FORTUNA SILVER MINES INC.
(Formerly Fortuna Ventures Inc.)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

UNAUDITED FINANCIAL STATEMENTS: In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the three month period ended March 31, 2007.

FORTUNA SILVER MINES INC.

(A Development Stage Company)
INTERIM CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31, 2007
(Unaudited - Prepared by Management)
(Expressed in Canadian Dollars)

	March 31, 2007	December 31, 2006
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	$ 31,505,408	$ 1,641,264
Accounts receivable and prepaid expenses (Note 14)	7,818,844	5,638,611
Inventories (Note 9)	966,553	826,165
Due from related parties (Note 7)	20,367	13,869
	40,311,172	8,119,909
LONG-TERM INVESTMENTS (Note 5)	2,038,438	741,250
PROPERTY, PLANT & EQUIPMENT (Note 8)	11,929,699	9,160,546
MINERAL PROPERTIES (Note 8)	42,863,534	41,186,418
	$ 97,142,843	$ 59,208,123
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 7)	$ 5,493,041	$ 2,238,031
Due to related parties (Note 7)	37,081	41,147
Loans (Note 6)	37,842	5,730,105
	5,567,964	8,009,283
Obligation under capital lease (Note 6)	93,427	97,100
Asset retirement obligations (Note 15)	1,795,005	1,757,970
Future income tax liability	5,250,642	4,910,377
Non-controlling interest	4,214,035	3,226,631
	16,921,073	18,001,361
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 10)	80,997,340	43,341,404
CONTRIBUTED SURPLUS (Note 10)	7,902,754	6,084,540
DEFICIT	(9,975,512)	(8,219,182)
ACCUMULATED OTHER COMPREHENSIVE INCOME	1,297,188	-
	80,221,770	41,206,762
	$ 97,142,843	$ 59,208,123

Nature of operations (Note 1)
Subsequent event (Note 16)

(See accompanying Notes)

APPROVED BY THE DIRECTORS:

*"signed"*, Director
Jorge Ganoza Durant

*"signed"*, Director
Simon Ridgway

FORTUNA SILVER MINES INC.

(A Development Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF DEFICIT
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2007
(Unaudited - Prepared by Management)
(Expressed in Canadian Dollars)

	Three month period ended March 31, 2007	Three month period ended March 31, 2006
DEFICIT - BEGINNING OF PERIOD	$ (8,219,182)	$ (4,487,209)
Net loss for the period	(1,756,330)	(2,370,712)
DEFICIT - END OF PERIOD	$ (9,975,512)	$ (6,857,921)

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2007
(Unaudited - Prepared by Management)
(Expressed in Canadian Dollars)

	Three month period ended March 31, 2007
NET LOSS	$ (1,756,330)
Other comprehensive income, net of tax	
Unrealized gain on available for sale long-term investment	778,313
COMPREHENSIVE LOSS	$ (978,017)

(See accompanying Notes)

FORTUNA SILVER MINES INC.

(A Development Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2007
(Unaudited - Prepared by Management)
(Expressed in Canadian Dollars)

	Three months ended March 31, 2007	Three months ended March 31, 2006
Sales	$ 5,739,064	$ -
Cost of sales including depletion, amortization and accretion of $1,437,442	4,025,059	-
MINE OPERATING INCOME (LOSS)	1,714,003	-
Selling, general and administrative expenses	1,200,591	293,407
Stock-based compensation (Note 10)	2,309,037	2,131,025
	3,509,627	2,424,432
OPERATING INCOME (LOSS)	(1,795,624)	(2,424,432)
Interest and other income and expenses	280,411	45,813
Interest and finance expenses	(59,877)	-
Foreign exchange gain	156,538	7,907
	377,072	53,720
LOSS BEFORE INCOME TAXES	(1,418,551)	(2,370,712)
Income tax provision	337,779	-
NET LOSS FOR THE PERIOD	$ (1,756,330)	$ (2,370,712)
Loss per share (Basic and Diluted)	$ (0.03)	$ (0.09)
Weighted average number of shares outstanding	63,860,328	27,589,781

(See accompanying Notes)

FORTUNA SILVER MINES INC.

(A Development Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2007
(Unaudited - Prepared by Management)
(Expressed in Canadian Dollars)

	Three months ended March 31, 2007	Three months ended March 31, 2006
OPERATING ACTIVITIES		.
Net loss for the period	$ (1,756,330)	$ (2,370,712)
Items not involving cash		
Depletion, depreciation and amortization	1,400,407	1,636
Accretion expense	37,035	-
Future Income tax	337,779	-
Stock based compensation charge	2,309,037	2,131,025
Foreign Exchange loss other	72,231	-
Changes in non-cash working capital items		
Accounts receivable and prepaid expenses	(1,669,327)	(781,832)
Inventory	(125,112)	-
Accounts payable	1,224,481	(1,312)
Net cash provided by (used in) operating activities	1,830,201	(1,021,195)
FINANCING ACTIVITIES		
Net proceeds on issuance of common shares	37,165,113	20,939,717
Capital lease obligations	(10,776)	-
Payments received from related parties (Note 7)	(6,498)	(6,964)
Payments to related parties (Note 7)	(4,066)	(23,371)
Repayment of debt (Note 6)	(5,730,105)	-
	31,413,669	20,909,382
INVESTING ACTIVITIES		
Mineral property expenditures	(1,982,161)	(1,586,682)
Expenditures on plant & equipment	(1,397,565)	(121,040)
	(3,379,726)	(1,707,722)
INCREASE (DECREASE) IN CASH	29,864,144	18,180,465
Cash - beginning of period	1,641,264	4,165,782
CASH - END OF PERIOD	$ 31,505,408	$ 22,346,247
Supplementary disclosure of cash flow information:		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -

Non-cash Transactions - Note 13

(See accompanying Notes)

1. Nature and Continuance of Operations

Fortuna Silver Mines Inc. (the "Company") is engaged in silver mining and related activities, including exploration, extraction, and processing. The Company operates the Caylloma zinc/lead/silver mine in southern Peru and is currently developing the San Jose silver/gold project in Mexico.

The Company's continuing operations and the recoverability of amounts shown for its exploration stage mineral properties are dependent upon the availability of the necessary financing to complete the exploration and development of such mineral property interests, and upon future profitable production or proceeds from the disposition of its mineral property interests. Future profitable production is primarily dependent on the quality of ore resources, ability to obtain permits, future metal prices, operating and environmental costs, fluctuations in currency exchange rates, political risks and varying levels of taxation.

2. Basis of Presentation

The Company changed its year end from September 30, to December 31, and therefore the comparative figures reflect the 3 month period ended March 31, 2006.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods as our most recent annual financial statements except as indicated in note 3 below. These interim financial statements should be read in conjunction with the audited consolidated financial statements as at December 31, 2006.

The consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, Minera Bateas SAC (Bateas) and Fortuna Silver (Barbados) Inc. and of the Company's 76% interest in Compania Minera Cuzcatlan SA, a variable interest entity for which a non-controlling interest has been recorded to reflect the 24% interest of the Company's partner. All significant intercompany balances and transactions have been eliminated on consolidation.

3. Change in Accounting Policies

On January 1, 2007, the Company adopted the provisions of CICA Sections 1530 "Comprehensive Income", 3251 "Equity", 3855 "Financial Instruments – Recognition and Measurement", 3861 "Financial Instruments – Presentation and Disclosure", and 3865 "Hedges" which were effective for the fiscal years beginning on or after October 1, 2006. These sections address the classification, recognition and measurement of financial instruments and hedges in the financial statements and inclusion of other comprehensive income.

As a result of adopting these new standards at January 1, 2007, the Company recorded an unrealized gain of $518,875 for the change in accounting for financial assets classified as "available-for-sale" and measured at fair value instead of cost. This increase is reported as a one-time cumulative effect to other comprehensive income.

The Company has made the following classifications:

The long-term investments have been classified as "available-for-sale". They are initially recorded at cost which is equal to their fair value. Subsequent changes to the market value of the investments are recorded as changes to other comprehensive income.

Cash and cash equivalents, accounts receivable and prepaid expenses, due from related parties, and accounts payable and accrued liabilities have been classified as "held-for-trading". The fair values of these financial instruments approximate their carrying values due to their short-term nature or capacity of prompt liquidation.

4. Cash and cash-equivalents

Cash and cash-equivalents include a term deposit of $140,297 securing a Stand By Letter of Credit issued on behalf of one of the Company's subsidiaries and which expires on August 7, 2007. These funds are restricted until the expiry of the Stand By Letter of Credit.

5. Investments

Long-term Investments

The Company purchased by way of a private placement 5,000,000 shares of Continuum Resources Ltd. at a price of $0.20 per share for a total purchase price of $1,000,000. Continuum is required to use the proceeds to perform geological work on several silver projects that Continuum holds in the State of Oaxaca, Mexico, and for the acquisition of additional silver targets in that State. Continuum has granted to the Company an exclusive right to review all data prepared by or made available to Continuum in respect of those properties and an exclusive right to acquire an undivided 60% interest in Continuum's interest in any of those properties upon the Company conducting additional exploration activities on a property in an amount not less than the greater of (a) twice the amount expended by Continuum on that property and (b) $500,000.

In November 2006 the Company and Continuum purchased a 100% interest in the San Jose property, where the Company holds a majority interest of 76%. As part of the purchase agreement the Company paid to the property owner 1,293,750 previously held shares of Continuum which were valued at $0.22 per share. The remaining shares in possession of the Company were carried at cost of $741,250 at December 31, 2006.

5. Investments (cont'd)

At March 31, 2007 the Company owned 3,706,250 shares of Continuum Resources Ltd. which were valued at fair market value of $2,038,438 or $0.55 per share.

	March 31, 2007	December 31, 2006
Market	$ 2,038,438	$ 1,260,125
Cost	741,250	741,250
Unrealized gain	$ 1,297,188	$ 518,875

6. Loans

On November 21 2006 the Company borrowed $4,600,000 from Quest Capital Corporation in connection with the acquisition of the San Jose property. The loan was due on May 30, 2007 but was paid back on January 15, 2007 and it bore interest of 12 %. As additional consideration for the facility 153,333 shares of the Company were issued to the lender as payment of a bonus in the amount of $276,000.

On October 30, 2006 a revolving credit line of US$ 950,000, was taken for working capital purposes from Traxys North America. This credit was paid back on February 8, 2007 and it bore interest of Libor + 1.5% plus a variable utilization fee.

The Company has capital lease obligations of $131,269 at March 31, 2007. These are related to the acquisition of mining equipment, have a 3 year term, and bear interest at a fixed rate of 8.5%. The current portion of the capital lease, $37,842, is shown under "Loans".

7. Related Party Transactions

The Company incurred charges with directors, officers, and companies having a common director or officer as follows:

	Three months Ended March 31, 2007	Three Months Ended March 31, 2006
Mineral property costs – geological fees	$ 45,072	$ 38,654
Consulting fees	$ 7,500	$ 30,193
Salaries and wages	$ 3,090	$ 1,112
Management fees	$ 54,468	$ 15,905

These charges were measured at the exchange amount, which is the amount agreed upon by the transacting parties.

At March 31, 2007, accounts payable and accrued liabilities included $nil (Dec 2006: $395) to an officer of the Company.

At March 31, 2007, due to related parties consists of $37,081 owing to an officer and to companies with a common director. These amounts were incurred as a result of shared administrative costs. These amounts are unsecured, non-interest bearing and payable in the normal course of business.

At March 31, 2007, due from related parties consists of $20,367 owed from companies with a common director which were incurred as a result of shared administrative costs. This amount is unsecured, non-interest bearing and will be collected in the normal course of business.

8. Mineral Properties, Plant & Equipment

Plant and Equipment comprise of the following:

	3 month period ended March 31, 2007			Year ended December 31, 2006		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Buildings	$ 2,442,714	$ 110,627	$ 2,332,087	$ 2,329,922	$ 10,241	$ 2,319,681
Machinery & equipment	9,193,232	378,937	8,814,295	6,454,156	132,778	6,321,378
Transport units	131,029	15,037	115,992	131,029	5,852	125,177
Furniture and other equipment	328,936	31,429	297,507	301,013	14,450	286,563
Work in progress	369,817	-	369,817	107,746	-	107,746
	$ 12,465,728	$ 536,029	$ 11,929,699	$ 9,323,866	$ 163,321	$ 9,160,545

8. Mineral Properties, Plant & Equipment (cont'd)

Mineral Properties

Mineral Properties are located in Peru and Mexico and comprise of the following:

	3 month period ended March 31, 2007				Year ended December 31, 2006			
	Cost	Write-offs	Accumulated Amortization	Net	Cost	Write-offs	Accumulated Amortization	Net
Mexico - San Jose	$20,086,592	-	$ -	$20,086,592	$ 18,580,057	-	$ -	$ 18,580,057
Peru - Caylloma	24,384,340	-	1,618,947	22,765,394	23,166,440	-	571,628	22,594,812
Other	11,549	-	-	11,549	51,767	40,218	-	11,549
	$44,482,481	$ -	$ 1,618,947	$42,863,534	$ 41,798,264	$ 40,218	$ 571,628	$ 41,186,418

The carrying amount for San Jose includes $336,493 of capitalized interest on loans (Note 5). Additions for development and capitalized exploration consist of $1,217,900 for the 3 month period ended March 31, 2007 at Caylloma, and $1,506,535 at San Jose.

San Jose Project, Mexico

In November 2005, the Company entered into an agreement (the "Option Agreement") with Continuum Resources Ltd. ("Continuum") whereby the Company was granted the option to acquire a 70% interest in Continuum's rights to earn an 80% interest in the San Jose Project, Mexico.

In September 2006, the Company and Continuum agreed to form a jointly owned Mexico company to be held 76% by the Company and 24% by Continuum, which company would purchase a 100% interest in the San Jose Project from the underlying property owner. The Option Agreement was superseded by this agreement.

In November 2006, this company, Compañia Minera Cuzcatlan ("Cuzcatlan"), paid the purchase price consisting of US$9,000,000 cash (in addition to this the transaction commanded payment of US$1,350,000 on account of the 15% goods and services tax applicable under Mexican law). Additionally the Company issued to the property owner 168,417 shares of the Company and 1,293,750 shares of Continuum already owned by the Company. In order to provide part of the cash payment due to the property owner, the Company borrowed $4.6 million pursuant to a credit facility granted by Quest Capital Corp. of Vancouver, BC. The loan was secured by the Peru assets of the Company. In consideration for the loan, the Company issued 153,333 shares to Quest Capital Corp. (Note 6.)

Of the US$9,000,000 cash purchase price paid by Cuzcatlan, US$8,760,000 was contributed by the Company and on completion of the acquisition of the San Jose Project, the Company and Continum entered into a shareholders agreement which governs the operations of Cuzcatlan. The Company is the operator of the work programs and the Company and Continuum, must contribute to the costs thereof in proportion to its ownership percentage in Cuzcatlan.

Cuzcatlan has been accounted for as a variable interest entity, as defined in CICA Accounting Guideline 15 *Consolidation of Variable Interest Entities* and has been consolidated from the date of acquisition. A non-controlling interest of $4,214,035 has been recorded as at March 31, 2007.

9. Inventories

Inventories comprise of the following:

	3 months ended Mar. 31, 2007	Year ended Dec. 31, 2006
Ore stock piles	$ 251,669	$ 77,664
Concentrate stock piles	56,212	165,551
Materials and supplies	658,672	582,950
Total	$ 966,553	$ 826,165

10. Share Capital

Authorized

Unlimited common shares without par value	Number of shares	Amount
Balance, September 30, 2005	20,083,465	$ 12,163,851
Exercise of options	650,000	423,775
Exercise of warrants	6,124,631	5,600,546
Private placement for cash	16,700,000	22,050,000
Private placement commission non-cash transaction (Note 12)	760,261	1,140,392
Property acquisition non-cash transaction (Note 12)	1,897,621	2,713,598
Property finders fee non-cash transaction (Note 12)	50,000	68,000
Property acquisition non-cash transaction (Note 12)	168,417	284,625
Loan fee (Note 12)	153,333	275,999
Transfer of contributed surplus on exercise of options		215,256
Less issue costs (Non-cash amount $1,140,443)		(1,594,638)
Balance, December 31, 2006	46,587,728	$ 43,341,404
Exercise of options	610,000	782,405
Exercise of warrants	2,213,517	3,867,500
Private placement for cash	18,000,000	34,200,000
Private placement commission non-cash transaction (Note 12)	422,300	802,370
Transfer of contributed surplus on exercise of options		490,823
Less issue costs (Non-cash amount $802,370)		(2,487,163)
Balance, March 31, 2007	67,833,545	$ 80,997,340

Stock Options

The Company has established a formal stock option plan in accordance with the policies of the TSX Venture Exchange under which it is authorized to grant options up to 10% of its outstanding shares to officers, directors, employees and consultants. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. Upon the Company becoming a Tier 1 issuer on the TSX Venture Exchange on January 13, 2006, the options are for a maximum term of ten years.

10. Share Capital (cont'd)

Stock Options (cont'd)

A summary of stock options granted and exercised under the Company's stock option plan is as follows:

	3 months ended March 31, 2007		Year ended December 31, 2006	
	Number of Options	Weighted Average Exercised Price	Number of Options	Weighted Average Exercised Price
Outstanding, beginning year	3,765,000	$ 1.62	860,000	$ 0.56
Granted	1,510,000	2.22	3,555,000	1.70
	80,000	2.75	-	-
Exercised	(123,500)	0.37	(650,000)	0.65
	(72,500)	0.72	-	-
	(205,000)	1.35	-	-
	(99,000)	2.29	-	-
	(65,000)	1.55	-	-
	(35,000)	1.66	-	-
	(10,000)	2.22	-	-
Expired	(75,000)	2.29	-	-
Outstanding, end of period	4,670,000	$ 1.87	3,765,000	$ 1.62

The following stock options were outstanding and exercisable at March 31, 2007:

Number of shares	Exercise Price $	Expiry Date
39,000	0.37	December 2, 2009
40,000	0.80	July 24, 2010
525,000	1.35	February 5, 2016
451,000	2.29	March 30, 2016
130,000	1.75	May 8, 2016
200,000	1.75	May 22, 2016
420,000	1.55	July 5, 2016
960,000	1.66	July 10, 2016
225,000	1.61	Sept. 13, 2016
50,000	1.90	Nov. 20, 2016
50,000	1.96	Nov. 23, 2016
1,500,000	2.22	Jan 11, 2017
80,000	2.75	Feb 6, 2017
4,670,000		

10. Share Capital (cont'd)

Warrants

A summary of share purchase warrants issued and exercised is as follows:

	3 months ended March 31, 2007		Year ended December 31, 2006	
	Number of Warrants	Weighted Average	Number of Warrants	Weighted Average
Outstanding, beginning year	20,566,185	$ 1.23	13,114,117	$ 0.91
Issued	10,559,725	2.30	13,576,699	1.40
Exercised	(290,000)	1.25	(6,124,631)	0.91
	(42,000)	0.80	-	-
	(26,875)	1.50	-	-
	(1,854,642)	1.85	-	-
Outstanding, end of period	28,912,393	$ 1.59	20,566,185	$ 1.23

The following share purchase warrants were outstanding at March 31, 2007:

Number of warrants	Exercise Price $	Expiry Date
593,557	1.85	September 23, 2007
8,570,000	1.25	September 26,2007
270,085	0.80	September 26,2007
1,176,833	1.25	October 6, 2007 **
72,056	0.80	October 6, 2007
5,194,782	1.85	March 23, 2008
10,559,725	2.30	July 11, 2008
862,117	0.345	June 27, 2010
1,613,238	0.345	Nov 17, 2010
28,912,393		

** Pursuant to the terms of these warrants, the exercise price increased from $1.00 per share to $1.25 per share effective October 7, 2006.

Escrow Securities

87,470 shares held in escrow pursuant to an escrow agreement dated July 1, 1991 were cancelled by the regulatory authorities on March 9, 2005. The issued share capital reflects the cancellation of these shares.

As at June 1, 2005, there were placed in escrow 495,422 common shares and warrants and options to purchase up to 694,800 common shares. As at September 30, 2005, 733,880 shares and 337,320 warrants and options remained in escrow. As at December 31, 2006, all of the securities had been released, and the Company had no securities held in escrow.

10. Share Capital (cont'd)

Stock-Based Compensation

The Company uses the fair value based method of accounting for share options granted to consultants, directors, officers and employees. The non-cash compensation charge of $2,309,037 recognized for the three months ended March 31, 2007 is associated with the granting of options to a consultant, directors and employees. These compensation charges have been determined under the fair value method using the Black-Scholes option pricing model with the following assumptions:

	3 months ended March 31, 2007	3 months ended March 31, 2006
Risk-free interest rate	4.04% - 4.13%	4.21% - 4.26%
Expected stock price volatility	67.0% - 68.0%	92.0% - 96.0%
Expected term in years	5 & 10	10
Expected dividend yield	0%	0%

11. Accumulated Other Comprehensive Income

	March 31, 2007
Balance at December 31, 2006	$ -
Cumulative impact of accounting changes	518,875
Adjusted balance January 1, 2007	518,875
Unrealized gain on available for sale long-term investment	778,313
Balance at March 31, 2007	$ 1,297,188

12. Segmented Information

Details of identifiable assets by geographic segments are as follows:

	March 31, 2007	December 31, 2006
Canada		
Current assets	$ 30,516,963	$ 1,852,778
Investments	2,038,438	741,250
Plant and equipment	8,669	9,326
	$ 32,564,070	$ 2,603,354
Peru		
Current assets	$ 6,700,333	$ 5,020,408
Plant and equipment	9,078,676	9,146,296
Mineral properties	22,765,394	22,594,813
	$ 38,544,403	$ 36,761,517
Guatemala		
Plant and equipment	$ 2,910	$ 2,910
Mexico		
Current assets	$ 2,392,202	$ 1,246,722
Mineral properties	20,086,592	18,580,057
Plant and equipment	2,839,444	2,014
	$ 25,318,238	$ 19,828,793
Barbados		
Current assets	$ 701,674	$ -
Latin America - General		
Mineral properties	$ 11,549	$ 11,549
	$ 97,142,844	$ 59,208,123

All revenues are generated in Peru

13. Supplementary Disclosure of Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

The following non-cash transactions occurred:

	3 months ended March 31, 2007		
	Number of shares		Amount
Shares issued for commission on private placement	422,300	$	802,370
Purchase of equipment on a deferred payment plan		$	2,029,580

	3 months ended March 31, 2006		
	Number of shares		Amount
Shares issued for property finders fees	50,000	$	68,000
Shares issued for commission on private placement	760,261	$	1,140,392

14. Accounts Receivable and Prepaids

	Mar. 31, 2007	Dec. 31, 2006
GST and value added taxes	$ 4,340,160	$ 3,737,849
Accounts receivable	2,819,585	1,561,785
Advances and other receivables	501,507	279,376
Prepaid expenses and deposits	157,592	59,601
	$ 7,818,844	$ 5,638,611

15. Asset Retirement Obligation

The Company has recorded an Asset Retirement Obligation of $1,795,005 as of March 31, 2007. This is the result of having accreted the previously reported Asset Retirement Obligation of $1,757,970 as of December 31, 2006 by $38,280. The accretion expense was calculated over the period using a rate of 9%. The initial amount recorded as of September 30, 2005 was based on an estimate prepared by an independent third party at the time of acquisition as to the cost of reclamation associated with the Caylloma property. The Company is currently reviewing its reclamation obligations at the property in light of changing regulations and on the basis of further data in respect of the mine life.

15. Asset Retirement Obligation (cont'd)

In view of the uncertainties concerning environmental reclamation, the ultimate cost of reclamation activities could differ materially from the estimated amount recorded. The estimate of the Company's asset retirement obligation relating to the Caylloma mine is subject to change based on amendments to laws and regulations and as new information regarding the Company's operations becomes available.

Future changes, if any, to the estimated liability as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate. Any such change would result in an increase or decrease to the liability and a corresponding increase or decrease to the mineral property, plant and equipment balance.

16. Subsequent Events

Subsequent to March 31, 2007 the Company received $414,750 from 271,000 options exercised and $3.1 million from 2,331,937 warrants exercised.

17. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.