SILVERCREST MINES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006

AUDITORS' REPORT

To the Shareholders of
SilverCrest Mines Inc.

We have audited the consolidated balance sheets of SilverCrest Mines Inc. as at December 31, 2006 and 2005 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, 2006 and 2005 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 LLP"

Vancouver, Canada — Chartered Accountants

March 23, 2007

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SILVERCREST MINES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2006	2005
ASSETS		
Current		
Cash	$ 230,724	$ 170,336
Short term investments (note 3)	6,052,625	1,472,828
Receivables	81,451	58,781
Prepaid expenses	46,423	19,054
	6,411,223	1,720,999
Equipment (note 4)	13,117	46,220
Mineral properties (note 5)	5,639,336	3,817,865
	$ 12,063,676	$ 5,585,084
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (note 8)	$ 114,589	$ 128,679
Shareholders' equity		
Capital stock (note 6)	14,353,399	7,365,311
Contributed surplus (note 6)	2,090,711	1,753,346
Deficit	(4,495,023)	(3,662,252)
	11,949,087	5,456,405
	$ 12,063,676	$ 5,585,084

Nature of operations (note 1)

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

		2006		2005
GENERAL AND ADMINISTRATIVE EXPENSES				
Administrative services	$	49,500	$	78,588
Amortization		12,603		13,028
General exploration		-		78,524
Investor relations		60,026		71,440
Management fees		180,000		180,000
Office and miscellaneous		69,016		51,122
Professional fees		55,608		46,665
Regulatory and transfer agent fees		24,452		17,684
Rent and telephone		36,413		34,846
Shareholder communications		27,594		43,668
Stock-based compensation (note 7)		387,801		299,317
Trade shows and conferences		55,754		28,206
Travel and related costs		3,595		9,010
Loss before other items		(962,362)		(952,098)
OTHER ITEMS				
Interest income		126,092		63,773
Foreign exchange gain (loss)		3,499		(6,077)
		129,591		57,696
LOSS FOR THE YEAR		(832,771)		(894,402)
DEFICIT, beginning of year		(3,662,252)		(2,767,850)
DEFICIT, end of year	$	(4,495,023)	$	(3,662,252)
Basic and diluted loss per common share	$	(0.03)	$	(0.03)
Weighted average number of common shares outstanding		30,289,456		25,818,236

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

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

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (832,771)	$ (894,402)
Items not affecting cash:		
Amortization	12,603	13,028
Stock-based compensation	387,801	299,317
Accrued interest income	(4,797)	1,828
Changes in non-cash working capital items:		
(Increase) in receivables	(22,670)	(7,082)
(Increase) decrease in prepaid expenses	(27,369)	13,877
Increase (decrease) in accounts payable and accrued liabilities	28,465	(433,058)
Net cash used in operating activities	(458,738)	(1,006,492)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock for cash	7,552,550	136,873
Share issuance and finder's fee costs	(614,898)	(3,957)
Net cash provided by financing activities	6,937,652	132,916
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment acquired	-	(24,564)
Mineral properties	(1,843,526)	(1,702,994)
Redemption (purchase) of short term investments	(4,575,000)	2,442,640
Net cash provided by (used in) investing activities	(6,418,526)	715,082
Increase (Decrease) in cash during the year	60,388	(158,494)
Cash, beginning of year	170,336	328,830
Cash, end of year	$ 230,724	$ 170,336

Supplemental disclosure with respect to cash flows (Note 9)

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

1. NATURE OF OPERATIONS

SilverCrest Mines Inc. (the "Company") was incorporated under the laws of the province of Ontario on May 22, 1973 and effective May 15, 1998 was continued into the jurisdiction of the Province of British Columbia pursuant to the British Columbia Business Corporations Act.

The Company is engaged in the acquisition and exploration of mineral properties in Mexico and Central America. At the date of these financial statements, the Company has not identified 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.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

	2006	2005
Working capital	$ 6,296,634	$ 1,592,320
Deficit	(4,495,023)	(3,662,252)

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, Minera Atlas S.A. de C.V., a company incorporated under the laws of El Salvador, 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.

Short-term investments

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 market value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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%
Automobile	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.

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 Company does not have any significant asset retirement obligations.

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.

Stock-based compensation

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense over the vesting period of the stock options.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. SHORT-TERM INVESTMENTS

Short-term investments is comprised of highly liquid Canadian dollar denominated guaranteed investment certificate with a term to maturity of greater than ninety days but not more than one year. At December 31, 2006, the instrument was yielding an interest rate of 4.15% with a maturity of December 21, 2007.

4. EQUIPMENT

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment and furniture	$ 17,534	$ 8,166	$ 9,368	$ 27,419	$ 9,494	$ 17,925
Computer hardware	8,711	4,962	3,749	11,521	4,882	6,639
Computer software	19,906	19,906	-	19,906	11,251	8,655
Automobile	-	-	-	28,453	15,452	13,001
	$ 46,151	$ 33,034	$ 13,117	$ 87,299	$ 41,079	$ 46,220

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 except as otherwise disclosed. However, this should not be considered as a guarantee of title. The mineral properties may be subject to prior claims or agreements, or transfers and rights of ownership may be affected by undetected defects.

	EL SALVADOR	MEXICO			2006
2006	**El Zapote**	**Santa Elena**	**Silver Angel**	**Cruz de Mayo**	**Total**
Additions					
Option payments	$ -	$ 203,980	$ -	$ -	$ 203,980
Deferred exploration costs					
Assays	9,122	43,956	639	17,211	70,928
Drilling	-	353,777	-	414,284	768,061
Technical consulting and services	148,838	128,549	-	73,448	350,835
Exploration and general	172,225	69,503	50,797	16,516	309,041
Professional fees	50,906	40,632	-	27,088	118,626
	381,091	840,397	51,436	548,547	1,821,471
Balance, beginning of year	2,998,096	11,660	808,109	-	3,817,865
Balance, end of year	$ 3,379,187	$ 852,057	$ 859,545	$ 548,547	$ 5,639,336

	EL SALVADOR	MEXICO		2005
2005	**El Zapote**	**Silver Angel**	**Santa Elena**	**Total**
Additions				
Option payments	$ -	$ -	$ 11,660	$ 11,660
Deferred exploration costs				
Assays	75,232	10,577	-	85,809
Drilling	303,044	171,467	-	474,511
Technical consulting and services	564,211	94,103	-	658,314
Exploration and general	346,057	97,509	-	443,566
Professional fees	96,798	42,177	-	138,975
	1,385,342	415,833	11,660	1,812,835
Balance, beginning of year	1,612,754	392,276	-	2,005,030
Balance, end of year	$ 2,998,096	$ 808,109	$ 11,660	$ 3,817,865

5. MINERAL PROPERTIES (continued)

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 Salvadoren corporation which owns the Aldea El Zapote Exploration Concession located in the Department of Santa Ana in Northern El Salvador. The properties are subject to 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 was 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.

Santa Elena Project, Mexico

On December 8, 2005 the Company entered into an option agreement to acquire the Santa Elena Project located northeast of Hermosillo, Sonora State, Mexico. The Company has the right to acquire a 100% interest in the Santa Elena property by making the following staged option payments totaling U.S. $3,000,000 over a period of 5 years and by making a final U.S. $1,000,000 payment conditional upon receipt of a Feasibility Study and all operating and environmental permits relating to the project.

December 8, 2005	US $	$10,000 (paid)
February 8, 2006		$60,000 (paid)
June 8, 2006		$60,000 (paid)
December 8, 2006		$60,000 (paid)
June 8, 2007		$60,000
December 8, 2007		$50,000
June 8, 2008		$500,000
December 8, 2008		$500,000
June 8, 2009		$600,000
June 8, 2010		$600,000
December 8, 2010		$500,000
TOTAL	US $	$3,000,000

The payments totaling US $2.2 million due from December 8, 2008 through December 8, 2010 inclusive, as well as the U.S $1,000,000 conditional payment are payable, at the Company's option, either wholly in cash or up to 50% of each payment in the common shares of the Company at the average price per share for the previous ten trading days.

Silver Angel Project, Mexico

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

Cruz de Mayo Project, Mexico

The Company purchased a 100% interest in the mineral concessions located in the Northern Sierra Madre range in Mexico in 2004 however no significant exploration was conducted until 2006.

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus	Total
Authorized unlimited common shares without par value				
Balance at December 31, 2004	25,591,958	$ 7,144,759	$ 1,469,665	$ 8,614,424
Warrants exercised	36,606	34,433	(8,810)	25,623
Stock options exercised	25,000	18,076	(6,826)	11,250
Stock-based compensation	-	-	299,317	299,317
Private placements	191,111	172,000	-	172,000
Share issuance costs	-	(3,957)	-	(3,957)
Balance at December 31, 2005	25,844,675	7,365,311	1,753,346	9,118,657
Warrants exercised	334,000	427,348	(93,548)	333,800
Stock options exercised	345,000	311,950	(103,200)	208,750
Stock-based compensation	-	-	387,801	387,801
Private placements	8,200,000	7,010,000	-	7,010,000
Finder’s fees for cash	-	(414,960)	-	(414,960)
Share issuance costs	-	(346,250)	146,312	(199,938)
Balance at December 31, 2006	34,723,675	$ 14,353,399	$ 2,090,711	$ 16,444,110

December 31, 2006

On March 24, 2006 the Company issued 3,725,000 units pursuant to a private placement at a price of $0.80 per unit for gross proceeds of $2,980,000. Each unit was comprised of one common share and one share purchase warrant. The warrants are exercisable until March 24, 2008 at a price of $1.00 per share. On April 4, 2006 the Company issued 1,475,000 units pursuant to a private placement at a price of $0.80 per unit for gross proceeds of $1,180,000. Each unit was comprised of one common share and one share purchase warrant. The warrants are exercisable until April 4, 2008 at a price of $1.00 per share. Finder’s commissions in the amount of $255,360 were paid in connection with the private placements. The Company also issued 233,200 finder’s warrants in connection with the private placements. The finder’s warrants are exercisable until March 24, 2008 as to 192,600 warrants and until April 4, 2008 as to 40,600 warrants at a price of $1.00 per share. The fair value of the finder’s warrants of $60,632 was allocated to capital stock and contributed surplus.

On December 13, 2006 the Company issued 3,000,000 units pursuant to a private placement at a price of $0.95 per unit for gross proceeds of $2,850,000. 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 until December 12, 2008 at a price of $1.25 per share. Finder’s commissions in the amount of $159,600 were paid in connection with the private placement. The Company also issued 168,000 finder’s warrants in connection with the private placement. The finder’s warrants are exercisable until December 12, 2008 at a price of $1.09 per share. The fair value of the finder’s warrants of $85,680 was allocated to capital stock and contributed surplus.

During the current year 334,000 warrants were exercised for cash proceeds of $333,800. As a result, $93,548 was transferred to capital stock from contributed surplus.

During the current year, 345,000 stock options were exercised for cash proceeds of $208,750. As a result, $103,200 was transferred to capital stock from contributed surplus.

The fair value of all of the finder’s warrants issued during the year was calculated using the Black-Scholes option pricing model. The weighted average assumptions used were 3.62% for risk free interest rates, 2 years for the life of the warrants, 67.4% for annualized volatility and $Nil for the dividend rate.

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued)

December 31, 2005

On January 18, 2005 the Company issued 191,111 units at a price of $0.90 per unit for gross proceeds of $172,000. Each unit was comprised of one common share and one-half non-transferable purchase warrant. One whole warrant entitles the holder to acquire one common share at a price of $1.20 until January 18, 2007. The Company paid share issuance costs of $3,957.

During the current year, 36,606 warrants were exercised for cash proceeds of $25,623. As a result, $8,810 was transferred to capital stock from contributed surplus.

During the current year, 25,000 stock options were exercised for cash proceeds of $11,250. As a result, $6,826 was transferred to capital stock from contributed surplus.

Escrow shares

Included in issued capital stock are 25,240 common shares subject to an escrow agreement that 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 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.

Stock option transactions for the years financials ended December 31, 2006 and 2005 are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2004	1,795,000	$ 0.86
Granted	650,000	0.75
Exercised	(25,000)	0.45
Expired	(20,000)	1.02
As at December 31, 2005	2,400,000	0.83
Granted	950,000	0.73
Exercised	(345,000)	0.61
Cancelled	(75,000)	1.41
Balance, December 31, 2006	2,930,000	$ 0.81
Options currently exercisable	2,805,000	$ 0.81

7. STOCK OPTIONS AND WARRANTS (continued)

Stock options

At December 31, 2006, the Company had outstanding stock options, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
850,000	$ 0.45	June 16, 2008
675,000	$ 1.41	March 24, 2009
555,000	$ 0.75	June 1, 2010
100,000	$ 0.96	August 15, 2011
750,000	$ 0.70	September 28, 2011
2,930,000		

The Company, pursuant to its Stock Option Plan, granted the following stock options:

a) on January 23, 2006 to purchase an aggregate 100,000 common shares at a price of $0.70 per share for a period of 2 years;

b) on August 15, 2006 to purchase an aggregate 100,000 common shares at a price of $0.96 per share for a period of 5 years;

c) on September 28, 2006 to purchase an aggregate 750,000 common shares at a price of $0.70 per share for a period of 5 years.

Stock-based compensation

The total stock-based compensation calculated under the fair value method was $411,500 (2005 - $281,720) 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 $387,801 (2005 – $299,317) leaving an unamortized balance of $30,000 (2005 – $6,301). The weighted average fair value per option granted during the year was $0.43 (2005 - $0.43). The following assumptions were used for the Black-Scholes option-pricing model calculation of stock options granted during the year:

	2006	2005
Risk-free interest rate	3.79%	2.45%
Expected life	4.5 years	3.5 years
Annualized volatility	80.06%	84.64%
Dividend rate	-	-

7. STOCK OPTIONS AND WARRANTS (continued)

Warrants

Warrant transactions for the years financials ended December 31, 2006 and 2005 are summarized as follows:

	Number of Warrants	Weighed Average Exercise Price Per Warrant
As at December 31, 2004	3,968,377	$ 1.19
Issued	95,555	1.20
Exercised	(36,606)	0.70
Expired	(1,977,771)	1.22
As at December 31, 2005	2,049,555	1.18
Issued	7,101,200	1.05
Exercised	(334,000)	1.00
Expired	(1,700,000)	1.20
As at December 31, 2006	7,116,755	$ 1.06

At December 31, 2006, the Company had outstanding share purchase warrants, enabling holders to acquire shares as follows:

Number of Shares	Exercise Price	Expiry Date
95,555	$ 1.20	January 18, 2007
3,837,600	$ 1.00	March 24, 2008
1,515,600	$ 1.00	April 4, 2008
1,500,000	$ 1.25	December 12, 2008
168,000	$ 1.09	December 12, 2008
7,116,755		

8. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Paid or accrued $180,000 (2005 - $180,000) for management fees to companies controlled by two directors.

b) Paid or accrued $90,000 (2005 - $90,000) for project management fees to an officer of the Company which are included in deferred exploration costs.

c) Paid or accrued $14,130 (2005 - $Nil) to a company controlled by an officer for deferred exploration expenditures.

d) Paid or accrued $19,888 (2005 - $19,186) for legal fees which were included in professional fees and $40,147 (2005 - $3,957) for share issuance costs paid to a law firm of which an officer of the Company is a partner.

8. RELATED PARTY TRANSACTIONS (continued)

Included in accounts payable and accrued liabilities at December 31, 2006 is $18,214 (2005-$Nil) due to a law firm of which an officer of the Company is a partner and $7,444 (2005-$Nil) to a company controlled by an officer of the Company.

These transactions were in the normal course of operations and were 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

		2006		2005
Cash paid during the year for interest	$	-	$	-
Cash paid during the year for income taxes	$	-	$	-

The significant non-cash transactions for the year ended December 31, 2006 consisted of:

a) The Company recorded $387,801 in stock-based compensation expense for the year.

b) The Company recorded a value of $103,200 from contributed surplus to capital stock due to the exercise of stock options.

c) The Company recorded a value of $93,548 from contributed surplus to capital stock due to the exercise of warrants.

d) The Company recorded the fair value of $146,312 as share issue costs to contributed surplus from capital stock for finder's warrants issued in connection with completed private placements.

e) Included in mineral property costs is $59,252 incurred through accounts payable and a reclassification of $20,500 transferred from equipment.

The significant non-cash transactions for the year ended December 31, 2005 consisted of:

a) The Company recorded a value of $15,636 against contributed surplus due to the exercise of stock options and warrants.

b) The Company issued 72,001 units for $72,000 which were share subscriptions received at December 31, 2004.

c) Included in mineral property costs is $101,807 incurred through accounts payable.

d) Included in mineral property costs is $8,034 for amortization of an automobile.

10. FINANCIAL INSTRUMENTS

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

Credit risk

The Company does not believe it is subject to any significant credit risk although cash is 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.

11. INCOME TAXES

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

		2006		**2005**
Loss before income tax recovery	$	(832,771)	$	(894,402)
Expected income tax (recovery)	$	(300,797)	$	(311,878)
Difference in foreign tax rate		2,544		-
Non-deductible items		276,157		138,415
Deductible items		(702,598)		(80,556)
Unrecognized benefits of non-capital losses		724,694		254,019
Actual income tax recovery		-		-

		2006		**2005**
Future tax assets:				
Non-capital loss carry-forwards	$	1,225,500	$	1,907,800
Capital losses		90,000		99,100
Other		272,500		198,900
		1,588,000		2,205,800
Valuation allowance		(1,588,000)		(2,205,800)
	$	-	$	-

11. INCOME TAXES (continued)

As at December 31, 2006, the Company has Canadian non-capital losses of approximately $3,600,000 for income tax purposes. The non-capital losses may be utilized to reduce future years' taxable income and expire up to 2026 if unutilized. Future tax benefits, which may arise as a result of these losses, capital losses, and other deductions have been offset by a valuation allowance and have not been recognized in these financial statements due to the uncertainty of their realization.

12. SEGMENTED INFORMATION

The Company operates in one business segment, the exploration of mineral properties. At the year end, assets by geographic location are as follows:

	Canada	El Salvador	Mexico	Total
2006				
Capital Assets				
Equipment	$ 13,117	-	-	$ 13,117
Mineral properties	$ -	3,379,187	2,260,149	$ 5,639,336
2005				
Capital Assets				
Equipment	$ 25,720	20,500	-	$ 46,220
Mineral properties	$ -	2,998,096	819,769	$ 3,817,865