



Consolidated Financial Statements

Second Quarter Report

August 31, 2005

(Unaudited – Prepared by Management)

SHAREHOLDER LETTER

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

Silver production from the Guanacevi Project (including the Santa Cruz property, the old Santa Cruz mine, the new North Porvenir mine and the Guanacevi process plant) in Durango, Mexico, rose sharply in the second full quarter (fiscal Q2 ended August 31, 2005) since earning its 51% option interest in January 2005. Silver production rose 144% to 294,750 oz in fiscal Q2, 2005 compared to fiscal Q1, 2005, and increased 192% compared to the three months ended May 31, 2004 when the mine and plant were still privately owned. Endeavour anticipates an additional 19% increase in monthly output to 116,667 oz. silver over the next two months. Production growth will slow this quarter due to the next phase of capital investment in the mine and plant.

Endeavour plans to add more underground haul trucks to increase haulage capacity and will increase ground support as operating stopes grow. Maintenance down time is also scheduled for one of the ball mills, in order to improve grind size, silver recovery and production.

On a month to month basis, silver production from the Guanacevi Project averaged 21,392 oz per month in the 9 months ended September 30, 2004 and increased to 35,921 oz per month from October 2004 to February 2005 as a direct result of the discovery and development of the new North Porvenir ore-body. Production rose again to 40,483 oz per month in fiscal Q1, 2005, notwithstanding the temporary closures of the North Porvenir and Santa Cruz mines during the quarter to allow for accelerated mine development. Bringing the new North Porvenir mine back online allowed the monthly production to average 98,333 oz silver per month in fiscal Q2, 2005 August 31, 2005. The increase in fiscal Q2, 2005 silver production compared to fiscal Q1, 2005 is attributable to a jump in daily mine output from 229 tonnes per day to 304 tonnes per day, most of which came from the new North Porvenir mine. In fiscal Q2, 2005 North Porvenir produced 17,626 tonnes grading 580 gpt (18.7 opt) silver and 0.88 gpt gold (0.03 opt). Precious metal recoveries averaged 74%. Endeavour also produced 378 oz gold during fiscal Q2, 2005, bringing the production on a silver equivalent basis to 317,417 oz Ag eq. However, the sale of by-product gold, lead, zinc and copper are treated as credits against cash costs.

Endeavour has changed its year-end from February 28 to December 31, and its current transition fiscal year end is for the ten months ending December 31, 2005.

In fiscal Q1, 2005, cash operating costs were approximately US \$7.50 per oz silver but these costs fell to US\$ 4.70 per oz silver in fiscal Q2, 2005 as mine output rose. For the year, cash costs are expected to average about US\$ 4.60 per oz silver.

Godfrey Walton, President, stated, "With the new North Porvenir mine development working in fiscal Q2, 2005 we were able to successfully focus on opening up three new stopes for production. We anticipate the aggressive growth of both production and resources will continue through year-end and over the next two years."

In January 2004, Endeavour entered into an option agreement to purchase up to 100% of the Guanacevi Project for US\$ 7 million in cash payments plus US\$ 1 million in exploration and development expenses. By January 2005, the Company had paid the initial US\$ 3 million, invested the minimum US\$ 1 million and earned a 51% option interest as the new owner/operator until January 2006. Endeavour has the option to retain its 51% interest by paying US \$1.0 million in January 2006 and to purchase the remaining 49% by paying US \$1.5 million in January 2007 and another US\$1.5 million in January 2008. However, Endeavour has the right to recover 100% of the project cash-flows until all of its capital investments plus 9% interest are paid back.

Godfrey Walton, M.Sc, P.Geo., is the Qualified Person supervising the exploration, development and operation of the Guanacevi Project.

On Behalf Of The Board Of Directors

ENDEAVOUR SILVER CORP.

/s/ *Bradford J. Cooke*
Bradford J. Cooke
Chairman and CEO

October 28, 2005

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

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

ENDEAVOUR SILVER CORP.

CONSOLIDATED BALANCE SHEETS

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

	Notes	August 31, 2005 (Unaudited)	February 28, 2005 (Audited)
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 780,940	\$ 4,957,883
Receivables		1,273,559	700,569
Prepays and advances		90,825	13,644
Due from related party	7(a)	2,984,004	365,285
		5,129,328	6,037,381
NON-CURRENT			
Buildings and equipment	3	218,464	101,700
Mineral properties	4	6,860,387	5,106,919
		7,078,851	5,208,619
		\$ 12,208,179	\$ 11,246,000
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 792,501	\$ 411,562
SHAREHOLDERS' EQUITY			
Share capital	5(a)	18,887,011	16,708,303
Contributed surplus	5(b)	2,247,315	1,664,230
Deficit		(9,718,648)	(7,538,095)
		11,415,678	10,834,438
		\$ 12,208,179	\$ 11,246,000

Nature of operations	1
Commitments and contingencies	4
Subsequent events	5(d) and 9

Refer to accompanying notes to the unaudited consolidated financial statements.

Approved on behalf of the Board

/s/ *Bradford Cooke*

Director

/s/ *Godfrey Walton*

Director

ENDEAVOUR SILVER CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Unaudited – Prepaid by Management)

(expressed in Canadian dollars)

	Notes	Three Months Ended August 31,		Six Months Ended August 31,	
		2005	2004	2005	2004
EXPENSES					
Accounting and legal		\$ 59,852	\$ 61,478	\$ 135,845	\$ 108,106
Amortization		57,198	-	57,198	-
Employees and directors remuneration		77,085	72,580	220,781	107,070
Foreign exchange		89,011	71,706	191,251	57,835
Management and consulting		27,790	47,074	66,406	90,201
Office and sundry	7(b)	44,476	23,080	117,678	38,247
Regulatory		64,961	12,609	68,257	17,861
Shareholder relations		90,310	42,455	149,830	72,804
Stock-based compensation	5(c)	-	-	628,815	673,200
Travel		10,882	14,601	32,255	32,524
Loss before the undernoted		(521,565)	(345,583)	(1,668,316)	(1,197,848)
Loss from ore and ore processing, net	4(b)	(520,599)	-	(534,124)	-
Interest income		18,565	24,381	21,887	37,212
Property investigations		-	(59,689)	-	(256,965)
Write-off of mineral properties		-	(22,004)	-	(43,573)
LOSS FOR THE PERIOD		(1,023,599)	(402,895)	(2,180,553)	(1,461,174)
Deficit, beginning of the period		(8,695,049)	(6,030,892)	(7,538,095)	(4,972,613)
DEFICIT, END OF PERIOD		\$ (9,718,648)	\$ (6,433,787)	\$ (9,718,648)	\$ (6,433,787)
Basic and diluted loss per share		\$ (0.05)	\$ (0.02)	\$ (0.10)	\$ (0.09)
Weighted average number of shares outstanding		21,642,581	18,081,475	21,348,567	16,112,827

Refer to accompanying notes to the unaudited consolidated financial statements.

ENDEAVOUR SILVER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
(expressed in Canadian dollars)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2005	2004	2005	2004
CASH PROVIDED FROM (USED FOR):				
OPERATIONS				
Loss for the period	\$ (1,023,599)	\$ (402,896)	\$ (2,180,553)	\$ (1,461,174)
Items not affecting cash:				
Amortization	57,198	-	57,198	-
Stock-based compensation	-	-	628,815	673,200
Write-off of mineral properties	-	22,004	-	43,573
	(966,401)	(380,892)	(1,494,540)	(744,401)
Net changes in non-cash working capital items:				
Receivables	(321,043)	(151,791)	(572,990)	(351,131)
Prepays and advances	152,150	-	(77,181)	1,401
Due from (to) related parties	-	(37,577)	-	(37,577)
Accounts payable and accrued liabilities	(435,176)	(68,379)	380,939	27,888
	(1,570,470)	(638,639)	(1,763,772)	(1,103,820)
FINANCING				
Loan receivable	-	17,640	-	(459,550)
Issuance of common shares, net of issue costs	25,500	11,635	402,978	9,281,687
	25,500	29,275	402,978	8,822,137
INVESTMENTS				
Acquisition of buildings and equipment	(147,220)	-	(173,962)	-
Acquisition and exploration of mineral properties	1,270,420	27,268	(23,468)	(14,476)
Loan receivable from Minera Santa Cruz	(1,784,681)	-	(2,618,719)	-
Advance for acquisition	-	33,524	-	(1,180,176)
	(661,481)	60,792	(2,816,149)	(1,194,652)
NET CASH (OUTFLOWS) INFLOWS	(2,206,451)	(548,572)	(4,176,943)	6,523,665
CASH AND CASH EQUIVALENTS, BEGIN OF PERIOD	2,987,391	7,615,105	4,957,883	542,868
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 780,940	\$ 7,066,533	\$ 780,940	\$ 7,066,533

Supplemental disclosure with respect to cash flows (Note 6)

Refer to accompanying notes to the unaudited consolidated financial statements.

ENDEAVOUR SILVER CORP.

Notes to the Consolidated Financial Statements

Six Months Ended August 31, 2005

(Unaudited – Prepared by Management)

(expressed in Canadian dollars, unless otherwise noted)

1. NATURE OF OPERATIONS

Endeavour Silver Corp. (the “Company”) was incorporated under the laws of the Province of British Columbia on March 11, 1981 and its principal business activities are the acquisition, exploration and development of mineral properties.

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

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred significant operating losses to date. At August 31, 2005, the Company had a working capital of \$4,336,827, which will not be sufficient to meet its planned business objectives. Management recognizes that the Company will need to generate additional financial resources in order to meet its planned business objectives. The Company has financed its activities principally by the sale of equity securities. The Company’s ability to continue as a going concern is dependent on the continued financial support from its shareholders and other related parties, the ability of the Company to raise equity financing, and the attainment of profitable operations to fund its operations. However, there can be no assurances that the Company will continue to obtain adequate additional financing and/or achieve profitability or positive cash flows. Furthermore, failure to continue as a going concern would require that the Company’s assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of presentation**

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

(b) **Cash and cash equivalents**

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

(c) **Buildings and equipment**

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

(d) **Mineral properties**

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

ENDEAVOUR SILVER CORP.

Notes to the Consolidated Financial Statements

Six Months Ended August 31, 2005

(Unaudited – Prepared by Management)

(expressed in Canadian dollars, unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) **Mineral properties** (continued)

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

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

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

(e) **Share capital**

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

(f) **Stock-based compensation**

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

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

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

ENDEAVOUR SILVER CORP.

Notes to the Consolidated Financial Statements

Six Months Ended August 31, 2005

(Unaudited – Prepared by Management)

(expressed in Canadian dollars, unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) **Asset retirement obligations**

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

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

(h) **Loss per share**

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

(i) **Foreign currency translation**

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

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

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

(j) **Use of estimates**

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

ENDEAVOUR SILVER CORP.

Notes to the Consolidated Financial Statements

Six Months Ended August 31, 2005

(Unaudited – Prepared by Management)

(expressed in Canadian dollars, unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Fair value of financial instruments

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

(l) Comparative figures

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

3. BUILDINGS AND EQUIPMENT

	August 31, 2005		
	Cost	Accumulated amortization	Net book value
Buildings	\$ 24,039	\$ 1,167	\$ 22,872
Machinery and equipment	115,998	1,006	114,992
Transportation and vehicles	83,310	16,214	67,096
Office equipment	14,847	1,343	13,504
	<u>\$ 238,194</u>	<u>\$ 19,730</u>	<u>\$ 218,464</u>

4. MINERAL PROPERTIES

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

	Santa Cruz (Mexico)		Total
Acquisition costs:			
Balance, February 28, 2005	\$ 3,864,750	\$	3,864,750
Additions during the period:			
Acquisitions	1,539,305		1,539,305
Balance, August 31, 2005	<u>5,404,055</u>		<u>5,404,055</u>
Exploration costs:			
Balance, February 28, 2005	1,242,169		1,242,169
Additions during the period:			
Consulting	132,850		132,850
Drilling	1,220,446		1,220,446
Field supplies and sundry	17,085		17,085
Geology and engineering	47,519		47,519
Transportation	38,433		38,433
Transfer to Minera Santa Cruz	(1,242,169)		(1,242,169)
Balance, August 31, 2005	<u>1,456,332</u>		<u>1,456,332</u>
Balance, August 31, 2005	<u>\$ 6,860,387</u>	<u>\$</u>	<u>6,860,387</u>

ENDEAVOUR SILVER CORP.

Notes to the Consolidated Financial Statements

Six Months Ended August 31, 2005

(Unaudited – Prepared by Management)

(expressed in Canadian dollars, unless otherwise noted)

4. MINERAL PROPERTIES (continued)

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

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

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

The Company also entered into an option agreement to acquire mining concessions from Minera Santa Cruz for a total cost of US\$448,571. Through its subsidiary, Minera Plata Adelante S.A. de C.V. (“Adelante”), the Company will acquire a 51% beneficial ownership interest in the mining concessions by January 28, 2006 on completion of initial payments totalling US\$438,571. To February 28, 2005, the Company made advance payments totalling \$558,548 (US\$428,571) and in April 2005, a further advance payment of US\$5,000 was made. The remaining 49% beneficial ownership interest in the mining concessions can be acquired by January 28, 2008 through annual payments totalling US\$10,000.

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

In addition to the above payments, the Company committed to spend US\$1,000,000 on exploration and development of the Santa Cruz property on or before May 17, 2005. To February 28, 2005, the Company incurred \$1,242,169 and incurred a further \$1,293,888 by May 31, 2005, thereby totaling \$2,536,057 in exploration and development expenditures.

Pursuant to a May 2004 loan agreement, the Company agreed to loan up to US\$425,000 to Minera Santa Cruz for development of an access ramp at the Santa Cruz mine. Any unpaid amounts on the loan as at January 28, 2005 bore interest at 9%, were secured by certain mining concessions held by Minera Santa Cruz, and were to be repaid from the proceeds of certain minerals produced. At February 28, 2005, the loan balance due from Minera Santa Cruz was US\$26,921, which included accrued interest of US\$1,921, and the loan, including accrued interest, was repaid in full during the three month period ended May 31, 2005. Furthermore, pursuant to the loan agreement, the Company also earned a 25% net profits royalty from ore mined by Minera Santa Cruz from the related mining concessions up to January 28, 2005.

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

ENDEAVOUR SILVER CORP.

Notes to the Consolidated Financial Statements

Six Months Ended August 31, 2005

(Unaudited – Prepared by Management)

(expressed in Canadian dollars, unless otherwise noted)

4. MINERAL PROPERTIES (continued)

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

In June 2005, the Company acquired nine silver mining properties in the Guanacevi district, Durango, Mexico, from Industrias Peñoles S.A. de C.V. (“Peñoles”). Six of these properties (the “Santa Cruz Properties”) form part of the producing Santa Cruz silver mine in which the Company already owns a 51% option interest in the exploitation lease and has the option to acquire the remaining 49% interest. This transaction effectively allows the Company’s wholly owned Mexican subsidiary, Adelante, to acquire the outright ownership of the six mineral concessions as well as a 4.5% net proceeds royalty from Peñoles’ wholly owned Mexican subsidiary, Minera Capela S.A. de C.V. (“Capela”). Adelante will be required to send all mineral production from these properties to the Peñoles smelter in Torreon, Mexico, for smelting and refining. Capela will retain a 3% net proceeds royalty on future production after deduction of all milling, processing, shipping and smelting costs, including taxes and penalties if any. The Company has also formed a strategic alliance with Peñoles to acquire additional mining properties in Mexico. Peñoles has agreed to provide the Company with access to information on its entire portfolio of mineral concessions throughout Mexico. On each additional Peñoles property the Company wishes to acquire, a purchase price will be negotiated, payable in common shares of the Company. If the Company acquires additional properties from third parties introduced by Peñoles, the Company will pay Peñoles a 5% fee on the cash purchase price, also payable in common shares of the Company. If Peñoles acquires property from a third party introduced by the Company, Peñoles will pay Endeavour a 5% fee on the cash purchase price. In compensation for the nine mining properties, certain mining equipment located thereon, and the formation of the strategic alliance, the Company issued 1,000,000 units to Peñoles in July 2005; each unit consisted of one common share and one warrant to purchase an additional common share at \$2.10 until July 22, 2006 and thereafter at \$2.30 until July 22, 2007 (Notes 5(a) and (d)).

In July 2005, the Company entered into an option agreement to acquire a 100% interest in two silver properties, Porvenir Dos and La Sultana, in the Guanacevi District, Durango, Mexico, for US\$137,500 of which US\$25,000 has been paid and US\$12,500 is due on December 30, 2005 and US\$100,000 on December 30, 2006.

In August 2005, the Company entered into an option agreement to acquire a 100% interest in four silver properties, La Prieta, El Aguaje de Arriba, Ampliacion El Aguaje de Arriba and La Plata, in the Guanacevi District, Durango, Mexico, for US\$100,000 of which US\$15,000 has been paid and US\$15,000 is due in six months and US\$70,000 in 24 months.

(b) **Income from ore and ore processing**

Revenues from ore and ore processing are recognized when the price is determinable, metal products are delivered to the buyers (or in the case of ore processing when such services are rendered), title and risk of ownership have transferred to the buyers, and collectability is reasonably assured.

ENDEAVOUR SILVER CORP.
Notes to the Consolidated Financial Statements
Six Months Ended August 31, 2005
(Unaudited – Prepared by Management)
(expressed in Canadian dollars, unless otherwise noted)

4. MINERAL PROPERTIES (continued)

(b) Income from ore and ore processing (continued)

For the six months ended August 31, 2005, income from ore and ore processing is determined as follows:

	Minera		Total
	Santa Cruz (1)	Refinadora (2)	
Revenues from ore and ore processing	\$ 2,189,747	\$ 1,402,671	
Costs of ore mining and ore processing	(3,059,349)	(1,483,036)	
Gross loss	(869,602)	(80,365)	
Operating expenses:			
Accounting and legal	2,328	-	
Consulting	8,622	-	
Employee remuneration	64,184	-	
Foreign exchange	(9,927)	-	
Office and sundry	32,127	-	
	(97,334)	-	
Loss before allocation of option interest	(966,936)	(80,365)	
Allocation of 51% option interest	51%	51%	
Loss from 51% option interest	\$ (493,137)	\$ (40,986)	\$ (534,124)

⁽¹⁾ The Company has earned a 51% option interest in Minera Santa Cruz (Note 4(a)).

⁽²⁾ Refinadora has earned a 51% option interest in the ore processing plant (Note 4(a)).

(c) Mineral property contingencies

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

5. SHARE CAPITAL

(a) Authorized and issued

Authorized share capital consists of unlimited common shares without par value. During the year ended February 28, 2005, the Company increased its authorized share capital from 100,000,000 common shares without par value to an unlimited number of common shares without par value in connection with the required change from the Company Act (British Columbia) to the new Business Corporations Act (British Columbia).

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

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(Unaudited – Prepared by Management)
(expressed in Canadian dollars, unless otherwise noted)

5. **SHARE CAPITAL** (continued)

(a) **Authorized and issued** (continued)

Details of shares issued are as follows:

	Number of Shares	Amount
Balance, February 28, 2005	20,873,269	\$ 16,708,303
Issued during the period:		
For acquisition of mining concessions (Note 4(a))	1,000,000	1,730,000
From exercise of share purchase options	171,000	127,280
For cash from exercise of warrants	201,964	321,428
Balance, August 31, 2005	22,246,233	\$ 18,887,011

(b) **Contributed surplus**

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

(c) **Share purchase options**

Options to purchase common shares have been granted to directors, officers, employees and consultants pursuant to the Company's stock option plan approved by the Company's shareholders in fiscal 2004 at exercise prices determined by reference to the market value on the date of the grant. Vesting periods are at the discretion of the Board of Directors but historically, options have vested immediately on the date of grant.

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5. SHARE CAPITAL (continued)

(c) **Share purchase options** (continued)

The following table summarizes the status of the Company's stock option plan as at August 31, 2005, and changes during the six month period then ended on that date:

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

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

Price Intervals	Options Outstanding and Exercisable		
	Number Outstanding and Exercisable at August 31, 2005	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices
\$0.01 - \$0.49	20,000	0.3	\$0.45
\$0.50 - \$0.99	260,000	3.4	\$0.66
\$1.00 - \$1.49	200,000	1.2	\$1.39
\$1.50 - \$1.99	1,220,000	4.0	\$1.60
\$2.50 - \$2.99	339,900	4.6	\$2.52
	2,039,900	3.7	\$1.60

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

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.

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5. SHARE CAPITAL (continued)

(c) Share purchase options (continued)

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:

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

(d) Warrants

At August 31, 2005, the Company had outstanding warrants to purchase an aggregate 6,351,595 common shares as follows:

Exercise Prices	Expiry Dates	Oustanding at February 29, 2005	Issued	Exercised	Expired	Oustanding at August 31, 2005
\$0.35	October 6, 2005	775,000	-	(50,000)	-	725,000
\$2.00	October 22, 2005	3,467,559	-	(151,964)	-	3,315,595
\$2.00	October 28, 2005	248,000	-	-	-	248,000
\$2.10 / \$2.30	February 1, 2006 / February 1, 2007	1,063,000	-	-	-	1,063,000
\$2.10 / \$2.30	July 22, 2006 / July 22, 2007	-	1,000,000	-	-	1,000,000
		5,553,559	1,000,000	(201,964)	-	6,351,595

Subsequent to August 31, 2005, about 3.4 million common shares were issued from the exercise of warrants which provided proceeds of about \$5.7 million.

(e) Shares reserved for issuance

	Number of Shares
Issued and outstanding, August 31, 2005	22,246,233
Stock options	2,039,900
Warrants	6,351,595
Fully diluted, August 31, 2005	30,637,728

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6. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Six Months Ended August 31, 2005
Non-cash financing and investing activities:	
Common shares issued for acquisition of mining concessions	\$ 1,730,000
Fair value of stock options allocated to shares issued on exercise of stock options	\$ 45,730
Supplemental cash flow information:	
Cash paid during the period for:	
Interest and financing costs	\$ -

7. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- (a) As at August 31, 2005, a total of \$2,984,004 was due from Minera Santa Cruz (Note 4(a)). This consists of the net profits royalty on ore mined to January 28, 2005 (Note 4(a)) totalling \$222,498, share of losses from ore mined and processed to August 31, 2005 totalling \$493,141, and advances to Minera Santa Cruz to fund exploration and mine development expenditures incurred by Minera Santa Cruz totalling \$3,254,647. The net profits royalty receivable, share of losses from ore mined and processed, and the exploration and mine development advances are unsecured, non-interest bearing and due on demand.
- (b) Rent of \$9,000 was incurred and paid to a company with certain common directors.

8. SEGMENT DISCLOSURES

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

	August 31, 2005		
	Canada	Mexico	Total
Cash	\$ 617,654	\$ 163,286	\$ 780,940
Receivables	-	1,273,559	1,273,559
Due from related parties	228,407	2,755,597	2,984,004
Buildings and equipment	-	218,464	218,464
Mineral properties	-	6,860,387	6,860,387
Net loss	(1,221,419)	(959,134)	(2,180,553)

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

ENDEAVOUR SILVER CORP.

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(Unaudited – Prepared by Management)

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9. SUBSEQUENT EVENTS

In October 2005, the Company completed a bought deal private placement for 6,000,000 units at \$2.40 per unit for gross proceeds of \$14.4 million. Each unit is comprised of one common share and one-half common share purchase warrant. Each full warrant is exercisable to purchase one common share at an exercise price of \$2.90 until October 5, 2007. The underwriters received a cash commission of \$936,000 and 450,000 agents' warrants that have the same terms as the warrants in the private placement.

In October 2005, the Company acquired a mining lease on the El Porvenir property, Guanacevi district, Durango, Mexico. Under the lease agreement, the Company holds the exclusive right to mine the El Porvenir property for a 5-year period, which can be extended for another 5 years, by mutual agreement. The Company has agreed to mine El Porvenir at the rate of between 9,000 tonnes and 27,000 tonnes per quarter and to pay a 3% net smelter royalty from production. To maintain its rights, the Company must spend at least US\$100,000 each quarter on all exploration, development and mining costs, and also must spend a further US\$500,000 on all costs within one year.

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Bradford Cooke ~ Chairman
Godfrey Walton ~ President
Bruce Bried ~ Vice-President, Mining
Michael Rasmussen ~ Vice-President, Exploration
Philip Yee ~ Chief Financial Officer
Stewart Lockwood ~ Secretary

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SHARES LISTED

TSX Venture Exchange
Trading Symbol ~ EDR

Frankfurt Stock Exchange
Trading Symbol ~ EJD

ENDEAVOUR SILVER CORP.
(the “Company”)

Management’s Discussion and Analysis
For the Six Months Ended August 31, 2005

CAUTION – FORWARD LOOKING STATEMENTS

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

1.0 Preliminary Information

The following Management’s Discussion and Analysis (“MD&A”) of Endeavour Silver Corp. (the “Company”) should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the six months ended August 31, 2005 and the audited consolidated financial statements for the years ended February 28, 2005, February 29, 2004 and February 28, 2003, which are available at the SEDAR website at www.sedar.com.

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

All information contained in the MD&A is as of October 28, 2005 unless otherwise indicated.

1.1 Background

The Company is engaged in the evaluation, acquisition, exploration, development and exploitation of mineral properties. Previously the Company focused its activities principally in Canada but in fiscal 2004 the Company was more active in seeking properties of merit in Mexico. In fiscal 2005, the Company acquired an option to purchase a high grade silver mine in Mexico.

In May 2004, the Company signed formal option agreements to acquire up to a 100% interest in the producing Santa Cruz silver-gold mine, certain other mining concessions and the Guanacevi mineral processing plant (collectively, the “Guanacevi Project”) in Durango, Mexico. Terms of the agreement give the Company the option to acquire a 51% interest in these operating assets by paying a total of US\$3 million to the vendors and incurring US\$1 million in mine exploration and development within one year. The balance of the 49% interest can be earned by paying a further US\$4 million over the period to January 2008. To complete the acquisition of the initial 51% interest, payments totalling US\$1 million must be made by January 28, 2006; otherwise any interest earned by the Company up to that date will be forfeited, and all rights and title and ownership of the Santa Cruz silver-gold mine, certain other mining concessions and the Guanacevi mineral processing plant shall be returned to their original vendors. As at August 31, 2005, the Company had paid the vendors US\$3 million and invested more than \$3 million in property acquisitions, mine exploration and development and capital assets.

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The Guanacevi Project

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

North Porvenir Mine

In early December 2004, consistently high-grade silver vein mineralization had been outlined by underground sampling in the North Porvenir zone of the Santa Cruz mine. By the end of December 2004, a total of 1,160 metres of underground development was completed, including 410 metres of a new access ramp, a 161 metre ventilation raise, eleven crosscuts into the vein totalling 141 metres, two sill levels totalling 135 metres and related underground workings. Moreover, an exploration program of 4,160 metres of diamond drilling in 12 holes was completed in the North Porvenir zone.

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

During the fiscal year ended February 28, 2005, trial mining was completed at North Porvenir in order to assess the potential production rate, mining method and metallurgical recovery of this exciting new discovery. Trial mining had a major impact on the rate of silver production from the Santa Cruz mine. In June 2004, the combined mine and plant operations were averaging 23,500 oz Ag equivalent production per month (Ag equivalents are about 91% Ag), which increased by 180% to 66,350 oz Ag equivalents in December 2004. The mine was producing from low grade zones and stockpiles during the three months ended May 31, 2005 as the Company continued to accelerate and to complete its mine development and exploration activities but by quarter end it was in production. Mining is now underway for the North Porvenir mine. Monthly production averaged 98,330 oz silver per month during the second quarter ended August 31, 2005.

In May 2005, the Company confirmed an initial estimate of 935,000 oz in silver resources in the Measured and Indicated categories and a further estimate of 3,839,000 oz in silver resources in the Inferred category according to an independent National Instrument 43-101 ("NI 43-101") report dated May 5, 2005, as amended May 10, 2005 and which was prepared by Velasquez Spring, PEng, who was the Qualified Person from Watts, Griffis and McQuat Limited ("WGM"). WGM was retained by the Company to audit and to validate the polygonal resource estimate by the Company for the North Povenir zone, as follows:

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

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

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the resource estimate but 155 m of that strike length were omitted as drilling is still in progress in these areas. The North Porvenir zone remains open at depth and to a certain extent along strike.

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

Santa Cruz Mine

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

There was an historic resource estimate by Industrias Peñoles S.A. de C.V. ("Peñoles") for the Deep Santa Cruz zone that could not be audited or validated, as follows:

<u>Classification</u>	<u>Tonnes</u>	<u>Silver (gpt)</u>	<u>Gold (gpt)</u>	<u>Silver (oz)</u>	<u>Ag. Eq. (oz)</u>
Historic	229,000	525	1.2	3,866,000	4,396,000

The Deep Santa Cruz historic resource was calculated by Peñoles in 1983 on the basis of 13 drill holes for which the Company has the pertinent drill maps, logs and assays. However, it predates the CIM resource reporting standards, the Company has not yet done the work necessary to verify the classification of the resource, the Company is not treating them as a NI 43-101 resource defined by a Qualified Person and therefore the historical estimate should not be relied upon. The Company confirms this historic resource estimate is relevant to its plans for the Santa Cruz mine property and had commenced drilling additional holes into the Deep Santa Cruz zone in order to confirm and to expand the historic resource and bring it in compliance with NI 43-101.

The mine was closed temporarily to complete shaft rehabilitation and mine development.

1.2 Overall Performance

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

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

Silver markets continued to show strength as the cumulative average increased from US\$4.5995 per ounce in 2002 to US\$4.8758 in 2003, to US\$6.6711 in 2004 and then to US\$7.1225 from January 2005 to late October 2005. Silver prices peaked in March 2004 and in the last quarter of 2004, when prices reached highs of over US\$7.00 and traded with monthly averages of over US\$7.00 in 2005.

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The Company had raised significant equity financing for gross proceeds totalling \$11,552,800 in fiscal 2005 from brokered and non-brokered private placements. The private placements were used, in part, to fund the interests acquired in the Santa Cruz mine, certain mining concessions and the Guanacevi processing plant. Also, the Company incurred expenditures related to mine development and exploration programs for Santa Cruz. As at February 28, 2005, the Company invested approximately \$5 million for these Mexican mineral properties and exploration and development efforts. Also the significantly heightened level of operating activity in fiscal 2005 is reflected in a net loss of \$2,565,482, which is substantially higher relative to prior fiscal years.

In June 2005, the Company acquired nine silver mining properties in the Guanacevi district, Durango, Mexico, from Industrias Peñoles S.A. de C.V. ("Peñoles"). Six of these properties (the "Santa Cruz Properties") form part of the producing Santa Cruz silver mine in which the Company already owns a 51% option interest in the exploitation lease and has the option to acquire the remaining 49% interest. This transaction effectively allows the Company's wholly owned Mexican subsidiary, Minera Plata Adelante S.A. de C.V. ("Adelante"), to acquire the outright ownership of the six mineral concessions as well as a 4.5% net proceeds royalty from Peñoles' wholly owned Mexican subsidiary, Minera Capela S.A. de C.V. ("Capela"). Adelante will be required to send all mineral production from these properties to the Peñoles smelter in Torreon, Mexico, for smelting and refining. Capela will retain a 3% net proceeds royalty on future production after deduction of all milling, processing, shipping and smelting costs, including taxes and penalties if any. The Company has also formed a strategic alliance with Peñoles to acquire additional mining properties in Mexico. Peñoles has agreed to provide the Company with access to information on its entire portfolio of mineral concessions throughout Mexico. On each additional Peñoles property the Company wishes to acquire, a purchase price will be negotiated, payable in common shares of the Company. If the Company acquires additional properties from third parties introduced by Peñoles, the Company will pay Peñoles a 5% fee on the cash purchase price, also payable in common shares of the Company. If Peñoles acquires property from a third party introduced by the Company, Peñoles will pay Endeavour a 5% fee on the cash purchase price. In compensation for the nine mining properties, certain mining equipment located thereon, and the formation of the strategic alliance, the Company issued 1,000,000 units to Peñoles in July 2005; each unit consists of one common share and one warrant to purchase an additional common share at \$2.10 until July 22, 2006 and thereafter at \$2.30 until July 22, 2007.

In July 2005, the Company entered into an option agreement to acquire a 100% interest in two silver properties, Porvenir Dos and La Sultana, in the Guanacevi District, Durango, Mexico, for US\$137,500 of which US\$25,000 has been paid and US\$12,500 is due on December 30, 2005 and US\$100,000 on December 30, 2006. An exploration program of detailed surface trenching and diamond drilling is planned for Porvenir Dos in 2005 and 2006 to test the potential for a high-grade silver ore-body.

In August 2005, the Company entered into an option agreement to acquire a 100% interest in four silver properties, La Prieta, El Aguaje de Arriba, Ampliacion El Aguaje de Arriba and La Plata, in the Guanacevi District, Durango, Mexico, for US\$100,000 of which US\$15,000 has been paid and US\$15,000 is due in six months and US\$70,000 in 24 months. An exploration program of underground drilling is planned for La Prieta in 2005 and 2006 to test the known high-grade silver mineralization to depth.

In August 2005, the shares of the Company were listed for trading on the Frankfurt Stock Exchange under the trading symbol, EJD. Such listing would help broaden and expand the Company's exposure in the European investment community and enhance liquidity for shareholders.

In October 2005, the Company completed a bought deal private placement for 6,000,000 units at \$2.40 per unit for gross proceeds of \$14.4 million. Each unit is comprised of one common share and one-half common share purchase warrant. Each full warrant is exercisable to purchase one common share at an exercise price of \$2.90 until October 5, 2007. Salman Partners Inc. acted as the lead underwriter for a syndicate of underwriters which included Canaccord Capital Corporation and Dundee Securities Corporation. The underwriters received a cash commission of \$936,000 and 450,000 agents' warrants that have the same terms as the warrants in the private placement. The proceeds from the financing will be used for the exploration and development of the Company's Mexican silver properties, for further acquisitions and for general working capital.

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(expressed in Canadian dollars unless otherwise noted)

Also, in October 2005, the Company acquired a mining lease on the El Porvenir property, Guanacevi district, Durango, Mexico. Under the lease agreement, the Company holds the exclusive right to mine the El Porvenir property for a 5-year period, which can be extended for another 5 years, by mutual agreement. The Company has agreed to mine El Porvenir at the rate of between 9,000 tonnes and 27,000 tonnes per quarter and to pay a 3% net smelter royalty from production. To maintain its rights, the Company must spend at least US\$100,000 each quarter on all exploration, development and mining costs, and also must spend a further US\$500,000 on all costs within one year.

As at August 31, 2005, the Company invested approximately \$6.9 million in its Mexican mineral properties and exploration and mine development.

Production from the North Porvenir and Santa Cruz Mines

The temporary closure of the North Porvenir and Santa Cruz mines early in the year allowed for accelerated mine development. In the second quarter ended August 31, 2005, the North Porvenir mine returned to mining operations, which resulted in the Guanacevi Project averaging 98,333 ounces silver per month, representing a daily mine output of 304 tonnes per day, which was mostly attributable to the North Porvenir mine. The North Porvenir mine produced 17,626 tonnes grading 580 gpt (18.7 opt) silver and 0.88 gpt gold (0.03 opt). Precious metal recoveries averaged 74%.

In the second quarter ended August 31, 2005, the Company also produced 378 oz gold, resulting in the production on a silver equivalent basis to 317,417 oz Ag eq. The sale of by-product gold, lead, zinc and copper are treated as credits against cash costs.

Guanacevi Processing Plant

Summit Valley Equipment and Engineering Inc. was commissioned to conduct a comprehensive review of the plant, including the condition of all equipment, the capacity of each circuit and the efficiency of plant operations. Some of its findings include a clean and well-maintained plant, brand name equipment and a well-trained and reliable work force. The plant is fully permitted with operating facilities complete with land ownership, townsite and all related infrastructure. Although by February 2005, the plant was averaging 220 tpd, which represent a significant increase from one year ago, it is still operating at well below its design capacity of 1,400 tpd.

For the first quarter ended May 31, 2005, a total 26,021 tonnes were processed by the processing plant with an average grade of 204.7 g/t Ag and 0.71 g/t Au, averaging 282.7 tpd. In the second quarter ended August 31, 2005, a total 28,006 tonnes were processed with an average grade of 444 g/t Ag and 1.03 g/t Au, averaging 304 tpd.

1.3 Selected Annual Information

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

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

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

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

1.4 Results of Operations

Second Quarter of Fiscal Year Ended December 31, 2005 – Six months ended August 31, 2005 compared with August 31, 2004

The Company incurred a net loss of \$2,180,553 for the six months ended August 31, 2005 which is almost 50% higher than the net loss of \$1,461,174 for the same period in the prior fiscal year. General and administrative expenses for salaries, professional services, office and shareholder relations continue to account for a significant portion of operating expenses, and are higher than the prior quarter in fiscal 2005 reflecting the greater ancillary functions needed to support the more active exploration and accelerated mine development and mining and proactive property acquisition activities of the Company during the six months ended August 31, 2005. The foreign exchange loss in the first two quarters of the current fiscal year is attributed to the depreciation of the Mexican pesos relative to historical exchange rates for the Canadian dollar given that the accounts of the Company's Mexican subsidiaries are stated in Mexican pesos. Stock-based compensation expense reflects the granting of stock options which is comparable in both quarters. The Company's property investigation expenses were incurred essentially for seeking properties of merit and further concessions in Mexico in early fiscal 2005. However for the six months ended August 31, 2005, the Company's primary efforts were focused on mine development and exploration activities for the two prospective zones on the optioned Santa Cruz mine.

For the six months ended August 31, 2005, income from ore and ore processing is as follows:

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	Minera		Total
	Santa Cruz (1)	Refinadora (2)	
Revenues from ore and ore processing	\$ 2,189,747	\$ 1,402,671	
Costs of ore mining and ore processing	(3,059,349)	(1,483,036)	
Gross loss	(869,602)	(80,365)	
Operating expenses:			
Accounting and legal	2,328	-	
Consulting	8,622	-	
Employee remuneration	64,184	-	
Foreign exchange	(9,927)	-	
Office and sundry	32,127	-	
	(97,334)	-	
Loss before allocation of option interest	(966,936)	(80,365)	
Option interest earned (%)	51%	51%	
Loss from 51% option interest	\$ (493,137)	\$ (40,986)	\$ (534,124)

⁽¹⁾ The Company has earned a 51% option interest in Minera Santa Cruz until January 28, 2006.

⁽²⁾ Refinadora Plata Guanacevi S.A. de C.V. , a subsidiary of the Company, ("Refinadora") has earned a 51% option interest in the ore processing plant until January 28, 2006.

The Company incurred a net loss of \$534,124 from mining ore and ore processing from its 51% option interest in Minera Santa Cruz and in the ore processing plant. Mining activities temporarily ceased during the first quarter as two prospective zones of the Santa Cruz mine were being further explored. Mine development resulted in 8,709 tonnes of development muck with a recovery of 326 gpt Ag. In the second quarter ended August 31, 2005, mine operations restarted for the North Porvenir zone of the Santa Cruz mine, resulting in about 25,000 tonnes of ore being mined with a recovery of 74% from that zone.

In the first quarter ended May 31, 2005, the lack of ore from the Santa Cruz mine contributed to a nominal loss to the Company from the operation of the Guanacevi processing plant which was working at significantly below capacity, as it relies upon the Santa Cruz mine for most of its ore processing revenues. In the second quarter ended August 31, 2005, the plant processed 28,006 tonnes and recovered 294,750 oz. silver and 927.4 oz. gold (317,417 oz. silver equivalents).

As at August 31, 2005, the Company invested about \$6.9 million in mineral properties which are comprised of its 51% option interest in both Minera Santa Cruz and in the ore processing plant, mining concessions, and exploration expenditures.

In July 2003, the Company entered into an agreement to acquire a 100% interest in the San Jose property in Mexico for cash payments of US\$300,000 over a four year period. In March 2004, the Company made a cash payment of US\$10,000 and incurred \$1,192 in exploration related expenditures. The property was written off in the second quarter of fiscal 2005. The Company's El Taco property in Mexico was written off in first quarter of fiscal 2005 as the Company determined not to pursue further work on the property. As at August 31, 2004, the Company had written off all its mineral properties.

For the six months ended August 31, 2005 and 2004, expenditures on the Company's mineral properties were comprised of the following:

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	Santa Cruz (Mexico)	Total
Acquisition costs:		
Balance, February 28, 2005	\$ 3,864,750	\$ 3,864,750
Additions during the period:		
Acquisitions	1,539,305	1,539,305
Balance, August 31, 2005	5,404,055	5,404,055
Exploration costs:		
Balance, February 28, 2005	1,242,169	1,242,169
Additions during the period:		
Consulting	132,850	132,850
Drilling	1,220,446	1,220,446
Field supplies and sundry	17,085	17,085
Geology and engineering	47,519	47,519
Transportation	38,433	38,433
Transfer to Minera Santa Cruz	(1,242,169)	(1,242,169)
Balance, August 31, 2005	1,456,332	1,456,332
Balance, August 31, 2005	\$ 6,860,387	\$ 6,860,387

	El Taco (Mexico)	San Jose (Mexico)	Total
Balance, February 29, 2004	\$ 21,569	\$ 7,528	\$ 29,097
Additions during the period:			
Acquisition costs	-	13,284	13,284
Exploration costs:			
Assays	-	1,192	1,192
Resource properties written-off	(21,569)	(22,004)	(43,573)
Balance, August 31, 2004	\$ -	\$ -	\$ -

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

The Shareholder Letter included in the unaudited interim consolidated financial statements for the six months ended August 31, 2005 provide further details.

1.5 Summary of Quarterly Results

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

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	Dec 31, 2005 Year End		Feb 28, 2005 Year End				Feb 29, 2004 Year End	
	August 31, 2005	May 31, 2005	Feb 28, 2005	Nov 30, 2004	Aug 31, 2004	May 31, 2004	Feb 29, 2004	Nov 30, 2003
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss before discontinued operations and extraordinary items:								
(i) Total	\$ (1,023,599)	\$ (1,156,954)	\$ (649,481)	\$ (454,827)	\$ (402,895)	\$ (1,058,279)	\$ (566,160)	\$ (84,162)
(ii) Basic per share	\$ (0.05)	\$ (0.05)	\$ (0.04)	\$ (0.02)	\$ (0.02)	\$ (0.07)	\$ (0.08)	\$ (0.01)
(iii) Diluted per share	\$ (0.05)	\$ (0.05)	\$ (0.04)	\$ (0.02)	\$ (0.02)	\$ (0.07)	\$ (0.08)	\$ (0.01)
Net loss:								
(i) Total	\$ (1,023,599)	\$ (1,156,954)	\$ (649,481)	\$ (454,827)	\$ (402,895)	\$ (1,058,279)	\$ (566,160)	\$ (84,162)
(ii) Basic per share	\$ (0.05)	\$ (0.05)	\$ (0.04)	\$ (0.02)	\$ (0.02)	\$ (0.07)	\$ (0.08)	\$ (0.01)
(iii) Diluted per share	\$ (0.05)	\$ (0.05)	\$ (0.04)	\$ (0.02)	\$ (0.02)	\$ (0.07)	\$ (0.08)	\$ (0.01)

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

Lower property investigation efforts were expended in the third and fourth quarters of fiscal 2005 than in each of the first two quarters, as the Company focused more on exploration efforts to outline mineable resources in two prospective ore zones in the optioned Santa Cruz mine and to prepare them for production by year-end, rather than just seeking additional properties of merit. These exploration and mine development efforts continued into the first quarter ended May 31, 2005 and mining operations were restarted in the second quarter ended August 31, 2005.

1.6 Liquidity and Capital Resources

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

	August 31, 2005	February 28, 2005	February 29, 2004
Cash and cash equivalents	\$ 780,940	\$ 4,957,883	\$ 542,868
Working capital	\$ 4,336,827	\$ 5,625,819	\$ 529,053

Cash and cash equivalents and working capital as at August 31, 2005 both decreased from the February 28, 2005 balances and were attributable to operating expenses and expenditures incurred for exploration and mine development. No equity financing was raised from private placements during the quarter. The exercise of options and warrants did provide proceeds of \$402,978. Subsequent to August 31, 2005, about 3.4 million common shares were issued from the exercise of warrants which provided proceeds of about \$5.7 million.

In October 2005, the Company completed a major equity financing in a bought deal private placement for 6,000,000 units at \$2.40 per unit for gross proceeds of \$14.4 million. Each unit is comprised of one common share and one-half common share purchase warrant. Each full warrant is exercisable to purchase one common share at an exercise price of \$2.90 until October 5, 2007.

As at August 31, 2005, the Company had invested in silver doré bars. The book value of the silver doré bars is approximately \$85,000 (MXP775,405), and they contain 227.359 kilograms of silver and 1,447.83 grams of gold.

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The Company had significantly more cash and cash equivalents and working capital at February 28, 2005 than at February 29, 2004. In May 2004, the Company completed a financing comprised of brokered and non-brokered private placements for gross proceeds of approximately \$9.9 million to finance the acquisition of the Santa Cruz silver-gold mine and the Guanacevi mill. In February 2005, the Company completed brokered and non-brokered private placements for \$1,636,800.

1.7 Capital Resources

Item 1.6 provides further details.

1.8 Off-Balance Sheet Arrangements

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

1.9 Transactions with Related Parties

For the six months ended August 31, 2005, the following transactions involve related parties:

- (a) As at August 31, 2005, a total of \$2,984,004 was due from Minera Santa Cruz. This consists of the net profits royalty on ore mined to January 28, 2005 totalling \$222,498, share of losses from ore mined and processed to August 31, 2005 totalling \$493,141, and advances to Minera Santa Cruz to fund exploration and mine development expenditures incurred by Minera Santa Cruz totalling \$3,254,647.
- (b) Rent of \$9,000 was incurred and paid to a company with certain common directors.

1.10 First Quarter

Items 1.4 and 1.5 provide further details.

1.11 Proposed Transactions

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

1.12 Critical Accounting Estimates

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

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

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1.13 Changes in Accounting Policies Including Initial Adoption

Asset retirement obligations:

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

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

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

1.14 Financial Instruments and Other Instruments

There are no financial instruments or other instruments.

1.15 Other MD&A Requirements

1.15.1 Other MD&A Requirements

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

1.15.2 Additional Disclosure for Venture Issuers without Significant Revenue

- (a) capitalized or expensed exploration and development costs;

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

- (b) expensed research and development costs;

Not applicable.

- (c) deferred development costs;

Not applicable.

- (d) general and administrative expenses; and

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

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- (e) any material costs, whether capitalized, deferred or expensed, not referred to in (a) through (d);
None.

1.15.3 Outstanding Share Data

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

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

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

	Number of Shares	Amount
Balance, February 28, 2005	20,873,269	\$ 16,708,303
Issued during the period:		
For acquisition of mining concessions	1,000,000	1,730,000
From exercise of share purchase options	171,000	127,280
For cash from exercise of warrants	201,964	321,428
Balance, August 31, 2005	22,246,233	\$ 18,887,011

As at October 28, 2005, the Company had 30,048,093 common shares issued and outstanding.

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

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

At October 28, 2005, options for 2,285,900 shares remain outstanding.

At August 31, 2005, the Company had outstanding warrants to purchase an aggregate 6,351,595 common shares as follows:

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Exercise Prices	Expiry Dates	Outstanding at February 29, 2005	Issued	Exercised	Expired	Outstanding at August 31, 2005
\$0.35	October 6, 2005	775,000	-	(50,000)	-	725,000
\$2.00	October 22, 2005	3,467,559	-	(151,964)	-	3,315,595
\$2.00	October 28, 2005	248,000	-	-	-	248,000
\$2.10 / \$2.30	February 1, 2006 / February 1, 2007	1,063,000	-	-	-	1,063,000
\$2.10 / \$2.30	July 22, 2006 / July 22, 2007	-	1,000,000	-	-	1,000,000
		5,553,559	1,000,000	(201,964)	-	6,351,595

At October 31, 2005, warrants for 5,513,000 shares remain outstanding.

Outlook

The acquisitions in Mexico coupled with the completion of the \$11.5 million financing in fiscal 2005 and \$14.4 million financing in the bought deal private placement in October 2005 along with over \$5 million from the exercise of warrants have facilitated the Company to become an operating entity as opposed to an exploration one. The Company has the financial resources for exploration drilling, underground development and production optimization. These acquisitions and equity financings should allow the Company to expand its landholdings, silver resources and production in the Guanacevi district.