

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934.

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

For the fiscal year ended January 31, 2007

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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

Date of event requiring this shell company report \_\_\_\_\_

Commission File Number 0-9266

**AVINO SILVER & GOLD MINES LTD.**

*(Exact name of Company as specified in its charter)*

**A CORPORATION FORMED UNDER THE LAWS OF BRITISH COLUMBIA, CANADA**

*(Jurisdiction of Incorporation or Organization)*

455 Granville Street, Suite 400  
Vancouver, British Columbia V6C 1T1, Canada  
*(Address of principal executive offices)*

Securities registered or to be registered pursuant to Section 12(b) of the Act: **NONE**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**Common Shares, without Par Value**

*(Title of Class)*

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

The number of outstanding Common Shares as of January 31, 2007 was 20,584,727.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Indicate by check mark whether the Company (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 Company 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check on):

Large Accelerated File  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS.)

Indicate by check mark whether the Company has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. **NOT APPLICABLE**

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## **Introduction**

Avino Silver & Gold Mines Ltd., which we refer to as the "Company", was incorporated by Memorandum of Association under the laws of the Province of British Columbia on May 15, 1969, and on August 22, 1969, by virtue of an amalgamation with Ace Mining Company Ltd., became a public company whose common shares are registered under the United States *Securities Exchange Act of 1934*, as amended, and changed its name to Avino Mines & Resources Limited. On April 12, 1995, the Company changed its corporate name to International Avino Mines Ltd. and affected a reverse stock split of one common share for every five common shares outstanding. On August 29, 1997, the Company changed its corporate name to Avino Silver & Gold Mines Ltd. to better reflect the business of the Company of exploring for and mining silver and gold. Our principal executive office is located at Suite 400, 455 Granville Street, Vancouver, British Columbia V6C 1T1, Canada.

In this annual report on Form 20-F, which we refer to as the "Annual Report", except as otherwise indicated or as the context otherwise requires, the "Company", "we" or "us" refers to Avino Silver & Gold Mines Ltd.

You should rely only on the information contained in this Annual Report. We have not authorized anyone to provide you with information that is different. The information in this Annual Report may only be accurate on the date of this Annual Report or on or as at any other date provided with respect to specific information.

## **Currency**

Unless we otherwise indicate in this Annual Report, all references to "Canadian Dollars", "CDN\$" or "\$" are to the lawful currency of Canada and all references to "U.S. Dollars" or "US\$" are to the lawful currency of the United States

## **Forward-looking Statements**

The following discussion contains forward-looking statements within the meaning of the United States *Private Securities Legislation Reform Act of 1995* concerning the Company's plans for its mineral properties which may affect the future operating results and financial position. Such statements are subject to risks and uncertainties that could cause our actual results and financial position to differ materially from those anticipated in the forward-looking statements. These factors include, but are not limited to, the factors set forth in the sections entitled "Risk Factors" in Item 3.D., and "Operating and Financial Review and Prospects" in Item 5. Statements concerning reserves and resources may also be deemed to constitute forward-looking statements to the extent that such statements reflect the conclusion that deposits may be economically exploitable. Any statements that express or involve discussions with respect to predictions, expectations, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "does not expect", "is expected", "anticipates", "does not anticipate", "plans", "estimates", or "intends", or stating that certain actions, events or results "may", "could", "would", or "will" be taken, occur or be achieved) are not statements of historical fact and may be "forward-looking statements".

## **Cautionary Note to United States Investors Concerning Estimate of Measured and Indicated Mineral Resources**

We advise United States investors that although the terms "measured resources" and "indicated resources" are recognized and required by Canadian regulations, the United States Securities and Exchange Commission, referred to as the "SEC", does not recognize them. United States investors are cautioned not to assume that all or any part of our mineral resources in these categories will ever be converted into mineral reserves.

## GLOSSARY OF MINING TERMS

<i>agglomeration</i>	Cementing crushed or ground rock particles together into larger pieces, usually to make them easier to handle; used frequently in heap-leaching operations.
<i>anomalous</i>	A value, or values, in which the amplitude is statistically between that of a low contrast anomaly and a high contrast anomaly in a given data set.
<i>anomaly</i>	Any concentration of metal noticeably above or below the average background concentration.
<i>assay</i>	An analysis to determine the presence, absence or quantity of one or more components.
<i>breccia</i>	A rock in which angular fragments are surrounded by a mass of finer-grained material.
<i>Cretaceous</i>	The geologic period extending from 135 million to 65 million years ago.
<i>cubic meters or m<sup>3</sup></i>	A metric measurement of volume, being a cube one meter in length on each side.
<i>cyanidation</i>	A method of extracting exposed gold or silver grains from crushed or ground ore by dissolving it in a weak cyanide solution.
<i>Diamond drill</i>	A rotary type of rock drill that cuts a core of rock that is recovered in long cylindrical sections, two centimeters or more in diameter.
<i>fault</i>	A fracture in a rock where there has been displacement of the two sides.
<i>grade</i>	The concentration of each ore metal in a rock sample, usually given as weight percent. Where extremely low concentrations are involved, the concentration may be given in grams per tonne (g/t or gpt) or ounces per ton (oz/t). The grade of an ore deposit is calculated, often using sophisticated statistical procedures, as an average of the grades of a very large number of samples collected from throughout the deposit.
<i>heap leaching</i>	A process whereby valuable metals, usually gold and silver, are leached from a heap, or pad, of crushed ore by leaching solutions percolating down through the heap and collected from a sloping, impermeable liner below the pad.
<i>hectare or ha</i>	An area totaling 10,000 square meters.
<i>highly anomalous</i>	An anomaly which is 50 to 100 times average background, i.e. it is statistically much greater in amplitude.
<i>Ip induced polarization</i>	A method of ground geophysics surveying employing an electrical current to determine indications of mineralization, also referred to as "IP".
<i>laterite</i>	A residual product of rock decay that is red in color and has a high content in the oxides of iron and hydroxide of aluminum.
<i>mineral reserve</i>	The economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of the reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and

allowances for losses that may occur when the material is mined. Mineral resources are sub-divided in order of increasing confidence into "probable" and "proven" mineral reserves. A probable mineral reserve has a lower level of confidence than a proven mineral reserve. The term "mineral reserve" does not necessarily signify that extraction facilities are in place or operative or that all governmental approvals have been received. It does signify that there are reasonable expectations of such approvals.

<b><i>mineral resource</i></b>	The estimated quantity and grade of mineralization that is of potential economic merit. A resource estimate does not require specific mining, metallurgical, environmental, price and cost data, but the nature and continuity or mineralization must be understood. Mineral resources are sub-divided in order of increasing geological confidence into "inferred", "indicated", and "measured" categories. An inferred mineral resource has a lower level of confidence than that applied to an indicated mineral resource. An indicated mineral resource has a higher level of confidence than an inferred mineral resource, but has a lower level of confidence than a measured mineral resource. A mineral resource is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such grade or quality that it has reasonable prospects for economic extraction.
<b><i>mineralization</i></b>	Usually implies minerals of value occurring in rocks.
<b><i>net smelter or NSR Royalty</i></b>	Payment of a percentage of net mining profits after deducting applicable smelter charges.
<b><i>oxide</i></b>	A compound of oxygen and some other element.
<b><i>ore</i></b>	A natural aggregate of one or more minerals which may be mined and sold at a profit, or from which some part may be profitably separated.
<b><i>outcrop</i></b>	An exposure of rock at the earth's surface.
<b><i>possible or inferred ore</i></b>	Term used to describe ore where the mineralization is believed to exist on the basis of some geological information, but the size, shape, grade, and tonnage are a matter of speculation.
<b><i>prefeasibility study and preliminary feasibility study</i></b>	Each means a comprehensive study of the viability of a mineral project that has advanced to a stage where mining method, in the case of underground mining, or the pit configuration, in the case of open pit mining, has been established, and which, if an effective method of mineral processing has been determined, includes a financial analysis based on reasonable assumptions of technical, engineering, operating and economic factors, and the evaluation of other relevant factors which are sufficient for a qualified person, acting reasonably, to determine if all or part of the mineral resource may be classified as a mineral reserve.
<b><i>probable mineral reserve</i></b>	The economically mineable part of an indicated, and in some circumstances, a measured mineral resource demonstrated by at least a prefeasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.
<b><i>proven mineral reserve</i></b>	The economically mineable part of a measured mineral resource demonstrated by at least a prefeasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that

demonstrate, at the time of reporting, that economic extraction is justified. The term should be restricted to that part of the deposit where production planning is taking place and for which any variation in the estimate would not significantly affect potential economic viability.

***quartz***

Silica or SiO<sub>2</sub>, a common constituent of veins, especially those containing gold and silver mineralization.

***tailings***

Material rejected from a mill after most of the recoverable valuable minerals have been extracted.

***ton***

Imperial measurement of weight equivalent to 2,000 pounds.

***trench***

A long, narrow excavation dug through overburden, or blasted out of rock, to expose a vein or ore structure.

***tonne***

Metric measurement of weight equivalent to 1,000 kilograms (or 2,204.6 pounds).

***veins***

The mineral deposits that are found filling openings in rocks created by faults or replacing rocks on either side of faults.

## Part I

### Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

### Item 2. Offer Statistics and Expected Timetable

Not applicable.

### Item 3. Key Information

#### A. Selected Financial Data

The selected historical financial information presented in the table below for each of the years ended January 31, 2007, 2006, 2005, 2004 and 2003, is derived from the audited financial statements of the Company. The audited financial statements and notes for each year in the three years ended January 31, 2007, 2006 and 2005 are included in this Annual Report. The selected historical financial information for each year ended January 31, 2004 and 2003, presented in the table below are derived from financial statements of the Company that are not included in this Annual Report. The selected financial information presented below should be read in conjunction with the Company's financial statements and the notes thereto (Item 17) and the Operating and Financial Review and Prospects (Item 5) included elsewhere in this Annual Report.

The selected financial data has been prepared in accordance with Canadian generally accepted accounting principles, which we refer to as "Canadian GAAP". The financial statements included in Item 17 in this Annual Report are also prepared under Canadian GAAP. Included within these financial statements in Note 20 is a reconciliation between Canadian GAAP and United States generally accepted accounting principals, referred to as "US GAAP", which differ, among other things, in respect to the recording of the investments in marketable securities, deferred exploration expenditures and recognition of future income tax benefits on renouncement of Canadian exploration expenditures to flow-through investors.

#### Canadian GAAP

	Year Ended January 31,				
	2007	2006	2005	2004	2003
<b>Summary of Operations:</b>					
Revenue	-	-	-	-	-
Interest Income	\$430,231	\$46,073	\$41,999	\$8,299	\$197
Expenses					
Operating and Administrative	4,014,734	1,416,788	506,010	331,446	147,091
Write-down of mining Properties	-	103,342	-	-	-
Equity losses in Cia Minera Mexicana de Avino, S.A. de C.V.	33,5811	342,596	-	-	-
Loss in sale of Joint Venture	-	-	-	-	40,097
Write-down of investment	-	217,000	-	-	-
Due diligence review of Cia Minera Mexicana de Avino, S.A. de C.V.	-	355,921	391,899	122,444	-
Future income tax benefit	-	19,750	41,200	-	-
Net Income (loss) for year	(3,648,539)	(2,369,724)	(814,710)	(445,591)	(186,991)
Income (loss) per share	(0.20)	(0.22)	(0.08)	(0.06)	(0.03)
Weighted Average Number of Shares Outstanding	18,385,007	10,965,718	10,410,379	7,015,604	5,625,498

	<b>As at January 31,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Balance Sheet Data:</b>					
Total assets	23,295,039	3,901,160	3,219,431	3,522,548	814,546
Cash and cash equivalents	11,045,106	3,067,011	2,283,535	2,832,457	20,104
Total liabilities	3,789,083	586,714	341,174	305,170	380,070
Shareholders' equity	19,505,956	3,314,446	2,878,257	3,216,838	434,476

#### **United States GAAP:**

	<b>Year Ended January 31,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Summary of Operations:</b>					
Net Income (loss) per Canadian GAAP	\$(3,648,539)	\$(2,369,724)	\$(814,710)	\$(445,591)	\$(186,991)
Adjustments	(10,277,556)	(74,147)	(132,600)	(20,100)	(204,000)
Net Income (loss) per US GAAP	(13,962,095)	(2,443,871)	(947,310)	(465,691)	(390,991)
Income (loss) per share per US GAAP	(0.76)	(0.22)	(0.09)	(0.07)	(0.07)

	<b>As at January 31,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Balance Sheet Data:</b>					
Total assets under Canadian GAAP	23,295,039	3,901,160	3,219,431	3,522,548	814,546
Adjustments	(10,747,339)	(260,955)	(60,088)	624,675	101,004
Total assets under US GAAP	12,547,000	3,640,205	3,159,343	4,147,223	915,550
Total equity under Canadian GAAP	19,505,956	3,314,446	2,878,257	3,216,838	434,476
Adjustments	(10,747,339)	(260,955)	(60,088)	624,675	101,004
Total equity under US GAAP	8,758,617	3,053,491	2,818,169	3,841,513	535,480

#### **Exchange Rates**

The following table sets forth information as to the period end, average, the high and the low exchange rate for Canadian Dollars and U.S. Dollars for the periods indicated based on the noon buying rate in New York City for cable transfers in Canadian Dollars as certified for customs purposes by the Federal Reserve Bank of New York (Canadian dollar = US\$1).

<b>Year Ended January 31,</b>	<b>Average</b>	<b>Period End</b>	<b>High</b>	<b>Low</b>
2003	1.5655	1.5286	1.6112	1.5108
2004	1.3803	1.3265	1.5315	1.2690
2005	1.2961	1.2396	1.3970	1.1775
2006	1.2061	1.1436	1.2703	1.1436
2007	1.1357	1.1792	1.1824	1.0989

The following table sets forth the high and low exchange rate for the past six months. As of July 25, 2007, the exchange rate was CDN\$1.0423 for each US\$1.

<u>Month</u>	<u>High</u>	<u>Low</u>
January 2007	1.1824	1.1647
February 2007	1.1852	1.1586
March 2007	1.181	1.153
April 2007	1.1583	1.068
May 2007	1.1136	1.0707
June 2007	1.0727	1.0579

**B. Capitalization and Indebtedness**

Not Applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not Applicable.

**D. Risk Factors**

In addition to the other information presented in this Annual Report, the following should be considered carefully in evaluating the Company and its business. This Annual Report contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed below and elsewhere in this Annual Report.

*We will be required to raise additional capital to mine our properties.* The Company is currently in the exploration stage of its properties. If the Company determines based on its most recent information that it is feasible to begin operations on its properties, the Company will be required to raise additional capital in order to develop and bring the properties into production.

*We have incurred net losses since our inception and expect losses to continue.* We have not been profitable since our inception. For the fiscal year ended January 31, 2007, we had a net loss of \$3,648,539 and an accumulated deficit on January 31, 2007 of \$20,758,186. The Company has not generated revenues from operations since 1998 and does not expect to generate revenues from operations until one or more of its properties are placed in production. There is no assurance that any of the Company's properties will be placed in production or that the Company's operations will be profitable in the future.

*The mining industry is highly speculative and involves substantial risks.* Even when mining is conducted on properties known to contain significant quantities of ore deposits it is generally accepted in the mining industry that most exploration projects do not result in the discovery of mineable deposits of ore in a commercially economical manner. There may be limited availability of water, which is essential to milling operations, and interruptions may be caused by adverse weather conditions. Operations are subject to a variety of existing laws and regulations relating to exploration and development, permitting procedures, safety precautions, property reclamation, employee health and safety, air quality standards, pollution and other environmental protection controls. Mining activities are subject to substantial operating hazards, some of which are not insurable or may not be insured for economic reasons.

*The commercial quantities of ore cannot be accurately predicted.* Whether an ore body will be commercially viable depends on a number of factors including the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as mineral prices and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in a mineral deposit being unprofitable.

*There are no assurances that we can produce minerals on a commercially viable basis.* The Company's ability to generate revenue and profit is expected to occur through exploration of its existing properties as well as through acquisitions of interests in new properties. Substantial expenditures will be incurred in an attempt to establish the economic feasibility of mining operations by identifying mineral deposits and establishing ore reserves through drilling and other techniques, developing metallurgical processes to extract metals from ore, designing facilities and planning mining operations. The economic feasibility of a project depends on numerous factors, including the cost of mining and production facilities required to extract the desired minerals, the total mineral deposits that can be mined using a given facility, the proximity of the mineral deposits to a user of the minerals, and the market price of the minerals at the time of sale. There is no assurance that existing or future exploration programs or acquisitions will result in the identification of deposits that can be mined profitably.

*Mining operations and exploration activities are subject to various federal, provincial and local laws and regulations.* Laws and regulation govern the development, mining, production, importing and exporting of minerals, taxes, labour standards, occupational health, waste disposal, protection of the environment, mine safety, toxic substances, and other matters. In many cases, licenses and permits are required to conduct mining operations. Amendments to current laws and regulations governing operations and activities of mining companies or more stringent implementation thereof could have a substantial adverse impact on the Company. Applicable laws and regulations will require the Company to make certain capital and operating expenditures to initiate new operations. Under certain circumstances, the Company may be required to close an operation once it is started until a particular problem is remedied or to undertake other remedial actions.

*Market price is highly speculative.* The market price of metals is highly speculative and volatile. Instability in metal prices may affect the interest in mining properties and the development of and production of such properties.

*Penny stock rules may make it more difficult to trade the Company's common shares.* The SEC has adopted regulations which generally define a "penny stock" to be any equity security that has a market price, as defined, less than US\$5.00 per share or an exercise price of less than US\$5.00 per share, subject to certain exceptions. Our securities may be covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors such as institutions with assets in excess of US\$5,000,000 or an individual with net worth in excess of US\$1,000,000 or annual income exceeding US\$200,000 or US\$300,000 jointly with his or her spouse. For transactions covered by this rule, the broker-dealers must make a special suitability determination for the purchase and receive the purchaser's written agreement of the transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell our securities and also affect the ability of our investors to sell their shares in the secondary market.

*Title risks.* The validity and ownership of mining property holdings can be uncertain and may be contested. Although the Company's properties in Canada are currently wholly owned by the Company, there are currently a number of pending and potential native title or traditional land owner claims in Canada. Accordingly, there can be no assurance that the Company's properties in Canada will not be affected.

*Competition for mineral land.* There is a limited supply of desirable mineral lands available for acquisition, claim staking or leasing in the areas where the Company contemplates expanding its operations and conducting exploration activities. Many participants are engaged in the mining business, including large, established mining companies. Accordingly, there can be no assurance that the Company will be able to compete successfully for new mining properties.

*Competition for recruitment and retention of qualified personnel.* We compete with other exploration companies, many of which have greater financial resources than us or are further in their development, for the recruitment and retention of qualified employees and other personnel. Competition for exploration resources at all levels is currently very intense, particularly affecting the availability of manpower, drill rigs and

supplies. If we require and are unsuccessful in acquiring additional personnel or other exploration resources, we will not be able to grow at the rate we desire or at all.

*Uncertainty of exploration and development programs.* The Company's profitability is significantly affected by the costs and results of its exploration and development programs. As mines have limited lives based on proven and probable mineral reserves, the Company actively seeks to expand its mineral reserves, primarily through exploration, development and strategic acquisitions. Exploration for minerals is highly speculative in nature, involves many risks and is frequently unsuccessful. Among the many uncertainties inherent in any gold and silver exploration and development program are the location of economic ore bodies, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities. Assuming the discovery of an economic deposit, depending on the type of mining operation involved, several years may elapse from the initial phases of drilling until commercial operations are commenced and, during such time, the economic feasibility of production may change. Accordingly, the Company's exploration and development programs may not result in any new economically viable mining operations or yield new mineral reserves to expand current mineral reserves.

*Licenses and permits.* The operations of the Company require licenses and permits from various governmental authorities. The Company believes that it holds all necessary licenses and permits under applicable laws and regulations and believes that it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in various circumstances. There can be no guarantee that the Company will be able to obtain or maintain all necessary licenses and permits as are required to explore and develop its properties, commence construction or operation of mining facilities and properties under exploration or development or to maintain continued operations that economically justify the cost.

*Political or economic instability or unexpected regulatory change.* Certain of our properties are located in countries, provinces and states more likely to be subject to political and economic instability, or unexpected legislative change, than is usually the case in certain other countries, provinces and states. Our mineral exploration activities could be adversely effected by:

- political instability and violence;
- war and civil disturbances;
- expropriation or nationalization;
- changing fiscal regimes;
- fluctuations in currency exchange rates;
- high rates of inflation;
- underdeveloped industrial and economic infrastructure;
- changes in the regulatory environment governing mineral properties; and
- unenforceability of contractual rights;

any of which may adversely affect our business in that country.

*We may be adversely affected by fluctuations in foreign exchange rates.* We maintain our bank accounts mainly in Canadian and U.S. Dollars. Any appreciation in the currency of Mexico or other countries where we may carry out exploration activities against the Canadian or U.S. Dollar will increase our costs of carrying out operations in such countries. In addition, any decrease in the U.S. Dollar against the Canadian Dollar will result in a loss on our books to the extent we hold funds in U.S. Dollars.

*Land Reclamation requirements.* Although variable depending on location and the governing authority, land reclamation requirements are generally imposed on mineral exploration companies (as well as companies with mining operations) in order to minimize the long term effects of land disturbance. Reclamation may include requirements to control dispersion of potentially deleterious effluents and reasonably re-establish pre-disturbance land forms and vegetation. In order to carry out reclamation

obligations imposed on us in connection with our mineral exploration we must allocate financial resources that might otherwise be spent on further exploration programs.

*Litigation.* Cia Minera Mexicana de Avino, S.A. de C.V., referred to as "Cia Minera", a subsidiary of the Company, leases four core mineral claims in consideration for royalties. The lessor is currently contesting the underlying royalty agreement, and has filed a legal action claiming royalties are owing from prior years in the approximate amount of \$3,487,223 plus interest. The Company has accrued \$738,302 on account of the royalties owing. Cia Minera has held the position that it has fully provided for the royalty liability in its accounts and continues to contest the action in court, however, negotiations are being held as both parties are working towards an amicable settlement. The outcome of this litigation is not determinable and may have a material adverse impact on the Company. For further information regarding this litigation, please see Note 18 of the financial statements included with this Annual Report at Item 17. The Company is not currently subject to any other litigation but it may become involved in disputes with other parties in the future which may result in litigation. Any litigation could be costly and time consuming and could divert our management from our business operations. In addition, if the Company is unable to resolve any litigation favorably, it may have a material adverse impact on the Company's financial performance, cash flow and results of operations.

*Acquisitions.* The Company undertakes evaluations of opportunities to acquire additional gold and silver mining properties. Any resultant acquisitions may be significant in size, may change the scale of the Company's business, and may expose the Company to new geographic, political, operating, financial and geological risks. The Company's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, acquire them on acceptable terms, and integrate their operations successfully. Any acquisitions would be accompanied by risks, such as a significant decline in the price of gold or silver, the ore body proving to be below expectations, the difficulty of assimilating the operations and personnel of any acquired companies, the potential disruption of the Company's ongoing business, the inability of management to maximize the financial and strategic position of the Company through the successful integration of acquired assets and businesses, the maintenance of uniform standards, controls, procedures and policies, the impairment of relationships with customers and contractors as a result of any integration of new management personnel and the potential unknown liabilities associated with acquired mining properties. In addition, the Company may need additional capital to finance an acquisition. Historically, the Company has raised funds through equity financing and the exercise of options and warrants. However, the market prices for natural resources are highly speculative and volatile. Accordingly, instability in prices may affect interest in resource properties and the development of and production from such properties that may adversely affect the Company's ability to raise capital to acquire and explore resource properties. There can be no assurance that the Company would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

*Conflict of interest.* Certain directors and officers of the Company are officers and/or directors of, or are associated with, other natural resource companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest from time to time. The directors are required by law, however, to act honestly and in good faith with a view to the best interests of the Company and its shareholders and to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction.

*Dependence on management.* We are dependent on the services of key executives including our President and Chief Executive Officer and other highly skilled and experienced executives and personnel focused on advancing our corporate objectives as well as the identification of new opportunities for growth and funding. Due to our relatively small size, the loss of these persons or our inability to attract and retain additional highly skilled employees required for our activities may have a material adverse effect on our business and financial condition.

*Uncertainty of continuing as a going concern.* The continuation of the Company depends upon its ability to attain profitable operations and generate cash flow from operations and/or to raise equity capital through the sale of its securities. As a result, there is uncertainty about the Company's ability to continue as a going concern. The Company's financial statements do not include the adjustments that would be necessary if the Company were unable to continue as a going concern.

*Limited and volatile trading volume.* Although the Company's common shares are listed on the TSX Venture Exchange, referred to as the "TSX-V" and the Frankfurt Stock Exchange, referred to as the "FSE" and quoted in the United States on the OTC Bulletin Board, referred to as the "OTC BB", the volume of trading has been limited and volatile in the past and is likely to continue to be so in the future, reducing the liquidity of an investment in the Company's common shares and making it difficult for investors to readily sell their shares in the open market. Without a liquid market for the Company's common shares, investors may be unable to sell their shares at favorable times and prices and may be required to hold their shares in declining markets or to sell them at unfavorable prices.

*Volatility of share price.* In recent years, securities markets in Canada have experienced a high level of price volatility. The market price of many resource companies, particularly those, like the Company, that are considered speculative exploration companies, have experienced wide fluctuations in price, resulting in substantial losses to investors who have sold their shares at a low price point. These fluctuations are based only in part on the level of progress of exploration, and can reflect general economic and market trends, world events or investor sentiment, and may sometimes bear no apparent relation to any objective factors or criteria. During the 2007 fiscal year, the Company's common share price fluctuated between a low of \$1.50 and a high of \$4.48. Subsequent to the 2007 fiscal year and as of July 1, 2007, the Company's common share price has fluctuated between a low of \$1.69 and a high of \$2.75. Significant fluctuations in the Company's common share price is likely to continue, and could potentially increase in the future.

*Difficulty for United States investors to effect services of process against the Company.* The Company is incorporated under the laws of the Province of British Columbia, Canada. Consequently, it will be difficult for United States investors to affect service of process in the United States upon the directors or officers of the Company, or to realize in the United States upon judgments of United States courts predicated upon civil liabilities under the United States *Securities Exchange Act of 1934*, as amended. The majority of the Company's directors and officers are residents of Canada and all of the Company's assets are located outside of the United States. A judgment of a United States court predicated solely upon such civil liabilities would probably be enforceable in Canada by a Canadian court if the United States court in which the judgment was obtained had jurisdiction, as determined by the Canadian court, in the matter. There is substantial doubt whether an original action could be brought successfully in Canada against any of such persons or the Company predicated solely upon such civil liabilities.

#### **Item 4. Information on the Company**

##### **Cautionary Note to United States Investors**

We describe our properties utilizing mining terminology such as "measured resources" and "indicated resources" that are required by Canadian regulations but are not recognized by the SEC. **United States investors are cautioned not to assume that any part of the mineral deposits in these categories will ever be converted into reserves.**

##### **A. History and Development of the Company**

The Company was incorporated by Memorandum of Association under the laws of the Province of British Columbia on May 15, 1969, and on August 22, 1969, by virtue of an amalgamation with Ace Mining Company Ltd., became a public company whose common shares are registered under the United States *Securities Exchange Act of 1934*, changing its name to Avino Mines & Resources Limited. On April 12,

1995, the Company changed its corporate name to International Avino Mines Ltd. and affected a reverse stock split of one common share for every five common shares outstanding. On August 29, 1997, the Company changed its corporate name to Avino Silver & Gold Mines Ltd., its current name, to better reflect the business of the Company of exploring for and mining silver and gold.

We are a natural resource company, primarily engaged in the acquisition, exploration and development of natural resource properties. Our principal business activities have been the exploration of certain mineral properties located in Canada, specifically British Columbia and the Yukon Territory, and in Mexico. Since fiscal 2001 we made aggregate principal capital expenditures of \$605,879 on the properties in Canada. These capital expenditures consist of \$103,243 which was spent on the Eagle property, \$184,834 on the Aumax property, \$159,575 on the Olympic-Kelvin property, \$54,739 and on the Bralorne property \$103,488 on the Minto property. The Avino Mine in Mexico is owned by Cia Minera of which the Company owns 88.25% of the issued and outstanding securities and is accounted for using the equity method in the financial statements. Since the suspension of operations at the Avino Mine, \$515,816 has been spent on the care and maintenance of the mine.

On July 17, 2006, the Company completed the acquisition of Cia Minera, a Mexican corporation, through the acquisition of an additional 39.25% interest in Cia Minera which combined with the Company's pre-existing 49% share of Cia Minera, brought the Company's ownership interest in Cia Minera to 88.25%. The additional 39.25% interest in Cia Minera was obtained through the acquisition of 76.88% of the common shares of Promotora Avino S.A. De C.V., referred to as "Promotora", which in turn owns 49.75% of Cia Minera's common shares, and the direct acquisition of 1% of the common shares of Cia Minera.

The July 17, 2006 acquisition was accomplished by a share exchange by which the Company issued 3,164,702 shares as consideration, which we refer to as the "Payment Shares", for the purchase of the additional 39.25% interest in Cia Minera. The Payment Shares were valued based on the July 17, 2006 closing market price of the Company's shares on the TSX-V.

The Company has also acquired a further 1% interest in Cia Minera through the acquisition from an estate subject to approval and transfer of the shares to the Company by the trustee for the estate.

The principal executive office of the Company is located at Suite 400, 455 Granville Street, Vancouver, British Columbia V6C 1T1, and its telephone number is 604-682-3701.

## **B. Business Overview**

### **Operations and Principal Activities**

The Company is a Canadian-based resource firm focused on silver and gold exploration. The Company has a long prior history of operation, beginning in 1968 with the development of the Avino Mine. From 1974 to 2001, the Avino Mine produced silver, gold, copper and lead and provided hundreds of jobs for the Durango region before closing due to depressed metal prices. Beginning in 2002, the Company re-directed its corporate strategy to focus almost entirely on silver and began acquiring silver properties in North America. The Company's most recent acquisitions, consisting of the Eagle property in Canada's Yukon Territory and the Aumax property in British Columbia, have produced positive assays for silver through drilling and sampling. The Avino Mine and surrounding mineral leases continue to hold silver potential. These properties, along with other silver and gold projects, will remain the Company's principal focus for the foreseeable future.

Presently, the Company is an "exploration stage company", as all of the Company's properties are currently in the exploratory stage of development. In order to determine if a commercially viable mineral deposit exists in any of the Company's properties, further geological work will need to be done and a final evaluation based upon the results obtained to conclude economic and legal feasibility.

## **Significant Acquisitions and Significant Dispositions**

On July 17, 2006, the Company completed the acquisition of Cia Minera, a Mexican corporation, through the acquisition of an additional 39.25% interest in Cia Minera which combined with the Company's pre-existing 49% share of Cia Minera, brought the Company's ownership interest in Cia Minera to 88.25%. The additional 39.25% interest in Cia Minera was obtained through the acquisition of 76.88% of the common shares of Promotora, which in turn owns 49.75% of Cia Minera's common shares, and the direct acquisition of 1% of the common shares of Cia Minera.

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The Company has also acquired a further 1% interest in Cia Minera through the acquisition from an estate subject to approval and transfer of the shares to the Company by the trustee for the estate.

We have no other significant acquisitions or dispositions of property, other than as otherwise disclosed in this Annual Report.

## **Competition**

The mining industry in which the Company is engaged is highly competitive. Competitors include well-capitalized mining companies, independent mining companies and other companies having financial and other resources far greater than those of the Company. The Company competes with other mining companies in connection with the acquisition of gold, silver and other precious metal properties. In general, properties with a higher grade of recoverable mineral and/or which are more readily mined afford the owners a competitive advantage in that the cost of production of the final mineral product is lower. In 2006, demand for silver exceeded supply and worldwide demand is expected to increase through 2007. This, in part, has fueled the increases in silver prices over the same period. Thus, a degree of competition exists between those engaged in the mining industry to acquire the most valuable properties. As a result, the Company may eventually be unable to acquire attractive gold or silver mining properties.

## **Seasonality**

Certain of our operations are conducted in British Columbia and the Yukon Territory. The weather during the colder seasons in these areas can be extreme and can cause interruptions or delays in our operations. As a result, the preferable time for activities in these regions is the spring and summer when costs are more reasonable and access to the properties is easier. In the summer months, however, if the weather has been unusually hot and dry, access to the Company's properties may be limited as a result of access restrictions being imposed to monitor the risks of forest fires.

## **Governmental Regulation**

The current and anticipated future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, territorial and local governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Such operations and exploration activities are also subject to substantial regulation under these laws by governmental agencies and may require that the Company obtain permits from various

governmental agencies. The Company believes it is in substantial compliance with all material laws and regulations which currently apply to its activities. There can be no assurance, however, that all permits which the Company may require for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations, or that new legislation or modifications to existing legislation, would not have an adverse effect on any exploration or mining project which the Company might undertake.

Mineral exploration and mining in Mexico is covered under the Mining Law as first published in June 1992, and amended in April 2005. Mining operations in Mexico are administered by the Ministry of Economy. Environmental regulations are covered under "Ley General del Equilibrio Ecológico y la Protección al Ambiente" (General Law of Ecological Balance and Environmental Protection) and its regulations. Certain other environmental laws, including "Ley de Aguas Nacionales" (Law of National Waters) and "Ley Forestal" (Forestry Law) and their associated regulations may also cover certain operations. The kind of permits or authorizations required to conduct mining or mineral exploration operations in Mexico depend upon the type of operation. Common exploration activities do not require prior environmental authorization or licenses, but it is advisable to request a confirmation from the National Water Commission that planned operations will not affect the water table. It is also necessary to confirm that any planned operations will not be conducted in protected natural areas.

The Company has obtained all necessary permits and authorizations required for its current and anticipated exploration. The Company has had no material costs related to compliance and/or permits in recent years, and anticipates no material costs in the next year. Unfavorable amendments to current laws, regulations and permits governing operations and activities of resource exploration companies, or more stringent implementation thereof, could have a materially adverse impact on the Company and cause increases in capital expenditures which could result in a cessation of operations by the Company.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violation of applicable laws or regulations.

The enactment of new laws or amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in the development of new mining properties.

### **C. Organizational Structure**

The Company's subsidiaries are the wholly-owned Oniva Silver and Gold Mines S.A., referred to as "Oniva", Promotora in which the Company has direct ownership of 76.88%, and Cia Minera in which the Company has a 50% direct ownership and an additional 49.75% of Cia Minera is held through Promotora. The Company's total ownership of Cia Minera is 88.25%. The Company has also acquired a further 1% interest in Cia Minera through the acquisition from an estate subject to approval and transfer of the shares to the Company by the trustee for the estate.

All of the above subsidiaries are incorporated under the laws of Mexico.

## D. Property, Plants and Equipment

The Company is exploring five silver and gold projects in Canada and Mexico. All of the Company's mineral property interests in Canada are wholly owned by the Company. In Mexico, the Company has a 88.25% interest in Cia Minera, a Mexican company which is involved in the mining of commercial ores and resource exploration and development, including the operation of the Avino Mine. Exploration in Canada has in recent years, has been limited to drill programs on our Olympic-Kelvin Property.

### Eagle Property



*Ownership.* The Eagle property is wholly owned by the Company and was acquired in 2003 when it acquired its 100% interest in 14 quartz leases by issuing 200,000 common shares at a price of \$0.50 per share for total consideration of \$100,000. The property was written down to a nominal value of \$1 in fiscal 2006 by a charge to operations of \$103,242.

*Property Description and Location.* This property is located in the Yukon Territory approximately eight kilometres west of Keno City. The property covers approximately 516 hectares. It is currently in its Phase I stage of exploration. The property is accessed by road. Whitehorse, the nearest major city, is approximately 380 kilometres to the south of the village of Mayo. The village of Mayo is 60 kilometers to the southeast of Keno City. The Eagle property lies on the south-east facing slope of Galena Hill where the elevations range from about 1350 to 1540 m. Permafrost, while thin to non-existent in places, is reported to be found under accumulations of surface rubble left from glaciation.

*History.* The Eagle property has produced positive assays for silver since exploration first occurred there in 1964. The initial drill program, consisting of 29 holes, encountered assays as high as 6,900 grams per tonne of silver over 1.2 metres in hole #23 and 1,708 grams per tonne of silver over 2.1 metres in hole JB1. Follow-up drilling in 1978, designed to expand on the discoveries of hole #23, encountered 18.7 metres of mineralization with values ranging from 11 to 132 grams per tonne of silver. This discovery became known as the Eagle vein. The Eagle property is part of the historic Keno Hill mining camp. The Keno Hill mining camp has historically been one of Canada's most productive for silver, lead and zinc. Between 1920 and 1988, the total reported production was 4,787,423 tonnes with recovered grades of 1.3 kilograms per tonne of silver, 5.6% lead and 3.1% zinc. Subsequent exploration in the district has discovered additional mineral deposits which may become productive.

*Proposed Work Program.* A study carried out in August of 2002 recommended geochemical and geophysical exploration to examine the continuity of the Eagle vein. Drilling and underground exploration

would follow based on the success of the first work. A budget of \$160,000 has been proposed to carry out further work on the Eagle property. Our management is presently considering this proposal.

### **Aumax Property**



*Ownership.* The Aumax Property is wholly owned by the Company and was acquired in 2003 when it acquired a 100% interest in six unpatented mineral claims by issuing 200,000 common shares at a price of \$0.50 per share and paying \$4,000 in cash for total consideration of \$104,000.

*Property Description and Location.* The property is located in southern British Columbia approximately 16 kilometers southwest of the town of Lillooet. The property can be accessed from Lillooet by a logging road. The upper zone of the Aumax property can be accessed by hiking a further 1.5 km to the southwest. The property covers approximately 975 hectares and is located between Cayoosh Creek and Phair Creek. The showings were discovered in 1999. The showings have economically interesting gold and silver values.

*History.* Cayoosh Creek has a history of limited placer gold production starting in the 1860's. Some of this production occurred immediately downstream of the property, near the mouth of Downtown Creek.

A limited exploration program of prospecting, rock and soil sampling and mechanized trenching was carried out in October of 1999. Trenching on the Aumax showing was inconclusive. Many highly anomalous quartz-carbonate boulders, up to 2.2 grams per tonne of gold and 305 grams per tonne of silver, were excavated but bedrock was not reached in critical areas. Chip samples of veins exposed in the trenches were highly anomalous, generally in the hundreds of parts per billion gold, with one sample over one gram per tonne of gold over 0.5 metres. Further prospecting and soil sampling of the southeast (upslope) of the Aumax showing was recommended.

Limited soil sampling and prospecting in 1999 on the Upper Zone returned extremely anomalous soil samples to 4,560 parts per billion gold. A grid geochemical sampling and further prospecting in this area was recommended.

The Company has placed a deposit of \$1,500 at January, 2007 (2006:\$1,500), registered in the name of the Ministry of Finance of British Columbia, as security for estimated future reclamation costs.

*Proposed Work Program.* Geological studies conducted late in 2002 concluded that the discoveries to date lie downslope of the mineral source. A subsequent report in November 2004 recommended a Phase 1 program of more prospecting, geological mapping and additional soil sampling to determine the source of the mineralization. Based on the results of this program, Phase 2 exploration would include trenching and possible diamond drilling but to date, no work program has been proposed.

## **Olympic-Kelvin Property**

*Ownership.* The Olympic-Kelvin property is wholly owned by the Company and was acquired in 1987 when it acquired a 100% interest in 20 reverted Crown granted mineral claims, one located mineral claim and three fractions. The property was written down entirely in fiscal 2002.

*Property Description and Location.* The Olympic-Kelvin property totals approximately 662.5 hectares and is located on the south side of Carpenter Lake, five kilometers northeast of Goldbridge in the Lillooet Mining Division, British Columbia.

The Olympic-Kelvin property is easily accessible by the all-weather, publicly maintained, Grey Rock logging road which runs northeast from Goldbridge. Access on the Olympic-Kelvin property is possible on a number of cat trails built by the Company and previous operators.

The Olympic-Kelvin property covers rocks of the Pioneer Formation and Bridge River Terrane. These rocks are cut by northwest trending regional scale structures sub-parallel to the Ferguson and Cadwallader Structures. The structures on the Olympic-Kelvin property are roughly the same distance from the Upper Cretaceous-Tertiary granitic Bendor Intrusions as the Bralorne/Pioneer mines. These mines are the largest past producers in the Canadian Cordillera (4.1 million ounces). The Bendor Intrusions are a postulated source for the gold mineralization at Bralorne, which is thought to be localized by a northwest to north flexure in the Cadwallader structure. A similar flexure is present in the northwest trending structures on the Olympic-Kelvin property. These structures on the property are mineralized with gold and silver and have received considerable past work, including at least four adits.

*History.* The Company recommenced exploration on the Olympic-Kelvin property in January 2004, following up on work completed in 1988 that outlined two prospective areas for gold and silver, the Margarita Zone and the Enigma Zone.

In the Margarita Zone, hole OLY 88-4 returned 24 grams per tonne of gold over 0.85 metres within a much wider intersection of 8.2 grams per tonne of gold over 3.48 metres. The true width of this zone is estimated to be 1.47 metres. A large part of the zone is listwanite, indicating the potential for better grade mineralization immediately below this intersection. Hole OLY 88-6 cut the same zone 75 metres to the northwest and returned 4.26 grams per tonne of gold over 1.34 metres within an eight metre section (5.6 m true width) of mainly listwanite. The area of these intersections is approximately 50 metres off of the Gray Rock Road and could be accessed for mining purposes by an underground ramp from the road.

The Enigma Zone is a colour anomaly on the south shore of Carpenter Lake on Lot 6280, approximately 700 metres east, north-east of the Margarita Zone. Trenching revealed a quartz stock work zone with areas of abundant stibnite. Sampling returned 1.7 grams per ton of gold over 21 metres within a 75

metre mineralized zone. This is a very wide zone for the Bridge River Camp and, if the zone has significant strike length, it could be amenable to open pit mining. Hole 04-0k-04 was drilled 154 metres under the Enigma Zone. This hole returned highly anomalous gold values to 0.38 grams per tonne. Detailed geological mapping and geochemical sampling has been recommended.

Drilling in January of 2005 was unsuccessful in intersecting the Margarita Zone. One hole was drilled from the east to attempt to intersect the zone. This hole was abandoned at 21.3 metres because of bad ground conditions. No values of economic interest were returned from samples taken from the hole.

The Company has placed a deposit of \$1,500 at January, 2007 (2006:\$1,500), registered in the name of the Ministry of Finance of British Columbia, as security for estimated future reclamation costs.

No drilling on the Olympic Property was completed in 2006.

*Proposed Work Program.* No further work is proposed at this time.

## **Minto Property**

*Ownership.* The Minto Property is wholly owned by the Company and was acquired in early 1985 when it acquired its 100% interest in eight Crown granted mineral claims, eight reverted Crown granted mineral claims and one located mineral claim. In fiscal 2002, the property was written down to a nominal value of \$1.

*Property Description and Location.* The Minto Property is situated about ten kilometers east of Goldbridge in the Bridge River gold district of British Columbia and adjoins the Olympic-Kelvin Property. The property covers approximately 204 hectares. The Minto property is situated in the Bralorne gold camp, about 160 kilometers, by air, north of Vancouver. The claims occupy the lake bed and north flank of Carpenter Lake. Access from Goldbridge is made via an all-weather gravel road which skirts the north shore of Carpenter Lake.

Gold Bridge itself can be reached from Vancouver via Hope and Lillooet, a distance of 445 kilometers, or via Pemberton using the four-wheel-drive Hurley Pass route, a distance of 225 km.

The terrain is rugged, typical of the eastern margin of the Coast Range Mountains. The claim group ranges in elevation from 650 meters on Carpenter Lake to a maximum of 1020 meters.

The climate of the Bridge River District is transitional between humid coastal belt and more arid interior plateau. Annual precipitation is modest with a significant proportion falling as snow in the winter. Summers tend to be warm to hot depending on the altitude, and winters are moderately cold.

*History.* The claim group has been explored intermittently for over sixty years and several gold-bearing structures are known on the property. Production from the Minto mine between 1934 and 1940 amounted to 88,900 tons of ore returning 17,558 ounces of gold and 50,582 ounces of silver. During 1985, geological, geochemical, and geophysical (VLF-EM) surveys were conducted and trenches were excavated in anomalous areas. In-fill soil geochemistry and further trenching were undertaken in 1987.

A mechanized trenching program was carried out on the Minto Property in June, 2005 to test the Minto North and Jumper Zones. Seven trenches were excavated, sampled, mapped and reclaimed, usually in a one day period. Chip samples from all the trenches returned values from anomalous to economic levels in gold.

In December 2006, the Company announced the results of the 2006 drilling program on the Minto Property. The four diamond core holes were drilled to explore down dip extensions of gold bearing structures originally discovered in trench 827 on the Minto North Zone.

Holes MO-06-01 and 02 were drilled from a site approximately 10 metres west of trench 827. Hole MO-06-03 was drilled from a site approximately 2 metres north and 7 metres east of MO-06-01 and 02. Hole MO-06-04 was drilled from the same set-up.

The gold bearing structures consist of sets of parallel narrow (1-2 mm) fractures containing quartz, carbonate, grey sulphide veinlets. Assay samples from the four holes drilled conveyed from 1.04 grams per ton to 45.4 grams per ton.

The Company has placed a deposit of \$2,500 at January, 2007 (2006: Nil), registered in the name of the Ministry of Finance of British Columbia, as security for estimated future reclamation costs.

*Proposed Work Program.* One hole has been drilled to a depth of approximately 1,647 feet and the assay results are still pending. No further work program has been proposed.

## **Avino Mine**

*Ownership.* The Company owns 88.25% of the issued and outstanding securities of Cia Minera, a company incorporated under the laws of Mexico. Cia Minera owns the Avino Mine. The Company acquired its 49% interest in Cia Minera in 1968 and the additional interest of 39.25% in July 2006. The Company continues to consider its options with relation to the remaining equity interest.

Cia Minera leases four core mineral claims in consideration for royalties. The lessor is currently contesting the underlying royalty agreement and has filed a legal action claiming for royalties owing in the amount of approximately \$3,531,731. Cia Minera has accrued \$755,140 and has paid an additional \$244,000 into trust on account of the royalties owing for past mineral production. The Company has been in discussions with the lessor to settle the accrued liability based on the fact that the mine has not operated since shut down in 2001 and it may not re-open if a settlement is not reached. The Company is also in discussions with the remaining royalty holders.

*Property Description and Location.* The Avino Mine is located approximately 74 kilometers to the northeast of the city of Durango and covers approximately 4,364 hectares. The mine is accessible via road. The Avino Mine had been an open pit operation until March 1993, at which time Cia Minera commenced underground operations. Mineralized rock is broken by ripping, drilling and blasting and is trucked to the concentrator, approximately 415 meters from the pit, where it is processed. The Avino Mine was an underground operation at the time of closure.



*History.* On July 17, 2006, the Company completed the acquisition of an additional 39.25% equity interest on Cia Minera in consideration of the issuance of an aggregate of 3,164,702 common shares of the Company. As a result of this transaction, the Company increased its ownership in Cia Minera to 88.25% of total issued shares. There was no change in the effective control of the Company as a result of this transaction. The Company has also acquired a further 1% interest in Cia Minera through the acquisition from an estate subject to approval and transfer of the shares to the Company by the trustee for the estate.

The Avino Mine operated from 1974 to 2001, producing about 497 tons of silver, three tons of gold, and 11,000 tons of copper until the suspension of mining operations in November 2001. Since that time, the mine plant and equipment have been on care and maintenance and the Company has spent \$515,816 on the care and maintenance of the mine.

The Avino Mine and mill were historically serviced by a heavy equipment repair shop, a mechanical and electrical shop, an assay office, a metallurgical laboratory, a warehouse and other auxiliary facilities. Electric power can be supplied by the government-owned Federal Electricity Commission, referred to as the "FEC" which presently is capable of supplying up to 2500 HP to the Avino Mine and mill. As the mill is expanded, additional power must be obtained from the FEC. In order to obtain the additional electric power, it has been necessary for the FEC in 1983 to construct a new power line approximately 12 miles in length which is capable of supplying an additional 2750 HP, sufficient for the maximum proposed increase in mill capacity.

Water for use at the mill is primarily obtained from: (i) wells; (ii) old underground workings; and (iii) earth dams. In prior years, the water supply has been insufficient to increase the capacity of the mill. In 1989, Cia Minera constructed a dam in hope of storing water for use in the dry season. The dam has a capacity of 1,000,000 cubic meters. Cia Minera had entered into an agreement with the Federal Government of Mexico for the repair and improvement of a government dam located approximately five and one-half kilometers from the mine. The contract provides that the Government and Cia Minera will each contribute 50% of the cost of repairing the dam and raising the height by six meters and to construct a new spillway. The work was substantially completed during 1989, and Cia Minera installed a pipeline system allowing water to flow from the Government dam to the mill. The contract provides that Cia Minera will share the use of the Government dam with local farmers. The local farmers have priority for the use of a specific volume of the water and the

balance is available for use by the mine. The water can be transmitted to the mine by means of five kilometers of pipe which has been installed by Cia Minera. In early 1996, Cia Minera also drilled a well 400 meters in depth on a property owned by Cia Minera, ten kilometers from the mill site. A pipeline has been constructed, and Cia Minera has sufficient water for its own needs. Further, from 1995 to 1998, Mexico experienced a drought. While the drought adversely affected operations in late 1995 until April 1996, Cia Minera believes that the new well will adequately meet its water requirements. In addition, Cia Minera utilizes water conservation practices, such as recirculation of water and capturing rain water in earth dams.

In April 2006, Wardrop Engineering Inc., which we refer to as "Wardrop", completed the study on "Tailings Retreatment Process Options for the Avino Tailings Project in Durango, Mexico", referred to as the "Wardrop Report". The Wardrop Report concluded the oxide tailing is amenable to cyanidation with agglomerated heap leach as the method of choice followed by Merrill Crowe precipitation of the silver and gold. The sulphide tailing would require sampling and further metallurgical test work before a proper assessment can be made.

The preliminary evaluation of the oxide tailings suggested the capital cost for a 500,000 ton per year, 4 year operation is US\$16,200,000 and the cost to operate per ton of tailings is US\$8.64. Capital Costs for a plant twice the size and half the life was US\$22,700,000. The internal rate of return and the net present value favoured the 4 year operation.

The capital cost estimate includes a 25% contingency and it is based on new equipment. A reduction in capital cost can be accomplished with good used equipment.

The disclosure of the implied values is preliminary in nature and includes inferred mineral resources that are considered to be too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary assessment will be realized.

The heap leach process design in the study was based on a column test performed at Process Research Associates Limited from a composite of samples from the lower and middle bench. These samples were collected and documented in the October 2005 report entitled "A Tailings Resource" by Minestart Management Inc. for whom the qualified person was Bryan Slim, MBA, P. Eng. Recovery of silver and gold from the column test was 73% and 78.9% respectively after 81 days.

Mr. Rick Alexander P. Eng., an independent qualified person as defined by applicable Canadian rules has prepared the capital cost estimate and co-coordinated Wardrop's work on the Avino Tailings Project.

In December 2006, the Company announced results of the first 6 diamond core drill holes exploring the Avino silver, gold and copper deposit at its wholly owned property 80 km northeast of Durango, Mexico.

The Company operated the mine from 1976 to 2001 when closure was caused by low silver, gold and copper prices and the local smelter closing for toll processing. The 2006 drill program was designed to test for continuity down dip below the existing workings of the three principal areas of mineralization (San Luis, Elena-Tolosa, and Chirumbo). The Avino vein system strikes principally east west over 1.2 km and dips south at 60 - 70°.

The initial hole CH-06-03 intersected the Avino vein system 180 m below the original Chirumbo workings. The hole intersected both the main Vein/Breccia zone and the footwall breccias as follows:

CH-06-03 Azimuth 340° Dip - 50° length 453.75 m  
Avino Vein 182.8 – 194.8 m, (12 m), 32.61 g/t Ag, 0.29% Cu  
Footwall Breccia 204.8 m – 216.8 m, (12 m), 52.41 g/t Ag, 0.31% Cu

(Down Hole Lengths) True widths are not known.

The four holes ET-06-01, 02, 03, 04 explored the down dip and down plunge, extension of the main ore shoot (Elena-Tolosa) on which most underground mining has occurred in the past. Holes ET-06-01 and ET-06-02 intersected the Avino Vein System approximately 40 m below Level 11 ½ (the last level in production when the mine closed in November 2001). Holes ET-06-03 and ET-06-04 intersected the ore-zone approximately 180 m below Level 11 ½. Results from the four holes were as follows:

(All lengths are down hole) True widths are not known.

- ET-06-01      AZ 340      Dip – 50      Length 431.2 m
  - o Avino Vein 401.25 – 415.90 (14.65 m) 26.33 g/t Ag, 0.29% Cu
  - o (Intersects west of the ET shoot and is below ore grade but it contains 409.80 – 411.85, 2.05 m, 109 g/t Ag, 0.5% Cu
  
- ET-06-02      AZ 340 Dip – 50      Length 416.70 m
  - o Avino Vein 375.80 – 392.80 (17 m) 35.13 g/t Ag, 0.43% Cu
  
- ET-06-03      AZ 340 Dip – 50      Length 421.15 m
  - o Avino Vein 368.25 – 386.65 (18.4 m) 0.18 g/t Au, 90 g/t Ag, 0.8% Cu
  
- ET-06-04      AZ 340 Dip – 50      Length 444.05 m
  - o Avino Vein 318.5 – 339.5 (21 m) 0.24 g/t Au, 89.4 g/t Ag, 1.12% Cu
  - o Includes 318.45 – 321-45 m (3 m) 0.14 g/t Au, 238 g/t Ag, 0.73% Cu

Hole SL-06-01 was drilled below the San Luis workings at the western end of the Avino Vein System. Details were as follows:

- SL-06-01 Azimuth 000 Dip - 90°, Length 219.2 m
  - o Avino Vein 130.90 – 155.95 (25.05 m)
  - o 1.42 g/t Au, 40.1 g/t Ag, 0.31% Cu

Drill core from the holes was assayed by Inspectorate Labs at their facilities in Durango Mexico and Sparks Nevada U.S.A. The assay methods were gold (Au) fire assay with AA finish, silver (Ag) fire assay with gravimetric finish and copper (Cu) by 30 element ICP package. Sampling procedures, chain of custody etc. are compliant with NI 43-101.

To date in 2007, the Company has drilled 42 holes on the Avino Property totaling 8,643 metres. Significant intersections are as follows:

Vein or Structure	Total Depth (m)	From (m)	To (m)	Intersection (m)	Au g/t	Ag g/t	Cu ppm	Pb ppm	Zn ppm
<b>LA ESTELA VEIN</b>									
<b>LE-06-01</b>	200.00	Did not intersect vein structure							
<b>LE-06-02</b>	238.25	215.05	219.1	4.05	0.73	239			
<b>Includes:</b>									
<b>Footwall La Estela Vein</b>		215.05	216.0	0.95	0.869	52.5			
		216.05	217.10	1.05	0.025	9.0			
		217.10	218.10	1.00	0.015	14.8			
		218.10	218.60	0.50	0.052	18.0			
<b>Hangingwall La Estela</b>		218.60	219.10	0.50	3.95	1744.1	9460	24600	5500
<b>LE-06-03</b>	251.85	221.85	223.70	1.85	0.85	80			
<b>Includes</b>		221.85	222.85	1.00	1.37	132.1			
		222.85	223.70	0.85	0.24	18.4			
<b>CERRO SAN JOSE</b> The two drill holes did not intersect the structure.									
<b>SJ-06-01</b>	320.55								
<b>SJ-06-02</b>	373.70								
<b>LOS ANGELES</b>									
<b>LA-07-01</b>	358.90	327.25	329.65	2.40	0.39	119			
<b>Includes</b>					13.64				
		327.25	327.25	0.30	5	711.9	5602	8259	4220
		327.55	328.35	0.80	0.368	5.5	141	1192	1490
		328.35	329.25	0.90	0.044	1.1	29	317	1217
		329.25	329.65	0.40	0.649	168.7	3346	61700	59000
<b>LA-07-02</b>	358.90	100.35	101.35	1.00	0.052	15.5	9	76	356
		101.35	102.35	1.00	0.015	3.3	9	301	644
		102.35	103.35	1.00	0.085	7.2	35	259	849
		103.35	104.35	1.00	0.480	45.5	49	229	487
<b>LA-07-03</b>	185.30	123.30	124.30	1.00	0.130	59.7	135	1994	15800
		127.10	127.75	0.65	0.040	43.1	602	2952	26000
		130.35	131.30	0.95	0.319	59.1	1143	1330	3580
		132.15	132.30	0.15	1.783	71.2	445	64200	60000
<b>LA-07-04</b>	140.40	100.70	107.4	6.7					
		100.70	101.70	1.00	0.404	48.8	48	402	2189
		101.70	102.80	1.10	0.630	>200	555	1277	3660
		102.80	103.80	1.00	0.373	45.3	35	470	589
		103.80	104.75	0.95	0.149	20.9	36	258	403
		104.75	105.80	1.05	3.444	67.9	42	285	589
		105.80	106.80	1.00	0.830	>200	210	2519	7532
		106.80	107.40	0.60	0.329	168.5	78	1103	2762

<b>LA-07-05</b>	115.25	95.80	96.60	0.80	0.093	54.4	1836	806	1300
		99.80	100.15	0.35	0.992	87	103	248	337
		100.55	101.25	0.70	0.418	174.2	304	2563	13500
<b>SANTIAGO STRUCTURE</b>									
<b>ST-07-01</b>	309.05	51.00	51.25	0.25	7.260	37	108	>10000	>10000
		55.45	56.45	1.00	0.040	55.9	9940	1038	402
<b>ST-07-02</b>	200.05	120.80	121.10	0.30	0.09	59.1	2652	14100	37800
<b>SANTA ANA, SAN PEDRO &amp; SAN PAUL: No significant intercepts</b>									
<b>STA-07-01</b>	315.30								
<b>SP&amp;P-07-01</b>	181.25								
<b>NUESTRA SENORA</b>									
<b>NS-07-01</b>	167.10	99.40	99.85	0.45	0.045	258.2	7184	65500	77800
		159.90	161.05	1.15	3.291	53.6	14700	157	661
		161.05	161.95	0.90	1.195	33.8	8469	133	359
<b>NS-07-02</b>	134.05								
<b>NS-07-03</b>	121.35								
HOLES NS-07-02, AND 03 did not intersect the Nuestra Senora Vein (probably due to faulting).									
<b>NS-07-04</b>	101.60	68.90	69.55	0.65	0.115	38.8	1669	2968	1429
		90.55	91.25	0.70	0.02	53.9	225	518	1213
		91.25	91.90	0.65	0.01	22	50	763	1335
		91.90	94.15	2.25	0.04	143			
<b>Includes:</b>		91.90	92.90	1.00	0.03	146	233	829	2262
		92.90	93.40	0.50	0.015	196.5	578	1728	3321
		93.40	94.15	0.75	0.065	103.4	875	>10000	>10000
<b>NS-07-05</b>	124.85	61.05	61.45	0.40	0.195	27.4	126	1115	245
		61.45	62.45	1.00	0.115	19.6	49	1485	600
		62.45	63.15	0.70	0.150	58.9	314	1189	337
<b>GEOPHYSICAL – IP TARGET</b>									
	<b>Depth (m)</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Intersection (m)</b>	<b>Au g/t</b>	<b>Ag g/t</b>	<b>Cu ppm</b>	<b>Pb ppm</b>	<b>Zn ppm</b>
<b>GFA-07-01</b>	360.75	260.30	262.355	2.05					
		260.30	261.20	0.90	0.055	10.6	33	421	1908
		261.20	261.95	0.75	0.030	4.7	14	286	1668
		261.95	262.35	0.40	0.790	209.2	554	751	3657

Sample lengths of the NQ drill core were diamond sawed into halves by mine staff and shipped to Inspectorate Labs in Durango, Mexico, for preparation into pulps and rejects. Pulps were analyzed at Inspectorate Labs in Sparks, Nevada. Gold and silver were analyzed by fire assay using Aqua Regia Leach and AA finish. Other elements are reported from a 29 element I.C.P. package.

Sample lengths of the NQ drill core were diamond sawed into halves by mine staff and shipped to Inspectorate Labs in Durango, Mexico, for preparation into pulps and rejects. Pulps were analyzed at Inspectorate Labs in Sparks, Nevada. Gold and silver were analyzed by fire assay using Aqua Regia Leach and AA finish. Other elements are reported from a 29 element I.C.P. package.

The Company is now focusing on drilling the San Gonzalo vein system in order to establish a drill indicated resource for San Gonzalo. The Company has also recently completed building a new drill core storage facility which will store in excess of 40,000 metres of core.

Subsequent to the year end, the Company announced the results of a seven hole diamond drill program on the San Gonzalo gold, silver, lead, zinc structure situated 2 km northeast of its former producing Avino mine (1976 – 2001).

The San Gonzalo structure strikes northwest/southeast and dips very steeply (85-90°) towards the southwest. The principal intersections are:

Vein or Structure	From (metres)	To (metres)	Down Hole Lengths (m)	Au (g/t)	Ag (g/t)	Pb%	Zn(%)
Hole SG-07-01							
Santiago Vein	147.0	149.7	2.70	1.19	227	> 1%	> 1%
San Gonzalo Vein Hanging Wall Zone	357.3	362.15	4.85	0.64	343.2	0.36%	0.63%
San Gonzalo Vein Foot Wall Zone	372.65	375.05	2.4	2.41	712.4	0.5%	0.13%
Hole SG-07-02							
San Gonzalo Vein Hanging Wall Zone	214.65	219.10	4.45	6.11	583.8	1.4	2.54
San Gonzalo Vein Foot Wall Zone	252.65	256.00	3.35	6.91	21.1	1.55	2.33
Hole SG-07-03							
San Gonzalo Vein	187.45	188.70	1.25	3.57	341	0.6	0.87
Hole SG-07-04							
Santiago Vein	18.55	25.00	6.45	0.21	364	NS	NS
(includes)	20.85	21.9	1.05	0.29	990	0.21	NS
	21.90	22.8	0.90	0.49	433	0.16	NS
Cross Vein	31.00	34.05	3.05	0.18	86	0.17	NS
San Gonzalo HW	248.15	249.25	1.10	0.43	58	0.25	0.26
FW	258.75	259.00	0.25	2.66	114	4.8	4.22
Hole SG-07-05							
Santiago Vein	28.70	31.80	3.10	0.49	201	NS	NS
Includes	31.10	31.80	0.70	1.54	272	NS	NS
Hole SG-07-06							
Santiago Vein	24.80	28.30	3.50	0.40	226	NS	NS
Cross Vein	280.65	280.90	0.25	0.50	2,120	7.82	NS
San Gonzalo Vein	367.35	371.5	3.85	0.10	11	NS	NS
Hole SG-07-07							
San Gonzalo Vein	247.75	250.35	2.60	2.85	351	1.04	0.66

Hole SG-07-08 missed the ore shoot and encountered only low gold and silver values. For holes SG-07-09, 10 and 11 only gold results have been received to date. We will release results when silver and base metal assays are received.

The Company also announced significant intersections from holes SG-07-12 and SG-07-13 as follows:

SG-07-12 (Dip 53 total length 175.45 m)

Down hole intersection length 165.65 -- 169.45 m (3.80 m) 9.5 g/t gold, 655 g/t silver, 574 ppm copper, 2,872 ppm lead, 2503 ppm zinc.

Includes:

<u>From</u>	<u>To</u>	<u>Metres</u>	<u>Au g/t</u>	<u>Ag g/t</u>	<u>Cu ppm</u>	<u>Pb ppm</u>	<u>Zn ppm</u>
165.65	166.40	0.75	22.902	1,609.6	840	2,106	3,692
166.40	167.05	0.65	8.366	898.0	262	974	2,266
167.05	167.75	0.70	13.508	427.6	261	1,188	1,282
167.75	168.55	0.80	1.890	283.6	1,169	9,356	4,652
168.55	169.45	0.90	2.792	194.4	293	427	723

SG-07-13 (Dip 50 total length 160.55)

Down Hole Intersection Lengths 147.45 -- 153.00 m (5.55m)

1.12 g/t gold, 189 g/t silver, 0.28% lead, 0.43% zinc.

Or

149.05 -- 153.00 m (3.59m) 1.39 g/t gold, 230 g/t silver

544 ppm Copper, 3,211 ppm Lead and 4368 Zinc

Includes:

<u>From</u>	<u>To</u>	<u>Metres</u>	<u>Au g/t</u>	<u>Ag g/t</u>	<u>Cu ppm</u>	<u>Pb ppm</u>	<u>Zn ppm</u>
147.45	148.45	1.00	0.550	91.5	3,199	2,205	2,436
148.45	149.05	0.60	0.155	77.9	326	724	7,039
149.05	149.70	0.65	1.209	150.8	192	1,284	1,670
149.70	150.70	1.00	0.778	500.6	264	1,779	3,037
150.70	151.50	0.80	3.153	238.9	1,910	11,000	10,700
151.50	152.20	0.70	0.822	121.3	241	922	4,552
152.20	153.00	0.80	1.057	44.5	91	783	1,730

In September 2006, the Company commissioned an independent plant audit by Herb Osborne and Associates, a widely recognized expert in process plant evaluations, to conduct a full review of the plant, including the condition of all equipment, the capacity of each circuit, and the efficiency of plant. The report was an order of magnitude cost estimate for the processing plant and is not NI 43-101 compliant as it does not include underground development work.

The Avino process plant was built initially in the 1970's refurbished and capacity increased in 1993. Most of the infrastructure is in place for an ongoing 1000 TPD operation. Some of the buildings will require cleanup and repair and refurbishment. The plant was fully permitted but remains in temporary closure. Permits will have to be brought current.

At the time of shutdown in 2001 with low commodity prices the mill was operating at an average rate of 1130 TPD. The concentration ratio (weight) ranged from 2.5 to 3.5% i.e. producing 25-30 TPD of concentrate at a 20-25 g/t Au, 2-4 Kg/t Ag and 22-24% Cu. Prior to shut down the average cost per ton milled was approximately US \$16/ton and about US \$7/ton for freight treatment and refining charges from the smelter. A new mining value cut off grade was determined to be around US \$30/ton. This followed a review of the historical production and financial figures.

The report concluded that the process plant can be brought back into operation in as little as three months contingent upon the availability of operators and mechanics for about US \$1 million for an operating life of 5 to 10 years. A more realistic schedule would be nine months to accommodate the time required to ready the mine for continuous production. The operating life of 5 to 10 years refers to the operating life of the processing plant after the capital expenditures and not the operating life of the mine. The Company has not completed a feasibility study and this should not be perceived as a projection.

The report also concluded that the existing tailings pond is near capacity and that there is adequate space with reasonable gradients adjacent to the existing tailings to construct a new tailings area as well as space for a future heap leach operation on previously disturbed ground. Order of magnitude cost estimate for this tailings facility is based on a starter dam and monitoring devices necessary for a ten year life is a little over US \$2 million.

Total capital expenditure to achieve a 10 year operating plan is therefore estimated to be around US \$3 million and a reasonable valuation of the property as an operating entity is US \$40 million. The valuation of US \$40 million by Herb Osborne and Associates is the construction value for a new 1,000 TPD plant with new equipment and is not a value of the property as an operating entity.

The Company is also considering dewatering the main trackless decline ramp in 2007. This will allow access for development of underground workings and drilling to bring the ore blocks into NI 43-101 compliance.

In December 2006, the Company contracted Peter E. Walcott and Associates to carry out a 80 km line deep penetrating IP Survey at its Avino property in Mexico. IP Geophysics will help identify drill targets for the upcoming year.

The survey explored several areas of Avino's extensive holdings in the district. Of particular interest was the Gap Zone between the former producing mine (1976 – 2001) and the Cerro San Jose area. In addition the area west of the former producing mine will be explored at depth.

*Proposed Work Program.* We are currently completing a preliminary feasibility study for the recovery and processing of the oxide mine tailings deposited between 1974 and 1993. The Wardrop Report recommends perimeter test work on tailings and advance to pre-feasibility study. We are proposing to drill approximately 20 holes at San Gonzalo to a depth of approximately 2,400 meters at a cost of approximately US\$0.6 million and a further 11 holes on the Main ET Vein to a depth of approximately 3,700 meters at a cost of approximately US\$0.5 million.

### **Bralorne Mine Property**

On November 26, 1991, the Company acquired a 100% interest in a property consisting of 154 Crown granted mineral claims, five reverted Crown granted claims, four located mineral claims and two placer leases. These interests are collectively referred to as the "Bralorne Property". Pursuant to an option and joint venture agreement with Bralorne dated July 21, 1993 and amended on July 12, 1994, referred to as the "JV Agreement", Bralorne acquired the right to acquire a 50% interest in the Bralorne Property. We then entered into a further agreement with Bralorne Gold Mines Ltd., referred to as "Bralorne", dated July 21, 1995 under which the original JV Agreement was amended. Under the terms of the amended agreement, Bralorne acquired its 50% interest in the Bralorne Property. The Bralorne Property was then operated as a joint venture between the Company and Bralorne.

Effective June 20, 2002, the Company transferred its interest in the Bralorne Property to Bralorne for a nominal amount of \$1 and the assumption by Bralorne of the full amount of the principal of US\$2,000,000 and interest payable under the mortgage bonds originally issued for a loan obtained by the Company and Bralorne in 1995, the proceeds of which were to be used for further development of the Bralorne Property.

As a result of the disposition of the Bralorne Property, the Company recognized a loss of \$40,097 and removed certain assets and liabilities from proportionate consolidation in 2003.

## **Item 5. Operating and Financial Review and Prospects**

This discussion and analysis of the operating results and the financial position of the Company for the years ended January 31, 2007, 2006 and 2005 should be read in conjunction with the financial statements and the related notes attached hereto (item17).

Our financial statements are prepared in accordance with Canadian GAAP which has several notable differences from US GAAP. Canadian GAAP permits the deferral of acquisition and exploration costs, subject to periodic adjustments for impairment, whereas US GAAP requires that such costs be expensed in the period incurred. Canadian GAAP also requires that investments available for sale be recorded at the lower of cost and market with long-term investments in marketable securities being written down to market when impairment is considered other than temporary, in which case the written down value becomes the new cost base. US GAAP requires investments available for sale to be recorded at market and unrealized holding gains or losses to be charged to comprehensive income or loss. See. Note 20 to the financial statements which sets out a reconciliation between Canadian and US GAAP.

### **A. Operating Results**

#### **Fiscal year ended January 31, 2007 compared to fiscal year ended January 31, 2006**

##### *Operating and administrative expenses*

General and administrative expenses totaled \$4,014,734 for the year ended January 31, 2007 compared with \$1,416,797 for the year ended January 31, 2006, an increase of \$2,597,937. The largest individual expense increase for the period is due to the recognition of stock based compensation for options to employees. The amount charged to operations in the fiscal 2007 year was \$2,860,603 compared to \$725,125 in fiscal 2006, a difference of \$2,135,478. The stock-based compensation is not a cash expense. It is the fair value attributed to the stock options granted in a particular period to employees and directors of the Company based on the Black-Scholes pricing model. In fiscal 2007, there were a higher number of options granted compared to the previous year, thus resulting in a higher stock-based compensation. Once the fair value of the stock options is determined, the amount is charged to operations over the vesting period along with a corresponding value applied to contributed surplus.

The balance of the increase in operation and administrative costs for fiscal 2007 over fiscal 2006 is due to increases in amortization of \$1,697, general exploration of \$106,899, management fees of \$27,000, office and miscellaneous costs of \$26,484, regulatory and compliance fees of \$12,726, salaries and benefits of \$14,284, shareholder and investor relations of \$267,476 and travel and entertainment of \$19,457. The only reduction in operating and administrative expenses in fiscal 2007 was to professional fees for \$13,564. The higher general exploration costs, management fees, office and miscellaneous costs, salaries and benefits and travel and entertainment expenses in fiscal 2007 are due to the same reasons discussed above for the three month period comparison. Regulatory and compliance fees were higher in fiscal 2007 due to the filing fees associated with the \$10 million private placement. In regards to significantly higher shareholder and investor relations costs in fiscal 2007, part of the reason was increased promotional and advertising efforts and investor relations service agreements that did not exist in fiscal 2006. Another reason is that some investor relations service providers received more stock options in fiscal 2007 than fiscal 2006 as per terms of their agreements. As described above for stock-based compensation on options granted to employees and directors, the value of these options are determined in the same manner but instead are charged to shareholder and investor relations as the options become vested. Within the \$464,806 in shareholder and investor relations expenses in fiscal 2007, \$195,600 is for stock based compensation which is not paid in cash. In comparison, in fiscal 2006 the shareholder and investor relations expense included an amount of \$103,981

that was due to stock based compensation, a difference of \$91,619.

#### *Loss for the period*

Loss for the year ended January 31, 2007 was \$3,648,539 compared with a loss of \$2,369,724 for the year ended January 31, 2006, an increase of \$1,278,815. This increase was due to larger operating and administrative expenses discussed above. One factor that reduced the overall loss in fiscal 2007 was an increase of \$384,158 in interest income over fiscal 2006 which partially offset the increase in operating and administrative expenses. Other changes were an increase of \$30,464 in foreign exchange losses in fiscal 2007 over fiscal 2006, and the year ended January 31, 2006 had several other expense items that were either not incurred or were much less in fiscal 2007. These were the write-downs of marketable securities and mineral properties and a significantly higher equity loss in Cia Minera that were noted earlier in the fourth quarter loss comparison.

#### **Fiscal year ended January 31, 2005 compared to fiscal year ended January 31, 2004**

##### *Operating and administrative expenses*

Operating and administrative expenses totaled \$1,416,788 for the year ended January 31, 2006 compared with \$506,010 for the year ended January 31, 2005, an increase of \$910,778. In 2006 there was stock options granted to employees, directors and consultants of the Company which resulted in a stock-based compensation expense of \$829,106 charged to operations compared to \$ 81,540 in the 2005 fiscal year. When stock-based compensation is removed from both periods, the increase in operating and administrative expenses for fiscal 2006 becomes \$163,212. This increase was primarily a result of an increase of \$106,012 in professional fees, office and miscellaneous costs of \$23,455, salary and benefit of \$4,219, shareholder and investor relations of \$34,305 and \$13,269 in travel and entertainment. There was a decrease in regulatory in compliance fees of \$17,773.

Professional fees were extraordinarily high in year ended January 31, 2006 due to legal fees associated with completing SEC form 20-F filing requirements for each year dating back to 2001. As well there were legal fees associated with the Company being listed on the Frankfurt Stock Exchange. Share holder investor relations expense was higher due to the increased amount of distribution of shareholder information. Travel costs were higher due to efforts associated with Cia Minera in Mexico and trips to Europe to attend trade shows and meet with potential investors.

#### *Loss for the period*

The loss for the year ended January 31, 2006 was \$2,369,724 compared with a loss of \$814,710 for the year ended January 31, 2005, an increase of \$1,555,014. Higher operating and administrative expenses in YTD-2006 as discussed above accounted for \$910,778 of the increase. In addition, there were write-downs of \$217,000 in marketable securities and \$103,242 on the Eagle property. Because of less costs concerning the feasibility study in regards to the proposed acquisition of the remaining 51% interest in Cia Minera, due diligence costs went from \$391,899 in fiscal 2005 to \$355,921 in fiscal 2006, a decrease of \$35,978. Due diligence charged to operations during the year ended January 31, 2006 is comprised of \$133,915 for geological and metallurgical services, \$26,054 in professional fees and \$195,952 for advances to Cia de Minera on account of its operations compared to \$128,419 for geological and metallurgical services, \$22,964 in professional fees and \$240,516 for advances to Cia de Minera on account of its operations during the year ended January 31, 2005. Interest income increased from \$41,999 in fiscal 2005 to \$46,073 in fiscal 2006 as approximately \$525,000 more cash was held in guaranteed investment certificates at January 31, 2006 compared to 2005. The difference is also attributed to slightly higher interest rates.

## **B. Liquidity and Capital Resources**

During the year ended January 31, 2007 the Company incurred expenditures that increased its mineral property carrying value on their British Columbian properties by \$51,751 and \$10,225,805 on their Mexican properties. At this time the Company has no operating revenues but did earn interest income of \$430,231 in fiscal 2007 compared to \$46,073 in fiscal 2006.

At January 31, 2007, the Company had working capital of \$9,780,917 and cash and cash equivalents of \$11,045,106. During the fiscal 2007 year, the Company raised gross proceeds of \$10,000,000 through a private placement of 5,000,000 shares at a price of \$2.00 per share. The Company also raised proceeds of \$585,866 from the exercising of 456,700 stock options and \$3,125 from the exercising of 1,250 warrants. The Company is continuing its exploration programs in Mexico and British Columbia and the estimated drilling costs for the following year is \$1,250,000 and \$70,000 respectively. The Company has sufficient cash on hand at this time to finance their planned exploration work on its mineral properties and maintain administrative operations through January 31, 2008.

The Company is in the exploration stage until such time that the Avino mine is opened again. The investment in and expenditures on the mineral property comprise most of the Company's assets along with a lesser asset amount in regards to the Avino mine facilities and equipment. The recoverability of amounts shown for its mineral property interest and related deferred costs and the Company's ability to continue as a going concern is dependent upon the continued support from its directors, the discovery of economically recoverable reserves and the ability of the Company to obtain the financing necessary to complete development and achieve profitable operations in the future. The outcome of these matters cannot be predicted at this time.

Mineral exploration and development is capital extensive, and in order to re-commence operations at Cia Minera, the Company may be required to raise new equity capital in the future. There is no assurance that the Company will be successful in raising additional new equity capital.

The Company feels it has sufficient working capital to meet its current obligations and operating expenses. The Company has sufficient cash on hand at this time to finance planned exploration work on its mineral properties and maintain administrative operations. Mineral development is capital intensive, and in order to re-commence operations at Cia Minera, the Company may be required to raise new equity capital in the future. There is no assurance that the Company will be successful in raising new equity capital.

## **C. Research and Development, Patents and Licenses, etc.**

As the Company is a mineral exploration company with no research and development, the information required by this section is not applicable.

## **D. Trend Information**

As the Company is a mineral exploration company with no currently producing properties, the information required by this section is not applicable.

## **E. Off-balance sheet arrangements**

The Company does not have any off-balance sheet arrangements.

## F. Tabular disclosure of contractual obligations

As at January 31, 2007, the Company had the following contractual obligations:

	<u>Total</u>	<u>&lt; 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Investor Relations	26,613	26,613	-	-	-
Drilling Contract	416,022	416,022	-	-	-
Total	442,635	442,635			

## G. Safe Harbor

Certain statements in this Annual Report, including those appearing under this Item 5, constitute "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act* of 1995, Section 21E of the United States *Securities Exchange Act of 1934*, as amended, and Section 27A of the United States *Securities Act of 1933*, as amended. Additionally, forward-looking statements may be made orally or in press releases, conferences, reports, on our website or otherwise, in the future, by us or on our behalf. Such statements are generally identifiable by the terminology used such as "plans", "expects", "estimates", "budgets", "intends", "anticipates", "believes", "projects", "indicates", "targets", "objective", "could", "may", or other similar words.

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors that may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, among others: market prices for metals; the results of exploration and development drilling and related activities; economic conditions in the countries and provinces in which we carry on business, especially economic slowdown; actions by governmental authorities including increases in taxes, changes in environmental and other regulations, and renegotiations of contracts; political uncertainty, including actions by insurgent groups or other conflict; the negotiation and closing of material contracts; and the other factors discussed in Item 3 Key Information – "Risk Factors", and in other documents that we file with the SEC. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors; our course of action would depend upon our assessment of the future considering all information then available. In that regard, any statements as to future production levels; capital expenditures; the allocation of capital expenditures to exploration and development activities; sources of funding of our capital program; drilling; expenditures and allowances relating to environmental matters; dates by which certain areas will be developed or will come on-stream; expected finding and development costs; future production rates; ultimate recoverability of reserves; dates by which transactions are expected to close; cash flows; uses of cash flows; collectability of receivables; availability of trade credit; expected operating costs; expenditures and allowances relating to environmental matters; debt levels; and changes in any of the foregoing are forward-looking statements, and there can be no assurances that the expectations conveyed by such forward-looking statements will, in fact, be realized.

Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity, achievements or financial condition.

Readers should not place undue reliance on any forward-looking statement and should recognize that the statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described above, as well as others not now anticipated. The foregoing statements are not exclusive and further information concerning us, including factors that could materially affect our financial results, may emerge from time to time. We do not intend to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

The following is a list of the Company's directors and senior management as at July 18, 2007. The directors were re-elected by the Company's shareholders on July 17, 2007 and are elected for a term of one year, which term expires at the election of the directors at the next annual meeting of shareholders.

<u>Name and Present Position with the Company</u>	<u>Principal Occupation</u>	<u>Director/Officer Since</u>
Lloyd Andrews Director/Chairman	Chairman and Director of Berkley Resources Inc., Bralorne Gold Mines Ltd., Coral Gold Resources Ltd.	June 2005 <sup>(1)</sup>
Michael Baybak Director	A Business Consultant.	June 1990
Gary Robertson	Certified Financial Planner, Director of Bralorne Gold Mines Ltd., Coral Gold Resources Ltd., Levon Resources Ltd., Mill Bay Ventures Inc. and Sage Gold Inc.	August 2005 <sup>(2)</sup>
David Wolfin <sup>(3)</sup> Director/President	Director and VP Finance of Berkley Resources Inc., Director and VP Finance of Bralorne Gold Mines Ltd., Director and VP, Finance, of Levon Resources Ltd., President and Director of Coral Gold Resources Ltd. and Gray Rock Resources Ltd. and Director of Mill Bay Ventures Ltd. and Cresval Capital Corp.	October 1995
Louis Wolfin <sup>(3)</sup> Director	Director and Chief Executive Officer of Bralorne Gold Mine Ltd., Coral Gold Resources Ltd. and Levon Resources Ltd. and Director of Cresval Capital Corp.	August 1969
Connie Lillico Secretary	Secretary of Berkley Resources Inc., Bralorne Gold Mines Ltd., Coral Gold Resources Ltd., Gray Rock Resources Ltd., Levon Resources Ltd. and Mill Bay Ventures Inc.; formerly an office administrator and paralegal	July 2004

<sup>(1)</sup> Lloyd Andrews was elected as a director of the Company on June 24, 2005.

<sup>(2)</sup> Director since August 2, 2005.

<sup>(3)</sup> Mr. David Wolfin is the son of Mr. Louis Wolfin.

### B. Compensation

Beginning in the third quarter of the 2007 fiscal year, the independent directors of the Company have been compensated \$750 per quarter by the Company in their capacities as directors. The Chairman of each committee is also paid \$250 per quarter. During the year ended January 31, 2006, the Company paid an aggregate of \$87,000 to Intermark Capital Corp., a private company controlled by David Wolfin, president and director of the Company for management advisory services. The Company paid an aggregate of \$53,837 to ABC Drilling Services Inc., a private company whose common directors include Louis Wolfin and David Wolfin for drilling services, referred to as "ABC Drilling". The Company paid an aggregate of \$84,279 to National Media Associates Inc., referred to as "National Media", a business significantly influenced by

Michael Baybak, a director of the Company for investor relations services. Incentive stock have been granted to non-executive directors and other insiders of the Company and are outstanding to purchase an aggregate of 180,000 common shares at a price of \$1.20 per share exercisable on or before October 21, 2008, of which 138,200 have been exercised, 180,000 shares of the Company at a price of \$1.35 per share exercisable on or before April 5, 2010 and September 26, 2010, of which 7,500 have been exercised and 380,000 shares of the Company at a price of \$3.99 per share exercisable on or before April 26, 2011, none of which have been exercised.

The following table sets forth particulars concerning the compensation paid or accrued for services rendered to the Company in all capacities during each of the last three financial years of the Company to its Chief Executive Officer, Chief Financial Officer and to the other executive officers of the Company who received a combined salary and bonus in excess of \$150,000 (the "Named Executive Officers" during the financial year ended January 31, 2006).

**Summary Compensation Table<sup>(1)</sup>**

Name/Principal Position	Annual Compensation			Long-Term Compensation Awards			
	Year	Salary <sup>(2)</sup> \$	Bonus for the Year \$	Other Annual Compensation \$	Securities Under Options/SARs Granted (#) <sup>(3)</sup>	Restricted Shares/Units Awarded \$	All Other Compensation \$
David Wolfin President and Director	2007	87,000	-	17,500	240,000	-	1,479
	2006	60,000	-	-	100,000	-	1,389
	2005	60,000	-	-	80,000	-	1,082
Louis Wolfin Chief Executive Officer and Director	2007	-	-	-	291,800	-	1,320
	2006	2,000	-	-	228,000	-	1,718
	2005	-	-	-	150,000	-	859

<sup>(1)</sup> Certain columns are omitted because there has been no compensation awarded to, earned by or paid to any of the named executives required to be reported in this table.

<sup>(2)</sup> No employee earned in excess of \$100,000.

<sup>(3)</sup> Represents total common shares under options as of the end of the fiscal year.

During the most recent fiscal year, stock options have been granted to the Named Executive Officers as follows:

Name of Executive Officer	Securities Under Option Granted	% of Total Options Granted to Employees in Financial Year	Executive or base Price (\$/Security)	Market Value of Securities underlying Options on Date of Grant (\$/Security)	Expiration Date
David Wolfin	200,000	20%	\$3.99	\$3.99	April 26, 2011
Louis Wolfin	180,000	18%	\$3.99	\$3.99	April 26, 2011

The Company currently maintains a formal stock option plan, referred to as the "Plan", under which stock options have been granted and may be granted to purchase a number equal to 10% of the Company's issued capital from time to time. To date, stock options to purchase a total of up to 1,451,300 shares have been granted and remain outstanding under the Plan, leaving options for 607,173 available for issuance.

### **Termination of Employment, Changes in Responsibilities and Employment Contracts**

There are no employment contracts between the Company and its executive officers and the Company has no compensatory plan or arrangement with respect to its executive officers in the event of the resignation,

retirement or any other termination of the executive officers' employment with the Company or in the event of a change of control of the Company or in the event of a change in the executive officers' responsibilities following a change in control, where in respect of the executive officers the value of such compensation exceeds \$100,000.

### **C. Board Practices**

The board of directors is currently comprised of five directors. The size and experience of the board is important for providing the Company with effective governance in the mining industry. The board's mandate and responsibilities can be effectively and efficiently administered at its current size. The chairman of the board is not a member of management. The board has functioned, and is of the view that it can continue to function, independently of management as required. At the Annual General Meeting, held on July 17, 2007, the shareholders elected Messrs. Andrews, Baybak, Robertson, Wolfin and Wolfin as directors.

The board has considered the relationship of each director to the Company and currently considers three of the five directors to be "unrelated" (Messrs. Andrews, Baybak and Robertson). "Unrelated director" means a director who is independent of management and free from any interest and any business or other relationship which could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interest of the Company, other than interests and relationships arising solely from shareholdings.

Two of the directors (Messrs. Wolfin and Wolfin) are related family members.

Procedures are in place to allow the board to function independently. At the present time the board has experienced directors that have made a significant contribution to the Company's success, and are satisfied that it is not constrained in its access to information, in its deliberations or in its ability to satisfy the mandate established by law to supervise the business and affairs of the Company. Committees meet independent of management and other directors.

### **Mandate of the Board of Directors, its Committees and Management**

The role of the board is to oversee the conduct of the Company's business, including the supervision of management, and determining the Company's strategy. Management is responsible for the Company's day to day operations, including proposing its strategic direction and presenting budgets and business plans to the board of directors for consideration and approval. The strategic plan takes into account, among other things, the opportunities and risks of the Company's business. Management provides the board with periodic assessments as to those risks and the implementation of the Company's systems to manage those risks. The board reviews the personnel needs of the Company from time to time, having particular regard to succession issues relating to senior management. Management is responsible for the training and development of personnel. The board assesses how effectively the Company communicates with shareholders, but has not adopted a formal communications policy. Through the audit committee, and in conjunction with its auditors, the board assesses the adequacy of the Company's internal control and management information systems. The board looks to management to keep it informed of all significant developments relating to or effecting the Company's operations. Major financings, acquisitions, dispositions and investments are subject to board approval. A formal mandate for the board of directors and the chief executive officer has not been considered necessary since the relative allocation of responsibility is well understood by both management and the board. The board meets as required. The board and committees may take action at these meetings or at a meeting by conference call or by written consent.

## **Committees**

### *Audit Committee*

The audit committee assists the board in its oversight of the Company's financial statements and other related public disclosures, the Company's compliance with legal and regulatory requirements relating to financial reporting, the external auditors, qualifications and independence and the performance of the internal audit function and the external auditors. The committee has direct communications channels with the Company's auditors. The committee reviews the Company's financial statements and related management's discussion and analysis of financial and operating results. The committee can retain legal, accounting or other advisors.

The audit committee currently consists of three directors (Messrs. David Wolfin, Lloyd Andrews and Gary Robertson). Two of the members are unrelated and all of whom are financially literate, and have accounting or related financial expertise. "Financially literate" means the ability to read and understand a balance sheet, an income statement, and a cash flow statement. "Accounting or related financial expertise" means the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with Canadian GAAP.

The board has adopted a charter for the audit committee which is reviewed annually and sets out the role and oversight responsibilities of the audit committee with respect to:

- its relationship with and expectation of the external auditors, including the establishment of the independence of the external auditor and the approval of any non-audit mandates of the external auditor;
- determination of which non-audit services the external auditor is prohibited from providing;
- the engagement, evaluation, remuneration, and termination of the external auditors;
- appropriate funding for the payment of the auditor's compensation and for any advisors retained by the audit committee;
- its relationship with and expectation of the internal auditor;
- its oversight of internal control;
- disclosure of financial and related information; and
- any other matter that the audit committee feels is important to its mandate or that which the board chooses to delegate to it.

### *Compensation Committee*

The compensation committee recommends to the board of directors the compensation of the Company's directors and the Chief Executive Officer which the compensation committee feels is suitable. Its recommendations are reached primarily by comparison of the remuneration paid by the Company with publicly available information on remuneration paid by other reporting issuers that the compensation committee feels are similarly placed within the same business of the Company.

The compensation committee consists of two unrelated directors (Messrs. Robertson and Andrews) and one related director (Mr. D. Wolfin). It is intended that the compensation committee will eventually be comprised of solely unrelated directors.

## *Corporate Governance Committee*

The corporate governance committee assists the board in establishing the Company's corporate governance policies and practices generally, identifying individuals qualified to become members of the board, reviewing the composition and functioning of the board and its committees and making recommendations to the board of directors as appropriate. When considering nominees to the board the committee's mandate requires that it consider the current composition of the board and give consideration to candidates having experience in the industry, life experience and background. The committee is also responsible for the Company's corporate governance guidelines. The committee may retain legal or other advisors.

The corporate governance committee currently consists of three directors (Messrs. Lloyd Andrews, Gary Robertson and Louis Wolfin). Messrs. Andrews and Robertson are unrelated directors. It is intended that this committee will eventually be comprised solely of unrelated and independent directors.

### **D. Employees**

The Company has one employee located in Mexico.

### **E. Share Ownership**

The following table sets forth the share ownership of the directors and officers of the Company as of July 10, 2007.

<u>Name of Beneficial Owner</u>	<u>Number of Shares</u>	<u>Percent</u>
Lloyd Andrews	2,500	*
Michael Bayback	2,400	*
Gary Robertson	20,000	*
David Wolfin	61,184	*
Louis Wolfin	4,345	*
Connie Lillico	2,500	*

\* Less than one percent

### *Outstanding Options*

The following information, as of July 10, 2007, reflects outstanding options held by the Named Executive Officers:

	<u>No. of Shares</u>	<u>Date of Grant</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
Louis Wolfin	11,800	October 21, 2003	\$1.20	October 23, 2008
David Wolfin	40,000	April 5, 2005	\$1.35	April 5, 2010
Louis Wolfin	100,000	April 5, 2005	\$1.35	April 5, 2010
David Wolfin	200,000	April 26, 2006	\$3.99	April 26, 2011
Louis Wolfin	180,000	April 26, 2006	\$3.99	April 26, 2011

## **Item 7. Major Shareholders and Related Party Transactions**

### **A. Major Shareholders**

As far as it is known to the Company, it is not directly or indirectly owned or controlled by any other corporation or by the Canadian Government, or any foreign government, or by any other natural or legal person.

As of July 11, 2007 the Company knew of no person who owned more than five (5%) percent of the outstanding shares of each class of the Company's voting securities.

### **B. Related Party Transactions**

During the twelve months ended January 31, 2007, the Company paid, or made provision for the future payment, of the following amounts to related parties:

- i) \$119,857 (2006 - \$163,328; 2005 - \$124,146) for administrative services and expenses to Oniva International Services Corp, referred to as "Oniva International", a private company that is 16.67% owned by the Company and with the remaining 83.33% shared equally between five other companies that are related by common directors and management;
- ii) \$87,000 (2006 - \$60,000; 2005 - \$60,000) to a private company controlled by the President for management fees;
- iii) \$30,000 (2006 - \$30,000; 2005 - \$12,500) to a private company controlled by a Director of a related company for consulting fees;
- iv) \$84,279 (2006 - \$Nil; 2005 - \$Nil) for investor relations services to National Media, a business significantly influenced by a Director of the Company.
- v) The Company paid or accrued \$53,837 (2006 - \$146,092; 2005 - \$Nil) to ABC Drilling, a private company that is a 100% owned subsidiary of Oniva International for drilling services and \$6,854 (2006 - \$20,433; 2005 - \$Nil) to Bralorne, a public company with common directors and management, for exploration services.

There is an amount due from a related party of \$64,933 (2006 - \$83,000) from ABC Drilling. The amount due is non-interest bearing, unsecured and has no stated terms of repayment. The Company had also paid an exploration advance of \$39,000 in a prior period of which the entire amount has been applied to drilling services performed during the current period.

Amounts due to related parties consist of \$105 (2006 - \$16,710) due to a private company controlled by a Director of the Company, \$7,500 (2006 - \$Nil) due to a directors and \$133,919 (2006 - \$161,563) due to Oniva.

### **C. Interests of Experts and Counsel**

Not Applicable.

## Item 8. Financial Information

### A. Statements and Other Financial Information

The following financial statements of the Company are attached to this Annual Report:

Auditors Report.

Balance Sheet for years ended January 31, 2007 and 2006.

Statement of Operations and Deficit for the years ended January 31, 2007, 2006 and 2005.

Statement of Cash flows for the years ended January 31, 2007, 2006, and 2005.

Notes to Financial Statements for the years ended January 31, 2007, 2006, and 2005.

### Dividend Policy

The Company has never paid any dividends and does not intend to in the near future.

### B. Significant Changes

None.

## Item 9. The Offer and Listing

### A. Offer and Listing Details

The common shares of the Company are listed on the TSX-V under the symbol "ASM", on the FSE under the symbol "GV6" and quoted in the United States on the OTC BB, under the symbol "ASGMF".

As of July 6, 2007, there were 706 holders of record in the United States holding 68.88% of the Company's outstanding common shares representing approximately 23.43% of the total shareholders. The Company's common shares are issued in registered form and the percentage of shares reported to be held by record holders in the United States is taken from the records of the Pacific Corporate Trust Company in the City of Vancouver, the registrar and transfer agent for the common shares.

The following sets forth the high and low prices expressed in Canadian Dollars on the TSX-V for the Company's common shares for the past five years, for each quarter for the last two fiscal years, and for the last six months.

<b>Last Six Months</b>	<b>TSX-V (Canadian Dollars)</b>	
	<b>High</b>	<b>Low</b>
June 2007	2.00	1.69
May 2007	2.24	1.90
April 2007	2.75	2.05
March 2007	2.33	2.00
February 2007	2.44	1.83
January 2007	2.23	1.85
<b>2006-2007</b>	<b>High</b>	<b>Low</b>
Fourth Quarter ended January 31, 2007	2.66	1.80
Third Quarter ended October 31, 2006	2.45	1.50
Second Quarter ended July 31, 2006	4.48	1.70
First Quarter ended April 30, 2006	4.35	2.00

<b>2006-2005</b>	<b>TSX-V (Canadian Dollars)</b>	
	<b>High</b>	<b>Low</b>
Fourth Quarter ended January 31, 2006	2.29	1.38
Third Quarter ended October 31, 2005	1.57	1.20
Second Quarter ended July 31, 2005	1.66	1.11
First Quarter ended April 30, 2005	1.99	1.18
<b>Last Five Fiscal Years</b>	<b>High</b>	<b>Low</b>
2007	4.48	1.50
2006	2.29	1.11
2005	2.50	1.00
2004	3.00	0.33
2003	1.74	0.32

**B. Plan of Distribution**

Not Applicable.

**C. Markets**

The common shares of the Company are listed on the TSX-V under the symbol "ASM", on the FSE under the symbol "GV6" and quoted in the United States on the OTC BB, under the symbol "ASGMF".

**D. Selling Shareholders**

Not Applicable.

**E. Dilution**

Not Applicable.

**F. Expenses of the Issue**

Not Applicable.

**Item 10. Additional Information**

**A. Share Capital**

Not Applicable.

**B. Memorandum and Articles of Association**

**Common Shares**

All issued and outstanding common shares are fully paid and non-assessable. Each holder of record of common shares is entitled to one vote for each common share so held on all matters requiring a vote of shareholders, including the election of directors. The holders of common shares will be entitled to dividends on a pro-rata basis, if and when as declared by the board of directors. There are no preferences, conversion rights, preemptive rights, subscription rights, or restrictions or transfers attached to the common shares. In the

event of liquidation, dissolution, or winding up of the Company, the holders of common shares are entitled to participate in the assets of the Company available for distribution after satisfaction of the claims of creditors.

### **Powers and Duties of Directors**

The directors shall manage or supervise the management of the affairs and business of the Company and shall have authority to exercise all such powers of the Company as are not, by the British Columbia *Business Corporations Act* or by the Memorandum or the Articles, required to be exercised by the Company in a general meeting.

Directors will serve as such until the next annual meeting. In general, a director who is, in any way, directly or indirectly interested in an existing or proposed contract or transaction with the Company whereby a duty or interest might be created to conflict with his duty or interest as a director, shall declare the nature and extent of his interest in such contract or transaction or the conflict or potential conflict with his duty and interest as a director. Such director shall not vote in respect of any such contract or transaction with the Company in which he is interested and if he shall do so, his vote shall not be counted, but he shall be counted in the quorum present at the meeting at which such vote is taken. However, notwithstanding the foregoing, directors shall have the right to vote on determining the remuneration of the directors.

The directors may from time to time on behalf of the Company: (a) borrow money in such manner and amount from such sources and upon such terms and conditions as they think fit; (b) issue bonds, debentures and other debt obligations; and (c) mortgage, charge or give other security on the whole or any part of the property and assets of the Company.

The directors of the Company must be persons of the full age of 18 years. There is no minimum share ownership to be a Director. No person shall be a Director of the Company who is not capable of managing their own affairs; is an undischarged bankrupt; convicted of an offense in connection with the promotion, formation or management of a corporation or involved in fraud within the last five years; or a person that has had a registration in any capacity under the British Columbia *Securities Act* or the British Columbia *Mortgage Brokers Act* canceled within the last five years.

### **Shareholders**

An annual general meeting shall be held once in every calendar year at such time and place as may be determined by the directors. A quorum at an annual general meeting and special meeting shall be two shareholders or one or more proxy holders representing two shareholders, or one shareholder and a proxy holder representing another shareholder. There is no limitation imposed by the laws of Canada or by the charter or other constituent documents of the Company on the right of a non-resident to hold or vote the common shares, other than as provided in the *Investment Canada Act*, referred to as the "Investment Act", discussed below under "Item 10. Additional Information, D. Exchange Controls."

In accordance with British Columbia law, directors shall be elected by an "ordinary resolution" which means: (a) a resolution passed by the shareholders of the Company at a general meeting by a simple majority of the votes cast in person or by proxy; or (b) a resolution that has been submitted to the shareholders of the Company who would have been entitled to vote on it in person or by proxy at a general meeting of the Company and that has been consented to in writing by such shareholders of the Company holding shares carrying not less than the requisite majority of the votes entitled to be cast on it.

Under British Columbia law certain items such as an amendment to the Company's articles or entering into a merger requires approval by a special resolution which means: (a) a resolution passed by a majority of not less than the requisite majority of the votes cast by the shareholders of the Company who, being entitled to do so, vote in person or by proxy at a general meeting of the company; or (b) a resolution consented to in writing by every shareholder of the Company who would have been entitled to vote in person or by proxy at a

general meeting of the Company, and a resolution so consented to is deemed to be a special resolution passed at a general meeting of the Company.

### **C. Material Contracts**

The Company entered into a share exchange agreement dated for reference the 9<sup>th</sup> day of June, 2004 with Pedro Sanchez Mejorada, Fernando Ysita Del Hoyo, Francisco Ysita del Hoyo, Bernardo Ysita del Hoyo, Carlos Ysita del Hoyo, Manuel Ysita del Hoyo, Eduardo Ysita del Hoyo, Mercedes Ysita del Hoyo, Cia Minera and Promotora in connection with the acquisition of the remaining 51% interest in Cia Minera. The consideration to be paid by the Company for the 51% interest consists of four million common shares of the Company. This agreement was subject to a number of conditions including a satisfactory due diligence review and final regulatory approval. The TSX-V approved the agreement on October 18, 2005 and the acquisition of an additional 39.25% interest in Cia Minera was completed on July 17, 2006 for consideration of 3,164,702 common shares of the Company. The Company now owns 88.25% of the total issued shares of Cia Minera and continues to consider its options with relation to the balance of the interest.

The Company entered into a cost sharing agreement dated October 1, 1997, and amended November 1, 2003 to reimburse Oniva International for a variable percentage of its overhead expenses, to reimburse 100% of its out-of-pocket expenses incurred on behalf of the company, and to pay a percentage fee based on the total overhead and corporate expenses. The agreement may be terminated with one-month notice by either party.

The Company entered into a 12 month agreement in with National Media to provide financial relations, media relations and public market development services. The Company has agreed to pay National Media US\$6,000 per month, and the contract can be terminated after September 15, 2006 upon 30 days' notice by the Company. The agreement with National Media expired on March 15, 2007, and the Company's commitment under the agreement as at January 31, 2007 totaled \$10,613 (US\$9,000).

The Company entered into a 12 month Investor Relations Agreement with Investor Relations Group Inc., formerly called Investors Relations Services Group John Mullen & Partners, referred to as "IRS", to provide investor relations services in Europe. In consideration for the services rendered, the Company has agreed to pay IRS fees of \$2,000 per month plus expenses. The agreement with IRS expires on October 5, 2007, and the Company's commitment under the agreement as at January 31, 2007 totaled \$16,000.

The Company has a contractual minimum drilling commitment for the exploration of its mineral properties in Durango, Mexico. As at January 31, 2007 the Company is committed to drilling services at an estimated cost of \$416,022, which is denominated in U.S. dollars (US\$352,800). Management has determined that the Company's exploration in fiscal 2008 will likely exceed the minimum commitment, and thus the minimum drilling cost will be paid in fiscal 2008.

Please refer to note 19 of the financial statements included elsewhere in this Annual Report (Item 17) for further disclosure regarding material commitments.

### **D. Exchange Controls**

Canada has no system of exchange controls. There are no Canadian restrictions on the repatriation of capital or earnings of a Canadian public company to non-resident investors. There are no laws in Canada or exchange restrictions affecting the remittance of dividends, profits, interest, royalties and other payments to non-resident holders of the Issuer's securities, except as discussed in "10.E. Taxation" below.

There are no limitations under the laws of Canada or in the organizing documents of the Company on the right of foreigners to hold or vote securities of the Company, except that the Investment Canada Act may require review and approval by the Minister of Industry (Canada) of certain acquisitions of "control" of the

Company by a “*non-Canadian*”. The threshold for acquisitions of control is generally defined as being one-third or more of the voting shares of the Company. “*Non-Canadian*” generally means an individual who is not a Canadian citizen, or a corporation, partnership, trust or joint venture that is ultimately controlled by non-Canadians.

## **E. Taxation**

### **Canadian Federal Income Tax Consequences**

The following summarizes the principal Canadian federal income tax consequences applicable to the holding and disposition of common shares in the capital of the Company by a United States resident, and who holds common shares solely as capital property, referred to as a “U.S. Holder”. This summary is based on the current provisions of the *Income Tax Act* (Canada), referred to as the “Tax Act”, the regulations thereunder, all amendments thereto publicly proposed by the government of Canada, the published administrative practices of Revenue Canada, Customs, Excise and Taxation, and the current provisions of the *Canada-United States Income Tax Convention, 1980*, as amended, referred to as the “Treaty”. Except as otherwise expressly provided, this summary does not take into account any provincial, territorial or foreign (including without limitation, any United States) tax law or treaty. It has been assumed that all currently proposed amendments will be enacted substantially as proposed and that there is no other relevant change in any governing law or practice, although no assurance can be given in these respects.

**Each U.S. Holder is advised to obtain tax and legal advice applicable to such U.S. Holder's particular circumstances.**

Every U.S. Holder is liable to pay a Canadian withholding tax on every dividend that is or is deemed to be paid or credited to the U.S. Holder on the U.S. Holder's common shares. The statutory rate of withholding tax is 25% of the gross amount of the dividend paid. The Treaty reduces the statutory rate with respect to dividends paid to a U.S. Holder for the purposes of the Treaty. Where applicable, the general rate of withholding tax under the Treaty is 15% of the gross amount of the dividend, but if the U.S. Holder is a company that owns at least 10% of the voting stock of the Company and beneficially owns the dividend, the rate of withholding tax is 5% for dividends paid or credited after 1996 to such corporate U.S. Holder. The Company is required to withhold the applicable tax from the dividend payable to the U.S. Holder, and to remit the tax to the Receiver General of Canada for the account of the U. S. Holder.

Pursuant to the Tax Act, a U.S. Holder will not be subject to Canadian capital gains tax on any capital gain realized on an actual or deemed disposition of a common share, including a deemed disposition on death, provided that the U.S. Holder did not hold the common share as capital property used in carrying on a business in Canada, and that neither the U.S. Holder nor persons with whom the U.S. Holder did not deal at arms length (alone or together) owned or had the right or an option to acquire 25% or more of the issued shares of any class of the Company at any time in the five years immediately preceding the disposition.

### **United States Federal Income Tax Consequences**

#### *Passive Foreign Investment Company*

The Company believes that it is a passive foreign investment company, referred to as a “PFIC” for United States federal income tax purposes with respect to a United States Investor. The Company will be a PFIC with respect to a United States Investor if, for any taxable year in which such United States Investor held the Company's shares, either (i) at least 75 % of the gross income of the Company for the taxable year is passive income, or (ii) at least 50% of the Company's assets are attributable to assets that produce or are held for the production of passive income. In each case, the Company must take into account a pro-rata share of the income and the assets of any company in which the Company owns, directly or indirectly, 25% or more of the stock by value (the “look-through” rules). Passive income generally includes dividends, interest, royalties,

rents (other than rents and royalties derived from the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income. As a publicly traded corporation, the Company would apply the 50% asset test based on the value of the Company's assets.

Because the Company believes it qualifies as a PFIC, unless a United States Investor who owns shares in the Company (i) elects (a section 1295 election) to have the Company treated as a "qualified electing fund", referred to as a "QEF" (described below), or (ii) marks the stock to market (described below), the following rules apply:

1. Distributions made by the Company during a taxable year to a United States Investor who owns shares in the Company that are an "excess distribution" (defined generally as the excess of the amount received with respect to the shares in any taxable year over 125% of the average received in the shorter of either the three previous years or such United States Investor's holding period before the taxable year) must be allocated ratably to each day of such shareholder's holding period. The amount allocated to the current taxable year and to years when the corporation was not a PFIC must be included as ordinary income in the shareholder's gross income for the year of distribution. The remainder is not included in gross income but the shareholder must pay a deferred tax on that portion. The deferred tax amount, in general, is the amount of tax that would have been owed if the allocated amount had been included in income in the earlier year, plus interest. The interest charge is at the rate applicable to deficiencies in income taxes.
2. The entire amount of any gain realized upon the sale or other disposition of the shares will be treated as an excess distribution made in the year of sale or other disposition and as a consequence will be treated as ordinary income and, to the extent allocated to years prior to the year of sale or disposition, will be subject to the interest charge described above.

A shareholder that makes a section 1295 election will be currently taxable on his or her pro-rata share of the Company's ordinary earnings and net capital gain (at ordinary income and capital gain rates, respectively) for each taxable year of the Company, regardless of whether or not distributions were received. The shareholder's basis in his or her shares will be increased to reflect taxed but undistributed income. Distributions of income that had previously been taxed will result in a corresponding reduction of basis in the shares and will not be taxed again as a distribution to the shareholder.

A shareholder may make a section 1295 election with respect to a PFIC for any taxable year of the shareholder (shareholder's election year). A section 1295 election is effective for the shareholder's election year and all subsequent taxable years of the shareholder. Procedures exist for both retroactive elections and filing of protective statements. Once a section 1295 election is made it remains in effect, although not applicable, during those years that the Company is not a PFIC. Therefore, if the Company re-qualifies as a PFIC, the section 1295 election previously made is still valid and the shareholder is required to satisfy the requirements of that election. Once a shareholder makes a section 1295 election, the shareholder may revoke the election only with the consent of the Commissioner.

If the shareholder makes the section 1295 election for the first tax year of the Company as a PFIC that is included in the shareholder's holding period, the PFIC qualifies as a pedigreed QEF with respect to the shareholder. If a QEF is an unpedigreed QEF with respect to the shareholder, the shareholder is subject to both the non-QEF and QEF regimes. Certain elections are available which enable shareholders to convert an unpedigreed QEF into a pedigreed QEF thereby avoiding such dual application.

A shareholder making the section 1295 election must make the election on or before the due date, as extended, for filing the shareholder's income tax return for the first taxable year to which the election will apply. A shareholder must make a section 1295 election by completing Form 8621, attaching said Form to its federal income tax return, and reflecting in the Form the information provided in the PFIC Annual

Information Statement, or if the shareholder calculated the financial information, a statement to that effect. The PFIC Annual Information Statement must include the shareholder's pro-rata shares of the ordinary earnings and net capital gain of the PFIC for the PFIC's taxable year or information that will enable the shareholder to calculate its pro-rata shares. In addition, the PFIC Annual Information Statement must contain information about distributions to shareholders and a statement that the PFIC will permit the shareholder to inspect and copy its permanent books of account, records, and other documents of the PFIC necessary to determine that the ordinary earnings and net capital gain of the PFIC have been calculated according to federal income tax accounting principles. A shareholder may also obtain the books, records and other documents of the foreign corporation necessary for the shareholder to determine the correct earnings and profits and net capital gain of the PFIC according to federal income tax principles and calculate the shareholder's pro-rata shares of the PFIC's ordinary earnings and net capital gain. In that case, the PFIC must include a statement in its PFIC Annual Information Statement that it has permitted the shareholder to examine the PFIC's books of account, records, and other documents necessary for the shareholder to calculate the amounts of ordinary earnings and net capital gain. A shareholder that makes a Section 1295 election with respect to a PFIC held directly or indirectly for each taxable year to which the Section 1295 election applies must comply with the foregoing submissions.

Because the Company's stock is "marketable" under section 1296(e), a United States Investor may elect to mark the stock to market each year. In general, a PFIC shareholder who elects under section 1296 to mark the marketable stock of a PFIC includes in income each year an amount equal to the excess, if any, of the fair market value of the PFIC stock as of the close of the taxable year over the shareholder's adjusted basis in such stock. A shareholder is also generally allowed a deduction for the excess, if any, of the adjusted basis of the PFIC stock over the fair market value as of the close of the taxable year. Deductions under this rule, however, are allowable only to the extent of any net mark to market gains with respect to the stock included by the shareholder for prior taxable years. While the interest charge regime under the PFIC rules generally does not apply to distributions from and dispositions of stock of a PFIC where the United States Investor has marked to market, coordination rules for limited application will apply in the case of a United States Investor that marks to market PFIC stock later than the beginning of the shareholder's holding period for the PFIC stock.

Special rules apply with respect to the calculation of the amount of the foreign tax credit with respect to excess distributions by a PFIC or inclusions under a QEF.

### *Controlled Foreign Corporations*

Sections 951 through 964 and Section 1248 of the *Internal Revenue Code*, referred to as the "Code", relate to controlled foreign corporations, referred to as "CFCs". A foreign corporation that qualifies as a CFC will not be treated as a PFIC with respect to a shareholder during the portion of the shareholder's holding period after December 31, 1997, during which the shareholder is a 10% United States shareholder and the corporation is a CFC. The PFIC provisions continue to apply in the case of a PFIC that is also a CFC with respect to shareholders that are less than 10% United States shareholders.

The 10% United States shareholders of a CFC are subject to current United States tax on their pro-rata shares of certain income of the CFC and their pro-rata shares of the CFC's earnings invested in certain United States property. The effect is that the CFC provisions may impute some portion of such a corporation's undistributed income to certain shareholders on a current basis and convert into dividend income some portion of gains on dispositions of stock, which would otherwise qualify for capital gains treatment.

The Company does not believe that it will be a CFC. It is possible that the Company could become a CFC in the future. Even if the Company were classified as a CFC in a future year, however, the CFC rules referred to above would apply only with respect to 10% shareholders.

### *Personal Holding Company/Foreign Personal Holding Company/Foreign Investment Company*

A corporation will be classified as a personal holding company, or a "PHC", if at any time during the last half of a tax year (i) five or fewer individuals (without regard to their citizenship or residence) directly or indirectly or by attribution own more than 50% in value of the corporation's stock and (ii) at least 60% of its ordinary gross income, as specially adjusted, consists of personal holding company income (defined generally to include dividends, interest, royalties, rents and certain other types of passive income). A PHC is subject to a United States federal income tax of 39.6% on its undistributed personal holding company income (generally limited, in the case of a foreign corporation, to United States source income).

A corporation will be classified as a foreign personal holding company, or an "FPHC", and not a PHC if at any time during a tax year (i) five or fewer individual United States citizens or residents directly or indirectly or by attribution own more than 50% of the total combined voting power or value of the corporation's stock and (ii) at least 60% of its gross income consists of foreign personal holding company income (defined generally to include dividends, interest, royalties, rents and certain other types of passive income). Each United States shareholder in a FPHC is required to include in gross income, as a dividend, an allocable share of the FPHC's undistributed foreign personal holding company income (generally the taxable income of the FPHC, as specially adjusted).

A corporation will be classified as a foreign investment company, or an "FIC", if for any taxable year it: (i) is registered under the Investment Company Act of 1940, as amended, as a management company or share investment trust or is engaged primarily in the business of investing or trading in securities or commodities (or any interest therein); and (ii) 50% or more of the value or the total combined voting power of all the corporation's stock is owned directly or indirectly (including stock owned through the application of attribution rules) by United States persons. In general, unless an FIC elects to distribute 90% or more of its taxable income (determined under United States tax principles as specially adjusted) to its shareholders, gain on the sale or exchange of FIC stock is treated as ordinary income (rather than capital gain) to the extent of such shareholder's ratable share of the corporation's earnings and profits for the period during which such stock was held.

The Company believes that it is not and will not be a PHC, FPHC or FIC. However, no assurance can be given as to the Company's future status.

#### *United States Information Reporting and Backup Withholding*

Dividends are generally subject to the information reporting requirements of the Code. Dividends may be subject to backup withholding at the rate of 31% unless the holder provides a taxpayer identification number on a properly completed Form W-9 or otherwise establishes an exemption.

The amount of any backup withholding will not constitute additional tax and will be allowed as a credit against the United States Investor's federal income tax liability.

#### *Filing of Information Returns*

Under a number of circumstances, a United States Investor acquiring shares of the Company may be required to file an information return. In particular, any United States Investor who becomes the owner, directly or indirectly, of 10% or more of the shares of the Company will be required to file such a return. Other filing requirements may apply and United States Investors should consult their own tax advisors concerning these requirements.

#### **F. Dividends and Paying Agents**

Not Applicable.

#### **G. Statement by Experts**

Not Applicable.

#### **H. Documents on Display**

The Company files annual reports and furnishes other information with the SEC. You may read and copy any document that we file at the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 or by accessing the Commission's website (<http://www.sec.gov>). The Company also files its annual reports and other information with the Canadian Securities Administrators via SEDAR ([www.sedar.com](http://www.sedar.com)).

Copies of the Company's material contracts are kept in the Company's administrative headquarters.

#### **I. Subsidiary Information**

None.

#### **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

Not Applicable.

#### **Item 12. Description of Securities Other than Equity Securities**

Not Applicable.

### **Part II**

#### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

#### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

#### **Item 15. Controls and Procedures**

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company assessed the design of the internal controls over financial reporting as at January 31, 2007 and concluded that there are material weaknesses in internal controls over financial reporting, which are as follows:

- a) Due to the limited number of staff resources, the Company believes there are instances where a lack of segregation of duties exist to provide effective controls; and
- b) The Company is evaluating the effectiveness of its staff resources, as currently the Company seeks outside guidance to address complex accounting and tax issues that arise.

The weaknesses and their related risks are not uncommon in a company the size of Avino because of limitations in size and number of staff. The Company believes it has taken initial steps to mitigate these risks by consulting outside advisors and involving the Audit Committee and Board of Directors in reviews and consultations where necessary. However, these weaknesses in internal controls over financial reporting could result in a more than remote likelihood that a material misstatement would not be prevented or detected. The

Company believes that it must take additional steps to further mitigate these risks by consulting outside advisors on a more regular and timely basis.

There have been no changes in the Company's internal controls over financial reporting that occurred during the quarter ended January 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

#### **Item 16A. Audit Committee Financial Expert**

The board of directors determined that Mr. Gary Robertson is qualified as an Audit Committee Financial Expert. Mr. Robertson is independent as determined by the National Association of Securities Dealers listing standards.

#### **Item 16B. Code of Ethics**

The Company has not currently adopted a code of ethics but is evaluating its internal procedures to determine the necessity of same. In the event that it is determined a code of ethics is necessary, an appropriate code will be implemented.

#### **Item 16C. Principal Accountant Fees and Services**

The independent auditor for the last fiscal year was Manning Elliot LLP. For the fiscal years ending January 31, 2006 and 2005 the independent auditor was Vellmer & Chang, Chartered Accountants (formerly Hoogendoorn Vellmer, Chartered Accountants).

##### **Audit Fees**

The aggregate fees billed by Manning Elliot LLP for professional services rendered for the audit of the Company's annual financial statements for the fiscal year ended January 31, 2007 was \$101,800. The aggregate fees billed by Vellmer & Chang for professional services rendered for the audit of the Company's annual financial statements for the fiscal year ended January 31, 2006 was \$40,780.

##### **Audit-Related Fees**

There were no audit-related fees for the fiscal years ended January 31, 2007 and 2006.

##### **Tax Fees**

The aggregate tax fees billed by the Company's independent auditors for the 2007 fiscal year was \$2,180, which is related to the preparation of the corporate tax return for the 2006 fiscal year. The aggregate tax fees billed by the Company's independent auditors for the 2006 fiscal year was \$1,315, which is related to the preparation of the corporate tax return for the 2005 fiscal year.

##### **All Other Fees**

There were no aggregate fees billed for any other professional services rendered by the Company's independent auditors for the year ended January 31, 2007. The aggregate fees billed by the Company's independent auditors for advisory and review services relating to the Company's annual report on Form 20-F was \$3,600 for the year ended January 31, 2006.

The audit committee approved 100% of the fees paid to the principal accountant for audit-related, tax and other fees in the fiscal year 2006. The audit committee pre-approves all non-audit services to be performed by the auditor in accordance with the audit committee Charter. There were no hours expended on the principal accountant's engagement to audit the Company's financial statements for the most recent fiscal

year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

**Part III**

**Item 17. Financial Statements**

The following financial statements pertaining to the Company are filed as part of this annual report:

Auditors Report.....	46
Balance Sheets .....	47
Statements of Operations and Deficit .....	48
Statements of Cash Flows .....	49
Notes to Financial Statements.....	50 thru 70

**Item 18. Financial Statements**

See Item 17.

**Item 19. Exhibits**

<u>Exhibit Number</u>	<u>Name</u>
1.1	Memorandum of Avino Silver & Gold Mines Ltd.*
1.2.	Articles of Avino Silver & Gold Mines Ltd.*
4.1	Share Purchase Agreement dated March 22, 2004*
8.1	List of Subsidiaries
12.1	Certification of the Principal Executive Officer
12.2	Certification of the Principal Financial Officer
13.1	Certificate under the Sarbanes-Oxley Act
13.2	Consent of Expert
15.1	Form 43 -101F1 Technical Report: Tailings Retreatment – Process Options*

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\* Previously filed.

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**AVINO SILVER & GOLD MINES LTD.**

**Consolidated Financial Statements**

**For the Years Ended**

**January 31, 2007, 2006 and 2005**

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**MANNING ELLIOTT**  
CHARTERED ACCOUNTANTS

11th floor, 1050 West Pender Street, Vancouver, BC, Canada V6E 3S7  
Phone: 604. 714. 3600 Fax: 604. 714. 3669 Web: manningelliott.com

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## **AUDITORS' REPORT**

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To the Shareholders of

Avino Silver & Gold Mines Ltd.

We have audited the consolidated balance sheet of Avino Silver & Gold Mines Ltd. as at January 31, 2007, and the consolidated statements of operations and deficit, and cash flows for the year ended January 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The balance sheet figures as at January 31, 2006 and the statements of operations and deficit, and cash flows for the years ended January 31, 2006 and 2005 were audited by another firm of chartered accountants, which expressed an opinion without reservation on those financial statements in their report dated May 31, 2006.

MANNING ELLIOTT LLP

CHARTERED ACCOUNTANTS  
Vancouver, British Columbia  
May 7, 2007

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## **COMMENTS BY AUDITORS ON CANADA AND UNITED STATES REPORTING DIFFERENCES**

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The standards of the Public Company Accounting Oversight Board (U.S.) require the addition of an explanatory paragraph when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Although we conducted audits in accordance with both Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (U.S.), our report to the shareholders dated May 7, 2007 is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditor's report when these are adequately disclosed in the financial statements.

MANNING ELLIOTT LLP

CHARTERED ACCOUNTANTS  
Vancouver, British Columbia  
May 7, 2007

**AVINO SILVER & GOLD MINES LTD.**

Consolidated Balance Sheets

As at January 31, 2007 and 2006

(Expressed in Canadian Dollars)

	2007	2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 11,045,106	\$ 3,067,011
Interest receivable	38,179	–
Taxes recoverable	96,674	35,009
Prepaid expenses and amounts receivable	54,042	13,544
	11,234,001	3,115,564
Property, Plant and Equipment (Note 4)	1,015,228	2,611
Reclamation Bonds	5,500	3,000
Mineral Properties (Note 5)	10,764,455	486,900
Advances to Related Companies (Note 14 (a))	65,770	83,000
Investments in Related Companies (Note 6)	210,085	210,085
	\$ 23,295,039	\$ 3,901,160
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,311,560	\$ 62,700
Due to related parties (Note 14(b))	141,524	181,418
	1,453,084	244,118
Future Income Tax Liability (Note 13)	2,335,999	–
Commitment towards equity loss in Cia Minera Mexicana de Avino, S.A. de C.V (Note 8)	–	342,596
	3,789,083	586,714
<b>SHAREHOLDERS' EQUITY</b>		
Share Subscriptions Received in Advance	–	247,730
Share Capital (Note 9(a))	33,112,072	19,264,265
Shares Issued For Proceeds Receivable	(5,940)	(56,732)
Contributed Surplus (Note 10)	7,259,879	1,070,699
Treasury Shares (14,180 shares, at cost)	(101,869)	(101,869)
Deficit	(20,758,186)	(17,109,647)
	19,505,956	3,314,446
	\$ 23,295,039	\$ 3,901,160

NATURE AND CONTINUANCE OF OPERATIONS – NOTE 1

CONTINGENT LIABILITY AND COMMITMENTS – NOTES 18 AND 19

Approved by the Board of Directors:

“Louis Wolfin” Director“David Wolfin” Director

**AVINO SILVER & GOLD MINES LTD.**  
Consolidated Statements of Operations and Deficit  
Years Ended January 31, 2007, 2006 and 2005  
(Expressed in Canadian Dollars)

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Revenue	\$ –	\$ –	\$ –
<b>Operating and Administrative Expenses</b>			
Amortization	2,677	980	1,210
General exploration	106,899	–	–
Interest	–	–	65
Management fees	87,000	60,000	60,000
Office and miscellaneous	146,348	119,864	96,409
Professional fees	127,441	141,005	34,993
Regulatory and compliance fees	34,416	21,690	39,463
Salaries and benefits	87,813	73,529	69,310
Shareholder and investor relations (Note 11)	464,806	197,330	59,044
Stock-based compensation (Note 12)	2,860,603	725,125	81,540
Travel and entertainment	96,731	77,274	64,005
	4,014,734	1,416,797	506,039
	(4,014,734)	(1,416,797)	(506,039)
<b>Other income (expenses)</b>			
Interest income	430,231	46,073	41,999
Foreign exchange gain (loss)	(30,455)	9	29
Write-down of investment in related company	–	(217,000)	–
Write-down of mineral property	–	(103,242)	–
Site assessment costs for Cia Minera Mexicana de Avino, S.A. de C.V (Note 8)	–	(355,921)	(391,899)
Equity losses in Cia Minera Mexicana de Avino, S.A. de C.V (Note 8)	(33,581)	(342,596)	–
LOSS BEFORE INCOME TAXES	(3,648,539)	(2,389,474)	(855,910)
Future income tax benefit recognized on renouncement of Canadian exploration expenditures (Note 13)	–	19,750	41,200
<b>NET LOSS FOR THE YEAR</b>	(3,648,539)	(2,369,724)	(814,710)
<b>DEFICIT</b> , beginning of year	(17,109,647)	(14,739,923)	(13,925,213)
<b>DEFICIT</b> , end of year	\$ (20,758,186)	\$ (17,109,647)	\$ (14,739,923)
<b>BASIC AND DILUTED LOSS PER SHARE</b>	\$ (0.20)	\$ (0.22)	\$ (0.08)
<b>BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	18,385,007	10,965,718	10,410,379

**AVINO SILVER & GOLD MINES LTD.**  
Consolidated Statements of Cash Flows  
Years Ended January 31, 2007, 2006 and 2005  
(Expressed in Canadian Dollars)

	2007	2006	2005
<b>CASH PROVIDED BY (USED IN):</b>			
<b>OPERATING ACTIVITIES</b>			
Loss for the year	\$ (3,648,539)	\$ (2,369,724)	\$ (814,710)
Adjustments for non-cash items:			
Amortization	2,677	980	1,210
Stock-based compensation	2,860,603	725,125	81,540
Fair value of options issued for investor relations services	195,600	103,981	–
Write-down of investment in related company	–	217,000	–
Write-down of mineral property interest	–	103,242	–
Equity loss on Cia Minera prior to acquisition of control	33,581	342,596	–
Future income tax benefit recognized on the renouncement of Canadian exploration expenditures	–	(19,750)	(41,200)
	(556,078)	(896,550)	(773,160)
Net change in non-cash working capital (Note 16)	61,750	(91,529)	14,849
	(494,328)	(988,079)	(758,311)
<b>FINANCING ACTIVITIES</b>			
Share subscriptions received in advance	–	247,730	–
Receipt of share proceeds receivable	56,732	–	–
Shares issued for cash, net	9,511,593	1,748,827	435,789
	9,568,325	1,996,557	435,789
<b>INVESTING ACTIVITIES</b>			
Reclamation bonds	(2,500)	(3,000)	–
Property, plant and equipment purchases	(18,331)	(768)	–
Mineral property exploration expenditures	(777,586)	(273,234)	(91,400)
Advances to a related party	–	52,000	(135,000)
Advances to Cia Minera prior to acquisition of control	(297,485)	–	–
	(1,095,902)	(225,002)	(226,400)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>7,978,095</b>	<b>783,476</b>	<b>(548,922)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>3,067,011</b>	<b>2,283,535</b>	<b>2,832,457</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 11,045,106</b>	<b>\$ 3,067,011</b>	<b>\$ 2,283,535</b>
<b>SUPPLEMENTARY CASH FLOW DISCLOSURES</b>			
Cash paid for:			
Interest expense	\$ 16	\$ –	\$ 65
Income taxes	–	–	–
Non-cash investing activity:			
3,164,702 shares issued in acquisition of controlling interest in Cia Minera	7,215,520	–	–

## **NOTE 1 - NATURE OF OPERATIONS**

Avino Silver & Gold Mines Ltd. (the "Company" or "Avino") was incorporated in 1969 under the laws of the Province of British Columbia, Canada. The Company's principal business activities include the acquisition, exploration and development of mineral properties. The Company owns interests in mineral properties located in Durango, Mexico and in British Columbia and Yukon, Canada.

The Company is in the exploration stage with its mineral properties and has not yet determined whether these properties contain ore reserves which are economically recoverable.

The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's legal interest in mineral claims, obtaining further financing for exploration of its mineral claims, re-development of its mining and processing operations and commencement of future profitable production, or receiving proceeds from the sale of all or an interest in its mineral properties.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company will likely be required to raise new financing through the sale of shares to continue with the exploration for and development of its mineral properties. Management intends to secure additional financing through the issuance of common stock. However, there can be no assurance that management will be successful in its efforts to secure additional financing through the issuance of common stock, or that it will ever develop a self-supporting business. These factors together raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

### **i) Basis of presentation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a consolidated basis and include the accounts of the Company and its Mexican subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation. The Company's Mexican subsidiaries are the wholly-owned Oniva Silver and Gold Mines S.A., Promotora Avino, S.A. De C.V. ("Promotora") in which the Company has direct ownership of 76.88%, and Compania Minera Mexicana de Avino, S.A. de C.V. ("Cia Minera") in which the Company has a 50% direct ownership and an additional 49.75% of Cia Minera is held through Promotora.

The Company acquired control of Promotora and Cia Minera on July 17, 2006 (see Note 3) and prior to the acquisition of control the Company accounted for its 49% ownership of Cia Minera using the equity method. Under the equity method, the Company's original investment in Cia Minera was initially recorded at cost, and subsequently adjusted to reflect the Company's share of earnings or loss in Cia Minera.

These consolidated financial statements include the operations of Promotora and Cia Minera subsidiaries on a consolidated basis beginning on July 17, 2006 and cover the period ending on December 31, 2006, which is a different period end date than the Company's fiscal year-end, since the subsidiaries prepare annual financial statements following Mexican law requiring a December 31 year-end.

### **ii) Cash and cash equivalents**

The Company considers all highly liquid instruments with maturities of three months or less on the date of purchase to be cash equivalents.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**iii) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated amortization. Amortization is recorded over the useful lives of the assets on the declining balance basis at the following rates:

Office equipment, furniture and fixtures	20%
Computer equipment	30%
Mine mill, machinery and plant	12%
Mine facilities and equipment	6% to 10%

The mine mill, machinery and plant were acquired on July 17, 2006 (see Note 3) and are not in active use, as the Company is in the process of evaluating the re-activation of the mine. Accordingly, the mine mill, machinery and plant are considered to be under reconstruction and no amortization is recorded on these assets during the 2007 year-end.

**iv) Mineral properties**

Mineral property acquisition, exploration and development costs are deferred until the property to which they relate is placed into production, sold, allowed to lapse or abandoned. Mineral property acquisition costs include cash consideration and the fair market value of common shares issued for mineral property interests based on the trading price of the shares. These costs will be amortized over the estimated life of the property following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned.

Once commercial production has commenced, the net costs of the applicable property will be charged to operations using the unit-of-production method based on estimated reserves. On an ongoing basis, the Company evaluates each property based on results to date to determine the nature of exploration work that is warranted in the future.

Impairment may occur in the carrying value of mineral properties when one of the following conditions exists:

- (a) the Company's work program on a property has significantly changed, so that previously identified resource targets or work programs are no longer being pursued;
- (b) exploration results are not promising and no more work is being planned in the foreseeable future on the property; or
- (c) the remaining lease terms for the property are insufficient to conduct necessary studies or exploration work.

Once impairment has been determined then a portion of the carrying value will be written-down to net realizable value. Amounts shown for mineral properties reflect costs incurred to date, less write-downs, and are not intended to reflect present or future values.

**v) Investments**

Investments in the shares of companies over which Avino has the ability to exercise significant influence, but not control, are accounted for using equity method. Accordingly, the Company includes its share of the investee's net income or loss for the year in operations. The investment is initially recorded at cost and increased or decreased for the Company's share of income or loss respectively. In those instances where the Company's share in the investee's cumulative net losses exceeds the carrying amount of the Company's investment, the Company records its share of the investee's losses as a liability only if it has determined that it has ongoing obligations or commitments towards the investee. In those circumstances where the Company has no ongoing obligations or commitments to support the investee, the Company records cumulative losses only to the extent of the carrying amount of the investment.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**v) Investments (continued)**

Investments in the shares of companies over which Avino does not have control or exercises significant influence are accounted for at cost. These investments are written down when there is a decline in value that is considered other than temporary.

**vi) Translation of foreign currencies and foreign subsidiaries**

The Company's integrated Mexican foreign subsidiaries are financially and operationally dependent on the Company. The Company uses the temporal method to translate the accounts of its integrated foreign operations into Canadian dollars. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at rates in effect during the period, except for amortization, which is translated on the same basis as the related assets. The resulting exchange gains or losses are recognized in income.

**vii) Financial instruments**

**(a) Fair values**

The carrying values of cash and cash equivalents, amounts receivable, accounts payable, and amounts due from (to) related companies and related parties approximate their fair values due to the immediate or short-term maturity of these financial instruments.

**(b) Interest rate risk**

In management's opinion, the Company is not exposed to significant interest rate risks.

**(c) Foreign exchange currency risk**

The operations and financial instruments of the Company's subsidiaries are denominated in Mexican pesos (MXN) and are converted into Canadian dollars as the reporting currency in these financial statements. Fluctuations in the exchange rates between the Mexican peso and the Canadian dollar could have a material effect on the Company's business and on the reported amounts of the Company's financial instruments. The Company is exposed to foreign exchange rate risk relating to cash denominated in Mexican pesos totalling \$96,471 (MXN\$903,287), amounts receivable denominated in pesos totalling \$2,197 (MXN\$20,571), taxes recoverable denominated in pesos totalling \$89,258 (MXN\$835,748), accounts payable denominated in pesos totalling \$1,148,505 (MXN\$10,753,787).

**(d) Credit risk**

The Company's cash and equivalents are primarily held in accounts with Canadian financial institutions, and as at January 31, 2007 cash and cash equivalents substantially exceeds the amounts covered under federal deposit insurance.

**viii) Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Significant areas requiring the use of estimates relate to recoverability or valuation of amounts receivable, property, plant, equipment, and mineral properties, the valuation of asset retirement obligations, useful lives for amortization, recognition of future income tax assets and liabilities, and stock-based compensation. Actual results could differ from those estimates.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**ix) Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and taxes bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

The Company follows CICA Emerging Issues Committee Abstract 146 *Flow-Through Shares*. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the Company assigns the tax deductions arising from the related resource expenditures, to the shareholders. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized for the net tax effect of the deductions renounced, and share capital is reduced.

If the Company has sufficient unrecognized tax losses carried forward or other unrecognized future income tax assets to offset all or part of this future income tax liability, a portion of such unrecognized future income tax assets is recorded as a future income tax recovery up to the amount of the future income tax liability that would otherwise be recognized.

**x) Stock-based compensation**

The Company follows CICA Handbook Section 3870 *Stock Based Compensation and Other Stock-Based Payments*. Accordingly the Company recognizes stock-based compensation expense for the estimated fair value of stock-based payments. Compensation costs attributable to stock options or similar equity instruments granted to employees are measured at the fair value at the grant date using the Black-Scholes option pricing model, and are expensed over the expected vesting period. Transactions in which goods or services are received from non-employees in exchange for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Consideration received on the exercise of stock options is recorded as share capital.

**xi) Loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Stock options and warrants are dilutive when the average market prices of the common shares during the year exceed the exercise prices of the options and warrants.

For the years ended January 31, 2007, 2006 and 2005, the existence of warrants and options affects the calculation of loss per share on a fully diluted basis. As the affect of this dilution is to reduce the reported loss per share (anti-dilutive), fully diluted loss per share information has not been shown.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**xii) Site restoration obligations**

The Company recognizes the fair value of its liability for asset retirement obligations, including site restoration costs in the year in which such liabilities are incurred and can be estimated. Upon recognition of an asset retirement obligation, the site restoration costs are capitalized as a part of the mineral property. In periods subsequent to initial measurement, the asset retirement obligation is adjusted for both the passage of time and revisions to the original estimates. If the obligation is settled for other than the carrying amount of the liability, a gain or loss on the settlement is recognized. The Company estimated its site restoration costs to be \$nil as at January 31, 2007 (2006 - \$nil) as significant disturbance of sites giving rise to restoration obligations had not yet occurred.

**xiii) Long-lived assets**

The recoverability of long-lived assets, which includes property, plant, equipment, and mineral properties is assessed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is based on factors such as future asset utilization and the future undiscounted cash flows expected to result from the use or sale of the related assets. An impairment loss is recognized when the carrying amount of an asset that is held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal less costs to sell, and is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured based on discounted cash flows when quoted market prices are not available.

**NOTE 3 - ACQUISITION OF COMPANIA MINERA MEXICANA DE AVINO, S.A. DE C.V.**

On July 17, 2006 the Company acquired control of Compania Minera Mexicana de Avino, S.A. de C.V. ("Cia Minera") through the acquisition of an additional 39.25% interest in Cia Minera which combined with the Company's pre-existing 49% share of Cia Minera, brought the Company's ownership interest in Cia Minera to 88.25%. The additional 39.25% interest in Cia Minera was obtained through the acquisition of 76.88% of the common shares of Promotora Avino S.A. De C.V. ("Promotora") which in turn owns 49.75% of Cia Minera's common shares, and the direct acquisition of 1% of the common shares of Cia Minera.

The historic operations of Cia Minera involved the mining of commercial grade ores which produced silver, gold and copper. This plant and mine ceased operations in November 2001 due to low metal prices and the closure of a smelter. The Company is evaluating the re-activation of the mine and has commenced exploration activities on Cia Minera's mineral properties in the state of Durango, Mexico (see Note 5).

The July 17, 2006 acquisition was accomplished by a share exchange by which the Company issued 3,164,702 shares as consideration for the purchase of the additional 39.25% interest in Cia Minera. The shares issued as consideration were valued based on the July 17, 2006 closing market price per share of \$2.28. The acquisition was accounted for using the purchase method and these consolidated financial statements include the assets, liabilities and operations of these subsidiaries beginning on July 17, 2006, the date of acquisition of control. The acquisition of the 39.25% interest described above does not include a 1% interest acquired from an estate subject to approval and transfer of the shares to the Company by the trustee for that estate.

The cost of the acquisition of Cia Minera was comprised as follows:

Issuance of 3,164,702 shares issued as consideration	\$ 7,215,521
Direct acquisition costs	24,705
Cash advances to Cia Minera prior to July 17, 2006	297,485
Assumption of equity based commitment made prior to July 17, 2006	(376,177)
	<hr/> \$ 7,161,534 <hr/>

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**NOTE 3 - ACQUISITION OF COMPANIA MINERA MEXICANA DE AVINO, S.A. DE C.V. (continued)**

The cost of Cia Minera was allocated to the estimated fair values of the assets acquired and liabilities assumed as at July 17, 2006 as follows:

Cash	\$ 21,154
Taxes and other amounts recoverable	27,977
Mine mill and processing plant	934,654
Mine facilities, machinery and equipment	62,310
Mineral properties	9,525,575
Accounts payable and accrued liabilities	(864,816)
Future income tax liability	(2,335,999)
Taxes payable	(209,321)
	\$ 7,161,534

Prior to the July 17, 2006 acquisition of the additional 39.25% in Cia Minera, the Company accounted for its original 49% interest using the equity method.

**NOTE 4 - PROPERTY, PLANT AND EQUIPMENT**

	Accumulated		2007	2006
	Cost	Amortization	Net Book	Net Book
			Value	Value
Office equipment, furniture and fixtures	\$ 5,512	\$ 3,684	\$ 1,828	\$ 2,611
Computer equipment	19,015	684	18,331	-
Mine mill, machinery and processing plant	934,654	-	934,654	-
Mine facilities and equipment	62,310	1,895	60,415	-
	\$ 1,021,491	\$ 6,263	\$ 1,015,228	\$ 2,611

**NOTE 5 - MINERAL PROPERTIES**

	Durango	British	Yukon	Total
	Mexico	Columbia	Canada	
		Canada		
<b>2007</b>				
Carrying amounts, beginning of year	\$ -	\$ 486,900	\$ 1	\$ 486,900
Acquisition costs	9,525,575	-	-	9,525,575
Exploration costs incurred during year:				
Assays	-	2,001	-	2,001
Assessment and taxes	-	2,410	-	2,410
Drilling	609,518	14,837	-	624,355
Field supplies and services	-	11,242	-	11,242
Geological	90,712	21,260	-	111,972
Mineral properties, end of year	\$ 10,225,805	\$ 538,650	\$ 1	\$ 10,764,455

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**NOTE 5 - MINERAL PROPERTIES (continued)**

	Durango Mexico	British Columbia Canada	Yukon Canada	Total
<b>2006</b>				
Carrying amounts, beginning of year	\$ –	\$ 212,258	\$ 103,243	\$ 315,501
Exploration costs incurred during year:				
Assays	–	11,158	–	11,158
Assessment and taxes	–	2,965	–	2,965
Drilling	–	193,396	–	193,396
Field supplies and services	–	25,835	–	25,835
Geological	–	35,560	–	35,559
Surface work	–	5,727	–	5,728
Less: write-down	–	–	(103,242)	(103,242)
Mineral properties, end of year	\$ –	\$ 486,899	\$ 1	\$ 486,900

Additional information on the Company's mineral properties by region is as follows:

(a) Durango, Mexico

The Company acquired the Durango mineral properties through the acquisition of Cia Minera during the 2007 year-end (see Note 3). The Company's subsidiary Cia Minera owns 43 mineral claims in the state of Durango, Mexico.

In addition four core mineral claims are under leased concessions – exploitation rights to and for the Unification La Platosa, are granted by a lease agreement, to Cia Minera from Minerales de Avino SA de CV. The two concessions, Primer Rey and Avino y Emma, are included in the lease agreement, but are discrete and lie under the town of San Jose de Avino. The agreement is valid until October 31, 2010. An ongoing dispute regarding royalties on the leased mineral claims exists (see Note 18).

The Company's mineral claims in Mexico are divided into the following three properties:

(i) Avino mine area property

The Avino mine property is situated around the towns of Panucho de Coronado and San Jose de Avino and surrounding the formerly producing Avino mine. There are five exploration concessions covering 163.4 hectares, 24 exploitation concessions covering 1,284.7 hectares and one leased exploitation concession covering 98.83 hectares. Under a royalty agreement covering three additional mineral concessions, Cia Minera shall pay to Minerales de Avino royalties of 3.5% on mineral extracted, processed and sold from the Unification La Platosa, San Carlos and San Jose concessions. The royalties are to be calculated on a base of net sales (net smelter payment less the cost of sales) less the process costs at the mine.

(ii) Gomez Palacio property

The Gomez Palacio property is located near the town of Gomez Palacio, Durango, Mexico. There are nine exploration concessions covering 2,549 hectares.

(iii) Papas Quiero property

The Papas Quiero property is located near the village of Papas Quiero, Durango, Mexico. There are four exploration concessions covering 2,552.6 hectares and one exploitation concession covering 602.9 hectares.

**NOTE 5 - MINERAL PROPERTIES (continued)**

(b) British Columbia, Canada

The Company's mineral claims in British Columbia are divided into the following three properties:

(i) Aumax property

In 2003 the Company acquired a 100% interest in six Crown granted mineral claims, located in the Lillooet Mining Division of British Columbia, Canada by issuing 200,000 common shares at a price of \$0.50 per share and paying \$4,000 in cash for total consideration of \$104,000. During the 2007 year end these mineral claims were converted into one claim encompassing all of the original claims.

(ii) Minto property

The Company has a 100% interest in eight Crown granted mineral claims, eight reverted Crown granted mineral claims and one located mineral claim, situated in the Lillooet Mining Division of British Columbia. During the 2007 year end these mineral claims were converted into one claim encompassing all of the original claims. The property was written down to a nominal value of \$1 in fiscal 2002. Avino recommenced exploration of the property in fiscal 2006 and costs incurred since then have been deferred.

(iii) Olympic-Kelvin property

The Company has a 100% interest in 20 reverted Crown granted mineral claims, one located mineral claim and three fractions located in the Lillooet Mining Division of British Columbia. The property was written down entirely in fiscal 2002. During the 2007 year end these original mineral claims and fractions were converted into six claims encompassing all of the original claims. The Company recommenced exploration of the property in fiscal 2004 and costs incurred since then have been deferred.

(c) Yukon, Canada

In 2003 the Company acquired a 100% interest in 14 quartz leases, located in the Mayo Mining Division of the Yukon, Canada by issuing 200,000 common shares at a price of \$0.50 per share for total consideration of \$100,000. The property was written down to a nominal value of \$1 in fiscal 2006 by a charge to operations of \$103,242.

**NOTE 6 - INVESTMENTS IN RELATED COMPANIES**

Investments carried at cost are comprised as follows:

	<b>2007</b>	<b>2006</b>
Bralorne Gold Mines Ltd.	\$ 205,848	\$ 205,848
Levon Resources Ltd.	4,236	4,236
Oniva International Services Corporation	1	1
	<u>\$ 210,085</u>	<u>\$ 210,085</u>

Bralorne Gold Mines Ltd. ("Bralorne")

The Company's investment in Bralorne consists of 179,149 common shares with a quoted market value of \$206,021 as at January 31, 2007 (2006 - \$324,259). Bralorne is a public company with common directors.

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**NOTE 6 - INVESTMENTS IN RELATED COMPANIES (continued)**

Levon Resources Ltd. (“Levon”)

The Company’s investment in Levon consists of 141,200 common shares with a quoted market value of \$21,180 as at January 31, 2007 (2006 - \$7,766). Levon is a public company with common directors.

Oniva International Services Corporation (“Oniva”)

The Company owns a 16.67% interest in Oniva, a private company with common management, which provides office and administration services to the Company. The remaining 83.33% is shared equally between five other companies that are related by common directors and management. See Note 19 for disclosure on the Company’s commitment to Oniva.

**NOTE 7 - NON-CONTROLLING INTEREST**

The Company has an 88.25% interest in its subsidiary Cia Minera, and the remaining 11.75% portion is presented as a non-controlling interest. The non-controlling interest has been recorded as a net obligation to the Company by Cia Minera, net of a valuation allowance, as the owners of the 11.75% minority interest in Cia Minera do not have a demonstrated commitment towards funding Cia Minera’s net losses. Accordingly, the non-controlling portion of Cia Minera operating losses are not recognized as an asset in these financial statements.

The carrying amount of the non-controlling interest is as follows:

Non-controlling interest portion in Cia Minera’s net obligation to the Company on July 17, 2006, the date of acquisition	\$ 111,874
Non-controlling interest in Cia Minera’s net loss since acquisition	20,437
Loss valuation allowance	(132,311)
<b>Non-controlling interest - net carrying amount</b>	<b>\$ –</b>

**NOTE 8 - COMMITMENT AND SITE ASSESSMENT COSTS RELATED TO CIA MINERA**

The Company incurred the following site assessment costs in contemplation of its additional 39.25% acquisition of Cia Minera:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Geological assessment	\$ –	\$ 133,915	\$ 128,419
Professional fees	–	26,054	22,964
Site overhead and maintenance	–	195,952	240,516
	<b>\$ –</b>	<b>\$ 355,921</b>	<b>\$ 391,899</b>

Prior to fiscal 2006, the Company had determined that it did not have a commitment or obligation to Cia Minera and accordingly did not record its equity interest in the losses of Cia Minera. During fiscal 2006 the Company determined that it had a commitment to Cia Minera. Accordingly, it began to recognize in operations its equity interest in the losses of Cia Minera. In fiscal 2006, Avino recognized into operations its interest in previously unrecorded equity losses of Cia Minera in the amount \$342,596. During fiscal 2007 the company recorded a further \$33,581 of equity losses in Cia Minera, resulting in a total of \$376,177 in equity based losses in Cia Minera prior to the acquisition of control on July 17, 2006 (see Note 3).

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**NOTE 9 - SHARE CAPITAL**

(a) Authorized: Unlimited common shares without par value

Issued:

	2007		2006	
	Shares	Amount	Shares	Amount
Balance, beginning of year	11,962,075	\$ 19,264,265	10,521,775	\$ 17,030,084
Shares issued for cash:				
Private placement	5,000,000	10,000,000	–	–
Less value of warrants on private placement transferred to contributed surplus	–	(3,578,383)	–	–
Exercise of stock options	456,700	585,866	249,500	261,175
Exercise of warrants	1,250	3,125	1,190,800	1,544,384
Shares issued for Cia Minera acquisition (Note 3)	3,164,702	7,215,521	–	–
Transferred from contributed surplus on exercise of stock options	–	443,831	–	448,372
Exercise of warrants	–	1,575	–	–
Future income tax liability on issuance of flow-through shares (Note 13)	–	–	–	(19,750)
Share issuance costs	–	(823,728)	–	–
	8,622,652	13,847,807	1,440,300	2,234,181
Balance, end of year	20,584,727	\$ 33,112,072	11,962,075	\$ 19,264,265

**Private placement**

During the year ended January 31, 2007, the Company completed a private placement of 5,000,000 units at a price of \$2.00 per unit, each unit consisted of one common share and one-half of a non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional share at a price of \$2.50 until March 20, 2008. The gross proceeds from the private placement was \$10,000,000 and share issuance costs were \$823,728 consisting of finders' fees of \$778,795 paid in cash and \$44,933 in other costs. Consideration of \$3,578,383 was allocated to contributed surplus for the warrants issued under the placement.

(b) Warrants

	Underlying Shares	Weighted Average Exercise Price
Warrants outstanding, January 31, 2005	2,433,250	\$ 1.44
Exercised	(1,190,800)	\$ 1.30
Expired	(1,242,450)	\$ 1.58
Warrants outstanding, January 31, 2006	–	–
Issued	2,500,000	\$ 2.50
Exercised	(1,250)	\$ 2.50
Warrants outstanding, January 31, 2007	2,498,750	\$ 2.50

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**NOTE 9 - SHARE CAPITAL (continued)**

(b) Warrants (continued)

Details of share purchase warrants outstanding:

Expiry Date	Exercise Price	2007 Warrants Outstanding	2006 Warrants Outstanding
March 20, 2008	\$ 2.50	2,498,750	–

(c) Stock options

	Underlying Shares	Weighted Average Exercised Price
Stock options outstanding, January 31, 2005	450,000	\$1.01
Granted	642,500	\$1.35
Exercised	(249,500)	\$1.05
Expired or cancelled	(30,000)	\$1.20
Stock options outstanding, January 31, 2006	813,000	\$1.31
Granted	1,120,000	\$3.85
Exercised	(456,700)	\$1.28
Stock options outstanding, January 31, 2007	1,476,300	\$3.25

Details of stock options outstanding:

Expiry Date	Exercise Price	2007 Stock Options Outstanding	2006 Stock Options Outstanding
October 21, 2008	\$1.20	41,800	233,000
April 5, 2010	\$1.35	262,000	510,000
September 26, 2010	\$1.35	52,500	70,000
March 15, 2011	\$2.72	120,000	–
April 26, 2011	\$3.99	1,000,000	–
		1,476,300	813,000

As at January 31, 2007 1,443,800 stock options were exercisable and as at January 31, 2006 798,000 stock options were exercisable.

The Company amended its stock option plan in fiscal 2007, under which it may grant stock options up to 10% of the Company's total number of shares issued and outstanding on a non-diluted basis. The stock option plan provides for the granting of stock options to regular employees and persons providing investor-relation or consulting services up to a limit of 5% and 2% respectively of the Company's total number of issued and outstanding shares per year. The stock options vest on the date of grant, except for those issued to persons providing investor-relation or consulting services, which vest over a period of one year. The option price must be greater or equal to the discounted market price on the grant date and the option term cannot exceed five years from the grant date.

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**NOTE 9 - SHARE CAPITAL (continued)**

(d) Flow-through common shares

The Company issues flow-through common shares to finance part of its exploration expenditures. The income tax deductions related to the exploration expenditures renounced may be claimed only by the investors of the flow-through common shares.

As at January 31, 2007, the Company has a commitment to incur a further \$29,650 in qualifying Canadian exploration expenditures, as defined in the Canadian Income Tax Act, pursuant to which the Company must incur and renounce these qualifying expenditures to the flow-through shareholders.

(e) Flow-through warrants

Included in the warrants described in Note 9(c) are the following flow-through share purchase warrants as follows:

	Underlying Shares	Weighted Average Exercise Price
Flow-through warrants outstanding, January 31, 2005	170,000	\$0.52
Exercised	(170,000)	\$0.52
<u>Flow-through warrants outstanding, January 31, 2006 and 2007</u>	<u>–</u>	<u>–</u>

**NOTE 10 – CONTRIBUTED SURPLUS**

	<b>2007</b>	<b>2006</b>
Balance, beginning of year	\$ 1,070,699	\$ 689,965
Value of stock options granted during the year (Note 12)	2,860,603	725,125
Value of stock options issued for services (Note 11)	195,600	103,981
Value of warrants on private placement (Note 9(a))	3,578,383	–
Value of stock options exercised	(443,831)	(448,372)
Value of warrants exercised	(1,575)	–
<u>Balance, end of year</u>	<u>\$ 7,259,879</u>	<u>\$ 1,070,699</u>

**NOTE 11 – SHAREHOLDER AND INVESTOR RELATIONS EXPENSES**

The fair values of stock options granted to investor relations consultants are included in shareholder and investor relations expenses. The fair values of the stock options is calculated using the Black-Scholes option pricing model and is measured and expensed over the 12 month period over which services are provided and the options vest. During fiscal 2007 investor relations consultants were granted 130,000 stock options ((2006 – 95,000) (2005 – nil)) which are included in the stock options described in Note 9(c), and these options are exercisable at a price of \$2.72 (2006 - \$1.35) per share. The shareholder and investor relations expense for fiscal 2007 includes \$195,600 ((2006 - \$103,981) (2005 - \$nil)) for the fair value of stock options granted to investor relations consultants. The fiscal 2007 weighted average fair value of these options on date of grant was \$1.74 (2006 - \$1.33). The fair value of these options were calculated using the Black-Scholes model with following weighted average assumptions:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Assumptions:			
Risk-free interest rate (%)	4.1	3.4	–
Expected dividend yield (%)	–	–	–
Expected option life (years)	4.7	3	–
Expected stock price volatility (%)	90	180	–

**NOTE 12 – STOCK-BASED COMPENSATION**

In fiscal 2007 the Company granted 990,000 (2006 – 547,500) options having a life of five years and exercisable at a price of \$3.99 per share to directors, officers, and employees of the Company. In fiscal 2007 the Company recognized \$2,860,603 (2006 - \$725,125) in stock-based compensation representing the fair value of these stock options. In the fiscal 2005 year the \$81,540 in stock-based compensation expense was recorded for the vesting of stock options granted in fiscal 2004. The fiscal 2007 weighted average fair value of the options on the date of grant was \$2.89 ((2006 - \$1.33) (2005 - \$nil)). The fiscal 2007 fair value of these options were calculated using the Black-Scholes model with following weighted average assumptions:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Assumptions:			
Risk-free interest rate (%)	4.4	3.4	3.0
Expected dividend yield (%)	–	–	–
Expected option life (years)	5	3	5
Expected stock price volatility (%)	91	180	52

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**NOTE 13 - INCOME TAXES**

The components of future income tax provisions including, the statutory tax rate, effective tax rate and the effect of the valuation allowance are as follows:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Statutory rate	34.12%	34.5%	36%
Income taxes recovered at the Canadian statutory rate	\$ 1,244,882	\$ 817,555	\$ 293,000
Less permanent differences:			
Stock-based compensation	(976,038)	(250,169)	(29,400)
Investor relations expense for stock options granted	(66,739)	(35,873)	–
Reduction for effect of lower Mexican tax rates	(10,644)	–	–
Equity based accounting loss for interest in Cia Minera Mexicana de Avino, S.A. de C.V.	(11,458)	(118,200)	–
Other non-tax deductible expenses	(3,373)	–	–
Effect of temporary differences:			
Share issuance costs	71,239	–	–
Write-down of investment	–	(74,900)	–
Write-down of mineral property	–	(35,600)	–
Geological exploration expenditures	–	(45,000)	–
Benefit of tax losses not recognized in year – valuation allowance	(247,869)	(257,813)	(263,600)
Benefit of future income tax asset recognized on renouncement Canadian exploration expenditures to flow-through share investors	–	19,750	41,200
<b>Future income tax recovery recognized in the year</b>	<b>\$ –</b>	<b>\$ 19,750</b>	<b>\$ 41,200</b>

The approximate tax effects of each type of temporary difference that gives rise to potential future tax assets are as follows:

	<b>2007</b>	<b>2006</b>
Statutory rate	34.12%	34.5%
Non-capital tax losses carried forward	\$ 1,392,852	\$ 1,244,000
Capital tax losses carried forward	251,159	254,000
Canadian exploration expenses, Canadian development expenses and foreign exploration, and development expenses in excess of book value of Canadian mineral properties	557,738	508,000
Share issuance costs	239,873	30,000
Tax basis of investments in related companies in excess of book value	37,020	37,433
<b>Undeducted capital cost allowance in excess of book value of Canadian equipment</b>	<b>70,862</b>	<b>69,700</b>
Future tax assets	2,549,504	2,143,133
Less: valuation allowance	(2,549,504)	(2,143,133)
<b>Net tax assets</b>	<b>\$ –</b>	<b>\$ –</b>

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**NOTE 13 - INCOME TAXES (continued)**

The potential benefit of net operating tax loss carry-forwards and other future income tax assets has not been recognized in the financial statements since the Company cannot be assured that it is more likely than not that such benefit will be utilized in future years.

The Company has capital losses of \$1,472,210 carried forward and \$4,049,022 in non-capital tax losses carried forward available to reduce future taxable income. The capital losses can be carried forward indefinitely unless used. The non-capital tax losses if unused expire as follows:

2008	\$ 351,114
2009	253,336
2010	245,381
2011	904,279
2012	343,690
2016	568,450
2027	799,044
2028	583,728
	<u>\$4,049,022</u>

In addition, the \$2,335,999 future income tax liability presented in these financial statements is due to the difference between the carrying amount and tax basis upon acquisition of the mineral properties, mine plant and equipment in the purchase of Cia Minera (see Note 3).

**NOTE 14 - RELATED PARTY TRANSACTIONS AND BALANCES**

The balances and transactions with related parties are as follows:

(a) Advances to related parties:

	<b>2007</b>	<b>2006</b>
ABC Drilling Services Inc. – a subsidiary of Oniva	\$ 64,933	\$ 83,000
Oniva International Services Corp. – a company controlled by a director of Avino	837	–
Advances to related parties	<u>\$ 65,770</u>	<u>\$ 83,000</u>

The advance to ABC Drilling Services Inc. is intended as an exploration advance for future drilling services.

(b) Amounts due to related parties:

	<b>2007</b>	<b>2006</b>
Directors	\$ 7,500	\$ -
Frobisher Securities Ltd. – a company controlled by a director of Avino	105	16,710
Bralorne Gold Mines Ltd. – a company with directors and management in common with Avino	–	3,145
Oniva International Services Corp. – a company controlled by a director of Avino	133,919	161,563
	<u>\$ 141,524</u>	<u>\$ 181,418</u>

The amounts due to related parties are non-interest bearing, unsecured and due on demand.

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**NOTE 14 - RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

- (c) The Company recorded the following amounts for administrative services and expenses provided by Oniva International Services Corp.:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Salaries and benefits	\$ 59,523	\$ 73,529	\$ 59,884
Office and miscellaneous	60,334	89,799	64,262
	<u>\$ 119,857</u>	<u>\$ 163,328</u>	<u>\$ 124,146</u>

- (d) The Company recorded the following amounts for management and consulting services provided by the following companies:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Intermark Capital Corp. – a company controlled by a director of Avino	\$ 87,000	\$ 60,000	\$ 60,000
Frobisher Securities Ltd.	–	2,000	–
Wear Wolfin Design Ltd. – a company controlled by a director of a related company	30,000	30,000	12,500
	<u>\$ 117,000</u>	<u>\$ 92,000</u>	<u>\$ 72,500</u>

- (e) The Company paid or accrued \$53,837 (2006 - \$146,092; 2005 - \$Nil) to ABC Drilling Services Inc. for drilling services and \$6,854 (2006 - \$20,433; 2005 - \$Nil) to Bralorne Gold Mines Ltd. for exploration services.
- (f) The Company paid or accrued \$84,279 (2006 - \$Nil; 2005 - \$Nil) for investor relations services to National Media Associates, a business significantly influenced by a director of the Company.

All related party transactions are recorded at the value agreed upon by the Company and the related party, which management believes approximates fair value.

**NOTE 15 - SEGMENTED INFORMATION**

The Company's operations are limited to one industry segment, being the acquisition, exploration and development of mineral properties. Regional geographic information pertaining to the Company's mineral properties is disclosed in Note 5.

**NOTE 16 - SUPPLEMENTARY CASH FLOW INFORMATION**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Changes in non-cash working capital items:			
Interest receivable	\$ (38,179)	\$ –	\$ –
Taxes recoverable	(61,665)	(1,871)	(13,432)
Prepaid expenses	(40,497)	8,804	(10,066)
Advances to related companies	17,230	–	2,884
Accounts payable and accrued liabilities	224,755	(3,235)	19,047
Due to related parties	(39,894)	(95,227)	16,416
Net change in non-cash working capital	<u>\$ 61,750</u>	<u>\$ (91,529)</u>	<u>\$ 14,849</u>

**NOTE 17 - COMPARATIVE FIGURES**

Certain fiscal 2005 and 2006 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2007. These reclassifications do not affect the net loss or closing deficit of the comparative figures.

**NOTE 18 - CONTINGENT LIABILITY**

The Company's subsidiary Cia Minera leases four core mineral claims in consideration for royalties. The lessor is currently contesting the underlying royalty agreement, and has filed a legal action claiming royalties are owing from prior years in the approximate amount \$3,487,223 (denominated in Mexican pesos \$32,651,905) plus interest. The Company has accrued \$738,302 (denominated in Mexican pesos \$6,912,940) on account of the royalties owing. Cia Minera has held the position that it has fully provided for the royalty liability in its accounts and continues to contest the action in court, however, negotiations are being held as both parties are working towards an amicable settlement.

**NOTE 19 - COMMITMENTS**

The Company entered into a 12 month Investor Relations Agreement with Investor Relations Group Inc., formerly called Investors Relations Services Group John Mullen & Partners ("IRS"), to provide investor relations services in Europe. In consideration for the services rendered, the Company has agreed to pay IRS fees of \$2,000 per month plus expenses. The agreement with IRS expires on October 5, 2007, and the Company's commitment under the agreement as at January 31, 2007 totals \$16,000.

The Company entered into a 12 month agreement with National Media Associates ("National Media") to provide financial relations, media relations and public market development services. The Company has agreed to pay National Media US\$6,000 per month, and the contract can be terminated after September 15, 2006 upon 30 days' notice by the Company. The agreement with National Media expires on March 15, 2007, and the Company's commitment under the agreement as at January 31, 2007 totals \$10,613 (US\$9,000).

The Company entered into a cost sharing agreement dated October 1, 1997, and amended November 1, 2003 to reimburse Oniva for a variable percentage of its overhead expenses, to reimburse 100% of its out-of-pocket expenses incurred on behalf of the company, and to pay a percentage fee based on the total overhead and corporate expenses. The agreement may be terminated with one-month notice by either party. Transactions and balances with Oniva, which is a related company, are disclosed in Note 14.

The Company has a contractual minimum drilling commitment for the exploration of its mineral properties in Durango, Mexico. As at January 31, 2007 the Company is committed to drilling services at an estimated cost of \$416,022, which is denominated in U.S. dollars (US\$352,800). Management has determined that the Company's exploration in fiscal 2008 will likely exceed the minimum commitment, thus an amount in excess of the minimum drilling cost will likely be paid in fiscal 2008.

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**NOTE 20 - DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

These consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), which differ in certain material respects from accounting principles generally accepted in the United States of America (“U.S. GAAP”). The material differences between Canadian and U.S. GAAP and their effect on the Company’s financial statements are summarized as follows:

	<b>2007</b>	<b>2006</b>	
<b>Balance sheets</b>			
Total assets under Canadian GAAP	\$ 23,295,039	\$ 3,901,160	
Deferred exploration expenditures (iii)	(10,764,455)	(382,896)	
Investments (i)	17,116	121,941	
<b>Total assets under US GAAP</b>	<b>12,547,700</b>	<b>3,640,205</b>	
Total equity under Canadian GAAP	19,505,956	3,314,446	
Deferred exploration expenditures (iii)	(10,764,455)	(382,896)	
Investments (i)	17,116	121,941	
<b>Total equity under US GAAP</b>	<b>\$ 8,758,617</b>	<b>\$ 3,053,491</b>	
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Consolidated statements of operations</b>			
Loss for year under Canadian GAAP	\$ (3,684,539)	\$ (2,369,724)	\$ (814,710)
Future income tax benefit on renouncement of qualified Canadian exploration expenditures (ii)	–	(19,750)	(41,200)
Exploration expenses (iii)	(10,277,556)	(271,397)	(91,400)
Write-down of investment (i)	–	217,000	–
Net loss for the year under U.S. GAAP (iv)	(13,962,095)	(2,443,871)	(947,310)
Comprehensive income (loss) items:			
Unrealized gain (loss) on investments (i)	17,116	(146,470)	(797,365)
<b>Net comprehensive income (loss) items</b>	<b>\$ (13,944,979)</b>	<b>\$ (2,590,341)</b>	<b>\$ (1,744,675)</b>
<b>Income (loss) per share under U.S. GAAP (iv)</b>	<b>\$ (0.76)</b>	<b>\$ (0.22)</b>	<b>\$ (0.09)</b>

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**NOTE 20 - DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)**

	2007	2006	2005
<b>Statements of cash flows</b>			
Cash flows used in operating activities under Canadian GAAP	\$ (494,328)	\$ (988,079)	\$ (758,311)
Mineral properties expenditures (iii)	(751,981)	(273,234)	(91,400)
Cash flows used in operating activities under US GAAP	(1,246,309)	(1,261,313)	(849,711)
Cash flows (used in) from investing activities Under Canadian GAAP	(1,095,902)	(225,002)	(226,400)
Mineral properties expenditures (iii)	751,981	273,234	91,400
Cash flows (used in) from investing activities under US GAAP	\$ (343,921)	\$ 48,232	\$ (135,000)

**i) Investments**

U.S. GAAP requires investments held for sale to be recorded at market. The periodic fluctuation in value is recorded as part of comprehensive income (loss); under U.S. GAAP such fluctuations are not recognized into operations until the shares are sold. Canadian GAAP requires such investments to be recorded at the lower of cost and market; long-term investments in marketable securities are written down to market when impairment is considered other than temporary, in which case the written-down value becomes the new cost base, and the impairment is charged to operations.

**ii) Flow-through shares**

Under Canadian income tax legislation a company is allowed to issue flow-through shares pursuant to which the Company renounces Canadian exploration expenditures to the flow-through share investors for an amount equal to the share issuance price.

Under Canadian GAAP, the Company recognizes a future income tax benefit upon the renouncement of these exploration expenditures for the amount of the future tax value of the expenditures renounced. Under U.S. GAAP, the recognition of this future income tax benefit is limited to the extent that the issue price of the flow-through shares exceeds the fair value of the Company's shares on the date that the flow-through shares are sold.

Under Canadian GAAP, unexpended flow-through funds are not classified as restricted. Under US GAAP, however, unexpended flow-through funds are considered restricted and not part of cash and cash equivalents. As at January 31, 2007 and 2006 the Company had \$120,401 of restricted, unexpended flow-through funds (2005 - \$258,378).

**NOTE 20 - DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)**

**iii) Mineral properties interests**

Canadian GAAP allows for the deferral of the costs of acquisition of mineral property interests and exploration expenditures subject to periodic assessment for impairment.

U.S. GAAP requires that exploration expenditures be charged to operations in the period in which they are incurred. Effective April 30, 2004, U.S. GAAP, in accordance with Emerging Issues Task Force (“EITF”) 04-2, further requires that acquisition costs of mineral property interests be recognized as tangible assets. Prior to the issuance of EITF 04-2, acquisition costs of mineral properties interests were charged to operations in the period in which they were incurred. The adoption of EITF 04-2 is to be applied retroactively with a restatement of prior periods. The Company adopted EITF 04-2 as at February 1, 2005, and, accordingly, restated its mineral properties interest balance under U.S. GAAP from \$nil to \$204,002 as at January 31, 2005, resulting in an increase of \$204,002 to total assets and total equity.

**iv) Loss per share**

The weighted average number of common shares used to calculate the loss per share under Canadian GAAP is equal to the weighted average number of common shares under U.S. GAAP.

**v) Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)”. This statement requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The provisions of SFAS No. 158 are effective for employers with publicly traded equity securities as of the end of the fiscal year ending after December 15, 2006. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”. The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statements No. 109” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a two-step method of first evaluating whether a tax position has met a more likely than not recognition threshold and second, measuring that tax position to determine the amount of benefit to be recognized in the financial statements. FIN 48 provides guidance on the presentation of such positions within a classified statement of financial position as well as on derecognition, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

**NOTE 20 - DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)**

**v) Recent Accounting Pronouncements (continued)**

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This statement requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits for subsequent measurement using either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of Statement No. 140. The subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value eliminates the necessity for entities that manage the risks inherent in servicing assets and servicing liabilities with derivatives to qualify for hedge accounting treatment and eliminates the characterization of declines in fair value as impairments or direct write-downs. SFAS No. 156 is effective for an entity's first fiscal year beginning after September 15, 2006. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140", to simplify and make more consistent the accounting for certain financial instruments. SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", to permit fair value re-measurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis. SFAS No. 155 amends SFAS No. 140, "Accounting for the Impairment or Disposal of Long-Lived Assets", to allow a qualifying special-purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, with earlier application allowed. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Dated: July 30, 2007

**AVINO SILVER & GOLD MINES LTD.**

By: /s/ David Wolfin  
David Wolfin, President  
(Principal Executive Officer)

<u>Exhibit Number</u>	<u>Name</u>
1.1	Memorandum of Avino Silver & Gold Mines Ltd.*
1.2.	Articles of Avino Silver & Gold Mines Ltd.*
4.1	Share Purchase Agreement dated March 22, 2004*
8.1	List of Subsidiaries
12.1	Certification of the Principal Executive Officer
12.2	Certification of the Principal Financial Officer
13.1	Certificate under the Sarbanes-Oxley Act
13.2	Consent of Expert
15.1	Form 43 -101F1 Technical Report: Tailings Retreatment – Process Options*

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\* Previously filed.

**EXHIBIT 8.1****List of Subsidiaries**

Name	Jurisdiction of Incorporation	Ownership
Compania Minera Mexicana de Avino , S.A. de C.V.	Mexico	88.25%
Promotora Avino S.A. De C.V.	Mexico	76.88%
Oniva Silver and Gold Mines S.A.	Mexico	100%

**CERTIFICATION**

I, David Wolfin, Principal Executive Officer of Avino Silver & Gold Mines Ltd., certify that:

1. I have reviewed this annual report on Form 20-F of Avino Silver & Gold Mines Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2007

/s/ David Wolfin  
David Wolfin, Principal Executive Officer

**CERTIFICATION**

I, David Wolfin, Principal Financial Officer of Avino Silver & Gold Mines Ltd., certify that:

1. I have reviewed this annual report on Form 20-F of Avino Silver & Gold Mines Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2007

/s/ David Wolfin  
David Wolfin, Principal Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Avino Silver & Gold Mines Ltd. (the "Company") on Form 20-F for the year ended January 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, David Wolfin, Principal Executive Officer and Principal Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 30, 2007

/s/ David Wolfin  
David Wolfin, Principal Executive Officer and  
Principal Financial Officer

**CONSENT OF EXPERT**

I have reviewed the annual Report of Avino Silver & Gold Mines Ltd. on Form 20-F for the fiscal year ended January 31, 2006, which includes information derived from my technical report on the Avino Tailings Project dated April 25, 2006, entitled "Tailings Retreatment Process Options for the Avino Tailings Project in Durango, Mexico", and I concur that the information as set forth is an accurate summary of my report. I further consent to the use in this Form 20-F of the reference to myself as an expert in the Annual Report.

Dated: July 27, 2007

/s/ Rick Alexander  
Rick Alexander, P. Eng