SILVERCREST MINES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

AUDITORS' REPORT

To the Shareholders of
SilverCrest Mines Inc.

We have audited the consolidated balance sheets of SilverCrest Mines Inc. as at December 31, 2004 and 2003 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, 2004 and 2003 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

March 18, 2005

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SILVERCREST MINES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2004	2003
ASSETS		
Current		
Cash and equivalents	$ 328,830	$ 2,802,185
Short-term investments (Note 3)	3,917,296	-
Receivables and advances	51,699	33,245
Prepaid expenses and deposits	32,931	22,624
	4,330,756	2,858,054
Equipment (Note 5)	42,718	40,974
Mineral properties (Note 6)	2,005,030	303,676
	$ 6,378,504	$ 3,202,704
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 459,930	$ 48,113
Shareholders' equity		
Capital stock (Note 7)	7,144,759	3,162,200
Contributed surplus (Note 7)	1,469,665	1,022,584
Share subscriptions (Note 14)	72,000	-
Deficit	(2,767,850)	(1,030,193)
	5,918,574	3,154,591
	$ 6,378,504	$ 3,202,704

Nature of operations (Note 1)
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.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31

	2004	2003
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative services	$ 63,422	$ 24,500
Amortization	4,634	2,226
Consulting	47,953	3,500
Foreign exchange	24,623	3,908
General exploration	246,318	37,872
Investor relations	42,020	177,835
Management fees	170,000	70,000
Office and miscellaneous	53,200	12,736
Professional fees	69,017	43,400
Regulatory and transfer agent fees	26,816	7,537
Rent and telephone	35,823	12,998
Shareholder communications	43,640	22,383
Stock-based compensation (Note 8)	583,283	273,041
Trade shows and conferences	72,940	7,710
Travel and related costs	808	5,326
Loss before other items	(1,484,497)	(704,972)
OTHER ITEMS		
Interest income	47,207	15,304
Write-down of mineral properties (Note 6)	(300,367)	-
	(253,160)	15,304
Loss for the year	(1,737,657)	(689,668)
Deficit, beginning of year	(1,030,193)	(2,200)
Net liabilities acquired on acquisition of subsidiary (Note 4)	-	(338,325)
Deficit, end of year	$ (2,767,850)	$ (1,030,193)
Basic and diluted loss per common share	$ (0.08)	$ (0.07)
Weighted average number of common shares outstanding	20,862,646	9,857,962

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

SILVERCREST MINES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31

	2004	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (1,737,657)	$ (689,668)
Items not affecting cash:		
Amortization	4,634	2,226
Stock-based compensation	583,283	273,041
Write-down of mineral properties	300,367	-
Changes in non-cash working capital items:		
Increase in receivables and advances	(18,454)	(20,989)
Increase in prepaid expenses and deposits	(10,307)	(22,624)
Increase (decrease) in accounts payable and accrued liabilities	411,817	(49,059)
Net cash used in operating activities	(466,317)	(507,073)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock for cash	4,285,546	3,928,614
Share issuance costs	(439,189)	(414,814)
Share subscriptions	72,000	-
Due to related parties	-	(25,817)
Net cash provided by financing activities	3,918,357	3,487,983
CASH FLOWS FROM INVESTING ACTIVITIES		
Short-term investments (Note 3)	(3,917,296)	-
Acquisition of cash on purchase of subsidiary	-	136,406
Equipment acquired	(16,835)	(37,302)
Mineral properties	(1,991,264)	(277,859)
Net cash used in investing activities	(5,925,395)	(178,755)
Change in cash and equivalents during the year	(2,473,355)	2,802,155
Cash and equivalents, beginning of year	2,802,185	30
Cash and equivalents, end of year	$ 328,830	$ 2,802,185

Supplemental disclosure with respect to cash flows (Note 10)

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

1. NATURE OF OPERATIONS

The Company is engaged in the acquisition and exploration of mineral properties in El Salvador, Mexico and Honduras. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

On May 23, 2003, the Company acquired all of the issued and outstanding common shares of NorCrest Silver Inc. ("Norcrest"), resulting in a reverse takeover by NorCrest (Note 4).

At the date of these financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its properties. The ability of the Company to realize the costs it has incurred to date on these properties is dependent upon the Company being able to identify a commercial ore body, to finance its exploration costs and to resolve any environmental, regulatory or other constraints, which may hinder the successful development of the property.

These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of consolidated financial statements in accordance 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 consolidated financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

Principles of consolidation

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

Cash and short-term investments

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

Short-term investments comprise highly liquid Canadian dollar denominated guaranteed investment certificates with terms to maturity greater than ninety days, but not more than one year, that are readily convertible to contracted amounts of cash.

Short-term investments are carried at the lower of cost or recoverable amount.

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 and deferred exploration costs

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties and deferred exploration costs do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Cost of maintaining mineral properties

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

Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The adoption of this accounting policy during the current year has not affected the Company's financial statements.

Foreign currency translation

The Company's subsidiaries are considered integrated operations and are translated into Canadian dollars using the temporal method. Under this method, 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 exchange rates prevailing on the respective transaction dates. Exchange gains and losses arising on translation are included in the statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Stock-based compensation

Effective January 1, 2003, the Company adopted the fair value method whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of stock.

Future income taxes

Future income taxes are recorded using the asset and liability method, whereby 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 common 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 period.

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year and does not include outstanding options and warrants. Dilutive loss per common share is not presented separately from loss per share as the conversion of outstanding stock options and warrants into common shares would be anti-dilutive.

Comparative figures

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

3. SHORT-TERM INVESTMENTS

Short-term investments comprise highly liquid Canadian dollar denominated guaranteed investment certificates with term to maturity of greater than ninety days but not more than one year, that are readily convertible to contracted amounts of cash.

4. 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 initially placed in escrow in accordance with the policies of the TSX Venture Exchange (“TSX-V”) and is required to pay $375,000. The Company has paid $75,000 and is also required to pay $75,000 after a cumulative $1,000,000 has been expended on exploration and development on the properties in Honduras and $225,000 upon receipt of a bankable feasibility study on any of the properties. As outlined in Note 6, the Company filed a claim against the Government of Honduras, amongst others, therefore, payment and exploration and development expenditures are postponed until the Company has a positive outcome on its lawsuits.

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 liabilities of the Company, accompanied by a recapitalization of NorCrest. The net liabilities of $338,325 (significant component being the special warrants of $325,000) of the Company was charged to the consolidated deficit.

The balance sheet at December 31, 2003 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 2003 and outstanding at December 31, 2003 are the Company’s.

The comparative 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 to December 31, 2003.

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

General And Administrative Expenses		
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		726
Loss for the period	$	(58,064)

5. EQUIPMENT

	2004			2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment and furniture	$ 22,665	$ 4,968	$ 17,697	$ 9,432	$ 1,126	$ 8,306
Computer hardware	9,021	2,573	6,448	5,419	581	4,838
Computer software	2,597	2,597	-	2,596	1,299	1,297
Automotive	28,453	9,880	18,573	28,453	1,920	26,533
	$ 62,736	$ 20,018	$ 42,718	$ 45,900	$ 4,926	$ 40,974

6. 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 except as otherwise disclosed.

	Four Projects, Honduras	**El Zapote, El Salvador**	**Silver Angel, Mexico**	**2004 Total**
Balance beginning of year	$ 242,191	$ -	$ 61,485	$ 303,676
Amortization	1,997	8,460	-	10,457
Assays	-	38,585	33,909	72,494
Casual labour	790	20,655	-	21,445
Concession and statutory	369	25,020	4,108	29,497
Drilling	-	581,828	76,592	658,420
Drill contractor expense	17,230	-	-	17,230
Engineering consulting	-	316,529	-	316,529
Environmental consulting	-	211,101	-	211,101
Field supplies	-	27,039	1,675	28,714
Geological consulting	-	16,368	-	16,368
Geological services	14,838	67,653	97,975	180,466
IVA taxes	-	39,363	-	39,363
Land, rental and storage	667	9,017	12,029	21,713
Maps and photos	9	7,606	1,472	9,087
Metallurgical testing	-	18,715	-	18,715
Miscellaneous	3,012	22,095	4,378	29,485
Office and communications	4,483	16,816	389	21,688
Professional fees	3,760	39,514	29,262	72,536
Project management	-	50,000	35,000	85,000
Rent and supplies	4,877	29,195	-	34,072
Travel and accommodation	4,169	45,712	31,709	81,590
Vehicles	1,975	21,483	2,293	25,751
	58,176	1,612,754	330,791	2,001,721
Less write-down	(300,367)	-	-	(300,367)
Balance, end of year	$ -	$ 1,612,754	$ 392,276	$ 2,005,030

6. MINERAL PROPERTIES (con't…)

	Four Projects, Honduras	Silver Angel Mexico	2003 Total
Balance, December 31, 2002	$ 25,817	$ -	$ 25,817
Amortization	2,157	-	2,157
Assays	4,552	358	4,910
Casual labour	5,040	2,836	7,876
Community relations	19,550	-	19,550
Data acquisition	4,109	-	4,109
Engineering consulting	9,204	-	9,204
Facilities	19,207	-	19,207
Field supplies	2,974	3,940	6,914
Geological services	44,317	21,386	65,703
Land rental	640	-	640
Legal, filing and staking	22,132	20,769	42,901
Maps and photos	874	462	1,336
Metallurgical testing	5,344	-	5,344
Miscellaneous	599	-	599
Office and communications	9,991	-	9,991
Professional fees	1,700	-	1,700
Project management	35,000	-	35,000
Road improvements	1,906	-	1,906
Travel and accommodation	15,866	6,975	22,841
Vehicles	11,212	4,759	15,971
	216,374	61,485	277,859
Balance, December 31, 2003	$ 242,191	$ 61,485	$ 303,676

El Ocote Project, Arena Blanca Project, Opoteca Project, La Pochota Project, Honduras

The Company acquired a 100% interest in certain properties located in Honduras by concession application. Due to title uncertainty, the Company has decided to write down the carrying values of the Honduran mineral property expenditures. The Company has filed a claim against the government of Honduras, amongst others, to protect its legal and property interests.

Silver Angel Project, Mexico

The Company acquired a 100% interest in mineral properties located in the Northern Sierra Madre range in Mexico by concession applications.

6. MINERAL PROPERTIES (con't…)

El Zapote Project, El Salvador

The Company acquired a 100% interest in the properties located in El Salvador by acquiring 100% of the share capital of Minera Atlas S.A. de C.V. ("Atlas") an El Salvadoran corporation which owns the Aldea El Zapote Exploration Concession located in the Department of Santa Ana in Northern El Salvador. The purchase price for Atlas was US$15,000 and a sliding scale royalty, payable from production, varying from US$0.20 per ounce of silver equivalent to US$0.60 per ounce depending on the silver price. The transaction has been accounted for as an asset purchase since Atlas is not considered a business. The Company is also required to complete environmental impact and preliminary feasibility studies to satisfy concession work requirements as defined by El Salvador mining law.

7. 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, 2002	4,104,046	$ 30	$ -	$ 30
Warrants exercised	100,000	-	-	-
Balance at May 23, 2003	4,204,046	30	-	30
Common shares issued pursuant to acquisition of NorCrest (Note 4)	5,000,000	-	-	-
Short-form prospectus	2,070,000	552,827	130,273	683,100
Warrants exercised	774,500	366,260	(95,185)	271,075
Finders' fees				
Cash	-	(62,981)	-	(62,981)
Non-cash	50,000	(38,735)	55,235	16,500
Finders' warrants exercised	394,000	182,587	(52,567)	130,020
Private placement	1,900,000	721,317	228,683	950,000
Finders' fees				
Cash	-	(26,875)	-	(26,875)
Non-cash	88,750	(20,493)	64,868	44,375
Finders' warrants exercised	16,000	13,612	(3,852)	9,760
Private placement	1,431,927	1,378,489	411,420	1,789,909
Finders' fees				
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	2,500,000	325,000	-	325,000
Warrants exercised	350,000	83,500	-	83,500
Stock options exercised	25,000	11,250	-	11,250
Balance at December 31, 2003	18,813,853	3,162,200	1,022,584	4,184,784

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

	Number of Shares	Capital Stock	Contributed Surplus	Total
Warrants exercised	3,160,605	1,275,323	(195,452)	1,079,871
Stock options exercised	117,500	89,973	(34,298)	55,675
Stock-based compensation	-	-	583,283	583,283
Private placements	3,500,000	3,150,000	-	3,150,000
Finders' fees for cash	-	(214,200)	-	(214,200)
Share issuance costs	-	(318,537)	93,548	(224,989)
Balance at December 31, 2004	25,591,958	$ 7,144,759	$ 1,469,665	$ 8,614,424

On December 3, 2004 the Company issued 3,100,000 units at a price of $.90 per unit for gross proceeds of $2,790,000 and on December 22, 2004 the Company issued 400,000 units at a price of $.90 per unit for gross proceeds of $360,000. Each unit was comprised of one common share and a one-half non-transferable share purchase warrant. One whole warrant entitles the holder to acquire one common share at a price of $1.20 until December 3, 2006 as to 1,550,000 warrants and on December 22, 2006 as to 200,000 warrants. Finders' fees included the Company paying $214,200, and issuing 186,000 warrants exercisable into additional common shares at $.95 per share until December 3, 2006 and issuing 18,000 warrants exercisable into additional common shares at $.95 per share until December 22, 2006. The finders' warrants have been recorded at a fair value of $93,548, which is included in contributed surplus.

During the current year, 3,160,605 warrants were exercised for cash proceeds of $1,079,871. As a result, $195,432 was reallocated to capital stock from contributed surplus.

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 entitled the holder to acquire one common share at a price of $0.35 until 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 year ended December 31, 2003, 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.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

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 entitled the holder to acquire one common share at a price of $0.61 until 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 entitled 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 year ended December 31, 2003, 16,000 finders' warrants were exercised for proceeds of $9,760. As a result, $3,852 was reallocated to capital stock from contributed surplus.

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 whole warrant entitled the holder to acquire one common share at a price of $1.40 until December 18 and 30, 2004 which have been extended to June 18, and 30, 2005. 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 $1.25 per share until December 18, 2004 which has been extended to June 18, 2005. 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 entitled the holder to acquire one common share at a price of $1.40 expiring December 18, 2004 which have been extended to June 18, 2005. The finders' warrants have been recorded at a fair value of $10,668, which are included in contributed surplus.

In fiscal year 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 year ended December 31, 2003, all of the special warrants were converted to common shares.

Escrow shares

Included in issued capital stock are 2,396,250 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.

8. STOCK OPTIONS AND WARRANTS

Stock options

The Company has a stock option plan 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 and certain options to employees and consultants vest over periods of time, determined by the board of directors.

At December 31, 2004, the Company had outstanding stock options, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
20,000	$ 1.02	October 28, 2005
1,025,000	$ 0.45	June 16, 2008
750,000	$ 1.41	March 24, 2009

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2002	-	$ -
Granted	1,167,500	0.45
Exercised	(25,000)	0.45
As at December 31, 2003	1,142,500	0.45
Granted	770,000	1.40
Exercised	(117,500)	0.45
As at December 31, 2004	1,795,000	$ 0.86
Number of options currently exercisable	1,650,000	$ 0.81

Stock-based compensation

The total stock-based compensation recognized under the fair value method was $566,225 (2003 - $313,997) using the Black-Scholes option pricing model. The stock-based compensation will be recognized over their vesting period. The stock-based compensation expense for the year was $583,283 (2003 - $273,041) leaving an unamortized balance of $23,898 (2003 - $40,956). The weighted average fair value of the stock options granted during the year was $0.74 (2003 - $0.27). The following assumptions were used for the Black-Scholes option-pricing model calculation of stock options granted during the year:

	2004	2003
Risk-free interest rate	2.26%	3.12%
Expected life of options/warrants	1 to 4 years	2 years
Annualized volatility	72.82%	102%
Dividend rate	-	-

8. STOCK OPTIONS AND WARRANTS (cont'd…)

Warrants

Warrant transactions are summarized as follows:

	2004	**2003**
Balance, beginning of year	5,174,982	150,000
Issued	1,954,000	6,559,482
Exercised	(3,160,605)	(1,534,500)
Balance, end of year	3,968,377	5,174,982

At December 31, 2004, the Company had outstanding share purchase warrants, enabling holders to acquire shares as follows:

Number of Shares	Exercise Price	Expiry Date
548,370	$ 0.70	August 29, 2005
24,450	1.25	June 18, 2005
1,379,557	1.40	June 18, 2005
62,000	1.40	June 30, 2005
1,550,000	1.20	December 3, 2006
186,000	0.95	December 3, 2006
200,000	1.20	December 22, 2006
18,000	0.95	December 22, 2006
3,968,377		

9. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Paid or accrued $170,000 (2003-$70,000) for management fees to companies controlled by two directors.

b) Paid or accrued $85,000 (2003-$35,000) for project management fees to an officer of the Company which are included in deferred exploration costs. In addition, the company paid $18,482 as geological fees included in general exploration.

c) Paid or accrued $25,603 (2003-$Nil) to a company controlled by an officer for general exploration expenses.

9. RELATED PARTY TRANSACTIONS (cont'd…)

d) Paid or accrued $Nil (2003-$3,500) for consulting fees to a former director of the Company.

e) Recorded $488,519 (2003 - $232,085) for stock-based compensation expense on stock options granted to directors and officers.

f) Paid or accrued $36,381 (2003 - $28,571) for legal fees which were included in professional fees and $14,918 (2003 - $105,003) 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, 2004 is $17,297 (2003-$17,423) 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.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2004	2003
Cash paid during the year for interest	$ -	$ -
Cash paid during the year for income taxes	$ -	$ -

The significant non-cash transaction for the year ended December 31, 2004 consisted of the Company recording a value of $93,548 as share issuance costs for finders' warrants.

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

a) The Company recorded a value of $130,771 as share issuance costs for finders' warrants.

b) The Company recorded a value of $72,913 as issuance costs for finders' fees.

c) The Company issued 5,000,000 common shares pursuant to the acquisition of NorCrest.

d) The Company issued 2,500,000 common shares on the conversion of special warrants, for $325,000 which was received in the year ended December 31, 2002.

11. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and equivalents, short term investments, receivables and advances, 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.

11. FINANCIAL INSTRUMENTS (cont'd…)

Credit risk

The Company does not believe it is subject to any significant credit risk although cash and equivalents are held in excess of federally insured limits, with major financial institutions.

Currency risk

The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar. The Company does not use derivative instruments to reduce its currency risk.

12. INCOME TAXES

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

		2004		**2003**
Loss before income tax recovery	$	(1,737,657)	$	(689,668)
Expected income tax (recovery)	$	(618,953)	$	(259,315)
Non-deductible items		412,916		102,663
Deductible items		(82,007)		-
Unrecognized benefits of non-capital losses		288,044		156,652
Actual income tax recovery	$	-	$	-

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

		2004		**2003**
Future tax assets:				
Non-capital loss carryforwards	$	758,300	$	628,700
Capital losses		103,000		103,000
Other		291,800		176,800
Mineral property costs		769,000		681,000
		1,922,100		1,589,500
Valuation allowance		(1,922,100)		(1,589,500)
	$	-	$	-

As at December 31, 2004, the Company has non-capital losses of approximately $2,100,000 for income tax purposes. The non-capital losses may be utilized to reduce future years' taxable income and expire up to 2014 if unutilized. In addition, the Company has exploration and development expenditures of approximately $2,200,000 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.

13. SEGMENTED INFORMATION

The Company operates in one business segment which is the exploration of mineral properties.

Geographical information is as follows:

	Canada	Honduras	Mexico	El Salvador	Total
2004					
Capital assets					
Equipment	$ 16,434	$ 21,168	$ -	$ 5,116	$ 42,718
Mineral properties and deferred exploration costs	-	-	392,276	1,612,754	2,005,030
2003					
Capital assets					
Equipment	$ 10,870	$ 30,104	$ -	$ -	$ 40,974
Mineral properties and deferred exploration costs	-	242,191	61,485	-	303,676

14. SUBSEQUENT EVENTS

The following events occurred subsequent to December 31, 2004:

a) On January 18, 2005 the Company issued 191,111 units at a price of $.90 per unit for gross proceeds of $172,000. Each unit was comprised of one common share and a one-half non-transferable share purchase warrant. One whole warrant entitles the holder to acquire one common share at a price of $1.20 expiring January 18, 2007. As at December 31, 2004, the Company had received share subscriptions of $72,000 towards this issuance.

b) The Company issued 25,000 common shares for proceeds of $11,250 pursuant to the exercise of stock options.

c) The Company issued 17,200 common shares for proceeds of $12,040 pursuant to the exercise of warrants.