



ECU Silver Mining Inc.
Consolidated Financial Statements
December 31, 2008

Management's Report on Responsibility

The preparation and presentation of the accompanying consolidated financial statements is the responsibility of the Company's management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgement.

Management, under the supervision of and the participation of the Chief Executive Officer and Chief Financial Officer have a process in place to evaluate disclosure controls and procedures and internal controls over financial reporting as required by Canadian securities regulators.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is responsible for reviewing and approving the consolidated financial statements. The Audit Committee reviews the results of the audit and the consolidated financial statements and submits its findings to the Board of Directors for their consideration when approving the consolidated financial statements.

Signed "MICHEL ROY"

Michel Roy
Chief Executive Officer

Signed "DWIGHT WALKER"

Dwight Walker
Chief Financial Officer

March 26, 2009

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of ECU Silver Mining Inc. as at December 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss 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.



Guimond Lavallée Inc.
Chartered accountants
Brossard, Quebec

March 26, 2009

(1) Chartered accountant auditor permit no. 23358

ECU SILVER MINING INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
as at December 31, 2008 and 2007

<u>(in Canadian dollars)</u>	<u>2008</u> \$	<u>2007</u> \$ (restated)
ASSETS		
Current assets		
Cash and cash equivalents	538,215	8,645,927
Restricted cash <i>(Note 15)</i>	398,385	—
Accounts receivable, advances and deposits <i>(Note 4)</i>	1,654,764	2,418,206
Prepaid expenses	53,223	136,065
	<u>2,644,587</u>	<u>11,200,198</u>
Mining property costs and property, plant and equipment <i>(Note 6)</i>	60,952,247	49,004,983
	<u>63,596,834</u>	<u>60,205,181</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	5,323,049	1,971,616
Promissory notes payable <i>(Note 7)</i>	1,521,752	—
Current portion of long-term debt <i>(Note 8)</i>	3,059,313	—
	<u>9,904,114</u>	<u>1,971,616</u>
Long-term debt <i>(Note 8)</i>	15,280,736	11,784,000
Convertible debentures <i>(Note 9)</i>	5,128,708	—
	<u>30,313,558</u>	<u>13,755,616</u>
SHAREHOLDERS' EQUITY		
Share capital <i>(Notes 10, 11 and 12)</i>	111,597,713	111,602,582
Equity component of convertible debentures <i>(Note 9)</i>	869,014	—
Contributed surplus <i>(Note 13)</i>	14,634,913	10,622,067
Deficit	(93,818,364)	(75,775,084)
Accumulated other comprehensive income	—	—
	<u>33,283,276</u>	<u>46,449,565</u>
	<u>63,596,834</u>	<u>60,205,181</u>

Commitments and contingencies *(Notes 14 and 15)*

Approved by the Board of Directors:

Signed "MICHEL ROY"
Director

Signed "TALAL CHEHAB"
Director

The accompanying notes are an integral part of the consolidated financial statements

ECU SILVER MINING INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
for the years ended December 31, 2008 and 2007

<u>(in Canadian dollars)</u>	<u>2008</u> <u>\$</u>	<u>2007</u> <u>\$</u> (restated)
EXPENSES		
General and administration — Mexico	3,721,022	3,375,225
General and administration — Canada	1,583,294	1,742,211
Stock based compensation	3,922,655	1,267,112
Depreciation	148,054	123,225
Interest income	(103,623)	(390,383)
Interest and bank charges	246,075	813,192
Interest on long term debt	2,627,347	1,582,150
Financing fees for convertible debentures	302,982	—
Foreign exchange (gain) loss	3,525,156	(688,302)
Provision for loan loss <i>(Note 4)</i>	1,242,934	—
Write-down of inventory <i>(Note 5)</i>	827,384	879,137
Write-down of mining property interests <i>(Note 6 (vii))</i>	—	288,102
	<u>18,043,280</u>	<u>8,991,669</u>
Loss and Comprehensive Loss for the year	(18,043,280)	(8,991,669)
Deficit, beginning of year	(75,775,084)	(66,783,415)
Deficit, end of year	(93,818,364)	(75,775,084)
Loss per share <i>(Note 16)</i>		
Basic and diluted loss per share	(0.07)	(0.04)
Weighted average number of shares outstanding		
Basic	242,609,557	228,045,838
Diluted	243,790,807	230,748,016

The accompanying notes are an integral part of the consolidated financial statements

ECU SILVER MINING INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2008 and 2007

<u>(in Canadian dollars)</u>	<u>2008</u> \$	<u>2007</u> \$ (restated)
OPERATING ACTIVITIES		
Loss for the period	(18,043,280)	(8,991,669)
Items not affecting cash		
Depreciation	148,054	123,225
Stock-based compensation	3,922,655	1,267,112
Write-down of inventory	827,384	879,137
Unrealized foreign exchange loss (gain)	2,675,183	(879,705)
Accretion interest — convertible debentures	52,875	—
Loss on disposal of capital asset	16,688	—
Provision for loan loss	1,242,934	—
Write-down of mining property interests	—	288,102
Bank charges funded through warrant issue	—	146,619
Changes in non cash working capital items		
Accounts receivable	479,492	(220,838)
Inventory	(827,384)	(879,137)
Prepaid expenses	(82,842)	264,963
Accounts payable and accrued liabilities	3,351,433	(559,145)
Cash used in operating activities	(6,236,808)	(8,561,336)
INVESTMENT ACTIVITIES		
Mining property costs & supplies — net	(10,488,013)	(14,515,070)
Purchase of property, plant and equipment	(1,533,804)	(2,995,944)
Cash used in investing activities	(12,021,817)	(17,511,014)
FINANCING ACTIVITIES		
Shares and warrants issued for cash, net of cash costs	(4,869)	31,402,237
Proceeds from convertible debentures	6,000,000	—
Financing costs related to the equity component of convertible debentures	(55,153)	—
Increase in long term debt	3,139,649	1,554,209
Increase in prommissory notes payable	1,534,033	—
Decrease in credit facilities	—	(290,970)
Cash generated by financing activities	10,613,660	32,665,476
Effect of exchange rate changes on cash and cash equivalents	(27,597)	(30,650)
Increase in restricted Cash	(435,150)	—
Increase (Decrease) in cash and cash equivalents during the year	(8,107,712)	6,562,476
Cash and cash equivalents, beginning of year	8,645,927	2,083,451
Cash and cash equivalents, end of year	538,215	8,645,927

The accompanying notes are an integral part of the consolidated financial statements

ECU SILVER MINING INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the years ended December 31, 2008 and 2007
(in Canadian dollars unless otherwise noted)

1. NATURE OF ACTIVITIES

ECU Silver Mining Inc. (“ECU”, or the “Company”) is engaged in the acquisition, exploration and development of mining properties in Mexico that are mainly gold-bearing and silver-bearing. The Company has earned revenues from its exploration and development activities and is considered to be in the development stage. It has not yet determined whether a sufficient proportion of its mineral resources are economically exploitable and, accordingly, has not yet determined whether the mining properties contain economic mineral reserves.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the company will, in the ordinary course of business, be able to realize its assets and discharge its liabilities. The recoverability of the accumulated costs shown for mining properties and related deferred costs is dependent upon the existence of economically recoverable reserves, future profitable production, and on the Company’s ability to obtain the necessary financing to fund its operations.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed by the Company are summarized as follows:

a) Basis of Presentation

The consolidated financial statements include the accounts of the Company and those of its subsidiaries, all 100% owned by ECU, BLM Minera Mexicana S.A. de C.V., Minera William S.A. de C.V., and Minera Labri S.A. de C.V. All inter-company transactions and balances have been eliminated.

b) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes to consolidated financial statements. Significant areas where management’s judgement has been applied include; the useful life of capital assets, the estimated net realizable value of inventory, asset impairment, stock-based compensation, and future income tax assets and liabilities. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

c) Revenue recognition

Revenue is recognized upon delivery when title and risk of ownership of metal and metal bearing concentrates passes to the buyer and when collection is reasonably assured. The contained metal in the concentrates shipped is assayed and the appropriate negotiated amount of recoverable metal contained therein is recorded as revenue based on the then current market rate of the metals. The concentrates are sold under contracts that provide for final prices to be determined by quoted market prices in a period subsequent to the date of the sale. Variations from the provisionally priced sales are recognized as revenue adjustments in the period they occur.

As the Company is in the development stage, all revenues are offset against mining properties and deferred exploration costs in accordance with the recommendations of the Emerging Issues Committee, EIC 27 “Revenues and Expenditures During the Pre-operating Period”.

d) Foreign Exchange

The Canadian dollar is the functional currency of the Company. Monetary assets and liabilities are translated at the rate of exchange in effect at year-end. Other assets and liabilities are translated at their historic rates. Items appearing in the income statement, except for depreciation translated at historic rates, are translated at average year rates. Exchange gains and losses are included in the income statement.

e) Cash and cash equivalents

The Company’s policy is to present cash and temporary investments having a term of three months or less from the acquisition date with cash and cash equivalents.

ECU SILVER MINING INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for the years ended December 31, 2008 and 2007
(in Canadian dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Inventory

Materials-in-process (concentrates) are valued at lower of average production cost and net realizable value.

g) Mining Properties, and Deferred Exploration and Development Expenses

The amounts recorded as mining properties and deferred exploration costs represent exploration, development and associated operating costs incurred to date and are not intended to reflect present or future values. These costs are deferred until the discovery of economically exploitable reserves and the start-up of the production phase on a property-by-property basis or until the property is abandoned. Mining properties are abandoned when management allows property interests to lapse or when they determine that properties are not economically viable. Costs accumulated relating to projects that are abandoned are written-off in the year in which a decision to discontinue the project is made.

When it has been determined that a mining property can be economically developed as a result of establishing proven and probable reserves, costs incurred prospectively to develop the property are capitalized as incurred and are amortized using the units-of-production method over the estimated life of the ore body based upon recoverable ounces to be mined from estimated proven and probable reserves.

The Company is in the development stage and by definition commercial production has not yet commenced. Commercial production occurs when an asset or property is substantially complete, is fully permitted and ready for its intended use. No amortization of mining properties has been charged in these financial statements.

On a periodic basis, senior management reviews the carrying values of mining properties and deferred exploration expenditures with a view to assessing whether there has been any impairment in value. In the event that it is determined there is an impairment in the carrying value of any property, the carrying value will be written down or written off, as appropriate. There was no impairment write-down required at December 31, 2008.

Supplies and spare parts are valued at the lower of average cost and replacement cost.

h) Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided for plant and equipment on a straight-line basis over the estimated useful lives of the related assets and deferred to mining properties or charged to expense as appropriate. The following estimated useful lives are being used:

Buildings	20 years
Leasehold improvements	2 or 8 years
Automotive	4 years
Machinery and equipment	10 years
Computer equipment	3½ years
Office equipment	10 years

i) Asset retirement obligations

The Company records the present value of its legal obligations associated with the asset retirement when the liability is incurred. The corresponding amount is capitalized as part of the related mining property's carrying value. While the associated mining property is in the pre-production stage, the liability is accreted over time through periodic charges to mining property costs. In each subsequent period, the carrying amounts of the asset and the liability are adjusted for changes to the Company's estimate of future cash flows associated with the retirement obligations.

Management estimates that the current present value of legal obligations for asset retirement is de minimis.

j) Income and Mining Taxes

The Company uses the liability method to account for income taxes. Under this method of Section 3465, 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 by using

ECU SILVER MINING INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for the years ended December 31, 2008 and 2007
(in Canadian dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

enacted or substantively enacted tax rates expected to apply to taxable income in the years during which those temporary differences are expected to be recovered or settled. Under Section 3465, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

k) Basic and Diluted Loss per Share

The basic loss per share is calculated using the weighted average number of shares outstanding during the year. We follow the treasury stock method in calculating diluted earnings per share. Under this method, the weighted average number of shares includes the potentially dilutive effects of the conversion of in-the-money stock options and warrants into common shares. The effect of potential issuances of shares under options and warrants would be anti-dilutive when a loss is reported, and therefore basic and diluted losses per share are the same.

l) Stock-based compensation

Stock options granted prior to 2004 were accounted for using the intrinsic value at the grant date, which does not result in a charge to earnings because the exercise price was not less than the market price at the grant date.

Commencing in 2004, stock options granted to employees and non-employees have been accounted for using the fair value method. Under this method, the compensation cost is measured as at the date of the grant by applying the Black-Scholes option pricing model. The determined fair value is recognized as a cost over the vesting period with a corresponding increase to contributed surplus. On the exercise of stock options, consideration paid and the associated contributed surplus is credited to common shares.

m) Financial Instruments

All financial assets and financial liabilities are classified as either: held-for-trading, available-for-sale, held-to-maturity, loans-and-receivables or other liabilities. Financial assets classified as held-for-trading or available-for-sale, are measured at fair value. Held-to-maturity, and loans-and-receivables are measured initially at fair value then at amortized cost over their term. Financial liabilities are measured at their fair value when they are classified as held-for-trading otherwise they are measured at amortized cost over their term. Initial differences between fair value and maturity value are amortized using the effective interest method.

Holding gains and losses from available-for-sale assets are included in other comprehensive income until realized at which time they are transferred to net income (loss).

Transaction costs such as arrangement and advance fees charged by the Company's principal lender in connection with long term debt are expensed at the time they are incurred.

n) Adoption of New Accounting Pronouncements

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

(i) Section 1535 — Capital Disclosures

This section establishes disclosure standards for information about an entity's capital in order for a user of the financial statements to evaluate how the entity manages its capital, including: qualitative information about its objectives, policies and processes for managing capital; summary quantitative data about what it manages as capital; and whether during the period it complied with any externally imposed capital requirements to which it is subject and the consequences of any such non-compliance, if applicable.

(ii) Section 3030 — Inventories

This standard revises guidance on the measurement and disclosure requirements for inventories. Specifically, it requires inventories to be measured at the lower of cost or net realizable value, and outlines the treatment for subsequent write-up of inventory previously written-down to net realizable value.

ECU SILVER MINING INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for the years ended December 31, 2008 and 2007
(in Canadian dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) Sections 3862 and 3863 — Financial Instruments, Disclosures and Presentation

These sections enhance the disclosure standards for financial instruments to assist users in evaluating: the significance of financial instruments to the Company's financial position and performance; the measurement basis or bases and the criteria used to determine classification for different types of instruments; and, the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

o) Recent Accounting Pronouncements

Section 3062 — Goodwill and Intangible Assets

This new pronouncement becomes effective January 1, 2009 and establishes standards for the recognition, measurement, presentation, and disclosure of goodwill and of intangible assets. The Company is currently evaluating the impact of its adoption on the consolidated financial statements.

3. RESTATEMENT OF PREVIOUS YEAR'S FIGURES

The previous year's figures were restated to reflect changes to certain of the Company's accounting policies in order to comply with Canadian Institute of Chartered Accountants' Accounting Guideline 11 ("AcG-11"), "Enterprises in the Development Stage" as the Company now considers that, until such time as it completes an economic study and has proven and probable reserves, it cannot be considered to be in production and thus is in the development stage. A full description of the effect of the changes to the 2007 and prior years is detailed in the restated 2007 and 2006 financial statements.

4. ACCOUNTS RECEIVABLE, ADVANCES AND DEPOSITS

	2008 \$	2007 \$
Trade receivables	51,937	28,807
Expenses recoverable from Joint Venture partner	70,649	158,965
Value added taxes recoverable	1,457,646	1,218,971
Employee loans	—	614,926
Deposits and advances	74,532	396,537
	1,654,764	2,418,206

The Company is exposed to credit risk inasmuch as all of its sales are to one customer.

At December 31, 2008 the balance of employee loans receivable was \$1,242,934 (\$14,039,695 Mexican Pesos) (2007 — \$614,926 (\$6,844,458 Mexican Pesos)). These loans carry interest at an annual rate of 3%, are repayable in monthly payments of principal and interest of not less than \$10,623 (\$120,000 Mexican Pesos), and mature after a 5 year term. The employee's stock option agreements are being held as security. The company has taken a full loss provision against these loans dictated by the erosion in the value of the security following the decline in the Company's share price.

5. INVENTORY

The Company has reflected its gold pyrite material-in-process inventory at a net realizable value of zero. As such, it has recorded a write-down of inventory of \$827,384 (\$879,137 - 2007). Management believes that it can optimize the value of the gold pyrite material with further treatment of the material. The method we intend to use for further processing has been determined and the equipment and infrastructure for doing so is in place. We are currently in the process of testing the consistency of the equipment and running batch treatment tests of the gold/pyrite material. We are also evaluating and negotiating a sales contract for the processed material. The inventory will be reflected at a net realizable value of zero until such time as the processing method has been proven and the sales contracts are in place.

ECU SILVER MINING INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for the years ended December 31, 2008 and 2007
(in Canadian dollars unless otherwise noted)

6. MINING PROPERTY COSTS AND PROPERTY, PLANT AND EQUIPMENT

	2008 \$	2007 \$		
	Cost	Accumulated Depreciation/ Depletion	Net Book Value	Net Book Value
Mining properties	52,414,384	—	52,414,384	40,744,362
Land, buildings and equipment	10,982,347	2,561,951	8,420,396	8,092,858
	63,396,731	2,561,951	60,834,780	48,837,220
Supplies and spare parts			117,467	167,763
			<u>60,952,247</u>	<u>49,004,983</u>

Expenditures on mining properties are as follows:

	2008 \$		
	Acquisition Cost	Deferred Costs	Total Cost
Velardeña	25,125,635	23,197,160	48,322,795
Chicago	624,721	2,544,464	3,169,185
San Diego	52,399	870,005	922,404
	<u>25,802,755</u>	<u>26,611,629</u>	<u>52,414,384</u>

	2007 \$		
	Acquisition Cost	Deferred Costs	Total Cost
Velardeña	25,125,635	12,771,627	37,897,262
Chicago	624,721	2,026,783	2,651,504
San Diego	52,399	143,197	195,596
	<u>25,802,755</u>	<u>14,941,607</u>	<u>40,744,362</u>

Velardeña

- (i) The Velardeña property is located in the Velardeña mining district, within the municipality of Cuencamé, in the northeast quadrant of the State of Durango, Mexico. The property is situated approximately 95 km southwest of the city of Torreón in the State of Coahuila and 140 km northeast of the city of Durango, capital of the State of Durango. The property consists of 20 contiguous mineral concessions totalling 233.2 hectares. In respect of four of such mineral concessions a third party has alleged to have an undivided 30% ownership interest. This matter is currently being litigated before the courts in Mexico, the Company having appealed the latest decision rendered as to title. In parallel to these court proceedings, the Company continues to pursue a negotiated settlement with such third party and, to such end, has made a good faith deposit of funds to be applied toward any future settlement. See note 15.
- (ii) The Company is actively exploring and developing the property. The company has also been processing mineralized material mined from the property through its flotation mill situated near the town of Velardeña. Deferred costs for the Velardeña property have been offset by the related revenues. During the year the total of such revenues was \$709,486 (\$1,931,029 - 2007). The cumulative amount of such revenues for the Velardeña property is \$11,501,143 (\$10,791,657 - 2007).
- (iii) In the prior year the Company acquired ownership interests in a series of mining concessions in the Velardeña district, a portion of the concessions noted above, for consideration valued at \$16,908,791. The consideration included \$4,482,356 (\$4,500,000 US dollars) in cash and a combination of shares and warrants. See note 10(ii).

ECU SILVER MINING INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for the years ended December 31, 2008 and 2007
(in Canadian dollars unless otherwise noted)

6. MINING PROPERTY COSTS AND PROPERTY, PLANT AND EQUIPMENT (Continued)

Chicago

(iv) The Chicago property is located approximately 2 km south of the Velardeña property. The property consists of 8 contiguous mineral concessions totalling 315.88 hectares. The Company has full title to the claims and is actively exploring the property.

San Diego

(v) The San Diego property is located 9 kilometers northeast of ECU's Velardeña property. It is comprised of 4 contiguous mineral concessions totalling an area of 91.65 hectares.

(vi) ECU is exploring the property under the terms of a Joint Venture agreement with Golden Tag Resources Ltd. ("Golden Tag"). In the prior year Golden Tag earned a 50% joint venture interest in the San Diego property by reaching reimbursements to ECU of incurred exploration expenditures totalling of US\$1,500,000. Following this earn in, Golden Tag and ECU pay for their proportionate share of exploration and development expenditures. The Company's costs are shown net of reimbursements and management fees received under the terms of the joint venture agreement.

Denisse

(vii) In the prior year the Company wrote off acquisition and deferred exploration costs totalling \$288,102 related to its Denisse property in Mexico.

Details of property, plant and equipment are as follows:

	2008 \$	2008 \$	2007 \$	2007 \$
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	201,979	—	201,979	201,979
Buildings	2,025,011	483,672	1,541,339	1,513,472
Leasehold improvements	1,671,102	372,968	1,298,134	1,181,852
Automotive	966,273	443,219	523,054	690,559
Machinery and equipment	5,604,858	1,084,049	4,520,809	4,332,049
Computer equipment	228,212	137,701	90,511	63,541
Office equipment	284,912	40,342	244,570	109,406
	<u>10,982,347</u>	<u>2,561,951</u>	<u>8,420,396</u>	<u>8,092,858</u>

7. PROMISSORY NOTES PAYABLE

Promissory notes payable of \$1,521,752 consist of unsecured promissory notes in the amount of \$870,000 and US\$535,100 repayable on demand. Interest accrues at 15.5% per annum.

8. LONG-TERM DEBT

	2008 \$	2007 \$
Term loan	18,270,000	11,784,000
less current portion	(3,045,000)	—
	<u>15,225,000</u>	11,784,000
Facilities loan	70,049	—
less current portion	(14,313)	—
	<u>55,736</u>	—
	<u>15,280,736</u>	<u>11,784,000</u>

ECU SILVER MINING INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for the years ended December 31, 2008 and 2007
(in Canadian dollars unless otherwise noted)

8. LONG-TERM DEBT (Continued)

Term loan

The Company has long term debt facilities in an aggregate amount of \$22,000,000 US Dollars. As at period end the Company has drawn a total of \$18,270,000 (\$15,000,000 US Dollars) against these facilities. The facilities allow the Company to draw up to an additional \$7,000,000 US Dollars, subject to certain terms and conditions and based on its cash requirements. As at year end the lender did not have a sufficient level of funds available to make additional advances under the line. No principal repayment is required until November 30, 2009 following which principal will be repayable in equal monthly instalments for 12 months. Interest is payable quarterly and is calculated at the greater of 11% and 1-month London Interbank Offered Rate plus 6%, that rate being grossed up using the quotient obtained by subtracting the rate of Mexican Income Tax expressed as a decimal from one. The effective rate of interest on the loans is 14.9%. The loans are secured by a first mortgage covering the current mining properties of the Company's Mexican subsidiaries as well as the current and future facilities constructed thereon.

In the prior year the Company acquired the right to prepay any portion up to \$12,000,000 US Dollars of the long term debt without interest or penalty through the grant of 400,000 share purchase warrants which entitle the holder to acquire 400,000 common shares of the Company at \$2.85 at any time up to June 4, 2009. The value of the warrants was determined to be \$146,619 using the Black-Sholes pricing model.

Facilities loan

During the year the Company received a \$75,000 loan in connection with expenditures made for leasehold improvements at its Toronto offices. The loan carries interest at 10% and is repayable over a 5 year term in monthly payments of principal and interest of \$1,698. The loan matures February 2013.

9. CONVERTIBLE DEBENTURES

	Amount \$
Allocation of gross proceeds:	
Principal amount of debentures	6,000,000
Fair value of debt component	(5,075,833)
Fair value of equity component	924,167
Convertible debentures debt component:	
Beginning balance	5,075,833
Accretion expense	52,875
Interest accrued	315,617
Interest paid	—
Balance — December 31, 2008	5,444,325
Presentation:	
Accounts payable and accrued liabilities	315,617
Convertible debentures	5,128,708
	5,444,325

On July 25, 2008 the Company received total proceeds of \$6,000,000 on the sale of convertible debentures (the "Debentures"). The proceeds consisted of conversion of the \$1,500,000 promissory note payable into principal of convertible debenture in the same amount, according to the terms of the note, together with additional cash proceeds of \$4,500,000. The unsecured Debentures mature on July 31, 2013 and carry interest at 12%, payable semi annually on January 31 and July 31.

The Debentures are convertible into common shares of the Company ("Common Shares") at the holder's option at any time prior to maturity at a conversion price of \$1.75 per common share. The Debentures are convertible into Common Shares at the Company's option at any time prior to maturity, provided that the volume weighted average trading price of the Common Shares during the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of conversion is given is not less than \$2.85.

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9. CONVERTIBLE DEBENTURES (Continued)

Prior to maturity, and subject to the holder's right to convert the Debentures at the conversion price, the Debentures are redeemable at the Company's option, subject to a premium of 15%, 10% or 5% being paid if the Debentures are redeemed in the first, second or third year, respectively, following the date of their issuance. No premium is payable in connection with any redemptions occurring after the expiration of the third year following the issuance of the Debentures. The holder has the right to require the Company to satisfy its obligation to pay principal on the Debentures, in whole or in part, through the issuance of Common Shares at the conversion price.

Subject to any required regulatory approvals, the holder has the right to require the Company to satisfy its obligation to pay interest and any premium on the Debentures, in whole, through the issuance of Common Shares at the market price of the Common Shares on the date of conversion.

The fair value of the debt portion of the Debentures at initial recognition was estimated using the discounted cash flow method. The fair value of the equity portion was estimated using the residual value method. The debt component is being accreted over the expected life of the Debentures of 5 years using the effective interest method. The financing costs associated with the transaction were \$358,135, of which \$302,982 has been charged to net income (loss) during the period and \$55,153 was charged to equity.

10. SHARE CAPITAL

Authorized:

Unlimited number of common shares without par value

Issued:

	2008		2007	
	Number	Amount \$	Number	Amount \$
Balance, beginning of year	242,609,557	111,602,582	212,729,581	67,143,056
Issued during the year for cash				
Private placement ⁽ⁱ⁾	—	—	12,500,500	27,751,110
Exercise of options	—	—	2,650,000	1,434,375
Exercise of warrants	—	—	9,438,176	3,957,731
Exercise of broker warrants	—	—	501,300	175,455
Issued for the acquisition of property ⁽ⁱⁱ⁾	—	—	4,790,000	10,766,700
Share issuance costs	—	(4,869)	—	(1,916,434)
Transferred from contributed surplus, exercise of options and warrants . .	—	—	—	2,290,589
Balance, end of year	<u>242,609,557</u>	<u>111,597,713</u>	<u>242,609,557</u>	<u>111,602,582</u>

(i) In the prior year the Company issued 12,500,500 private placement units consisting of 12,500,500 common shares and 6,250,250 share purchase warrants at an issue price of \$2.30 per unit. Each share purchase warrant entitles the holder to purchase one common share of the Company for \$2.85 until June 4, 2009. The gross proceeds of the units were assigned \$27,751,110 to common shares and \$1,000,040 to warrants.

(ii) In the prior year the Company exercised an option to acquire ownership interests in a series of mining concessions in the Velardeña district in the State of Durango, Mexico. As part of the consideration for the acquisition, the Company issued units consisting of 4,790,000 common shares and warrants to purchase 2,395,000 common shares of the Company at \$2.85 at any time until June 4, 2009. The common share consideration has been valued at the market price for a total of \$10,766,700. The warrant consideration has been valued using the Black-Scholes pricing model at \$1,659,735.

11. STOCK OPTIONS

In 2007, the Company adopted a stock option plan (the "2007 Plan") pursuant to which the Company reserved for issuance an aggregate of 14,252,398 Common Shares. Options under the 2007 Plan are permitted to be granted to directors, officers, employees and consultants of the Company, provided that the maximum number of Common Shares which may be reserved for issuance to any one beneficiary in any 12 month period may not exceed 5% of the number of Common Shares then issued and outstanding or 2% in the case of a beneficiary who is conducting investor relations activities. The exercise price of options granted under the 2007 Plan is not permitted to be less than the closing price of the Common Shares on the day preceding the grant of the options, less any discount

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11. STOCK OPTIONS (Continued)

allowed by applicable securities legislation. Options granted pursuant to the 2007 Plan will have an exercise period of no more than 10 years, or such lesser period as may be permitted by applicable securities legislation.

During the year the Company granted 300,000 stock options with an estimated fair value of \$141,563 in respect of investor relations activities, 600,000 stock options with an estimated fair value of \$370,828 in respect of investment promotion activities, and 2,950,000 stock options with an estimated fair value of \$1,961,468 to directors and officers. The Company reflected \$1,057,203 of these fair values as compensation expense during the year with contributed surplus increased by the same amount. The remainder of the fair value will be recognized over the related vesting periods. The exercise price of each of the options granted was greater than the market price at the date of grant. The fair value of stock options issued was estimated at the grant date based on the Black-Scholes option pricing model using the following weighted average assumptions:

	<u>2008</u>		<u>2007</u>	
	<u>Range</u>	<u>Weighted average</u>	<u>Range</u>	<u>Weighted average</u>
Risk-free interest rate	2.75 to 3.3%	3.2%	3.5 to 4.3%	4.25%
Expected life (years)	2.0 to 2.5	2.5	2.0 to 5.0	2.1
Expected volatility	40 to 60%	58%	50 to 65%	50.7%
Expected dividend yield	nil	nil	nil	nil

Option pricing models including the Black-Scholes model require the input of highly subjective assumptions that can materially affect the fair value estimate and therefore do not necessarily provide a reliable measure of the fair value of the Company's stock options.

Changes during the year in common stock options issued are as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Number</u>	<u>Weighted average exercise price (\$)</u>	<u>Number</u>	<u>Weighted average exercise price (\$)</u>
Options outstanding, beginning of year	11,642,000	1.94	8,780,000	1.22
Granted	3,850,000	1.70	5,712,000	2.43
Exercised	—	—	(2,650,000)	0.54
Expired / Forfeited	(12,000)	3.00	(200,000)	3.00
Options outstanding, end of year	<u>15,480,000</u>	<u>1.88</u>	<u>11,642,000</u>	<u>1.94</u>
Options exercisable, end of year	<u>12,817,500</u>	<u>1.92</u>	<u>6,192,000</u>	<u>1.53</u>

The following table summarizes information about the common stock options outstanding and exercisable at December 31, 2008:

<u>Expiry Date</u>	<u>Exercise price (\$)</u>	<u>Number of options outstanding</u>	<u>Number of options exercisable</u>	<u>Weighted average remaining contractual life (years)</u>
September 23, 2011	1.59	600,000	150,000	2.7
July 25, 2013	1.70	2,950,000	737,500	4.6
April 30, 2009	1.93	300,000	300,000	0.3
November 19, 2012	2.40	150,000	150,000	3.9
October 10, 2012	2.40	5,300,000	5,300,000	3.8
January 10, 2012	3.00	250,000	250,000	3.0
December 21, 2011	3.00	2,000,000	2,000,000	3.0
March 1, 2011	1.00	1,905,000	1,905,000	2.2
May 25, 2009	0.38	2,025,000	2,025,000	0.4
	<u>1.88</u>	<u>15,480,000</u>	<u>12,817,500</u>	<u>3.1</u>

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12. WARRANTS

Changes during the year in share purchase warrants issued are as follows:

	2008		2007	
	Number	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)
Balance, beginning of year	9,045,250	2.85	9,488,176	0.42
Granted	—	—	9,045,250	2.85
Exercised	—	—	(9,438,176)	0.42
Expired	—	—	(50,000)	0.37
Balance, end of year	9,045,250	2.85	9,045,250	2.85

The Company had the following share purchase warrants outstanding at December 31, 2008:

Expiry Date	Exercise price (\$)	Number of warrants outstanding	Number of warrants exercisable	Weighted average remaining contractual life (years)
June 4, 2009	2.85	9,045,250	9,045,250	0.4

13. CONTRIBUTED SURPLUS

Changes during the year in contributed surplus are as follows:

	2008 \$	2007 \$
Balance, beginning of year	10,622,067	8,812,664
Stock-based compensation	4,012,846	1,293,598
Warrants issued in private placement (<i>Note 10 (i)</i>)	—	1,000,040
Warrants issued for acquisition of property (<i>Note 10 (ii)</i>)	—	1,659,735
Warrants issued to acquire prepayment rights to long term debt (<i>Note 8</i>)	—	146,619
Transfer to share capital, exercised options and warrants	—	(2,290,589)
Balance, end of year	14,634,913	10,622,067

14. COMMITMENTS

Operating lease

The Company is committed operating leases with annual payment requirements over the next five years as follows:

Year	Amount \$
2009	169,173
2010	172,134
2011	143,226
2012	135,564
2013	22,676
	642,773

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15. CONTINGENCIES

Intangible Asset

In January 2005, the Company acquired the rights to use a technology which is expected to increase material recuperation of current and future Mexican projects. At the time the agreement was reached the Company issued 500,000 common shares and the Company is bound to issue an additional 500,000 common shares should it choose to use the technology at a commercial scale. In addition, the agreement provides that the Company pay royalties of 1.5% of all production resulting from the application of the technology in Mexican properties. The technology was not employed in the current period.

Litigation

The Company is a party to a lawsuit regarding the title to four of the mineral concessions comprising the Velardeña property, in respect of which a third party has alleged to have an undivided 30% ownership interest. This matter is currently being litigated before the courts in Mexico, the Company having appealed the latest decision rendered as to title. The Company is not able at this time to predict the outcome of such appeal or to estimate the potential amount of any loss that may result from an unfavourable ruling. In parallel to these court proceedings, the Company continues to pursue a negotiated settlement with such third party and, to such end, has made a good faith deposit of funds to be applied toward any future settlement. See note 6.

16. LOSS PER SHARE

The computations of basic and diluted loss per share are as follows:

	2008	2007
Loss for the year	\$ 18,043,280	\$ 8,991,669
Basic weighted average number of common shares	242,609,557	228,045,838
Dilutive potential from options, warrants and convertible debentures	1,181,250	2,702,178
Dilutive weighted average number of common shares	243,790,807	230,748,016
Loss per share, basic and diluted	\$ 0.07	\$ 0.04

17. RELATED PARTY TRANSACTIONS

During the year the Company incurred costs totalling \$398,033 (2007 — \$395,028) with Kappes, Cassidy & Associates a company in which Daniel Kappes, a director of ECU, is a partner. Kappes Cassidy is providing metallurgical expertise as part of the preparation of an economic study which will be prepared by Micon International Limited. These transactions occurred within the normal course of business and were measured at the exchange amount, which is the consideration determined and agreed upon by the related parties.

18. MANAGEMENT OF CAPITAL

The Company's objectives in managing its capital resources are to ensure the entity's ability to continue as a going concern. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing credit facilities or issuing equity, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risks characteristics of the related assets. As at December 31, 2008, the Company had long-term debt of \$15,000,000 US Dollars, repayment of which commences November 2009.

As described in note 22, subsequent to year end the Company raised additional equity capital and used a portion of the proceeds to acquire a gold and silver recovery plant. The Company's current focus is on re-commissioning the plant as quickly as possible including preparing its oxide resource for mining. Once this has been completed, we plan to continue our exploration programs at the Velardeña district properties.

Based on current plans and estimates management believes that its operations can be funded through working capital, existing credit facilities outlined in note 8, potential future credit facilities, and cash flow expected to be generated from the sale of the gold and silver doré bars generated from the new recovery plant. As discussed note 1, the company is dependent on its ability to raise the necessary capital to fund its operations and management can not provide assurance that it will ultimately be able to complete the required funding transactions. Furthermore, since we do not have proven and probable reserves we can not predict with confidence the level of cash flows that will be generated from the new mill. As such, we may need to either restructure our long term debt so that repayment requirements

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18. MANAGEMENT OF CAPITAL (Continued)

match the cash generation capability or raise additional equity in the alternate. Management can provide no guarantee that the Company will be successful in these transactions should they be required.

The Company is not subject to any externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year.

19. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, advances and deposits, accounts payable and accrued liabilities, promissory notes payable, and long-term debt. Cash and cash equivalents are recognized at their fair value and the fair value of all other financial instruments approximate their carrying values, either due to their short-term maturity or capacity of prompt liquidation or, in the case of long-term debt because the market rate of interest is paid. Cash and cash equivalents are held with large financial institutions and, as at December 31, 2008 did not include any investments in asset-backed commercial paper.

The Company operates in Mexico and is exposed to currency risk in the normal course of business. Its sales and related accounts receivable are denominated in US dollars. A significant portion of its expenditures and related accounts payable are denominated in US dollars and Mexican pesos. The Company's long-term debt is denominated in US dollars. A portion of its cash and cash equivalents are held in US dollars and Mexican pesos.

20. SAN DIEGO — JOINT VENTURE

The Company's consolidated financial statements include the following amounts related to the San Diego Joint Venture:

	Amount
	\$
Long term assets	
Mining property costs	686,540
Cash flows resulting from investing activities	
Mining property costs	(726,808)

ECU's share in the joint venture with Golden Tag Resources Ltd ("Golden Tag") is 50% of the mining property costs incurred following the US\$1,500,000 earn in by Golden Tag, as detailed under note 6. The share was capitalized under Mining Properties for a value in the current year of \$804,091 less project management fees charged to Golden Tag of \$77,283.

21. LOSS CARRY FORWARDS

These financial statements do not take into account the tax benefit arising from loss carry forwards which are available to the Company to reduce its income for tax purposes in future periods.

At December 31, 2008, the Company had non-capital loss carryforwards, available to offset future taxable income for Canadian tax purposes, aggregating \$5,692,955 which expire over the period between 2009 and 2028.

At December 31, 2008, the Company had tax loss carryforwards, available to offset future taxable income in Mexico, aggregating \$32,343,850 which expire between 2009 and 2017.

22. SUBSEQUENT EVENTS

Equity Financing and Plant Acquisition

Subsequent to year end, on February 20, 2009, the Company completed a short form prospectus offering of an aggregate of 25,000,000 subscription receipts of the Company (the "Subscription Receipts") at a purchase price of \$0.70 per Subscription Receipt for aggregate gross proceeds of \$17,500,000. The costs of the offering are expected to be approximately \$1,625,000 for net proceeds of approximately \$15,875,000.

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22. SUBSEQUENT EVENTS (Continued)

Each Subscription Receipt was subsequently converted into one common share of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant entitles its holder to acquire one additional Common Share at a price of \$0.95 per share at any time until February 20, 2014.

From the net proceeds, the Company paid US\$8,000,000 to acquire, on March 6, 2009, a 500 tonnes-per-day gold and silver recovery plant (the "Plant") located adjacent to ECU Silver's properties near the town of Velardeña, in Durango, Mexico. The Company also issued to the vendor an aggregate of 750,000 Common Shares in payment of the balance of the purchase price for the Plant.

The Company intends to use the Plant to treat its existing oxide mineral resource containing 1,075,000 tonnes in the measured and indicated category and 379,000 tonnes in the inferred category. The Company expects to operate the Plant at an initial rate of 300 tonnes-per-day and gradually ramp-up to 500 tonnes-per-day. A portion of the net proceeds will be used re-commission the plant.

Debt Conversion

Subsequent to year end, the Company reached an agreement with the holders of its outstanding 12% convertible debentures maturing on July 31, 2013 (the "Debentures") to convert the aggregate principal amount of the Debentures, being \$6,000,000, as well as the accrued and unpaid interest thereon and all associated prepayment premiums, amounting to \$7,348,048 in total, into common shares ("Common Shares") and warrants to purchase Common Shares ("Warrants"). The Company reached a similar agreement with the holder of a demand promissory note (the "Note") to convert \$362,357 in principal and accrued and unpaid interest into Common Shares and Warrants.

Under the terms of such debt conversions, on March 26, 2009 the Company issued an aggregate of 11,014,867 Common Shares and Warrants in full repayment of the Debentures and the Note. The Common Shares and Warrants were issued on the basis of one Common Share and one Warrant for each \$0.70 of indebtedness, being the identical price at which the Company recently issued Common Shares and Warrants pursuant to its short form prospectus offering which closed on February 20, 2009. Each Warrant entitles its holder to acquire one Common Share at a price of \$0.95 at any time on or before February 20, 2014.