



**MANAGEMENT DISCUSSION & ANALYSIS
FORM 51-102F1**

**JUNE 30, 2009
SECOND QUARTER**

FORWARD LOOKING STATEMENTS

Certain statements contained in this Management Discussion and Analysis (the "MD&A") and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results and performance of achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which are relevant only as of the date the statements were made.

PRELIMINARY INFORMATION

The MD&A is an overview of the activities of **SilverCrest Mines Inc.** (the "Company") for the three and six month period ended June 30, 2009. The MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the period ended June 30, 2009 and the audited consolidated financial statements for the year ended December 31, 2008 and the notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts are stated in Canadian dollars unless otherwise indicated.

The effective date of this Management Discussion & Analysis is August 27, 2009.

Additional information related to the Company is available for view on SEDAR at www.sedar.com and on the Company's website www.silvercrestmines.com.

OVERALL PERFORMANCE

SilverCrest Mines Inc. is an exploration and development company with a portfolio of high grade silver-gold deposits and exploration properties located in Mexico and El Salvador. The Company's principal project is the Santa Elena Project in Mexico. The Company received funding in June 2009, through Macquarie Bank Limited ("MBL") to complete the final acquisition payment on the Santa Elena Project. Once 100% held, plant commissioning will commence with commercial production planned for 2010.

The **SANTA ELENA PROJECT** is located approximately 150 kilometres northeast of Hermosillo, Sonora, Mexico. In July the Company exercised its option to complete the acquisition of the Santa Elena Project. To exercise the option the Company, upon federal registration of the title documents, will pay US\$1,575,000 in cash and US\$525,000 by issuing 1,216,968 common shares of the Company at an issue price of \$0.50 per share.

SANTA ELENA PROJECT HIGHLIGHTS

- During the quarter, the Company's primary focus was on securing financing for the construction of the Santa Elena open pit, heap leach gold and silver project, preparing for construction and receiving several additional permits and agreements for operations.
- Acquisitions of water rights were completed for the Santa Elena Project sufficient to provide adequate supply for the open pit heap leach operation.
- Major contractor bid packages were completed and submitted for competitive bidding. Short listing of potential contractors is underway.
- Detailed engineering drawings were revised by Sonoran Resources, LLC and Allard Engineering Services, LLC with emphasis on optimizing pad, ponds and Merrill Crowe processing plant. Detailed construction schedules were also revised.
- An independent feasibility study for Santa Elena based on the independent pre-feasibility ("PFS") and internal feasibility studies has been implemented under the supervision of SRK Consulting Inc. from Denver, Colorado. Results from this study are expected by November 2009. Emphasis is on mining optimization of the current reserve and revision of the PFS Life of Mine Plan ("LOMP").
- Four priority exploration targets have been defined at Santa Elena with follow up work anticipated in Q3, 2009.
- Payments totaling CDN \$5.1 million have been made for the purchase of a 3 stage Cedar Rapids crusher system and a Merrill Crowe processing plant to be used at the Santa Elena Project. The crusher and Merrill Crowe processing plant are complete and fully paid for and awaiting transport to site.

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SANTA ELENA PROJECT HIGHLIGHTS (continued)

- The Company announced on March 12 that it entered into a letter of intent with Sandstorm Resources Ltd. ("Sandstorm") whereby Sandstorm will provide US\$12 million in upfront development financing and 3.5 million shares of Sandstorm to acquire 20% of the future life of mine gold production from the Santa Elena Project. The Company will also receive an additional US\$350 per ounce upon delivery of gold. On May 14 a definitive gold purchase agreement was signed with Sandstorm.
- Effective May 21 the Board of Directors adopted a shareholder rights plan to ensure fair treatment of shareholders in the event of any take over offer for the Company's common shares.
- On June 8 the Company announced that it had accepted a letter of offer from MBL for a US\$12.5 million Project Loan Facility and associated hedging facilities to partially fund the cost of development of the Santa Elena Project. Under the hedging facility 55,000 ounces of gold were sold at US\$926.50 per ounce for delivery beginning in September, 2010.
- On June 15 the Company announced that it accepted a letter of offer from MBL for a \$3.0 million Bridge Finance Facility to partially fund the acquisition cost for 100% the Santa Elena Project.
- On June 25 the Company completed a public offering of 12,650,000 Units at a price of \$0.50 per Unit. Each Unit comprised one common share and a one-half of one common share purchase warrant at a price of \$0.65 for a period of 18 months. Gross proceeds of \$6,350,000 from the offering will be used to continue exploration of the potential expansion of resources at Santa Elena as well as examine other potential growth alternatives.

The Company has significantly exceeded its initial target for the Santa Elena Project gold equivalent resource by increasing the strike length and depth of the deposit and developing resources in a previously untested footwall zone and defining mineralization to depth and to the east in the main zone. The Company has completed a total of 98 core holes (15,8791 m), four geotechnical core holes (1,163 metres) and 21 reverse circulation drill holes (4,308 metres) to upgrade and expand the Resources.

Based on the results of a total 41 Phase 1 drill holes and extensive underground sampling, the results of resource estimate were released on June 26, 2008. The Santa Elena Pre-Feasibility Study was completed on the basis of the Reserves shown in the following table:

Santa Elena Mineable Reserves- August 2008

Reserve Category ¹	Million Metric Tonnes	Au gpt	Ag gpt	Million Short Tons	Au opt	Ag opt	Contained Gold Ounces ²	Contained Silver Ounces
Probable	6.54	1.61	56.70	7.21	0.047	1.68	339,600	11,927,100

As part of the calculation of the Reserves for the Pre-Feasibility Study, the Indicated and Inferred Resources which lie outside the current open pit plan, were re-stated. The revised Resources are shown in the following table:

**Santa Elena Indicated and Inferred Resources – August 2008
(Excludes Mineable Reserves)**

Resource Category ¹	Million Metric Tonnes	Au gpt	Ag gpt	Million Short Tons	Au opt	Ag opt	Contained Gold Ounces ²	Contained Silver Ounces
Indicated	1.80	1.32	75.00	1.98	0.039	2.19	76,300	4,334,000
Inferred	2.27	1.67	104.10	2.50	0.049	3.04	121,900	7,596,000

¹ Conforms to NI 43-101, 43101CP and current CIM definitions for resources. All numbers are rounded. Measured resources included in Indicated.

² Cutoff grade for Santa Elena is 30 gpt Ag equivalent (0.5 gpt Au equivalent).

The Pre-Feasibility Study (PFS) was completed with the statement of reserves and revised resources. Details of the study and drill results are available in press releases on the Company's web site at www.silvercrestmines.com and the NI43-101 Technical Report is filed on SEDAR @ www.sedar.com.

In January 2009, a new Indicated and Inferred Resource was completed, (press release January 15, 2009) and are shown in the following table:

A Technical Report dated February 15, 2009 was filed on SEDAR for the new resources. The estimated Underground Resources have been extracted from the Overall Resources as shown in the table below by applying a cut-off grade of 1.75 g/t. The Probable Reserve estimation remained the same as shown above and stated in the Pre-Feasibility Study dated August 11, 2008 and is not part of the Indicated and Inferred Resource estimation.

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SANTA ELENA PROJECT (continued)**Indicated and Inferred Mineral Resources – January 2009⁽¹⁾ (Excludes Mineable Reserves)**

	Category	Tonnes (000s)	Gold Grade (Au g/t)	Silver Grade (Ag)	Contained Gold (ounces)	Contained Silver (ounces)
Santa Elena ⁽²⁾⁽³⁾⁽⁴⁾ (Overall)	Indicated	2,161	2.75	170.2	190,666	11,815,600
	Inferred	3,259	1.11	76.2	116,235	7,977,000
Santa Elena ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾ ("Underground")	Indicated	1,084	2.10	127.6	73,235	4,448,800
	Inferred	1,350	1.94	121.5	84,057	5,276,300

- (1) The mineral resource estimates for the Santa Elena Project set out in the table above have been prepared by Nathan Eric Fier, C.P.G., P.Eng., Chief Operating Officer of SilverCrest, who is a qualified person under NI 43-101. The mineral resources are classified as indicated and inferred and are based on the CIM Standards.
- (2) Composites capped at 12 grams of gold per tonne and 300 grams of silver per tonne.
- (3) Cut-off grade of 0.5 grams of gold equivalent for the "Overall" resources.
- (4) Numbers have been rounded.
- (5) "Underground" Mineral Resources are estimated at a cut-off grade of 1.75 g/t Au equivalent at a ratio of 83:1 (Ag: Au) using a 94% Au recovery and 80% Ag recovery and are included in the "Overall" resources.
- (6) Mineral Resources are estimated using a long-term gold price of US\$850 per ounce, a silver price of US\$12 per ounce, and a US\$:peso exchange rate of 1:10.58.
- (7) Minimum mining width of 2 metres.

During the six month period ended June 30, 2009, the Company made an option payment of US\$600,000 (\$673,800) and incurred development costs of \$1,317,763 on the Santa Elena Project. Most of the expenses incurred on the project during this period consist of technical and consulting \$858,265, salaries \$210,643 and operations \$143,720.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations to date primarily through the issuance of common shares and proceeds from Macquarie Bank Limited ("MBL") credit facility. The Company currently has no operations from which to derive revenues. It receives minor income from interest on cash balances.

Net cash used for investing activities for the six month period ended June 30, 2009 was \$3,158,465. Cash used during the period primarily consists of \$2,302,882 spent on mineral properties and \$855,583 on equipment acquisition in Mexico.

During the six month period ended June 30, 2009, the Company completed a \$6,325,000 financing offering (12,650,000 Units at \$0.50 per Unit) less share issuance and finders' costs of \$681,769 and a \$3,000,000 drawdown on an amended Credit Agreement ("Bridge Loan") with MBL dated June 9, 2009. The drawdown is to be used to partially fund the cost of the completion payment on the Santa Elena Project. Net cash provided by financing activities for the period ended June 30, 2009 was \$8,643,231.

The Company has met all its material commitments to date in 2009.

Sandstorm Resources Ltd ("Sandstorm") Agreement

On May 15, 2009 the Company entered into a definitive gold purchase agreement with Sandstorm whereby they agreed to purchase 20% of the life of mine gold production from the Santa Elena Project. The agreement calls for:

- (a) a US\$12 million upfront cash payment plus
- (b) the lesser of US\$350 and the prevailing market price of gold for each ounce of gold delivered under the contract and
- (c) 3,500,000 common shares of Sandstorm.

The upfront cash and shares will be released to SilverCrest upon the satisfaction of certain funding conditions. For more detailed information on this transaction please refer to news releases dated March 12 and April 16, 2009 on the Company's web site at www.silvercrestmines.com and the Prospectus filed on SEDAR @ www.sedar.com.

LIQUIDITY AND CAPITAL RESOURCES (continued)**Macquarie Bank Limited (“MBL”) Agreement**

On June 6, 2009 the Company accepted a letter of offer from MBL for a US\$12.5 million Project Loan Facility (“Project Loan”) and associated hedging facilities (the “Hedge Facility”) to partially fund the cost of development of the Company’s Santa Elena Project.

The Project Loan will bear interest at the U.S. dollar LIBOR rate plus 6.0% per annum before repayment of 50% of the Project Loan and 5.5% after repayment of 50% of the Project Loan. The Project Loan shall be repaid in full on or before March 31, 2013 pursuant to an amortization schedule.

Security for the Project Loan will include a general security agreement and guarantees from the Company. Drawdowns under the Project Loan will be subject to the terms and conditions of a definitive Project Loan agreement to be entered into, including various due diligence conditions and other customary lending conditions.

The Company has agreed to pay MBL certain fees customary for such a facility and to issue five million common share purchase warrants, each warrant exercisable to purchase one common share of the Company for a period of three years at a price of \$0.90 per share. Outstanding warrants to MBL will be cancelled.

The Hedging Facility was established to cover 55,000 ounces of gold production over the first three years of production at a contract price of US\$926.50 which will guarantee proceeds over three years of approximately US\$50.9 million upon delivery of this portion of Santa Elena’s gold production.

On June 15, 2009 the Company drew down \$3.0 million from their Bridge Loan with MBL to partially fund the cost of the completing payment of the acquisition cost of the Santa Elena Project. The Bridge Loan is made in connection with the Project Loan and is to be repaid from the first drawdown of the Project Loan or the date that is six months from execution of the Bridge Loan. The Bridge Loan will bear interest at the Cdn dollar LIBOR rate plus 7.5% per annum.

In consideration for the provision of the Bridge Loan, the Company has agreed to pay MBL certain fees customary for such facility and granted MBL a European gold call option for 5,000 ounces of gold at a strike price at the higher of US\$1,000 per ounce and the spot gold price on the date upon which all conditions precedent to the first drawdown of the Bridge Loan are met, with an option expiry date of June 13, 2012.

For more detailed information on this transaction please refer to news releases dated June 8 and June 15, 2009 on the Company’s web site at www.silvercrestmines.com and the Prospectus filed on SEDAR @ www.sedar.com

These funds provide sufficient working capital for the Company to complete its 2009 exploration and development program and carry out its day to day operations.

The following table contains selected financial information of the Company’s liquidity and capital resources:

		June 30, 2009		December 31, 2008
Cash	\$	8,586,321	\$	3,868,799
Mineral properties	\$	14,012,150		12,004,001
Working capital	\$	2,388,332	\$	3,642,712

FINANCIAL PERFORMANCE**Results of operations for the three months ended June 30, 2009 and 2008**

The net loss for the three months ended June 30, 2009 is \$2,339,424 as compared to \$250,941 in 2008. The increase is mostly attributable to the unrealized loss on derivative instruments of \$1,472,030 (2008: \$Nil). The derivative loss comprises of \$511,000 relating to a gold price protection program and \$960,530 relating to the fair value of a European gold call option. Other differences of note are the following:

- Transaction costs amounted to \$136,830 (2008: \$NIL) in relation to the MBL finance facilities.
- General exploration amounted to \$61,913 (2008: \$NIL) for maintenance of the El Zapote project in El Salvador.
- Interest on long term debt amounted to \$40,047 (2008: \$Nil) as the MBL finance facilities were in place in the quarter.
- Investor relations and travel amounted to \$102,987 (2008: \$31,032) due to increased investor relation activities and web based advertising.
- Professional fees amounted to \$102,409 (2008: \$63,476) due to additional services relating to filing a short form prospectus and various contractual matters.
- Interest income decreased to \$1,421 (2008: \$66,000) due to lower interest rates as the Company maintained cash on deposit rather than in short term investments.
- Foreign exchange loss (gain) increased to \$213,842 (2008: (\$5,532)) as a result of changes in currency valuations.

Results of operations for the six months ended June 30, 2009 and 2008

The net loss for the six months ended June 30, 2009 is \$2,583,897 as compared to \$1,158,362 in 2008. The increase is mostly attributable to the unrealized loss on derivative instruments of \$1,472,030 (2008: \$Nil). The derivative loss comprises of \$511,000 relating to a gold price protection program and \$960,530 relating to the fair value of the European gold call option. The increase is partially offset by a decrease in stock based compensation \$75,060 (2008: 716,500) as 200,000 stock options were granted, 256,250 vested during the period ended June 30, 2009 compared with 981,250 stock options vested during the same period in 2008. Other differences of note are the following:

- Transaction costs amounted to \$136,830 (2008: \$NIL) in relation to the MBL finance facilities.
- General exploration amounted to \$61,913 (2008: \$NIL) for maintenance of the El Zapote project in El Salvador.
- Interest on long term debt amounted to \$70,223 (2008: \$Nil) as the MBL finance facilities were in place in the period.
- Investor relations and travel amounted to \$191,723 (2008: \$82,484) due to increased investor relation activities and web based advertising.
- Professional fees amounted to \$111,428 (2008: \$79,105) due to additional services relating to the short form prospectus and various contractual matters.
- Interest income decreased to \$5,788 (2008: \$101,862) due to lower interest rates as the Company maintained cash on deposit rather than in short term investments.
- Foreign exchange loss increased to \$115,150 (2008: \$37,610) as a result in changes in currency valuations.

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SUMMARY OF QUARTERLY RESULTS

The following financial data is selected information for the Company for the eight most recently completed financial quarters:

Period	Revenues (S)	Net Loss (S)	Net Loss per Share ⁽¹⁾
2 nd Quarter 2009	Nil	(\$2,339,424)	(\$0.05)
1 st Quarter 2009	Nil	(\$244,473)	(\$0.01)
4 th Quarter 2008	Nil	(\$4,939,692)	(\$0.11)
3 rd Quarter 2008	Nil	(\$856,953)	(\$0.02)
2 nd Quarter 2008	Nil	(\$250,941)	(\$0.01)
4 th Quarter 2008	Nil	(\$907,421)	(\$0.02)
1 st Quarter 2007	Nil	(\$385,537)	(\$0.01)
3 rd Quarter 2007	Nil	(\$49,412)	(\$0.00)

⁽¹⁾ Calculated on a basic and fully diluted per share basis.

The fluctuations in the net losses per quarter are generally a result of stock-based compensation expenses. The net Loss for the fourth quarter of 2008 is due primarily to transaction costs and the write-off of a mineral property and for the second quarter of 2009 the net loss is primarily due to unrealized loss on derivative instruments.

INVESTOR RELATIONS

Management currently performs all investor relation services and there were no external investor relation contracts or commitments during the six month period ended June 30, 2009. Investor relations activities consist mainly of web-site and print advertising. Shareholder communications comprises communicating with existing shareholders, broadcasting news releases, printing, production work for the Company's website, and direct website expenses. The Company also attends trade shows on a regular basis to present the affairs and merits of the Company to potential investors.

SUBSEQUENT EVENTS

On July, 22, 2009 the Company granted 925,000 incentive stock options to directors, officers and consultants of the Company with an exercise price of \$0.50 until July 22, 2014

In July the Company exercised its option to complete the acquisition of the Santa Elena Project. To exercise the option the Company, upon federal registration in Mexico of the title documents, will pay US\$1,575,000 in cash and US\$525,000 by issuing 1,216,968 common shares of the Company at an issue price of \$0.50 per share.

OFF BALANCE SHEET ARRANGEMENTS

As of June 30, 2009, the Company has no off balance sheet arrangements.

RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- Paid or accrued \$175,000 (2008 - \$138,500) for management fees to companies controlled by two directors.
- Paid or accrued \$87,500 (2008 - \$69,250) for project management fees to an officer of the Company which are included in mineral property expenditures.
- Paid or accrued \$63,565 (2008 - \$47,310) for legal fees which were included in professional fees, \$46,738 (2008: \$Nil) for transaction costs and \$119,374 (2008: \$59,464) for share issue costs paid to a law firm of which an officer of the Company is a partner.

Included in accounts payable and accrued liabilities at June 30, 2009 is \$80, 919 (2008: \$15,956) due to a law firm of which an officer of the company is a partner.

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.

PROPOSED TRANSACTIONS

In the normal course of business, the Company evaluates property acquisition transactions and, in some cases, makes proposals to acquire such properties. These proposals, which are usually subject to Board, regulatory and, sometimes, shareholder approvals, may involve future payments, share issuances and property work commitments. These future obligations are usually contingent in nature and generally the Company is only required to incur the obligation if it wishes to continue with the transaction. As of this date, the Company has a number of possible transactions that it is examining. Management is uncertain whether any of these proposals will ultimately be completed.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, the Company adopted the new CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This abstract provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this abstract did not have a material impact on the Company's interim consolidated financial statements.

In March 2009, the Emerging Issues Committee of the CICA issued EIC-174, Mining Exploration Cost. This abstract provides guidance on the accounting and the impairment review of capitalized exploration costs. The adoption of this abstract did not have a material impact on the Company's interim consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS**Business combinations, non-controlling interest and consolidated financial statements**

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace 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 IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. 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 these Sections is permitted and all three Sections must be adopted concurrently.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian public enterprises will need to adopt International Financial Reporting Standards effective for years beginning on or after January 1, 2011. Accordingly, the Company will be required to adopt IFRS on January 1, 2011. The transition will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 30, 2010. The conversion to IFRS from Canadian GAAP may materially affect the Company's reported financial position and results of operations and will affect the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures.

The transition may also impact business activities, such as foreign currency and hedging activities, certain contractual arrangements, debt covenants, capital requirements and compensation arrangements. The Company is currently evaluating the impact of the transition to IFRS on its financial reporting systems and business activities and ensuring the appropriate personnel resources and training are in place to ensure an efficient transition.

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 and development 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 its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents and amounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions.

c. Interest Rate Risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and 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 equivalents as they are generally held with large financial institutions. Interest expense is calculated at a rate of Canadian LIBOR plus 2.75 and 7.5% which currently is approximately 4.00 and 8% respectively.

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.

The Company's cash and equivalents, amounts 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. In order to mitigate this risk, the Company has entered into a gold price protection program. The gold price protection program is comprised of 55,000 ounces of sold call options for the first three years of production of the Santa Elena Project at a minimum price of US\$926.50 per ounce. As at June 30, 2009, the Company has a mark to market derivative instrument liability of \$511,500.

INDUSTRY AND ECONOMIC FACTORS AFFECTING PERFORMANCE

Certain factors affect the Company's ability to finance and to carry on normal business. These include precious metal prices, competition amongst exploration firms for attractive mineral properties, the interest of investors in providing high-risk equity capital to exploration companies, and the availability of qualified staff and drilling equipment to conduct exploration. For the Company, which is focused almost exclusively on exploration and development of silver resources, silver prices and the availability of equity funds are important factors.

RISK FACTORS AND UNCERTAINTIES

Mineral exploration and development involves a high degree of risk and few properties are ultimately developed into producing mines. Several of the Company's properties have silver resources; however, substantial expenditures will be required to confirm sufficient reserves required to commercially mine its current properties and to obtain the environmental approvals and permitting required to commence commercial operations. Should any resource be defined on other properties there can be no assurance that the mineral resources can be commercially mined or that the metallurgical processing will produce economically viable, saleable products.

Future operations, if any, of the Company, including development activities and commencement of production on its properties, will require permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for the construction of any mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations.

OUTSTANDING SHARE CAPITAL

As at June 30, 2009 the Company had outstanding 58,149,489 common shares. In addition the Company had outstanding 3,455,000 share purchase options and 12,303,773 share purchase warrants for total diluted shares outstanding of 73,908,262.

As at the date hereof, the Company has outstanding 58,149,489 common shares. In addition the Company has outstanding 4,380,000 share purchase options and 12,303,773 share purchase warrants for total diluted shares outstanding of 74,833,262. The increase in outstanding share purchase options represents 925,000 new options granted to directors, officers and consultants.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future value for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. Management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

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MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES

Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operations of internal controls over financial reporting. There have been no changes in the Company's disclosure controls and procedures during the six month period ended June 30, 2009.

DISCLAIMER

The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. It should be read in conjunction and in context with all other disclosure documents of the Company. The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented.