



**Financial Statements**

**Years Ended**

**February 29, 2004 and February 28, 2003**

## **SHAREHOLDER UPDATE**

### **Overview of Fiscal 2004 and Outlook for Fiscal 2005**

Bradford Cooke, President and CEO of Endeavour Gold Corp. (EDR:TSXV), provides shareholders with the following overview for fiscal 2004 (ended February 29, 2004) and the outlook for fiscal 2005 (ending February 28, 2005).

#### Overview of Fiscal 2004

Last year, the new bull market for commodities saw major gains in the prices of gold and gold stocks, but silver and silver stocks only started to move upwards late in the year. Typical of silver, it came late to the party, and then outperformed all other metals, rising 70% from US \$5 per oz to US \$8.50 between November 2003 and April 2004.

Last year was also a breakout year for Endeavour, as the company acquired in January 2004 the right to purchase up to a 100% interest in the producing Santa Cruz silver mine and Guanacevi processing plant in Durango, Mexico, for US \$7 million over a 4 year period. The share price responded by jumping 400% from CA \$0.50 per share to CA \$2.00 per share between November 2003 and February 2004.

Prior to this major acquisition, Endeavour acquired options in Q3, fiscal 2004 to purchase two other attractive but early stage gold-silver prospects, the San Jose and El Taco properties. A CA \$915,000 private placement financing was closed in Q4 in order to facilitate the ongoing evaluation of silver mining projects in Mexico.

Having looked at over three dozen projects in fiscal 2004, management recognized a unique opportunity for Endeavour after visiting the Santa Cruz mine. This project stood out from the crowd for a number of reasons: current silver production generating positive cash flows, an oversized processing plant with capacity to increase output by several-fold, higher than average grade of silver ore, good exploration potential to find new ore, and great local access and infrastructure.

#### Outlook for fiscal 2005

Subsequent to the fiscal 2004 year-end (February 29, 2004), the prices of silver and silver stocks pulled back sharply, once again reflecting the additional volatility of silver compared to other metals. Silver fell 55% over a 6 week period in April-May 2004 back to the US \$5.50 per oz range, as the first correction of the new bull market took its toll.

Endeavour shares also dropped, falling 75% to a CA \$1.15 low in May 2004. However, subsequent to the fiscal year-end, the company was able to close a CA \$9.9 million financing in May 2004 at CA \$1.60 per unit, which facilitated the closing of the Santa Cruz/ Guanacevi option agreements in May 2004.

Management's view on silver is that it is still in the first year of a new secular bull market for the metal. We see the silver price basing in the US \$6 per oz range with the potential for significant upward spikes going forward. The Santa Cruz mine not only launches Endeavour into the realm of producing silver companies, it also gives us tremendous growth potential to increase production at a time of rising silver prices, something few other primary silver producers can offer.

Endeavour's strategic plan for fiscal 2005 is to increase production at both the Santa Cruz mine and the Guanacevi plant. By developing one new ore body this year at the mine and increasing the feed of sulfide silver ore and oxidized silver tailings into the plant, we aim to triple production by year-end (February 2005).

To facilitate this plan, Endeavour will spend approximately US \$1 million on developing an access ramp into the new ore body and drilling a 50 m pattern of drill holes to outline a mineable resource. The mine development work will be contracted out in order to complete the ramp by Q3. Metallurgical studies will be carried out in order to try and improve the mill recoveries of silver and gold.

Even though it has produced 500 million oz silver historically, the Guanacevi district still offers good potential for the discovery of new silver ore bodies because many old mines did not go below the water table. Endeavour also plans to continue evaluating and acquiring additional properties for exploration with a view to bringing the plant output up to its capacity of 1400 tpd or 4 million oz silver equivalent per year.

Given the tremendous growth potential of Endeavour's Santa Cruz silver mine and Guanacevi plant, the coming year should be very rewarding for Endeavour shareholders. To more accurately reflect our move into the silver business, the Company proposes to change its name to Endeavour Silver Corp.

I would like to thank all of our shareholders for your continuing support and we welcome all shareholders and investors to contact us with any questions or comments.

On Behalf Of The Board Of Directors

#### **ENDEAVOUR GOLD CORP.**

/s/ Bradford J. Cooke

Bradford J. Cooke  
President

June 9, 2004



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## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the balance sheets of Endeavour Gold Corp. as at February 29, 2004 and February 28, 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at February 29, 2004 and February 28, 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP (signed)*

Chartered Accountants

Vancouver, Canada

April 2, 2004, except for Notes 5(f) and 12, which are as of May 25, 2004



# ENDEAVOUR GOLD CORP.

## BALANCE SHEETS

(expressed in Canadian dollars)

	Notes	February 29, 2004	February 28, 2003
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		\$ 542,868	\$ 151,574
Accounts receivable		10,059	4,368
Prepaid expenses		46,290	2,125
		<b>599,217</b>	<b>158,067</b>
<b>NON-CURRENT</b>			
Equipment	4	-	316
Resource properties	5	29,097	51,100
Advance on acquisition	5(f)	132,824	-
		<b>161,921</b>	<b>51,416</b>
		<b>\$ 761,138</b>	<b>\$ 209,483</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities		\$ 55,932	\$ 30,744
Loans payable	6	-	26,584
Due to related party	9(d)	14,232	-
		<b>70,164</b>	<b>57,328</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	7(a)	5,461,867	4,346,067
Contributed surplus	7(c)	201,720	-
Deficit		(4,972,613)	(4,193,912)
		<b>690,974</b>	<b>152,155</b>
		<b>\$ 761,138</b>	<b>\$ 209,483</b>

Nature of operations	1
Commitments and contingencies	5
Subsequent events	5(f) and 12

Refer to accompanying notes to the financial statements.

Approved on behalf of the Board

/s/ *Bradford Cooke*

Director

/s/ *Godfrey Walton*

Director

# ENDEAVOUR GOLD CORP.

## STATEMENTS OF OPERATIONS AND DEFICIT

(expressed in Canadian dollars)

		For the Year Ended	
	Notes	February 29, 2004	February 28, 2003
<b>EXPENSES</b>			
Accounting and audit		\$ 14,900	\$ 13,300
Amortization		316	431
Filing and regulatory		20,126	19,858
Financing and foreign exchange		5,035	12,449
Legal fees		27,513	13,343
Management	9(a)	42,500	30,892
Office and sundry		11,094	5,662
Rent		18,000	14,000
Shareholder relations		62,688	10,000
Stock-based compensation	7(c)	210,900	-
Travel		3,829	-
Loss before the undernoted		(416,901)	(119,935)
Gain on sale of investments	3	-	11,664
Property investigations	9(a)	(310,700)	(70,964)
Write-off of resource properties	5	(51,100)	(6,612)
<b>LOSS FOR THE YEAR</b>		<b>(778,701)</b>	<b>(185,847)</b>
Deficit, beginning of the year		(4,193,912)	(4,008,065)
<b>DEFICIT, END OF YEAR</b>		<b>\$ (4,972,613)</b>	<b>\$ (4,193,912)</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.11)</b>	<b>\$ (0.06)</b>
<b>Weighted average number of shares outstanding</b>		<b>6,994,323</b>	<b>3,263,684</b>

Refer to accompanying notes to the financial statements.

# ENDEAVOUR GOLD CORP.

## STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

		For the Year Ended	
	Notes	February 29, 2004	February 28, 2003
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:</b>			
<b>OPERATING</b>			
Loss for the year		\$ (778,701)	\$ (185,847)
Items not affecting cash:			
Amortization		316	431
Financing costs		-	10,000
Stock-based compensation		210,900	-
Gain on sale of investments	3	-	(11,664)
Write-off of resource properties	5	51,100	6,612
		<b>(516,385)</b>	<b>(180,468)</b>
Net changes in non-cash working capital items:			
Accounts receivable		(5,691)	(4,020)
Prepaid expenses and deposits		(44,165)	(759)
Accounts payable and accrued liabilities		25,188	24,009
Due to related party		14,232	-
		<b>(526,821)</b>	<b>(161,238)</b>
<b>FINANCING</b>			
Loans payable	6	(26,584)	23,084
Issuance of common shares		1,097,870	300,000
		<b>1,071,286</b>	<b>323,084</b>
<b>INVESTING</b>			
Proceeds from sale of marketable securities		-	23,440
Acquisition and exploration of resource properties		(20,347)	(36,100)
Advance for acquisition		(132,824)	-
		<b>(153,171)</b>	<b>(12,660)</b>
<b>NET CASH INFLOWS</b>		<b>391,294</b>	<b>149,186</b>
<b>CASH, BEGINNING OF YEAR</b>		<b>151,574</b>	<b>2,388</b>
<b>CASH, END OF YEAR</b>		<b>\$ 542,868</b>	<b>\$ 151,574</b>

Supplemental disclosures with respect to cash flows 8

Refer to accompanying notes to the financial statements.

## **ENDEAVOUR GOLD CORP.**

### **Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003

(expressed in Canadian dollars)

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#### **1. NATURE OF OPERATIONS**

The Company was incorporated under the laws of the Province of British Columbia on March 11, 1981 and its principal business activities are the acquisition, exploration and development of resource properties. Effective August 27, 2002, the Company consolidated its share capital on the basis of one new common share for each four old common shares (Note 7(a)) and changed its name from Levelland Energy & Resources Ltd. to Endeavour Gold Corp.

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

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred significant operating losses and currently has no significant source of revenue. The Company has financed its activities principally by the sale of equity securities. The Company's ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the Company to raise equity financing, and the attainment of profitable operations to fund its operations. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **(a) Resource properties**

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

Management periodically reviews the carrying value of its resource 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 resource properties and the general likelihood that the Company will continue exploration. The Company does not set a pre-determined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable resource concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and their carrying values are appropriate.

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

The accumulated costs of resource properties that are developed to the stage of commercial production will be amortized to operations through unit of production depletion.

**ENDEAVOUR GOLD CORP.****Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003

(expressed in Canadian dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)**(b) Investments**

Investments where the Company does not have the ability to exercise significant influence over the operating, financing or investing activities of the investee are accounted for using the cost method. Under the cost method, the original cost of the share investment is adjusted for dividends received in excess of the Company's pro rata share of post-acquisition income or if a permanent impairment is determined to exist. The Company's management reviews the estimated realizable value of the investments on a regular basis based on established criteria including trading value, anticipated cash flows and profitability of the investee. If a permanent impairment in value is determined, a provision is recognized.

**(c) Equipment**

Equipment is stated at cost less accumulated amortization. Amortization of equipment is provided at the following rates:

Equipment	Rate
Office equipment	5 years straight-line
Equipment	20% declining balance

**(d) Stock-based compensation**

Effective March 1, 2002, the Company adopted the new accounting standard of the Canadian Institute of Chartered Accountants ("CICA"), Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("HB 3870") for accounting for stock-based compensation expense. Under this standard, stock-based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after March 1, 2002, are accounted for using the fair value based method, and are recorded as an expense in the period the stock-based payments are vested or the awards or rights are granted.

On adoption of HB 3870, the Company elected to use the settlement method of accounting for stock options granted to employees, and to disclose the pro forma effect of accounting for these awards under the fair value method. Effective March 1, 2003, in connection with amendments to HB 3870, the Company changed the method of application of its stock-based compensation accounting policy so as to measure all stock options granted at fair value and to recognize the compensation expense over the vesting period, with a corresponding credit to contributed surplus. This change has been applied prospectively for options granted on or after March 1, 2003, as allowed under the transitional provisions of HB 3870.

Prior to the adoption of the new recommendations in fiscal 2003, no compensation expense was recorded for the Company's stock option plan when options were granted. Any consideration paid by directors and employees on exercise of stock options was credited to share capital.

## **ENDEAVOUR GOLD CORP.**

### **Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003

(expressed in Canadian dollars)

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## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **(e) Income taxes**

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

### **(f) Financial instruments**

The fair values of the Company's cash, accounts receivable, accounts payable and accrued liabilities, and loans payable approximate their carrying values due to the short terms to maturity of these instruments. It is not practical to determine the fair value of the amount due to related party due to its related party nature and the absence of a market for such instrument.

### **(g) Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of the assets, particularly the valuation of resource properties, and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

### **(h) Loss per share**

Basic loss per share is calculated based on the weighted average number of shares outstanding during the year, after giving retroactive effect to the consolidation of shares in fiscal 2003 (Note 7(a)) as if the share consolidation occurred on March 1, 2002. The Company uses the treasury stock method for calculating diluted earnings per share. However, diluted loss per share presented is the same as basic loss per share as the effect of options and warrants would be anti-dilutive.

### **(i) Comparative figures**

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

## **3. INVESTMENTS**

During fiscal 2003, the Company sold its remaining shares in Golden Goliath Resources Ltd. ("Golden Goliath") and Dentonia Resources Ltd. ("Dentonia"). At February 28, 2002, the Company held investments in Golden Goliath (48,500 shares with a market value of \$26,675) and Dentonia (15,000 shares with a market value of \$1,500). The investment in Dentonia was written-down to \$nil in prior years.

**ENDEAVOUR GOLD CORP.****Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003

(expressed in Canadian dollars)

**4. EQUIPMENT**

	2004			2003		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Office equipment	\$ 3,725	\$ 3,725	\$ -	\$ 3,725	\$ 3,725	\$ -
Equipment	2,370	2,370	-	2,370	2,054	316
	<u>\$ 6,095</u>	<u>\$ 6,095</u>	<u>\$ -</u>	<u>\$ 6,095</u>	<u>\$ 5,779</u>	<u>\$ 316</u>

**5. RESOURCE PROPERTIES**

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

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

	Otish Mountain (Canada)		Ham (Canada)	Ocock (Canada)	Total
Balance, February 28, 2002	\$ -	\$ -	\$ 4,612	\$ 2,000	\$ 6,612
Additions during the year:					
Acquisition costs	47,750	-	-	-	47,750
Exploration costs:					
Mapping and reports	3,350	-	-	-	3,350
Resource properties written-off	-	-	(4,612)	(2,000)	(6,612)
Balance, February 28, 2003	<u>\$ 51,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,100</u>

## **ENDEAVOUR GOLD CORP.**

### **Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003  
(expressed in Canadian dollars)

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#### **5. RESOURCE PROPERTIES (continued)**

(a) **El Taco property** (Sonora, Mexico)

In August 2003, the Company entered into an option agreement for the El Taco property located in Sonora, Mexico. The Company can earn a 100% interest in the property by making cash payments of US\$100,000 and issuing 200,000 common shares over a 4 year period, subject to 2% net smelter return royalty. In fiscal 2004, the Company paid US\$5,000 and issued 25,000 common shares to the vendor.

(b) **San Jose property** (Sinaloa, Mexico)

In July 2003, the Company entered an agreement to acquire a 100% interest in the San Jose property located in Sinaloa, Mexico, for cash payments of US\$300,000 over a four year period.

(c) **Otish Mountain properties** (Quebec, Canada)

Pursuant to an agreement dated June 20, 2002, the Company acquired a 50% interest in two properties located in the Mistassini-Otish area of northern Quebec. In consideration, the Company paid \$31,000 and issued 150,000 post-consolidation common shares to the vendor in fiscal 2003. The properties were subject to a 3% gross over-riding royalty on all diamond production and a 3% net smelter royalty on all other mineral production. The Company had the option to purchase ½% of each of the two royalties for \$250,000. Subsequent to the transaction, the vendor became President and a director of the Company. During fiscal 2004, the Company determined that it would no longer pursue the property and accordingly, wrote-off the \$51,100 of costs incurred on the property.

(d) **Ham property** (British Columbia, Canada)

Pursuant to an option agreement dated October 9, 2001, the Company was granted an option to earn up to a 100% interest in a mineral claim located in British Columbia in consideration of cash payments in the aggregate of \$30,000 (\$2,700 paid in fiscal 2002) and issuing an aggregate of 50,400 post-consolidation common shares over a three year period (12,600 post-consolidation common shares issued in fiscal 2002). During fiscal 2003, the Company determined that it would no longer pursue the property and accordingly, wrote-off the \$4,612 of costs incurred on the property.

(e) **Ocock property** (British Columbia, Canada)

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

(f) **Santa Cruz property and plant** (Durango, Mexico)

In May 2004, the Company signed formal purchase agreements to acquire up to a 100% interest in the producing Santa Cruz silver-gold mine and Guanacevi mineral processing plant in Durango, Mexico, on completion of due diligence based on an agreement dated January 23, 2004. Terms of the agreement give the Company the option to pay US\$3 million to the vendors and to invest US\$1 million in mine exploration and development within one year in order to earn a 51% interest in these operating assets. The balance of the 49% interest can be earned by paying a further US\$4 million over the remaining 3 years thereafter to January 2008. In February 2004, the Company advanced US\$100,000 to the vendors and paid US\$900,000 to the vendors on signing the agreements in May 2004.

**ENDEAVOUR GOLD CORP.****Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003

(expressed in Canadian dollars)

**5. RESOURCE PROPERTIES** (continued)**(g) Resource property contingencies**

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

**6. LOANS PAYABLE**

During fiscal 2003, the Company received two loans in the amount of \$25,000 each to assist in the reactivation of the Company. The loans bore interest at the rate of 9% per annum with repayment of principal and interest due on or before September 30, 2002. One of the loans was received from a company controlled by the President and a director of the Company (Note 9(g)). This loan was repaid in full, with interest in the amount of \$865, on October 30, 2002. The other loan was repaid in December 2003 including interest of \$3,480. The lenders received an aggregate of 100,000 post-consolidation common shares of the Company valued at \$10,000 as a loan bonus (Note 7(a)). During fiscal 2001, the Company received a loan from a shareholder in the amount of \$5,000. During fiscal 2003, the Company repaid the \$3,500 principal balance outstanding and \$347 of interest.

**7. SHARE CAPITAL****(a) Authorized and issued**

Authorized share capital consists of 100,000,000 common shares without par value. During fiscal 2003, the Company consolidated its authorized and issued share capital on a four old for one new basis and subsequently increased its authorized share capital from 5,000,000 post-consolidated common shares to 100,000,000 post-consolidated common shares. All share references prior to the share consolidation have been restated for this share consolidation.

Details of shares issued are as follows:

	Number of Shares	Amount
Balance, February 28, 2002	2,757,050	\$ 4,002,617
Issued during the year:		
For cash from private placement (Note 7(b))	3,000,000	300,000
For resource property (Note 5(c))	150,000	15,000
For loan bonuses (Note 6)	100,000	10,000
For settlement of debt (Note 9(h))	184,500	18,450
Balance, February 28, 2003	6,191,550	4,346,067
Issued during the year:		
For cash from private placement (Note 7(b))	3,050,000	872,570
For cash from exercise of stock options (Note 7(c))	165,000	30,480
For cash from exercise of warrants (Note 7(d))	1,700,000	204,000
For resource property (Note 5(a))	25,000	8,750
Balance, February 29, 2004	11,131,550	\$ 5,461,867

**ENDEAVOUR GOLD CORP.****Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003

(expressed in Canadian dollars)

**7. SHARE CAPITAL** (continued)**(a) Authorized and issued** (continued)

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

As at February 29, 2004 and February 28, 2003, a total of 93,750 common shares are held in escrow, the release of which is subject to regulatory approval.

**(b) Private placements**

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

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

**(c) Share options**

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

	<u>February 29, 2004</u>		<u>February 28, 2003</u>	
	<u>Number of Shares</u>	<u>Weighted Average Exercise Prices</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Prices</u>
Outstanding at beginning of year	275,000	\$0.10	990,000	\$0.10
Granted	750,000	\$0.42	275,000	\$0.10
Exercised	(165,000)	\$0.13	-	-
Forfeited	-	-	(990,000)	\$0.10
Outstanding at end of year	<u>860,000</u>	\$0.37	<u>275,000</u>	\$0.10
Options exercisable at year-end	<u>860,000</u>		<u>-</u>	

**ENDEAVOUR GOLD CORP.****Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003

(expressed in Canadian dollars)

**7. SHARE CAPITAL** (continued)(c) **Share options** (continued)

The following tables summarizes information about stock options outstanding at February 29, 2004:

Exercise Prices	Options Outstanding and Exercisable	
	Number Outstanding and Exercisable at February 29, 2004	Weighted Average Remaining Contractual Life
\$0.10	150,000	0.5 Year
\$0.22	340,000	1.4 Years
\$0.50	100,000	1.7 Years
\$0.66	270,000	4.8 Years

Pursuant to the CICA standard of accounting for stock-based compensation (Note 2(d)), the fair value of stock options granted to directors, officers, consultants and employees during fiscal 2004 is \$203,600. The fair values of stock options granted during fiscal 2004 have been estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Month in which Options Granted		
	<u>July 2003</u>	<u>Dec 2003</u>	<u>Jan 2004</u>
Risk-free interest rate	2.87%	3.10%	3.52%
Expected dividend yield	-	-	-
Expected stock price volatility	125.36%	107.81%	120.66%
Expected option life in years	1.5	1.5	3.5

The fair value of stock options granted to non-employees during fiscal 2003 was \$7,300, which was included in stock-based compensation expense in fiscal 2004, when options became exercisable. The fair value of stock options granted to employees and directors during fiscal 2003 was \$21,000. The pro forma effect on loss and loss per share for fiscal 2003 was not presented as these options were not exercisable at February 28, 2003.

The fair value of stock options granted during fiscal 2003 was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	3.37%
Expected dividend yield	-
Expected stock price volatility	221%
Expected option life in years	2

**ENDEAVOUR GOLD CORP.****Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003

(expressed in Canadian dollars)

**7. SHARE CAPITAL** (continued)**(c) Share options** (continued)

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

**(d) Warrants**

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

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

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

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

**(e) Shares reserved for issuance**

	Number of Shares
Issued and outstanding, February 29, 2004	11,131,550
Stock options (Note 7(c))	860,000
Warrants (Note 7(d))	2,825,000
Fully diluted, February 29, 2004	14,816,550

**ENDEAVOUR GOLD CORP.****Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003

(expressed in Canadian dollars)

**8. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS**

	Year Ended	
	February 29, 2004	February 28, 2003
Significant non-cash operating, financing and investing activities are as follows:		
Stock-based compensation expense (Note 7(c))	\$ 210,900	\$ -
Shares issued on acquisition of resource properties (Note 5)	8,750	15,000
Shares issued on settlement of debts (Note 9(h))	-	18,450
Supplemental cash flow information:		
Cash paid during the year for:		
Interest and financing costs	1,896	865
Income taxes	-	-

**9. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties during fiscal 2004:

- (a) Consulting fees of \$30,000 (2003 - \$20,000) were charged by the President of the Company and \$21,800 (2003 - \$nil) by a director.
- (b) Rent of \$18,000 (2003 - \$14,000) was incurred and paid to a company with certain common directors and an officer.
- (c) In fiscal 2004, four directors of the Company participated in the private placement (Note 7(b)) for a total of 360,000 units, and a company with a common director and a common officer participated in the private placement for 500,000 units. In fiscal 2003, two directors of the Company participated in the private placement (Note 7(b)) and acquired a total of 575,000 units, and a company related by virtue of a common director and a common officer acquired 500,000 units in the private placement.
- (d) The amount due to a related party as at February 29, 2004 represents amounts owed to a company with a common director and a common officer, which do not bear any interest and provide for no specific terms of repayment.
- (e) The Otish Mountain properties were acquired in fiscal 2003 from a vendor who subsequently became President and a director of the Company (Note 5(c)).
- (f) A demand loan of \$25,000 was received in fiscal 2003 from a company controlled by the President and a director of the Company and was repaid with interest of \$865 in fiscal 2003 (Note 6).

**ENDEAVOUR GOLD CORP.****Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003

(expressed in Canadian dollars)

**9. RELATED PARTY TRANSACTIONS**

- (g) The Company repaid \$3,500 of principal and \$347 of interest on a loan from a shareholder in fiscal 2003 (Note 6).
- (h) Accounts payable of \$18,450 owed to a director of the Company as at February 28, 2002 was settled with the issuance of 184,500 post-consolidation common shares in fiscal 2003 (Note 7(a)).

**10. INCOME TAXES**

Substantially all of the difference between the actual income tax expense (recovery) of \$nil (2003 - \$nil) and the expected tax recovery based on statutory rates relates to the benefit of losses not recognized.

The tax effect of the temporary differences that gives rise to future tax assets as of February 29, 2004 and February 28, 2003 is presented below:

	February 29, 2004	February 28, 2003
Future income tax assets:		
Tax loss carryforwards	\$ 314,000	\$ 258,000
Resource properties	674,000	682,000
Equipment	5,000	5,000
Total future income tax assets	993,000	945,000
Valuation allowance	(993,000)	(945,000)
Future income tax assets, net	\$ -	\$ -

As at February 29, 2004, the Company had available the following amounts for deduction against future Canadian earnings:

Non-capital losses, expiring as follows:	
2005	\$ 34,000
2006	10,000
2007 to 2009	-
2010	117,000
2011	276,000
	\$ 437,000
Capital losses	\$ 887,000

**ENDEAVOUR GOLD CORP.**

**Notes to the Financial Statements**

Years Ended February 29, 2004 and February 28, 2003

(expressed in Canadian dollars)

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**11. SEGMENT DISCLOSURES**

The Company has one operating segment, being the exploration and development of resource properties. All of the Company's assets are located in Mexico and Canada. (Note 5)

**12. SUBSEQUENT EVENTS**

In May 2004, the Company completed private placements for \$9.9 million to finance the acquisition of the operating Santa Cruz silver-gold mine and the Guanacevi mill (Note 5(f)). The Company engaged Canaccord Capital Corporation and Dundee Securities Corporation to act as Agents in a brokered private placement for 5,022,500 units at \$1.60 per unit for gross proceeds of \$8 million. Each unit consisted of one common share and one half of one share purchase warrant, with each full warrant giving the holder the right to purchase an additional common share at \$2 by October 22, 2005. The Company also completed a non-brokered private placement for 1,175,000 units at the same price and the same terms as the brokered placement for an additional \$1.9 million in gross proceeds. The net proceeds from both placements will be used towards the costs of acquisition of the Santa Cruz mine and Guanacevi processing plant, exploration drilling, underground development and production optimization, as well as working capital.

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TSX Venture Exchange  
Trading Symbol ~ EDR

# ENDEAVOUR GOLD CORP.

## Management's Discussion and Analysis For the Year Ended February 29, 2004

### **Preliminary Information**

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

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

All information contained in the MD&A is as of June 6, 2004 unless otherwise indicated.

### **Background**

The Company is a natural resource company engaged in the evaluation, acquisition, exploration and development of resource properties. The exploration philosophy of the Company has historically been to identify and develop resource targets. The Company is in the exploration stage as its properties have not reached commercial production and none of its properties was beyond the advanced exploration stage. The Company financed its operating and exploration activities principally by the issuance of common shares.

Previously the Company focused its exploration activities principally in Canada but in fiscal 2004 the Company was more active in seeking projects and properties of merit in Mexico. This culminated in the Company entering into formal purchase agreements to acquire up to a 100% interest in the producing Santa Cruz silver-gold mine and Guanacevi mineral processing plant in Durango, Mexico, and two resource properties in Mexico. Also the Company decided not to pursue further exploration work on its remaining exploration property in Canada in fiscal 2004. The acquisitions of the silver-gold mine and the processing plant will allow the Company to become one of the primary silver producers in the world. Equity financing of \$9.9 million was completed in the first quarter of fiscal 2005 and will provide the financial resources needed for the Company to further develop its business and realize its objectives for its projects and properties in Mexico.

### **Overall Performance**

For the Company's exploration activities, there was no production, sales or inventory in the conventional sense. The recoverability of costs capitalized to mineral properties and the Company's future financial success was dependent upon the extent to which it can discover mineralization and the economic viability of developing such properties. Such development may take years to complete and the amount of resulting income, if any, was difficult to determine with any certainty. Many of the key factors were outside of the Company's control. The sales value of any mineralization discovered by the Company was largely dependent upon factors beyond the Company's control such as the market value of the metals produced. As the carrying value and amortization of mineral properties and capital assets were, in part, related to the Company's mineral reserves, the estimation of such reserves was significant to the Company's position and results of operations.

In accordance with CAD GAAP, all costs related to investments in resource properties are capitalized on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries and write-downs.

## ENDEAVOUR GOLD CORP.

Management's Discussion and Analysis

For the Year Ended February 29, 2004

(expressed in Canadian dollars)

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The Company's ability to continue as a going concern was dependent on continued financial support from its shareholders and other related parties, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company's liabilities as they became payable.

The Company knows of no trends, demands, commitments, events or uncertainties outside of the normal course of business that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future, with the exception of the Company completing its private placements for \$9.9 million in May 2004. Material increases or decreases in the Company's liquidity were substantially determined by the success or failure of the Company's exploration programs and overall market conditions for smaller resource companies. The Company is not aware of any seasonality in the business that have a material effect upon its financial condition, results of operations or cash flows other than those normally encountered by public reporting junior resource companies. The Company is not aware of any changes in the results of its operations that are other than those normally encountered in its ongoing business.

The Company was deemed "Inactive" by the TSX Venture Exchange ("TSX Venture") on October 29, 2001 due to the Company's inability to satisfy Tier 2 Tier Maintenance Requirement pursuant to TSX Venture's Policy 2.6 ("Tier 2 TMR"), whereby trading in the securities of the Company continued under the inactive designation. Such designation was removed in November 2002 after the Company had implemented its reactivation plans. The Company's reactivation plans which were implemented in the fiscal year ended February 28, 2003 included the following items:

- share consolidation on a four old for one new basis;
- change of name from Levelland Energy & Resources Ltd to Endeavour Gold Corp.;
- the appointment of a new Board of Directors at the Issuer's annual general meeting held in July 2002;
- closing of a private placement for 3,000,000 units at \$0.10 per unit for total proceeds of \$300,000. Each unit was comprised of one common share and one share purchase warrant exercisable to acquire one additional common share at an exercise price of \$0.12 per share until November 29, 2004;
- issuance of 184,500 common shares at a deemed price of \$0.10 to settle debts of \$18,450;
- receipt of debt financing totaling \$50,000 of which a loan for \$25,000 was repaid during the 2003 fiscal year; and
- acquisition of the Otish Mountain property in Quebec.

The reactivation of the Company and its more active operations, especially in fiscal 2004, are reflected in significant improvements in cash resources and working capital, incurrence of increased operating and due diligence expenditures, and a marked increase in its assets as the Company proceeded with its acquisitions and financings.

In prior years, the Company's focus had been in seeking exploration properties in Canada. However, in fiscal 2004, the Company's primary attention and property investigation and preliminary due diligence efforts were directed in Mexico where projects and properties of merit were sought. This resulted in project and property acquisitions in Mexico and the write-off of the Company's remaining exploration property in Canada in fiscal 2004.

In May 2004, the Company signed formal purchase agreements to acquire up to a 100% interest in the producing Santa Cruz silver-gold mine and Guanacevi mineral processing plant in Durango, Mexico. Terms of the agreement give the Company the option to pay US\$3 million to the vendors and to invest US\$1 million in mine exploration and development within one year in order to earn a 51% interest in these operating assets. The balance of the 49% interest can be earned by paying a further US\$4 million over the remaining 3 years thereafter to January 2008. In February 2004, the Company advanced US\$100,000 to the vendors and paid US\$900,000 to the vendors on signing the agreements in May 2004.

## ENDEAVOUR GOLD CORP.

Management's Discussion and Analysis

For the Year Ended February 29, 2004

(expressed in Canadian dollars)

The mine is currently producing only 300,000 ounces of silver per year, but the plant has the capacity of producing up to 4 million ounces per year of silver and equivalents.

The Company completed private placements for \$9.9 million in the first quarter of fiscal 2005 in which such equity financing is for the acquisition of the operating Santa Cruz silver-gold mine and the Guanacevi mill, exploration drilling, underground development and production optimization, as well as for working capital purposes.

These acquisitions and equity financings will allow the Company to proceed towards becoming one of the primary silver producers in the world.

### Selected Financial Performance

The following table presents selected financial information of the Company for the years ended February 29, 2004 and February 28, 2003 and 2002:

	February 29, 2004	February 28, 2003	February 28, 2002
Total revenues	\$ -	\$ -	\$ -
Net loss before discontinued operations and extraordinary items:			
Total	\$ (778,701)	\$ (185,847)	\$ (33,376)
Basic	\$ (0.11)	\$ (0.06)	\$ -
Fully diluted	\$ (0.05)	\$ (0.02)	\$ -
Net loss:			
Total	\$ (778,701)	\$ (185,847)	\$ (33,376)
Basic	\$ (0.11)	\$ (0.06)	\$ -
Fully diluted	\$ (0.05)	\$ (0.02)	\$ -
Total assets	\$ 761,138	\$ 209,483	\$ 23,237
Total long-term financial liabilities	\$ -	\$ -	\$ -
Dividends per share	\$ -	\$ -	\$ -

The Company significantly increased its operating and due diligence activities in seeking and acquiring projects in Mexico, as can be supported by commensurate increases in total assets and net losses in fiscal 2004, given it was in the exploration stage and had no advanced stage resource properties. The lower level of business activities in fiscal 2002 and for most of fiscal 2003 was the result of its deemed "Inactive" status by the TSX Venture, when the Company was unable to satisfy Tier 2 TMR.

Effective March 1, 2002, the Company adopted the new accounting standard of the Canadian Institute of Chartered Accountants ("CICA"), Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("HB 3870") for accounting for stock-based compensation expense. Effective March 1, 2003, in connection with amendments to HB 3870, the Company changed the method of application of its stock-based compensation accounting policy so as to measure all stock options granted at fair value and to recognize the compensation expense over the vesting period, with a corresponding credit to contributed surplus. In fiscal 2004, the Company recorded a stock-based compensation expense of \$210,900 attributable to the adoption of the revised application of its stock-based compensation accounting policy.

### Results of Operations

## ENDEAVOUR GOLD CORP.

Management's Discussion and Analysis

For the Year Ended February 29, 2004

(expressed in Canadian dollars)

Fiscal Year 2004 – Year ended February 29, 2004 compared with February 28, 2003

The Company incurred a net loss of \$778,701 in fiscal 2004 which is substantially higher than the net loss of \$185,847 in fiscal 2003. The Company's deemed Inactive status by the TSX Venture for most of fiscal 2003 contributed to lower operating expenses. In most expense categories for fiscal 2004, the Company incurred higher expenses relative to fiscal 2003 reflecting the operating, due diligence and property investigation efforts and other ancillary functions to support the increased corporate and financing and exploration activities of the Company. Financing costs were reduced in fiscal 2004 as the Company's private placement in the year provided financial resources to repay outstanding loans, which were advanced in prior fiscal years. Stock-based compensation expense reflects the granting of stock options in fiscal 2004 and those stock options granted in fiscal 2003 but were not exercisable until fiscal 2004 when shareholder approval was ratified at the Company's annual general meeting held in July 2003. The Company's Otish Mountain property was written off in fiscal 2004 as the Company focused its attention in Mexico.

The Company's property investigation expenses were incurred essentially for seeking projects in Mexico. Mexico offers many advantages for junior exploration companies in Canada, including being a member of the North American Free Trade Agreement, progressive and friendly mining and exploration regulations, geographic proximity, minimal cultural and language barriers, skilled labour force in mining and mineral exploration, adequate economic infrastructure, supportive business environment, and easily accessible silver-gold exploration properties – reasons for which the Company refocused its attention from Canada to Mexico.

This resulted in the Company acquiring the El Taco property in Sonora, Mexico, and the San Jose property in Sinaloa, Mexico, for which the Company incurred total expenditures of \$29,097 for both properties. In August 2003, the Company entered into an option agreement for the El Taco property, in which the Company can earn a 100% interest in the property by making cash payments of US\$100,000 and issuing 200,000 common shares over a 4 year period, subject to 2% net smelter return royalty. In fiscal 2004, the Company paid US\$5,000 and issued 25,000 common shares to the vendor. In July 2003, the Company entered into an agreement to acquire a 100% interest in the San Jose property for cash payments of US\$300,000 over a four year period.

The Company incurred property expenditures of \$51,100 in fiscal 2003.

As at February 29, 2004 and February 28, 2003, the Company has resource properties which were comprised of the following:

	February 29, 2004			February 28, 2003		
	Acquisition Costs	Exploration/ Development	Total	Acquisition Costs	Exploration/ Development	Total
Mexico:						
El Taco	\$ 15,176	\$ 6,393	\$ 21,569	\$ -	\$ -	\$ -
San Jose	-	7,528	7,528	-	-	-
Canada:						
Otish Mountain	-	-	-	47,750	3,350	51,100
	\$ 15,176	\$ 13,921	\$ 29,097	\$ 47,750	\$ 3,350	\$ 51,100

In February 2004, the Company signed initial agreements for the acquisitions of the producing Santa Cruz silver-gold mine and Guanacevi mineral processing plant in Durango, Mexico, and in May 2004 formal purchase agreements were signed. The operating mine and processing plant would allow the Company to become a silver producer, and such operations would realize revenues and generate cash flows to sustain operations in the near

## ENDEAVOUR GOLD CORP.

Management's Discussion and Analysis

For the Year Ended February 29, 2004

(expressed in Canadian dollars)

future. In fiscal 2005, the Company will be developing and implementing exploration programs to identify potential silver-gold resources in Mexico.

### Summary of Quarterly Results

The following table provides selected financial information of the Company for each of the last eight quarters ending at the end of the most recently completed fiscal year, February 29, 2004:

	Fiscal year ended February 29, 2004				Fiscal year ended February 28, 2003			
	Feb 29, 2004	Nov 30, 2003	Aug 31, 2003	May 31, 2003	Feb 28, 2003	Nov 30, 2002	Aug 31, 2002	May 31, 2002
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss before discontinued operations and extraordinary items:								
(i) Total	\$ (778,701)	\$ (212,541)	\$ (128,379)	\$ (66,125)	\$ (185,847)	\$ (100,473)	\$ (17,056)	\$ (289)
(ii) Basic per share	\$ (0.11)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.06)	\$ (0.03)	\$ (0.01)	\$ -
(iii) Fully diluted per share	\$ (0.05)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ -
Net loss:								
(i) Total	\$ (778,701)	\$ (212,541)	\$ (128,379)	\$ (66,125)	\$ (185,847)	\$ (100,473)	\$ (17,056)	\$ (289)
(ii) Basic per share	\$ (0.11)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.06)	\$ (0.03)	\$ (0.01)	\$ -
(iii) Fully diluted per share	\$ (0.05)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ -

### Liquidity and Capital Resources

The Company was in the development stage and had not yet determined whether its resource properties contained reserves that were economically recoverable. The recoverability of amounts capitalized for resource properties was entirely dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production. The Company knows of no trends, demands, commitments, events or uncertainties that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future, with the exception of the Company completing its private placements in May 2004, which totalled \$9.9 million. Material increases or decreases in the Company's liquidity were substantially determined by the success or failure of the Company's exploration programs and overall market conditions for smaller resource companies. Since its incorporation in 1987, the Company had endeavored to secure valuable mineral properties that in due course could be brought into production to provide the Company with cash flow which would be used to undertake work programs on other projects. To that end, the Company had expended its funds on mineral properties that it believed had the potential to achieve cash flow within a reasonable time frame. As a result, the Company had incurred losses during each of its fiscal years since incorporation. This result is typical of smaller mining companies and will continue unless positive cash flow is achieved.

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

## ENDEAVOUR GOLD CORP.

Management's Discussion and Analysis

For the Year Ended February 29, 2004

(expressed in Canadian dollars)

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	February 29, 2004	February 28, 2003
Cash	\$ 542,868	\$ 151,574
Working capital	\$ 529,053	\$ 100,739

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The Company had significantly more cash and working capital in fiscal 2004 than in fiscal 2003. This was attributable to a private placement in fiscal 2004 which raised equity financing of \$915,000, whereas in fiscal 2003 a private placement was completed to raise financing of \$300,000.

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

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

Subsequent to the year ended February 29, 2004, the Company completed a major financing comprised of brokered and non-brokered private placements. In May 2004, the Company completed private placements for \$9.9 million to finance the acquisition of the operating Santa Cruz silver-gold mine and the Guanacevi mill. The Company engaged Canaccord Capital Corporation and Dundee Securities Corporation to act as Agents in a brokered private placement for 5,022,500 units at \$1.60 per unit for gross proceeds of \$8 million. Each unit consisted of one common share and one half of one share purchase warrant, with each full warrant giving the holder the right to purchase an additional common share at \$2 by October 22, 2005. The Company also completed a non-brokered private placement for 1,175,000 units at the same price and the same terms as the brokered placement for an additional \$1.9 million in gross proceeds. The net proceeds from both placements will be used towards the costs of acquisition of the Santa Cruz mine and Guanacevi processing plant, exploration drilling, underground development and production optimization, as well as working capital.

### Off-Balance Sheet Arrangements

In December 2003, the Company appointed Mr. Hugh Clarke of Chinanose Enterprises Inc. to provide investor relation services. His remuneration is \$60,000 per annum and the Company granted him 100,000 stock options with a term of 2 years and an exercise price of \$0.45. Investor relation services include shareholder and investor communication, greater market exposure of the Company and its projects to the investment community, and support services in identifying sources of capital financings.

The Company entered into a Grubstake Agreement with Mr. Kelly Cross to acquire several mining properties in Mexico. The Company paid Mr. Cross a monthly fee of US\$5,000. Moreover, the Company agreed to pay Mr. Cross an acquisition bonus of US\$10,000 plus 100,000 common shares, if the Company acquired at least two mining properties from Mr. Cross. If the Company continued to retain interests in at least two properties, the Company agreed to pay Mr. Cross US\$140,000 and 400,000 common shares over a four year period, which would be reduced by 50% should the Company only retain one property. Mr. Cross retained a 1% net smelter royalty. The agreement was terminated at the end of April 2004.

## **ENDEAVOUR GOLD CORP.**

Management's Discussion and Analysis

For the Year Ended February 29, 2004

(expressed in Canadian dollars)

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### **Transactions with Related Parties**

For the years ended February 29, 2004 and February 28, 2003, the following transactions involve related parties:

- Consulting fees of \$30,000 (2003 - \$20,000) were charged by the President of the Company and \$21,800 (2003 - \$nil) by a director;
- Rent of \$18,000 (2003 - \$14,000) was incurred and paid to a company with certain common directors and an officer;
- In fiscal 2004, four directors of the Company participated in the private placement for a total of 360,000 units, and a company with a common director and a common officer participated in the private placement for 500,000 units. In fiscal 2003, two directors of the Company participated in the private placement and acquired a total of 575,000 units, and a company related by virtue of a common director and a common officer acquired 500,000 units in the private placement;
- The \$14,232 amount due to a related party as at February 29, 2004 represented amounts owed to a company with a common director and a common officer, which do not bear any interest and provide for no specific terms of repayment;
- The Otish Mountain properties were acquired in fiscal 2003 from a vendor who subsequently became President and a director of the Company;
- A demand loan of \$25,000 was received in fiscal 2003 from a company controlled by the President and a director of the Company and was repaid with interest of \$865 in fiscal 2003;
- The Company repaid \$3,500 of principal and \$347 of interest on a loan from a shareholder in fiscal 2003; and
- Accounts payable of \$18,450 owed to a director of the Company as at February 28, 2002 was settled with the issuance of 184,500 post-consolidation common shares in fiscal 2003.

### **Changes in Accounting Policies including Initial Adoption**

Effective March 1, 2002, the Company adopted the new accounting standard of the Canadian Institute of Chartered Accountants ("CICA"), Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("HB 3870") for accounting for stock-based compensation expense. Under this standard, stock-based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after March 1, 2002, are accounted for using the fair value based method, and are recorded as an expense in the period the stock-based payments are vested or the awards or rights are granted. On adoption of HB 3870, the Company elected to use the settlement method of accounting for stock options granted to employees, and to disclose the pro forma effect of accounting for these awards under the fair value method. Effective March 1, 2003, in connection with amendments to HB 3870, the Company changed the method of application of its stock-based compensation accounting policy so as to measure all stock options granted at fair value and to recognize the compensation expense over the vesting period, with a corresponding credit to contributed surplus. This change has been applied prospectively for options granted on or after March 1, 2003, as allowed under the transitional provisions of HB 3870. Prior to the adoption of the new recommendations in fiscal 2003, no compensation expense was recorded for the Company's stock option plan when options were granted. Any consideration paid by directors and employees on exercise of stock options was credited to share capital. In fiscal 2004, the Company recorded a stock-based compensation expense of \$210,900 attributable to the adoption of the revised application of its stock-based compensation policy.

## ENDEAVOUR GOLD CORP.

Management's Discussion and Analysis

For the Year Ended February 29, 2004

(expressed in Canadian dollars)

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### Outstanding Share Data

The Company's authorized share capital comprises 100,000,000 common shares without par value.

Changes in the Company's share capital for the year ended February 29, 2004 were as follows:

	Number of Shares	Amount
Balance, February 28, 2003	6,191,550	\$ 4,346,067
Issued during the year:		
For cash from private placement	3,050,000	872,570
For cash from exercise of stock options	165,000	30,480
For cash from exercise of warrants	1,700,000	204,000
For resource property	25,000	8,750
Balance, February 29, 2004	11,131,550	\$ 5,461,867

### Outlook

The acquisitions in Mexico coupled with the completion of the \$9.9 million financing in May 2004 have provided exciting opportunities for the Company to becoming one of the primary silver producers worldwide. The Company now has the financial resource to satisfy commitments pursuant to the purchase agreements in the acquisition of the operating Santa Cruz silver-gold mine and the Guanacevi mill, and for exploration drilling, underground development and production optimization. In the following fiscal year, the Company will be actively involved in its silver mining operations which would generate revenues and internal sources of cash flows.