

FLOTEK INDUSTRIES INC/CN/
Form 10-Q
November 16, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 1-13270

FLOTEK INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

90-0023731
(I.R.S. Employer
Identification No.)

2930 W. Sam Houston Pkwy N., Houston, Texas
(Address of principal executive offices)

77043
(Zip Code)

(713) 849-9911

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 23,437,714 shares of the issuer's common stock, \$.0001 par value, outstanding as of October 30, 2009.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****FLOTEK INDUSTRIES, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS**

(in millions, except share data)

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 0.6	\$ 0.2
Accounts receivable, net of allowance for doubtful accounts of \$0.7 million and \$1.5 million, respectively	15.9	37.2
Inventories, net	29.2	38.0
Deferred tax asset, current		0.9
Income tax receivable	4.4	
Other current assets	1.4	1.3
Total current assets	51.5	77.6
Property, plant and equipment, net	62.4	66.8
Goodwill	27.0	45.5
Intangible assets, net	35.8	38.0
Deferred tax assets, less current portion		6.6
TOTAL ASSETS	\$ 176.7	\$ 234.5
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 7.9	\$ 22.7
Accrued liabilities	6.1	13.5
Accrued interest payable	1.2	2.4
Income taxes payable		0.9
Current portion of long-term debt	26.0	9.0
Total current liabilities	41.2	48.5
Long-term debt, less current portion	0.3	29.5
Convertible senior notes, net of discount of \$20.6 million and \$24.2 million at September 30, 2009 and December 31, 2008, respectively	94.4	90.8
Deferred tax liability, less current portion	2.7	
Total liabilities	138.6	168.8
Commitments and contingencies		
Stockholders' equity:		
Cumulative convertible preferred stock, \$0.0001 par value, 100,000 shares authorized, 16,000 issued and outstanding at September 30, 2009, net of discount	6.1	

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Common stock, \$0.0001 par value; 40,000,000 shares authorized; September 30, 2009 shares issued: 23,697,430; outstanding: 22,914,532; December 31, 2008 shares issued: 23,174,286; outstanding: 22,782,091

Additional paid-in capital	88.0		76.8
Accumulated other comprehensive income	0.1		0.1
Accumulated deficit	(55.6)		(10.7)
Treasury stock: 259,716 shares and 158,697 shares at September 30, 2009 and December 31, 2008, respectively	(0.5)		(0.5)
Total stockholders equity	38.1		65.7
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 176.7		\$ 234.5

See notes to consolidated condensed financial statements.

Table of Contents**FLOTEK INDUSTRIES, INC.****CONSOLIDATED CONDENSED STATEMENTS OF INCOME (LOSS)****(UNAUDITED)****(in millions, except share and per share data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue	\$ 23.8	\$ 62.8	\$ 88.0	\$ 166.1
Cost of revenue	17.5	36.2	65.5	95.9
Expenses:				
Impairment of goodwill			18.5	
Selling, general and administrative	7.2	12.4	26.6	34.3
Depreciation and amortization	1.2	1.6	3.7	4.2
Research and development	0.4	0.4	1.2	1.3
Total expenses	8.8	14.4	50.0	39.8
Income (loss) from operations	(2.5)	12.2	(27.5)	30.4
Other expense:				
Interest expense	(4.1)	(3.9)	(11.6)	(9.7)
Investment income and other, net	0.1		(0.1)	
Total other expense	(4.0)	(3.9)	(11.7)	(9.7)
Income (loss) before income taxes	(6.5)	8.3	(39.2)	20.7
Provision for income taxes	(15.8)	(3.2)	(4.9)	(7.9)
Net income (loss)	(22.3)	5.1	(44.1)	12.8
Accrued dividends and accretion of discount on preferred stock	(0.8)		(0.8)	
Net income (loss) allocable to common stockholders	\$ (23.1)	\$ 5.1	\$ (44.9)	\$ 12.8
Earnings (loss) per share allocable to common stockholders:				
Basic	\$ (1.18)	\$ 0.27	\$ (2.29)	\$ 0.68
Diluted	\$ (1.18)	\$ 0.27	\$ (2.29)	\$ 0.66
Weighted average common shares used in computing basic earnings per common share (in thousands)	19,645	18,972	19,578	18,832
Incremental common shares from stock options, warrants and restricted stock (in thousands)		429		514
Weighted average common shares used in computing diluted earnings per common share (in thousands)	19,645	19,401	19,578	19,346

See notes to consolidated condensed financial statements.

Table of Contents**FLOTEK INDUSTRIES, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(UNAUDITED)****(in millions)**

	2009	Nine Months Ended September 30,	2008
Cash flows from operating activities:			
Net income (loss) allocable to common stockholders	\$	(44.9)	\$ 12.8
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization		10.5	9.4
Amortization of deferred financing costs		1.1	0.7
Accretion of debt discount		3.6	2.5
Accretion of discount on preferred stock		0.5	
Impairment of goodwill		18.5	
Stock compensation expense		1.3	2.1
Deferred tax expense		11.0	
Changes in working capital and other		0.5	(4.1)
Net cash provided by operating activities		2.1	23.4
Cash flows from investing activities:			
Acquisitions, net of cash acquired			(98.0)
Proceeds from sale of assets		2.1	1.1
Capital expenditures		(5.6)	(16.6)
Net cash used in investing activities		(3.5)	(113.5)
Cash flows from financing activities:			
Proceeds from exercise of stock options			0.9
Purchase of treasury stock			(0.3)
Proceeds from borrowings		12.6	46.7
Proceeds from convertible debt offering			115.0
Debt issuance cost		(0.8)	(5.5)
Repayments of indebtedness		(24.8)	(66.2)
Proceeds from preferred stock offering		16.0	
Excess tax benefit of share based awards			1.5
Preferred stock issuance cost		(1.2)	
Net cash provided by financing activities		1.8	92.1
Net increase in cash and cash equivalents			0 0%
		0.4	

Langmack, Scott	71,053(39)	*	71,053	0	0%
10 Scott Court					
Hillsborough, CA 94010					

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Langmack, Lori 10 Scott Court Hillsborough, CA 94010	71,053(39)	*	71,053	0	0%
Larsen, John Andrew 2604 Madrona Point Lane Steilacoom, WA 98388	78,947(40)	*	78,947	0	0%
Lohuizen, Marcellus Huobstrasse 7 CH-8808 Pfaffikon, Switzerland	394,737(41)	*	394,737	0	0%
LVD Gold and Resources Fund LP Templar House, Don Road St. Helier, Jersey, Channel Islands JE1 2TR	640,900(42)	1.2%	300,000	340,900	*

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Name	Shares Beneficially Owned Prior to the Offering		Number of Shares Being Offered	Shares Beneficially Owned After the Offering	
	Number	Percent		Number	Percent
Manwill, Gerald E. 1790 County Springs Circle Bountiful, UT 84010	71,053(43)	*	71,053	0	0%
Maronick, Stephen 592 E. Trinidad Dr. Meridian, ID 83642	71,053(44)	*	71,053	0	0%
Masunas, Mike 1049 S. Desert Senna Loop Tucson, AZ 85748	39,474(45)	*	39,474	0	0%
Mauldin, Corrie McLean P.O. Box 12199 615 Belknap Place San Antonio, TX 78212	297,632(46)	*	297,632	0	0%
McIntyre, Rod 2169 McIntyre Rd. Stevensville, MT 59870	78,947(47)	*	78,947	0	0%
McMahon, Bowman McLean P.O. Box 12199 615 Belknap Place San Antonio, TX 78212	297,632(48)	*	297,632	0	0%
McMahon, Shaw Farnham P.O. Box 12199 615 Belknap Place San Antonio, TX 78212	297,632(49)	*	297,632	0	0%
Meister, Barbara 1369 Beachmont St. Ventura, CA 93001	142,105(50)	*	142,105	0	0%
Mitchell, Jeffrey 5770 N. Echo Canyon Cir. Phoenix, AZ 85018	78,947(51)	*	78,947	0	0%
Morgarlan Ltd. c/o LOM Nominees Limited The LOM Building 27 Reid St. Hamilton, Bermuda HM11	112,105(52)	*	112,105	0	0%

Name	Shares Beneficially Owned Prior to the Offering		Number of Shares Being Offered	Shares Beneficially Owned After the Offering	
	Number	Percent		Number	Percent
Neiberg, Mary 3600 Cerrillos Rd. Ste. 406 A/B Santa Fe, NM 87507	118,421(53)	*	118,421	0	0%
North Pole Capital Master Fund 372 Bay Street, 21 st Floor Toronto, Ontario M5H 2W9	1,859,211(54)	3.5%	1,184,211	675,000	1.3%
Panella, Joseph A. 2029 S.E. Oxtan Dr. Port St. Lucie, FL 34952	78,947(55)	*	78,947	0	0%
Parker, Russell 6 Pointe Dr. #300 Brea, CA 92821	126,316(56)	*	126,316	0	0%
POM Investments LLC 387 Ave I Boulder City, NV 89005	78,947(57)	*	78,947	0	0%
Posey, Valene McIntyre 6 Lakeshore Terrace Chico, CA 95928	90,789(58)	*	90,789	0	0%
Potapchuk, Richard 259 Franklin Blvd. Long Beach, NY 11561	296,053(59)	*	296,053	0	0%
Quincy Murphy, Inc. 23277 County Road 780 Bernie, MO 63822	86,842(60)	*	86,842	0	0%
Ravenel, Bruce Walker 1265 Carriage Hill Ct. Frankton, CO 80116	315,789(61)	*	315,789	0	0%
Sayson, Robert and Alice 1005 W. Powell Blvd. Gresham, OR 97030	197,368(62)	*	197,368	0	0%
Schantz, Jeffery 4955 N. Bonita Ridge Avenue Tucson, AZ 85750	78,947(63)	*	78,947	0	0%

Name	Shares Beneficially Owned Prior to the Offering		Number of Shares Being Offered	Shares Beneficially Owned After the Offering	
	Number	Percent		Number	Percent
Schiff, Peter D. 10 Corbin Drive, Suite 3B Darien, CT 06820	150,000(64)	*	150,000	0	0%
Sherk, James 110 The Village 501 Redondo Beach, CA 90277	71,053(65)	*	71,053	0	0%
Son, Stephen B. 28120 Peacock Ridge Dr. #602 Rancho Palos Verdes, CA 90275	71,053(66)	*	71,053	0	0%
Sparks, Carla 10212 CR 8530 West Plains, MO 65775	78,947(67)	*	78,947	0	0%
Suter, Damon 5552 Chalon Road Yorba Linda, CA 92886	493,421(68)	*	493,421	0	0%
Tamborello, James 2302 Anacapa St. Santa Barbara, CA 93105	86,842(69)	*	86,842	0	0%
Taslimi, Mehran 220 16 th Street Santa Monica, CA 90402	493,421(70)	*	493,421	0	0%
Taslimi, Shidan 1607 Carlyle Ave. Santa Monica, CA 90402	493,421(71)	*	493,421	0	0%
Thornesy-Hall, David 1049 Jefferson Ave. West Vancouver, British Columbia V7T 2A6	23,947(72)	*	3,947	20,000	*
Tuttle, Gary 110 Page Street Friend, NE 68359	78,947(73)	*	78,947	0	0%
Walton, Godfrey 5463 Cortel Crescent North Vancouver, British Columbia V7R 4R1	901,984(74)	1.7%	23,684	878,300	1.7%

<u>Name</u>	Shares Beneficially Owned Prior to the Offering		Number of Shares Being Offered	Shares Beneficially Owned After the Offering	
	Number	Percent		Number	Percent
Warner, Bernard L. 150 Ocean Park Blvd. #324 Santa Monica, CA 90405	63,158(75)	*	63,158	0	0%
Welch, John S. 110 W. Bellevue Ave. San Mateo, CA 94402	78,947(76)	*	78,947	0	0%
Wilson, Gregg 304-5518 14 th Avenue Delta, British Columbia V4M 4E9	63,947(77)	*	3,947	60,000	*
Worthington, Nancy 905 Tyner Way, P.O. Box 6089 Incline Village, NV 89450	173,684(22)	*	173,684	0	0%
Yee, Philip 2652 Dundas St. Vancouver, British Columbia V5K 1P9	395,747(78)	*	3,947	391,800	*

* Represents less than one percent (1%)

(1) Includes (i) 125,000 common shares underlying share purchase warrants, and (ii) 526,316 common shares and 263,158 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$1,000,000 Debenture. Each share purchase warrant underlying the Debenture may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(2) Includes 157,895 common shares and 78,947 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$300,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Michael C. Licosati, the managing partner of Alder Capital Partners I L.P., has voting control and investment discretion over securities held by Alder Capital Partners I L.P.

(3) Includes 65,789 common shares and 32,895 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$125,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Michael C. Licosati, the managing partner of Alder Offshore Master Fund L.P., has voting control and investment discretion over securities held by Alder Offshore Master Fund L.P.

(4) Includes 107,895 common shares and 53,947 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$205,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(5) Includes 47,368 common shares and 23,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$90,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(6) James V. Bacon serves as the trustee of the James V. Bacon Trust, which holds 107,895 common shares and 53,947 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$205,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(7) Includes 15,789 common shares and 7,895 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$30,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(8) Includes 26,316 common shares and 13,158 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$50,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(9) Includes 2,632 common shares and 1,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$5,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(10) David Brisbin and Laura Innes serve as the co-trustees of the Innes Brisbin Living Trust dated June 8, 2004, which holds 61,053 common shares and 30,526 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$116,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(11) Includes 47,368 common shares and 23,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$90,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(12) Includes 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(13) Includes 63,158 common shares and 31,579 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$120,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. John Catalfio is an affiliate of a broker-dealer registered with the Financial Industry Regulatory Authority.

(14) Includes 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(15) Charles M. Claussen and Michelle Claussen serve as the co-trustees of the Claussen Trust dated March 29, 1995, which holds 57,895 common shares and 28,947 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$110,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(16) Includes 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(17) Includes (i) 628,000 common shares issuable upon exercise of options, (ii) 57,500 common shares underlying share purchase warrants, and (iii) 85,789 common shares and 42,895 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$163,000 Debenture. Each share purchase warrant underlying the Debenture may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Bradford Cooke is the Chairman and Chief Executive Officer of Endeavour Silver Corp.

(18) Timothy R. Crane serves as the trustee of the Timothy R. Crane Trust, which holds 118,947 common shares and 59,474 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$226,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(19) Includes 26,316 common shares and 13,158 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$50,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(20) Includes 42,105 common shares and 21,053 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$80,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(21) Includes 2,632 common shares and 1,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$5,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Daniel Dickson is the Chief Financial Officer of Endeavour Silver Corp.

(22) Paul DiPaolo and Nancy Worthington serve as the co-trustees of the DiPaolo/Worthington Family Trust, which holds 115,789 common shares and 57,895 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$220,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(23) Includes 47,368 common shares and 23,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$90,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(24) Includes 644,415 common shares underlying agents warrants. Each agents warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Euro Pacific Capital, Inc. is a registered broker-dealer with the Financial Industry Regulatory Authority and it served as a placement agent in our private placement that closed on February 26, 2009.

(25) Includes 47,368 common shares and 23,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$90,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(26) Tracy Habluetzel and Lynn Habluetzel serve as the co-trustees of the Tracy Habluetzel 1995 Revocable Trust dated September 14, 1995, which holds 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(27) Includes 65,263 common shares and 32,632 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$124,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. The selling shareholder is an affiliate of a broker-dealer registered with the Financial Industry Regulatory Authority.

(28) Robert K. Heimann serves as the trustee of the Robert K. Heimann Living Trust dated July 24, 2001, which holds 78,947 common shares and 39,474 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$150,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(29) Steven Hoke and Colleen Hoke serve as the co-trustees of the Hoke Living Trust, which holds 47,368 common shares and 23,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$90,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(30) Includes 78,947 common shares and 39,474 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$150,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Robert C. Dahlander, the manager of Methodical Management LLC, the general partner of Integrity Funds LP, has voting control and investment discretion over securities held by Integrity Funds LP.

(31) Includes 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. J. Michael Cheezem, the general partner of JMC Family Investments, Ltd., has voting control and investment discretion over securities held by JMC Family Investments, Ltd.

(32) Includes 2,632 common shares and 1,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$5,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(33) Includes 47,368 common shares and 23,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$90,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(34) Includes 13,684 common shares and 6,842 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$26,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Hemant Kathuria is a broker-dealer registered with the Financial Industry Regulatory Authority.

(35) Includes 86,842 common shares and 43,421 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$165,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(36) Includes 60,526 common shares and 30,263 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$115,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. The selling shareholder is a broker-dealer registered with the Financial Industry Regulatory Authority.

(37) Includes 57,895 common shares and 28,947 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$110,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Kurt Swogger, the general partner of KK Swogger Asset Management, LP, has voting control and investment discretion over securities held by KK Swogger Asset Management, LP.

(38) Includes 2,632 common shares and 1,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$5,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(39) Scott Langmack and Lori Langmack serve as the co-trustees of the Scott and Lori Langmack Family Trust, which holds 47,368 common shares and 23,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$90,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(40) Includes 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(41) Includes 263,158 common shares and 131,579 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$500,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(42) Includes 200,000 common shares and 100,000 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$380,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Volaw Funds GP Limited, the general partner of LVD Gold and Resources Fund LP, has voting control and investment discretion over securities held by LVD Gold and Resources Fund LP.

(43) Includes 47,368 common shares and 23,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$90,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(44) Includes 47,368 common shares and 23,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$90,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(45) Includes 26,316 common shares and 13,158 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$50,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Mike Masunas is an affiliate of a broker-dealer registered with the Financial Industry Regulatory Authority.

(46) Corrie McLean Mauldin is the beneficiary of the Ruth McLean Bowers Trust for Grandchildren 1972 FBO Corrie McLean Mauldin, which holds 198,421 common shares and 99,211 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$377,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(47) Rod McIntyre serves as the trustee of the Rod McIntyre Trust, which holds 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(48) Bowman McLean McMahan is a beneficiary of the Ruth McLean Bowers Trust for Grandchildren 1972 FBO Bowman McLean McMahan, which holds 198,421 common shares and 99,211 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$377,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(49) Shaw Farnham McMahan is the beneficiary of the Ruth McLean Bowers Trust for Grandchildren 1972 FBO Shaw Farnham McMahan, which holds 198,421 common shares and 99,211 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$377,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(50) Barbara Meister serves as the trustee of the Meister Non-Exempt Marital Trust dated November 17, 1983, which holds 94,737 common shares and 47,368 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$180,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(51) Includes 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(52) Includes 74,737 common shares and 37,368 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$142,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(53) Includes 78,947 common shares and 39,474 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$150,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(54) Includes (i) 450,000 common shares and 225,000 common shares underlying share purchase warrants that may be issued upon exercise of units, and (ii) 789,474 common shares and 394,737 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$1,500,000 Debenture. Each share purchase warrant underlying the Debenture may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(55) Joseph A. Panella serves as the trustee of the Panella Living Trust dated May 11, 2004, which holds 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued

upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(56) Includes 84,211 common shares and 42,105 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$160,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(57) Includes 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(58) Valene McIntyre Posey serves as trustee of the North Mid-Valley Family Trust, which holds 60,526 common shares and 30,263 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$115,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(59) Includes 197,368 common shares and 98,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$375,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(60) Includes 57,895 common shares and 28,947 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$110,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(61) Includes 210,526 common shares and 105,263 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$400,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(62) Includes 131,579 common shares and 65,789 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$250,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(63) Jeffrey Schantz serves as the trustee of the Jeffrey Schantz Revocable Trust dated February 8, 1995, which holds 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(64) Includes 100,000 common shares and 50,000 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$190,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(65) James Sherk serves as the trustee of the James P. Sherk and Jeri Herron Sherk Family Trust, which holds 47,368 common shares and 23,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$90,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(66) Includes 47,368 common shares and 23,684 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$90,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(67) Includes 52,632 common shares and 23,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(68) Damon Suter serves as the trustee of the Suter Family Trust, which holds 328,947 common shares and 164,474 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$625,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(69) James Tamborello serves as the trustee of the Tamborello Family Trust dated June 24, 1998, which holds 57,895 common shares and 28,947 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$110,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(70) Includes 328,947 common shares and 164,474 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$625,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(71) Includes 328,947 common shares and 164,474 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$625,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(72) Includes (i) 20,000 common shares issuable upon exercise of options that may be exercised through January 25, 2011 at an exercise price of Cdn\$2.55 per common share, and (ii) 2,632 common shares and 1,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$5,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(73) Includes 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(74) Includes (i) 713,000 common shares issuable upon exercise of options and (ii) 15,789 common shares and 7,895 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$30,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Godfrey Walton is the President, Chief Operating Officer and a member of the board of directors of Endeavour Silver Corp.

(75) Bernard L. Warner serves as the trustee of the Bernard L. Warner Trust dated March 28, 1994, which holds 42,105 common shares and 21,053 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$80,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(76) John S. Welch serves as trustee of the Rosenbrock Exemption Trust, which holds 52,632 common shares and 26,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$100,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(77) Includes (i) 40,000 common shares issuable upon exercise of options that may be exercised through May 6, 2009 at an exercise price of Cdn\$1.60 per common share, (ii) 20,000 common shares issuable upon exercise of options that may be exercised through January 25, 2011 at an exercise price of Cdn\$2.55 per

common share, and (iii) 2,632 common shares and 1,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$5,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share.

(78) Includes (i) 315,000 common shares issuable upon exercise of options and (ii) 2,632 common shares and 1,316 common shares underlying share purchase warrants that may be issued upon conversion of a Cdn\$5,000 Debenture. Each share purchase warrant may be exercised through February 26, 2014 for one common share at an exercise price of Cdn\$2.05 per common share. Philip Yee previously served as the Controller, Finance Manager and Chief Financial Officer of Endeavour Silver Corp.

PLAN OF DISTRIBUTION

The selling shareholders and any of their pledges, assignees, and successors in interest may, from time to time, sell any or all of their shares on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling shareholders may use any one or more of the following methods when selling shares:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

short sales effected after the date of this prospectus;

close out short positions and return borrowed shares in connection with such short sales;

broker-dealers may agree with the selling shareholders to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares under Rule 144 or Rule 904, or pursuant to another exemption from registration under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling shareholders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling shareholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling shareholders may from time to time pledge or grant a security interest in some or all of the shares owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell shares from time to time under this prospectus, or under an amendment or supplement to this prospectus amending the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus.

Upon being notified in writing by a selling shareholder that any material agreement has been entered into with a broker-dealer for the sale of shares through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act disclosing (i) the name of each such selling shareholder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such shares were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealers, where applicable, and (vi) other facts material to the transaction.

The selling shareholders also may transfer the shares in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling shareholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, attributable to the sale of shares will be borne by the selling shareholder. Each selling shareholder has represented and warranted to us that it acquired the securities subject to the registration statement in the ordinary course of such selling shareholder's business, not for resale, and at the time of its purchase of such securities such selling shareholder had no agreements or understandings, directly or indirectly, with any person to distribute any such securities.

If the selling shareholders use this prospectus for any sale of the shares, they will be subject to the prospectus delivery requirements of the Securities Act. The selling shareholders will be responsible to comply with the applicable provisions of the Securities Act and the Exchange Act, and the rules and regulations thereunder promulgated, including, without limitation, Regulation M, as applicable to such selling shareholders in connection with resales of their respective shares under this prospectus.

We are required to pay certain fees and expenses incident to the registration of the shares. We have agreed to indemnify the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the U.S. Securities Act and state securities laws, relating to the registration of the shares offered by this prospectus.

INCOME TAX CONSIDERATIONS

United States Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE CODE; (B) SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE

INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following summary describes certain material U.S. federal income tax considerations generally applicable to U.S. Holders (as defined below) with respect to the ownership and disposition of our common shares offered hereunder. It addresses only U.S. Holders that hold our common shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the Code) (generally, assets held for investment purposes). The following summary does not purport to be a complete analysis of all of the potential U.S. federal income tax considerations that may be relevant to particular U.S. Holders in light of their particular circumstances, nor does it deal with persons that are subject to special tax rules, such as brokers, dealers in securities or currencies, financial institutions, mutual funds, insurance companies, tax-exempt entities, qualified retirement plans, U.S. Holders that own stock constituting 10% or more of our voting power (whether such stock is directly, indirectly or constructively owned), regulated investment companies, common trust funds, U.S. Holders subject to the alternative minimum tax, U.S. Holders holding our common shares as part of a straddle, hedge or conversion transaction or as part of a synthetic security or other integrated transaction, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, U.S. Holders that have a functional currency other than the U.S. dollar, U.S. expatriates, and persons that acquired our common shares in a compensation transaction. In addition, this summary does not address persons that hold an interest in a partnership or other pass-through entity that holds our common shares, or tax considerations arising under the laws of any state, local or non-U.S. jurisdiction or other U.S. federal tax considerations (e.g., estate or gift tax) other than those pertaining to the income tax.

The following is based on the Code, Treasury regulations promulgated thereunder (Treasury Regulations), and administrative rulings and court decisions, in each case as in effect on the date hereof, all of which are subject to change, possibly with retroactive effect.

As used herein, the term U.S. Holder means a beneficial owner of our common shares that is (i) a citizen or individual resident of the U.S., (ii) a corporation (or an entity classified as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S. or any political subdivision thereof, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if (A) a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons, within the meaning of Section 7701(a)(30) of the Code, have authority to control all of its substantial decisions or (B) it has properly elected under applicable Treasury Regulations to be treated as a U.S. person.

The tax treatment of a partner in a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) may depend on both the partner's and the partnership's status and the activities of such partnership. Partnerships that are beneficial owners of our common shares, and partners in such partnerships, should consult their own tax advisors regarding the U.S. federal, state, local and non-U.S. tax considerations applicable to them with respect to the ownership and disposition of our common shares.

This summary is of a general nature only. It is not intended to constitute, and should not be construed to constitute, legal or tax advice to any particular U.S. Holder. U.S. Holders should consult their own tax advisors as to the tax considerations applicable to them in their particular circumstances.

Ownership and Disposition of Our Common Shares

Distributions. Subject to the discussion below under Certain United States Federal Income Tax Considerations - Passive Foreign Investment Company Rules and under Certain United States Federal Income Tax Considerations - Controlled Foreign Corporations, distributions made with respect to our

common shares (including any Canadian taxes withheld from such distributions) generally will be included in the gross income of a U.S. Holder as dividend income to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. So long as we are not a passive foreign investment company (a PFIC) (see discussion under Certain United States Federal Income Tax Considerations - Passive Foreign Investment Company below), we are expected to be eligible for the benefits of a comprehensive income tax treaty with the U.S., so that dividends paid by us to non-corporate U.S. Holders are generally expected to be eligible for the reduced rate of U.S. federal income tax available with respect to certain dividends received in taxable years beginning before January 1, 2011. Note, however, that if we are a PFIC, for the taxable year during which we pay a dividend or for the preceding year, the reduced rates described in the preceding sentence will not apply. A corporate U.S. Holder will not be entitled to a dividends received deduction that is otherwise generally available upon the receipt of dividends distributed by U.S. corporations.

Distributions in excess of our current and accumulated earnings and profits, if made with respect to our common shares, will be treated as a return of capital to the extent of the U.S. Holder's adjusted tax basis in such common shares, and thereafter as capital gain.

If any dividends are paid in Canadian dollars, the amount includible in gross income will be the U.S. dollar value of such dividend, calculated by reference to the exchange rate in effect on the date of actual or constructive receipt of the payment, regardless of whether the payment is actually converted into U.S. dollars. If any Canadian dollars actually or constructively received by a U.S. Holder are later converted into U.S. dollars, such U.S. Holder may recognize gain or loss on the conversion, which will be treated as ordinary gain or loss. Such gain or loss generally will be treated as gain or loss from sources within the U.S. for U.S. foreign tax credit purposes.

A U.S. Holder may be entitled to deduct or claim a credit for Canadian withholding taxes, subject to applicable limitations in the Code. Dividends paid on our common shares will be treated as income from sources outside the U.S. and generally will be passive category income for U.S. foreign tax credit limitation purposes. The rules governing the foreign tax credit are complex and the availability of the credit is subject to limitations. U.S. Holders should consult their own tax advisors regarding the availability of the foreign tax credit in their particular circumstances.

Dispositions. Subject to the discussion below under Certain United States Federal Income Tax Considerations - Passive Foreign Investment Company Rules and Certain United States Federal Income Tax Considerations - Controlled Foreign Corporations, upon the sale, exchange or other taxable disposition of our common shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between (i) the amount of cash and the fair market value of any other property received upon the sale, exchange or other taxable disposition and (ii) the U.S. Holder's adjusted tax basis in such common shares. Capital gain or loss recognized upon a sale, exchange or other taxable disposition of our common shares will generally be long-term capital gain or loss if the U.S. Holder's holding period with respect to such common shares disposed of is more than one year at the time of the sale, exchange or other taxable disposition. The deductibility of capital loss is subject to limitations.

Passive Foreign Investment Company Rules

Certain adverse U.S. federal income tax rules generally apply to a U.S. person that owns or disposes of stock in a non-U.S. corporation that is treated as a passive foreign investment company. In general, a non-U.S. corporation will be treated as a PFIC for any taxable year during which, after applying relevant look-through rules with respect to the income and assets of subsidiaries, either (i) 75% or more of the non-U.S. corporation's gross income is passive income, or (ii) 50% or more of the average value of the non-U.S. corporation's assets produce or are held for the production of passive income. For these purposes,

passive income generally includes dividends, interest, certain rents and royalties, and the excess of gains over losses from certain commodities transactions, including transaction involving oil and gas. However, gains and losses from commodities transactions generally are excluded from the definition of passive income if (i) such gains or losses are derived by a non-U.S. corporation in the active conduct of a commodity business, and (ii) substantially all of such corporation's business is as an active producer, processor, merchant or handler of commodities of like kind (the active commodities business exclusion).

We have not made a determination as to our PFIC status for the current or any past taxable years. PFIC classification is factual in nature, generally cannot be determined until the close of the taxable year in question, and is determined annually. Thus, there can be no assurance that we are not a PFIC for the current taxable year, have not been for any past taxable years or will not be a PFIC for any future taxable years.

The following U.S. federal income tax consequences generally will apply to a U.S. Holder of our common shares if we are treated as a PFIC:

Distributions. Distributions made by us with respect to our common shares, to the extent such distributions are treated as excess distributions pursuant to Section 1291 of the Code, must be allocated ratably to each day of the U.S. Holder's holding period for such common shares. The amounts allocated to the taxable year during which the distribution is made, and to any taxable years in such U.S. Holder's holding period which are prior to the first taxable year in which we were treated as a PFIC, are included in such U.S. Holder's gross income as ordinary income for the taxable year of the distribution. The amount allocated to each other taxable year is taxed as ordinary income in the taxable year of the distribution at the highest tax rate in effect for the U.S. Holder in that other taxable year and is subject to an interest charge at the rate applicable to underpayments of tax. Any distribution made by us that does not constitute an excess distribution would be treated in the manner described under Certain United States Federal Income Tax Considerations Ownership and Disposition of Our Common Shares Distributions, above.

Dispositions. The entire amount of any gain realized upon the U.S. Holder's disposition of our common shares generally will be treated as an excess distribution made in the taxable year during which such disposition occurs, with the consequences described above.

Elections. In general, the adverse U.S. federal income tax consequences of holding stock of a PFIC described above may be mitigated if a U.S. shareholder of the PFIC is able to, and timely makes, a valid qualified electing fund election with respect to the PFIC or a valid mark-to-market election with respect to the stock of the PFIC.

U.S. Holders should consult their own tax advisors as to the tax consequences of owning and disposing of stock in a PFIC, including the availability of any elections that may mitigate the adverse U.S. federal income tax consequences of holding stock of a PFIC.

Certain Controlled Foreign Corporation Rules

If more than 50% of the total voting power or the total value of our outstanding shares is owned, directly or indirectly, by citizens or residents of the U.S., U.S. partnerships or corporations, or U.S. estates or trusts (as defined by Section 7701(a)(30) of the Code), each of which own, directly or indirectly, 10% or more of the total voting power of our outstanding shares (each a 10% Shareholder), we could be treated as a Controlled Foreign Corporation (CFC) under Section 957 of the Code.

Our classification as a CFC would effect many complex results, including that under Section 1248 of the Code, gain from the disposition of our common shares by a U.S. Holder that is or was a 10%

Shareholder at any time during the five-year period ending with the disposition will be treated as a dividend to the extent of our earnings and profits attributable to the common shares sold or exchanged.

If we are classified as both a PFIC and a CFC, we generally will not be treated as a PFIC with respect to 10% Shareholders.

We have made no determination as to whether we currently meet or have met the definition of a CFC, and there can be no assurance that we will not be considered a CFC for the current or any future taxable year.

The CFC rules are very complicated, and U.S. Holders should consult their own financial advisor, legal counsel or accountant regarding the CFC rules and how these rules may impact their U.S. federal income tax situation.

Information Reporting and Backup Withholding Tax

If certain information reporting requirements are not met, a U.S. Holder may be subject to backup withholding tax (currently imposed at a rate of 28%) on the distributions made with respect to our common shares or proceeds received on the disposition of our common shares. Backup withholding tax is not an additional tax. A U.S. Holder subject to the backup withholding tax rules will be allowed a credit of the amount withheld against such U.S. Holder's U.S. federal income tax liability and, if backup withholding tax results in an overpayment of U.S. federal income tax, such U.S. Holder may be entitled to a refund, provided that the requisite information is correctly furnished to the Internal Revenue Service in a timely manner. U.S. Holders should consult their own tax advisors as to the information reporting and backup withholding tax rules.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSIDERATIONS APPLICABLE TO U.S. HOLDERS WITH RESPECT TO THE OWNERSHIP AND DISPOSITION OF OUR COMMON SHARES. U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSIDERATIONS APPLICABLE TO THEM IN THEIR PARTICULAR CIRCUMSTANCES.

Certain Canadian Federal Income Tax Considerations

The following is a fair and adequate summary of the principal Canadian federal income tax considerations of the purchase, ownership and disposition of the common shares offered hereunder (for purposes of this discussion, the Offered Shares) generally applicable to purchasers of Offered Shares pursuant to this offering who, at all relevant times, are residents of the U.S. for the purposes of the Canada-United States Tax Convention (1980), as amended (the Convention), are not and have not been resident in Canada or deemed to be resident in Canada for purposes of the Income Tax Act (Canada), as amended to the date hereof (the Canadian Tax Act) or any applicable income tax convention to which Canada is a signatory, hold their Offered Shares as capital property, deal at arm's length with and are not affiliated with our company for the purposes of the Canadian Tax Act, do not have a permanent establishment or fixed base in Canada, and do not use or hold and are not deemed to use or hold such Offered Shares in the course of carrying on or being deemed to be carrying on business in Canada (for purposes of this discussion, U.S. Resident Holders). Whether a U.S. Resident Holder holds Offered Shares as capital property for purposes of the Canadian Tax Act will depend on all of the circumstances relating to the acquisition and holding of those shares. Offered Shares will generally be considered to be capital property to a U.S. Resident Holder unless the shares are held in the course of carrying on a business or unless that holder is engaged in an adventure in the nature of trade (i.e. speculation) with respect to such shares. Special rules, which are not

discussed in this summary, may apply to a U.S. Resident Holder that is an insurer carrying on business in Canada and elsewhere.

This summary is based upon the current provisions of the Canadian Tax Act, the regulations thereunder, all specific proposals to amend the Canadian Tax Act and regulations thereunder publicly announced by or on behalf of the Minister of Finance of Canada prior to the date hereof (the Proposals), the provisions of the Convention as in effect on the date hereof, and an understanding, based on publicly available published materials, of the current administrative policies and assessing practices of the Canada Revenue Agency as of the date hereof. Other than the Proposals, this summary does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account tax laws of any province or territory of Canada or of any jurisdiction outside Canada which may differ significantly from those discussed herein. The summary assumes that the Proposals will be enacted substantially as proposed, but there can be no assurance that the Proposals will be enacted as proposed or at all.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular U.S. Resident Holder, and no representation with respect to the tax consequences to any particular U.S. Resident Holder is made. The tax liability of a U.S. Resident Holder will depend on the holder's particular circumstances. Accordingly, U.S. Resident Holders should consult with their own tax advisors for advice with respect to their own particular circumstances.

Dividends

Dividends paid or credited or deemed under the Canadian Tax Act to be paid or credited to a U.S. Resident Holder on the Offered Shares will generally be subject to Canadian withholding tax equal to 25% of the gross amount of such dividends. Under the Convention, the rate of Canadian withholding tax which would apply to dividends paid on the Offered Shares to a U.S. Resident Holder that beneficially owns such dividends is generally 15%, unless the beneficial owner is a company which owns at least 10% of the voting shares of our company at that time, in which case the rate of Canadian withholding tax is reduced to 5%. However, not all U.S. Resident Holders will qualify for the benefits of the Convention. U.S. Resident Holders who are natural persons will qualify for the benefits of the Convention. U.S. Resident Holders who are not natural persons may not qualify for the benefits of the Convention and are advised to consult with their own tax advisors in this regard.

Dispositions

A U.S. Resident Holder will not be subject to tax under the Canadian Tax Act on any capital gain realized by the holder on a disposition or deemed disposition of Offered Shares, provided that the shares do not constitute taxable Canadian property of the U.S. Resident Holder for purposes of the Canadian Tax Act. In addition, a U.S. Resident Holder that qualifies for the benefits of the Convention will not be subject to tax under the Canadian Tax Act on any capital gain realized by the holder on a disposition or deemed disposition of Offered Shares, provided the value of the shares is, in general terms, not derived principally from real property situated in Canada, as defined in the Convention. Offered Shares will generally not constitute taxable Canadian property of a U.S. Resident Holder provided that such shares are listed on a designated stock exchange (which currently includes the Toronto Stock Exchange and NYSE Amex) at the time of the disposition unless (i) at any time during the 60-month period immediately preceding the disposition, the U.S. Resident Holder, persons with whom the U.S. Resident Holder did not deal at arm's length, or the U.S. Resident Holder together with all such persons owned 25% or more of the issued shares of any class of the capital stock of our company; or (ii) the Offered Shares were acquired in certain types of tax-deferred exchanges under the Canadian Tax Act in consideration for property that was itself taxable

Canadian property. U.S. Resident Holders to whom Offered Shares constitute taxable Canadian property should consult with their own tax advisors as to the Canadian income tax consequences of a disposition of the Offered Shares.

EXCHANGE CONTROLS

Our company is aware of no governmental laws, decrees, regulations or other legislation, including foreign exchange controls, in Canada which may affect the import or export of capital or that may affect the remittance of dividends, interest or other payments to non-resident holders of our securities. Any such remittances to United States residents, however, may be subject to Canadian withholding tax at a rate of 25% which may be reduced for qualifying persons resident in the United States pursuant to the Canada - U.S. Income Tax Convention (1980), as amended.

Except as provided in the Investment Canada Act (ICA), there are no limitations under the laws of Canada, the Province of British Columbia or in our charter or any other of our constituent documents on the right of foreigners to hold or vote the common shares. Under the ICA, the acquisition of control of a Canadian business where the applicable financial thresholds are met may be subject to review and approval by the Minister of Industry (the Minister). Where an investment is reviewable, closing is prohibited until the Minister has made a determination that the investment is of net benefit to Canada. The investor may be required to make certain undertakings to the Minister in order to secure the Minister's approval in areas such as levels of employment, capital expenditures, maintenance of head office in Canada, etc. Special provisions apply for investments that raise national security concerns. For all acquisitions of a Canadian business which do not meet the threshold criteria for filing an application for review, the ICA requires the investor to file a notification.

The provisions of the ICA are complex. Any non-Canadian citizen contemplating an investment to acquire control of our company should consult professional advisors as to whether and how the ICA might apply.

LEGAL MATTERS

The validity of the issuance of the common shares offered hereby will be passed upon for us by Blake, Cassels & Graydon LLP, Vancouver, British Columbia, Canada.

EXPERTS

Our consolidated financial statements and financial statement schedule as of December 31, 2008 and 2007, and for each of the years in the three year period ended December 31, 2008 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2008 have been incorporated by reference herein from our annual report on Form 40-F for the year ended December 31, 2008 in reliance upon the reports of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of such firm as experts in accounting and auditing.

As at the date of this prospectus, KPMG LLP and its partners did not hold any registered or beneficial ownership interests, directly or indirectly, in the securities of our company or our associates or affiliates.

INDEMNIFICATION

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and persons controlling us, pursuant to the applicable provisions, we have been informed

that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

PART II**INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 8. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Under Endeavour Silver Corp.'s (for purposes of this discussion, the Company) articles and subject to the provisions of the *Business Corporations Act* (British Columbia) (the BCA), the Company shall indemnify a director, former director or alternate director of the Company and his or her heirs and legal personal representatives against all judgments, penalties or fines awarded or imposed in, or an amount paid in settlement of, a legal proceeding or investigative action, whether current, threatened, pending or completed, in which such director, former director or alternate director of the Company, or any of his or her heirs and legal personal representatives, by reason of having been a director or alternate director of the Company, is or may be joined as a party, or is or may be liable for or in respect of a judgment, penalty or fine in, or expenses related to, the proceeding.

Under the Company's articles and subject to any restrictions in the BCA, the Company may indemnify any other person, including the officers, former officers and alternate officers of the Company.

The failure of a director, alternate director or officer of the Company to comply with the provisions of the articles or the BCA does not invalidate any indemnity to which he or she is entitled. The Company may purchase and maintain insurance for the benefit of any person (or his or her heirs or legal representatives) who is or was a director, alternate director, officer, employee or agent of the Company, is or was a director, alternate director, officer, employee or agent of any corporation of which the Company is or was an affiliate or, at the request of the Company, is or was a director, alternate director, officer, employee or agent (or holds or held an equivalent position) of a corporation, partnership, trust, joint venture or other unincorporated entity.

ITEM 9. EXHIBITS.

Exhibit

Number Description

<u>4.1</u>	<u>Trust Indenture dated February 25, 2009 between Endeavour Silver Corp. and Computershare Trust Company of Canada</u>	<u>*</u>
<u>5.1</u>	<u>Opinion of Blake, Cassels & Graydon LLP</u>	<u>*</u>
<u>10.1</u>	<u>Placement Agency Agreement dated February 26, 2009 between Endeavour Silver Corp., Euro Pacific Capital, Inc. and Salman Partners, Inc.</u>	<u>*</u>
<u>10.2</u>	<u>Form of Subscription Agreement</u>	<u>*</u>
<u>23.1</u>	<u>Consent of Blake, Cassels & Graydon LLP (included in Exhibit 5.1)</u>	<u>*</u>
<u>23.2</u>	<u>Consent of KPMG LLP</u>	<u>*</u>
<u>24.1</u>	<u>Power of Attorney (included on the signature page to the registration statement)</u>	<u>*</u>

* Filed herewith.

ITEM 10. UNDERTAKINGS.

(a) Rule 415 Offering. The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (1)(i), (1)(ii) and (1)(iii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Securities and Exchange Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in this registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of this registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment will be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time will be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) To file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A. of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Securities Act of 1933 need not be furnished, provided that the registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (a)(4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements. Notwithstanding the foregoing, with respect to a registration statement on Form F-3, a post-effective amendment need not be filed to include financial statements and information required by Section 10(a)(3) of the Securities Act of 1933 or Rule 3-19 if such financial statements and information are contained in periodic reports filed with or furnished to the Securities and Exchange Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Form F-3.

(5) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) each prospectus filed by a registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(ii) each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement will be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time will be deemed to be the initial *bona fide* offering thereof.

(h) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of the issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Vancouver, British Columbia, Canada, on the 31st day of March, 2009.

ENDEAVOUR SILVER CORP.

By: /s/ Bradford Cooke

Name: Bradford Cooke

Title: Chairman and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Bradford Cooke and Dan Dickson, and each of them with the power to act alone, his true and lawful attorney-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments, including pre-effective amendments to this registration statement, and any additional registration statements to be filed pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and any other documentation in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying all that said attorneys-in-fact and agents, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Bradford Cooke Bradford Cooke	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	March 31, 2009
/s/ Dan Dickson Dan Dickson	Chief Financial Officer (principal financial and accounting officer)	March 31, 2009
/s/ Godfrey Walton Godfrey Walton	President, Chief Operating Officer and Director	March 31, 2009
Leonard Harris	Director	March __, 2009
/s/ Geoff Handley Geoff Handley	Director	March 31, 2009
/s/ Rex McLennan Rex McLennan	Director	March 31, 2009

Director

March __, 2009

Mario Szotlender

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Pursuant to Section 6(a) of the Securities Act of 1933, the undersigned has signed this registration statement, solely in the capacity of the duly authorized representative of Endeavour Silver Corp. in the United States on March 31, 2009 .

/s/ Barry Devlin

Barry Devlin

Vice President, Exploration

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