ENDEAVOUR SILVER CORP.

Management's Discussion and Analysis
For the Six Months Ended June 30, 2010
(Expressed in US dollars unless otherwise noted) **Date of Preparation: August 3, 2010**

PRELIMINARY INFORMATION

The following Management's Discussion and Analysis ("MD&A") of Endeavour Silver Corp. (the "Company" or "Endeavour") should be read in conjunction with the unaudited consolidated financial statements for the six months ended June 30, 2010 and 2009 and the related notes contained therein. In addition, the following should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009, the related MD&A and the Company's most recent Annual Information Form, which have been filed with the Canadian Provincial Securities Regulatory Authorities (*) and the most recent Form 40-F which has been filed with the US Securities and Exchange Commission (the "SEC").

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 US dollars unless otherwise indicated.

Cautionary Note concerning Forward-Looking Statements: This MD&A contains "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and "forward-looking information" within the meaning of applicable Canadian securities legislation. Such forward-looking statements and information herein include, but are not limited to, statements regarding Endeavour's anticipated performance in 2010, including silver and gold production, timing and expenditures to develop new silver mines and mineralized zones, silver and gold grades and recoveries, cash costs per ounce, capital expenditures and sustaining capital. The Company does not intend to, and does not assume any obligation to update such forward-looking statements or information, other than as required by applicable law. Forward-looking statements or information involve known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company and its operations to be materially different from those expressed or implied by such statements. Such factors include, among others: fluctuations in the prices of silver and gold, fluctuations in the currency markets (particularly the Mexican peso, Canadian dollar and U.S. dollar); changes in national and local governments, legislation, taxation, controls, regulations and political or economic developments in Canada and Mexico; operating or technical difficulties in mineral exploration, development and mining activities; risks and hazards of mineral exploration, development and mining (including, but not limited to environmental hazards, industrial accidents, unusual or unexpected geological conditions, pressures, cave-ins and flooding); inadequate insurance, or inability to obtain insurance; availability of and costs associated with mining inputs and labour; the speculative nature of mineral exploration and development, diminishing quantities or grades of mineral reserves as properties are mined; the ability to successfully integrate acquisitions; risks in obtaining necessary licenses and permits, and challenges to the company's title to properties; as well as those factors described in the section "risk factors" contained in the Company's Annual Information Form filed with the Canadian securities regulatory authorities as filed with the SEC in our Annual Report on Form 40-F. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements or information, there may be other factors that cause results to be materially different from those anticipated, described, estimated, assessed or intended. There can be no assurance that any forward-looking statements or information will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements or information. Accordingly, readers should not place undue reliance on forward-looking statements or information.

Cautionary Note to U.S. Investor's concerning Estimates of Reserves and Measured, Indicated and Inferred Resources: This MD&A has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. The terms "mineral reserve", "proven mineral reserve" and "probable mineral reserve" are Canadian mining terms as defined in accordance with Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101") and the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") - *CIM Definition Standards on Mineral Resources and Mineral Reserves*, adopted by the CIM Council, as amended. These definitions differ from the definitions in SEC Industry Guide 7 under the United States Securities Act of 1993, as amended (the "Securities Act"). Under SEC Industry Guide 7 standards, a "final" or "bankable" feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC Industry Guide 7 standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in this MD&A contain descriptions of our mineral deposits that may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

(*) available at the SEDAR website at www.sedar.com

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HISTORY AND STRATEGY

The Company is engaged in the evaluation, acquisition, exploration, development and exploitation of silver mining properties in Mexico.

Historically, the business philosophy was to acquire and explore early-stage mineral prospects in Canada and the United States. In 2002 the Company was re-organized, a new management team was appointed, and the business strategy was revised to focus on acquiring advanced-stage silver mining properties in Mexico. Mexico, despite its long and prolific history of metal production, appeared to be relatively un-explored using modern exploration techniques and offered promising geological potential for precious metals exploration and production.

After evaluating several mineral properties in Mexico in 2003, the Company negotiated an option to purchase the Guanacevi silver mines and process plant located in Durango, Mexico in May 2004. Management recognized that even though the mines had run out of ore, little modern exploration had been carried out to discover new silver ore-bodies. Exploration drilling commenced in June 2004 and quickly met with encouraging results. By September 2004, sufficient high grade silver mineralization had been outlined to justify the development of an access ramp into the newly discovered North Porvenir ore-body. In December 2004, the Company commenced the mining and processing of ore from the new North Porvenir mine to produce silver dore bars.

In 2007, the Company replicated the success of Guanacevi with the acquisition of the Guanajuato Mines project in Guanajuato State. Guanajuato was very similar in that there was a fully built and permitted processing plant, and the mines were running out of ore, so the operation was for sale. The acquisition was finalized in May 2007 and as a result of the successful mine rehabilitation and exploration work conducted in 2008 and 2009, silver production, reserves and resources are growing rapidly and Guanajuato is now an integral part of the Company's asset base.

Both Guanacevi and Guanajuato are good examples of Endeavour's business model of acquiring fully built and permitted silver mines that were about to close for lack of ore. By bringing the money and expertise needed to find new silver ore-bodies, Endeavour has successfully re-opened and is now expanding these mines to unfold their full potential. The benefit of acquiring fully built and permitted mining and milling infrastructure is that if new exploration efforts are successful, the mine development cycle from discovery to production only takes a matter of months instead of the several years normally required in the traditional mining business model.

The Company historically funded its exploration and development activities through equity financings and convertible debentures. Equity financings also facilitated the acquisition and development of the Guanacevi and Guanajuato Mines projects. However, since 2004, the Company has been able to finance more and more of its acquisition, exploration, development and operating activities from production cash flows. The Company may continue to engage in equity financings and convertible debt financings, on an as needed basis, in order to accelerate its growth.

OPERATING PERFORMANCE

Q2, 2010 Highlights (Compared to Q2, 2009)

- Silver production climbed 41% to 826,439 oz
- Gold production jumped 61% to 4,460 oz
- Silver-equivalent production rose 46% to 1,116,404 oz (65:1 silver:gold ratio and no base metals)
- Cash costs fell 15% to $5.94 per oz silver payable (net of gold credits)
- Revenues increased 140% to $19.7 million
- Mine operating cash-flow increased 263% to $9.4 million
- EBITDA rose 250% to $4.9 million
- Net Loss was $0.4million ($0.01 per share) compared to a net loss of $1.8 million ($0.4 per share)
- Connected the Lucero Extension and Lucero South mineralized zones, thereby extending the high grade, silver-gold mineralization in the Lucero vein a full 500 meters south of the Lucero mine workings
- Expanded our land holdings in the Guanajuato district with acquisition of the Belen properties

Consolidated Production Results

Q2, 2010 compared to Q2, 2009

Silver production in Q2, 2010 was 826,439 ounces (oz), an increase of 41% compared to 584,486 ounces in Q2, 2009. Gold production was 4,460 oz, an increase of 61% compared to 2,768 oz. Plant throughput was 123,825 tonnes at average grades of 267 grams per tonne (gpt) of silver and 1.32 gpt of gold as compared to 90,338 tonnes at average grades of 259 gpt of silver and 1.16 gpt of gold. The increased silver and gold production is attributable to a 40% increase in throughput and higher grades at the Guanacevi mine and a 32% increase in throughput, higher gold grades and improved recoveries at the Guanajuato mine.

Consolidated silver grades were comparable and gold grades were 14% higher in Q2, 2010 compared to Q2, 2009, reflecting the mining of higher gold grade ores at both Guanacevi and Guanajuato. Consolidated silver and gold recoveries were consistent with Q2, 2009.

Q2, 2010 compared to Q1, 2010

Silver production in Q2 of, 2010 was 826,439 oz, an increase of 8% compared to 766,210 oz in Q1, 2010. Gold production was 4,460 oz, an increase of 18% compared to 3,775 oz. Plant throughput was 123,825 at average grades of 267 gpt of silver and 1.32 gpt of gold as compared to 112,963 tonnes at average grades of 270 gpt of silver and 1.34 gpt of gold. The increase in silver production is due to the 10% increase in plant throughput and the increase in gold production was due to an increase in throughput, gold grades processed at Guanacevi and an increased gold recovery at both Guanacevi and Guanajuato.

Consolidated silver and gold grades were consistent with the previous quarter. Consolidated silver recoveries were also consistent with the previous quarter but gold recoveries were slightly higher in Q2, 2010 compared to Q1, 2010 reflecting slight differences in ore-types being processed at both mining operations.

YTD 2010 compared to YTD 2009

Silver production for the first half of 2010 was 1,592,649 ounces, an increase of 38% compared to 1,157,271 ounces in the first half of 2009. Plant throughput for the 2010 period was 236,788 at an average grade of 268 gpt of silver and 1.33 gpt of gold as compared to 176,069 tonnes at an average grade of 265 gpt of silver and 1.09 gpt of gold during the same period in 2009. The increase in production was due to the increase in plant throughput from both operations with Guanacevi experiencing a 38% increase and Guanajuato experiencing a 29% increase.

Consolidated silver grades were consistent and gold grades were 22% higher in the first half of 2010 compared to the same period in 2009, due to higher grade gold ore from both operations.

Guanacevi Mines Production Results

Q2, 2010 compared to Q2, 2009

Silver production in the Q2, 2010 was 622,385 ounces, an increase of 50% compared to 415,775 oz in the Q2, 2009. Gold production was 1,602 oz, an increase of 68% compared to 952 oz. Plant throughput was 75,701 tonnes at average grades of 332 gpt silver and 0.80 gpt gold as compared to 53,936 tonnes at average grades of 311 gpt silver and 0.64 gpt gold. The increased silver and gold production is attributable to the 40% increase in throughput and higher silver and gold grades at the Guanacevi mine.

Silver grades increased by 7% and silver recoveries were relatively consistent in Q2, 2010 compared to Q1, 2009 and gold grades were 25% higher and gold recoveries were 5% lower reflecting differences in ore-types being processed.

Q2, 2010 compared to Q1, 2010

Silver production in Q2, 2010 was 622,385 oz, an increase of 8% compared to 574,796 oz in Q1, 2010. Gold production was 1,602 oz an increase of 25% compared to 1,277 oz. Plant throughput was 75,701 tonnes at average grades of 332 gpt silver and 0.80 gpt gold compared to 69,522 tonnes at average grades of 333 gpt silver and 0.74 gpt gold. The 8% increase in silver production is consistent with the 9% increase in plant throughput and the 25% increase in gold production is due to the increase in plant throughput as well as the increase in gold grades and recoveries representing slightly different ore-types being processed.

YTD 2010 compared to YTD 2009

Silver production for the first half of 2010 was 1,197,181 ounces, an increase of 45% compared to 825,251 ounces in the first half of 2009. Plant throughput for the 2010 period was 145,223 at an average grade of 332 gpt of silver and 0.77 gpt of gold as compared to 105,009 tonnes at an average grade of 318 gpt of silver and 0.60 gpt of gold during the same period in 2009. The increase in production was primarily due to the increase in plant throughput with Guanacevi experiencing a 38% increase.

Silver grades were 4% higher and gold grades were 28% higher in the first half of 2010 compared to the same period in 2009, due to higher grade ore.

Guanajuato Mines Production Results

Q2, 2010 compared to Q2, 2009

Silver production for Q2, 2010 was 204,054 ounces, an increase of 21%, compared to 168,711 oz in Q2, 2009. Gold production was 2,858 oz, an increase of 57% compared to 1,816 oz. Plant throughput was 48,124 tonnes at average grades of 166 gpt silver and 2.14 gpt gold as compared to 36,402 tonnes at average grades of 183 gpt silver and 1.93 gpt gold. The increased silver and gold production is attributable to a 32% increase in throughput at the Guanajuato mine due to the development of the new Lucero vein where more ore grade material was being mined and higher metal prices allowed mining of lower grade material.

Silver grades were 9% lower and gold grades were 11% higher in Q2, 2010 compared to Q2, 2009 primarily due to changes in ore-types being processed. Silver and gold recoveries were a bit higher, again related to differences in ore-types being processed.

Q2, 2010 compared to Q1, 2010

Silver production for the Q2, 2010 was 204,054 oz, which is 7% higher than the 191,414 oz produced in the first quarter. Gold production was 2,858 oz, an increase of 14% compared to 2,498 oz in first quarter. Plant throughput increased 11% to 48,124 tonnes at average grades of 166 gpt silver and 2.14 gpt gold as compared to 43,441 tonnes at average grades of 168 gpt silver and 2.29 gpt gold. Silver and gold grades remained fairly consistent in Q2, 2010 compared to Q1, 2010 whereas silver recoveries dropped slightly and gold recoveries increased 9% due to performance higher thoughput in the plant.

YTD 2010 compared to YTD 2009

Silver production for the first half of 2010 was 395,468 ounces, an increase of 19% compared to 332,020 ounces in the first half of 2009. Plant throughput for the 2010 period was 91,565 at an average grade of 167 gpt of silver and 2.21 gpt of gold as compared to 71,060 tonnes at an average grade of 186 gpt of silver and 1.82 gpt of gold during the same period in 2009. The increase in production was primarily due to the increase in plant throughput with Guanajauto experiencing a 29% increase, offset by slightly lower silver grades. Silver grades were 10% lower and gold grades were 22% higher in the first half of 2010 compared to the same period in 2009, due to the difference in the ore types being processed.

(Expressed in US dollars unless otherwise noted) Date of Preparation: August 3, 2010

Comparative Table of Consolidated Mine Operations

Period	Plant T'put	Ore Grades		Recovered Ounces		Recoveries		Cash Cost	Direct Cost
	Tonnes	Ag(gpt)	Au(gpt)	Ag(oz)	Au(oz)	Ag(%)	Au(%)	$ per oz	$ per tonne
Production 2010									
Q1, 2010	112,963	270	1.34	766,210	3,775	78.3	78.7	6.39	79.45
Q2, 2010	123,825	267	1.32	826,439	4,460	77.6	84.9	5.94	86.69
Q3, 2010									
Q4, 2010									
YTD 2010	236,788	268	1.33	1,592,649	8,235	77.9	81.9	6.16	83.24
Production 2009									
Q1, 2009	85,731	271	1.02	572,785	2,335	78.8	86.7	7.56	74.69
Q2, 2009	90,338	259	1.16	584,486	2,768	77.2	85.0	6.95	79.46
Q3, 2009	93,276	271	1.42	661,903	3,604	79.6	84.6	5.19	78.91
Q4, 2009	115,482	270	1.62	779,344	4,591	77.8	76.2	4.96	79.07
Total	384,827	268	1.33	2,598,518	13,298	78.3	82.6	6.04	78.14
Production 2008									
Q1, 2008	78,157	304	0.71	504,669	1,433	66.2	79.8	10.01	84.75
Q2, 2008	86,391	257	0.77	517,077	1,705	72.8	83.0	9.62	75.96
Q3, 2008	96,721	270	0.93	625,094	2,465	75.4	84.9	9.55	80.11
Q4, 2008	90,927	288	0.98	696,075	2,416	82.2	88.4	7.43	81.25
Total	352,196	279	0.85	2,342,915	8,019	74.5	84.2	9.03	80.42
Q2, 2010 : Q2, 2009	37%	3%	14%	41%	61%	1%	0%	-15%	9%
Q2, 2010 : Q1, 2010	10%	-1%	-1%	8%	18%	-1%	8%	-7%	9%
YTD 2010 : YTD 2009	34%	1%	22%	38%	61%	0%	-5%	-15%	8%

(Expressed in US dollars unless otherwise noted) Date of Preparation: August 3, 2010

Comparative Table of Guanacevi Mine Operations

Period	Plant T'put	Ore Grades		Recovered Ounces		Recoveries		Cash Cost	Direct Cost
	Tonnes	Ag(gpt)	Au(gpt)	Ag(oz)	Au(oz)	Ag(%)	Au(%)	$ per oz	$ per tonne
Production 2010 Year:									
Q1, 2010	69,522	333	0.74	574,796	1,277	77.2	77.2	8.11	87.97
Q2, 2010	75,701	332	0.80	622,385	1,602	77.0	82.3	8.47	100.61
Q3, 2010									
Q4, 2010									
YTD 2010	145,223	332	0.77	1,197,181	2,879	77.1	79.8	8.29	94.56
Production 2009 Year:									
Q1, 2009	51,073	326	0.56	409,476	795	79.3	88.1	7.81	81.41
Q2, 2009	53,936	311	0.64	415,775	952	77.1	86.2	9.21	96.86
Q3, 2009	54,791	317	0.69	457,609	1,109	79.3	89.8	8.32	90.82
Q4, 2009	70,832	332	1.17	587,477	2,021	77.7	75.9	7.00	89.68
Total	230,632	322	0.80	1,870,337	4,877	78.3	84.3	7.99	89.80
Production 2008 Year:									
Q1, 2008	68,651	322	0.60	458,624	1,012	64.5	75.9	8.61	75.47
Q2, 2008	65,276	287	0.55	419,245	883	69.2	78.7	8.92	71.51
Q3, 2008	63,979	321	0.58	465,661	976	70.7	81.3	9.66	83.68
Q4, 2008	57,750	346	0.58	514,867	917	79.4	87.7	7.37	84.00
Total	255,656	318	0.58	1,858,397	3,788	70.6	80.6	8.60	78.44
Q2, 2010 : Q2, 2009	40%	7%	25%	50%	68%	0%	-5%	-8%	4%
Q2, 2010 : Q1, 2010	9%	0%	8%	8%	25%	0%	7%	4%	14%
YTD 2010: YTD 2009	38%	4%	28%	45%	65%	-1%	-8%	-3%	6%

(Expressed in US dollars unless otherwise noted) Date of Preparation: August 3, 2010

Comparative Table of Guanajuato Mine Operations

Period	Plant	Ore Grades		Recovered Ounces		Recoveries		Cash Cost	Direct Cost
	Tonnes	Ag(gpt)	Au(gpt)	Ag(oz)	Au(oz)	Ag(%)	Au(%)	$ per oz	$ per tonne
Production 2010 Year:									
Q1, 2010	43,441	168	2.29	191,414	2,498	81.6	79.5	1.23	65.81
Q2, 2010	48,124	166	2.14	204,054	2,858	79.4	86.3	(1.77)	64.81
Q3, 2010									
Q4, 2010									
YTD 2010	91,565	167	2.21	395,468	5,356	80.5	83.1	(0.32)	65.29
Production 2009 Year:									
Q1, 2009	34,658	189	1.70	163,309	1,540	77.4	83.3	6.90	64.75
Q2, 2009	36,402	183	1.93	168,711	1,816	77.5	84.3	1.38	53.68
Q3, 2009	38,485	206	2.45	204,294	2,495	80.2	82.3	(1.82)	61.95
Q4, 2009	44,650	171	2.34	191,867	2,570	78.2	76.5	(1.31)	62.24
Total	154,195	187	2.13	728,181	8,421	78.3	81.3	1.01	60.71
Production 2008 Year:									
Q1, 2008	9,506	171	1.54	46,045	421	88.1	87.7	24.58	151.80
Q2, 2008	21,115	164	1.44	97,832	822	88.1	87.7	12.75	89.70
Q3, 2008	32,742	170	1.62	159,433	1,489	88.3	87.2	9.22	73.12
Q4, 2008	33,177	188	1.67	181,208	1,499	90.6	88.9	7.90	76.47
Total	96,540	175	1.59	484,518	4,231	89.0	87.9	10.79	85.64
Q2, 2010 : Q2, 2009	32%	-9%	11%	21%	57%	3%	2%	-228%	21%
Q2, 2010 : Q1, 2010	11%	-1%	-7%	7%	14%	-3%	9%	-244%	-2%
YTD 2010 : YTD 2009	29%	-10%	22%	19%	60%	4%	-1%	-108%	11%

Cash Operating Costs and Direct Costs (Non-GAAP Measures)

Cash operating cost per oz and direct cost per tonne are non-GAAP measures commonly reported in the silver and gold mining industry as a benchmark of performance, but it does not have a standardized meaning prescribed by GAAP and is therefore may not be comparable to similar measures presented by other issuers. The cash operating cost and direct cost per tonne are provided to investors and used by management as a measure of the Company's operating performance. The Company reports its direct cost per tonne of throughput as cost of sales net of change in inventories and cash operating cost per oz of silver produced as cost of sales, net of changes in inventories, changes in by-product inventories, gold credits and royalties.

Reconciliation of cash operating cost per oz and direct cost per tonne to cost of sales (2010):

Consolidated (in US $000s except ozs produced/payable, cash cost/oz and direct cost/tonne)	For the year ended	For the three months ended			
	31-Dec-10	31-Dec-10	30-Sep-10	30-Jun-10	31-Mar-10
Cost of Sales	$ 19,433			$ 10,267	$ 9,166
Add/(Subtract):					
Change in Inventories	$ 277			$ 468	$ (191)
Direct Costs	**$ 19,710**	**$ -**	**$ -**	**$ 10,735**	**$ 8,975**
Add/(Subtract):					
Royalties	$ (743)			$ (515)	$ (228)
Change in By-Product Inventories	$ 951			$ (70)	$ 1,021
By-Product gold sales	$ (10,212)			$ (5,292)	$ (4,920)
Cash Operating Costs	**$ 9,706**	**$ -**	**$ -**	**$ 4,858**	**$ 4,848**
Throughput tonnes	236,788			123,825	112,963
Ozs Produced	1,592,650			826,439	766,211
Ozs Payable	1,576,725			818,176	758,549
Direct Cost per Tonne US$	**$83.24**			**$86.69**	**$79.45**
Cash Operating Cost Per Oz US$ *	**$6.16**			**$5.94**	**$6.39**

Guanacevi Mines (in US $000s except ozs produced/payable, cash cost/oz and direct cost/tonne)	For the year ended	For the three months ended			
	31-Dec-10	31-Dec-10	30-Sep-10	30-Jun-10	31-Mar-10
Cost of Sales	$ 13,462			$ 7,300	$ 6,162
Add/(Subtract):					
Change in Inventories	$ 270			$ 316	$ (46)
Direct Costs	**$ 13,732**	**$ -**	**$ -**	**$ 7,616**	**$ 6,116**
Add/(Subtract):					
Royalties	$ (743)			$ (515)	$ (228)
Change in By-Product Inventories	$ 346			$ 63	$ 283
By-Product gold sales	$ (3,504)			$ (1,948)	$ (1,556)
Cash Operating Costs	**$ 9,831**	**$ -**	**$ -**	**$ 5,216**	**$ 4,615**
Throughput tonnes	145,223			75,701	69,522
Ozs Produced	1,197,182			622,385	574,797
Ozs Payable	1,185,210			616,161	569,049
Direct Cost per Tonne US$	**$94.56**			**$100.61**	**$87.97**
Cash Operating Cost Per Oz US$ *	**$8.29**			**$8.47**	**$8.11**

Guanajuato Mines Project (in US $000s except ozs produced/payable, cash cost/oz and direct cost/tonne)	For the year ended	For the three months ended			
	31-Dec-10	31-Dec-10	30-Sep-10	30-Jun-10	31-Mar-10
Cost of Sales	$ 5,971			$ 2,967	$ 3,004
Add/(Subtract):					
Change in Inventories	$ 7			$ 152	$ (145)
Direct Costs	**$ 5,978**	**$ -**	**$ -**	**$ 3,119**	**$ 2,859**
Add/(Subtract):					
Royalties	$ -			$ -	$ -
Change in By-Product Inventories	$ 605			$ (133)	$ 738
By-Product gold sales	$ (6,708)			$ (3,344)	$ (3,364)
Cash Operating Costs	**$ (125)**	**$ -**	**$ -**	**$ (358)**	**$ 233**
Throughput tonnes	91,565			48,124	43,441
Ozs Produced	395,468			204,054	191,414
Ozs Payable	391,515			202,015	189,500
Direct Cost per Tonne US$	**$65.29**			**$64.81**	**$65.81**
Cash Operating Cost Per Oz US$ *	**($0.32)**			**($1.77)**	**$1.23**

* Based on payable silver production attributable to cost of sales

Reconciliation of cash operating cost per oz and direct cost per tonne to cost of sales (2009):

Consolidated (in US $000s except ozs produced/payable, cash cost/oz and direct cost/tonne)	For the year ended	For the three months ended			
	31-Dec-09	31-Dec-09	30-Sep-09	30-Jun-09	31-Mar-09
Cost of Sales	$ 29,478	$ 11,439	$ 6,516	$ 5,640	$ 5,883
Add/(Subtract):					
Change in Inventories	$ 594	$ (2,308)	$ 844	$ 1,538	$ 520
Direct Costs	**$ 30,072**	**$ 9,131**	**$ 7,360**	**$ 7,178**	**$ 6,403**
Add/(Subtract):					
Royalties	$ (820)	$ 27	$ (296)	$ (334)	$ (217)
Change in By-Product Inventories	$ (1,648)	$ 807	$ (1,398)	$ (1,003)	$ (54)
By-Product gold sales	$ (12,071)	$ (6,141)	$ (2,263)	$ (1,820)	$ (1,847)
Cash Operating Costs	**$ 15,533**	**$ 3,824**	**$ 3,403**	**$ 4,021**	**$ 4,285**
Throughput tonnes	384,827	115,482	93,276	90,338	85,731
Ozs Produced	2,598,518	779,344	661,903	584,486	572,785
Ozs Payable	2,572,533	771,552	655,284	578,641	567,056
Direct Cost per Tonne US$	**$78.14**	**$79.07**	**$78.91**	**$79.46**	**$74.69**
Cash Operating Cost Per Oz US$ *	**$6.04**	**$4.96**	**$5.19**	**$6.95**	**$7.56**

Guanacevi Mines (in US $000s except ozs produced/payable, cash cost/oz and direct cost/tonne)	For the year ended	For the three months ended			
	31-Dec-09	31-Dec-09	30-Sep-09	30-Jun-09	31-Mar-09
Cost of Sales	$ 20,255	$ 8,142	$ 4,908	$ 3,782	$ 3,423
Add/(Subtract):					
Change in Inventories	$ 455	$ (1,790)	$ 68	$ 1,442	$ 735
Direct Costs	**$ 20,710**	**$ 6,352**	**$ 4,976**	**$ 5,224**	**$ 4,158**
Add/(Subtract):					
Royalties	$ (820)	$ 27	$ (296)	$ (334)	$ (217)
Change in By-Product Inventories	$ (661)	$ 188	$ (24)	$ (676)	$ (149)
By-Product gold sales	$ (4,427)	$ (2,495)	$ (885)	$ (423)	$ (624)
Cash Operating Costs	**$ 14,802**	**$ 4,072**	**$ 3,771**	**$ 3,791**	**$ 3,168**
Throughput tonnes	230,632	70,832	54,791	53,936	51,073
Ozs Produced	1,870,337	587,477	457,609	415,775	409,476
Ozs Payable	1,851,634	581,603	453,033	411,617	405,381
Direct Cost per Tonne US$	**$89.80**	**$89.68**	**$90.82**	**$96.86**	**$81.41**
Cash Operating Cost Per Oz US$ *	**$7.99**	**$7.00**	**$8.32**	**$9.21**	**$7.81**

Guanajuato Mines Project (in US $000s except ozs produced/payable, cash cost/oz and direct cost/tonne)	For the year ended	For the three months ended			
	31-Dec-09	31-Dec-09	30-Sep-09	30-Jun-09	31-Mar-09
Cost of Sales	$ 9,223	$ 3,297	$ 1,608	$ 1,858	$ 2,460
Add/(Subtract):					
Change in Inventories	$ 138	$ (518)	$ 776	$ 96	$ (216)
Direct Costs	**$ 9,361**	**$ 2,779**	**$ 2,384**	**$ 1,954**	**$ 2,244**
Add/(Subtract):					
Royalties	$ -	$ -	$ -	$ -	$ -
Change in By-Product Inventories	$ (987)	$ 619	$ (1,374)	$ (327)	$ 95
By-Product gold sales	$ (7,644)	$ (3,646)	$ (1,378)	$ (1,397)	$ (1,223)
Cash Operating Costs	**$ 730**	**$ (248)**	**$ (368)**	**$ 230**	**$ 1,116**
Throughput tonnes	154,195	44,650	38,485	36,402	34,658
Ozs Produced	728,181	191,867	204,294	168,711	163,309
Ozs Payable	720,899	189,949	202,251	167,024	161,675
Direct Cost per Tonne US$	**$60.71**	**$62.24**	**$61.95**	**$53.68**	**$64.75**
Cash Operating Cost Per Oz US$ *	**$1.01**	**($1.31)**	**($1.82)**	**$1.38**	**$6.90**

* Based on payable silver production attributable to cost of sales

Reconciliation of cash operating cost per oz and direct cost per tonne to cost of sales (2008):

Consolidated (in US $000s except ozs produced/payable, cash cost/oz and direct cost/tonne)

	For the year ended	For the three months ended			
	31-Dec-08	31-Dec-08	30-Sep-08	30-Jun-08	31-Mar-08
Cost of Sales	$ 27,802	$ 7,226	$ 7,648	$ 6,361	$ 6,567
Add/(Subtract):					
Change in Inventories	$ 520	$ 162	$ 100	$ 201	$ 57
Direct Costs	**$ 28,322**	**$ 7,388**	**$ 7,748**	**$ 6,562**	**$ 6,624**
Add/(Subtract):					
Royalties	$ (807)	$ (264)	$ (77)	$ (198)	$ (268)
Change in By-Product Inventories	$ (347)	$ (315)	$ -	$ (5)	$ (27)
By-Product gold sales	$ (6,383)	$ (1,742)	$ (1,821)	$ (1,473)	$ (1,347)
Cash Operating Costs	**$ 20,785**	**$ 5,067**	**$ 5,850**	**$ 4,886**	**$ 4,982**
Throughput tonnes	352,196	90,927	96,721	86,391	78,157
Ozs Produced	2,343,455	696,615	625,094	517,077	504,669
Ozs Payable	2,300,640	682,401	612,465	507,993	497,781
Direct Cost per Tonne US$	**$80.42**	**$81.25**	**$80.11**	**$75.96**	**$84.75**
Cash Operating Cost Per Oz US$ *	**$9.03**	**$7.43**	**$9.55**	**$9.62**	**$10.01**

Guanacevi Mines (in US $000s except ozs produced/payable, cash cost/oz and direct cost/tonne)

	For the year ended	For the three months ended			
	31-Dec-08	31-Dec-08	30-Sep-08	30-Jun-08	31-Mar-08
Cost of Sales	$ 19,950	$ 4,983	$ 5,376	$ 4,467	$ 5,124
Add/(Subtract):					
Change in Inventories	$ 104	$ (132)	$ (22)	$ 201	$ 57
Direct Costs	**$ 20,054**	**$ 4,851**	**$ 5,354**	**$ 4,668**	**$ 5,181**
Add/(Subtract):					
Royalties	$ (807)	$ (264)	$ (77)	$ (198)	$ (268)
Change in By-Product Inventories	$ (91)	$ (59)	$ -	$ (5)	$ (27)
By-Product gold sales	$ (3,336)	$ (769)	$ (824)	$ (764)	$ (979)
Cash Operating Costs	**$ 15,820**	**$ 3,759**	**$ 4,453**	**$ 3,701**	**$ 3,907**
Throughput tonnes	255,656	57,750	63,979	65,276	68,651
Ozs Produced	1,858,937	515,407	465,661	419,245	458,624
Ozs Payable	1,840,348	510,253	461,004	415,053	454,038
Direct Cost per Tonne US$	**$78.44**	**$84.00**	**$83.68**	**$71.51**	**$75.47**
Cash Operating Cost Per Oz US$ *	**$8.60**	**$7.37**	**$9.66**	**$8.92**	**$8.61**

Guanajuato Mines Project (in US $000s except ozs produced/payable, cash cost/oz and direct cost/tonne)

	For the year ended	For the three months ended			
	31-Dec-08	31-Dec-08	30-Sep-08	30-Jun-08	31-Mar-08
Cost of Sales	$ 7,852	$ 2,243	$ 2,272	$ 1,894	$ 1,443
Add/(Subtract):					
Change in Inventories	$ 416	$ 294	$ 122	$ -	$ -
Direct Costs	**$ 8,268**	**$ 2,537**	**$ 2,394**	**$ 1,894**	**$ 1,443**
Add/(Subtract):					
Royalties	$ -	$ -	$ -	$ -	$ -
Change in By-Product Inventories	$ (256)	$ (256)	$ -	$ -	$ -
By-Product gold sales	$ (3,047)	$ (973)	$ (997)	$ (709)	$ (368)
Cash Operating Costs	**$ 4,965**	**$ 1,308**	**$ 1,397**	**$ 1,185**	**$ 1,075**
Throughput tonnes	96,540	33,177	32,742	21,115	9,506
Ozs Produced	484,518	181,208	159,433	97,832	46,045
Ozs Payable	460,292	172,148	151,461	92,940	43,743
Direct Cost per Tonne US$	**$85.64**	**$76.47**	**$73.12**	**$89.70**	**$151.80**
Cash Operating Cost Per Oz US$ *	**$10.79**	**$7.60**	**$9.22**	**$12.75**	**$24.58**

* Based on payable silver production attributable to cost of sales

Exploration Activities

In the second quarter the exploration program was focused on drilling (11,600 meters), sampling and mapping on six prospective targets at the two mines (Guanacevi, Guanajuato) and four exploration projects (Parral, San Sebastian, Arroyo Seco and El Toro) in Mexico. In the northern part of Mexico 27 holes were drilled on the San Juanico area, in Parral where we were evaluating the continuity of the Cometa vein.

At Guanacevi, we were focused on mapping and sampling numerous structures and developing drill targets in the San Pedro area. Limited drilling was carried out at San Pedro during the quarter, with results still pending. Additional property acquisitions are now underway at San Pedro and drilling is expected to re-commence in Q3.

At Guanajuato, exploration drilling south of the Bolanitos mine connected the Lucero Extension and Lucero South mineralized zones, thereby extending the high grade, silver-gold mineralization in the Lucero vein a full 500 meters south of the Lucero mine workings.

Recent drilling highlights include a thick vein intercept grading 169 grams per tonne (gpt) silver and 2.14 gpt gold over 9.88 meter (m) true width in hole LC-20 and a high grade gold intercept assaying 11.87 gpt gold and 94 gpt silver over a 3.79 m true width in hole LC-21,

The Company also expanded its property holdings in the historic silver district of Guanajuato by acquiring the Belen II and Ampliacion de Belen properties (192 hectares), located approximately 2.5 kilometers (km) east of the recent Lucero silver-gold vein discovery and midway between the Company's operating Bolanitos and Cebada silver-gold mines. The Belen properties cover at least 1 km of strike length along the little explored Belen silver-gold vein and parallel veins. Endeavour's management views the Belen properties as having excellent potential to host high grade silver-gold mineralization similar to the recent Lucero vein discovery.

Endeavour has also optioned the Juanita and Tajo de Adjuntas properties (57 hectares), located approximately 4 kilometers southeast of Lucero at the south end of the La Luz vein system.

At the Parral project in Chihuahua, a major drilling campaign is nearing completion on the San Juancio project and results are expected in the third quarter.

The phase 1 mapping and sampling program is now complete at the San Sebastian project in Jalisco and a phase 1 drilling program is being developed to commence Q3, 2010.

A small exploration program at Arroyo Seco is underway. To date 2 holes have been completed stepping out from the drill holes completed in 2008, assays are pending and we expect to drill another 8 holes to evaluate the manto potential of the property.

At El Toro, mapping, sampling and trenching have been carried out to identify targets and drilling is now underway.

CONSOLIDATED FINANCIAL RESULTS

Review of Consolidated Financial Results

Six months ended June 30, 2010 compared with the six months ended June 30, 2009

For the six months ended June 30, 2010, the Company's Mine Operating Earnings were $12.2 million (2009- $0.5 million) on Sales of $37.9 million (2009- $16.7 million) with Cost of Sales of $19.4 million (2009- $11.5 million) and Depreciation and Depletion of $6.3 million (2009 - $4.7 million).

Operating Earnings were $4.4 million (2009: loss of $3.3 million) after Exploration costs of $2.2 million (2009: $0.6 million), General and Administrative costs of $2.4 million (2009: $2.0 million), Accretion of Convertible Debentures of $0.8 million (2009: $0.6) and Stock Based Compensation costs of $2.4 million (2009: $0.6 million).

Earnings Before Taxes were $4.8 million (2009 – Loss Before Taxes of $3.3 million) after Foreign Exchange Loss of $0.1 million (2009- $0.2 million), $50 thousand Gain on Marketable Securities (2009 – Nil), a Mark to Market Gain on redemption call option of $0.3 million (2009 – $ Nil), which relates to the change in fair value of the redemption call option of the convertible debt, and Investment and Other Income of $0.2 million (2009 - $0.2 million). The Company realized Net Earnings for the period of $1.3 million (2009 – Net Loss of $3.6 million) after an Income Tax Provision of $3.5 million (2009 – $0.2 million).

Sales of $37.9 million for the period represent a 127% increase over the $16.7 million for the same period in 2009 due to increased production as well as increased realized silver and gold prices during the year. During the period, the Company sold 1,559,777 ounces of silver and 8,843 oz gold, for realized prices of $17.78 and $1,155 respectively as compared to sales of 963,291 oz silver and 3,957 oz gold for realized prices of $13.55 and $927 respectively in the same period of 2009. The realized prices of $17.78 for silver and $1,155 for gold are consistent with the quarterly average spot prices of $17.62 and $1,152. The Company also accumulated 104,371 silver oz as finished goods at June 30, 2010 as compared to 137,108 silver oz at June 30, 2009. The cost allocated to these Finished Goods is $2.2 million compared to $3.7 million at June 30, 2009.

Cost of Sales for the period was $19.4 million, an increase of 69% over the Cost of Sales of $11.5 million for the same period of 2009. The 69% increase in the cost of sales is primarily a result of the Company's rising production, offset by the improved productivity at the Guanacevi and Guanajuato mines. Depreciation and Depletion was $6.3 million, an increase of 35% compared to $4.7 million for 2009, primarily due to increased production and increased capital asset balances due to capital investments made during 2009.Exploration expenses increased to $2.2 million from $0.6 million in first six months of 2009 reflecting the Company's increase in exploration activities during the period. In early 2009, exploration activities were curtailed to conserve cash and focus on mine development and capital expenditures whereas for 2010 the Company is pursuing a more aggressive exploration program. General and Administrative expenses increased by 18% to $2.4 million for the period as compared to $2.0 million in 2009 primarily due to additional legal, insurance and investor relations costs and an increase in the foreign exchange translation of Canadian dollar denominated expenses.

The Company experienced a Foreign Exchange Loss of $0.1 million as compared to a Loss of $0.2 million for the same period in 2009. The $0.1 loss is primarily due to the increase to the strengthening of the Canadian Dollar against the US Dollar resulting in higher valuations on the Canadian Dollar cash accounts, which had significantly higher balances during 2010, offset by the increased value of the Canadian Dollar-denominated Convertible Debt.

There was a Mark to Market Gain on Redemption Call option of $0.3 million (2009 – $ Nil) relating to the Company's redemption call option on the convertible debt. This amount represents the increase in the estimated value of the redemption call option based on current market conditions and there was no amount for 2009 as the redemption call option on the convertible debt, which was issued in February 2009, was deemed to have no material fair value until late in 2009. Investment and other income stayed consistent with $0.2 million in 2010 and 2009. There was an Income Tax Provision of $3.5 million as compared to a provision of $0.2 million for the same period in 2009. The change in the income tax provision is largely due to the increased profitability of the Company.

Three months ended June 30, 2010 compared with the three months ended June 30, 2009

For the three months ended June 30, 2010, the Company's Mine Operating Earnings were $6.4 million (2009- $0.2 million) on Sales of $19.7 million (2009- $8.2 million) with Cost of Sales of $10.3 million (2009- $5.6 million) and Depreciation and Depletion of $3.0 million (2009 - $2.4 million).

Operating Earnings were $1.7 million (2009: loss of $2.1 million) after Exploration costs of $1.4 million (2009: $0.4 million), General and Administrative costs of $1.2 million (2009: $1.0 million), Accretion of Convertible Debentures of $0.4 million (2009: $0.4 million) and Stock Based Compensation costs of $1.7 million (2009: $0.5 million).

Earnings Before Taxes were $1.5 million (2009 – Loss Before Taxes of $1.4 million) after Foreign Exchange Loss of $0.5 million (2009- $0.7 million), a $50 thousand realized Gain on Marketable Securities, a Mark to Market Gain on redemption call option of $0.1 million (2009 – $ Nil), which relates to the redemption call option of the convertible debt, and Investment and Other Income of $0.1million (2009 - $7 thousand). The Company had a Net Loss for the period of $0.4 million (2009 – Net Loss of $1.8 million) after an Income Tax Provision of $1.9 million (2009 –$0.4 million).

Sales of $19.7 million for the period represent a 139% increase over the $8.2 million for the same period in 2009 due to increased production as well as increased realized silver and gold prices during the period. During the quarter, the Company sold 772,126 ounces of silver and 4,389 oz gold, for realized prices of $18.65 and $1,205 respectively as compared to sales of 462,217 oz silver and 1,951 oz gold for realized prices of $13.88 and $921 respectively in the same period of 2009. The realized prices of $18.65 for silver and $1,205 for gold are slightly higher than the quarterly average spot prices of $18.32 and $1,195 thanks to management's sales strategies.

Cost of Sales for the quarter was $10.3 million, an increase of 82% over the Cost of Sales of $5.6 million for 2009. The 82% increase in the cost of sales is primarily a result of the Company's rising production, offset by the improved productivity at the Guanacevi and Guanajuato mines. Depreciation and Depletion was $3.0 million, an increase of 25% compared to $2.4 million for the same period in 2009, primarily due to increased production and increased capital asset balances due to capital investments made during 2009.

Exploration expenses increased to $1.4 million in Q2, 2010 from $0.4 million in Q2, 2009 reflecting the Company's increase in exploration activities during the current period. In early 2009 exploration activities were quite low to conserve cash and focus on mine development and capital expenditures. General and Administrative expenses increased by 27% to $1.2 million for the quarter as compared to $1.0 million in 2009 primarily due to additional legal, insurance and investor relations costs and an increase in the foreign exchange translation of Canadian dollar denominated expenses.

The Company experienced a Foreign Exchange Loss of $0.5 million as compared to a Foreign Exchange Gain of $0.7 million for the same period in 2009. The Q2, 2010 loss is primarily due to the strengthening of the US Dollar against the Canadian Dollar resulting in higher valuations on the Canadian Dollar cash accounts, which had significantly higher balances during 2010, offset by the increased value of the Canadian Dollar-denominated Convertible Debt.

There was a Mark to Market Gain on Redemption Call option of $0.1 million (2009 – $ Nil) relating to the Company's redemption call option on the convertible debt. This amount represents the increase in the estimated value of the call option based on the current market conditions and the redemption options on the convertible debt, was deemed to have no material fair value at that time. Investment and other income decreased to $0.1 million in 2010 from $7 thousand in 2009 primarily as a result of increased interest income due to higher cash balances. There was an Income Tax Provision of $1.9 million as compared to a provision of $0.4 million in Q2, 2009. The change in the income tax provision is largely due to the increased profitability of the Company.

Summary of Quarterly Results

(in US$000s	Dec 31, 2010 Period End		Dec. 31, 2009 Period End				December 31, 2008 Period End	
except per share amounts)	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Total Revenues	$ 19,692	$ 18,252	$ 24,250	$ 9,796	$ 8,236	$ 8,487	$ 7,900	$ 10,613
Cost of Sales	$ 10,267	$ 9,166	$ 11,439	$ 6,516	$ 5,640	$ 5,883	$ 7,226	$ 7,648
Depreciation, Depletion & Accretion	$ 3,028	$ 3,301	$ 4,563	$ 1,997	$ 2,414	$ 2,290	$ 2,551	$ 2,558
Mine Operating Earnings / (Loss)*	$ 6,397	$ 5,785	$ 8,248	$ 1,283	$ 182	$ 314	$ (1,877)	$ 407
Net income (loss):								
(i) Total	$ (412)	$ 1,720	$ 3,133	$ (1,487)	$ (1,832)	$ (1,740)	$ (5,149)	$ (7,427)
(ii) Basic per share	$ (0.01)	$ 0.03	$ 0.06	$ (0.03)	$ (0.04)	$ (0.03)	$ (0.11)	$ (0.15)
(iii) Diluted per share	$ (0.01)	$ 0.03	$ 0.06	$ (0.03)	$ (0.04)	$ (0.03)	$ (0.11)	$ (0.15)

* Earnings from mine operations is a non-GAAP measure used by the Company as a measure of operating performance

Quarterly Trends and Analysis

In the 3rd Quarter of 2008 production increased primarily due to the ramp up of production at Guanajuato, partially offsetting the slide in silver prices which began in August. Costs increased due to the ramp up of Guanajuato operations and improved employee production bonuses which were magnified by the slight appreciation of the Mexican Peso during the quarter until late September when the Peso began its significant fall.

In the 4th Quarter of 2008 the Company realized higher production output due to improved grades and recoveries at Guanacevi and greater output at Guanajuato. However the production increase was significantly offset by the drop in the silver price during the fourth quarter. The decrease in production costs is attributed to the significant depreciation of the Mexican peso. The Company's largest production cost is labour, therefore any change in the valuation of the local currency directly impacts our production costs. Subsequent to December 31, 2008, the Mexican Peso continued its depreciation against the US dollar, further reducing the US dollar production costs of both mines.

In the 1st Quarter of 2009, the Company's decrease in production was offset by improved silver and gold prices compared to prior quarter. The Company's operating costs continued to benefit from the depreciation of the Mexican Peso against the US dollar, while General and Administrative costs reported also benefited from the depreciation of the Canadian dollar against the US dollar.

In the 2nd Quarter of 2009, the Company experienced a slight increase in production over the previous quarter but the significant increase in finished goods inventory at the end of the period resulted in decreased sales revenue. The Company's operating costs also decreased from the previous quarter accordingly.

In the 3rd Quarter of 2009, the Company experienced a 13% increase in production over the previous quarter. There was an increase in sales due to both an increase in sold ounces and more robust silver and gold prices during the period, with a corresponding increase in operating costs. The increase in sales was in addition to a further increase in finished goods inventory from the prior quarter.

In the 4th Quarter of 2009, the Company had a significant increase in sales over previous quarters. The increase in sales is due to 3 main factors: an increase in the price of silver and gold; an increase in production; and the timing of finished goods sales. During the Q4, 2009, there was an increase in production of 18% for silver and 27% for gold over the previous quarter and more robust silver and gold prices. The Company also accumulated a large finished goods inventory at September 30, 2009 which was converted to sales during Q4, 2009 resulting in a significant increase in cost of sales and depreciation and depletion for the quarter.

(Expressed in US dollars unless otherwise noted) Date of Preparation: August 3, 2010

In the 1st Quarter of 2010, the Company continued to experience an increase in sales over previous quarters, with the exception of Q4, 2009 where sales reflected the realization of the sale of a large finished goods balance produced in Q3, 2009. Silver production experienced a 2% decrease from Q4, 2009 but was a significant increase compared to prior periods.

In the 2nd Quarter of 2010, the Company continued to experience an increase in sales over previous quarters, with the Company achieving the highest quarterly production to date with a robust silver price. Silver production experienced a 41% increase from the same period in 2009 and an 8% increase from Q1, 2010. The Company experienced a $0.4 million net loss during the quarter as compared to net income of $1.7 million in the first quarter of 2010 primarily due to the $1.0 million in additional stock-based compensation, $0.5 million in additional exploration expenditures and a $0.5 million foreign exchange loss experienced during the quarter.

Selected Annual Information

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Revenue	$ 50,769	$ 39,302	$ 32,319
Net loss:			
(i) Total	$ (1,926)	$ (18,004)	$ (12,202)
(ii) Basic per share	$ (0.04)	$ (0.37)	$ (0.27)
(iii) Diluted per share	$ (0.04)	$ (0.37)	$ (0.27)
Dividends per share	$ -	$ -	$ -
	December 31, 2009	December 31, 2008	December 31, 2007
Total assets	$ 105,881	$ 67,292	$ 82,151
Total long-term liabilities	$ 18,240	$ 5,481	$ 6,646

Transactions with Related Parties

The Company shares common administrative services and office space with Canarc Resource Corp., Caza Gold Corp., Aztec Metals Corp. ("Aztec") and Parallel Resources Ltd, who are related party companies, and from time to time Endeavour will incur third-party costs on behalf of the related parties on a full cost recovery basis. The Company has $240,000 receivable related to administration costs outstanding as of June 30, 2010. (December 31, 2009 – $133,000).

During the six months ended June 30, 2010, the Company paid $49,000 for legal services to Koffman Kalef LLP, a firm in which the Company's Corporate Secretary is a partner. The Company has an $Nil payable related to legal costs outstanding as of June 30, 2010 (December 31, 2009 $5,000)

The Company has $110,000 receivable from Aztec related to 2008 property tax payments and the initial Rio Chico option payment outstanding as of June 30, 2010 (December 31, 2009 - $110,000).

(Expressed in US dollars unless otherwise noted) Date of Preparation: August 3, 2010

Update on Use of Proceeds from Recent Financings

On October 7, 2009, the Company received net proceeds of Cdn$17.3 million from a prospectus offering of units. Based on the October 7, 2009 noon exchange rate reported by the Bank of Canada of Cdn$1.00 = US$0.9417, this amount was equivalent to US$16.4 million. As disclosed in the Company's short form prospectus dated September 28, 2009, US$12 million of the net proceeds from this offering were intended to be used for capital expenditures and exploration drilling at the Guanacevi and Guanajuato Mines projects as set out in the table below, with the balance of US$4.4 million to be used for working capital.

Planned expenditures for mine development were to be funded first from the financing proceeds and subsequently by operating cash flow and as of Q1, 2010 the allocated amounts have been fully utilized and any additional expenditures have been financed from operating cash flows. The miscellaneous equipment planned for Guanajuato has been fully purchased and is under budget by $210,000 due to lower than anticipated costs. The planned exploration drilling for the Porvenir Cuatro, Santa Fe & Noche Buena areas of Guanacevi and the South Bolanitos and North Cebada areas of Guanajuato have been completed with no material variance. The Guanacevi plant refurbishment and expansion program, the exploration drilling program at the Porvenir Mine area in Guanacevi and exploration drilling at the North Bolanitos area at Guanajuato are all scheduled for completion in the second half of 2010. The expenditures to date have been consistent with management's initial budget with no material variance and further expenditures will be made during 2010.

Guanacevi and Guanajuato Mines Capital Expenditures	**Expected (US$)**	**Actual (US$)**	**Variance (US$)**
Mine Development - Guanacevi	$3,000,000	$3,000,000	$ -
Mine Development - Guanajuato	1,000,000	1,000,000	-
Plant Refurbishment & equipment – Guanacevi & Guanajuato	3,000,000	823,080	2,176,920
Miscellaneous Equipment - Guanajuato	1,000,000	790,000	210,000
Exploration drilling – Guanacevi (Porvenir Cuatro)	600,000	643,160	(43,160)
Exploration drilling – Guanacevi (Santa Fe)	200,000	206,975	(6,975)
Exploration drilling – Guanacevi (Noche Buena)	600,000	620,927	(20,927)
Exploration drilling – Guanacevi (Porvenir Mine)	600,000	338,958	261,042
Exploration drilling – Guanajuato (South Bolanitos)	800,000	806,573	(6,573)
Exploration drilling – Guanajuato (North Cebada)	900,000	940,826	(40,826)
Exploration drilling – Guanajuato (North Bolanitos)	300,000	0	300,000
Total	**$12,000,000**	**$ 9,170,499**	**$2,829,501**

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by $5.3 million from $26.7 million at December 31, 2009 to $21.4 million at June 30, 2010. The Company had working capital of $42.4 million at June 30, 2010 (December 31, 2009 - $38.8 million). The decrease in cash and cash equivalents of $5.3 is primarily due to the $12.9 million used for capital investments made in property, plant and equipment, $1.0 million invested in marketable securities and $0.6 million paid in interest offset by the $6.1 million provided by operating activities, $1.2 million in proceeds received on the sale of marketable securities and $1.9 million in proceeds on the exercise of stock options and share purchase warrants. The $3.6 million increase in working capital is primarily a result of the $8.5 million increase in accounts receivable and prepaid amounts, a $2.8 million increase in inventory and a $0.6 million increase in Notes receivable less the $5.3 million decrease in cash and cash equivalents and $3.0 million increase in current liabilities.

Operating activities provided $6.1 million during the six months ended June 30, 2010 compared to using $0.6 million during the same period in 2009. The major non-cash adjustments on the net income of $1.3 million were non-cash charges for depreciation, depletion of $6.3 million, stock-based compensation of $2.4 million, accretion charge on convertible debentures of $0.8 million, a future income tax loss of $3.4 million, a mark to market gain on redemption call option of $0.3 million and an increase in non-cash working capital of $7.9 million. The increase in non-cash working capital is primarily due to increased accounts receivable and prepaids and increased inventories offset by increased accounts payable and accrued liabilities.

Investing activities during the period used $12.7 million as compared to $6.5 million in the same period of 2009. The investments in property, plant and equipment was $12.9 million compared to $6.5 million and during the current period there was $1.2 million received on the sale of marketable securities and $1.0 invested in marketable securities.

The Company invested $13.1 million in property, plant and equipment during the six ended June 30, 2010, of which $12.9 million was paid in cash, and $0.2 million was settled through common shares. Approximately $8.3 million was invested at Guanacevi with $5.2 million spent on mine development, $2.3 million was spent on the plant, including $1.0 million spent on the tailings facility and $1.2 million spent on the plant expansion project which includes the upgrade to the crushing circuit, $0.7 million on mine equipment and $0.1 million in vehicles. A total of $4.6 million was invested at Guanajuato with $3.6 million spent on mine development, $0.2 million on various plant projects, $0.7 million on mine equipment and $50 thousand spent on vehicles. The $0.2 million settled through common shares was for property acquisition costs.

Financing activities during the year to date generated $1.3 million as compared to $10.4 million during the same period in 2009. During the current period there was $1.4 million realized from the exercise of 636,400 stock options, $0.5 million realized from the exercise of 315,494 share purchase warrants and $0.6 million interest paid on the Convertible Debentures.

As at June 30, 2010, the Company's issued share capital was $117.3 million representing 63,072,408 common shares compared to $112.2 million representing 60,626,203 common shares at December 31, 2009. Of the 2,446,205 common shares issued during the period, 1,352,094 were issued upon conversion of convertible debentures, 636,400 were issued upon stock option exercises, 315,494 were issued on exercise of warrants, 71,428 were issued on the acquisition of a mineral property, 29,000 were issued under the Company's stock bonus plan and 41,789 were issued upon the exercise of stock options as share appreciation rights.

As at June 30, 2010, the Company had 5,941,600 options to purchase common shares outstanding with a weighted average exercise price of Cdn$2.96 and had 6,206,438 share purchase warrants outstanding with a weighted average exercise price of Cdn$2.95.

At June 30, 2010 the Company held certain Notes that were obtained in February 2009 from the restructuring of Canadian Asset Backed Commercial Paper ("ABCP"). The ABCP was purchased in a Canaccord Capital account in August 2007 with a par value $5.2 million. At the dates at which the Company acquired the investments, the non-bank sponsored ABCP was rated RI (High) by Dominion Bond Rating Services ("DBRS"), the highest credit rating issued for commercial paper. In August 2007, the ABCP market experienced liquidity problems and was subsequently frozen. See "Investment in Notes Receivable" for further detail.

Even though the Company generates significant mine operating cash flow, the Company has incurred significant operating losses to date. Management recognizes that the Company will need to grow its operations and/or generate additional financing resources in order to meet its planned business objectives in the long term. The Company has historically financed its activities principally by the sale of equity securities. The Company's ability to continue as a going concern is dependent on the Company's ability to raise equity financing, debt financing or the attainment of profitable operations.

Capital Requirements

The Company plans to invest a total of $29 million on capital projects in 2010, with the continued focus on refurbishing and expanding the Guanacevi plant, and developing mine access ramps at both operations.

At Guanacevi, $11.0 million is planned to develop the Santa Cruz and Porvenir Cuatro ore-bodies and extend access into both the North Porvenir and Porvenir Dos ore-bodies, $5.6 million is planned for a new crushing circuit, $1.0 million for tailings expansion and $5.0 million for various plant and mine equipment to facilitate the continued expansion at Guanacevi.

At Guanajuato, $3.0 million in planned to further develop the Lucero, Karina and Bolanitos veins, while $1.3 million is planned to purchase mine equipment and $1.6 million is for mine drilling to define the mineralization for mine planning. Efficiency upgrades at the plant are planned to enhance the recoveries for $0.5 million.

These planned expenditures are expected to be financed from mine operating cash flows and current cash balances.

Financial Instruments and Other Instruments

Financial Assets and Liabilities

The Company's financial instruments consist of cash and cash equivalents, receivables, marketable securities, accounts payable, accrued liabilities, notes receivable (formerly asset backed commercial paper notes "ABCP Notes"), a promissory note and convertible debentures. Cash and cash equivalents are designated as held for trading and therefore carried at fair value, with the unrealized gain or loss recorded in income. Receivables are designated as loan receivables and accounts payables, accrued liabilities, promissory note and convertible debentures are designated as other financial liabilities and recorded at amortized cost. Marketable securities and ABCP are available for sale with the unrealized gain or loss recorded in other comprehensive income. Interest income and expense are both recorded in income.

The fair value hierarchy establishes three levels to classify inputs to the valuation techniques used to measure fair value. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable (supported by little or no market activity).

Cash and cash equivalents and promissory note are stated at fair value and are classified as Level 1 of the fair value hierarchy. The fair values of accounts receivables, accounts payable and accrued liabilities are approximate carrying value because of the short term nature of these instruments.

The fair value of available for sale marketable securities is determined based on a market approach reflecting the closing price of each particular security at the closing balance sheet date. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security, and therefore available for sale securities are classified within Level 1 of the fair value hierarchy.

The fair value of the Notes Receivable (formerly ABCP Notes) is determined based on a market approach reflecting market value based on trade market bids and are classified as available for sale within Level 1 of the fair value hierarchy.

The fair values of the convertible debentures are determined as described under "Convertible Debentures" and are classified within Level 2.

Financial Instrument Risk Exposure and Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process. The types of risk exposure and the way in which such exposure is managed is provided as follows:

Credit Risk
The Company is exposed to credit risk on its bank accounts, notes receivable and IVA receivable balance. Credit risk exposure on bank accounts is limited through maintaining its cash and equivalents with high-credit quality financial institutions, maintaining investment policies, assessing institutional exposure and continual discussion with external advisors. IVA receivables are generated on the purchase of supplies and services to produce silver which are refundable from the Mexican government.

Liquidity Risk
The Company ensures that there is sufficient capital in order to meet short term business requirements. After taking into account the Company's holdings of cash equivalents, marketable securities and receivables, the Company believes that these sources will be sufficient to cover the likely short term cash requirements and commitments.

Market Risk
The significant market risk exposures to which the Company's financial instruments are subject to are foreign exchange risk and interest rate risk.

Foreign Currency Risk
The Company's operations in Mexico and Canada subject it to foreign currency fluctuations. The Company's operating expenses are primarily incurred in Mexican pesos and Canadian dollars, and the fluctuation of the US dollar in relation to these currencies will consequently have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company's convertible debentures were issued in Canadian dollars and related interest expense is incurred in Canadian dollars. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

Interest Rate Risk
In respect of financial assets, the Company's policy is to invest cash at floating rates of interest and cash reserves are to be maintained in cash equivalents in order to maintain liquidity. Fluctuations in interest rates impact the value of cash equivalents and notes receivable.

With respect to financial liabilities, the convertible debentures and promissory note are not subject to interest rate risk given the fixed rate of 10% for both liabilities.

Investment in Notes Receivable (Previously "Asset Backed Commercial Paper")

At June 30, 2010 the Company held Canadian dollar denominated restructured Asset Backed Commercial Paper Notes (the "Notes") that were obtained in February 2009 from the restructuring of Canadian Asset Backed Commercial Paper ("ABCP").

$ 000's			CAN $	**Jun 30, 2010**	Dec 31, 2009
Notes	Maturity Dates	Interest Rate	Face Amount	**Market Value**	Market Value
MAV II Class A-1	July 15, 2056	BA - 0.5%	$ 3,219	**$ 2,073**	$ 1,629
MAV II Class A-2	July 15, 2056	BA - 0.5%	1,093	**634**	525
MAV II Class B	July 15, 2056	BA - 0.5%	198	**61**	-
MAV II Class C	July 15, 2056	BA + 20.0%	140	**8**	-
IA Tracking Class 15		BA - 0.5%	464	**364**	322
			$ 5,114	**$ 3,140**	$ 2,476

During the first quarter of 2010, the trade activity of the MAV II trust and the IA tracking note class 15 significantly increased providing a more liquid market, permitting the Company to estimate the value of the Notes on current market activity bids. Effective January 1, 2010, the Company marks to market the Notes based on trade market bids. The mark to market of the Notes results in a gain of $664 during the six month period ended June 30, 2010. The Notes are classified as Level 1 of the fair value hierarchy, a change from December 31, 2009 where the Notes were classified within the Level 2 fair value hierarchy, as the Company then used inputs other than quoted market prices included in Level 1 that were either directly or indirectly observable for the asset in estimating fair value.

In prior years, the Company estimated the value using a basic discounted cash flow model assuming principal is repaid between 2013 and 2016, interest earned at banker acceptance less 50 bps, using a 12% discount rate. This resulted in an estimated fair value of $2,476,000 at December 31, 2009.

The Company has classified the Notes as available for sale. Management has recorded the Notes at their estimated fair market value with the impact of fair value fluctuations recognized through other comprehensive income, unless they are declines in value that are concluded to be other than temporary, in which case the declines will be charged to operations.

Convertible Debentures

In February 2009, the Company issued Cdn $13,993,000 in 10% subordinated unsecured convertible redeemable debentures (the "Debentures") maturing February 2014. The interest is 10% annually, paid quarterly in arrears. At any time, each Debenture may be converted by the holder into one unit consisting of one of the Company's common shares and one half of a common share purchase warrant at an initial conversion rate of 526.3 units for each Cdn $1,000 Debenture, representing an initial conversion price of Cdn $1.90 per unit. Additional units may become issuable following the occurrence of certain corporate acts or events. Each full share purchase warrant will entitle the holder to purchase one common share at an exercise price of Cdn $2.05 per share. Subsequent to August 26, 2010, each Debenture can be redeemed by the Company for cash, plus a redemption fee of 7%, provided the closing share price is greater than Cdn $2.85 per share.

As the Debentures include both cash payment and equity conversion features, the gross proceeds were allocated between liability and equity elements. The liability element has been designated as other liabilities and is recognized at amortized cost. The related transaction costs are allocated on a proportional basis. The transaction costs associated with the liability portion of the Debentures are deferred and amortized over their expected term.

During 2010, 2,569 convertible debentures were converted into 1,352,094 common shares and 676,043 warrants. 7,879 convertible debentures remain outstanding as of June 30, 2010 (December 31, 2009 – 12,651).

(Expressed in thousands of dollars)

	Cdn $	US $
Liability portion of convertible debentures		
Opening balance	8,549	8,149
Opening accrued interest	267	254
Accretion expense	869	840
Interest accrued	(210)	(200)
Interest paid	(634)	(625)
Conversion into common shares	(1,774)	(1,740)
Foreign exchange (gain)/loss on revaluation	-	65
Closing balance of liability portion	**$ 7,067**	**$ 6,743**
Equity portion of convertible debentures		
Opening balance	2,699	2,164
Conversion into common shares	(548)	(440)
Closing balance of equity portion	**$ 2,151**	**$ 1,724**

As at June 30, 2010, the redemption option was valued at $2,413,000 using a binomial lattice model with a volatility estimate of 65%, risk free rate of 1.2% and estimated borrowing rate of 12% over the life of the Debentures (December 31, 2009 - $2,693,000). The redemption option is designated as held for trading andmarket fluctuations are charged to operations. For the period ended June 30, 2010 a gain of $296,000 was recorded, while $576,000 was allocated to equity on debenture conversions.

Contractual Obligations

The Company had the following contractual obligations at June 30, 2010:

Payments due by period (in thousands of dollars)

Contractual Obligations	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating Lease	$ 380	$253	$127	-	-
Promissory Note	387	231	156	-	-
Other Long-Term Liabilities	1,811	-	-	$643	$1,168
Total	$2,578	$484	$283	$643	$1,168

Outstanding Share Data

As of August 3, 2010, the Company had the following items issued and outstanding:

- 64,137,140 common shares
- 6,021,600 options to purchase common shares with a weighted average exercise price of Cdn$2.97 expiring between September 7, 2010 and June 14, 2017.
- 6,738,801 share purchase warrants with a weighted average exercise price of Cdn$2.88 expiring between October 7, 2011 and February 26, 2014.
- Cdn$7,879,000 of five year 10% subordinated unsecured convertible redeemable debentures with an exercise price of $1.90 per share.

The Company considers the items included in the consolidated statement of shareholders' equity as capital. The Company's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders**.** The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, prospectus offerings, convertible debentures, asset acquisitions or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

OUTLOOK

Financial

In Q3, 2010, Endeavour anticipates its financial performance will reflect slightly lower anticipated silver and gold bullion prices, a modest increase in production and slightly lower cash costs. Cash operating costs decreased in Q2, 2010 from Q1, 2010, they should continue to trend downward toward the $5.00 per oz range on completion of our 2010 capital expansion programs.

Production

Silver production remains slightly ahead of schedule for the year. Similar to 2009, the first two quarters of silver production in 2010 were scheduled to be relatively flat, as we focused on mine development and plant expansion capital programs. Silver production should start rising again in the Third and Fourth Quarters, 2010, as the new ore-bodies under development during the first half of the year at Guanacevi and Guanajuato to enter into production.

Upon completion of the 2010 capital expansion projects, the Guanacevi mines production is scheduled to reach 1,000 tonnes per day (tpd), and the Guanajuato mines production is scheduled to reach 600 tonnes per day (tpd). Guanacevi currently draws 80% of its ore production from the Porvenir Mine and the balance from Porvenir Dos. Both the Porvenir Cuatro and Santa Cruz access rampsare slightly ahead of schedule, so both should be in ore development in the Third Quarter, 2010. TWork on the new crushing and other existing circuits at the Guanacevi plant is on target for completion in Q3, 2010.

At Guanajuato, the Lucero vein now contributes 80% of the ore production with the balance coming from Cebada and Bolanitos. With last year's expansion of the Guanajuato plant capacity to 600 tpd, production is still climbing with the development of the ore zones on the Bolanitos and Lucero veins. Plant capacity is expected to be achieved when the new Lucero South access ramp is completed in Q3, 2010.

Exploration

Exploration expenses should remain constant into the Third Quarter, 2010 as Endeavour pushes ahead on its exploration programs at several projects. A total of 11,000 meters of core drilling is planned during the quarter for Guanajuato, Guanacevi, San Sebastian and Arroyo Seco, as well as surface surveys and target definition work on other properties.

At Guanacevi, the next phase of diamond drilling will be carried out in the San Pedro area. At Guanajuato, drilling continues at Lucero South and will be initiated in the Bolañitos North area.

At Parral, drill results will be assessed and released in August. At San Sebastian, a Phase 1 drill program will get underway in the Real Alto area to test several prospective targets.

At El Toro, machine trenching, rock sampling & target generation will be completed in order to define targets for drilling. At Arroyo Seco, drill results should be released in September.

CHANGES IN ACCOUNTING POLICIES & CRITICAL ACCOUNTING ESTIMATES

Changes in Accounting Policies

Recently released Canadian accounting standards

The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company:

i) In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The adoption date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

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 the determination of mineralized reserves, valuation of asset back commercial paper, impairment of long-lived assets, determination of asset retirement obligations, valuation allowances for future income taxes and assumptions used in determining the fair value of non-cash based compensation.

Mineralized reserves and impairment on long lived assets
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 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 an 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.

Asset retirement obligations

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements, however changes in regulatory requirements and new information may result in revisions to estimates. The Company recognized the present value of liabilities for reclamation and closure costs in the period in which they are incurred. 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.

Convertible Debt

We follow accounting guidelines in determining the value of the liability and equity components of the convertible notes, as described in Note 13 to the interim Financial Statements. The carrying value of the liability component was determined by discounting the stream of future payments of interest and principal over a 5 year expected life at the estimated market rate for a similar liability without the conversion features. The carrying value of the equity component was measured as the face value of the notes less the portion relating to the debt component.

Future 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 or 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. The future income tax provision also incorporates management's estimates regarding the utilization of tax loss carry forwards, which are dependent on future operating performance and transactions.

Stock-based compensation

The Company has a share option plan which is described in Note 14 (d) of the Company's consolidated financial statements. The Company records all stock-based compensation for options using the fair value method. The fair value of each option award is estimated on the date of the grant using the Black-Scholes option pricing model, with expected volatility based on historical volatility of our stock. We use historical data to estimate the term of the option and the risk free rate for the expected term of the option is based on the Government of Canada yield curve in effect at the time of the grant.

CONTROLS AND PROCEDURES

Changes in Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal control over financial reporting to determine whether any changes occurred during the period that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. During the six months ended June 30, 2010 there have been no changes that occurred that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Accordingly, the Company will transition from current Canadian GAAP reporting and commence reporting under IFRS for the first quarter of 2011, with restatement of comparative information presented.

The conversion to IFRS from Canadian GAAP may materially affect the Company's reported financial position and results of operations and will affect the Company's accounting policies, information technology and data systems, internal controls over financial reporting, and disclosure controls and procedures. The transition may also affect business activities such as certain contractual arrangements and compensation arrangements.

The Company has developed a conversion plan consisting of four key stages including; project planning and preliminary assessment, detailed assessment, design and implementation. The project planning and initial assessment stage has been completed. The initial assessment was completed with the assistance of external advisors and outlines the significant differences between Canadian GAAP and IFRS and rates the impact of each of the significant differences on the entity's financial statements, thereby allowing the Company to focus the detailed assessment on the highest priority items.

The detailed assessment is ongoing and to date the Company has identified presentation and disclosure, mineral property, plant and equipment, future income taxes and financial instruments as areas where the adoption of IFRS may have a material effect on the Company's financial reporting, processes and controls. The Company is also assessing the available elections under IFRS to determine the effect of each election to the Company. This detailed assessment is near completion with continuing assessment expected for the balance of the year.

The Company has commenced the design stage which includes completing an assessment of the quantified effects of the anticipated changes to the Company's IFRS opening balance sheet and identifying business processes and resources that may require modification as a result of these changes. The implementation stage is proceeding concurrently with the detailed assessment and design stages and includes preparing draft IFRS compliant model financial statements and making appropriate changes to business, reporting and system processes and training to support preparation and maintenance of IFRS compliant financial data for the IFRS opening balance sheet at January 1, 2010 and going forward. The Company believes the plan is sufficiently advanced and adequate resources are in place to ensure an efficient and effective transition to IFRS reporting.

The Company has and continues to provide training seminars to its accounting staff and has hired additional accounting staff to assist with the transition. The Company continues to monitor the development of the standards as issued by the International Accounting Standards Board and to determine any impact on the assessments done to date. Regular reporting will occur to senior executive management and to the Audit Committee of our Board of Directors.