005 are as follows:

	Santa Cruz (Mexico)	Total
Acquisition costs:		
Balance, February 28, 2005	$ 3,864,750	$ 3,864,750
Additions during the period	-	-
Balance, May 31, 2005	3,864,750	3,864,750
Exploration costs:		
Balance, February 28, 2005	1,242,169	1,242,169
Additions during the period:		
Assays and surveys	53,909	53,909
Camp and supplies	281,739	281,739
Drilling	645,210	645,210
Geologists and consultants	239,502	239,502
Repair, maintenance and sundry	19,065	19,065
Transportation	54,463	54,463
Balance, May 31, 2005	2,536,057	2,536,057
Balance, May 31, 2005	$ 6,400,807	$ 6,400,807

4. MINERAL PROPERTIES (continued)

(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.

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 by 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 by 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 by 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 in April 2005, a further advance payment of US$5,000 was made. The remaining 49% beneficial ownership interest in the mining concessions can be acquired by January 28, 2008 through annual payments totalling US$10,000.

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 by 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 by 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 incurred $1,242,169 and incurred a further $1,293,888 by May 31, 2005, thereby totaling $2,536,057 in exploration and development expenditures.

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 during the three month period ended May 31, 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.

(expressed in Canadian dollars, unless otherwise noted)

4. MINERAL PROPERTIES (continued)

(b) 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 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).

As at May 31, 2005, 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, 2005	20,873,269	$	16,708,303
Issued during the period:			
From exercise of share purchase options	171,000		127,280
For cash from exercise of warrants	147,964		295,928
Balance, May 31, 2005	21,192,233	$	17,131,511

(b) Contributed surplus

Balance at February 28, 2005	$	1,664,230
Changes during the period:		
Stock-based compensation (Note 5(c))		628,815
Exercise of share purchase options		(45,730)
Balance at May 31, 2005	$	2,247,315

(expressed in Canadian dollars, unless otherwise noted)

5. SHARE CAPITAL (continued)

(c) 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 May 31, 2005, and changes during the three month period then ended on that date:

	Three Months Ended May 31, 2005	
	Number of Shares	Weighted average exercise price
Outstanding, beginning of period	1,871,000	$1.33
Granted	339,900	$2.52
Exercised	(171,000)	$0.48
Cancelled	-	-
Outstanding, end of period	2,039,900	$1.60
Options exercisable at period-end	2,039,900	

The following tables summarizes information about stock options outstanding at May 31, 2005:

	Options Outstanding and Exercisable		
Price Intervals	Number Outstanding and Exercisable at May 31, 2005	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices
$0.01 - $0.49	20,000	0.6	$0.45
$0.50 - $0.99	260,000	3.7	$0.66
$1.00 - $1.49	200,000	1.5	$1.39
$1.50 - $1.99	1,220,000	4.3	$1.60
$2.50 - $2.99	339,900	4.9	$2.52
	2,039,900	4.0	$1.60

During the three months ended May 31, 2005, the Company recognized stock-based compensation expense of $628,815 based on the fair value of options granted on or after March 1, 2002 that were earned by the provision of services during the period.

(expressed in Canadian dollars, unless otherwise noted)

5. SHARE CAPITAL (continued)

(c) 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:

	Three Months Ended May 31, 2005
Weighted average fair value of options granted during the period	$1.85
Risk-free interest rate	2.53%
Expected dividend yield	0%
Expected stock price volatility	108%
Expected option life in years	4

(d) Warrants

At May 31, 2005, the Company had outstanding warrants to purchase an aggregate 5,405,595 common shares as follows:

Exercise Prices	Expiry Dates	Oustanding at February 29, 2005	Issued	Exercised	Expired	Oustanding at May 31, 2005
$0.35	October 6, 2005	775,000	-	-	-	775,000
$2.00	October 22, 2005	3,467,559	-	(147,964)	-	3,319,595
$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
		5,553,559	-	(147,964)	-	5,405,595

(e) Shares reserved for issuance

	Number of Shares
Issued and outstanding, May 31, 2005	21,192,233
Stock options	2,039,900
Warrants	5,405,595
Fully diluted, May 31, 2005	28,637,728

(expressed in Canadian dollars, unless otherwise noted)

6. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Three Months Ended May 31, 2005
Non-cash financing and investing activities:	
Fair value of stock options allocated to shares issued on exercise of stock options	$ 45,730
Supplemental cash flow information:	
Cash paid during the period for:	
Interest and financing costs	$ -

7. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

(a) As at May 31, 2005, a total of $1,199,323 was due from Minera Santa Cruz (Note 4(a)). This consists of the net profits royalty on ore mined to January 28, 2005 (Note 4(a)) totalling $222,498, share of profits from ore mined and processed to May 31, 2005 totalling $64,326, and advances to Minera Santa Cruz to fund exploration and mine development expenditures incurred by Minera Santa Cruz totalling $912,499. The net profits royalty receivable, share of profits from ore mined and processed, and the exploration and mine development advances are unsecured, non-interest bearing and due on demand.

(b) Rent of $4,500 was incurred and paid to a company with certain common directors.

8. 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:

	May 31, 2005		
	Canada	Mexico	Total
Cash	$ 2,539,169	$ 448,222	$ 2,987,391
Receivables	11,214	941,302	952,516
Due from related parties	-	1,199,323	1,199,323
Buildings and equipment	-	128,442	128,442
Mineral properties	-	6,400,807	6,400,807
Net loss	(987,334)	(169,620)	(1,156,954)

For the three months ended May 31, 2005, substantially all capital expenditures were incurred in Mexico.

9. SUBSEQUENT EVENTS

In June 2005, the Company acquired nine silver mining properties in the Guanacevi district, Durango, Mexico, from Industrias Peñoles S.A. de C.V. ("Peñoles"). Six of these properties (the "Santa Cruz Properties") form part of the producing Santa Cruz silver mine in which the Company already owns a 51% option interest in the exploitation lease and has the option to acquire the remaining 49% interest. This transaction effectively allows the Company's wholly owned Mexican subsidiary, Minera Plata Adelante S.A. de C.V. ("Adelante"), to acquire the outright ownership of the six mineral concessions as well as a 4.5% net proceeds royalty from Peñoles' wholly owned Mexican subsidiary, Minera Capela S.A. de C.V. ("Capela"). Adelante will be required to send all mineral production from these properties to the Peñoles smelter in Torreon, Mexico, for smelting and refining. Capela will retain a 3% net proceeds royalty on future production after deduction of all milling, processing, shipping and smelting costs, including taxes and penalties if any. The Company has also formed a strategic alliance with Peñoles to acquire additional mining properties in Mexico. Peñoles has agreed to provide the Company with access to information on its entire portfolio of mineral concessions throughout Mexico. On each additional Peñoles property the Company wishes to acquire, a purchase price will be negotiated, payable in common shares of the Company. If the Company acquires additional properties from third parties introduced by Peñoles, the Company will pay Peñoles a 5% fee on the cash purchase price, also payable in common shares of the Company. If Peñoles acquires property from a third party introduced by the Company, Peñoles will pay Endeavour a 5% fee on the cash purchase price. In compensation for the nine mining properties, certain mining equipment located thereon, and the formation of the strategic alliance, the Company will issue 1,000,000 units to Peñoles within 30 days, each unit consisting of one common share and one warrant to purchase an additional common share at $2.10 within one year and at $2.30 in the following year.

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SHARES LISTED	TSX Venture Exchange Trading Symbol ~ EDR

ENDEAVOUR SILVER CORP.

(the “Company”)

Management’s Discussion and Analysis
For the Three Months Ended May 31, 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. (the “Company”) should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the three months ended May 31, 2005 and the 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 July 28, 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 fiscal 2005, the Company acquired an option to purchase a high grade silver mine 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$3 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$4 million over the period to January 2008. To complete the acquisition of the initial 51% interest, payments totalling US$1 million must be made by 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 May 31, 2005, the Company had paid the vendors US$3 million and invested approximately $2.5 million in mine exploration and development.

(expressed in Canadian dollars unless otherwise noted)

North Porvenir Zone

In 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 repaid by May 2005. 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. 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 Porvenir 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. 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 was producing from low grade zones and stockpiles during the three months ended May 31, 2005 as the Company continued to accelerate and to complete its mine development and exploration activities but by quarter end it was in production. Mining is now underway for the North Porvenir mine. Monthly production is expected to initially average 91,667 oz silver per month and then increase to 150,000 oz per month by the December 31, 2005 year end.

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.

From March 2005 to May 2005, the Company completed capital investments included a new 230 metre Robbins raise-bore ventilation raise, 124 metre of main access ramp, 4,787 metre of diamond drilling and the upgrading of one of the tailings dams.

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 was planned in various parts of the mine to locate and to define mineral resources.

The mine was closed temporarily to complete shaft rehabilitation and mine development and was still closed at quarter end.

Guanacevi Processing Plant

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.

For the first quarter ended May 31, 2005, a total 26,021 tonnes were processed by the processing plant with an average grade of 204.7 g/t Ag and 0.71 g/t Au, averaging 282.7 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 282 tonnes per day in the first quarter to about 600 tonnes per day by the end of the fiscal year ending December 31, 2005.

1.2 Overall Performance

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.

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 million for these Mexican mineral properties and exploration and development 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 fiscal years.

No equity financing from private placements were raised by the Company for the three months ended May 31, 2005. As at May 31, 2005, the Company invested approximately $6.4 million in its Mexican mineral properties and exploration and mine development.

In June 2005, the Company acquired nine silver mining properties in the Guanacevi district, Durango, Mexico, from Industrias Peñoles S.A. de C.V. ("Peñoles"). Six of these properties (the "Santa Cruz Properties") form part of the producing Santa Cruz silver mine in which the Company already owns a 51% option interest in the exploitation lease and has the option to acquire the remaining 49% interest. This transaction effectively allows the Company's wholly owned Mexican subsidiary, Minera Plata Adelante S.A. de C.V. ("Adelante"), to acquire the outright ownership of the six mineral concessions as well as a 4.5% net proceeds royalty from Peñoles' wholly owned Mexican subsidiary, Minera Capela S.A. de C.V. ("Capela"). Adelante will be required to send all mineral production from these properties to the Peñoles smelter in Torreon, Mexico, for smelting and refining. Capela will retain a 3% net proceeds royalty on future production after deduction of all milling, processing, shipping and smelting costs, including taxes and penalties if any. The Company has also formed a strategic alliance with Peñoles to acquire additional mining properties in Mexico. Peñoles has agreed to provide the Company with access to information on its entire portfolio of mineral concessions throughout Mexico. On each additional Peñoles property the Company wishes to acquire, a purchase price will be negotiated, payable in common shares of the Company. If the Company acquires additional properties from third parties introduced by Peñoles, the Company will pay Peñoles a 5% fee on the cash purchase price, also payable in common shares of the Company. If Peñoles acquires property from a third party introduced by the Company, Peñoles will pay Endeavour a 5% fee on the cash purchase price. In compensation for the nine mining properties, certain mining equipment located thereon, and the formation of the strategic alliance, the Company will issue 1,000,000 units to Peñoles within 30 days, each unit consisting of one common share and one warrant to purchase an additional common share at $2.10 within one year and at $2.30 in the following year.

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

First Quarter of Fiscal Year Ended December 31, 2005 – Three months ended May 31, 2005 compared with May 31, 2004

The Company incurred a net loss of $1,156,954 for the three months ended May 31, 2005 which is nominally higher than the net loss of $1,058,279 for the same period in the prior fiscal year. General and administrative expenses for salaries, professional services, office and shareholder relations continue to account for a significant portion of operating expenses, and are higher than the prior quarter in fiscal 2005 reflecting the greater ancillary functions needed to support the more active exploration and accelerated mine development and mining activities of the Company during the three months ended May 31, 2005. The foreign exchange loss in the first quarter for the current fiscal year is attributed to the depreciation of the Mexican pesos relative to historical exchange rates for the Canadian dollar given that the accounts of the Company's Mexican subsidiaries are stated in Mexican pesos. Stock-based compensation expense reflects the granting of stock options which are comparable in both quarters. The Company's property investigation expenses were incurred essentially for seeking properties of merit and further concessions in Mexico in early fiscal 2005. However for the three months ended May 31, 2005, the Company's primary efforts were focused on mine development and exploration activities for the two prospective zones on the optioned Santa Cruz mine.

Minera Santa Cruz realized a nominal profit of $126,130 for the three months ended May 31, 2005 from ore mined during mine development. Mining activities temporarily ceased during the quarter as two prospective zones of the Santa Cruz mine were being further developed and explored. Mine development resulted in 8,709 tonnes of development muck with a recovery of 326 gpt Ag.

(expressed in Canadian dollars unless otherwise noted)

In turn during the first quarter ended May 31, 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 the three months ended May 31, 2005, the Guanacevi plant processed 26,021 dry tonnes of ore with a recovery of 121,449 oz. silver and 148,383 oz. silver equivalents.

As at May 31, 2005, the Company incurred and deferred $2.5 million in exploration expenditures to identify and mine development to expand 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 three months ended May 31, 2005 and 2004, expenditures on the Company's mineral properties were comprised of the following:

	Santa Cruz (Mexico)	Total
Acquisition costs:		
Balance, February 28, 2005	$ 3,864,750	$ 3,864,750
Additions during the period	-	-
Balance, May 31, 2005	3,864,750	3,864,750
Exploration costs:		
Balance, February 28, 2005	1,242,169	1,242,169
Additions during the period:		
Assays and surveys	53,909	53,909
Camp and supplies	281,739	281,739
Drilling	645,210	645,210
Geologists and consultants	239,502	239,502
Repair, maintenance and sundry	19,065	19,065
Transportation	54,463	54,463
Balance, May 31, 2005	2,536,057	2,536,057
Balance, May 31, 2005	$ 6,400,807	$ 6,400,807

(expressed in Canadian dollars unless otherwise noted)

	El Taco (Mexico)	San Jose (Mexico)	Other	Total
Acquisition costs:				
Balance, February 29, 2004	$ 15,176	$ -	$ -	$ 15,176
Additions during the period	-	13,284	-	13,284
Balance, May 31, 2004	15,176	13,284	-	28,460
Exploration costs:				
Balance, February 29, 2004	6,393	7,528	-	13,921
Additions during the period:				
Assays and surveys		1,192	27,268	28,460
Balance, May 31, 2004	6,393	8,720	27,268	42,381
Property write-offs	(21,569)	-	-	(21,569)
Balance, May 31, 2004	$ -	$ 22,004	$ 27,268	$ 49,272

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.

The Shareholder Update included in the unaudited interim consolidated financial statements for the three months ended May 31, 2005 provide further details.

1.5 Summary of Quarterly Results

The following table presents selected financial information of the Company for each of the last eight quarters ended May 31, 2005:

	Dec 31, 2005 Year End	Feb 28, 2005 Year End				Feb 29, 2004 Year End		
	May 31, 2005	Feb 28, 2005	Nov 30, 2004	Aug 31, 2004	May 31, 2004	Feb 29, 2004	Nov 30, 2003	Aug 31, 2003
Total revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loss before discontinued operations and extraordinary items:								
(i) Total	$ (1,156,954)	$ (649,481)	$ (454,827)	$ (402,895)	$ (1,058,279)	$ (566,160)	$ (84,162)	$ (62,255)
(ii) Basic per share	$ (0.05)	$ (0.04)	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.08)	$ (0.01)	$ (0.02)
(iii) Diluted per share	$ (0.05)	$ (0.04)	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.08)	$ (0.01)	$ (0.02)
Net loss:								
(i) Total	$ (1,156,954)	$ (649,481)	$ (454,827)	$ (402,895)	$ (1,058,279)	$ (566,160)	$ (84,162)	$ (62,255)
(ii) Basic per share	$ (0.05)	$ (0.04)	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.08)	$ (0.01)	$ (0.02)
(iii) Diluted per share	$ (0.05)	$ (0.04)	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.08)	$ (0.01)	$ (0.02)

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.

(expressed in Canadian dollars unless otherwise noted)

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. These exploration and mine development efforts continued into the three month period ended May 31, 2005.

1.6 Liquidity and Capital Resources

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

	May 31, 2005	February 28, 2005	February 29, 2004
Cash and cash equivalents	$ 2,987,391	$ 4,957,883	$ 542,868
Working capital	$ 4,154,528	$ 5,625,819	$ 529,053

Cash and cash equivalents and working capital as at May 31, 2005 both decreased from the February 28, 2005 balances and were attributable to operating expenses and expenditures incurred for exploration and mine development. No equity financing was raised from private placements during the quarter. The exercise of options and warrants did provide proceeds of $377,478.

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. In February 2005, the Company completed brokered and non-brokered private placements for $1,636,800.

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 three months ended May 31, 2005, the following transactions involve related parties:

(a) As at May 31, 2005, a total of $1,199,323 was due from Minera Santa Cruz. This consists of the net profits royalty on ore mined to January 28, 2005 totalling $222,498, share of profits from ore mined and processed to May 31, 2005 totalling $64,326, and advances to Minera Santa Cruz to fund exploration and mine development expenditures incurred by Minera Santa Cruz totalling $912,499. The net profits royalty receivable, share of profits from ore mined and processed, and the exploration and mine development advances are unsecured, non-interest bearing and due on demand.

(b) Rent of $4,500 was incurred and paid to a company with certain common directors.

1.10 First 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.

There were not changes in accounting policies including initial adoption for the three month period ended May 31, 2005.

1.14 Financial Instruments and Other Instruments

There are no financial instruments or other instruments.

1.15 Other MD&A Requirements

(expressed in Canadian dollars unless otherwise noted)

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;

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.

As at May 31, 2005, a total of 93,750 common shares are held in escrow, the release of which is subject to regulatory approval.

Changes in the Company's share capital for the three months ended May 31, 2005 were as follows:

	Number of Shares		Amount
Balance, February 28, 2005	20,873,269	$	16,708,303
Issued during the period:			
From exercise of share purchase options	171,000		127,280
For cash from exercise of warrants	147,964		295,928
Balance, May 31, 2005	21,192,233	$	17,131,511

As at July 28, 2005, the Company had 21,192,233 common shares issued and outstanding.

(expressed in Canadian dollars unless otherwise noted)

At May 31, 2005, the Company had outstanding options to purchase an aggregate 2,039,900 common shares as follows:

	May 31, 2005	
	Number of Shares	Weighted average exercise price
Outstanding, beginning of period	1,871,000	$1.33
Granted	339,900	$2.52
Exercised	(171,000)	$0.48
Cancelled	-	-
Outstanding, end of period	2,039,900	$1.60
Options exercisable at period-end	2,039,900	

At July 28, 2005, options for 2,039,900 shares remain outstanding.

At May 31, 2005, the Company had outstanding warrants to purchase an aggregate 5,405,595 common shares as follows:

Exercise Prices	Expiry Dates	Oustanding at February 29, 2005	Issued	Exercised	Expired	Oustanding at May 31, 2005
$0.35	October 6, 2005	775,000	-	-	-	775,000
$2.00	October 22, 2005	3,467,559	-	(147,964)	-	3,319,595
$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
		5,553,559	-	(147,964)	-	5,405,595

At July 28, 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 has the financial resources for exploration drilling, underground development and production optimization. These acquisitions and equity financings will allow the Company to proceed towards becoming a top primary silver producer in the world.