



**Condensed Consolidated Interim Financial Statements**

Prepared by Management

**Second Quarter Report  
Three and Six Months Ended June 30, 2012 and 2011**

**ENDEAVOUR SILVER CORP.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**(Unaudited – Prepared by Management)**  
(expressed in thousands of US dollars)

|   | Notes | June 30,<br>2012  | December 31,<br>2011 |
|---|-------|-------------------|----------------------|
| <b>ASSETS</b>   |       |                   |                      |
| <b>Current assets</b>   |       |                   |                      |
| Cash and cash equivalents   |       | \$ 115,444        | \$ 75,434            |
| Investments   | 4     | 12,466            | 34,099               |
| Accounts receivable   | 5     | 8,514             | 7,392                |
| Inventories   | 6     | 33,326            | 34,195               |
| Prepaid expenses  |       | 4,815             | 3,773                |
| <b>Total current assets</b>   |       | <b>174,565</b>    | 154,893              |
| Non-current deposits  |       | 776               | 600                  |
| Mineral property, plant and equipment   | 8     | 106,268           | 93,528               |
| <b>Total assets</b>   |       | <b>\$ 281,609</b> | \$ 249,021           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |       |                   |                      |
| <b>Current liabilities</b>  |       |                   |                      |
| Accounts payable and accrued liabilities  |       | \$ 12,021         | \$ 9,084             |
| Income taxes payable  |       | 3,511             | 3,482                |
| <b>Total current liabilities</b>  |       | <b>15,532</b>     | 12,566               |
| Provision for reclamation and rehabilitation  |       | 2,739             | 2,729                |
| Deferred income tax liability   |       | 24,217            | 20,806               |
| Derivative liabilities  | 10    | 6,418             | 13,130               |
| <b>Total liabilities</b>  |       | <b>48,906</b>     | 49,231               |
| <b>Shareholders' equity</b>   |       |                   |                      |
| Common shares, unlimited shares authorized, no par value, issued and outstanding 88,065,018 shares (Dec 31, 2011 - 87,378,748 shares) | 9     | 265,707           | 259,396              |
| Contributed surplus   |       | 11,497            | 8,819                |
| Accumulated comprehensive income (loss)   |       | (5,067)           | (1,700)              |
| Deficit   |       | (39,434)          | (66,725)             |
| <b>Total shareholders' equity</b>   |       | <b>232,703</b>    | 199,790              |
| <b>Total liabilities and shareholders' equity</b>   |       | <b>\$ 281,609</b> | \$ 249,021           |

Subsequent Events 15

The accompanying notes are an integral part of the consolidated financial statements.

**ENDEAVOUR SILVER CORP.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited – Prepared by Management)**

(expressed in thousands of US dollars, except for shares and per share amounts)

|  |       | Three Months Ended |                  | Six Months Ended |                  |
|--|-------|--------------------|------------------|------------------|------------------|
|  | Notes | June 30,<br>2012   | June 30,<br>2011 | June 30,<br>2012 | June 30,<br>2011 |
| Revenue  |       | \$ 40,434          | \$ 36,363        | \$ 89,480        | \$ 71,715        |
| Cost of sales:   |       |                    |                  |                  |                  |
| Direct production costs                                    |       | 15,890             | 12,109           | 32,501           | 22,468           |
| Royalties  |       | 482                | 631              | 943              | 1,076            |
| Stock-based compensation                                   |       | 216                | 132              | 275              | 167              |
| Amortization and depletion                                 |       | 4,328              | 4,247            | 12,824           | 8,190            |
|  | 14    | 20,916             | 17,119           | 46,543           | 31,901           |
| Mine operating earnings                                    |       | 19,518             | 19,244           | 42,937           | 39,814           |
| Expenses:  |       |                    |                  |                  |                  |
| Exploration  | 11    | 2,110              | 2,592            | 3,922            | 3,725            |
| General and administrative                                 | 12    | 3,977              | 2,900            | 6,714            | 5,145            |
|  |       | 6,087              | 5,492            | 10,636           | 8,870            |
| Operating earnings   |       | 13,431             | 13,752           | 32,301           | 30,944           |
| Mark-to-market loss/(gain) on derivative liabilities       | 10    | (1,632)            | (6,334)          | (1,775)          | 7,631            |
| Finance costs  |       | 5                  | 7                | 10               | 19               |
| Other income (expense):                                    |       |                    |                  |                  |                  |
| Foreign exchange   |       | (3,463)            | (118)            | 1,167            | 1,569            |
| Investment and other income                                |       | 411                | 2,782            | 1,940            | 3,018            |
|  |       | (3,052)            | 2,664            | 3,107            | 4,587            |
| Earnings before income taxes                               |       | 12,006             | 22,743           | 37,173           | 27,881           |
| Income tax expense   |       | 4,501              | 5,777            | 9,893            | 10,430           |
| Net earnings for the period                                |       | 7,505              | 16,966           | 27,280           | 17,451           |
| Other comprehensive income, net of tax                     |       |                    |                  |                  |                  |
| Net change in fair value of available for sale investments | 4     | (3,680)            | (237)            | (3,367)          | 151              |
| <b>Comprehensive income (loss) for the period</b>          |       | <b>\$ 3,825</b>    | <b>\$ 16,729</b> | <b>\$ 23,913</b> | <b>\$ 17,602</b> |
| Basic earnings (loss) per share based on net earnings      |       | \$ 0.09            | \$ 0.20          | \$ 0.31          | \$ 0.21          |
| Diluted earnings (loss) per share based on net earnings    | 9(d)  | \$ 0.06            | \$ 0.12          | \$ 0.28          | \$ 0.21          |
| Basic weighted average number of shares outstanding        |       | 87,999,485         | 83,593,669       | 87,870,479       | 82,429,259       |
| Diluted weighted average number of shares outstanding      | 9(d)  | 90,775,352         | 88,777,750       | 90,816,849       | 84,375,931       |

The accompanying notes are an integral part of the consolidated financial statements.

# ENDEAVOUR SILVER CORP.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Unaudited – Prepared by Management)

(expressed in thousands of U.S. dollars, except share amounts)

|   | Note      | Number of<br>shares | Share<br>Capital | Contributed<br>Surplus | Accumulated<br>other<br>comprehensive<br>income (loss) | Deficit     | Total<br>Equity |
|---|-----------|---------------------|------------------|------------------------|--|-------------|-----------------|
| December 31, 2010                                   |           | 80,720,420          | \$ 205,862       | \$ 7,793               | \$ 1,444   | \$ (85,508) | \$129,591       |
| Exercise of options                                 | 9 (b)     | 1,635,000           | 7,164            | (2,506)                |  |             | 4,658           |
| Exercise of warrants                                | 9 (c), 10 | 1,973,750           | 18,130           | (206)                  |  |             | 17,924          |
| Issued through stock bonus plan                     |           | (1,000)             | (7)              |                        |  |             | (7)             |
| Cancelled escrow shares                             | 9 (a)     | (93,750)            |                  |                        |  |             | -               |
| Share appreciation rights                           | 9 (b)     | 189,580             | 484              | (484)                  |  |             | -               |
| Stock based compensation                            | 9 (b)     |                     |                  | 1,908                  |  |             | 1,908           |
| Unrealized gain (loss) on available for sale assets | 4         |                     |                  |                        | 242  |             | 242             |
| Realized gain (loss) on available for sale assets   |           |                     |                  |                        | (91)   |             | (91)            |
| Expiry and forfeiture of options                    |           |                     |                  | (7)                    |  | 7           | -               |
| Earnings for the period                             |           |                     |                  |                        |  | 17,451      | 17,451          |
| June 30, 2011                                       |           | 84,424,000          | \$ 231,633       | \$ 6,498               | \$ 1,595   | \$ (68,050) | \$171,676       |
| Exercise of options                                 | 9 (b)     | 290,000             | 1,738            | (560)                  |  |             | 1,178           |
| Exercise of warrants                                | 9 (c), 10 | 2,660,148           | 25,979           | (8)                    |  |             | 25,971          |
| Issued through stock bonus plan                     |           | 4,600               | 46               |                        |  |             | 46              |
| Share appreciation rights                           | 9 (b)     | -                   | -                | -                      |  |             | -               |
| Stock based compensation                            | 9 (b)     |                     |                  | 2,910                  |  |             | 2,910           |
| Unrealized gain (loss) on available for sale assets | 4         |                     |                  |                        | (3,928)  |             | (3,928)         |
| Realized gain (loss) on available for sale assets   | 4         |                     |                  |                        | 633  |             | 633             |
| Expiry and forfeiture of options                    |           |                     |                  | (21)                   |  | 21          | -               |
| Earnings for the period                             |           |                     |                  |                        |  | 1,304       | 1,304           |
| December 31, 2011                                   |           | 87,378,748          | 259,396          | 8,819                  | (1,700)  | (66,725)    | 199,790         |
| Exercise of options                                 | 9 (b)     | 30,200              | 203              | (67)                   |  |             | 136             |
| Exercise of warrants                                | 9 (c), 10 | 656,070             | 6,108            | (29)                   |  |             | 6,079           |
| Stock based compensation                            | 9 (b)     |                     |                  | 2,785                  |  |             | 2,785           |
| Unrealized gain (loss) on available for sale assets | 4         |                     |                  |                        | (3,850)  |             | (3,850)         |
| Realized gain (loss) on available for sale assets   | 4         |                     |                  |                        | 483  |             | 483             |
| Expiry and forfeiture of options                    |           |                     |                  | (11)                   |  | 11          | -               |
| Earnings for the period                             |           |                     |                  |                        |  | 27,280      | 27,280          |
| June 30, 2012                                       |           | 88,065,018          | \$ 265,707       | \$ 11,497              | \$ (5,067)   | \$ (39,434) | \$232,703       |

**ENDEAVOUR SILVER CORP.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS****(Unaudited – Prepared by Management)**

(expressed in thousands of U.S. dollars)

|   |         | <b>Three Months Ended</b> |                  | <b>Six Months Ended</b>  |                  |
|---|---------|---------------------------|------------------|--------------------------|------------------|
|   | Notes   | <b>June 30,<br/>2012</b>  | June 30,<br>2011 | <b>June 30,<br/>2012</b> | June 30,<br>2011 |
| <b>Operating activities</b>                                 |         |                           |                  |                          |                  |
| Net earnings for the period                                 |         | \$ 7,505                  | \$ 16,966        | \$ 27,280                | \$ 17,451        |
| Items not affecting cash:                                   |         |                           |                  |                          |                  |
| Stock-based compensation                                    | 9 (b)   | 2,007                     | 1,558            | 2,785                    | 1,901            |
| Depreciation and depletion                                  |         | 4,386                     | 4,280            | 12,927                   | 8,261            |
| Deferred income tax provision                               |         | 2,788                     | 2,428            | 3,411                    | 3,750            |
| Unrealized foreign exchange loss (gain)                     |         | 1,829                     | (350)            | (901)                    | (1,470)          |
| Mark to market loss (gain) on derivative liability          | 10      | (1,632)                   | (6,334)          | (1,775)                  | 7,631            |
| Finance costs   |         | 5                         | 7                | 10                       | 15               |
| Loss (Gain) on marketable securities                        |         | -                         | 91               | (483)                    | 91               |
| Net changes in non-cash working capital                     | 13      | (4,659)                   | 2,609            | (2,265)                  | (1,735)          |
| Cash from operating activities                              |         | 12,229                    | 21,255           | 40,989                   | 35,895           |
| <b>Investing activities</b>                                 |         |                           |                  |                          |                  |
| Property, plant and equipment expenditures                  | 8       | (11,946)                  | (12,004)         | (21,295)                 | (19,368)         |
| Investment in short term investments                        |         | (642)                     | (4,942)          | (27,884)                 | (18,571)         |
| Proceeds from sale of short term investments                |         | 14,721                    | 631              | 46,633                   | 631              |
| Investment in long term deposits                            |         | 8                         | 178              | (176)                    | 178              |
| Cash used in investing activities                           |         | 2,141                     | (16,137)         | (2,722)                  | (37,130)         |
| <b>Financing activities</b>                                 |         |                           |                  |                          |                  |
| Common shares issued on exercise of options and warrants    | 9(b)(c) | 668                       | 4,931            | 1,278                    | 9,575            |
| Share issuance costs  |         | -                         | (94)             | -                        | (103)            |
| Cash from financing activities                              |         | 668                       | 4,837            | 1,278                    | 9,472            |
| Effect of exchange rate change on cash and cash equivalents |         | (978)                     | (87)             | 465                      | 1,467            |
| Increase (decrease) in cash and cash equivalents            |         | 15,038                    | 9,955            | 39,545                   | 8,237            |
| Cash and cash equivalents, beginning of period              |         | 101,384                   | 67,873           | 75,434                   | 68,037           |
| <b>Cash and cash equivalents, end of period</b>             |         | <b>\$ 115,444</b>         | <b>\$ 77,741</b> | <b>\$ 115,444</b>        | <b>\$ 77,741</b> |

Supplemental cash flow information

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# **ENDEAVOUR SILVER CORP.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

Six and Three Months ended June 30, 2012 and 2011

(Unaudited – Prepared by Management)

(expressed in thousands of US dollars, unless otherwise stated)

### **1. CORPORATE INFORMATION**

Endeavour Silver Corp. (the “Company” or “Endeavour Silver”) is a corporation governed by the Business Corporation Act (British Columbia). The Company is engaged in silver mining in Mexico and related activities including acquisition, exploration, development, extraction, processing, refining and reclamation and in exploration activities in Chile. The address of the registered office is #301 – 700 West Pender Street, Vancouver, B.C., V6C 1G8.

### **2. BASIS OF PRESENTATION**

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements.

The Board of Directors approved the condensed consolidated interim financial statements for issue on August 1, 2012.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

These condensed consolidated interim financial statements are presented in the Company’s functional currency of US dollars including the accounts of the Company and its wholly owned subsidiaries Endeavour Gold Corporation S.A. de C.V., Endeavour Capital S.A. de C.V. SOFOM ENR, Minera Santa Cruz Y Garibaldi S.A de C.V., Metalurgica Guanacevi S.A. de C.V., Minera Plata Adelante S.A. de C.V., Refinadora Plata Guanacevi S.A. de C. V., Minas Bolanitos S. A. de C.V., Guanacevi Mining Services S.A. de C.V., Recursos Humanos Guanacevi S.A. de C.V. and Minera Plata Carina Spa. All intercompany transactions and balances have been eliminated.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Company’s audited consolidated financial statements as at and for the year ended December 31, 2011.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011. In addition, the following accounting policy has been applied in these condensed consolidated financial statements.

#### **Business Combinations**

On the acquisition of a business, the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets and liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. When the cost of acquisition exceeds the fair values attributable to the Company’s share of identifiable net assets, the difference is treated as purchased goodwill, which is not amortized but is reviewed for impairment annually or more frequently where there is an indication of impairment. If the fair value attributable to the Company’s share of the identifiable net assets exceeds the cost of acquisition, the difference is immediately recognized in the income statement. Incremental costs related to acquisitions are expensed as incurred.

The fair value of assets acquired and liabilities assumed and the resulting goodwill, if any, requires that management make estimates based on the information provided by the acquire. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, will be retrospectively adjusted when the final measurements are determined (within one year of acquisition date)

When purchase consideration is contingent on future events, the initial cost of the acquisition recorded includes an estimate of the fair value of the contingent amounts expected to be payable in the future. When the fair value of contingent consideration as at the date of acquisition is finalized, before the end of the twelve month measurement period, the adjustment is allocated to the identifiable assets and liabilities assumed. Subsequent changes to the estimated fair value of contingent consideration are recorded in the consolidated statement of comprehensive income.

## ENDEAVOUR SILVER CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

Six and Three Months ended June 30, 2012 and 2011

(Unaudited – Prepared by Management)

(expressed in thousands of US dollars, unless otherwise stated)

#### 4. INVESTMENTS

|   | June 30<br>2012  | December 31<br>2011 |
|---|------------------|---------------------|
| Money market investments                        | \$ -             | \$ 16,473           |
| Notes receivable:                               |                  |                     |
| Carrying value                                  | 2,133            | 2,133               |
| Unrealized gain (loss)                          | 1,430            | 1,074               |
| Unrealized foreign exchange gain (loss)         | 258              | 275                 |
|   | <b>3,821</b>     | 3,482               |
| Investment in marketable securities, at cost    | 15,380           | 17,173              |
| Unrealized gain (loss) on marketable securities | (6,643)          | (2,960)             |
| Unrealized foreign exchange gain (loss)         | (92)             | (69)                |
|   | <b>8,645</b>     | 14,144              |
|   | <b>\$ 12,466</b> | <b>\$ 34,099</b>    |

The money market investments are designated as held for trading, are classified as Level 1 in the fair value hierarchy and have original maturities greater than 90 days and maturities less than one year.

At June 30, 2012 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").

| Notes                | Maturity Dates | Interest Rate | Face Amount | June 30, 2012 | Dec 31, 2011 |
|----------------------|----------------|---------------|-------------|---------------|--------------|
|                      |                |               |             | Market Value  | Market Value |
| MAV II Class A-1     | July 15, 2056  | BA - 0.5%     | \$ 3,219    | \$ 2,427      | \$ 2,242     |
| MAV II Class A-2     | July 15, 2056  | BA - 0.5%     | 1,093       | 773           | 675          |
| MAV II Class B       | July 15, 2056  | BA - 0.5%     | 198         | 131           | 104          |
| MAV II Class C       | July 15, 2056  | BA + 20.0%    | 140         | 60            | 47           |
| IA Tracking Class 15 |                | BA - 0.5%     | 464         | 430           | 414          |
|                      |                |               | \$ 5,114    | \$ 3,821      | \$ 3,482     |

The Company has classified the Notes as Level 1 in the fair value hierarchy and as available for sale. Management has recorded the Notes at their estimated fair market value with the impact of fair value fluctuations and any related foreign exchange gains or losses recognized in other comprehensive income, unless such gains or losses are declines in value that are concluded to be impairments, in which case the declines will be charged to operations. During 2007 and 2008, prior to an active market being established and the restructuring of the ABCP, the Company recorded a total impairment charge to operations of \$2,700.

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

## ENDEAVOUR SILVER CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

Six and Three Months ended June 30, 2012 and 2011

(Unaudited – Prepared by Management)

(expressed in thousands of US dollars, unless otherwise stated)

#### 5. ACCOUNTS RECEIVABLE

|                          | Note | June 30<br>2012 | December 31<br>2011 |
|--------------------------|------|-----------------|---------------------|
| IVA receivables          |      | \$ 5,459        | \$ 5,693            |
| Income tax receivables   |      | 2,570           | 1,489               |
| Due from related parties | 7    | 103             | 55                  |
| Other receivables        |      | 382             | 155                 |
|                          |      | <b>\$ 8,514</b> | <b>\$ 7,392</b>     |

#### 6. INVENTORIES

|   | June 30<br>2012  | December 31<br>2011 |
|---|------------------|---------------------|
| Warehouse inventory                     | \$ 6,375         | \$ 5,336            |
| Stockpile inventory <sup>(1)</sup>      | 8,254            | 10,078              |
| Finished Goods inventory <sup>(2)</sup> | 18,259           | 18,466              |
| Work in process inventory               | 438              | 315                 |
|   | <b>\$ 33,326</b> | <b>\$ 34,195</b>    |

(1) The Company has stockpiled 119,000 tonnes of mined ore as of June 30, 2012 (December 31, 2011 – 130,000 tonnes).

(2) The Company held 896,501 silver ounces and 6,124 gold ounces as of June 30, 2012 (December 31, 2011 – 980,109 and 5,407, respectively). These ounces are carried at cost, however as at June 30, 2012, the quoted market value of the silver is \$25,147 (December 31, 2011 - \$27,619) and the quoted market value of the gold is \$9,780 (December 31, 2011 - \$8,278)

#### 7. RELATED PARTY TRANSACTIONS

The Company shares common administrative services and office space with related party companies, with directors and management in common and from time to time will incur third party costs on behalf of the related parties on a full cost recovery basis. The Company has a \$103 net receivable related to administration costs and other items outstanding as of June 30, 2012 (December 31, 2011 – \$55).

One of the companies that the Company shares administrative services and office space with has been unable to meet its obligations. The Company has previously provided an allowance totaling \$181.

The Company was charged \$351 for legal services from a legal firm in which the Company's Corporate Secretary is a partner (June 30, 2011 - \$93). The Company has a \$244 payable related to legal costs outstanding as of June 30, 2012 (December 31, 2011 - \$4).



## ENDEAVOUR SILVER CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

Six and Three Months ended June 30, 2012 and 2011

(Unaudited – Prepared by Management)

(expressed in thousands of US dollars, unless otherwise stated)

#### 8. MINERAL PROPERTY, PLANT AND EQUIPMENT

Mineral property, plant and equipment comprise:

|                                 | Mineral<br>property | Plant            | Machinery &<br>equipment | Building        | Transport &<br>office equipment | Total             |
|---------------------------------|---------------------|------------------|--------------------------|-----------------|---------------------------------|-------------------|
| <b>Cost</b>                     |                     |                  |                          |                 |                                 |                   |
| Balance at December 31, 2010    | \$ 68,357           | \$ 24,583        | \$ 15,278                | \$ 2,175        | \$ 2,414                        | \$ 112,807        |
| Additions                       | 22,008              | 12,848           | 11,356                   | 637             | 1,205                           | 48,054            |
| Disposals                       | -                   | -                | -                        | -               | (59)                            | (59)              |
| Balance at December 31, 2011    | 90,365              | 37,431           | 26,634                   | 2,812           | 3,560                           | 160,802           |
| Additions                       | 13,647              | 2,011            | 4,342                    | 521             | 805                             | 21,326            |
| Disposals                       | -                   | -                | -                        | -               | (31)                            | (31)              |
| <b>Balance at June 30, 2012</b> | <b>\$ 104,012</b>   | <b>\$ 39,442</b> | <b>\$ 30,976</b>         | <b>\$ 3,333</b> | <b>\$ 4,334</b>                 | <b>\$ 182,097</b> |
| <b>Accumulated amortization</b> |                     |                  |                          |                 |                                 |                   |
| Balance at December 31, 2010    | \$ 29,728           | \$ 6,582         | \$ 3,347                 | \$ 539          | \$ 1,370                        | \$ 41,566         |
| Amortization                    | 21,160              | 2,050            | 1,830                    | 212             | 499                             | 25,751            |
| Disposals                       | -                   | -                | -                        | -               | (43)                            | (43)              |
| Balance at December 31, 2011    | 50,888              | 8,632            | 5,177                    | 751             | 1,826                           | 67,274            |
| Amortization                    | 5,547               | 1,303            | 1,278                    | 126             | 319                             | 8,573             |
| Disposals                       | -                   | -                | -                        | -               | (18)                            | (18)              |
| <b>Balance at June 30, 2012</b> | <b>\$ 56,435</b>    | <b>\$ 9,935</b>  | <b>\$ 6,455</b>          | <b>\$ 877</b>   | <b>\$ 2,127</b>                 | <b>\$ 75,829</b>  |
| <b>Net book value</b>           |                     |                  |                          |                 |                                 |                   |
| At December 31, 2011            | \$ 39,477           | \$ 28,799        | \$ 21,457                | \$ 2,061        | \$ 1,734                        | \$ 93,528         |
| <b>At June 30, 2012</b>         | <b>\$ 47,577</b>    | <b>\$ 29,507</b> | <b>\$ 24,521</b>         | <b>\$ 2,456</b> | <b>\$ 2,207</b>                 | <b>\$ 106,268</b> |

As of June 30, 2012, the Company had \$1,220 committed to capital equipment purchases for 2012.

#### 9. SHARE CAPITAL

(a) During 2011, 93,750 common shares, which were held in escrow as of December 31, 2010 were cancelled.

##### (b) Purchase Options

Options to purchase common shares have been granted to directors, officers, employees and consultants pursuant to the current Company's stock option plan approved by the Company's shareholders in fiscal 2009 at exercise prices determined by reference to the market value on the date of the grant. The stock option plan allows for, with approval by the board, granting of options to its directors, officers, employees and consultants to acquire up to 7.5% of the issued and outstanding shares at any time.

## ENDEAVOUR SILVER CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

Six and Three Months ended June 30, 2012 and 2011

(Unaudited – Prepared by Management)

(expressed in thousands of US dollars, unless otherwise stated)

The following table summarizes the status of the Company's stock option plan and change during the period presented:

| Expressed in Canadian dollars     | Six months ended<br>June 30, 2012 |  | Year Ended<br>December 31, 2011 |  |
|-----------------------------------|-----------------------------------|--|---------------------------------|--|
|                                   | Number<br>of Shares               | Weighted<br>average<br>exercise<br>price | Number<br>of Shares             | Weighted<br>average<br>exercise<br>price |
| Outstanding, beginning of period  | 3,697,000                         | \$5.07                                   | 4,665,000                       | \$3.17                                   |
| Granted                           | 1,048,000                         | \$8.45                                   | 1,330,000                       | \$8.22                                   |
| Exercised <sup>(1)</sup>          | (30,200)                          | \$4.40                                   | (2,205,000)                     | \$3.02                                   |
| Cancelled                         | (14,000)                          | \$3.67                                   | (93,000)                        | \$3.56                                   |
| Outstanding, end of period        | 4,700,800                         | \$5.83                                   | 3,697,000                       | \$5.07                                   |
| Options exercisable at period-end | 3,279,800                         | \$4.77                                   | 2,547,400                       | \$4.25                                   |

<sup>(1)</sup> There were no options that were cancelled in exchange for share appreciation rights in the period ended June 30, 2012 (June 30, 2011 – 280,000 options priced with a weighted average price of CAN \$3.14 were cancelled in exchange for 189,580 share appreciation rights).

The following tables summarize information about stock options outstanding at June 30, 2012:

| CAN \$<br>Price<br>Intervals | Expressed in Canadian dollars                   |   |   |   |   |  |
|------------------------------|---|---|---|---|---|--|
|                              | Options Outstanding                             |   |   | Options Exercisable                             |   |  |
|                              | Number<br>Outstanding<br>as at<br>June 30, 2012 | Weighted<br>Average<br>Remaining<br>Contractual Life<br>(Number of Years) | Weighted<br>Average<br>Exercise<br>Prices | Number<br>Exercisable<br>as at<br>June 30, 2012 | Weighted<br>Average<br>Exercise<br>Prices |  |
| \$1.00 - \$1.99              | 300,000   | 1.9   | \$1.87                                    | 300,000   | \$1.87                                    |  |
| \$2.00 - \$2.99              | 40,000  | 4.9   | \$2.01                                    | 40,000  | \$2.01                                    |  |
| \$3.00 - \$3.99              | 1,966,000                                       | 2.6   | \$3.53                                    | 1,950,000                                       | \$3.53                                    |  |
| \$4.00 - \$4.99              | 8,000   | 3.3   | \$4.57                                    | 4,000   | \$4.57                                    |  |
| \$5.00 - \$5.99              | 20,000  | 3.4   | \$5.69                                    | 10,000  | \$5.69                                    |  |
| \$8.00 - \$8.99              | 2,341,800                                       | 4.4   | \$8.31                                    | 965,800   | \$8.24                                    |  |
| \$9.00 - \$9.99              | 25,000  | 4.2   | \$9.77                                    | 10,000  | \$9.77                                    |  |
|                              | 4,700,800                                       | 3.5   | \$5.83                                    | 3,279,800                                       | \$4.77                                    |  |

During the period ended June 30, 2012, the Company recognized stock-based compensation expense of \$2,785 (June 30, 2011 - \$1,908) based on the fair value of the vested portion of options granted in prior periods.

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 for the period ended:

|   | Period Ended<br>June 30, 2012 | Year Ended<br>December 31, 2011 |
|---|-------------------------------|---------------------------------|
| Weighted average fair value of<br>options granted during the period | \$4.52                        | \$4.81                          |
| Risk-free interest rate   | 1.28%                         | 2.02%                           |
| Expected dividend yield   | 0%                            | 0%                              |
| Expected stock price volatility                                     | 73%                           | 77%                             |
| Expected option life in years                                       | 3.80                          | 3.86                            |

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#### (c) Warrants

| Exercise Price | Expiry Dates      | Oustanding at December 31, 2011 | Issued | Exercised | Expired | Oustanding at June 30, 2012 |
|----------------|-------------------|---------------------------------|--------|-----------|---------|-----------------------------|
| CAN \$         |                   |                                 |        |           |         |                             |
| \$1.90         | February 25, 2014 | 532,500                         | -      | -         | -       | 532,500                     |
| \$1.51         | February 25, 2014 | 25,292                          | -      | -         | -       | 25,292                      |
| \$1.90         | February 26, 2014 | 362,142                         | -      | (39,935)  | -       | 322,207                     |
| \$2.05         | February 26, 2014 | 1,143,936                       | -      | (637,891) | -       | 506,045                     |
|                |                   | 2,063,870                       | -      | (677,826) | -       | 1,386,044                   |

The warrants with an expiry date of February 26, 2014, consisting of agents warrants issued for placing debentures and warrants issued on conversion of debentures, are eligible to be exercised “cashless” in which event no payment of the exercise price is required and the holder receives the number of shares based upon the intrinsic value of the warrants over the five day trading average prior to exercise. For the period ended June 30, 2012, 117,039 warrants (June 30, 2011 – 470,257) were elected by the holder to be exercised “cashless” resulting in 95,283 (June 30, 2011 – 360,245) shares being issued.

#### (d) Diluted Earnings per Share

|   | Note | Six Months ended<br>June 30<br>2012 | June 30<br>2011 |
|---|------|-------------------------------------|-----------------|
| Basic earnings (loss)   |      | \$ 27,280                           | \$ 17,451       |
| Effect of dilutive securities:                                |      |                                     |                 |
| Mark to market (gain) on warrant derivative liability         | 10   | (1,775)                             | -               |
| Diluted earnings  |      | \$ 25,505                           | \$ 17,451       |
| Effect of anti-dilutive derivative liabilities:               |      |                                     |                 |
| Mark to market loss on warrant derivative liability           |      | -                                   | 7,631           |
| Adjusted earnings   |      | \$ 25,505                           | \$ 25,082       |
| Basic weighted average number of shares outstanding           |      | 87,870,479                          | 82,429,259      |
| Effect of dilutive securities:                                |      |                                     |                 |
| Stock options   |      | 1,841,430                           | 1,642,410       |
| Share purchase warrants                                       |      | 279,816                             | 304,262         |
| Share purchase warrants with embedded derivative liabilities  |      | 825,124                             | -               |
| Diluted weighted average number of share outstanding          |      | 90,816,849                          | 84,375,931      |
| Effect of anti-dilutive derivative liabilities:               |      |                                     |                 |
| Share purchase warrants with embedded derivative liabilities  |      | -                                   | 2,826,754       |
| Adjusted diluted weighted average number of share outstanding |      | 90,816,849                          | 87,202,685      |
| Diluted earnings (loss) per share                             |      | \$ 0.28                             | \$ 0.21         |
| Adjusted diluted earnings per share                           |      | \$ 0.28                             | \$ 0.29         |

The effect of the outstanding share purchase warrants with embedded derivatives is anti-dilutive for the six months ended June 30, 2011.

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|   | Note | Three Months ended |                 |
|---|------|--------------------|-----------------|
|   |      | June 30<br>2012    | June 30<br>2011 |
| Basic earnings (loss)   |      | \$ 7,505           | \$ 16,966       |
| Effect of dilutive securities:                                |      |                    |                 |
| Mark to market (gain) on warrant derivative liability         | 10   | (1,632)            | (6,334)         |
| Diluted earnings  |      | \$ 5,873           | \$ 10,632       |
| Effect of anti-dilutive derivative liabilities:               |      |                    |                 |
| Mark to market loss on warrant derivative liability           |      | -                  | -               |
| Adjusted earnings   |      | \$ 5,873           | \$ 10,632       |
| Basic weighted average number of shares outstanding           |      | 87,999,485         | 83,593,669      |
| Effect of dilutive securities:                                |      |                    |                 |
| Stock options   |      | 1,626,319          | 1,884,454       |
| Share purchase warrants                                       |      | 309,531            | 313,159         |
| Share purchase warrants with embedded derivative liabilities  |      | 840,016            | 2,986,468       |
| Diluted weighted average number of share outstanding          |      | 90,775,351         | 88,777,750      |
| Effect of anti-dilutive derivative liabilities:               |      |                    |                 |
| Share purchase warrants with embedded derivative liabilities  |      | -                  | -               |
| Adjusted diluted weighted average number of share outstanding |      | 90,775,351         | 88,777,750      |
| Diluted earnings (loss) per share                             |      | \$ 0.06            | \$ 0.12         |
| Adjusted diluted earnings per share                           |      | \$ 0.06            | \$ 0.12         |

## 10. DERIVATIVE LIABILITIES

### Warrants

Equity offerings were completed in previous periods whereby warrants were issued with exercise prices denominated in Canadian dollars. As the warrants have an exercise price denominated in a currency which is different to the functional currency of the Company (U.S. dollar), the warrants are treated as a financial liability. The Company's share purchase warrants are classified and accounted for as a financial liability at fair value with adjustments recognized through net earnings. The publicly traded warrants and warrants with similar characteristics were valued using the quoted market price as of exercise or at period end. For the non-publicly traded warrants, the Company uses Black-Scholes option pricing model to determine the fair value of the Canadian dollar denominated warrants. All warrants outstanding at June 30, 2012 will expire in 2014.

|                                 |           |
|---------------------------------|-----------|
| Balance at December 31, 2010    | \$ 29,349 |
| Exercise of financial liability | (13,111)  |
| Mark to market loss (gain)      | 7,631     |
| Balance at June 30, 2011        | 23,869    |
| Exercise of financial liability | (16,766)  |
| Mark to market loss (gain)      | 6,027     |
| Balance at December 31, 2011    | 13,130    |
| Exercise of financial liability | (4,937)   |
| Mark to market loss (gain)      | (1,775)   |
| Balance at June 30, 2012        | \$ 6,418  |

### Assumptions used for Black-scholes estimate of warrant derivative liability

|   | Period Ended<br>June 30, 2012 | Year Ended<br>Dec 31, 2011 |
|---|-------------------------------|----------------------------|
| Outstanding warrants                                  | 1,038,545                     | 1,676,436                  |
| Weighted average fair value of warrants at period end | \$6.18                        | \$7.83                     |
| Risk-free interest rate                               | 0.96%                         | 0.95%                      |
| Expected dividend yield                               | 0%                            | 0%                         |
| Expected stock price volatility                       | 63%                           | 62%                        |
| Expected warrant life in years                        | 1.6                           | 2.2                        |

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#### 11. EXPLORATION

|                              | Three months ended |          | Six months ended |          |
|------------------------------|--------------------|----------|------------------|----------|
|                              | June 30            | June 30  | June 30          | June 30  |
|                              | 2012               | 2011     | 2012             | 2011     |
| Depreciation and depletion   | \$ 31              | \$ 10    | \$ 59            | \$ 32    |
| Stock based compensation     | 192                | 122      | 253              | 162      |
| Salaries, wages and benefits | 448                | 517      | 868              | 878      |
| Direct costs                 | 1,439              | 1,943    | 2,742            | 2,653    |
|                              | \$ 2,110           | \$ 2,592 | \$ 3,922         | \$ 3,725 |

#### 12. GENERAL AND ADMINISTRATIVE

|                              | Three months ended |          | Six months ended |          |
|------------------------------|--------------------|----------|------------------|----------|
|                              | June 30            | June 30  | June 30          | June 30  |
|                              | 2012               | 2011     | 2012             | 2011     |
| Depreciation and depletion   | \$ 27              | \$ 23    | \$ 44            | \$ 39    |
| Stock based compensation     | 1,599              | 1,304    | 2,257            | 1,573    |
| Salaries, wages and benefits | 799                | 722      | 1,805            | 1,830    |
| Direct costs                 | 1,552              | 851      | 2,608            | 1,703    |
|                              | \$ 3,977           | \$ 2,900 | \$ 6,714         | \$ 5,145 |

#### 13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

|  | Period Ended |            |
|--|--------------|------------|
|  | June 30      | June 30    |
|  | 2012         | 2011       |
| Net changes in non-cash working capital                              |              |            |
| Accounts receivable  | \$ (1,074)   | \$ 334     |
| Inventories  | (3,068)      | (2,924)    |
| Prepaid expenses   | (1,042)      | (1,427)    |
| Due from related parties   | (48)         | (6)        |
| Accounts payable and accrued liabilities                             | 2,937        | 613        |
| Income taxes provision   | 30           | 1,675      |
|  | \$ (2,265)   | \$ (1,735) |
| Non-cash financing and investing activities:                         |              |            |
| Fair value of exercised options allocated to share capital           | \$ 67        | \$ 2,506   |
| Fair value of shares issued under the share appreciation rights plan | -            | 484        |
| Fair value of exercised agent warrants allocated to share capital    | 29           | 206        |
| Fair value of shares issued under stock bonus plan                   | -            | (7)        |
| Other cash disbursements:  |              |            |
| Income taxes paid  | \$ 8,636     | \$ 4,523   |

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#### 14. SEGMENT DISCLOSURES

The Company's operating segments are based on internal management reports that are reviewed by the Company's executive (the chief operating decision makers) in assessing performance. The Company has two operating mining segments, Guanacevi and Guanajuato, which are located in Mexico as well as exploration and corporate segments. The exploration segment consists of projects in the exploration and evaluation phases in Mexico and Chile.

| June 30, 2012                         |            |             |            |           |            |  |
|---------------------------------------|------------|-------------|------------|-----------|------------|--|
|                                       | Corporate  | Exploration | Guanacevi  | Bolanitos | Total      |  |
| Cash and cash equivalents             | \$ 107,813 | \$ 134      | \$ 7,132   | \$ 365    | \$ 115,444 |  |
| Investments                           | 12,466     | -           | -          | -         | 12,466     |  |
| Accounts receivables                  | 458        | 95          | 7,022      | 939       | 8,514      |  |
| Inventories                           | -          | -           | 19,369     | 13,957    | 33,326     |  |
| Prepaid expenses                      | 951        | 213         | 1,977      | 1,674     | 4,815      |  |
| Long term deposits                    | -          | 56          | 583        | 137       | 776        |  |
| Mineral property, plant and equipment | 187        | 1,356       | 70,100     | 34,625    | 106,268    |  |
| Total assets                          | \$ 121,875 | \$ 1,854    | \$ 106,183 | \$ 51,697 | \$ 281,609 |  |

  

| December 31, 2011                     |           |             |            |           |            |  |
|---------------------------------------|-----------|-------------|------------|-----------|------------|--|
|                                       | Corporate | Exploration | Guanacevi  | Bolanitos | Total      |  |
| Cash and cash equivalents             | \$ 63,183 | \$ 251      | \$ 11,382  | \$ 618    | \$ 75,434  |  |
| Investments                           | 34,099    | -           | -          | -         | 34,099     |  |
| Accounts receivables                  | 176       | 22          | 5,586      | 1,608     | 7,392      |  |
| Inventories                           | -         | -           | 21,990     | 12,205    | 34,195     |  |
| Prepaid expenses                      | 1,632     | 208         | 1,612      | 321       | 3,773      |  |
| Long term deposits                    | -         | 57          | 406        | 137       | 600        |  |
| Mineral property, plant and equipment | 153       | 1,140       | 66,362     | 25,873    | 93,528     |  |
| Total assets                          | \$ 99,243 | \$ 1,678    | \$ 107,338 | \$ 40,762 | \$ 249,021 |  |

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|                                       | Corporate  | Exploration | Guanacevi | Bolanitos | Total     |
|---------------------------------------|------------|-------------|-----------|-----------|-----------|
| <b>Six Months Ended June 30, 2012</b> |            |             |           |           |           |
| Silver revenue                        | \$ -       | \$ -        | \$ 47,087 | \$ 20,723 | \$ 67,810 |
| Gold revenue                          | -          | -           | 6,984     | 14,686    | 21,670    |
| Total revenue                         | \$ -       | \$ -        | \$ 54,071 | \$ 35,409 | \$ 89,480 |
| Salaries, wages and benefits:         |            |             |           |           |           |
| mining                                | \$ -       | \$ -        | \$ 2,928  | \$ 2,616  | \$ 5,544  |
| processing                            | -          | -           | 990       | 587       | 1,577     |
| administrative                        | -          | -           | 1,600     | 1,476     | 3,076     |
| stock based compensation              | -          | -           | 132       | 143       | 275       |
| change in inventory                   | -          | -           | 101       | (1,157)   | (1,056)   |
| Total salaries, wages and benefits    | -          | -           | 5,751     | 3,665     | 9,416     |
| Direct costs:                         |            |             |           |           |           |
| mining                                | -          | -           | 8,304     | 3,968     | 12,272    |
| processing                            | -          | -           | 5,225     | 4,242     | 9,467     |
| administrative                        | -          | -           | 1,456     | 1,189     | 2,645     |
| change in inventory                   | -          | -           | 1,756     | (2,780)   | (1,024)   |
| Total direct production costs         | -          | -           | 16,741    | 6,619     | 23,360    |
| Depreciation and depletion:           |            |             |           |           |           |
| depreciation and depletion            | -          | -           | 6,499     | 4,161     | 10,660    |
| change in inventory                   | -          | -           | 313       | 1,851     | 2,164     |
| Total depreciation and depletion      | -          | -           | 6,812     | 6,012     | 12,824    |
| Royalties                             | -          | -           | 943       | -         | 943       |
| Total cost of sales                   | \$ -       | \$ -        | \$ 30,247 | \$ 16,296 | \$ 46,543 |
| Earnings (loss) before taxes          | \$ (1,842) | \$ (3,922)  | \$ 23,824 | \$ 19,113 | \$ 37,173 |
| Income tax expense                    | -          | -           | 3,926     | 5,967     | 9,893     |
| Earnings (loss) after taxes           | \$ (1,842) | \$ (3,922)  | \$ 19,898 | \$ 13,146 | \$ 27,280 |
| <b>Six Months Ended June 30, 2011</b> |            |             |           |           |           |
| Silver revenue                        | \$ -       | \$ -        | \$ 45,052 | \$ 14,332 | \$ 59,384 |
| Gold revenue                          | -          | -           | 4,588     | 7,743     | 12,331    |
| Total revenue                         | \$ -       | \$ -        | \$ 49,640 | \$ 22,075 | \$ 71,715 |
| Salaries, wages and benefits:         |            |             |           |           |           |
| mining                                | \$ -       | \$ -        | \$ 2,355  | \$ 1,584  | \$ 3,939  |
| processing                            | -          | -           | 891       | 510       | 1,401     |
| administrative                        | -          | -           | 1,209     | 964       | 2,173     |
| stock based compensation              | -          | -           | 77        | 90        | 167       |
| change in inventory                   | -          | -           | (27)      | (359)     | (386)     |
| Total salaries, wages and benefits    | -          | -           | 4,505     | 2,789     | 7,294     |
| Direct costs:                         |            |             |           |           |           |
| mining                                | -          | -           | 6,680     | 1,521     | 8,201     |
| processing                            | -          | -           | 3,993     | 1,751     | 5,744     |
| administrative                        | -          | -           | 1,065     | 934       | 1,999     |
| change in inventory                   | -          | -           | (23)      | (580)     | (603)     |
| Total direct production costs         | -          | -           | 11,715    | 3,626     | 15,341    |
| Depreciation and depletion:           |            |             |           |           |           |
| depreciation and depletion            | -          | -           | 4,822     | 3,824     | 8,646     |
| change in inventory                   | -          | -           | (61)      | (395)     | (456)     |
| Total depreciation and depletion      | -          | -           | 4,761     | 3,429     | 8,190     |
| Royalties                             | -          | -           | 1,076     | -         | 1,076     |
| Total cost of sales                   | \$ -       | \$ -        | \$ 22,057 | \$ 9,844  | \$ 31,901 |
| Earnings (loss) before taxes          | \$ (8,208) | \$ (3,725)  | \$ 27,583 | \$ 12,231 | \$ 27,881 |
| Income tax expense                    | -          | -           | 6,253     | 4,177     | 10,430    |
| Earnings (loss) after taxes           | \$ (8,208) | \$ (3,725)  | \$ 21,330 | \$ 8,054  | \$ 17,451 |

The Exploration Segment included \$134 for the six months ended June 30, 2012 (2011 - \$195) of costs incurred in Chile.

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|   | Corporate  | Exploration | Guanacevi | Bolanitos | Total     |
|---|------------|-------------|-----------|-----------|-----------|
| <b>Three Months Ended June 30, 2012</b> |            |             |           |           |           |
| Silver revenue                          | \$ -       | \$ -        | \$ 22,631 | \$ 8,769  | \$ 31,400 |
| Gold revenue                            | -          | -           | 3,951     | 5,083     | 9,034     |
| Total revenue                           | \$ -       | \$ -        | \$ 26,582 | \$ 13,852 | \$ 40,434 |
| Salaries, wages and benefits:           |            |             |           |           |           |
| mining                                  | \$ -       | \$ -        | \$ 1,331  | \$ 1,313  | \$ 2,644  |
| processing                              | -          | -           | 487       | 296       | 783       |
| administrative                          | -          | -           | 816       | 840       | 1,656     |
| stock based compensation                | -          | -           | 107       | 109       | 216       |
| change in inventory                     | -          | -           | 641       | (870)     | (229)     |
| Total salaries, wages and benefits      | -          | -           | 3,382     | 1,688     | 5,070     |
| Direct costs:                           |            |             |           |           |           |
| mining                                  | -          | -           | 3,748     | 2,256     | 6,004     |
| processing                              | -          | -           | 2,517     | 2,179     | 4,696     |
| administrative                          | -          | -           | 695       | 534       | 1,229     |
| change in inventory                     | -          | -           | 1,300     | (2,193)   | (893)     |
| Total direct production costs           | -          | -           | 8,260     | 2,776     | 11,036    |
| Depreciation and depletion:             |            |             |           |           |           |
| depreciation and depletion              | -          | -           | 2,785     | 1,653     | 4,438     |
| change in inventory                     | -          | -           | 388       | (498)     | (110)     |
| Total depreciation and depletion        | -          | -           | 3,173     | 1,155     | 4,328     |
| Royalties                               | -          | -           | 482       | -         | 482       |
| Total cost of sales                     | \$ -       | \$ -        | \$ 15,297 | \$ 5,619  | \$ 20,916 |
| Earnings (loss) before taxes            | \$ (5,402) | \$ (2,110)  | \$ 11,285 | \$ 8,233  | \$ 12,006 |
| Income tax expense                      | -          | -           | 450       | 4,051     | 4,501     |
| Earnings (loss) after taxes             | \$ (5,402) | \$ (2,110)  | \$ 10,835 | \$ 4,182  | \$ 7,505  |
| <b>Three Months Ended June 30, 2011</b> |            |             |           |           |           |
| Silver revenue                          | \$ -       | \$ -        | \$ 23,338 | \$ 6,965  | \$ 30,303 |
| Gold revenue                            | -          | -           | 2,274     | 3,786     | 6,060     |
| Total revenue                           | \$ -       | \$ -        | \$ 25,612 | \$ 10,751 | \$ 36,363 |
| Salaries, wages and benefits:           |            |             |           |           |           |
| mining                                  | \$ -       | \$ -        | \$ 1,282  | \$ 921    | \$ 2,203  |
| processing                              | -          | -           | 417       | 347       | 764       |
| administrative                          | -          | -           | 612       | 497       | 1,109     |
| stock based compensation                | -          | -           | 70        | 62        | 132       |
| change in inventory                     | -          | -           | 64        | (124)     | (60)      |
| Total salaries, wages and benefits      | -          | -           | 2,445     | 1,703     | 4,148     |
| Direct costs:                           |            |             |           |           |           |
| mining                                  | -          | -           | 3,539     | 899       | 4,438     |
| processing                              | -          | -           | 1,936     | 1,037     | 2,973     |
| administrative                          | -          | -           | 583       | 456       | 1,039     |
| change in inventory                     | -          | -           | 122       | (479)     | (357)     |
| Total direct production costs           | -          | -           | 6,180     | 1,913     | 8,093     |
| Depreciation and depletion:             |            |             |           |           |           |
| depreciation and depletion              | -          | -           | 2,446     | 2,104     | 4,550     |
| change in inventory                     | -          | -           | 9         | (312)     | (303)     |
| Total depreciation and depletion        | -          | -           | 2,455     | 1,792     | 4,247     |
| Royalties                               | -          | -           | 631       | -         | 631       |
| Total cost of sales                     | \$ -       | \$ -        | \$ 11,711 | \$ 5,408  | \$ 17,119 |
| Earnings (loss) before taxes            | \$ 6,297   | \$ (2,798)  | \$ 13,901 | \$ 5,343  | \$ 22,743 |
| Income tax expense                      | -          | -           | 3,817     | 1,960     | 5,777     |
| Earnings (loss) after taxes             | \$ 6,297   | \$ (2,798)  | \$ 10,084 | \$ 3,383  | \$ 16,966 |

The Exploration Segment included \$57 for the three months ended June 30, 2012 (2011 - \$102) of costs incurred in Chile.



## ENDEAVOUR SILVER CORP.

### Notes to the Condensed Consolidated Interim Financial Statements

Six and Three Months ended June 30, 2012 and 2011

(Unaudited – Prepared by Management)

(expressed in thousands of US dollars, unless otherwise stated)

#### 15. SUBSEQUENT EVENT

##### (a) **El Cubo Acquisition**

On July 13, 2012, (the “acquisition date”), the Company completed the acquisition Mexgold Resources Inc. (“Mexgold”) and its three wholly owned subsidiaries; Compania Minera del Cubo, S.A. de C.V., AuRico gold GYC, S.A. de C.V. and Metales Interamericanos, S.A. de C.V. from AuRico Gold Inc. (“AuRico”) whereby the Company acquired all of the issued and outstanding shares of Mexgold.

As a result of the acquisition, the Company now owns the El Cubo silver-gold mine located in Guanajuato, Mexico and the Guadalupe y Calvo silver-gold exploration project located in Chihuahua, Mexico. The results of Mexgold Resources Inc., which include its wholly-owned subsidiaries will be consolidated with the results of the Company commencing on July 13, 2012. Total estimated consideration of \$208,180 was calculated as follows:

| <b>Purchase Cost</b>                                |            |
|---|------------|
| Cash paid   | \$ 100,000 |
| Common shares issued <sup>(1)</sup>                 | 88,944     |
| Contingent consideration <sup>(2)</sup>             | 9,236      |
| Estimated working capital adjustment <sup>(3)</sup> | 10,000     |
|   | <hr/>      |
|   | \$ 208,180 |

(1) There were 11,037,528 common shares issued with a fair value of \$8.058 per share, with the fair value per share determined by using the 5 day volume weighted average price of the Company’s common shares on acquisition date.

(2) Aurico will be entitled to receive up to an additional \$50 million in cash payments from the Company upon the occurrence of certain events as follows:

- i) \$20 million if at any time during the 3 years following the acquisition date, the Company renews or extends the Las Torres lease, other than a one-time 3 month extension, after the current lease expires.
- ii) \$10 million upon the simple average of the daily London Metals Exchange closing prices for gold exceeding \$1,900.00 per ounce for a period of twelve consecutive months at any time during the three year period immediately following the acquisition date.
- iii) \$10 million upon the simple average of the daily London Metals Exchange closing prices for gold exceeding \$2,000.00 per ounce for a period of twelve consecutive months at any time during the three year period immediately following the acquisition date.
- iv) \$10 million upon the simple average of the daily London Metals Exchange closing prices for gold exceeding \$2,100.00 per ounce for a period of twelve consecutive months at any time during the three year period immediately following the acquisition date.

The contingent consideration based on the Las Torres lease was valued based factoring the probability of the lease being extended. Management determined the probability of extending the lease to be highly unlikely at the time of closing, resulting in a \$0 value. The contingent consideration based on the performance of gold prices was valued using a Monte Carlo simulation with a 4% discount rate resulting in a valuation of \$9,236.

(3) If the working capital of the consolidated Mexgold entity is greater than nil (positive) the Purchase Price shall be adjusted upward by the amount by which the Working Capital exceeds nil. If the Working Capital is less than nil (negative) the Purchase Price shall be adjusted downward by the corresponding amount. The Company estimates the working capital adjustment to be approximately \$10 million payable within 60 days from closing of the acquisition date.

In accordance with the acquisition method of accounting, the purchase price will be allocated to the underlying assets acquired and liabilities assumed, based upon their estimated fair values at the date of acquisition. Fair values will be determined based on independent appraisals, discounted cash flows, and quoted market prices. The Company has incurred acquisition-related costs totalling \$583 for the six months ended June 30, 2012 in the form of advisory, legal and professional fees, which have been included in general and administrative costs in the interim consolidated statement of comprehensive income.

## **ENDEAVOUR SILVER CORP.**

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(expressed in thousands of US dollars, unless otherwise stated)

#### **(b) Credit Facility**

On July 24, 2012, the Company entered into a \$75 million revolving credit facility (“the Facility”) reducing over 3 years with Scotia Capital. The purpose of the Facility is for general corporate purposes and is principally secured by a pledge of the Company’s equity interests in its material subsidiaries. The interest margin on the Facility ranges from 2.75% to 4.25% over LIBOR based on the Company’s net debt to EBITDA ratio, where EBITDA is adjusted for gains/loss on derivative liabilities. The Company agreed to pay a commitment fee of between 0.6875% and 1.05% on undrawn amounts under the facility based on the Company’s net debt to EBITDA ratio.

## **ENDEAVOUR SILVER CORP.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

Six and Three Months ended June 30, 2012 and 2011

(Unaudited – Prepared by Management)

(expressed in thousands of US dollars, unless otherwise stated)

#### **HEAD OFFICE**

Suite #301, 700 West Pender Street  
Vancouver, BC, Canada V6C 1G8  
Telephone: (604) 685-9775  
1-877-685-9775  
Facsimile: (604) 685-9744  
Website: www.edrsilver.com

#### **DIRECTORS**

Bradford Cooke  
Godfrey Walton  
Leonard Harris  
Mario Szotlender  
Geoff Handley  
Rex McLennan  
Ricardo Campoy

#### **OFFICERS**

Bradford Cooke ~ Chairman and Chief Executive Officer  
Godfrey Walton ~ President and Chief Operating Officer  
Dan Dickson ~ Chief Financial Officer  
Dave Howe ~ Vice-President, Country Manager  
Barry Devlin ~ Vice-President, Exploration  
Hugh Clarke ~ Vice-President, Corporate Communications  
Bernard Poznanski - Secretary

#### **REGISTRAR AND TRANSFER AGENT**

Computershare Trust Company of Canada  
3<sup>rd</sup> Floor - 510 Burrard Street  
Vancouver, BC, V6C 3B9

#### **AUDITORS**

KPMG LLP  
777 Dunsmuir Street  
Vancouver, BC, V7Y 1K3

#### **SOLICITORS**

Koffman Kalef LLP  
19<sup>th</sup> Floor – 885 West Georgia Street  
Vancouver, BC, V6C 3H4

#### **SHARES LISTED**

Toronto Stock Exchange  
Trading Symbol - EDR

New York Stock Exchange  
Trading Symbol – EXK

Frankfurt Stock Exchange  
Trading Symbol - EJD