SilverCrest Mines Inc.

FINANCIAL STATEMENTS

DECEMBER 31, 2008

AUDITORS' REPORT

To the Shareholders of
SilverCrest Mines Inc.

We have audited the consolidated balance sheets of SilverCrest Mines Inc. as at December 31, 2008 and 2007 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, 2008 and 2007 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 19, 2009

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SILVERCREST MINES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2008	2007
ASSETS		
Current		
Cash and cash equivalents	$ 3,868,799	$ 3,008,558
Amounts receivable	37,767	55,490
Value added tax receivable	393,894	200,641
Prepaid expenses	11,063	13,050
	4,311,523	3,277,739
Plant and equipment (note 5)	4,300,638	20,551
Mineral properties (note 6)	12,004,001	8,720,165
	$ 20,616,162	$ 12,018,455
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (note 11)	$ 668,811	$ 515,165
Long term debt (note 7)	3,000,000	-
Shareholders' equity		
Capital stock (note 9)	25,250,963	14,706,589
Contributed surplus (note 9)	3,961,715	2,107,021
Deficit	(12,265,327)	(5,310,320)
	16,947,351	11,503,290
	$ 20,616,162	$ 12,018,455

Nature of operations (note 1)
Subsequent events (note 16)

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
YEARS ENDED DECEMBER 31

	2008	2007
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative services	$ 65,025	$ 50,995
Amortization	6,515	4,395
General exploration	-	38,506
Investor relations and travel	291,881	294,164
Interest on long term debt	71,231	-
Management fees	401,000	204,000
Office and miscellaneous	107,772	93,191
Professional fees	184,784	87,560
Regulatory and transfer agent fees	38,662	24,066
Rent and telephone	42,924	38,599
Shareholder communications	51,989	39,079
Stock-based compensation (note 10)	1,172,955	30,000
Trade shows and conferences	73,110	50,291
LOSS BEFORE OTHER ITEMS	(2,507,848)	(954,846)
OTHER ITEMS		
Interest income	192,092	192,219
Foreign exchange gain (loss)	397,906	(52,670)
Transaction costs (note 8)	(1,070,414)	-
Write-off of mineral property (note 6)	(3,966,743)	-
	(4,447,159)	139,549
LOSS FOR THE YEAR	(6,955,007)	(815,297)
DEFICIT, beginning of year	(5,310,320)	(4,495,023)
DEFICIT, end of year	$ (12,265,327)	$ (5,310,320)
Basic and diluted loss per common share	$ (0.16)	$ (0.02)
Weighted average number of common shares outstanding	42,358,431	34,766,983

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

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

	2008	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (6,955,007)	$ (815,297)
Items not affecting cash:		
Amortization	6,515	4,395
Stock-based compensation	1,172,955	30,000
Accrued interest income	(4,341)	(3,641)
Transaction costs	900,000	-
Write-off of mineral property expenditures	3,966,743	-
Changes in non-cash working capital items:		
(Increase) decrease in amounts receivable	22,064	(10,492)
Increase in value added tax receivable	(193,253)	(160,547)
Decrease in prepaid expenses	1,987	33,373
Increase in accounts payable and accrued liabilities	71,860	58,750
Net cash used in operating activities	(1,010,477)	(863,459)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock for cash	10,566,285	339,500
Share issuance and finders' fee costs, net of non-cash items	(240,172)	-
Long term debt	3,000,000	-
Net cash provided by financing activities	13,326,113	339,500
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment acquired	(4,286,602)	(11,829)
Mineral properties	(7,168,793)	(2,739,003)
Short term investments	-	6,052,625
Net cash provided by (used in) investing activities	(11,455,395)	3,301,793
Change in cash and cash equivalents, during the year	860,241	2,777,834
Cash and cash equivalents, beginning of year	3,008,558	230,724
Cash and cash equivalents, end of year	$ 3,868,799	$ 3,008,558
Cash and cash equivalents is represented by:		
Cash	$ 219,599	$ 97,558
Cash equivalents	3,649,200	2,911,000
	$ 3,868,799	$ 3,008,558

Supplemental disclosure with respect to cash flows (Note 12)

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. 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.

The consolidated financial statements have been prepared assuming the Company will continue on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. 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 and development programs.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

		December 31, 2008		December 31, 2007
Working capital	$	3,642,712	$	2,762,574
Deficit	$	(12,265,327)	$	(5,310,320)

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, foreign currency translations and future income taxes.

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 maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and equipment and amortization

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

Plant and equipment	12%
Mining equipment	12%
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)

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.

Future income taxes

The Company follows the asset and liability method of accounting for income taxes whereby future income 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 income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. A valuation allowance is recognized to the extent that it is considered not likely that future income tax assets will be realized.

Financial instruments, comprehensive income and hedges

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments and 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. Held-for-trading financial assets are measured at 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 instrument is derecognized or impaired.

The Company classified its cash and equivalents as held-for-trading which is measured at fair value. Amounts receivable and value added tax receivable are classified as loans and receivable and accounts payable and accrued liabilities and long-term debt are classified as other liabilities, all of which are measured at amortized cost.

Transaction costs related to held-for-trading financial assets and other financial liabilities that are long-term are expensed as incurred.

3. ADOPTION OF NEW ACCOUNTING POLICIES

New Accounting Pronouncements

Effective January 1, 2008 the Company adopted 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. The adoption of this standard did not have an impact on these financial statements.

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 compiled with them, and if not, the consequences (See Note 4).

iii). Financial Instruments – Disclosure (Sections 3862) and Presentation (Section 3863)

These new standards require additional disclosures to enable users to evaluate the significance of financial instruments for an entity's financial position and performance. In addition, qualitative and quantitative disclosures are provided to enable users to evaluate the nature and extent of risks arising from financial instruments (See Note 13).

iv). Determining whether a contract is routinely denominated in a single currency

This new standard considers 1) how the term "routinely denominated" in Section 3855.A34(d) should be interpreted, and 2) what factors can be used to determine whether a contract for the purchase or sale of a non-financial item such as a commodity is routinely denominated in a particular currency in commercial transactions around the world. The adoption of this standard did not have impact in these financial statements. The adoption of this standard did not have an impact on these financial statements.

Effective January 1, 2009, the Company is required to adopt the following accounting standards update issued by the CICA:

i). Goodwill and intangible assets (Section 3064)

The CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standards provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, EIC 27, "Revenue and Expenditures in the Pre-operating Period", will be withdrawn. The impact of this new accounting standard on future financial statements is currently being assessed.

Effective January 1, 2011, the Company is required to adopt the following accounting standards update issued by the CICA.

In January 2009, the CICA issued Handbook Sections 1582 – *Business Combinations* ("Section 1582"), 1601 – *Consolidated Financial Statements* ("Section 1601") and 1602 – *Non-controlling Interests* ("Section 1602") which replaces CICA Handbook Sections 1581 – *Business Combinations* and 1600 – *Consolidated Financial Statements.* Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

3. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

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. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to safeguard the Company' ability to continue as a going concern in order to pursue the development of its mineral properties. The Company considers as its capital its shareholders' equity, cash and equivalents and long-term debt.

The Company manages and adjusts its capital structure when changes to the risk characteristics of the underlying assets or changes in economic conditions occur. To maintain or adjust the capital structure, the Company may attempt to issue new equity, dispose of certain of its assets or issue or repay debt.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets which are revised periodically based on the results of its exploration programs, availability of financing and industry conditions. Annual and materially updated budgets are approved by the Board of Directors'.

There are no external restrictions on management of capital.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest any excess cash in liquid short-term interest-bearing instruments. When utilized, these instruments are selected with regard to the expected timing of expenditures from continuing operations. The Company currently has sufficient capital resources to meet its planned operations and administrative overhead expenses through its current operating period. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activities. The Company believes it will be able to raise capital as required in the long term, but recognizes there will be risks involved that may be beyond its control.

5. PLANT AND EQUIPMENT

			2008			2007
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Mining equipment	$ 3,721,779	$ -	$ 3,721,779	$ -	$ -	$ -
Plant and equipment in progress	563,374	-	563,374	-	-	
Equipment and furniture	17,534	11,538	5,996	17,534	10,040	7,494
Computer hardware	19,469	9,980	9,489	18,020	6,223	11,797
Computer software	22,426	22,426	-	22,426	21,166	1,260
	$ 4,344,582	$ 43,944	$ 4,300,638	$ 57,980	$ 37,429	$ 20,551

5. PLANT AND EQUIPMENT (continued)

Amortization of mining equipment and plant and equipment in progress will commence when placed into service and prior to achieving commercial production amortization expense will be capitalized to mineral properties.

On September 30, 2008, the Company entered into an agreement to have constructed a heap leaching processing plant and refinery for a total price of US$1,253,070. The Company paid a deposit of US$501,228 (CDN$563,374) and is required to pay US$689,188 upon substantial completion, less any amount held back for deficiencies and the final amount of US$62,653, on acceptance of performance testing.

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. 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.

	MEXICO			EL SALVADOR	2008 Total
2008	**Santa Elena**	**Silver Angel**	**Cruz de Mayo**	**El Zapote**	
Additions					
Option payments	$ 1,248,929	$ -	$ -	$ -	$ 1,248,929
Deferred exploration costs					
Assays	85,262	-	6,806	-	92,068
Drilling	2,057,243	-	181,546	-	2,238,789
Technical consulting and services	1,986,287	-	-	98,837	2,085,124
Exploration and general	1,167,958	38,376	1,422	144,310	1,352,066
Professional fees	176,717	-	-	56,886	233,603
	6,722,396	38,376	189,774	300,033	7,250,579
Write-off of mineral property	-	-	-	(3,966,743)	(3,966,743)
Balance, December 31, 2007	3,024,075	910,063	1,119,317	3,666,710	8,720,165
Balance, December 31, 2008	$ 9,746,471	$ 948,439	$ 1,309,091	$ -	$ 12,004,001

	MEXICO			EL SALVADOR	2007 Total
2007	**Santa Elena**	**Silver Angel**	**Cruz de Mayo**	**El Zapote**	
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	433,503	-	109,094	87,939	630,536
Exploration and general	296,780	50,518	20,778	123,012	491,088
Professional fees	55,569	-	19,530	76,572	151,671
	2,172,018	50,518	570,770	287,523	3,080,829
Balance, December 31, 2006	852,057	859,545	548,547	3,379,187	5,639,336
Balance, December 31, 2007	$ 3,024,075	$ 910,063	$ 1,119,317	$ 3,666,710	$ 8,720,165

6. 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	(paid)
December 8, 2008		$500,000	(paid)
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.

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 certain concessions 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 was accounted for as an asset purchase since Atlas was not considered a business.

As a result of delays encountered in El Salvador in the permitting process and the political risk in the country, the Company has elected to write-off the accumulated mineral property expenditures of $3,966,743 to operations.

7. LONG-TERM DEBT

By agreement dated for reference July 3, 2008 the Company entered into a $3,000,000 Credit Agreement with Macquarie Bank Limited (“MBL”). The loan is secured by the assets of the Company, bears interest at LIBOR (“London Interbank Offered Rate) plus 2.75% and is due May 28, 2010 or in the event the Company elects to proceed with (excluding an equity transactions) an alternative financial transaction the loan will be repayable on the closing of such a transaction. A facility fee of $120,000 was paid to MBL and 2,307,692 warrants to purchase common shares at $1.30 per share expiring on May 28, 2010 were issued. The fair value of the warrants was calculated at $900,000 which has been allocated to transaction costs and contributed surplus. Proceeds received from any exercise of the warrants will be applied to repayment of the long term debt.

The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate	2.56%
Expected dividend yield	-
Expected volatility	75.32%
Expected life	2 years

8. TRANSACTION COSTS

Transaction costs related to fees, expenses and the fair value of warrants incurred in connection with long term debt (Note 7) consisted of the following:

Facility fee (paid)	$	120,000
Lender’s legal expenses (paid)		50,414
Fair value of warrants (note 7)		900,000
	$	1,070,414

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus	Total
Authorized				
Unlimited number of common shares without par value				
Unlimited number of preferred shares without par value (none outstanding)				
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
Warrants exercised	4,066,600	4,124,926	(37,076)	4,087,850
Private placement	5,562,214	6,118,435	-	6,118,435
Finder's fees	-	(144,072)	-	(144,072)
Share issuance costs and finders' warrants	-	(133,315)	37,215	(96,100)
Stock options exercised	800,000	578,400	(218,400)	360,000
Stock-based compensation	-	-	1,172,955	1,172,955
Fair value of warrants	-	-	900,000	900,000
Balance at December 31, 2008	45,499,489	$ 25,250,963	$ 3,961,715	$ 29,212,678

On March 13, 2008 the Company issued 3,172,580 Units pursuant to a private placement, at a price of $1.10 per Unit for gross proceeds of $3,489,838. Each Unit consists of one common share of the Company and one-half of a common share purchase warrant. Each whole warrant is exercisable into one common share of the Company at a price of $1.40 per share until September 12, 2009.

On March 20, 2008 the Company issued 2,389,634 Units pursuant to a private placement at a price of $1.10 per Unit for gross proceeds of $2,628,597. Each Unit consisted of one common share of the Company and one-half of a common share purchase warrant. Each whole warrant is exercisable for one common share of the Company at a price of $1.40 per share until September 19, 2009.

The Company paid finders fees of $144,072 and issued 130,974 warrants exercisable into one common share of the Company at a price of $1.40 per share until September 12, 2009 (103,854 warrants) and September 19, 2009 (27,120 warrants). The fair value of the warrants of $37,215 was allocated to capital stock and contributed surplus. The weighted average assumptions used for the Black-Scholes valuation of warrants were annualized volatility of 75.85%, risk-free interest rate of 2.65%, expected life of 24 months, dividend rate of Nil. The Company incurred share issuance costs of $96,100.

During the current year 4,066,600 warrants were exercised for cash proceeds of $4,087,850. As a result, $37,076 was transferred to capital stock from contributed surplus.

During the current year, 800,000 stock options were exercised for cash proceeds of $360,000. As a result, $218,400 was transferred to capital stock from contributed surplus.

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued)

December 31, 2007

During 2007 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 2007, 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.

10. 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 and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2006	2,930,000	$0.81
Exercised	(25,000)	$0.70
Expired	(150,000)	$0.87
As at December 31, 2007	2,755,000	$0.81
Issued	2,225,000	$1.19
Exercised	(800,000)	$0.45
Balance December 31, 2008	4,180,000	$1.08
Exercisable as at December 31, 2008	3,992,500	$1.07

Number of Shares	Exercise Price	Expiry Date
625,000	$1.41	March 24, 2009
300,000	$1.27	March 27, 2010
505,000	$0.75	June 1, 2010
100,000	$0.96	August 15, 2011
725,000	$0.70	September 28, 2011
225,000	$1.39	January 7, 2013
850,000	$1.27	March 27, 2013
850,000	$1.03	July 14, 2013
4,180,000		

10. STOCK OPTIONS AND WARRANTS (continued)

Stock-based compensation

The total stock-based compensation recognized during the year ended December 31, 2008 under the fair value method was $1,252,857 (2007 - $NIL). The weighted average fair value per option granted during the year was $0.56 (2007 - $Nil). The Company expensed $1,172,955 (2007 - $30,000) leaving an unamortized balance of $79,902 (2007 - $NIL).

	2008	2007
Risk-free interest rate	3.1%	-
Expected dividend yield	-	-
Expected stock price volatility	64%	-
Expected option lives	3.53 years	-

Warrants

Warrant transactions and the number of warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
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
Issued	5,219,773	$1.36
Exercised	(4,066,600)	$1.01
Expired	(2,632,600)	$1.14
As at December 31, 2008	5,219,773	$1.36

Number of Shares	Exercise Price	Expiry Date
1,690,144	$1.40	September 12, 2009
1,221,937	$1.40	September 19, 2009
2,307,692	$1.30	May 28, 2010
5,219,773		

11. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Paid or accrued $401,000 (2007 - $204,000) for management fees to companies controlled by two directors.

b) Paid or accrued $244,250 (2007 - $102,000) for project management fees to an officer of the Company which are included in deferred exploration costs.

c) Paid or accrued $52,672 (2007 - $68,902) to a company controlled by an officer for general expenses in deferred exploration expenditures.

d) Paid or accrued $91,495 (2007 - $23,626) for legal fees which were included in professional fees and $61,116 (2007 - $Nil) 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, 2008 is $2,462 (2007 - $1,640) due to a law firm of which an officer of the Company is a partner and $64,169 (2007 - $48,902) to officers, directors and companies controlled by officers and directors 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.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

		2008		2007
Cash paid during the year for interest	$	54,083	$	-
Cash paid during the year for income taxes	$	-	$	-

Significant non-cash transactions for the Company for the year ended December 31, 2008 were as follows:

a) The Company recorded a value of $1,172,955 for stock options vested during the year in contributed surplus.

b) The Company recorded a value of $218,400 from contributed surplus to capital stock due to the exercise of stock options.

c) The Company recorded a value of $37,076 from contributed surplus to capital stock due to the exercise of warrants.

d) The Company recorded a value of $37,215 as share issuance costs to contributed surplus and capital stock for the issuance of 130,974 finder's warrants pursuant to the private placements.

d) Included in mineral properties is $482,864 which relates to accounts payable and accrued liabilities;

e) The Company issued 2,307,692 warrants to purchase common shares at $1.30 per share, the fair value of the warrants issued of $900,000 was allocated to transaction costs and contributed surplus.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (continued)

The significant non-cash transactions for the year ended December 31, 2007 consisted of:

a) The Company recorded a value of $30,000 for stock options vested during the year in contributed surplus.

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 which relates to accounts payable and accrued liabilities.

13. FINANCIAL INSTRUMENTS

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, and interest rate risk. Where material these risks are reviewed and monitored by the Board of Directors.

a. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains sufficient cash balances to meet current working capital requirements. The Company is considered to be in the exploration and development stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions and which is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

b. Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet it contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents and amounts receivable and value added tax receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions.

Amounts receivable mainly consist of goods and service tax due from the Federal Government of Canada and value added tax receivable is due from the Sonora State in Mexico.

c. Interest Rate Risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and cash equivalents and fluctuations in the LIBOR rate applicable to its long term debt. The Company's practice has been to invest cash at floating rates of interest, in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash and cash equivalents as they are generally held with large financial institutions. Interest expense is calculated at a rate of Canadian LIBOR plus 2.75% which currently is approximately 5.75%.

d. Currency Risk

The Company operates in Canada, United States, Mexico and El Salvador and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of the Company and may also affect the value of the Company's assets and liabilities.

13. FINANCIAL INSTRUMENTS (continued)

The Company's cash and equivalents, amounts receivable, value added tax receivable and accounts payable and accrued liabilities are held in several currencies and therefore are subject to fluctuations against the Canadian dollar.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

e. Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The commodity price risk could affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices of precious metals, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

The estimated fair value of financial assets is equal to their carrying values. At December 31, 2008, the Company's financial assets were held in the following currencies:

Stated in Canadian Dollars

Carrying Value	Canadian Dollar	US Dollar	Mexican Peso	Total
Cash and cash equivalents	$ 1,298,756	$ 2,462,649	$ 107,394	$ 3,868,799
Amounts receivable	32,397	3,659	1,711	37,767
Value added tax receivable	-	-	393,894	393,894

The estimated fair value of financial liabilities is equal to their carrying values. At December 31, 2008 the Company's financial liabilities are held in the following currencies:

Stated in Canadian Dollars

Carrying Value	Canadian Dollar	US Dollar	Mexican Peso	Total
Amounts payable and accrued liabilities	$ 192,864	$ 433,589	$ 42,358	$ 668,811
Long term debt	3,000,000	-	-	3,000,000

At December 31, 2007, the Company's financial assets and liabilities were held in the following currencies:

Stated in Canadian Dollars

Carrying Value	Canadian Dollar	US Dollar	Mexican Peso	Total
Cash and cash equivalents	$ 2,952,138	$ 21,916	$ 34,504	$ 3,008,558
Accounts receivable	55,089	-	401	55,490
Value added tax receivable	-	-	200,641	200,641
Amounts payable and accrued liabilities	139,466	342,966	32,733	515,165

14. INCOME TAXES

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

		2008		2007
Loss before income tax recovery	$	(6,955,007)	$	(815,297)
Expected income tax (recovery)	$	(2,156,052)	$	(278,179)
Difference in foreign tax rate		241,375		5,693
Non-deductible items		1,628,085		27,603
Deductible items		(96,865)		(904,733)
Unrecognized benefits of non-capital losses		383,457		1,149,616
Actual income tax recovery	$	-	$	-

		2008		2007
Future tax assets and liabilities:				
Non-capital loss carry-forwards	$	1,530,000	$	2,469,000
Mineral Properties		1,075,000		(1,321,000)
Capital losses		75,000		78,400
Other		375,000		360,800
		3,055,000		1,587,200
Valuation allowance		(3,055,000)		(1,587,200)
	$	-	$	-

As at December 31, 2008, the Company has non-capital losses for Canadian income tax purposes of approximately $5,700,000 and for Mexican income tax purposes of approximately $120,000. The non-capital losses may be utilized to reduce future years' taxable income and expire for Canada up to 2028 and for Mexico up to 2018 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.

15. SEGMENTED INFORMATION

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

		Canada	Mexico	El Salvador		Total
2008						
Capital Assets						
Equipment	$	15,485	4,285,153	-	$	4,300,638
Mineral properties	$	-	12,004,001	-	$	12,004,001
2007						
Capital Assets						
Equipment	$	20,551	-	-	$	20,551
Mineral properties	$	-	5,053,456	3,666,709	$	8,720,165

16. SUBSEQUENT EVENTS

The following event occurred subsequent to December 31, 2008.

(a) The Company granted 200,000 incentive stock options to directors of the Company exercisable at $0.45 per share until January 8, 2014.

(b) The Company entered into a letter of intent with Sandstorm Resources Ltd. ("Sandstorm") whereby Sandstorm has agreed to purchase 20% of the gold produced (the "produced gold") over the life of the Santa Elena mine for an upfront fee of US$12,000,000 and a payment for each ounce of produced gold of the lesser of US$350 per ounce and the prevailing spot gold market price, subject to an increase equal to 1% per annum beginning on the 3rd anniversary of the date the Santa Elena mine begins commercial production (the "transaction" or "gold purchase agreement").

In addition to the gold purchase agreement payments, the Company at its option, can require Sandstorm to advance by way of a senior secured convertible loan US$6,000,000 to be used to advance the Santa Elena mine. The convertible loan will be outstanding for a period of 3 years and will bear interest at 7% per annum. 50% of the convertible loan is convertible at any time at Sandstorm's option, into common shares of the Company at a price of $0.80 per share. The remaining 50% of the convertible loan can be convertible at any time at Sandstorm's option, into ounces of gold at a deemed price of US$1,000 per ounce.

The letter of intent is terminated if;

(i) The gold purchase agreement and the convertible loan agreement are not executed by May 15, 2009;

(ii) A closing of the transaction has not occurred by May 30, 2009 ;

(iii) Sandstorm does not provide notification to the Company by April 15, 2009 confirming that it is satisfied with the results of all due diligence investigations of the Company;

(iv) Sandstorm fails to complete a financing for a minimum of $60,000,000 by April 30, 2009.