

ANNUAL REVIEW 2012


Integrating our Financial, Operating,  
and Sustainability Performance



A PHILOSOPHY OF  
**CONTINUOUS  
IMPROVEMENT**

Endeavour Silver delivers eighth  
consecutive year of accretive growth





Endeavour Silver is one of the fastest growing silver mining companies in North America. We find, build, and operate quality silver mines in a sustainable way to create real value for stakeholders. Our aim is to become the next senior producer in the silver mining sector. By continually improving what we do and how we do it, we make a positive difference in people's lives.

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↑ 8 years

ACCRETIVE GROWTH OF SILVER  
PRODUCTION, RESERVES,  
AND RESOURCES

↑ 20%

SILVER PRODUCTION AT  
4.5 MILLION OUNCES

↑ 77%

GOLD PRODUCTION AT  
38,687 OUNCES

↑ 63%

ANNUAL REVENUE OF  
US\$208.1 MILLION

↑ 124%

NET EARNINGS OF  
US\$42.1 MILLION

## CORPORATE PROFILE

# Premier, Mid-tier Silver Mining Company Focused on Growth in Mexico

Since start-up in 2004, Endeavour Silver Corp. (EXK:NYSE; EDR:TSX) has posted eight consecutive years of accretive growth.

In 2012, revenue rose 63%, to \$208.1 million, operating cash flow before working capital changes improved 30%, to \$82.9 million, and net earnings jumped 124%, to \$42.1 million. Silver production increased 20%, to 4.5 million ounces, and silver reserves climbed 37%, to 23.1 million ounces.

This consistent growth story is powered by our ability to execute a challenging but highly rewarding business strategy.

We evaluate historic mining districts and acquire operating silver mines that are struggling to survive due to inadequate management, money, or ore. We invest the capital and the expertise needed to turn these operations around, by cutting costs and boosting production, to return the mines to profitability. We also explore for new discoveries that can be fast-tracked to production in order to unfold the full potential of these mines.

This two-step strategy for rescuing and expanding old mines creates real value for our stakeholders. It allows us to complete the mine development cycle—from discovery through production—in a matter of months, instead of the many years required by a more traditional mining business model.

Since these historical mines were run down, we established new standards of excellence in operations, safety training and performance, workforce efficiency, environmental management, and social enrichment. Our high standards are supported by nonstop training, clear procedures, and regular reviews. This path to long-term success goes to the heart of what are now called sustainability practices.

The Guanaceví and Bolañitos mines are good examples of our business model in action. We successfully modernized the mines, steering them to profitability, and thanks to our repeated exploration discoveries, they continue to grow and prosper years after acquisition. We are looking to repeat this success at the El Cubo mine, our latest purchase.

We use best practices in exploration to make new discoveries and replenish depleted reserves and resources. We also supplement new discoveries with opportunistic property acquisitions, to fuel our future growth.

Our management team has established a track record for making accretive acquisitions, building quality mining assets, and expanding them to drive consistent organic growth. We have more than 200 years of combined experience in the mining industry. As guardians of our stakeholders' interests, we manage their investment as if it were our own. Operational excellence, exploration success, financial strength, and community well-being—these are the metrics by which people measure our performance.

Endeavour's shares have excellent liquidity, thanks to our listings on the New York Stock Exchange and the Toronto Stock Exchange. They provide strong leverage to silver and gold prices, and offer excellent value relative to our peer group.

## INVESTMENT INFORMATION

AS OF DECEMBER 31, 2012

### SHARES ISSUED

99,541,522

### WARRANTS AND OPTIONS

5,421,047

### FULLY DILUTED

104,962,569

### SHARE PRICE

\$7.89

### MARKET CAP

\$785 million

### DAILY VOLUME (NYSE AND TSX)

1.4 million shares

### WORKING CAPITAL

\$50.9 million

### STRATEGIC SHAREHOLDER

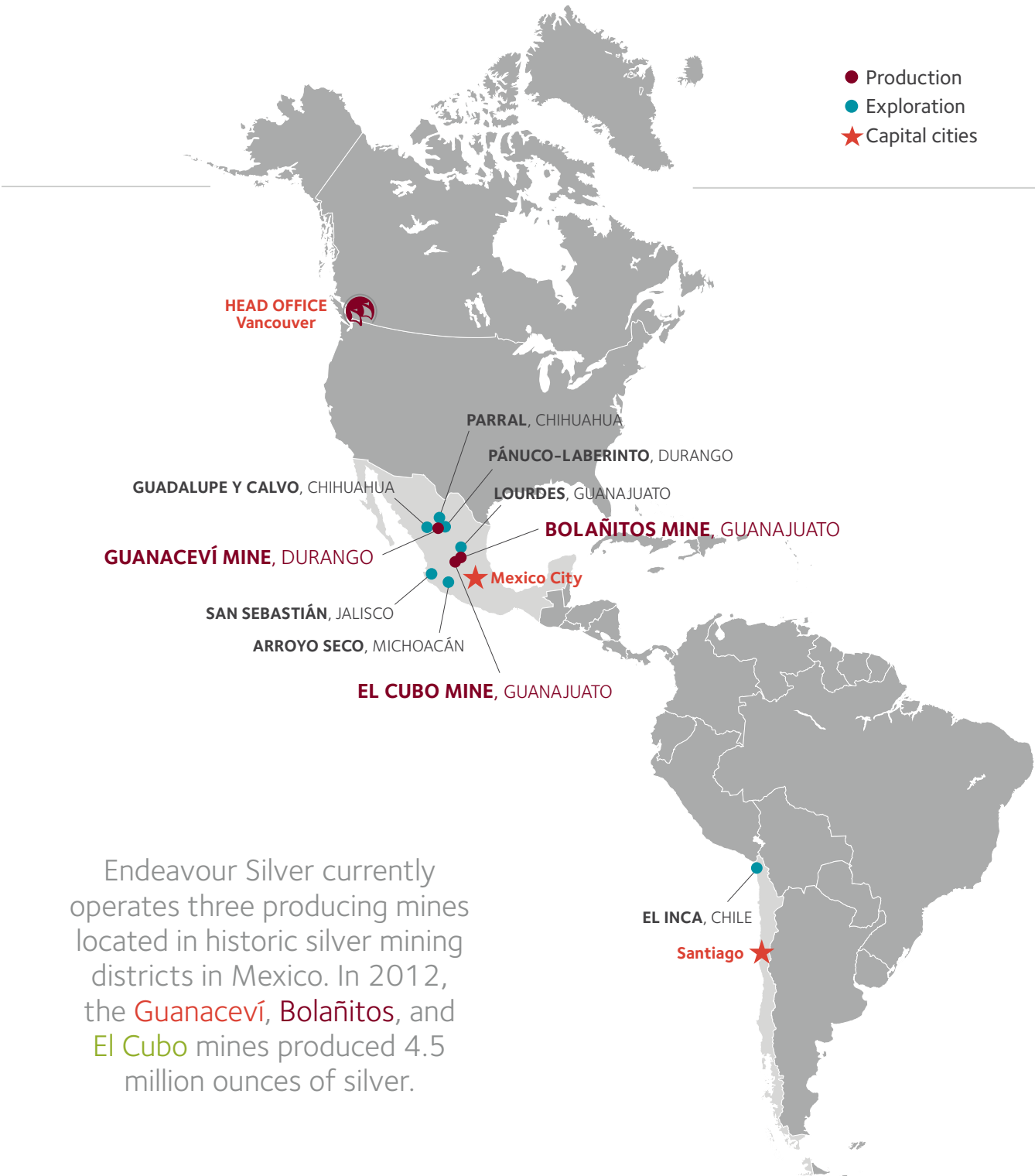
2.8% Fresnillo PLC

NOTE: All dollar amounts in this Annual Review are reported in US dollars, unless otherwise indicated.



PROPERTY LOCATIONS

EXK: NYSE  
EDR: TSX



Endeavour Silver currently operates three producing mines located in historic silver mining districts in Mexico. In 2012, the **Guanaceví**, **Bolañitos**, and **El Cubo** mines produced 4.5 million ounces of silver.

## 2012 HIGHLIGHTS

### FINANCIAL

- Net earnings up 124%, to \$42.1 million (\$0.45 per share)
- Operating cash flow up 30%, to \$82.9 million before working capital changes
- Earnings before interest, taxes, depreciation, and amortization (EBITDA) up 71%, to \$90.5 million
- Revenue up 63%, to \$208.1 million
- Consolidated cash costs<sup>1</sup> up 44%, to \$7.33 per ounce of payable silver (net of gold credits); but cash costs for Guanaceví and Bolañitos combined up 4%, to \$5.28 per ounce

### PRODUCTION

- Silver production up 20%, to 4.5 million ounces
- Gold production up 77%, to 38,687 ounces
- Silver equivalent production up 33%, to 6.4 million ounces (at a silver-to-gold ratio of 50 to 1)

### ASSETS

- Completed the Bolañitos mine and plant expansion, to a capacity of 1,600 tonnes per day
- Completed the Guanaceví mine and plant expansion, to a capacity exceeding 1,200 tonnes per day
- Acquired the El Cubo mine and plant, operating at 1,000 tonnes per day
- Launched a \$67-million, 18-month capital investment program at El Cubo to explore and develop the mines and to rebuild and expand the plant and the surface infrastructure

### EXPLORATION

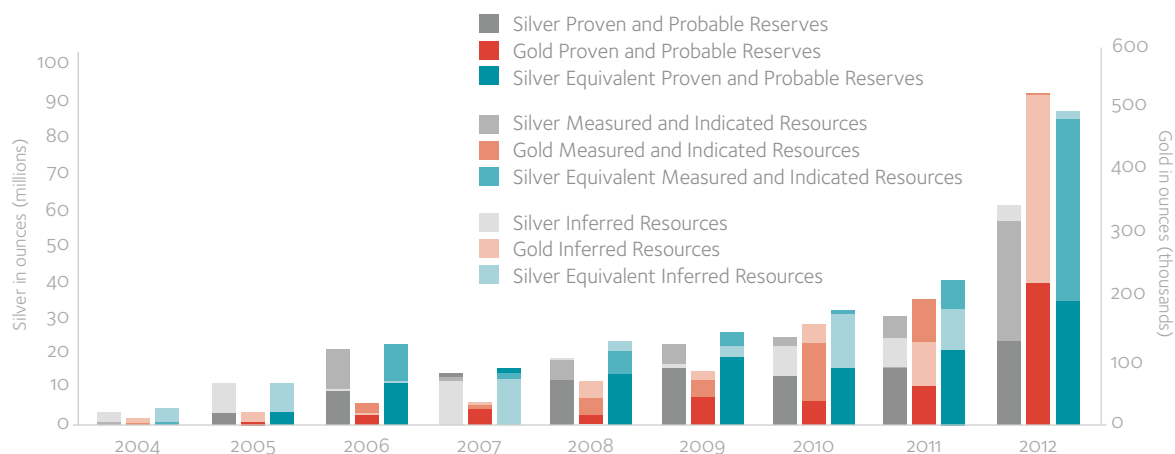
- Proven and probable silver reserves up 37%, to 23.1 million ounces
- Measured and indicated silver resources up 62%, to 58.5 million ounces
- Inferred silver resources up 74%, to 61.1 million ounces
- Delineated a new high-grade silver and gold discovery in the Milache area at Guanaceví
- Drilled out a new high-grade silver and gold discovery in the Lana vein at Bolañitos
- Discovered a new high-grade silver and gold zone in the Terronera vein at San Sebastián

### SUSTAINABILITY

- Won several safety awards at Durango State mine-rescue and first-aid competitions
- Awarded a Certificate of Health for Guanaceví by the Durango state Secretary of Health
- Reduced the lost-time accident frequency rate, even with the sharp increase in person-hours due to the mine expansions
- Brought doctors and nurses to schools and community centres and sponsored medical, dental, and optical checkups
- Rehabilitated the drinking water reservoir for the town of La Luz
- Built a dry-stack tailings facility at Guanaceví, to create a smaller tailings footprint and to improve water recovery
- Conducted mine-skills training programs, to provide career skills and job opportunities for the young and the unemployed
- Sponsored cooking classes, ceramics courses, and stone sculpting training programs, to support cottage industries

<sup>1</sup> Cash costs per ounce are non-IFRS measures commonly reported in the silver and gold mining industry as benchmarks of performance, but they do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. The cash costs per ounce are provided to investors and used by management as a measure of the Company's operating performance. The cash costs per ounce of silver produced reflects the cost of sales, net of changes in inventories, changes in the fair market value of gold inventories and gold credits, and is reconciled in the *Management's Discussion and Analysis*.

### RESERVE AND RESOURCE GROWTH 2004–2012



**FINANCIAL**

As of the date of this report, we plan to invest \$69.5 million in capital projects in 2013, including \$40.4 million for El Cubo, \$15.2 million for Bolañitos, and \$13.9 million for Guanaceví.

These investments will largely be covered by Endeavour’s anticipated 2013 cash flow. The bulk of the investments will be made in the first half of the year, so we expect to use our \$75-million line of credit to fund some capital expenditures until our cash flow catches up later in the year.

Our consolidated cash costs for production (net of by-product gold credits) are expected to increase from the current \$7 per ounce to approximately \$9 to \$10 per ounce in 2013. This is largely due to increasing production from the higher-cost El Cubo mine and the lower grades being mined at Guanaceví. El Cubo’s cash costs should decline in 2013, however, due to increasing operational efficiencies and the completion of the capital projects.

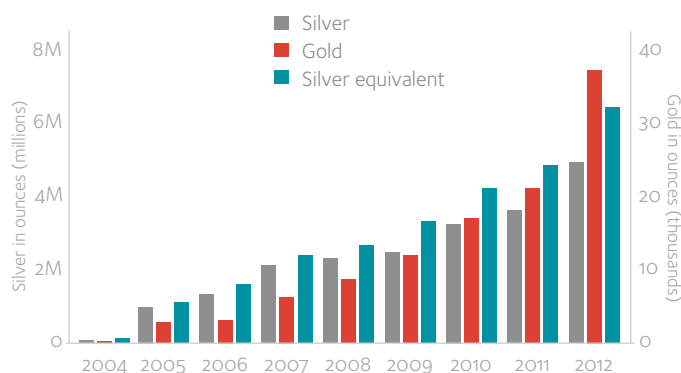
**PRODUCTION**

We are forecasting our ninth consecutive year of production growth for 2013. Silver production is expected to rise by 12% to 18% to 5.0 to 5.3 million ounces and gold production is anticipated to increase by 19% to 27% to 46,000 to 49,000 ounces. Using a silver-to-gold ratio of 50 to 1, we expect production of silver equivalent to climb by 14% to 22% to 7.3 million to 7.8 million ounces.

TABLE 1. PRODUCTION FORECAST FOR 2013

MINE	SILVER PRODUCTION (OUNCES)	GOLD PRODUCTION (OUNCES)	THROUGHPUT (TONNES PER DAY)
Guanaceví	2.4 to 2.5 million	6,500 to 7,000	1,250 to 1,350
Bolañitos	1.7 to 1.8 million	25,000 to 26,000	1,500 to 1,650
El Cubo	0.9 to 1.0 million	14,500 to 16,500	1,050 to 1,200
<b>Total</b>	<b>5.0 to 5.3 million</b>	<b>46,000 to 49,000</b>	<b>3,800 to 4,200</b>

**PRODUCTION 2004–2012**



NOTES: Silver equivalent production was calculated at a 55-to-1 silver-to-gold ratio prior to 2012 and at a 50-to-1 silver-to-gold ratio for 2012. As part of the option agreement for Guanaceví, Endeavour did not have 100% ownership until 2006, so revenue from production was not generated before 2006.

**ASSETS**

At Guanaceví, production is expected to continue at a steady rate until reserves and resources grow sufficiently to justify another mine and plant expansion. The Milache discovery is open to the northwest, so exploration in 2013 will focus on extending this mineralized zone. Mine development at Milache is expected to commence by year-end, and production should begin in late 2014 or early 2015.

At Bolañitos, new exploration targets in the La Luz, Plateros, La Joya, and Puertecito veins give us confidence that the property offers excellent potential for new discoveries into the future.

At El Cubo, the reconstruction of the old plant is currently on budget and schedule. It will initially operate at 1,200 tonnes per day, with a capacity of 1,600 tonnes per day. The main bottleneck to higher production is a lack of larger reserve blocks. We have begun to explore several old and new targets, and we think El Cubo has excellent potential for the discovery of new, larger ore bodies.

During this time of market distress for junior exploration companies, we intend to be opportunistic about acquiring new development properties.

**EXPLORATION**

We will continue to unfold the full exploration potential of our project portfolio in 2013, especially at El Cubo, where there are several attractive drilling targets. As of the date of this report, we plan to spend \$12.1 million on exploration at our three operating mines and five district-scale exploration properties. In addition to underground exploration drilling, we have budgeted 42,000 metres of drilling in 100 to 120 holes.

Drilling will specifically try to expand the new high-grade silver-gold discovery in the Terronera vein on the San Sebastián property in the state of Jalisco. We will also drill a bulk-tonnage silver-gold target on the El Inca property in Chile, which we optioned in 2012, as well as high-grade vein and bulk-tonnage targets on the Pánuco-Laberinto properties in Mexico and multiple targets around our operating mines.

**SUSTAINABILITY**

The recent appointment of David Tingey as Endeavour’s Vice President of Health, Safety, and Sustainability is a reflection of our commitment to sustainable practices and our goal to create lasting value for all stakeholders. Our Board of Directors also formed a Sustainability Committee subsequent to year-end.

TABLE 2. SUSTAINABILITY PRIORITIES FOR 2013

SAFETY	Continue to reduce the lost-time accident rate
HEALTH	Identify permanent sources of drinking water for the town of El Cubo
ENVIRONMENT	Extend the Bolañitos tailings tunnel, to keep rainwater separate from recycled water
EDUCATION	Sponsor more scholarships for students in need
COMMUNITY	Begin community programs at El Cubo, similar to those Endeavour supports elsewhere
CHARITY	Create a foundation in Mexico to expand our financial support for nonprofit sustainability initiatives

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## MESSAGE FROM THE BOARD CHAIR



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# Thanks to our People

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Geoff Handley  
Chair, Board of Directors

The success of every business is a measure of its people. Many companies have good assets and big plans, but not much can be accomplished without people who are talented and dedicated, and who enjoy working together as a team to create value for stakeholders.

Endeavour Silver is fortunate to have many people like this. From our Board members to our managers and employees, we attract people who are enthusiastic about our company, and who have the desire and the integrity to deliver results by doing things the right way.

As a result, we consistently do what we say we are going to do. Last year marked our eighth consecutive year of growth in cash flow, production, reserves, and resources, all thanks to the performance of our people.

This *Annual Review*, which integrates our financial, operating, and sustainability performance, explains how we've achieved this marvelous result. I hope you enjoy reading it.

Corporate sustainability at Endeavour Silver means more than just conducting our business in an ethical manner. It means we aim to improve the standard of living for all of our shareholders, our employees, and the communities in which we work. Endeavour is motivated to make a positive difference in people's lives.

Having just completed my first year as Chair of the Board of Directors, it is an honour for me to convey the Board's appreciation to our many stakeholders—to our employees, for your enthusiasm and commitment to doing the best you can for the company; to Endeavour's management team, for your clear focus on unfolding the full potential of our business plan, people, and projects; to the many communities in which we operate, for your trust and solidarity; and to Endeavour's shareholders, for your continuing confidence and support.

Together, we are focused on a sustainable, profitable growth strategy that creates long-term value for everyone's benefit. I believe this is what it takes to build a great company.

*Geoff Handley*

Chair, Board of Directors

April 17, 2013





BRADFORD COOKE  
Chief Executive Officer

## Dear Shareholders

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I am pleased to report that 2012 marked the eighth consecutive year of accretive growth by Endeavour Silver, setting new records for financial, operational, and sustainability performance.

**We grew our silver and gold production once again**, thanks to the strategic acquisition of the El Cubo mine, another year of strong organic growth at the Bolañitos mine, and steady output from the Guanaceví mine. Silver production increased 20%, to nearly 4.5 million ounces, and our gold output escalated 77%, to more than 38,000 ounces. As a result, Endeavour graduated to the ranks of mid-tier primary silver producers in the fourth quarter of 2012.

**Endeavour delivered yet another year of record earnings, cash flow, and revenue in 2012**, notwithstanding the lower precious metal prices. Net earnings jumped 124% compared to 2011, to \$42.1 million, or \$0.45 per share, operating cash flow before working capital changes rose 30%, to \$82.9 million, and revenue climbed 63%, to \$208.1 million. Our production cash costs drifted higher in 2012, due to the recently acquired, high-cost El Cubo mine, but remained below the median for the silver mining sector, thus preserving a robust operating profit margin.

**In 2012, we completed two mine expansions on time and budget.** We expanded the Bolañitos mine 60%, to 1,600 tonnes per day, and grew the Guanaceví mine 20%, to more than 1,200 tonnes per day. With metal and stock prices down substantially from their 2011 highs, and with a strong cash position built from rising free cash flows, Endeavour's management recognized the opportunity to acquire another potential growth asset in El Cubo, now our third operating silver mine.

**Endeavour's business model is a bit different than most in the mining sector.** We evaluate historic districts and buy old mines that are struggling to survive but have substantial untested potential for the discovery of new ore bodies. El Cubo very much follows that model, with two important exceptions: unlike Guanaceví and Bolañitos, which were operating at very low rates and had no reserves or resources, El Cubo already qualified as a new core asset, producing 1,000 tonnes per day, and it already had a long mine life in terms of reserves and resources.

**We launched a two-step strategy last year to unfold El Cubo's full potential.** As we had with our other mines, we identified areas for improvement within the operation, and initiated an action plan to turn it around over the next two years. Concurrently, we identified geological targets, and commenced an aggressive exploration program to discover high-grade ore bodies, develop new underground mines, and expand the mines organically each year. Both initiatives are now well under way at El Cubo.

**Our exploration team also enjoyed a great year in 2012.** We delineated a new high-grade silver-gold discovery in the Milache area at Guanaceví, drilled out a new high-grade silver-gold ore body in the Lana vein at Bolañitos, and discovered a new high-grade silver-gold mineralized zone in the Terronera vein at San Sebastián. We also acquired three attractive new exploration projects in Mexico and Chile.

**As a result, proven and probable silver reserves grew by 37%, to 23.1 million ounces,** and proven and probable gold reserves more than tripled, to 222,300 ounces. Measured and indicated silver resources rose by 62%, to 58.8 million ounces, while measured and indicated gold resources almost doubled, to 524,800 ounces. Inferred silver resources were up by 74%, to 61.1 million ounces, and inferred gold resources were up by 182%, to 520,400 ounces.

**Part of Endeavour's success is due to our philosophy of continuous improvement.** We developed this approach early, with our acquisition of the Guanaceví mine in 2004. Guanaceví taught us to rely on common sense and first principles in making daily decisions about what to do and how to do it in order to survive, grow, and prosper. Acting with integrity, trying our best, paying attention to detail, and questioning what we do and how we do it all lead to continuous improvement in our operations. Our track record for accretive growth is very much driven by our asking each year how we can make Endeavour bigger and better.

**Our drive for continuous improvement permeates the organization.** It fuels our search for new discoveries, reserves, and resources, drives our efforts to expand production and profitability, and stokes our desire to improve our performance in safety, health, education, the environment, and communities. By focusing on continuous improvement, we aim to improve standards of living for shareholders, employees, and the communities in which we work. We are motivated to make a positive difference in people's lives.

**Endeavour's sustainability programs made great strides in 2012.** We improved our safety policies, practices, and performance, supported health programs for employees and the local communities, enhanced environmental stewardship and reclamation, sponsored educational scholarships and job skills training programs, funded community cultural events and infrastructure improvements, and supported charitable causes. As a result, we won several safety awards in mine-rescue and first-aid competitions in the state of Durango, received a Certificate of Health for Guanaceví from the Durango state Secretary of Health, and received national sustainability awards for Bolañitos and El Cubo.

**Looking ahead, we are forecasting another year of sustainable growth for 2013.** Our goals are to become bigger and better yet, by continuing our growth to senior status (defined as producing 10 million ounces of silver per year), focusing on cost reduction, boosting free cash flow, and creating lasting value for stakeholders.

**At Guanaceví, production should remain steady at 1,200 tonnes per day in 2013,** while we drill out last year's Milache discovery. We expect to make a decision about mine development at Milache by year-end, so initial production can start by the end of 2014.

**At Bolañitos, the plant is operating at its capacity of 1,600 tonnes per day,** but the mine is capable of providing up to 2,000 tonnes per day. We recently secured two commercially competitive contracts to sell Bolañitos silver and gold concentrates, which will facilitate higher production in 2013.

**At El Cubo, we plan to operate at 1,200 tonnes per day this year,** until exploration success allows us to fill the new plant to its capacity of 1,600 tonnes per day. Its footprint allows room for another expansion to 2,000 tonnes per day. Given that we have just begun to test several old and new targets at El Cubo, we view the property as having excellent potential for new and larger ore bodies.

**We will continue to unfold the full potential of Endeavour's exploration project portfolio.** Endeavour plans to spend up to \$12.1 million on exploration at our three operating mines and five district-scale exploration properties in 2013. We have budgeted up to 42,000 metres of drilling in approximately 100 to 120 holes at approximately 24 exploration targets, in addition to all of the underground mine infill drilling we have planned. Every year, we aim to acquire and explore new properties, make new discoveries, and fast-track them to production. This year, we'll continue to aggressively explore our property portfolio, focusing on the emerging high-grade silver and gold discovery in the Terronera vein on the San Sebastián property in Jalisco.

**I hope you enjoy reading this 2012 Annual Review,** which includes our first sustainability review, to gain more insight into the principles on which Endeavour was founded, who we are, and what we do. It helps explain our commitment to pursue consistently high standards of integrity as we conduct our business.

**We are a company built on great people and great ideas.** It has taken an incredible team effort to grow Endeavour Silver into the company it is today. We value our relationships with all of our stakeholders in this endeavour, and thank you for your ongoing commitment and support.

*Bradford Cooke*

Chief Executive Officer

April 17, 2013

# FINANCIAL PERFORMANCE



## A MESSAGE FROM DAN DICKSON

*Chief Financial Officer*

Endeavour enjoyed another strong year financially, setting new records for revenue, cash flow, and earnings. Our financial performance was driven by two successful mine expansions at Guanaceví and Bolañitos, plus our strategic acquisition of El Cubo, our third mine, which positions us for future growth.

Notwithstanding the lower silver and gold prices last year, we were able to deliver our eighth consecutive year of accretive growth by again executing our business plan.

Through 2013, we'll continue to focus on containing costs and maximizing revenue, to maintain a healthy profit margin even at lower metal prices. Endeavour Silver is well positioned to continue creating value for stockholders.



## FINANCIAL PERFORMANCE

# Record Earnings, Cash Flow, and Revenue in 2012

## \$42.1

MILLION

NET EARNINGS JUMPED 124%

## \$82.9

MILLION

OPERATING CASH FLOW INCREASED 30%  
(BEFORE WORKING CAPITAL CHANGES)

## \$208.1

MILLION

REVENUE ROSE 63%

Endeavour's mission is to enhance shareholder value through strategic acquisition and organic expansion. Thanks to these two strategies, we delivered our eighth consecutive year of accretive growth in 2012.

Endeavour generated \$42.1 million in net earnings (\$0.45 per share) last year, from \$82.9 million of operating cash flow before working capital changes and \$208.1 million in revenue. It was another record year for us, notwithstanding the 13% drop in the realized price of silver to \$30.99 per ounce.

Our most significant corporate transaction in 2012 was our acquisition, from AuRico Gold Inc., of a 100% interest in both the operating El Cubo silver and gold mine in the state of Guanajuato and the Guadalupe y Calvo silver and gold exploration project in the state of Chihuahua.

We acquired these two assets for total consideration of \$203 million. Representing about 22% of Endeavour's market capitalization at the time of the acquisition, the deal was slightly dilutive of 2012 production and earnings, but significantly accretive for 2012 reserves and resources and for 2014 anticipated production and earnings.

From a financial point of view, we acquired a new turn-around candidate and growth opportunity that can become a quality core asset, generating substantial free cash flow, much like our two other mines. We effectively traded some short-term pain during the financial turn-around for long-term gain once El Cubo has been rebuilt, refined, and expanded.

We also invested \$66.2 million in capital improvements at Guanaceví and Bolañitos, funded from cash and operating cash flow. The mine expansions both came in on time and budget, resulting in a 20% expansion at Guanaceví, to 1,200 tonnes per day, and a 60% expansion at Bolañitos, to 1,600 tonnes per day.

Two-thirds of the \$19.3 million invested at Guanaceví was for 7.3 kilometres of mine development, with the balance allocated to processing facilities, equipment, building upgrades, and vehicles.

Of the \$31.3 million we invested at Bolañitos, nearly 60% was allocated to resource and reserve delineation drilling and 8.5 kilometres of mine development in the Lucero mine area. The balance was spent on mine

equipment, expanding the mobile equipment fleet, communications and rescue equipment, and rehabilitating the Asunción shaft.

In the third quarter of 2012, we also launched a \$67-million, 18-month capital investment program at El Cubo, to explore and develop the mine and to rebuild and expand the plant, tailings facility, water supply, electrical supply, surface buildings, and related surface infrastructure. Of the initial \$14.5 million spent in 2012, 67% went to 5.4 kilometres of mine development, with the balance funding the El Cubo plant rehabilitation and expansion, among other upgrades.

Our exploration expenditures of \$14.3 million were mostly for our surface drilling program. We completed 191 diamond drill holes totalling 74,000 metres.

The purchase of the El Cubo mine reduced our short-term liquidity position, but improved our long-term growth profile. To augment working capital and bridge our capital spending until cash flow can cover it, we arranged a \$75-million revolving-credit line with Scotiabank. By year-end, we had \$50.9 million in working capital.

Cash costs, net of gold by-product credits, increased 44% in 2012, to \$7.33 per ounce of silver produced (from \$5.08 in 2011). The increase was largely due to the high operating costs at El Cubo. Cash costs excluding El Cubo increased only 4%, to \$5.28 per ounce, while the El Cubo cash costs was \$35.27 per ounce. Although management expects the El Cubo cash costs to decline sharply in 2013, they will still be higher than our cash costs at Guanaceví and Bolañitos. We have forecasted consolidated cash costs for 2013, in the \$9 to \$10 range. Long term, we anticipate that El Cubo cash costs will continue to fall.

We have a strong track record for turning around and then expanding troubled mines, and we see huge potential for this at El Cubo. The production grades for silver and gold at year-end were 78% and 51% lower than the current reserve grades, respectively, which leads us to believe costs will fall and profits will rise.

While market conditions appear uncertain at this time, our prudent approach to expenditures gives us confidence that Endeavour Silver is well placed for the year ahead.

# OPERATIONS PERFORMANCE



## A MESSAGE FROM DAVID HOWE

*Vice President of Operations and Mexico Country Manager*

Our operations team delivered another record year of production in 2012. We successfully completed mine expansions at Guanaceví and Bolañitos, on time and budget, fuelling our next phase of organic growth. We also acquired the El Cubo mine, perhaps our biggest challenge and our greatest opportunity yet.

Like Guanaceví and Bolañitos, El Cubo was a tired old mine struggling to survive in an historic silver district. And like we did with our first two mines, we launched a two-step strategy to create value at El Cubo.

First, we focused training on initiatives to improve operating efficiencies. Secondly, we restarted exploration, testing multiple targets in search of high-grade veins that can be fast-tracked to production.

While much work remains to be done, our operational changes are already having positive effects on production. Our philosophy of continuous improvement will reward shareholders as we continue to execute our two-step strategy at El Cubo in 2013.

*Jack-leg drill operators prepare an ore face*

**GUANACEVÍ MINE, DURANGO STATE, MEXICO**

# Our First and Deepest Mine Continues to Perform Well

OPERATIONS PERFORMANCE



**20%**

MINE EXPANSION COMPLETED ON TIME AND BUDGET

**2.5**

MILLION OUNCES OF SILVER PRODUCED IN 2012

< Pouring doré silver bars, Guanaceví

**2012 HIGHLIGHTS**

**PRODUCTION**

- 2.5 million ounces of silver (↓6%)
- 7,874 ounces of gold (↑15%)
- 2.9 million ounces of silver equivalent (↓4%)
- Cash costs of \$12.25 per ounce (↑26%)

**RESERVES AND RESOURCES**

- 9.3 million ounces of proven and probable silver (↓31%)
- 23.7 million ounces of measured and indicated silver (↑13%)
- 14.5 million ounces of inferred silver (↓3%)
- 16,600 ounces of proven and probable gold (↓37%)
- 49,700 ounces of measured and indicated gold (↑28%)
- 27,000 ounces of inferred gold (↓1%)
- 7.7 million ounces of silver equivalent delineated at new Milache discovery

**OTHER ACHIEVEMENTS**

- Completed a 20% mine expansion, to 1,200 tonnes per day, on time and budget
- Won several safety awards at Durango state mine-rescue and first-aid competitions
- Received a Certificate of Health from the state of Durango's Secretary of Health

**2013 OUTLOOK**

**PRODUCTION**

- 2.4 to 2.5 million ounces of silver
- 6,500 to 7,000 ounces of gold
- 2.8 million to 2.9 million ounces of silver equivalent
- Cash costs per ounce slightly higher than in 2012

**EXPLORATION**

- Drill out the Milache ore body and make a decision on mine development by year-end
- Continue to acquire small historic mining properties for exploration

**OVERVIEW**

ACQUISITION	Endeavour's first mine, acquired in May 2004
LOCATION	260 kilometres northwest of the city of Durango in the state of Durango
ACCESS	4½ hours by state highway to the town of Guanaceví
PROPERTY	4,100 hectares in the fifth largest historic silver mining district in Mexico
INFRASTRUCTURE	State power grid; local labour, supplies, and services; company camp
OPERATIONS	3 mines feed a central, 1,200-tonne-per-day leach plant to produce doré bars
GEOLOGY	Low-sulphidation epithermal veins are typically thousands of metres long, 600 metres deep, and 1 to 5 metres thick



Endeavour's acquisition of its first silver mine, at Guanaceví in 2004, continues to reap rewards for all stakeholders. The mine has since produced more than 15 million ounces of silver and 38,000 ounces of gold, revitalized the local community, and helped establish Endeavour's successful business model.

Although the historic mine was struggling to survive in 2004, it now processes more than 1,200 tonnes of high-grade ore per day. We have found five high-grade silver-gold ore bodies along a five-kilometre length of the prolific Santa Cruz vein and developed four new mines, three of which are still operating.

Guanaceví currently includes three underground silver-gold mines, a cyanidation leach plant, mining camp, and administration and housing facilities. It provides steady employment for more than 450 people and engages nearly 200 contractors.



Scoop tram operators at El Porvenir Cuatro ramp, Guanaceví

**CONTINUOUS IMPROVEMENT**

We completed a 20% mine and plant expansion in 2012, on schedule and budget, to increase throughput to 1,200 tonnes per day. This included 7.3 kilometres of underground development and optimization of the crushing circuit, ore conveyors, fine-ore bin, and concentrate-handling circuit. The plant is already exceeding its newly rated capacity, processing more than 1,200 tonnes per day.

We continue to expand our interests in this high-grade silver district, where we now hold 40 concessions covering more than 4,100 hectares. We have agreements with private ranchers and *ejidatarios* (holders of communal agricultural land) to ensure land access for many years of exploration and development activity.

**SAFETY AND HEALTH**

Ever since acquiring Guanaceví, our operations team has focused on building a culture that puts safety first. Early on, we established top safety standards and provided complete safety equipment, such as steel-toed boots, protective glasses, emergency gear, and first aid supplies, as well as an ambulance. We continuously fund new initiatives to encourage healthy lifestyles, to provide skills training, and to prevent drug and alcohol addiction.

Guanaceví was awarded a Certificate of Health by Durango's Secretary of Health in 2012. It was the first time a mining company had received this honour.

**ENVIRONMENTAL STEWARDSHIP**

The mines and plant at Guanaceví are spread over a broad area and surrounded by forested hills.

At Guanaceví, we have steadily improved standards of environmental management to remediate some of the impacts caused by hundreds of years of mining. Our initial investments addressed immediate concerns, such as building and lining new tailings ponds. In addition, we have planted more than 10,000 pine seedlings and cacti in recent years, to reclaim disturbed lands.

Electricity is provided by the Federal Electricity Commission, which installed a new substation at our expense in 2012. It now provides 115 kilovolts of power to both the operation and the town. Industrial water is recycled throughout the plant, and fresh water is supplied from an underground mine. In 2012, we commissioned a dry-stack tailings system to improve mineral and water recovery and to further reduce environmental harm.

In 2010, Guanaceví received a Clean Industry Certificate from the Federal Attorney for Environmental Protection. This required a voluntary environmental audit of the operation, which we now do every year.

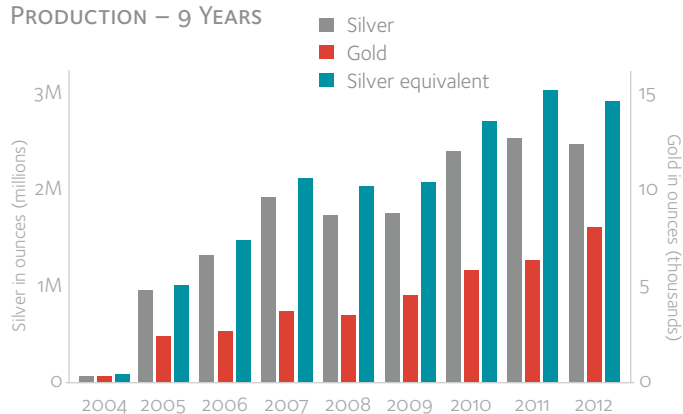
**COMMUNITY ENRICHMENT**

Mining companies cannot succeed unless they address community needs as well as company needs. At Guanaceví, we regularly sponsor community programs and provide goods and services to those in need.

We helped refurbish the local town hall, school, and clinic. We widened the local creek, to minimize the flood risk during the rain season. Every year, we fund cultural celebrations, sports teams, tree planting, and many other community activities.

Our community enrichment programs make a positive difference in people's lives.

**PRODUCTION – 9 YEARS**



NOTES: Silver equivalent production was calculated at a 55-to-1 silver-to-gold ratio prior to 2012 and at a 50-to-1 silver-to-gold ratio for 2012. As part of the option agreement for Guanaceví, Endeavour did not have 100% ownership until 2006, so revenue from production was not generated before 2006.

**BOLAÑITOS MINE, GUANAJUATO STATE, MEXICO**

# Our Second and Largest Mine Keeps on Growing

OPERATIONS PERFORMANCE



# 60%

MINE EXPANSION COMPLETED ON TIME AND BUDGET

# 1.7

MILLION OUNCES OF SILVER PRODUCED IN 2012

< A coarse-ore bin at the Bolañitos plant

**2012 HIGHLIGHTS**

**PRODUCTION**

- 1.7 million ounces of silver (↑59%)
- 25,920 ounces of gold (↑73%)
- 3.1 million ounces of silver equivalent (↑66%)
- Cash costs of negative \$5.20 per ounce (↑23%)

**RESERVES AND RESOURCES**

- 7.4 million ounces of proven and probable silver (↑142%)
- 9.2 million ounces of measured and indicated silver (↓21%)
- 7.4 million ounces of inferred silver (↓24%)
- 104,600 ounces of proven and probable gold (↑154%)
- 139,400 ounces of measured and indicated gold (↓21%)
- 85,200 ounces of inferred gold (↓25%)
- Delineated initial resources at new Lana discovery

**OTHER ACHIEVEMENTS**

- Completed a 60% expansion (to 1,600 tonnes per day), on time and budget
- Won several safety awards at Durango state mine-rescue and first-aid competitions
- Received a corporate social responsibility award for excellence in sustainability from the Mexican foundation CEMEFI

**2013 OUTLOOK**

**PRODUCTION**

- 1.7 million to 1.8 million ounces of silver
- 25,000 to 26,000 ounces of gold
- 3.1 million to 3.2 million ounces of silver equivalent
- Cash costs per ounce slightly higher than in 2012

**EXPLORATION**

- Drill out the Lana ore body and other veins
- Continue to explore the many existing targets on the property

**OVERVIEW**

ACQUISITION	Endeavour's second mine, acquired in May 2007
LOCATION	10 kilometres northwest of the city of Guanajuato in the state of Guanajuato
ACCESS	40 minutes by municipal gravel road to the town of La Luz
PROPERTY	2,500 hectares in the second largest historic silver mining district in Mexico
INFRASTRUCTURE	State power grid; local labour, supplies, and services
OPERATIONS	3 mines feed a central, 1,600-tonne-per-day flotation plant to produce mineral concentrates
GEOLOGY	Low-sulphidation epithermal veins typically thousands of metres long, 200 metres deep, and 1 to 10 metres thick

If you looked up “turnaround champ” in a mining dictionary, you might just find a picture of Endeavour’s Bolañitos mine, thanks to the phenomenal success of the operation over the last five years.

When Bolañitos was acquired in 2007, the cash costs of production were \$32 per ounce and the operation was struggling to produce 300,000 ounces of silver per year. But thanks to our execution of our business strategy, barely two years later, the cash costs of production fell to a negative amount and production had more than doubled to 800,000 ounces of silver per year.

In 2012, Bolañitos produced 1.7 million ounces of silver, an increase of 59% over the previous year, and produced 25,920 ounces of gold, an increase of 73%. The silver cash costs for 2012 averaged negative \$5.20.

Endeavour’s second mine acquisition, Bolañitos, consists of 2,470 hectares encompassing 3 operating silver and gold mines, located in 2 areas about 5 kilometres apart. Bulk sulphide concentrates are produced on site and trucked to either the Guanaceví or the El Cubo plant for refining into silver-and-gold doré bars, or sold to smelters. In 2012, the operation employed about 500 people and engaged 630 contractors, most of them from surrounding communities.

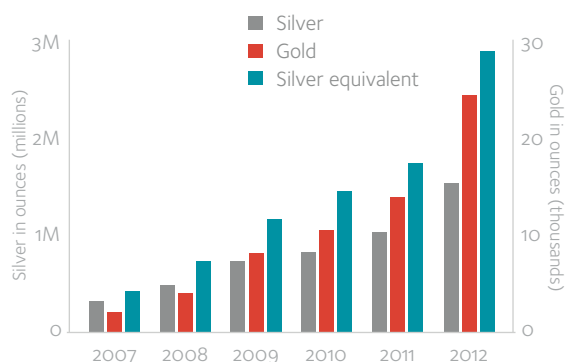
And momentum is building.

#### CONTINUOUS IMPROVEMENT

Prompted by our exploration successes, we made significant upgrades to the Bolañitos mine and plant facilities in 2012, boosting production from 1,000 to 1,600 tonnes per day. But after year-end, the mine outpaced plant capacity, resulting in stockpiled ore. The current operation is capable of providing up to 2,000 tonnes of mine output per day.

To facilitate higher production, we signed two contracts to sell our silver-gold concentrates until the end of September 2013. This arrangement will unplug the operational bottleneck, allow production to continue growing, and increase our working capital during a peak period of capital spending. We will also conduct updated metallurgical reconciliations and balances for Guanaceví ores and El Cubo concentrates, and optimize silver and gold recoveries at the Guanaceví and El Cubo plants.

#### PRODUCTION – 6 YEARS



NOTES: Silver equivalent production was calculated at 55-to-1 silver-to-gold ratio before 2012 and a 50-to-1 silver-to-gold ratio for 2012



A scoop tram loading ore at Bolañitos

#### HEALTH AND SAFETY

When we first acquired Bolañitos, we launched our safety program and invested resources to upgrade equipment, provide supplies, increase awareness and training, and establish best safety practices. Our approach of continuous safety training, empowering employees, and rewarding them for being proactive has now come full circle. They have taken ownership of the programs to produce better results—for themselves as well as for others.

In 2012, we furthered the program by adding two paramedics, another ambulance, more mine-rescue equipment, and by increasing safety and mine rescue training.

#### ENVIRONMENTAL STEWARDSHIP

Our initial rebuilding program at Bolañitos addressed a number of environmental concerns, including water protection. We installed berms around the tailings ponds to divert rainwater from the area, and built chimneys to draw water down from the tailings so we can recycle it through the plant.

Bolañitos has an innovative program to encourage reuse of materials we no longer need on site. Instead of throwing them away, we circulate them into the community. Hoses, cables, wood, clean containers, and similar items are coveted by local residents.

As a result, we have applied for a Clean Industry Certificate from Mexico’s Federal Attorney for Environmental Protection.

#### COMMUNITY OUTREACH

The Bolañitos operation is located at the north end of the Guanajuato silver district, near the town of La Luz, an area that has seen a rich tradition of mining. We work closely with the several communities near the mine and plant sites to address some of their needs.

In addition to supporting a variety of local events and festivals, we launched a summer sports program in 2012, providing activities for 100 children while discouraging the unsafe practice of panhandling. Responding to the need for local dental care, we also worked with Mexico’s Secretary of Health to develop a consulting clinic in the area.

In 2012, Bolañitos received an award from CEMEFI (the Mexican Centre for Philanthropy), an independent institution that recognizes excellence in corporate social responsibility.



EL CUBO MINE, GUANAJUATO STATE, MEXICO

# Our Third and Most Challenging Mine May Be our Biggest Opportunity



**\$203**  
MILLION  
STRATEGIC ACQUISITION  
CLOSED

**\$67**  
MILLION  
CAPITAL INVESTMENT  
PROGRAM LAUNCHED

< Rebuilding the plant at El Cubo

OPERATIONS PERFORMANCE

**2012 HIGHLIGHTS (JULY THROUGH DECEMBER)**

**PRODUCTION**

- 0.3 million ounces of silver
- 4,893 ounces of gold
- 0.6 million ounces of silver equivalent
- Cash costs of \$35.27 per ounce

**RESERVES AND RESOURCES**

- 6.3 million ounces of proven and probable silver
- 4.4 million ounces of measured and indicated silver
- 11.4 million ounces of inferred silver
- 101,100 ounces of proven and probable gold
- 76,700 ounces of measured and indicated gold
- 220,900 ounces of inferred gold

**OTHER ACHIEVEMENTS**

- Initiated a program to expand the reserve blocks and test multiple new targets
- Launched a \$67-million capital investment program to explore and develop the mines and to rebuild and expand the plant and surface facilities
- Completed \$14.5 million worth of capital projects to modernize the mines and equipment, on time and budget

**2013 OUTLOOK**

**PRODUCTION**

- 0.9 million to 1.0 million ounces of silver
- 14,500 to 16,000 ounces of gold
- 1.7 million to 1.9 million ounces of silver equivalent
- Cash costs per ounce significantly lower than in 2012

**EXPLORATION**

- Continue to explore around the old mines, to expand the reserves
- Drill new targets southeast of the mines, to make new discoveries

**OVERVIEW**

ACQUISITION	Endeavour's third mine, acquired in July 2012
LOCATION	6 kilometres southeast of the city of Guanajuato in the state of Guanajuato
ACCESS	30 minutes by municipal road to the town of El Cubo
PROPERTY	8,146 hectares in the second largest historic silver mining district in Mexico
INFRASTRUCTURE	State power grid; local labour, supplies, and services
OPERATIONS	3 mines feed a flotation plant that produces mineral concentrates; concentrates feed a 400-tonne-per-day leach plant to produce doré bars
GEOLOGY	Low-sulphidation epithermal veins are typically thousands of metres long, 400 metres deep, and 1 to 3 metres thick

Our acquisition of the El Cubo mine in July of 2012 was a great fit with Endeavour's business strategy of buying and rejuvenating struggling old mines in historic mining districts.

Unlike Guanaceví and Bolañitos, which came to us with low throughputs and no reserves, El Cubo offered the potential to quickly become a core asset for Endeavour, with a 1,000-tonne-per-day output and a long mine life. El Cubo has many mine adits, ramps, and shafts, as well as a 400-tonne-per-day leach plant. It also holds a lease (until May 2013) on the adjacent Las Torres mine and 1,800-tonne-per-day flotation plant owned by Fresnillo PLC.

In the third quarter of 2012, we launched a \$67-million, 18-month capital investment program at El Cubo, to explore and develop the mine and to rebuild and expand the plant, tailings facility, water supply, electrical supply, surface buildings, and surface infrastructure. Of the initial \$14.5 million we spent, \$9.7 million went to 5.4 kilometres of mine development, \$4.1 million went to the El Tajo plant rehabilitation and expansion, \$0.4 million went to mine equipment purchases and refurbishing, and \$0.3 million went to office equipment, building upgrades, and light vehicles.

Located in the southeastern part of the historic Guanajuato mining district, this producing silver and gold mine is only 15 kilometres from our Bolañitos project. We see potential for significant operational synergies between El Cubo and Bolañitos. At acquisition, the operation engaged about 965 employees and 202 contractors.

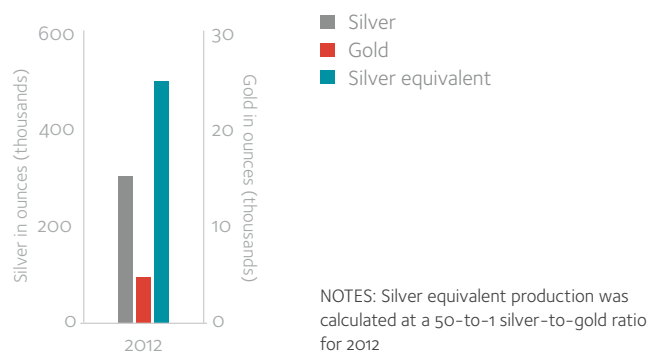
#### CONTINUOUS IMPROVEMENT

Although El Cubo has recently been a low-grade, high-cost mining operation, it's already showing improved throughput, grades, and mineral recoveries as a result of our operational initiatives.

Our exploration review identified 28 prospective target areas in and around the existing mines at El Cubo, with near-term potential to delineate new reserves and resources. Since acquiring the property, we have undertaken mapping, sampling, permitting, and drilling to start testing the high-priority targets. More than 50,000 metres of core drilling are planned over the next two years.

The El Cubo property consists of 61 mineral concessions covering 8,146 hectares. Some 38 individual veins have been historically mined, and 16 additional exploration targets outside of the existing mines at El Cubo offer potential for new silver and gold vein discoveries.

#### PRODUCTION—6 MONTHS



Installing the new ball mill at El Cubo

#### HEALTH AND SAFETY

El Cubo, regrettably, had a poor safety record prior to acquisition. It was evident from the beginning that more attention to safety was needed.

We began with the basics—a new safety program of policies and practices that includes standard safety training, weekly safety meetings, regular safety audits, and specialized safety training such as first aid. Rescue stations and first aid kits were installed throughout the mines and the plant, as well as significant new signage as reminders. We've also established a mine rescue team, which won awards in its first rescue competition last fall.

A culture shift is under way but there's still much work to do.

#### ENVIRONMENTAL STEWARDSHIP

The processing plant at El Cubo goes back at least 150 years, and was the first mill site permitted to use cyanide in Mexico.

Recognizing that this is an old facility, ripe with risks and challenges dating back to a time before sustainable mining standards and practices were in place, we launched a rebuilding program to address any shortcomings of the facilities and to modernize the operations.

We run clean mines, and we work to stay a step ahead by proactively diverting problems before they arise. We've already made significant progress in cleaning up after a century's worth of previous owners.

#### COMMUNITY OUTREACH

Many of the 2,700 residents in the six small communities near the El Cubo mine and its installations are now participating in our community engagement programs. They're helping us identify local projects that will provide long-term benefits and improve quality of life for our employees, their families, and their neighbours.

In 2012, we started working with the local health department to build awareness about healthy diets and practices and to provide medical, dental, and vision care. We also provided summer sports camps, music workshops, and art classes for local children.



# EXPLORATION PERFORMANCE

## A MESSAGE FROM LUIS R. CASTRO VALDEZ

*Vice President of Exploration*

Reserves and resources grew again in 2012, thanks to the success of our acquisition, exploration, and development programs. We more than replaced the reserves we depleted last year, and we increased our resources to record levels in all categories.

Most exciting was our new high-grade silver and gold discovery in the Terronera vein on the San Sebastián property. With an initial mineral resource estimate of 11.4 million ounces of silver indicated and 19.5 million ounces of silver inferred, San Sebastián appears positioned to become mine number four for Endeavour.

Our Milache discovery at Guanaceví also has good potential for becoming a new mine, and the Lana discovery at Bolañitos is already in production.

In 2013, we will continue to explore the full potential of our project portfolio as we lay the groundwork for another eight years of accretive growth.



# In Pursuit of Our Fourth Mine

## SAN SEBASTIÁN (MEXICO)

HIGHLIGHTS	Discovered a new zone of high-grade silver-gold mineralization in the Terronera vein that's more than 900 metres long, 200 metres deep, 3 to 10 metres thick, and still open along the strike
ACQUISITION	Optioned 100% interest in 2010; spent \$2 million on exploration; purchased for \$2.75 million in 2013
LOCATION	40 kilometres northeast of Puerto Vallarta in the state of Jalisco, Mexico
ACCESS	One hour on a paved highway to the town of San Sebastián del Oeste
PROPERTY	5,466 hectares in the historic silver mining district of San Sebastián
INFRASTRUCTURE	State power; local labour, supplies, and services; company camp
GEOLOGY	Low-sulphidation epithermal veins that are typically up to 3,000 metres long, 200 metres deep, and 1 to 30 metres thick
RESOURCES	11.4 million ounces of indicated silver; 69,300 ounces of indicated gold; 19.5 million ounces of inferred silver; 138,100 ounces of inferred gold
OUTLOOK	Drill out the Terronera vein; update the resource estimate; complete the preliminary economic assessment; and make a decision on a pre-feasibility study and project permitting

San Sebastián del Oeste is an historic silver and gold mining district in southwestern Jalisco state, approximately 155 kilometres southwest of Guadalajara. One small high-grade underground silver and gold mine, Santa Quitéria, is currently operating in the district, producing 100 tonnes of ore per day. Our San Sebastián property surrounds the Santa Quitéria mine and represents a new district-scale silver-and-gold exploration and mining opportunity for Endeavour.

The San Sebastián property displays a classic low-sulphidation epithermal vein system with four mineralized subdistricts, each consisting of a cluster of quartz veins (calcite, barite) bearing sulphide minerals (pyrite, argentite, galena, and sphalerite). Historically, more than 50 small mines have been developed within at least 20 veins.

Although the San Sebastián silver mines were first discovered in 1542 and there have been several periods of small-scale mining over the last 450 years, little modern exploration was ever carried out in the district.

Endeavour's exploration teams feel there is substantial potential for additional high-grade mineralized zones within the several dozen

kilometres of known veins on the San Sebastián properties. Our new high-grade discovery in the Terronera vein confirms our opinion. The vast majority of San Sebastián veins have never been drilled.

## PÁNUCO-LABERINTO PROJECTS (MEXICO)

HIGHLIGHTS	Began geological, geochemical, and geophysical surveys; identified potential targets; began a phase-one drilling program
ACQUISITION	Optioned in 2012; can earn 70% to 75% interest by spending \$3 million to \$4 million on exploration at each property over 3 or 4 years
LOCATION	60 kilometres northeast of the city of Durango in the state of Durango
ACCESS	One hour on a paved highway to the town of Guadalupe Victoria
PROPERTY	14,295 hectares adjacent to the La Preciosa discovery of Orko Silver/Coeur d'Alene
INFRASTRUCTURE	State power; local labour, supplies, and services
GEOLOGY	Low-sulphidation epithermal veins with potential for bulk-tonnage and high-grade silver and gold
RESOURCES	None
OUTLOOK	Continue exploring and drilling multiple targets

The Pánuco property covers 14,203 hectares along 20 kilometres of Sierra de la Silla mountain range. At elevations of 2,100 to 2,800 metres, it's accessible by paved and gravel roads. The property is sandwiched between the La Preciosa property of Orko Silver and Coeur d'Alene to the southeast and San Lucas property of Oremex Silver to the northwest. The Laberinto property covers 92 hectares within the Pánuco property.

Eight mineralized zones have been identified over a five- by five-kilometre area at the south end of the Pánuco property. Five vein-stockwork zones (La Víbora, Corral, Laberinto, El Varal, and El Muerto) follow the main northwest trend, and three vein-stockwork zones (Reina del Cobre, San Jacinto, and El Placer) follow a transverse northeast trend.

Pánuco and Laberinto have excellent potential for both bulk-tonnage open-pit deposits and high-grade underground deposits of silver and gold. Pánuco and Laberinto straddle the same regional northwest-trending fault structure that passes through and appears to be related to the silver-gold mineralization on the La Preciosa and San Lucas properties.

**EL INCA (CHILE)**

HIGHLIGHTS	Began geological, geochemical, and geophysical surveys; identified potential bulk-tonnage and high-grade silver targets
ACQUISITION	Optioned in 2012; can earn 75% interest by paying \$2 million and spending \$5 million on exploration over 4 years
LOCATION	250 kilometres northeast of the city of Antofagasta and 27 kilometres northwest of the city of Calama in northern Chile
ACCESS	30 minutes west of Codelco's huge Chuquicamata copper mine
PROPERTY	447 hectares in the historic Chuquicamata district
INFRASTRUCTURE	State power; local labour, supplies, and services
GEOLOGY	Potential for bulk-tonnage porphyry copper or low-sulphidation epithermal silver and gold
RESOURCES <sup>1</sup>	Codelco's historic resources total 1.49 million tonnes with a grade of 158 grams of silver per tonne (7.6 million ounces of silver) and 335,000 tonnes with a grade of 523 grams of silver per tonne (5.6 million ounces of silver)
OUTLOOK	Drill to test multiple targets for bulk-tonnage and high-grade silver veins

<sup>1</sup> This resource estimate is now considered to be historic, it is not 43-101 compliant, has not been verified by Endeavour and should not be relied upon.

The El Inca property covers 447 hectares, about 250 kilometres northeast of Antofagasta and just 18 kilometres west of Codelco's huge Chuquicamata copper mine. Elevations range from 2,200 to 2,900 metres, where vegetation is sparse and the climate is dry.

El Inca covers a large argillic alteration zone containing abundant iron-manganese oxides and sulphates over an area of 2.5 by 1.5 kilometres. Mineralization consists of silver-lead-zinc sulphides within quartz-calcite-barite disseminations, stockworks, and veins. Four main veins are hosted in dacite dome intrusions and volcanoclastic rocks. They outcrop for up to 1.6 kilometres along strike, range up to 4 metres in width, and are surrounded by altered and mineralized low-grade envelopes that are up to 100 metres thick.

El Inca was originally exploited as a series of small, high-grade underground mines in the late 1880s. In the 1970s and 1980s, Codelco mined underground and heap-leached 128,000 tonnes with grades of 227 grams per tonne.

The El Inca property has excellent exploration potential for bulk-tonnage, open-pit copper mines like Chuquicamata and for both bulk-tonnage and high-grade silver and gold mines like Yamana Gold's El Peñón, south of El Inca. El Inca represents another district-scale silver exploration opportunity for Endeavour.

**LOURDES (MEXICO)**

HIGHLIGHTS	Began geological, geochemical, and geophysical surveys and trenching to identify potential bulk-tonnage and high-grade silver targets
ACQUISITION	Optioned in 2012; can earn 100% interest by paying \$350,000 over 3 years
LOCATION	40 kilometres northeast of the city of Guanajuato in the state of Guanajuato



*A small-footprint exploration drill site at San Sebastián*

ACCESS	One hour on a paved highway to the city of Guanajuato
PROPERTY	509 hectares in the historic El Tigre district
INFRASTRUCTURE	State power; local labour, supplies, and services
GEOLOGY	Low-sulphidation epithermal veins with potential for bulk-tonnage and high-grade silver and gold
RESOURCES	None
OUTLOOK	Drill the main bulk-tonnage and high-grade targets

The Lourdes silver and gold property in the Sierra El Cubo area lies 40 kilometres northeast of the city of Guanajuato. By state highway, it's about an hour's drive from the property to the city, where Endeavour's Bolañitos and El Cubo mines are located.

The Lourdes property covers a silver-gold low-sulphidation epithermal vein system more than five kilometres long. There are three main veins (El Tigre, La Blanca, and P131) and several secondary veins. Although Lourdes is considered an early-stage exploration property, it contains several small historic mines consisting of three concessions that total 509 hectares.

The main El Tigre vein is marked by strong argillic alteration of the Upper Tertiary rhyolite host rocks and quartz veining up to five metres thick. The quartz is mainly chalcedonic, and sericitic in places, with colloform banding and locally abundant calcite replacement textures. This indicates that the Lourdes system is exposed at a high level and holds potential for bonanza-grade mineralized zones at depth.

**GUADALUPE Y CALVO (MEXICO)**

HIGHLIGHTS	Began reconnaissance prospecting and geological surveys to identify prospective new bulk-tonnage and high-grade targets
ACQUISITION	Part of the El Cubo purchase in 2012
LOCATION	300 kilometres southwest of the city of Chihuahua in the state of Chihuahua
ACCESS	6½ hours on a paved road to the town of Guadalupe y Calvo
PROPERTY	54,856 hectares in the historic Guadalupe y Calvo mining district
INFRASTRUCTURE	State power; local labour, supplies, and services
GEOLOGY	Low sulphidation epithermal veins with potential for bulk-tonnage and high-grade silver and gold deposits



Geologist reviewing mine maps at El Cubo

RESOURCES	7.1 million ounces of indicated silver; 142,500 ounces of indicated gold; 0.5 million ounces of inferred silver; 10,600 ounces of inferred gold
OUTLOOK	Identify new bulk-tonnage and high-grade targets

Guadalupe y Calvo is an advanced silver-gold exploration project in the historic Guadalupe y Calvo mining district in the state of Chihuahua. It lies approximately 300 kilometres southwest of the city of Chihuahua. The town and district are located in the rugged Sierra Madre Occidental mountain range, but many parts of the property are accessible by road.

The property exhibits classic low-sulphidation epithermal gold-silver mineralization, with quartz veins, quartz breccias, and stockworks that host economically significant gold and silver deposits. The main structural feature is the Rosario fault complex. The width of the mineralized zone in this complex is up to 80 metres.

Guadalupe y Calvo, known for the historic Rosario mine, once produced 28 million ounces of silver and 2 million ounces of gold. High-grade gold-silver veins up to 10 metres in width were worked here. From 2003 to 2010, 54,418 metres were drilled in 189 holes to delineate a high-grade ore shoot along strike from the historic Rosario mine. Guadalupe y Calvo has potential to increase our silver and gold resources and to become a high-grade gold and silver mine.

#### PARRAL (MEXICO)

HIGHLIGHTS	No work in 2012
ACQUISITION	Optioned in 2006; purchased 100% interest for less than \$1 million in 2011
LOCATION	210 kilometres south of the city of Chihuahua in the state of Chihuahua
ACCESS	2½ hours by road to the city of Hidalgo de Parral
PROPERTY	37 hectares in the historic Parral mining district
INFRASTRUCTURE	State power; local labour, supplies, and services
GEOLOGY	Medium-grade polymetallic epithermal veins with potential for silver and gold
RESOURCES	2.6 million ounces of indicated silver; 47,200 ounces of indicated gold; 2.7 million ounces of inferred silver; 36,900 ounces of inferred gold; significant lead; and zinc
OUTLOOK	Acquire more resources in the district, to create critical mass for a new mine

Endeavour owns the 37-hectare El Cometa property in the historic silver district of Parral, which government records say has produced more than 250 million ounces of silver. The El Cometa property is well sited for mining. It's accessible by paved road, adjacent to the city of Parral, and one kilometre from a government-owned plant that processes 500 tonnes of ore per day.

Silver was first discovered at El Cometa in 1631. By 1655, more than 60 small mines were operating. The old El Cometa mine was developed on 3 levels to a depth of 75 metres. It was on the same vein as the Esmeralda mine, which was just 2 kilometres south. Esmeralda is estimated to have produced 4 million tonnes of ore graded at 6% for lead and zinc, 100 grams of silver per tonne, and 0.5 grams of gold per tonne, on 10 levels and to a depth of 600 metres.

After acquiring Parral in 2006, Endeavour found a similar polymetallic zone in the El Cometa vein, along strike from the historic Esmeralda mine. In 2011, resources at El Cometa were estimated at 1.6 million tonnes containing 49 grams of indicated silver and 0.9 grams of indicated gold per tonne, graded at 2.87% for lead and 2.9% for zinc, and 1.3 million tonnes containing 63 grams of inferred silver and 0.9 grams of inferred gold per tonne, graded at 2.6% for lead and 2.3% for zinc.

We're seeking other properties in the district with silver resources, to create critical mass for developing a new mine.

#### ARROYO SECO (MEXICO)

HIGHLIGHTS	No work in 2012
ACQUISITION	Optioned in 2006; purchased 100% interest for \$229,000 in 2008
LOCATION	50 kilometres from the city of Apatzingán in the state of Michoacán
ACCESS	1.5 hours by road to the town of La Huerta
PROPERTY	1,915 hectares
INFRASTRUCTURE	Local labour, supplies, and services
GEOLOGY	Potential for large polymetallic sedimentary exhalative deposits
RESOURCES	5.2 million ounces of inferred silver; 1,700 ounces of inferred gold
OUTLOOK	Seek a partner or buyer for the project

The Arroyo Seco property was first worked in the seventeenth century by the Spaniards, who developed three small mines—Los Alacranes, San Ignacio, and El Zapote. Arroyo Seco is somewhat unique in Mexico because the silver mineralization appears synsedimentary in nature, forming stratiform tabular lenses within three stacked sedimentary layers. Mineralization consists of tetrahedrite, tennantite, argentite, and minor galena, sphalerite, chalcocopyrite, and pyrite associated with barite, calcite, and quartz in disseminated sulphide zones.

The most prominent mineralized layers are up to six metres thick, but average 3.8 metres within certain calcareous siltstone beds. There are also narrow, cross-cutting late-stage veins of silver sulphide mineralization. The 3 old mines are 2.5 kilometres apart, and the property covers 5 kilometres along the prospective sedimentary stratigraphy. The favourable mineralized horizons have shallow dips (25 to 50 degrees) parallel to the topography, which should make them easier to drill.

We have completed drilling to establish an initial resource, and have determined that the project is too early stage for mine development. We are therefore seeking a partner or a buyer for Arroyo Seco.

## RESERVES AND RESOURCES AS OF DECEMBER 15, 2012

## RESERVES—PROVEN AND PROBABLE

Project		Tonnes	Silver grams per tonne	Gold grams per tonne	Silver ounces	Gold ounces
PROVEN	Guanaceví	423,000	243	0.52	3,308,000	7,000
	Bolañitos	938,000	145	1.96	4,363,300	59,100
	El Cubo	145,000	116	1.80	540,800	8,400
	<b>Total proven</b>	<b>1,506,000</b>	<b>170</b>	<b>1.54</b>	<b>8,212,100</b>	<b>74,500</b>
PROBABLE	Guanaceví	797,000	234	0.38	5,999,500	9,600
	Bolañitos	707,000	135	2.00	3,075,500	45,500
	El Cubo	1,310,000	137	2.20	5,770,100	92,700
	<b>Total probable</b>	<b>2,814,000</b>	<b>164</b>	<b>1.63</b>	<b>14,845,100</b>	<b>147,800</b>
<b>Total proven and probable</b>		<b>4,320,000</b>	<b>166</b>	<b>1.60</b>	<b>23,057,200</b>	<b>222,300</b>

## RESOURCES—MEASURED AND INDICATED

Project		Tonnes	Silver grams per tonne	Gold grams per tonne	Silver ounces	Gold ounces
MEASURED	Guanaceví	129,000	312	0.49	1,294,000	2,000
	Bolañitos	553,000	156	2.60	2,775,800	46,200
	El Cubo	256,000	78	1.58	642,000	13,000
	<b>Total measured</b>	<b>938,000</b>	<b>156</b>	<b>2.03</b>	<b>4,711,800</b>	<b>61,200</b>
INDICATED	Guanaceví	3,014,000	232	0.49	22,433,700	47,700
	Bolañitos	1,472,418	135	1.97	6,391,900	93,200
	El Cubo	1,095,000	108	1.81	3,802,100	63,700
	San Sebastián	1,835,000	193	1.17	11,400,300	69,300
	Guadalupe y Calvo	1,861,000	119	2.38	7,147,300	142,500
	<b>Total indicated</b>	<b>9,277,418</b>	<b>172</b>	<b>1.40</b>	<b>51,175,300</b>	<b>416,400</b>
	<b>Total measured and indicated</b>	<b>10,215,418</b>	<b>170</b>	<b>1.45</b>	<b>55,887,100</b>	<b>477,600</b>

## RESOURCES—INFERRED

Project		Tonnes	Silver grams per tonne	Gold grams per tonne	Silver ounces	Gold ounces
INFERRED	Guanaceví	1,429,000	259	0.52	11,921,200	24,000
	Bolañitos	1,595,000	144	1.66	7,384,400	85,200
	El Cubo	2,480,000	143	2.77	11,401,900	220,900
	San Sebastián	3,095,000	196	1.39	19,500,400	138,100
	Guadalupe y Calvo	154,000	94	2.14	464,600	10,600
	<b>Total inferred</b>	<b>8,753,000</b>	<b>180</b>	<b>1.70</b>	<b>50,672,500</b>	<b>478,800</b>

## SILVER-GOLD-LEAD-ZINC RESOURCES AS OF DECEMBER 15, 2012

## RESOURCES—INDICATED

Project		Tonnes	Silver grams per tonne	Gold grams per tonne	Silver ounces	Gold ounces	% Lead	% Zinc
INDICATED	Parral	1,631,000	49	0.90	2,589,900	47,200	2.87	2.86
	<b>Total indicated</b>	<b>1,631,000</b>	<b>49</b>	<b>0.90</b>	<b>2,589,900</b>	<b>47,200</b>	<b>2.87</b>	<b>2.86</b>

## RESOURCES—INFERRED

Project		Tonnes	Silver grams per tonne	Gold grams per tonne	Silver ounces	Gold ounces	% Lead	% Zinc
INFERRED	Guanaceví	644,000	124	0.14	2,577,300	3,000	1.73	3.32
	Parral	1,303,000	63	0.88	2,658,900	36,900	2.55	2.28
	Arroyo Seco	738,000	220	0.07	5,220,000	1,700	0.65	0.18
	<b>Total inferred</b>	<b>2,348,000</b>	<b>117</b>	<b>0.52</b>	<b>10,456,200</b>	<b>41,600</b>	<b>1.85</b>	<b>1.76</b>



The updated *National Instrument 43-101: Standards of Disclosure for Mineral Projects (NI 43-101)* reserve and resource estimates to December 31, 2012, include Endeavour Silver's three active silver mines: the Guanaceví mine in the state of Durango, the Bolañitos mine in the state of Guanajuato, and the El Cubo mine in the state of Guanajuato; as well as four exploration projects: the Parral exploration project in the state of Chihuahua, the Arroyo Seco project in the state of Michoacán, the Guadalupe y Calvo project in the state of Chihuahua, and the San Sebastián project in the state of Jalisco.

Endeavour Silver retained Micon International Limited (Micon) to audit the reserves, resources, and newly generated resources for the Guanaceví and Bolañitos mines to December 15, 2012. The Qualified Persons for reporting the Guanaceví reserves were William J. Lewis, BSc, PGeo, and Charley Z. Murahwi, MSc, PGeo, FAusIMM; the Qualified Persons for reporting the Guanaceví resources are Charley Z. Murahwi, MSc, PGeo, FAusIMM, and Alan J. San Martin, MAusIMM(CP). All are employees of Micon.

Endeavour Silver retained Micon to audit the resources and newly generated resources for the San Sebastián project and the Guadalupe y Calvo project to December 15, 2012. The Qualified Persons for reporting for these two projects are Charley Z. Murahwi, MSc, PGeo, FAusIMM, and Alan J. San Martin, MAusIMM(CP). Both are employees of Micon.

Endeavour Silver retained Micon to audit the updated resources for the Parral project (El Cometa property) to December 31, 2010, based on metal prices that were current on that date. The Qualified Persons for reporting the Parral resources are William J. Lewis, BSc, PGeo, Charley Z. Murahwi, MSc, PGeo, FAusIMM, and Dinya Kanti Mukhopadhyay, MSc, MAusIMM. All are employees of Micon.

Endeavour Silver retained consulting geologist Don Cameron, PGeo, to audit the reserves and resources for the El Cubo mine to June 1, 2012. Mr. Cameron is the Qualified Person for reporting both the El Cubo reserves and the El Cubo resources.

The Qualified Persons for reporting the Arroyo Seco resources are geological consultant David St. Clair Dunn, PGeo, and Endeavour Silver former Vice President of Exploration Barry Devlin, PGeo.

The reserve and resource statements for the Guanaceví, Bolañitos, El Cubo, Parral, Guadalupe y Calvo, San Sebastián, and Arroyo Seco projects have been classified according to the definitions and guidelines of the Canadian Institute of Mining, Metallurgy and Petroleum's *CIM Definition Standards on Mineral Resources and Mineral Reserves (CIM Standards)* and the guidelines of *NI 43-101*. The information should be read in conjunction with the corresponding technical reports. Micon's report for the Parral project was filed on the System for Electronic Document Analysis and Retrieval (SEDAR) on March 1, 2011. The Arroyo Seco report filed on SEDAR on March 21, 2011, was written by David St. Clair Dunn, BSc, PGeo, and Barry Devlin, MSc, PGeo, who are both Qualified Persons.

The Guanaceví, Bolañitos, Guadalupe y Calvo, and San Sebastián technical reports were filed during March 2013. The mineral reserve figures reported here are in addition to the reported mineral resources.

#### NOTES:

1. Reserve cut-off at Guanaceví is 158 grams of silver per tonne
2. Reserve cut-off at Bolañitos is 111 grams of silver per tonne
3. Reserve cut-off at El Cubo is 135 grams of silver per tonne
4. Mining width is 2.0 metres
5. Dilution is 15% after it has been diluted to a minimum mining width, if required
6. Resource cut-off at Guanaceví and Bolañitos is 100 grams of silver per tonne equivalent
7. Resource cut-off at El Cubo is 98 grams of silver per tonne equivalent
8. Reserve and resource silver equivalent is 50-to-1 ratio for silver to gold
9. Resource cut-off at San Sebastián is 100 grams of silver equivalent per tonne
10. Resource cut-off at Guadalupe y Calvo is 100 grams of silver equivalent per tonne
11. Resource cut-off at Parral, using net smelter return and the prices in the table below, is \$40.
12. Resource cut-off at Arroyo Seco is 100 grams of silver per tonne

#### NET SMELTER RETURN CUT-OFF PARAMETERS FOR THE PARRAL PROJECT

Description	Parameter	Description	Parameter
Gold price	US \$1,000 per ounce	Gold recovery (overall)	75%
Silver price	US \$16 per ounce	Silver recovery (overall)	71%
Lead price	US \$0.65 per pound	Lead recovery (overall)	80%
Zinc price	US \$0.65 per pound	Zinc recovery (overall)	74%
Smelter terms	Generic contract		

# SUSTAINABILITY PERFORMANCE

## A MESSAGE FROM GODFREY WALTON

*President and Chief Operating Officer*

Welcome to this first annual review of our sustainability programs.

In all our activities, we consider how to maximize benefits for our stakeholders and minimize any negative impacts of our operations. We aim not only to exceed our legal obligations, but to create lasting benefits for our employees, their families and communities, and the environment.

This reflects our philosophy of continuous improvement. By continually improving what we do and how we do it, we make a positive difference in people's lives.

Last year, we received awards for our health programs at Guanaceví, for excellence in corporate social responsibility, and for our team's performance in Mexican safety competitions.

In 2013, we intend to improve our sustainability policies, practices, and reporting even more, as Endeavour continues to grow.



# Integrating Sustainability into Our Annual Review

## ABOUT THIS REPORT

This *Annual Review* for Endeavour Silver Corp., a premier, mid-tier silver mining company with three producing mines in Mexico, includes for the first time our review of corporate sustainability.

Our corporate culture values people, safety, health, and the environment as a means to delivering strong financial and operational results. We therefore view the annual review and sustainability review as integral to one another, and have taken the first steps toward an integrated review and reporting process. Our approach should allow stakeholders to better assess our performance and enable us to formulate more specific sustainability programs as we continue to grow.

This *Annual Review* focuses on all three components of our core strategy—our commercial successes, our work to minimize any environmental impacts of our business, and our efforts to improve quality of life for our employees and their communities.

## WHAT'S INCLUDED

This review covers the fiscal year ending on December 31, 2012. Dollar figures are reported in US dollars, unless otherwise indicated.

For a complete picture of Endeavour Silver and its projects, please read this *Annual Review* in conjunction with Endeavour's *Annual Information Form*, *Management's Discussion and Analysis*, and *Financial Statements*, filed on the System for Electronic Document Analysis and Retrieval (SEDAR, [www.sedar.com](http://www.sedar.com)) and on the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system ([www.sec.gov](http://www.sec.gov)).

This review outlines our economic, environmental, and social activities and performance at our head office in Vancouver, Canada, our three wholly owned mining operations in Mexico, and our exploration sites in Mexico and Chile.

For quantitative performance, we have included both corporate-level data, where available, and operation-specific data. As this is our first review, we are assessing the correctness and thoroughness of our data collection systems and have included only the data whose accuracy we are confident about.

For qualitative performance, we have tried to address the most important social and environmental issues that may affect our stakeholders, as determined through a materiality assessment.

We do not yet have detailed data and performance metrics on some of the more common indicators of the environmental and social impacts of our activities, such as greenhouse gas emissions, water usage, and materials usage and recycling. Instead, we offer qualitative

information, to provide some insight, and we are taking steps that will allow us to include these measures in future reports.

This review contains forward-looking statements and forward-looking information as defined under applicable securities laws. Please see the cautionary notes on page 38 of this report for more information.

## ASSURANCE

Endeavour has not enlisted the expertise of an external assurance provider to review this report. Instead, we conducted an internal review and are confident that it adequately and accurately represents our current practices and performance.

## REQUEST FOR FEEDBACK

We like to hear from our stakeholders.

The information provided herein is intended to increase your confidence in Endeavour Silver's business approach. We believe we are moving in the right direction, but this is an iterative process, and we are always looking for input on how to improve our performance.

We welcome your comments, to help us become more effective in both our current practices and our future reporting.

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*A culture that puts safety first*



## CORPORATE GOVERNANCE

## Putting High Standards into Action



## OUR APPROACH

At Endeavour, we follow a set of ethics, principles, and policies that go beyond regulations and laws. They're more than just shared values—they're our commitment to achieving the highest economically feasible standards.

Our Board of Directors oversees business conduct and supervises those who manage operations. Directors discharge their responsibilities both directly and through the Board committees, including the Audit Committee, the Compensation Committee, the Corporate Governance and Nominating Committee, and the newly formed Sustainability Committee.

Our policies and codes guide the Board's oversight, relationship with management, and its accountability to stakeholders.

< Warehouse accounting at Bolañitos

## VALUES AND ETHICS

Endeavour's long-term goals and objectives are guided by our mission statement, which says, "We find, build, and operate quality silver mines in a sustainable way to create real value for stakeholders. Our aim is to become the next senior producer in the silver mining sector. By continually improving what we do and how we do it, we make a positive difference in people's lives."

Endeavour is committed to a culture of honesty, integrity, and accountability. We also value diversity in our employees, because we believe an inclusive workforce fosters a progressive work environment.

Our *Code of Conduct and Ethics* outlines the high standards we expect. Abusive, harassing, or offensive behaviour is unacceptable. We do not tolerate derogatory comments based on racial or ethnic characteristics, or unwelcome sexual advances. Employees are encouraged to speak out if a co-worker's conduct makes them uncomfortable, and to report harassment when it occurs. Our *Whistleblower Policy* allows them to report any unethical or illegal activity without fear of reprisal from anyone. Both policies are distributed to all employees at the time of hiring. They're also available in English and Spanish on Endeavour's website ([www.edrsilver.com/about\\_us/governance](http://www.edrsilver.com/about_us/governance)).

## CHANGES TO THE BOARD OF DIRECTORS

Endeavour's remarkable eight-year track record of accretive growth has required our Board of Directors and senior management team to be flexible and to add new members as needed.

With an eye to continued improvement of corporate governance, we felt 2012 was the time to separate the roles of Board Chair and Chief Executive Officer. Lead independent Director Geoff Handley was appointed as Chair at the Board meeting following the Annual General Meeting in May 2012. Bradford Cooke continued as Chief Executive Officer and Director.

In August, Ken Pickering was appointed to the Board of Directors to strengthen technical oversight. Mr. Pickering is a professional engineer and mining executive with more than 35 years of industry experience in Canada, Chile, Australia, Peru, and the United States. He has held executive positions in major mining operations, and has been responsible for the development of world-class mining projects. From 2004 to 2010, he was Vice President of Major Projects (Closed Mines and North American Assets) with the Base Metals Division of BHP Billiton.

Five of the Board's seven members are independent, non-executive members. The Board now consists of the following individuals:

- Geoff Handley, BSc, MAIMM, FAICD (independent; Chair)
- Bradford Cooke, MSc, PGeo (Chief Executive Officer)
- Godfrey Walton, MSc, PGeo (President and Chief Operating Officer)
- Rex McLennan, BSc, MBA (independent; Chair, Audit Committee)
- Mario Szotlender, BIR (independent)
- Ricardo M. Campoy, BSc, MIM (independent)
- Ken Pickering, PEng (independent)

Metallurgical engineer Leonard Harris serves as Director Emeritus.

#### CHANGES TO THE MANAGEMENT TEAM

Barry Devlin resigned his position as Vice President of Exploration in 2012. This role was assumed by Luis R. Castro Valdez, Eng, a geological engineer with 22 years' experience in Mexico's mineral exploration and mining sectors. Mr. Valdez started with Endeavour as a project geologist in 2004, and was promoted to exploration manager in 2008. He has been directly involved in guiding Endeavour's exploration programs, including the numerous new mineral discoveries in the districts of Guanaceví and Guanajuato.

Subsequent to year-end, Endeavour welcomed three new members to the management team: Terry Chandler, BSc, PGeo, became Vice President of Corporate Development; David Tingey, MSc, Eng, joined us as Vice President of Health, Safety, and Sustainability; and Meghan Brown, BA, MBA, was appointed as Director of Investor Relations.

With 37 years' experience in the mining industry, Mr. Chandler brings to Endeavour an abundance of the technical and business skills needed to generate, evaluate, and negotiate merger and acquisition opportunities in the silver mining sector. He has held senior technical and executive positions with several exploration and mining companies. From 2009 to 2012, he was a co-founder, Director, and Executive Vice President of Chieftain Metals Inc., where he directed exploration and permitting of mine development.

Mr. Tingey is an engineer and environmental scientist with 18 years' experience in the mining sector. He brings us a broad knowledge of occupational health, mine safety, environmental practices, tailings-dam management, sustainability initiatives, strategic planning, and organizational design. He has held senior technical and management positions with mining and engineering companies. From 2010 to 2011, he served as Senior Vice President of Health, Safety, and Environment for Western Coal/Walter Energy, Inc.

Ms. Brown has more than 20 years' experience in corporate communications and investor relations in the resource sector. She has worked with Suncor Energy, TransCanada Pipelines Ltd., Placer Dome Inc., Ventana Gold Corp., and several publicly traded mineral exploration and development companies with assets in Colombia, Peru, China, Africa, Canada, and the United States. Ms. Brown comes to Endeavour from a Vancouver-based mineral exploration company.

You'll find overviews of all our Directors' and managers' experience and on our website ([www.edrsilver.com](http://www.edrsilver.com)). Additional information about compensation policies and ownership share is available in Endeavour's *Management Information Circular*, filed at SEDAR ([www.sedar.com](http://www.sedar.com)) and EDGAR ([www.sec.gov](http://www.sec.gov)).

#### DISCLOSURE

We have a moral responsibility as well as a legal obligation to disclose timely, accurate, appropriate information to our stakeholders in a transparent manner. This helps increase stakeholder confidence and contributes to better management decisions.

Following the El Cubo acquisition, for example, the on-site management team was required to improve its reporting parameters, providing head office with weekly and monthly reports in addition to quarterly updates.

Our *Disclosure Policy* provides fair, equal access to all material information, and ensures compliance with all legal and regulatory requirements. In addition to annual and quarterly reports, we share all material matters through press releases that are disseminated by a third party, posted on our website ([www.edrsilver.com](http://www.edrsilver.com)), and broadcasted via Twitter (@EDRSilverCorp).

We published Endeavour's last *Annual Review* in 2009. Since then, we have communicated regularly with shareholders and other stakeholders through formal channels, such as press releases, quarterly conference calls, and community meetings, as well as indirectly through meetings, telephone calls, and emails. In 2012, we issued 35 press releases about our quarterly financial and production reports, finances, performance, acquisitions, and governance.

Accuracy is critical. We prefer to be cautious with our forecasts, and to under-promise and outperform. After evaluating El Cubo, for example, we announced an updated mineral reserve and resource estimate for the property that contained significantly fewer tonnes at higher grades than the previous owner's estimate. We used more conservative estimation parameters, consistent with the reserve and resource estimates for our Guanaceví and Bolañitos mines.



Mine geologist with safety and mapping gear at Guanaceví

## HEALTH, SAFETY, AND WELL-BEING

## Employees—Our Most Valuable Resource



## OUR APPROACH

Our success depends on our employees. They don't just work for the company—they *are* the company. It's our people who discover the ore bodies, develop the mines, deliver production growth, boost safety and health practices and performance, and earn Endeavour its sterling reputation.

Because people are our most valuable resource, we safeguard their health and wellness, respect them as individuals, and provide opportunities for lifelong learning and self-improvement. We do this by significantly exceeding Mexican employment standards, supplying state-of-the-art safety equipment and training, investing in personal development, rewarding successes, and saying thank you.

A satisfied, stable workforce helps us improve safety, health efficiency, and performance at each of our workplaces.

< Promoting regular medical checkups

## A LOOK AT OUR WORKFORCE

Our business model means we inherit employees and contractors from previous mine owners. Their attitudes, methods, and behaviours typically don't match our expectations. Endeavour therefore invests significant resources to assess the skills, interests, and potential of newly acquired workers, and then trains, promotes, or dismisses people, depending on the outcomes.

Endeavour employed 1,957 people, or 99% of its workforce, in Mexico as of December 31, 2012. An additional 1,365 contractors worked at the three operations.

To attract and retain a skilled and stable workforce, we offer competitive wages and benefits, and generous safety and production bonuses.

Our compensation programs consistently exceed Mexico's regulations. Firms are required to pay a year-end Christmas bonus of 15 days' pay to each employee, yet we provide 30 days' pay. Salaries are reviewed annually and benchmarked against an industry survey. In 2012, an 8% wage hike was granted to every employee.

We want our employees to enjoy their jobs, take pride in their work, and advance through personal performance.

Our professional development program involves specialized on-site training in each worker's area of expertise, as well as training in other mining practices. Interested employees are able to grow professionally by expanding their skills.

Mining careers tend to be favoured by men. We have programs to attract women to administrative, lab, plant and mining positions. Women are favoured as scoop tram operators, as they tend to be easier on the machinery and to work in a more fuel-efficient manner.

Our latest mine skills training program, launched in Guanajuato to train unemployed community members, has proven successful. Sixteen participants—eight men and eight women—have participated in the three-month program. We hired the three women after they'd completed the program.

We support the right to freedom of association and collective bargaining. Our approach to labour relations has always centred on respectful discussion and peaceful resolution. In 2012, an illegal work stoppage by non-union employees who blocked access to facilities at the El Cubo plant was resolved in less than 72 hours. We quickly corrected a labour issue caused by the irresponsible action of a prior employment-outsourcing company.





Mine rescue chamber underground at El Cubo

## SAFETY

Mining is a risky business. Protecting the health and safety of our workers is therefore our highest priority.

Endeavour sets rigorous safety standards. Our safety policies are supported by daily training, shift talks, clear procedures, and regular audits. Every employee is trained in first aid and participates in a paid, three-day training program before his or her first shift. Every supervisor is responsible for maintaining safe conditions and practices in his or her area.

We provide the latest safety equipment, and insist that it be used correctly. Abundant signs warn of hazards and restrictions in certain areas, and reminders about safe practices are posted throughout the mines and plants. Every meeting begins with a safety talk. Before every shift, workers are encouraged to discuss any safety concerns they may have about the day's work plan. Once a week, we hold an hour-long safety training session to delve more deeply into particular subjects.

Endeavour also works with hundreds of contractors at each operation. Contractors are expected to maintain the same safety standards as our employees, and must participate in a specially designed safety induction program. Each group of contractors is required to provide a dedicated safety person to ensure that everyone adheres to our regulations and norms. Contractors also participate in daily and weekly safety meetings.

Our commitment to safety was perhaps best demonstrated in 2008, shortly after we acquired the Bolañitos operation. The mine shafts were in such poor condition and posed such a serious safety risk that we immediately shut six of them down for rehabilitation. This was part of an operation-wide safety upgrade program.

These efforts continue to pay off. Our lost-time accident rate per hour of work has fallen each year, even with the increased hours and productivity tied to our mine expansions and acquisitions.

Others are taking notice. In 2012, mine rescue teams from each of Endeavour's three operations participated in the first friendly

Each operation maintains a fully equipped rescue team, including members who have won awards for rescue work

competition of mine rescue teams held in Durango, Mexico, taking several first-, second-, and third-place awards and finishing among the top three teams in every category.

Our goal is a culture of safety that strives for perfection and zero harm—zero first-aid incidents, zero lost-time accidents, and zero fatalities. We follow a five-point safety system that begins with inspecting the work area and ends with employees' stopping whatever they're doing if they can't work safely or don't understand something about the work. All employees have a duty to take care of themselves and their co-workers.

When first-aid incidents and lost-time accidents do occur, the safety teams investigate the causes and use what they learn to improve practices, enhance training, and raise awareness.

Each year, we replace older equipment and supplies with new, technologically advanced equipment. In 2012, we purchased refuge stations for Guanacavé and Bolañitos, and added a new ambulance and 10 oxygen tanks for mine rescue at Bolañitos.

Since acquiring El Cubo, we have completely overhauled its safety systems and made personal-protection equipment mandatory. We have already invested hundreds of hours in safety training, created designated safety and rescue stations, and improved the safety equipment. "There was no safety training program at El Cubo when I arrived," industrial safety manager Carlos Calzada explains. "That's why they had dozens of lost-time accidents each year."

Each operation maintains a fully equipped rescue team, including members who have won awards for rescue work. Bolañitos, for example, has 20 employees trained in mine rescue. The teams participate in eight hours of additional training each week, as well as monthly evacuation simulations and quarterly firefighting drills.

A number of initiatives are in progress to build on Endeavour's strong 2012 performance, including our recent recruitment of David Tingey as Vice President of Health, Safety, and Sustainability.



A game of soccer at Guanaceví

We take a proactive approach by offering preventive health programs

HEALTH, SAFETY, AND WELL-BEING

**HEALTH**

We ask our employees to work in physically challenging roles, at times under unpleasant conditions. Their physical, mental, and spiritual health is therefore important to us.

We take a proactive approach by offering preventive health programs. We hire medical experts to provide routine medical, dental, and vision care. We fund vaccines for tetanus, influenza, and other health risks. We educate our workers about conditions and illnesses that may affect them, such as diabetes, hypertension, obesity, and problems related to stress.

In 2011, we hired a recreation administrator to improve the work-life balance for the miners at Guanaceví, who live in a mining camp and work 12-hour days. Armando Serrano Molina provides information and activities that encourage wellness and reduce work-related stress.

The concept was unfamiliar to most employees in the beginning, but their enthusiasm has grown. “Miners work really hard during their shifts, but have a very sedentary and sometimes negligent attitude toward diet and health after work and during their days off,” Molina says. “We’re trying to change that mindset by encouraging them to make better choices. Most of these people had never had a company care about what happens after work. The program is having a positive effect.”

Our focus on preventive health programs permeates our community programs. In 2012, for example, we collaborated with local schools to provide sex- and drug-education classes and counselling for youth in the Bolañitos area.

The Guanaceví mine was awarded a Certificate of Health by Durango’s Secretary of Health in 2012. It was the first time a mining company had ever received this honour.

**SECURITY**

Crime and violence can be serious problems in some parts of Mexico. There are security risks related to silver and gold mining operations, making physical protection of our employees and our operations of the utmost importance. These risks stem primarily from the presence of drug gangs, locals who illegally enter underground mines and steal minerals and equipment, and employees and contractors who steal materials.

Endeavour takes a multi-dimensional approach to security. We continually modernize and extend the scope of our programs by adding staff and improving preventive techniques, barriers, controls, and closed-circuit-television monitoring systems. We conduct physical and vehicle searches when anyone leaves a property. We expanded our security force and increased capital investment in the programs across all operations. We also added armed security guards at El Cubo when we acquired it. As a result of these measures, theft is decreasing.

While deterring theft and detaining suspects for prosecution by Mexican authorities is fundamental to security, we also encourage our employees to take ownership by helping prevent and detect fraud. We maintain a whistleblower hotline, so anyone can anonymously report his or her suspicions.

# Making a Positive Difference in People's Lives



## OUR APPROACH

Endeavour's business model of acquiring and injecting new life into legacy mining projects means our operations are located near communities that have depended on mining for years.

This situation has many advantages. It gives our company immediate access to an experienced talent pool. It also places us in communities that are receptive to mining. The local people recognize the benefits that come with mining investment.

We never take that openness for granted. Our mission statement includes the promise to continually improve what we do and how we do it to " . . . make a positive difference in people's lives."

We openly demonstrate our vested interest in our employees and communities. Our success is interconnected with their success—if they benefit, we benefit, too.

*< We support children and their education*

## COMMUNITY ENGAGEMENT

Our mining operations and exploration projects can clearly affect nearby communities.

We do our best to maximize the benefits of our activities by building relationships with community leaders, identifying local needs, and seeing how we can help fulfill them. We also try to minimize any negative effects our operations may have on these communities.

By stimulating economic activity and higher standards of living, we aim to bring about positive social change for our employees, their families, and the people who live near our operations. We provide employment and training opportunities for local people, as well as business opportunities for local suppliers. We continually evaluate our buying and business decisions, to ensure that we consider their direct and indirect economic impacts before we proceed.

This is more than a goodwill gesture on our part. By increasing choices and opportunities for others, we obtain ongoing support from local populations and other stakeholders. This improves their perceptions and opinions about our projects, our people, and our company.

David Howe, Endeavour's Vice President of Operations and Mexico Country Manager, champions community engagement and development programs. His favourite role is playing Father Christmas

at each operation's community Christmas party. Every family from the surrounding community is invited to attend the festivities. Buses pick up anyone needing a ride. After the festivities, Santa arrives with a sack full of presents, and every child goes home with a gift. At Guanacéví, Mr. Howe showered presents on approximately 1,600 kids in 2012. Similar celebrations took place at Bolañitos and El Cubo.

## LOCAL HIRING

Endeavour creates many employment opportunities at each mine. Our commitment to local hiring injects money into local economies, fosters community involvement, and reduces the environmental impact of commuting to work. It also contributes to local and national prosperity in Mexico.

We try to hire from the closest communities first, offering training for suitable candidates to match job opportunities. Virtually all of our personnel in operations, exploration, and administration are Mexican. Only when we have exhausted our ability to find qualified local and regional candidates do we look outside Mexico.

After acquiring the Bolañitos operation in 2007, for example, we discovered that the mine shafts were in such poor condition that six of them had to be shut down for rehabilitation. We had two options: we could bring in an American company to restore the shafts, laying



off all 273 local employees, or we could bring in a consulting group to train the existing employees in this work, allowing them to retain their jobs and learn new skills. Our employees' enthusiasm made this an easy decision. The shafts were reopened after six months, and production more than tripled within a year. As a result, we gave the employees special recognition for their production and safety performance, including cash bonuses.

We have special programs to attract local women, who are traditionally under-represented in the mining sector. We also offer 90-day mining-skills training programs that allow young and unemployed people to develop career skills and enter the job market. Graduates receive certificates, usually accompanied by employment offers from Endeavour.

We recognize that not everyone wants to be a miner, so we also offer entrepreneurship training, to help locals join in the growing tourism industry. We support cottage industries by sponsoring cooking classes, ceramics courses, and training programs in stone polishing and sculpting. We also provide equipment and training to help small businesses get established and move their wares to market.

### COMMUNITY PARTNERSHIPS

Endeavour has supported community programs since start-up, helping to bridge the gap between resources and needs. We first responded to community issues at Guanaceví by providing chairs and paint for local schools, for example, as well as a scholarship program for employees and their families.

As the company's profits have grown, so have the depth and breadth of our commitments.

In recent years, we have launched annual events such as Clean Up the Town days, sponsored community and religious events and children's festivals, helped local churches with infrastructure redevelopment, patched roads and buildings, sponsored beautification projects, and continued to support people who lack basic resources.

Our community engagement covers many aspects, including health, education, infrastructure, culture, community, and special projects. In 2012, we operated several community programs.

At Guanaceví, we came to the rescue of the local children's care home, which flooded every time it rained. We put in new flooring and supplied materials to replace the leaky roof, and more importantly, we widened the creek to minimize flooding.

Our Bolañitos team launched a summer sports program, targeting youth who typically beg along the highway, which is well travelled by tourists. In exchange for their parents' promise that they would stop begging, we bused 100 7- to 14-year-olds to Guanajuato for 5 hours of sports activities every Monday through Friday for 5 weeks.

At El Cubo, our operation's group worked with the Guanajuato Department of Culture to develop a cultural centre and related programs. In addition to donating a structure on our property in the town of El Cubo, we provided materials and helped with labour to refurbish the building. We then contributed monthly supplies to support music workshops and art classes.

In Vancouver, we provide financial support for a number of nonprofit organizations.



*Teaching safety at a local school*

### EDUCATION

Endeavour is dedicated to helping young people and their parents learn the value of education.

We support programs that range from encouraging literacy and physical education to increasing learning spaces. Last year, we sponsored 60 scholarships for Mexican students in primary, secondary, and university programs each year, including stay-in-school programs and initiatives to increase academic performance. We also provide school supplies, uniforms, sports equipment, and musical instruments.

In 2012, Endeavour also established a pair of \$500,000 five-year scholarship programs in earth sciences, one at Queen's University and one at the University of British Columbia.

### LAND USE

There is a saying in our business that, 'we have to go where the mines are because they don't come to us.' This restricts where mining companies can do business. The surface lands above mineral deposits are often owned by others.

Endeavour's policy is to meet with the owners of the surface lands and get their approval before accessing their properties.

We have land access agreements in place with private landowners, *ejidatarios* (villagers who farm communal lands), and the Mexican government at each of our mines and exploration projects.

Agreements typically cover five to ten years, and are negotiated to the mutual benefit of the landowners and Endeavour. We talk with the owners to learn about their issues and concerns, then develop land-use agreements to address those concerns. While many of our land-use agreements include financial arrangements, they may also contain provisions such as building water storage units, roads, or fences, or bringing power lines to landowners' homes or outbuildings. We respect other people's lands, and strive to return them in similar or better condition when our work is complete.

Our thoroughness is having a positive impact with locals. One landowner was reluctant about allowing access to his property, because of his experience with the mine's previous owner. We were careful to travel around the small trees growing on his land. Where we couldn't avoid the trees, we dug them up and transplanted them before drilling, then replanted them in their original positions when work was complete. As a result of our respect for this landowner and the environment, we were able to discover several new silver veins and develop new mines under his lands.

# Proactively Protecting and Enhancing the Environment



## OUR APPROACH

Our properties have seen several periods of historic mining activity, dating as far back as the sixteenth century. As new owners, we face both advantages and challenges when we resume operations and exploration.

The mines we acquired typically have fully developed infrastructure on established grounds peppered with mature grasses, cacti, and trees. Roadways, milling plants, mine entrances, and tailings facilities seem to exist harmoniously with nature.

While all of our operations fully comply with Mexico's permit regulations at the time of purchase, many installations fall short of Endeavour's standards for environmental management. These shortcomings are typically rectified during initial rebuilding programs and as part of our commitment to proactively protect the environment from further harm.

*< We manage our own greenhouses*

## IMPACT MANAGEMENT, PERMITTING, AND COMPLIANCE

At Endeavour, we use a variety of preventive measures to mitigate any future impacts of our exploration and mining activities. These measures range from installing monitoring systems and rearranging and relocating our processes to completely overhauling some of our facilities.

When the Guanaceví maintenance shops were rebuilt, for example, we incorporated an innovative drainage system to control liquid spills. All liquids are captured in under-the-floor conduits that are connected to an approved collection system. We'll include the same drainage system when we build new maintenance shops at El Cubo in 2013.

We work hard to ensure that all of our operations receive Clean Industry Certificates from Mexico's Federal Authority for Environmental Protection. A Clean Industry Certificate requires a voluntary environmental audit of the operation, to ensure that it fully complies with Mexico's laws. Certification demonstrates Endeavour's commitment to complying with international and Mexican mining standards.

We're in the process of renewing Guanaceví's certification, which we received in 2010. The Bolañitos operation started participating in the voluntary environmental audit two years ago. We took the first step toward certification of El Cubo in 2012, by issuing a letter of intent to spur the auditing process.

## TAILINGS MANAGEMENT

Management of tailings, the materials left over after the valuable minerals have been separated from the ore, is important to Endeavour.

Early mining operations neglected to take adequate steps to make tailings areas environmentally safe after closure. They often left large heaps of fine tailings dotting the landscape. As a result, we view tailings facilities as a potential liability when we acquire a new project.

We don't take any shortcuts with them.

When we acquired the Guanaceví operation, for example, we recognized that it had an inferior tailings facility. Unlined and without a dam, the tailings pond leaked, especially during the rainy season. We overhauled the facility, fully lining the pond and adding a dam. We also added a water extraction and recycling program to the operation.

We made further improvements at Guanaceví in 2012 by incorporating a dry-stack tailings process. Pressure filters now remove water from the tailings, which are then stacked in a closed, lined storage area.

This saves water and electricity, reduces storage space, contains the tailings in a small area, and reduces the potential for long-term liability after mining is finished. For added safety, we continuously monitor downstream water systems for traces of contamination.

There are strategies in place at Bolañitos to prevent rainwater from running into the pond and to recover more water during operations. Berms surrounding the pond direct precious rainwater away from it and a water-capture system is tunnelled under the heart of the pond, with chimneys to capture water for recycling. Recovering water from the tailings reduces the amount of fresh water needed by our operation, and extends the life of the pond without increasing its size.

El Cubo was the first mining site of cyanide use in Mexico, way back in 1860. Because environmental standards did not exist at the time, we're taking extra care of the environment as we rebuild the El Cubo plant. We've rebuilt the tailings pond with berms and added a catchment facility to direct rainwater away from the pond. We'll also recover and re-treat old tailings left by previous owners. We have already destroyed old cyanide-filled wood and concrete vats in a responsible manner.

We evaluate our systems across all operations every year to determine whether we need to make improvements, such as reinforcement of the tailings dams.

### ENERGY EFFICIENCY

While energy represents one of our most significant operating costs, all three of our operations are on the state power grid, giving them easy access to electricity. We also use diesel in generators and heavy machinery, as well as gasoline in light trucks.

The Guanaceví mine has had a history of power complications. Our operations there are now below the water table, and therefore require constant pumping to prevent flooding. Until 2012, we used generators to supplement the 34-kilovolt power line, but instability of the system resulted in brownouts that caused costly pump failures.

In 2012, we worked with the state to fund and install an electrical substation eight kilometres from the mine. The updated system, which provides power to the town as well as to the mine, cost Endeavour US\$5 million, but includes a reduced monthly power rate. The new 115-kilovolt line, a cleaner power source than diesel generators, brings both environmental and financial benefits. We have significantly reduced our diesel consumption and eliminated pump failures. The new system should also reduce our ongoing energy and operating costs.

At this time, we do not track our greenhouse gas emissions, nor do we have carbon accounting practices in place. Management is assessing how best to initiate the process of accounting for and reporting on these matters.

### WATER PROTECTION

Mining can have adverse effects on the surrounding surfacewater and groundwater, unless protective measures are taken. To monitor and control water flow at our mine sites, we rely on diversion systems, containment ponds, groundwater pumping systems, subsurface drainage systems, and subsurface barriers.

Recognizing that water is a precious natural resource, we carefully consider both the local supply and our needs when rehabilitating and expanding operations. We modify our facilities to minimize water use and reduce stress on supplies.



*We sponsor Clean Up Litter Days*

All of our operations maximize water recycling and minimize fresh water intake. Guanaceví's new dry-stack tailings process, which recaptures 90% of the water in the tailings, reduces the need for fresh water in the mineral extraction process. We also use the water we recover in the mines for machinery such as drills.

Two years ago, we started using greener technology to eliminate water discharge and reduce fresh water use in our exploration projects by 80 to 100%. Water is injected into the drill pipe to wash out the rock cuttings produced by the diamond drill bit, then the water is recaptured, the sand is filtered out, and the water is reused. We introduced this process at the San Sebastián project, and it proved so successful that we have since employed it at our other exploration sites.

We appreciate that access to clean, safe water is a rising concern in Mexico, and have implemented programs to assist the surrounding communities. At Guanaceví, we're mining below the water table. By pumping water from the mine and releasing it onto the surrounding land, we're keeping the waterways flowing even during the dry season. We have also helped improve water quality for the town of La Luz, near the Bolañitos mine, by rehabilitating its drinking water reservoir.

We continually monitor the water sources around our projects. In 2012, we had zero incidents of water contamination.

### AIR QUALITY PROTECTION

All of our mining operations are adjacent to communities. Earth-moving and construction activities typically stir up airborne dust. So do primary ore hauling, ore crushing, and disposal of tailings and waste rock.

We monitor airborne dust and develop measures to protect our employees and our neighbours. To trap dust, we routinely apply water and sealants to roadways and tailings, especially during the dry season. Since the use of diesel equipment and blasting chemicals poses an air quality hazard underground, we provide employees with portable alarms that continually monitor air quality when they're working in the mines.

When we made throughput upgrades at Guanaceví and Bolañitos, we anticipated an increase in dust creation, and included dust-capture





Packing a portable drill at San Sebastián

systems and ventilated conveyors. The dust-capture system at Guanaceví recovers one tonne of airborne particulates every three days.

A third-party agency conducts annual audits to ensure that we meet environmental standards.

#### BIODIVERSITY PROTECTION

We take pride in our role as a steward of the land. We always consider the potential impacts of our exploration, construction, and mining activities on the local fauna and flora.

Endeavour's mines are located in historic districts that have been subjected to mining and exploration activities over hundreds of years when reclamation practices were minimal or non-existent. We are proactive about minimizing the impact of our activities. We want to be sure the land retains its natural endowments and supports other productive uses once our operations end. We remediate areas as soon as we have completed our work, and try to offset historic disturbances by conserving natural resources elsewhere. Though not obligated to do so, we continue to monitor reclaimed areas to ensure that conditions there remain favourable.

We have opted, for example, to incorporate the legacy sites at El Cubo into our new plant and outbuildings. Although the framework is 150 years old, we're reusing whatever building materials and machinery we can salvage to rehabilitate the plant, which was last used eight years ago. We're also restricting plant construction to areas that have been disturbed in the past.

During exploration projects, we stockpile the plants and soil we remove to construct our drill pads. This makes it easier to reclaim the affected areas later. Reclamation involves a multi-step process of contouring and grooming the land, covering it with soil, and planting or re-establishing surface cover. In 2012, Endeavour planted 16,200 trees and cacti. We also replant areas of historical environmental disturbance.

We take special care to protect *visnaga*, a less-common species of large wild carrot. When our exploration teams find it during drilling, we collect and relocate it to other areas.

One of our exploration projects, San Sebastián, is adjacent to protected areas. We developed innovative drilling practices to protect the biodiversity there. In addition to using drill rigs that recycle water, we carry portable rigs to our sites by hand, to avoid damaging a rare species of tree. The rigs fit on 1.5-metre-wide pathways, as opposed to the 3- to 5-metre roadways typically used to access drill sites. Working with SEMARNAT, we also built a deer habitat on two hectares of the San Sebastián property.

#### TRANSPORTATION MANAGEMENT

Thanks to our business model of acquiring operating mines in historic districts, our three mining operations are adjacent to paved public roadways with good access to local infrastructure, power, water, equipment, supplies, and labour pools.

A variety of transportation activities associated with mining can pollute the environment and erode lands and roads. We therefore look for ways to reduce our transportation needs and impacts.

We provide buses to move employees from the town of Guanajuato to both the Bolañitos mine and the El Cubo mine, lessening traffic. Approximately half of the Guanaceví employees live on site during their shift rotations; others live in town and carpool to work. For shift changes, we provide buses to and from the transportation hub of Durango city.

Concentrate from Bolañitos is trucked out for processing every second day. Before we acquired El Cubo, trucks had to travel more than 1,000 kilometres to deliver the concentrates to the Guanaceví plant for processing. Now the concentrates are shipped just 15 kilometres, to the El Cubo plant.

We also provide local municipal governments with fuel and materials to maintain and repair roads.

#### ARTISANAL MINING

Mexico has a 450-year history of silver mining. It's an integral part of Mexican culture. In some districts, many of the small historic mines are still owned by local families. At Guanaceví, Endeavour supports local small-scale miners by purchasing their ores.

We faced a difficult situation when we acquired El Cubo in 2012. We found illegal miners (*lupios*) regularly invading the mines to steal our high-grade ores. Besides trespassing, the *lupios* posed serious safety and environmental hazards, because they were ill equipped for anything that might go wrong.

We dealt with this problem by closing 35 historic mine access points, beefing up security, and creating alternative employment opportunities in the local communities.

## CAUTIONARY NOTES

This *Annual Review* of Endeavour Silver Corp. (the Company, Endeavour, or Endeavour Silver) should be read in conjunction with the audited consolidated financial statements for the year ended on December 31, 2012, the related notes contained therein, and Management's Discussion and Analysis.

Additional information pertaining to Endeavour, including its most recent Annual Information Form, has been filed on SEDAR ([www.sedar.com](http://www.sedar.com)), and the Company's most recent annual report on Form 40-F has been filed with the United States Securities and Exchange Commission.

### FORWARD-LOOKING STATEMENTS

This *Annual Review* contains *forward-looking statements* within the meaning of the United States Private Securities Litigation Reform Act of 1995, and *forward-looking information* within the meaning of applicable Canadian securities legislation.

Such forward-looking statements and information include (but are not limited to) statements about Endeavour's anticipated performance in 2013, and beyond, including silver and gold production, timing and expenditures to develop new silver mines and mineralized zones, silver and gold grades and recoveries, operating costs, capital expenditures, and sustaining capital. Endeavour does not assume any obligation to update such forward-looking statements or information, other than as required by law.

Forward-looking statements and information involve known and unknown risks, uncertainties, and other factors that may cause the actual results, levels of activity, performance, or achievements of the Company and its operations to be materially different from those expressed or implied by such statements.

Such factors include (but are not limited to): fluctuations in the prices of silver and gold and in the currency markets (particularly the Mexican peso, the Canadian dollar, and the US dollar); changes in national and local governments, laws, taxes, controls, regulations, and political or economic developments in Canada and Mexico; operational or technical difficulties in mineral exploration, development, and mining activities; risks and hazards of mineral exploration, development, and mining (including but not limited to environmental hazards, industrial accidents, unusual or unexpected geological conditions, pressures, cave-ins, and flooding); inadequate insurance, or inability to obtain insurance; availability of and costs associated with mining inputs and labour; the speculative nature of mineral exploration and development; diminishing quantities or grades of mineral reserves as properties are mined; ability to successfully integrate acquisitions; risks in obtaining necessary licences and permits; challenges to the Company's title to properties; those factors described in the "Risk Factors" section of Endeavour's *Annual Information Form*, filed with the Canadian securities regulatory authorities; and those factors described in Endeavour's Annual Report, filed on Form 40-F with the US Securities and Exchange Commission.

Although Endeavour has attempted to identify important factors that could cause actual results to differ materially from those contained in the forward-looking statements and information, other factors may cause the results to be materially different from those anticipated, described, estimated, assessed, or intended. There can be no assurance

that any forward-looking statements or information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements and information. Accordingly, readers should not place undue reliance on forward-looking statements and information.

### ESTIMATES OF RESERVES AND MEASURED, INDICATED, AND INFERRED RESOURCES (FOR US INVESTORS)

This *Annual Review* has been prepared in accordance with the requirements of securities laws in Canada, which differ from the requirements of securities laws in the United States.

The terms *mineral reserve*, *proven mineral reserve*, and *probable mineral reserve* are Canadian mining terms, defined by *National Instrument 43-101: Standards of Disclosure for Mineral Projects (NI 43-101)* and the Canadian Institute of Mining, Metallurgy and Petroleum's *CIM Definition Standards on Mineral Resources and Mineral Reserves*. These definitions differ from the definitions in the US Securities and Exchange Commission's *Industry Guide 7*, governed by the Securities Act of 1933, as amended.

Under *Industry Guide 7* standards, a *final* or *bankable* feasibility study is required to report reserves, the three-year historical average price is used to designate reserves in any reserve or cash-flow analysis, and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, the terms *mineral resource*, *measured mineral resource*, *indicated mineral resource*, and *inferred mineral resource* are defined in and required to be disclosed by *NI 43-101*. These are not defined terms in *Industry Guide 7*, and are not normally permitted in reports and registration statements filed with the Securities and Exchange Commission.

Investors are cautioned not to assume that all of any part of a mineral deposit in any of these categories will ever be converted into a reserve. It is uncertain whether inferred mineral resources actually exist, and their economic and legal feasibility are very uncertain. One cannot assume that all or any part of an inferred mineral resource will ever be upgraded to a higher category.

Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable.

Disclosure of *contained ounces* in a resource is permitted under Canadian regulations. The US Securities and Exchange Commission, however, normally permits issuers to report mineralization only in terms of place, tonnage, and grade, without reference to unit measures. Such mineralization does not constitute a *reserve* according to *Industry Guide 7* standards.

Accordingly, this *Annual Review* contains descriptions of mineral deposits that may not be comparable to similar information made public by American companies that are subject to the reporting and disclosure requirements of US federal securities laws, rules, and regulations.

Godfrey Walton is the Qualified Person who reviewed and approved the technical disclosures contained herein.

## MANAGEMENT

### BRADFORD COOKE, MSc, PGEO

*Chief Executive Officer*

Mr. Cooke is a mining executive and professional geologist with 36 years' experience in the mining industry. He specializes in the management and financing of companies for the acquisition, exploration, development and operation of precious metal mines.

### GODFREY WALTON, MSc, PGEO

*President and Chief Operating Officer*

Mr. Walton is a mining executive and professional geologist with 38 years' experience in mining. Specializing in the exploration and development of ore deposits, he also has extensive experience in mine evaluation and management in the Americas and Europe.

### DAN DICKSON, BComm, CA

*Chief Financial Officer*

Mr. Dickson is a chartered accountant with 12 years' experience in the mining industry. He worked as an auditor prior to moving into financial management with Endeavour.

### DAVID HOWE, MSc MINING GEOLOGY

*Vice President of Operations and Mexico Country Manager*

Mr. Howe is a professional mining geologist with 25 years' experience in mine exploration, operations and management throughout Latin America.

### LUIS R. CASTRO VALDEZ, ING

*Vice President of Exploration*

Mr. Valdez is Mexican geological engineer with 22 years' experience in mineral exploration and mining, primarily in Mexico.

### TERRY CHANDLER BSc, PGEO

*Vice President of Corporate Development*

Mr. Chandler is a professional geologist and mining executive with 37 years of Canadian and international mineral evaluation, acquisition, exploration, and development experience.

### MIGUEL A. ORDAZ R., ING.

*Mexico Projects Director and Legal Representative in Mexico*

Mr. Ordaz is a geological engineer with more than 35 years' experience in mineral exploration and mine management in Mexico.

### DAVID TINGEY, MSc, ENG

*Vice President of Health, Safety and Sustainability*

Mr. Tingey is an engineer and environmental scientist with 18 years' mining experience and a particular interest in sustainability programs including health, safety, environmental management, and community engagement.

### MEGHAN BROWN, BA, MBA

*Director of Investor Relations*

Ms. Brown is trained in business development with more than 20 years' experience in financial analysis, corporate communications, and investor relations in the resource sector.

## BOARD OF DIRECTORS

### GEOFF HANDLEY, BSc, MAIMM, FAICD

*Chair*

MEMBER OF THE AUDIT COMMITTEE, THE COMPENSATION COMMITTEE, AND THE CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

Mr. Handley is a professional geologist with more than 39 years' global experience in mineral exploration, mine acquisition, corporate development, and strategic planning.

### REX McLENNAN, BSc, MBA

*Director*

CHAIR OF THE AUDIT COMMITTEE AND MEMBER OF THE CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

Mr. McLennan is a financial executive with more than 39 years' experience in large multinational resource companies.

### RICARDO M. CAMPOY, BSc, MIM

*Director*

MEMBER OF THE AUDIT COMMITTEE AND THE COMPENSATION COMMITTEE

Mr. Campoy is a mining engineer, merchant and investment banker, and financial advisor with 37 years' experience in the mining sector.

### KEN PICKERING, PENG

*Director*

MEMBER OF THE COMPENSATION COMMITTEE AND CHAIR OF THE NEWLY ESTABLISHED SUSTAINABILITY COMMITTEE

Mr. Pickering is a professional engineer and mining executive with more than 38 years' experience in the natural resources sector.

### MARIO SZOTLENDER, BIR

*Director*

MEMBER OF THE AUDIT COMMITTEE, THE COMPENSATION COMMITTEE, AND THE CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

Mr. Szotlender is a financier trained in international relations with 24 years' experience in exploration and mine financing.

### BRADFORD COOKE, MSc, PGEO

*Director and Chief Executive Officer*

Mr. Cooke is a mining executive and professional geologist with 36 years' experience in the mining industry. He specializes in the management and financing of companies for the acquisition, exploration, development and operation of precious metal mines.

### GODFREY WALTON, MSc, PGEO

*Director, President, and Chief Operating Officer*

Mr. Walton is a mining executive and professional geologist with 38 years' experience in mining. Specializing in the exploration and development of ore deposits, he also has extensive experience in mine evaluation and management in the Americas and Europe.

### LEONARD HARRIS, PENG

*Director Emeritus*

Mr. Harris is a retired professional engineer and metallurgist with 60 years' experience in international mining and mineral processing.



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EDR: TSX



In support of our commitment to making positive, environmentally friendly choices, Endeavour Silver is printing only 500 copies of this report and encouraging readers to use the online version. The printing of Endeavour Silver's Annual Review used 840 pounds of paper made from 10% recycled post-consumer paper.

By selecting this post-consumer recycled fibre over virgin fibre, we helped save 1 tree, 300 gallons of waste water, and 499,800 BTUs of energy. We also prevented the creation of 2 pounds of water-borne waste, 33 pounds of solid wastes, and 65 pounds of net greenhouse gases. Every little bit helps.

Please remember to share or recycle your report when you are done with it.

This eco audit is from  
<http://www.mohawkconnects.com/calculator/environmental>.

