



British Columbia Securities Commission

**QUARTERLY AND YEAR END REPORT**  
 BC FORM 51-901F  
 (previously Form 61)

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<b>ISSUER DETAILS</b>		FOR YEAR ENDED			DATE OF REPORT		
NAME OF ISSUER					Y	M	D
SILVERCREST MINES INC.		03	12	31	04	04	19
ISSUER ADDRESS							
405 – 1311 HOWE STREET							
CITY/	PROVINCE	POSTAL CODE	ISSUER FAX NO.	ISSUER TELEPHONE NO.			
VANCOUVER	BC	V6Z 2P3	604-691-1761	604-691-1730			
CONTACT PERSON		CONTACT'S POSITION			CONTACT TELEPHONE NO.		
J. SCOTT DREVER		PRESIDENT			604-691-1730		
CONTACT EMAIL ADDRESS		WEB SITE ADDRESS					

**CERTIFICATE**

*The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.*

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED		
"J. SCOTT DREVER"	J. SCOTT DREVER	Y	M	D
		04	05	14
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED		
"BARNEY MAGNUSSON"	BARNEY MAGNUSSON	Y	M	D
		04	05	14

**SILVERCREST MINES INC.  
(formerly Strathclair Ventures Ltd.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2003**

## AUDITORS' REPORT

To the Shareholders of  
SilverCrest Mines Inc. (formerly Strathclair Ventures Ltd.)

We have audited the consolidated balance sheets of SilverCrest Mines Inc. (formerly Strathclair Ventures Ltd.) as at December 31, 2003 and 2002 and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**"DAVIDSON & COMPANY"**

Vancouver, Canada

Chartered Accountants

April 19, 2004

A Member of SC INTERNATIONAL

**SILVERCREST MINES INC.**  
(formerly Strathclair Ventures Ltd.)  
**CONSOLIDATED BALANCE SHEETS**  
AS AT DECEMBER 31

	2003	2002
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 2,802,185	\$ 30
Advances	21,540	-
Receivables	11,705	-
Prepaid expenses and deposits	<u>22,624</u>	<u>-</u>
	2,858,054	30
<b>Equipment</b> (Note 4)	40,974	-
<b>Mineral properties</b> (Note 5)	<u>303,676</u>	<u>25,817</u>
	<u>\$ 3,202,704</u>	<u>\$ 25,847</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 48,113	\$ 2,200
Due to related parties (Note 8)	<u>-</u>	<u>25,817</u>
	<u>48,113</u>	<u>28,017</u>
<b>Shareholders' equity (deficiency)</b>		
Capital stock (Note 6)	3,162,200	30
Contributed surplus (Note 6)	1,022,584	-
Deficit	<u>(1,030,193)</u>	<u>(2,200)</u>
	<u>3,154,591</u>	<u>(2,170)</u>
	<u>\$ 3,202,704</u>	<u>\$ 25,847</u>

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 13)

**Subsequent events** (Note 14)

**On behalf of the Board:**

\_\_\_\_\_  
"J. Scott Drever" Director      \_\_\_\_\_ "Barney Magnusson" Director

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

**SILVERCREST MINES INC.**  
(formerly Strathclair Ventures Ltd.)  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED DECEMBER 31**

	2003	2002
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Administrative services	\$ 24,500	\$ -
Amortization	2,226	-
Consulting	3,500	-
Foreign exchange	3,908	-
General exploration	37,872	-
Investor relations	177,835	-
Management fees	70,000	-
Office and miscellaneous	12,736	-
Professional fees	43,400	2,200
Regulatory and transfer agent fees	7,537	-
Rent and telephone	12,998	-
Shareholder communications	22,383	-
Stock-based compensation	273,041	-
Trade shows and conferences	7,710	-
Travel and related costs	<u>5,326</u>	<u>-</u>
<b>Loss before other item</b>	<b>(704,972)</b>	<b>(2,200)</b>
<b>OTHER ITEM</b>		
Interest income	<u>15,304</u>	<u>-</u>
<b>Loss for the year</b>	<b>(689,668)</b>	<b>(2,200)</b>
<b>Deficit, beginning of year</b>	<b>(2,200)</b>	<b>-</b>
<b>Net liability acquired on acquisition of subsidiary (Note 3)</b>	<u><b>(338,325)</b></u>	<u><b>-</b></u>
<b>Deficit, end of year</b>	<b>\$ (1,030,193)</b>	<b>\$ (2,200)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.07)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>	<b>9,857,962</b>	<b>5,000,000</b>

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

**SILVERCREST MINES INC.**  
(formerly Strathclair Ventures Ltd.)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31**

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (689,668)	\$ (2,200)
Items not affecting cash:		
Amortization	2,226	-
Stock-based compensation	273,041	-
Changes in non-cash working capital items:		
Decrease in receivables	551	-
Increase in advances	(21,540)	-
Increase in prepaid expenses and deposits	(22,624)	-
Increase (decrease) in accounts payable and accrued liabilities	<u>(49,059)</u>	<u>2,200</u>
Net cash used in operating activities	<u>(507,073)</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of capital stock, net of issuance costs	3,692,564	30
Finders' fees	(178,764)	-
Due to related parties	<u>(25,817)</u>	<u>25,817</u>
Net cash provided by financing activities	<u>3,487,983</u>	<u>25,847</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of cash on purchase of subsidiary	136,406	-
Equipment acquired	(37,302)	-
Mineral properties	<u>(277,859)</u>	<u>(25,817)</u>
Net cash used in investing activities	<u>(178,755)</u>	<u>(25,817)</u>
<b>Increase in cash and equivalents during the year</b>	<b>2,802,155</b>	<b>30</b>
<b>Cash and equivalents, beginning of year</b>	<u>30</u>	<u>-</u>
<b>Cash and equivalents, end of year</b>	<u>\$ 2,802,185</u>	<u>\$ 30</u>

**Supplemental disclosure with respect to cash flows (Note 9)**

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

**SILVERCREST MINES INC.**  
(formerly Strathclair Ventures Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company is engaged in the acquisition and exploration of mineral properties in Honduras and Mexico.

On May 23, 2003, the Company acquired all of the issued and outstanding common shares of NorCrest Silver Inc. ("Norcrest") (formerly 4023307 Canada Inc.), resulting in a reverse takeover by NorCrest (Note 3).

The amounts shown for mineral properties represent costs incurred to date and do not reflect present or future values. The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain reserves that are economically recoverable. Accordingly, the recoverability of these capitalized costs is dependant upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their development and upon future profitable production.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to obtain adequate equity financing to complete its exploration programs or generate profitable operations in the future.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries NorCrest, a company incorporated under the laws of the province of British Columbia, Compania Minera Maverick S.A. de CV, a company incorporated under the laws of Honduras and Nusantara de Mexico S.A. de C.V., a company incorporated under the laws of Mexico. All significant inter-company transactions and balances have been eliminated upon consolidation.

**Cash and equivalents**

Cash and equivalents include highly liquid investments with original maturities of three months or less.

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

**SILVERCREST MINES INC.**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Equipment and amortization**

Equipment is recorded at cost and amortized over its estimated useful life using the declining balance method at the following annual rates:

Equipment and furniture	20%
Computer hardware	30%
Computer software	100%
Automotive	30%

**Mineral properties**

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of mineral exploration interests is based on cash paid, the value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependant on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

**Deferred exploration costs**

The Company defers all exploration costs relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be an impairment. These costs will be amortized over the proven reserves available on the related property following commencement of production.

**Values**

The amounts shown for mineral properties and deferred exploration costs represent costs to date, and do not necessarily represent present or future values.

**Cost of maintaining mineral properties**

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.



**SILVERCREST MINES INC.**  
(formerly Strathclair Ventures Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Environmental protection and rehabilitation costs**

Liabilities related to environmental protection and rehabilitation costs are accrued and charged to income when their likelihood of occurrence is established. This includes future removal and site restoration costs as required due to environmental law or contracts.

**Foreign exchange**

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate for the year. Exchange gains and losses arising on translation are included in the statement of operations.

**Stock-based compensation**

Effective January 1, 2002, the Company adopted the new CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which recommends that stock options granted to employees and non-employees be accounted for at fair value. This section also permits, and the Company adopted, the use of the intrinsic value-based method for valuing stock options granted to employees. Under this method, compensation cost for options granted to employees is recognized only when the market price exceeds the exercise price at date of grant. However, pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted is required.

During the current year, the Company adopted, on a prospective basis, the fair value based method of accounting for all stock-based compensation.

**Income taxes**

Future income taxes are recorded using the asset and liability method. Under the asset and liability 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. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share because to do so would be anti-dilutive.

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the year.

**SILVERCREST MINES INC.**  
(formerly Strathclair Ventures Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**3. ACQUISITION OF SUBSIDIARY**

Effective May 23, 2003, the Company acquired all of the issued and outstanding common shares of NorCrest. As consideration, the Company issued 5,000,000 common shares which were placed in escrow in accordance with the policies of the TSX Venture Exchange ("TSX-V"). In addition, the Company paid \$75,000 and is also required to pay \$75,000 after a cumulative \$1,000,000 has been expended on exploration and development of the properties acquired through the acquisition of NorCrest and is required to pay a further \$225,000 upon receipt of a bankable feasibility study on any of the acquired properties.

To date, the Company has not expended the required balance on exploration and development of the acquired properties or received a bankable feasibility study on any of the acquired properties.

Legally, the Company is the parent of NorCrest. However as a result of the share exchange described above, control of the combined companies passed to the former shareholders of NorCrest. This type of share exchange is referred to as a "reverse takeover". A reverse takeover involving a non-public enterprise and a non-operating public enterprise with nominal net non-monetary assets is a capital transaction in substance, rather than a business combination. That is, the transaction is equivalent to the issuance of shares by NorCrest for the net liability of the Company, accompanied by a recapitalization of NorCrest. The net liability of the Company is charged to the consolidated deficit.

The balance sheet at December 31, 2002 and the statements of operations and cash flows for the year then ended are those of NorCrest. The equity amounts are those of NorCrest, however, the number of shares issued during 2002 and outstanding at December 31, 2002 are the Company's.

The consolidated statements of operations and cash flows include NorCrest's results of operations and cash flows for the year ended December 31, 2003 and the Company's results of operations from May 23, 2003 (date of acquisition) to December 31, 2003.

**SILVERCREST MINES INC.**  
(formerly Strathclair Ventures Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003

**3. ACQUISITION OF SUBSIDIARY (cont'd...)**

The results of operations of the Company for the period from January 1, 2003 to May 23, 2003 were as follows:

<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	
Amortization	\$ 248
Consulting	3,000
Office and miscellaneous	2,817
Management fees	20,000
Professional fees	4,842
Regulatory and transfer agent fees	11,813
Rent and telephone	8,331
Shareholder communications	6,287
Travel and related	<u>726</u>
<b>Loss for the period</b>	<b>\$ (58,064)</b>

**4. EQUIPMENT**

	2003			2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment and furniture	\$ 9,432	\$ 1,126	\$ 8,306	\$ -	\$ -	\$ -
Computer hardware	5,419	581	4,838	-	-	-
Computer software	2,596	1,299	1,297	-	-	-
Automotive	<u>28,453</u>	<u>1,920</u>	<u>26,533</u>	-	-	-
	<b>\$ 45,900</b>	<b>\$ 4,926</b>	<b>\$ 40,974</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**SILVERCREST MINES INC.**  
(formerly Strathclair Ventures Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003

**5. MINERAL PROPERTIES**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

	El Ocote Project, Honduras	Arena Blanca Project, Honduras	Opoteca Project, Honduras	La Pochota Project, Honduras	Silver Angel Project, Mexico	2003 Total
Balance beginning of year	\$ 5,704	\$ 6,620	\$ 6,788	\$ 6,705	\$ -	\$ 25,817
Accounting	850	-	850	-	-	1,700
Amortization	1,078	-	1,079	-	-	2,157
Assays	1,130	-	3,422	-	358	4,910
Casual labour	313	-	4,727	-	2,836	7,876
Community relations	15,414	-	4,136	-	-	19,550
Data acquisition	4,109	-	-	-	-	4,109
Engineering consulting	9,204	-	-	-	-	9,204
Facilities	11,802	626	6,153	626	-	19,207
Field supplies	2,173	-	801	-	3,940	6,914
Geological services	25,235	-	19,082	-	21,386	65,703
Land rental	308	-	332	-	-	640
Legal, filing and staking	3,668	3,668	11,127	3,669	20,769	42,901
Maps and photos	-	-	874	-	462	1,336
Metallurgical testing	5,344	-	-	-	-	5,344
Miscellaneous	59	270	-	270	-	599
Office and communication	6,301	196	3,299	195	-	9,991
Project management	19,083	-	15,917	-	-	35,000
Road improvements	1,169	-	737	-	-	1,906
Travel and accommodations	9,724	94	5,953	95	6,975	22,841
Vehicles	6,812	-	4,400	-	4,759	15,971
	<u>123,776</u>	<u>4,854</u>	<u>82,889</u>	<u>4,855</u>	<u>61,485</u>	<u>277,859</u>
Balance, end of year	\$ 129,480	\$ 11,474	\$ 89,677	\$ 11,560	\$ 61,485	\$ 303,676

**SILVERCREST MINES INC.**  
(formerly Strathclair Ventures Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003

**5. MINERAL PROPERTIES (cont'd...)**

	El Ocote Project, Honduras	Arena Blanca Project, Honduras	Opoteca Project, Honduras	La Pochota Project, Honduras	2002 Total
Balance, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -
Assays	81	81	81	81	324
General exploration	274	274	275	275	1,098
Geological services	1,540	1,540	1,540	1,540	6,160
Legal, filing and staking	1,193	2,109	2,276	2,193	7,771
Travel and accommodation	1,932	1,932	1,932	1,932	7,728
Vehicles	684	684	684	684	2,736
	<u>5,704</u>	<u>6,620</u>	<u>6,788</u>	<u>6,705</u>	<u>25,817</u>
Balance, end of year	\$ 5,704	\$ 6,620	\$ 6,788	\$ 6,705	\$ 25,817

**El Ocote Project, Honduras**

The Company acquired a 100% interest in certain properties located in Western Honduras by staking.

**Arena Blanca Project, Honduras**

The Company acquired a 100% interest in certain properties located in Western Honduras by staking.

**Opoteca Project, Honduras**

The Company acquired a 100% interest in certain properties located in West Central Honduras by staking.

**La Pochota Project, Honduras**

The Company acquired a 100% interest in certain properties located in South Western Honduras by staking.

**Silver Angel Project, Mexico**

The Company acquired a 100% interest in certain properties located in the Northern Sierra Madre range in Mexico.

**SILVERCREST MINES INC.**  
(formerly Strathclair Ventures Ltd.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003

**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Capital Stock	Contributed Surplus	Total
Authorized 100,000,000 common shares without par value				
Issued				
Balance at December 31, 2001	1,454,046	\$ -	\$ -	\$ -
Initial capitalization of NorCrest	-	30	-	30
For cash	1,400,000	-	-	-
Warrants exercised	<u>1,250,000</u>	-	-	-
Balance at December 31, 2002	4,104,046	30	-	30
Warrants exercised	<u>100,000</u>	-	-	-
Balance at May 23, 2003	4,204,046	30	-	30
Common shares issued pursuant to acquisition of NorCrest (Note 3)	5,000,000	-	-	-
Short-form prospectus (a)	2,070,000	552,827	130,273	683,100
Warrants exercised (a)	774,500	366,260	(95,185)	271,075
Finders' fees (a)				
Cash	-	(62,981)	-	(62,981)
Non-cash	50,000	(38,735)	55,235	16,500
Finders' warrants exercised (a)	394,000	182,587	(52,567)	130,020
Private placement (b)	1,900,000	721,317	228,683	950,000
Finders' fees (b)				
Cash	-	(26,875)	-	(26,875)
Non-cash	88,750	(20,493)	64,868	44,375
Finders' warrants exercised (b)	16,000	13,612	(3,852)	9,760
Private placement (c)	1,431,927	1,378,489	411,420	1,789,909
Finders' fees (c)				
Cash	-	(88,908)	-	(88,908)
Non-cash	9,630	1,370	10,668	12,038
Share issuance costs	-	(236,050)	-	(236,050)
Stock-based compensation	-	-	273,041	273,041
Conversion of special warrants (d)	2,500,000	325,000	-	325,000
Warrants exercised	350,000	83,500	-	83,500
Stock options exercised	<u>25,000</u>	<u>11,250</u>	-	<u>11,250</u>
Balance at December 31, 2003	18,813,853	\$ 3,162,200	\$ 1,022,584	\$ 4,184,784

**SILVERCREST MINES INC.**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

- a) On May 23, 2003 the Company issued 2,070,000 units at a price of \$0.33 per unit for gross proceeds of \$683,100. Each unit was comprised of one common share and one-half of one non-transferable share purchase warrant. One whole warrant entitles the holder to acquire one common share at a price of \$0.35 expiring May 23, 2004. The share purchase warrants issued as part of this private placement have been recorded at a fair value of \$130,273 and are included in contributed surplus. Finders' fees included the Company paying \$62,981, issuing 50,000 shares at a value of \$16,500 and issuing 414,000 warrants exercisable into additional common shares at \$0.33 per share until May 23, 2004 and, if unexercised, at \$0.38 per share until November 23, 2004. The finders' warrants have been recorded at a fair value of \$55,235, which are included in contributed surplus.

During the current year, 774,500 warrants were exercised for proceeds of \$271,075. As a result, \$95,185 was reallocated to capital stock from contributed surplus.

In addition, 394,000 finders' warrants were exercised for proceeds of \$130,020. As a result, \$52,567 was reallocated to capital stock from contributed surplus.

- b) On August 29, 2003, the Company issued 1,900,000 units at a price of \$0.50 per unit for gross proceeds of \$950,000. Each unit was comprised of one common share and one-half of one non-transferable share purchase warrant. One whole warrant entitles the holder to acquire one common share at a price of \$0.61 expiring August 29, 2004 and, if unexercised, at \$0.70 per share until August 29, 2005. The share purchase warrants issued as part of this private placement have been recorded at a fair value of \$228,683 and are included in contributed surplus. Finders' fees included the Company paying \$26,875 and issuing 225,100 warrants exercisable into additional common shares at \$0.61 per share until August 29, 2004 and, if unexercised, at \$0.70 per share until August 29, 2005. The Company also issued 88,750 units at a price of \$0.50 per unit totalling \$44,375 in finders' fees. Each unit was comprised of one common share and one-half of one non-transferable share purchase warrant. One whole warrant entitles the holder to acquire one common share at a price of \$0.61 expiring August 29, 2004 and if unexercised, at \$0.70 per share until August 29, 2005. The finders' warrants have been recorded at a fair value of \$64,868, which are included in contributed surplus.

During the current year, 16,000 finders' warrants were exercised for proceeds of \$9,760. As a result, \$3,852 was reallocated to capital stock from contributed surplus.

- c) On December 18, 2003, the Company issued 1,431,927 units at a price of \$1.25 per unit for gross proceeds of \$1,789,909. Each unit was comprised of one common share and one non-transferable share purchase warrant. One warrant entitles the holder to acquire one common share at a price of \$1.40 expiring December 18, 2004. The share purchase warrants issued as part of this private placement have been recorded at a fair value of \$411,420 and are included in contributed surplus. Finders' fees included the Company paying \$88,908 and issuing 24,450 warrants exercisable into additional common shares at \$1.40 per share until December 18, 2004. The Company also issued 9,630 units at a price of \$1.25 per unit totalling \$12,038 in finders' fees. Each unit is comprised of one common share and one non-transferable share purchase warrant. One whole warrant entitles the holder to acquire one common share at a price of \$1.40 expiring December 18, 2004. The finders' warrants have been recorded at a fair value of \$10,668, which are included in contributed surplus.
- d) In fiscal 2002, the Company issued 2,500,000 Series A special warrants at a price of \$0.13 per special warrant for gross proceeds of \$325,000. Each special warrant was exchanged, at no additional consideration, for one unit. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share at \$0.26 per common share for a period of one year. During the current year, all of the special warrants were converted to common shares.





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**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Escrow shares**

Included in issued capital stock are 3,894,230 common shares of the Company that are subject to the time release escrow provisions of the TSX-V. In addition 50,480 common shares are subject to another escrow agreement and may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

**7. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company has a stock option under which it is authorized to grant stock options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The exercise price of each option equals the market price of the Company's stock as calculated on the date of the grant. The options can be granted for a maximum term of 5 years.

At December 31, 2003, the Company had outstanding stock options, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
17,500	\$ 0.61	July 22, 2005
1,125,000	0.45	June 16, 2008

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2001	46,154	\$ 4.75
Cancelled/expired	<u>(46,154)</u>	4.75
As at December 31, 2002	-	-
Granted	1,167,500	0.45
Exercised	<u>(25,000)</u>	0.45
As at December 31, 2003	1,142,500	\$ 0.45
Number of options currently exercisable	1,000,000	\$ 0.45

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**7. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Stock-based compensation**

The Company granted 1,167,500 stock options during the current year, resulting in stock-based compensation expense under the Black-Scholes option pricing model of \$273,041, which was recorded as contributed surplus on the balance sheet. The weighted average fair value of the stock options granted during the current year was \$0.24 per share.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options and share purchase warrants issued during the year:

Risk-free interest rate	3.12%
Expected life of options/warrants	1.50 years
Annualized volatility	102%
Dividend rate	0.00%

**Warrants**

At December 31, 2003, the Company had outstanding share purchase warrants, enabling holders to acquire shares as follows:

Number of Shares		Exercise Price	Expiry Date
285,500		\$ 0.35	May 23, 2004
20,000		0.33	May 23, 2004
	If unexercised, then at	0.38	November 23, 2004
1,203,475		0.61	August 29, 2004
	If unexercised, then at	0.70	August 29, 2005
2,200,000		0.26	December 16, 2004
24,450		1.25	December 18, 2004
1,379,557		1.40	December 18, 2004
62,000		1.40	December 30, 2004

**8. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$90,000 (2002 - \$Nil) for management fees to companies controlled by two directors of which \$20,000 was paid prior to May 23, 2003 and \$70,000 subsequent to May 23, 2003.
- b) Paid or accrued \$45,000 (2002 - \$Nil) for project management fees to an officer of the Company of which \$10,000 was paid prior to May 23, 2003 and \$35,000 subsequent to May 23, 2003 and are included in deferred exploration costs.

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**8. RELATED PARTY TRANSACTIONS (cont'd...)**

- c) Paid or accrued \$6,500 (2002 - \$Nil) for consulting fees to a former director of the Company, of which \$3,000 was paid prior to May 23, 2003 and \$3,500 subsequent to May 23, 2003.
- d) Recorded \$232,085 (2002 - \$Nil) for stock-based compensation expense on stock options granted to directors and officers.
- e) Paid or accrued \$28,571 (2002 - \$Nil) for legal fees which were included in professional fees and \$105,003 (2002 - \$Nil) for share issuance costs to a law firm of which an officer of the Company is a partner.

Included in accounts payable and accrued liabilities at December 31, 2003 is \$17,423 (2002 - \$Nil) due to a law firm of which an officer of the Company is a partner.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2003	2002
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

Significant non-cash transactions for the year ended December 31, 2003:

- a) The Company recorded stock-based compensation expense of \$273,041 relating to stock options granted during the year.
- b) The Company recorded a value of \$130,771 as share issuance costs for finders' warrants.
- c) The Company recorded a value of \$72,913 as issuance costs for finders' fees.
- d) The Company issued 5,000,000 common shares pursuant to the acquisition of NorCrest.
- e) The Company issued 2,500,000 common shares on the conversion of special warrants.

There were no significant non-cash transactions for the year ended December 31, 2002.

**10. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and equivalents, advances, receivables, deposits and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

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**11. INCOME TAXES**

a) A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2003	2002
Loss before income tax recovery	\$ (689,668)	\$ (2,200)
Income tax recovery at statutory rates	\$ (259,315)	\$ (871)
Stock-based compensation not deductible for tax purposes	102,663	-
Unrecognized benefits of non-capital losses	156,652	871
Total income tax recovery	\$ -	\$ -

b) Details of future income tax assets are as follows:

	2003	2002
Future tax assets:		
Non-capital loss carryforwards	\$ 628,766	\$ 871
Other	792	-
Mineral property costs	-	10,224
	629,558	11,095
Valuation allowance	(629,558)	(11,095)
	\$ -	\$ -

As at December 31, 2003, the Company has non-capital losses of approximately \$1,766,000 for income tax purposes. The non-capital losses may be utilized to reduce future years' taxable income and expire in 2010 if unutilized. In addition, the Company has exploration and development expenditures of approximately \$128,000 which may be available to reduce taxable income of future years. Future tax benefits, which may arise as a result of these losses and resource expenditures have been offset by a valuation allowance and have not been recognized in these financial statements.

**12. SEGMENTED INFORMATION**

**Industry information**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by management, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the resource sector. The Company's mining operations are centralized whereby management of the Company is responsible for business results and the everyday decision making.

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**12. SEGMENTED INFORMATION** (cont'd...)

**Industry information** (cont'd...)

The segments' accounting policies are the same as those described in the summary of significant accounting policies except that expenses and other items are not allocated to the individual operating segments when determining profit or loss, but are rather attributed to the corporate head office.

Segmented assets by geographical location are as follows:

	Canada	Honduras	Mexico	Total
<b>2003</b>				
Current assets	\$ 2,857,614	\$ 440	\$ -	\$ 2,858,054
Equipment	10,870	30,104	-	40,974
Mineral properties and deferred exploration costs	<u>-</u>	<u>242,191</u>	<u>61,485</u>	<u>303,676</u>
	<u>\$ 2,868,484</u>	<u>\$ 272,735</u>	<u>\$ 61,485</u>	<u>\$ 3,202,704</u>
<b>2002</b>				
Current assets	\$ 30	\$ -	\$ -	\$ 30
Mineral properties and deferred exploration costs	<u>-</u>	<u>25,817</u>	<u>-</u>	<u>25,817</u>
	<u>\$ 30</u>	<u>\$ 25,817</u>	<u>\$ -</u>	<u>\$ 25,847</u>

**13. COMMITMENTS**

The Company entered into two management agreements with companies controlled by directors and one management agreement with an employee of the Company. The Company agreed to pay each of the companies and the employee \$5,000 per month. The agreements can be terminated by either party, with or without cause, by providing sixty days' written notice (Note 14).

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**14. SUBSEQUENT EVENTS**

The following events occurred subsequent to December 31, 2003:

- a) The Company entered into an agreement with Intrepid Minerals Corp. to acquire 100% of Minera Atlas, S.A. de C.V. ("Atlas") an El Salvadoran corporation which owns the 5,000 hectare Aldea El Zapote Exploration Concession located in the Department of Santa Ana in Northern El Salvador. The purchase price for Atlas is US\$15,000 plus a sliding scale royalty varying from US\$0.20 per ounce of silver equivalent to US\$0.60 per ounce depending on the silver price. The Company will also be required to complete environmental impact and preliminary feasibility studies to satisfy concession work requirements as defined by El Salvadoran mining law.
- b) The Company issued 1,317,877 shares for proceeds of \$503,025 pursuant to the exercise of warrants.
- c) The Company issued 92,500 shares for proceeds of \$44,425 pursuant to the exercise of stock options.
- d) The Company granted incentive stock options to directors, officers, employees and consultants to purchase an aggregate of 750,000 common shares at a price of \$1.41 per share for a term of five years.
- e) The Company increased the management agreements signed with companies controlled by directors and an employee of the Company from \$5,000 per month to \$7,500 per month (Note 13).