SILVERCREST MINES INC.
FINANCIAL STATEMENTS

DECEMBER 31, 2007

AUDITORS' REPORT

To the Shareholders of
SilverCrest Mines Inc.

We have audited the consolidated balance sheets of SilverCrest Mines Inc. as at December 31, 2007 and 2006 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, 2007 and 2006 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
March 25, 2008

Chartered Accountants

SILVERCREST MINES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2007	2006
ASSETS		
Current		
Cash and cash equivalents	$ 3,008,558	$ 230,724
Short term investments	-	6,052,625
Accounts receivable	55,490	41,357
Value added tax receivable	200,641	40,094
Prepaid expenses	13,050	46,423
	3,277,739	6,411,223
Equipment (note 4)	20,551	13,117
Mineral properties (note 5)	8,720,165	5,639,336
	$ 12,018,455	$ 12,063,676
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (note 8)	$ 515,165	$ 114,589
Shareholders' equity		
Capital stock (note 6)	14,706,589	14,353,399
Contributed surplus (note 6)	2,107,021	2,090,711
Deficit	(5,310,320)	(4,495,023)
	11,503,290	11,949,087
	$ 12,018,455	$ 12,063,676

Nature of operations (note 1)

Subsequent events (note 13)

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

	2007	2006
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative services	$ 50,995	$ 49,500
Amortization	4,395	12,603
General exploration	38,506	-
Investor relations and travel	294,164	63,621
Management fees	204,000	180,000
Office and miscellaneous	93,191	69,016
Professional fees	87,560	55,608
Regulatory and transfer agent fees	24,066	24,452
Rent and telephone	38,599	36,413
Shareholder communications	39,079	27,594
Stock-based compensation (note 7)	30,000	387,801
Trade shows and conferences	50,291	55,754
Loss before other items	(954,846)	(962,362)
OTHER ITEMS		
Interest income	192,219	126,092
Foreign exchange gain (loss)	(52,670)	3,499
	139,549	129,591
LOSS FOR THE YEAR	(815,297)	(832,771)
DEFICIT, beginning of year	(4,495,023)	(3,662,252)
DEFICIT, end of year	$ (5,310,320)	$ (4,495,023)
Basic and diluted loss per common share	$ (0.02)	$ (0.03)
Weighted average number of common shares outstanding	34,766,983	30,289,456

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

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

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (815,297)	$ (832,771)
Items not affecting cash:		
Amortization	4,395	12,603
Stock-based compensation	30,000	387,801
Accrued interest income	(3,641)	(4,797)
Changes in non-cash working capital items:		
Increase in accounts receivable	(10,492)	(3,129)
Increase in value added tax receivable	(160,547)	(19,541)
(Increase) decrease in prepaid expenses	33,373	(27,369)
Increase in accounts payable and accrued liabilities	58,750	28,465
Net cash used in operating activities	(863,459)	(458,738)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock for cash	339,500	7,552,550
Share issuance and finders' fee costs	-	(614,898)
Net cash provided by financing activities	339,500	6,937,652
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment acquired	(11,829)	-
Mineral properties	(2,739,003)	(1,843,526)
Short term investments	6,052,625	(4,575,000)
Net cash provided by (used in) investing activities	3,301,793	(6,418,526)
Increase in cash and cash equivalents during the year	2,777,834	60,388
Cash and cash equivalents beginning of year	230,724	170,336
Cash and cash equivalents end of year	$ 3,008,558	$ 230,724
Cash and cash equivalents is represented by:		
Cash	$ 97,558	$ 230,724
Cash equivalents	2,911,000	-
	$ 3,008,558	$ 230,724

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") is incorporated under the jurisdiction of the Province of British Columbia, Canada 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 development 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.

	December 31, 2007	December 31, 2006
Working capital	$ 2,762,574	$ 6,296,634
Deficit	$ (5,310,320)	$ (4,495,023)

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.

Significant accounts that require estimates as the basis for determining the stated amounts include equipment, mineral properties, stock-based compensation and foreign currency translations.

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. and Santa Elena Oro y Plata S.A. de C.V., companies incorporated under the laws of Mexico. All significant inter-company transactions and balances have been eliminated upon consolidation.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturity of three months or less.

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 then one year, that are readily convertible to contracted amounts of cash.

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%

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. ADOPTION OF NEW ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (C1CA) Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments - Recognition and Measurement; and Section 3865, Hedges. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit.

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading, financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash as held-for-trading, which are measured at fair value. Accounts receivable and value added tax receivable are classified as loans and receivables, and accounts payable and accrued liabilities are classified as other financial liabilities, all of which are measured at amortized cost.

The Company had no "other comprehensive income or loss" transactions during the year ended December 31, 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

3. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

Effective January 1, 2008 the Company is required to adopt the following new Canadian accounting pronouncements:

(i) Assessing going concern – Section 1400

The Accounting Standards Board (AcSB) amended the Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.

(ii) Capital disclosures- Section 1535

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences.

(iii) Financial Instruments – Sections 3862 & 3863 – Disclosures and Presentation

These new sections 3862 (on disclosures) and 3863 (on presentation) replace Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. Section 3862 complements the principles recognizing measuring and presenting financial assets and financial liabilities in Financial Instruments. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

The Company is evaluating the impact of these new accounting standards on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. EQUIPMENT

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment and furniture	$ 17,534	$ 10,040	$ 7,494	$ 17,534	$ 8,166	$ 9,368
Computer hardware	18,020	6,223	11,797	8,711	4,962	3,749
Computer software	22,426	21,166	1,260	19,906	19,906	-
	$ 57,980	$ 37,429	$ 20,551	$ 46,151	$ 33,034	$ 13,117

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			2007
2007	**El Zapote**	**Santa Elena**	**Silver Angel**	**Cruz de Mayo**	**Total**
Additions					
Option payments	$ -	$ 114,510	$ -	$ -	$ 114,510
Deferred exploration costs					
Assays	-	27,958	-	64,661	92,619
Drilling	-	1,243,698	-	356,707	1,600,405
Technical consulting and services	87,939	433,503	-	109,094	630,536
Exploration and general	123,012	296,780	50,518	20,778	491,088
Professional fees	76,572	55,569	-	19,530	151,671
	287,523	2,172,018	50,518	570,770	3,080,829
Balance, beginning of year	3,379,187	852,057	859,545	548,547	5,639,336
Balance, end of year	$ 3,666,710	$ 3,024,075	$ 910,063	$ 1,119,317	$ 8,720,165

	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 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.

5. MINERAL PROPERTIES (continued)

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 (paid)
December 8, 2007		$50,000 (paid)
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, 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
Warrants exercised	322,000	330,190	(8,190)	322,000
Stock options exercised	25,000	23,000	(5,500)	17,500
Stock-based compensation	-	-	30,000	30,000
Balance at December 31, 2007	35,070,675	$ 14,706,589	$ 2,107,021	$ 16,813,610

December 31, 2007

During the current year 322,000 warrants were exercised for cash proceeds of $322,000. As a result, $8,190 was transferred to capital stock from contributed surplus.

During the current year, 25,000 stock options were exercised for cash proceeds of $17,500. As a result, $5,500 was transferred to capital stock from contributed surplus.

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 2006, 334,000 warrants were exercised for cash proceeds of $333,800. As a result, $93,548 was transferred to capital stock from contributed surplus.

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued)

December 31, 2006

During 2006, 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 2006 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.

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 financial years ended December 31, 2007 and 2006 are summarized as follows:

	Number of Options	Weighted Average Exercise Price Per Option
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
As at December 31, 2006	2,930,000	0.81
Exercised	(25,000)	0.70
Cancelled	(150,000)	0.87
Balance, December 31, 2007	2,755,000	$ 0.81
Options currently exercisable	2,755,000	$ 0.81

At December 31, 2007, the Company had outstanding stock options, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date (note 13)
800,000	$ 0.45	June 16, 2008
625,000	$ 1.41	March 24, 2009
505,000	$ 0.75	June 1, 2010
100,000	$ 0.96	August 15, 2011
725,000	$ 0.70	September 28, 2011
2,755,000		

There were no stock options granted for the year ended December 31, 2007.

7. STOCK OPTIONS AND WARRANTS (continued)

Stock-based compensation

The stock-based compensation expense for the year was $30,000 (2006 – $387,801) leaving an unamortized balance of $NIL (2006 – $30,000). The weighted average fair value per option granted during the year was $NIL (2006 - $0.43). The following assumptions were used for the Black-Scholes option-pricing model calculation of stock options granted during the year.

	2007	2006
Risk-free interest rate	-	3.79%
Expected Life	-	4.5 years
Annualized volatility	-	80.06%
Dividend rate	-	-

Warrants

Warrant transactions for the financial years ended December 31, 2007 and 2006 are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price Per Warrant
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
Exercised	(322,000)	1.00
Expired	(95,555)	1.20
As at December 31, 2007	6,699,200	$ 1.06

At December 31, 2007, the Company had outstanding share purchase warrants, enabling holders to acquire shares as follows:

Number of Shares	Exercise Price	Expiry Date
3,540,600	$ 1.00	March 24, 2008
1,490,600	$ 1.00	April 4, 2008
1,500,000	$ 1.25	December 12, 2008
168,000	$ 1.09	December 12, 2008
6,699,200		

8. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Paid or accrued $204,000 (2006 - $180,000) for management fees to companies controlled by two directors.

b) Paid or accrued $102,000 (2006 - $90,000) for project management fees to an officer of the Company which are included in deferred exploration costs.

c) Paid or accrued $68,902 (2006 - $14,130) to a company controlled by an officer for deferred exploration expenditures.

d) Paid or accrued $23,626 (2006 - $19,888) for legal fees which were included in professional fees and $NIL (2006 - $40,147) for share issuance costs paid to a law firm of which an officer of the Company is a partner.

Included in accounts payable and accrued liabilities at December 31, 2007 is $1,640 (2006 - $18,214) due to a law firm of which an officer of the Company is a partner and $48,902 (2006 - $7,444) 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

	2007	2006
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, 2007 consisted of:

a) The Company recorded $30,000 in stock-based compensation expense for the year.

b) The Company recorded a value of $5,500 from contributed surplus to capital stock due to the exercise of stock options.

c) The Company recorded a value of $8,190 from contributed surplus to capital stock due to the exercise of warrants.

d) Included in mineral property costs is $401,078 incurred through accounts payable.

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.

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.

Value added tax receivable from the Mexican government are denominated in Mexican Pesos which are subject to currency risks arising from the fluctuation in the Mexican Peso.

11. INCOME TAXES

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

	2007	2006
Loss before income tax recovery	$ (815,297)	$ (832,771)
Expected income tax (recovery)	$ (278,179)	$ (300,797)
Difference in foreign tax rate	5,221	2,544
Non-deductible items	27,603	145,253
Deductible items	(876,709)	(571,694)
Unrecognized benefits of non-capital losses	1,122,064	724,694
Actual income tax recovery	$ -	$ -

	2007	2006
Future tax assets and liabilities:		
Non-capital loss carry-forwards	$ 2,924,000	$ 2,116,000
Mineral Properties	(2,326,000)	(1,121,000)
Capital losses	78,400	90,000
Other	361,000	272,500
	1,037,400	1,357,500
Valuation allowance	(1,037,400)	(1,357,500)
	$ -	$ -

As at December 31, 2007, the Company has non-capital losses for Canadian income tax purposes of approximately $4,186,000 and for Mexican and El Salvador income tax purposes of approximately $6,456,000. The non-capital losses may be utilized to reduce future years' taxable income and expire for Canada up to 2027 and for Mexico and El Salvador up to 2015 if unutilized. Future tax benefits, which may arise as a result of these losses, capital losses, and other deductions have been offset by a liability and 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
2007				
Capital Assets				
Equipment	$ 20,551	-	-	$ 20,551
Mineral properties	$ -	3,666,709	5,053,456	$ 8,720,165
2006				
Capital Assets				
Equipment	$ 13,117	-	-	$ 13,117
Mineral properties	$ -	3,379,187	2,260,149	$ 5,639,336

13. SUBSEQUENT EVENTS

(a) On January 7, 2008 the Company granted stock options to consultants and employees to purchase 225,000 common shares at an exercise price of $1.39 per share for a period of five years.

(b) The Company issued 2,916,000 common shares pursuant to the exercise of warrants for proceeds of $2,934,750. A total of 734,600 warrants expired subsequent to year end.

(c) The Company completed a non-brokered private placement of 5,562,214 units at $1.10 per unit. Each unit is comprised of one common share and one-half of a common share purchase warrant. Each whole warrant will entitle the holder to purchase an additional common share at a price of $1.40 per share on or before September 19, 2009. Of the total units issued, 1,818,180 units were issued to Macquarie Bank Limited ("MBL") in connection with its commitment to make a $2.0 million equity investment in the Company outlined in Note 13(d).

(d) The Company accepted a committed letter of offer from MBL for a $3.0 million feasibility finance credit facility (the "Finance Facility") and $2.0 million equity investment ("Equity Investment") to fund expenditures in relation to the completion of feasibility studies at the Company's Santa Elena Project in Mexico. The Finance Facility will bear interest at Canadian Dollar LIBOR rate plus 2.75% per annum on amounts drawn down. Outstanding amounts will be repayable by the earlier of May 28, 2010 or when the first draw down of any financing arrangements made for the development of the Santa Elena project.

In consideration for the provision of the Finance Facility, the Company has agreed to pay MBL certain fees customary for such a facility and to issue 2,307,692 warrants. The warrants will vest pro rata with draw downs under the Finance Facility and will expire on May 28, 2010. Each vested warrant will be exercisable to purchase one common share of the Company at a price of $1.30. The proceeds of any warrant exercise are to be first applied to repay any outstanding amounts under the Finance Facility.