



SILVERCORP METALS INC.

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2007 AND 2006

(Expressed in Canadian Dollars, unless otherwise stated)



Silvercorp Metals Inc.
希尔威金属矿业有限公司
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Management's Responsibility for Financial Reporting

Management of Silvercorp Metals Inc. is responsible for the integrity and fair presentation of the financial information contained in the accompanying consolidated financial statements. Where appropriate, the financial information, including financial statements, reflects amounts based on the best estimates and judgments of management. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Other information contained in this document has also been prepared by management and is consistent with the data contained in the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee, which is composed entirely of independent directors. The Audit Committee meets periodically with management and the auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company.

Ernst & Young LLP, Chartered Accountants, have audited the Company's financial statements in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the auditors' report.

(Signed) Rui Feng

(Signed) Grace Soo

Rui Feng

Grace Soo

Chairman and Chief Executive Officer

Chief Financial Officer

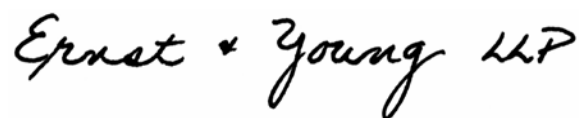
AUDITORS' REPORT

To the Shareholders of
Silvercorp Metals Inc.

We have audited the consolidated balance sheets of **Silvercorp Metals Inc.** as at March 31, 2007 and 2006 and the consolidated statements of income (loss) and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

Vancouver, Canada,
May 11, 2007.

Chartered Accountants

SILVERCORP METALS INC.
CONSOLIDATED BALANCE SHEETS
As at March 31, 2007 and 2006
(Express in Canadian Dollars)

		2007		2006
ASSETS				
Current Assets				
Cash and cash equivalents	Note 3	\$ 61,484,697	\$	3,899,812
Short term investments	Note 4	6,282,426		8,700,000
Accounts receivable and prepaids	Note 5	1,470,820		996,077
Inventories	Note 6	2,077,954		-
		71,315,897		13,595,889
Advances to joint venture parties		-		305,760
Long term receivable	Note 7	1,769,852		356,720
Long term investments	Note 8	7,557,083		1,355,079
Property, plant and equipment	Note 9	9,071,817		1,740,552
Mineral rights and properties	Note 10	18,822,299		3,721,801
Reclamation deposits		10,000		10,000
		\$ 108,546,948	\$	21,085,801
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	Note 14	\$ 3,599,126	\$	1,398,362
Deposits received from customers		1,599,376		357,685
Income tax payable	Note 15 (a)	1,678,446		-
Current portion of asset retirement obligations	Note 11	337,115		-
Amount due to related parties	Note 14	1,536,722		35,070
		8,750,785		1,791,117
Future income tax liabilities	Note 15 (b)	1,620,042		-
Asset retirement obligations	Note 11	772,438		-
		11,143,265		1,791,117
Non-controlling interests		8,010,333		700,637
SHAREHOLDERS' EQUITY				
Share capital	Note 12	86,326,581		38,130,910
Contributed surplus	Note 13	1,195,340		4,886,735
Cumulative translation adjustment		1,232,387		46,168
Retained earnings (deficit)		639,042		(24,469,766)
		89,393,350		18,594,047
		\$ 108,546,948	\$	21,085,801
Commitments and Contingencies	Notes 8, 18, and 19			

Approved on behalf of the Board:

(Signed) Greg Hall

(Signed) Rui Feng

The accompanying notes are an integral part of these consolidated financial statements.

SILVERCORP METALS INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)
For years ended March 31, 2007 and 2006
(Expressed in Canadian Dollars except for share figures)

		2007	2006
Sales	Note 17	\$ 45,290,340	\$ -
Cost of sales		8,810,829	-
Amortization and depletion		1,354,667	-
		10,165,496	-
Earnings from mine operations		35,124,844	-
Expenses			
Accretion of asset retirement obligations	Note 11	70,478	-
Amortization		139,727	73,707
Foreign exchange loss (gain)		(349)	50,056
General exploration and property investigation expenses		919,639	685,697
Investor relations		856,856	312,503
Mineral properties written off	Note 10(a)	-	1,714,491
Office, administration and miscellaneous	Note 14(a)	2,581,496	1,405,883
Professional fees	Note 14(a)	515,788	335,325
Stock-based compensation expenses	Note 12(d), 13	2,226,425	2,295,591
		7,310,060	6,873,253
Earnings before other income and expenses		27,814,784	(6,873,253)
Other income and expenses			
Equity loss in investments	Note 8(b)	(252,839)	(159,334)
Loss on disposal of property, plant and equipment	Note 9	(4,988)	-
Loss on disposal of long term investments	Note 8(a)	(12,400)	-
Mineral property option income	Note 8(b)	4,387,748	342,376
Interest income		1,952,313	164,369
Other income		37,891	135,899
		6,107,725	483,310
Income (loss) before income taxes and non-controlling interests		33,922,509	(6,389,943)
Income tax expense	Note 15(a)	(1,623,286)	-
Income (loss) before non-controlling interests		32,299,223	(6,389,943)
Non-controlling interests		(7,190,415)	130,688
Net income (loss) for the year		25,108,808	(6,259,255)
Deficit, beginning of the year		(24,469,766)	(18,210,511)
Retained earning (deficit), end of year		\$ 639,042	\$ (24,469,766)
Basic earnings (loss) per share		\$ 0.52	\$ (0.15)
Diluted earnings (loss) per share		\$ 0.50	\$ (0.15)
Weighted Average Number of Shares Outstanding - Basic		47,971,231	42,416,005
Weighted Average Number of Shares Outstanding - Diluted		49,891,352	42,416,005

The accompanying notes are an integral part of these consolidated financial statements.

SILVERCORP METALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For years ended March 31, 2007 and 2006
(Expressed in Canadian Dollars)

	2007	2006
Cash provided by (used for)		
Operating activities		
Net income (loss) for the year	\$ 25,108,808	\$ (6,259,255)
Add (deduct) items not affecting cash :		
Accretion of asset retirement obligations	70,478	-
Amortization and depletion	1,494,394	73,707
Equity loss in investments	252,839	159,334
Loss on disposal of long term investments	12,400	-
Loss on disposal of property, plant, and equipment	4,988	-
Mineral property option income	(4,387,748)	(342,376)
Mineral property written off	-	1,714,491
Non-controlling interests	7,190,415	(130,688)
Stock-based compensation	2,226,425	2,295,591
	31,972,999	(2,489,196)
Net change in non-cash working capital		
Accounts receivable and prepaids	(474,743)	277,860
Inventory	(1,944,852)	-
Accounts payable and accrued liabilities	2,054,310	721,991
Asset retirement obligation discharged upon payment	(260,925)	-
Deposits received from customers	1,192,569	(75,676)
Income tax payable	1,678,446	-
Cash provided by (used in) operating activities	34,217,804	(1,565,021)
Investing activities		
Purchase of mineral rights and properties	(13,380,876)	(7,171,631)
Mineral rights and properties - cost recovery	-	5,455,665
Purchase of property, plant, and equipment	(7,201,641)	(814,486)
Purchase of long term investments	(2,317,095)	-
Advances to related parties	-	(8,714)
Cash transferred in on acquisition of Ying Project	-	1,899,365
Cash transferred in from JV partners	119,280	-
Redemption (purchase) of short term investments	2,624,038	(4,500,000)
Increased in long term receivable	(1,413,132)	(356,720)
Proceeds from disposal of long term investments	237,600	-
Proceeds from disposal of property, plant, and equipment	10,000	-
Payment to Joint Venture partner for acquisition of Henan Found	-	(1,767,652)
Cash used in investing activities	(21,321,826)	(7,264,173)
Financing activities		
Advances from related parties	1,501,652	-
Advances to joint venture parties	305,760	(244,106)
Share issued for cash	47,776,954	10,685,196
Shares returned to Treasury for cancellation	(5,499,104)	-
Cash provided by financing activities	44,085,262	10,441,090
Effect of exchange rate changes on cash and cash equivalents	603,645	(83,966)
Increase in cash and cash equivalents	57,584,885	1,527,930
Cash and cash equivalents, beginning of year	3,899,812	2,371,882
Cash and cash equivalents, end of year	\$ 61,484,697	\$ 3,899,812
Supplemental information:		
Interest paid	\$ 319	\$ 21
Income tax paid	\$ -	\$ -
Non-cash investing activities:		
Common shares of New Pacific Metals Corp. received as partial consideration for the Option Agreement in relation to the Kang Dian Project	\$ 4,387,748	\$ 342,376
Asset retirement obligations included in mineral rights and properties	\$ 1,300,000	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
For Years ended March 31, 2007 and 2006
(Expressed in Canadian dollars, unless otherwise stated)

1. NATURE OF OPERATIONS

Silvercorp Metals Inc., an exploration and development stage company, along with its subsidiary companies and joint ventures (collectively the “Company”) are engaged in the acquisition, exploration, development, and mining of precious and base metal mineral properties in the People’s Republic of China (“China”). The Company existed from the exploration stage effective April 1, 2006 pursuant to ACG 11 “Enterprises in the Development Stage”. The Company is a reporting issuer in British Columbia, Alberta, Ontario, Nova Scotia, New Brunswick, Manitoba and Saskatchewan and trades on the TSX Exchange under the symbol SVM.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation and principles of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), and presented in Canadian dollars. They include the accounts of the Company and its directly and indirectly owned subsidiaries Silvercorp Metals China Inc., Fortune Mining Limited, Fortune Copper Limited, Fortress Mining Inc., Fortune Gold Mining Limited, Lachlan Gold Ltd., Victor Resources Ltd., Victor Mining Ltd., Yunnan Jin Chang Jiang Mining Co. Ltd. (“YJCJM”), 60% owned subsidiary, Huawei Mining Co. Ltd., and 77.5% owned subsidiary, Henan Found Mining Co. Ltd. (“Henan Found”).

All significant inter-company transactions and accounts have been eliminated upon consolidation.

(b) Use of estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include assumptions and estimates relating to determining defined ore bodies, reserves value beyond proven and probable mine life, fair values for purposes of impairment analysis, reclamation obligations, non-cash stock-based compensation and warrants, valuation allowances for future income tax assets, and future income tax liabilities. Actual results could differ from these estimates.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments having maturity dates of three months or less from the date of acquisition that are readily convertible to cash.

(d) Inventories

Inventories include metals contained in concentrates, stockpile ores and operating materials and supplies. The classification of inventory is determined by the stage at which the ore is in the production process. Inventories of ore are sampled for metal content and are valued based on the lower of actual production costs incurred or estimated net realizable value based upon the period

SILVERCORP METALS INC.
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ending prices of contained metal. Material that does not contain a minimum quantity of metal to cover estimated processing expense to recover the contained metal is not classified as inventory and is assigned no value. All metal inventories are stated at the lower of cost or market, with cost being determined using the moving average method. Supplies inventories are valued at the average cost, net of obsolescence. Concentrate inventories are valued at lower of cost or market.

(e) Long-term investments

Long-term investments over which the Company has no control or for which it does not have significant influence or control are valued at cost, less a provision for other than temporary impairments in value.

Investments in which the Company has a significant influence are accounted for by the equity method, whereby the Company records its proportionate share of the investee's income or loss.

Quoted market values presented do not necessarily reflect the long-term net realizable value and assume that the Company is able to dispose of all shares held at the closing trading price at year end.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method at the following rates, calculated to amortize the cost of the assets less their residual values over their estimated useful lives.

Building	5%
Computer equipment	20% - 50%
Computer software	20% - 50%
Equipment and furniture	20% - 50%
Machinery	10% - 20%
Mining equipment	10%
Motor vehicle	20%
Leasehold improvement	20%

(g) Mineral rights and properties

Mineral rights and properties include the acquisition costs, direct exploration and development expenditures.

Upon commencement of commercial production, mineral properties and capitalized expenditures are amortized over the mine's estimated life using the units of production method calculated on the basis of estimated reserves.

The Company reviews the carrying value of each property that is in the exploration/development stage by reference to the project economics including the timing of the exploration and/or development work, the work programs and the exploration results experienced by the Company

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and others. The review of the carrying value of each producing property will be made by reference to the estimated future operating results and net cash flows. When the carrying value of a property exceeds its estimated net realizable amount, provision will be made for the decline in value. The carrying amount will be written off if the Company decides to abandon the property.

The recoverability of the amounts capitalized for the undeveloped mineral properties and deferred exploration costs is dependent upon the determination of economically recoverable ore resources, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their exploration and development and future profitable production or proceeds from the disposition thereof.

(h) Asset retirement obligations

Asset retirement obligations ("ARO") represent the estimated discounted net present value of statutory, contractual or other legal obligations relating to site reclamation and restoration costs that the Company will incur on the retirement of assets and abandonment of mine and exploration sites. ARO are added to the carrying value of mineral rights and properties as such expenditures are incurred and amortized against income over the useful life of the related asset. ARO are determined in compliance with recognized standards for site closure and mine reclamation established by governmental regulation.

Over the life of the asset, imputed interest on the ARO liability is charged to operations as accretion of asset retirement obligations on the consolidated statements of income (loss) using the discount rate used to establish the ARO. The offset of accretion expense is added to the balance of the ARO.

Where information becomes available that indicates a recorded ARO is not sufficient to meet, or exceeds, anticipated obligations, the obligation is adjusted accordingly and added to, or deducted from, the ARO.

(i) Foreign currency translation

All the subsidiaries, except its 77.5% owned subsidiary Henan Found Mining Co. Ltd. ("Henan Found"), are considered to be integrated foreign operation and their financial statements are translated to Canadian dollars under temporal method. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at historical exchange rate. Revenues and expenses are translated at the average exchange rate in effect during the period. Realized and unrealized foreign exchange gains and losses are included in earnings.

Henan Found is considered to be a self-sustaining operation. The assets and liabilities of Henan Found, which are dominated in Chinese Yuan ("RMB¥"), are translated into Canadian dollars using current rate method at period-end exchange rates and resulting translation adjustments are reflected as a separate component of shareholders' equity. Revenues and expenses of Henan Found are translated at average exchange rates for the year.

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(j) Revenue Recognition

Revenue is recognized upon delivery when title and risk of ownership of metals or metals bearing concentrate passes to the buyer and when collection is reasonably assured. The passing of title to the customer is based on the terms of the sales contract. Product selling price is referenced to the active and freely traded commodity markets.

(k) Stock-based compensation plan

The Company accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted to employees, officers, and directors is measured at fair value at the date of the grant using the Black-Scholes valuation model and is expensed in the statement of income (loss) over the vesting period of the options granted. Stock options granted to consultants are measured at their fair value using the Black-Scholes valuation method.

Upon the exercise of the stock option, consideration received and the related amount transfer from contributed surplus are recorded as share capital.

(l) Impairment of long-lived assets

Management of the Company regularly reviews the net carrying value of each long-lived asset. Where information is available and conditions suggest impairment, estimated future net cash flows are calculated using estimated future prices, proven and probable reserves, selling prices for mineral ores and concentrates, and operating, capital and reclamation costs on an undiscounted basis. Reductions in the carrying value of long-lived assets would be recorded to the extent the net book value of the related assets exceeds the estimated undiscounted future cash flows. The impairment amount would correspond to the excess of the carrying value over the fair value.

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses if carrying value can be recovered. Management's estimates of mineral prices, recoverable proven and probable reserves, selling prices for ores and concentrates, and operating, capital and reclamation costs are subject to certain risks and uncertainties which may affect the recoverability of long-lived assets. Although management has made its best estimate of these factors, it is possible that changes could occur in the near term, which could adversely affect management's estimate of the net cash flow to be generated from its assets.

(m) Income taxes

The Company uses the liability method of accounting for income taxes. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases on the balance sheet date. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in substantively enacted rates is included in operations. A future income tax asset is recorded when the probability of the realization is more likely than not.

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(n) Earnings (loss) per share

Basic earnings per share is computed by dividing net income or loss by the weighted average number of outstanding common shares for the year.

The computation of diluted earnings per share reflects the dilutive effect of the exercise of stock options and warrants outstanding as at year-end using the treasury stock method whereby the assumed proceeds upon the exercise of stock options and warrants are used to purchase common shares at the average market price during the year. Diluted loss per share is equal to basic loss per share for the year ended March 31, 2006 because common stock equivalents that were outstanding at March 31, 2006 were anti-dilutive.

(o) Accounting developments

(i) Stripping costs

On March 2, 2006, the CICA issued EIC-160 Stripping Costs Incurred in the Production Phase of a Mining Operation that requires adoption for fiscal year beginning on or after July 1, 2006 with early adoption encouraged. EIC-160 requires the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations be charged to income in the period in which they are incurred, except when the costs represent betterment to the mineral property. Stripping costs represent betterment to the mineral property when the stripping activity provides access to reserves that will be produced in future periods and that would otherwise not have been accessible without the stripping activity. When stripping costs are deferred in relation to betterment, the costs are amortized to operations over the reserve accessed by the stripping activity using the units of production method.

The Company will adopt, on a prospective basis, EIC-160 beginning with fiscal year 2008. The Company believes the application of this new accounting policy will not have a material impact on the financial position or results of operations.

(ii) Financial instrument standards

During 2006, the CICA introduced financial instrument standards effective for fiscal years beginning on or after October 1, 2006. These standards are Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement and Section 3865, Hedges. The Company will adopt these standards on April 1, 2007. Management is currently assessing the impact of these new standards.

(iii) Accounting changes

In July 2006, the CICA revised Section 1506, “Accounting Changes”, which now requires that: (a) a voluntary change in accounting principles can be made if, and only if, it is required by a primary source of GAAP, or the changes result in more reliable and relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (c) for changes in estimates, the nature and amount of the change should be disclosed. The revised section is effective for the Company’s financial year beginning April 1, 2007.

SILVERCORP METALS INC.
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(p) Comparative figures

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at March 31, 2007 of \$61,484,697 (March 31, 2006 - \$3,899,812) consist of cash, bank notes, and term deposits maturing within three months of the initial investment date. As at March 31, 2007, the Company holds a bank discount note with a market value of \$37,265,319 (March 31, 2006 - \$nil) and a face value of \$37,403,000 (March 31, 2006 - \$nil) yielding 4.31% (March 31, 2006 - \$nil) per annum to maturity on April 30, 2007. The Company's term deposits total \$8,851,017 (RMB¥59,362,955) (March 31, 2006 - \$1,456,000), bear interest of 1.80% (March 31, 2006 - 1.71%) per annum, with maturity dates to June 01, 2007.

4. SHORT TERM INVESTMENTS

Short term investments as at March 31, 2007 of \$6,282,426 (RMB¥42,135,656) are made up of term deposits with maturity dates beyond three months. Short term investment as at March 31, 2006 of \$8,700,000 were made up of guarantee investment certificates and were disposed during the year. As at March 31, 2007, the term deposits comprised the following:

Type of Deposit	C\$ equivalent	Amount RMB ¥	Interest Rate	Maturity Date
Term Deposit	\$ 1,958,526	13,135,655	2.07%	July 30, 2007
Term Deposit	1,341,900	9,000,000	2.25%	September 18, 2007
Term Deposit	2,982,000	20,000,000	2.43%	September 26, 2007
Total	\$ 6,282,426	42,135,655		

5. ACCOUNTS RECEIVABLE AND PREPAIDS

Accounts receivable and prepaids consist of the following:

	March 31, 2007	March 31, 2006
Interest receivable	\$ 45,818	\$ 101,057
Prepaid expenses and deposits	1,425,002	825,248
Other receivables	-	69,772
	\$ 1,470,820	\$ 996,077

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6. INVENTORIES

Inventories consist of the following:

	March 31, 2007	March 31, 2006
Direct smelting ore and stockpile ore	\$ 1,185,427	\$ -
Concentrate inventory	603,064	-
Total stockpile	1,788,491	-
Material and supplies	289,463	-
	\$ 2,077,954	\$ -

7. LONG TERM RECEIVABLE

Long term receivable as at March 31, 2007 of \$1,769,852 (2006 - \$356,720) comprised of: \$1,250,002 (2006 - \$356,720) of advances or loans to contractors to purchase equipment to work on the Ying Project or construct mill facilities for the Company as well as prepayments to suppliers to acquire fixed assets; and \$519,850 (2006 - \$nil) of advances to third parties to assist the Company in the exploration of potential mineral properties in other parts of China.

8. LONG TERM INVESTMENTS

	March 31, 2007	March 31, 2006
Dajin Resources Corp. (a)		
1,000,000 (2006 - 2,000,000) common shares market value \$260,000 (2006 - \$500,000)	\$ 250,000	\$ 500,000
New Pacific Metals Inc. (b)	7,239,988	855,079
Investment in Luoning County Smelter (c)	67,095	-
	\$ 7,557,083	\$ 1,355,079

(a) *Dajin Resources Corp.*

On June 22, 2006, the Company disposed of 1,000,000 (2006 - \$nil) shares of Dajin for gross proceeds of \$237,600 (2006 - \$nil) and a loss of \$12,400 (2006 - \$nil) was recorded.

(b) *New Pacific Metals Inc.*

In November 2003, the Company, through a wholly owned subsidiary SKN Nickel & Platinum Ltd. ("SNP"), entered into a letter agreement with the holder of the permits and permit applications comprising the Kang Dian Project, located in Sichuan Province, China, thereby obtaining the rights to acquire a 75% interest in the exploration permits by contributing \$3,024,000 (US\$2,500,000) to fund the exploration and development of the Project over a period of four years and paying \$96,768 (US\$80,000) to a Chinese party within 10 days after obtaining the approvals from China government. After SNP has earned its 75% interest, contributions to fund the exploration and development of the Project will be made pro rata. The interest of the Chinese property owners can be diluted to not less than 10% if they elect not to make cash contributions.

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On March 4, 2004, the Company entered into a letter agreement with New Pacific Metals Corp. (“NUX”), a related party by way of a common director, whereby NUX has the option to acquire SNP, by meeting the required capital commitment of SNP under the joint venture contract, and thereby the Kang Dian Project through the issuance of a total of 6,500,000 common shares at market price on the date of release. The common shares were issuable on the basis of 2,500,000 common shares on issuance of a Bulletin by the TSX Venture Exchange accepting the transaction (issued); a further 2,000,000 shares were to be issued upon successful completion of the \$452,390 (US\$374,000) work program recommended under the Technical Report that has been completed on the Project (issued); and 2,000,000 shares were to be issued upon completion of \$1,209,600 (US\$1,000,000) in funding obligations by SNP under the agreement (issued). The initial 2,500,000 common shares are subject to escrow with 650,000 common shares released upon receipt of exchange approval and 154,167 every quarter over the 3 year escrow period. The first and second tranches of 2,000,000 common shares issued are subject to escrow with a release of 250,000 common shares every three months. The common shares remaining in escrow are subject to cancellation in the event NUX determines not to continue contributing to the joint venture company to be created. The Company placed a representative on the NUX Board of Directors pursuant to the terms of the agreement.

During the year ended March 31, 2007, NUX exercised its option to acquire SNP and issued additional 2,000,000 (2006 - 4,500,000) common shares into escrow. The Company is entitled to the voting rights attached to the escrow shares. As at March 31, 2007, a total of 4,087,501 (2006 - 1,670,835) NUX’s common shares were released to the Company from escrow. The mineral property option income was \$4,387,748 representing the market value of 2,416,666 common shares (2006 - \$342,376 on 866,668 common shares) released from escrow in 2007.

In March 2007, the Company participated in NUX’s private placement and subscribed for a total of 900,000 units at \$2.50 per unit. Each unit was comprised of one common share and one-half of one share purchase warrant. Each whole warrant entitles the Company to acquire on additional common share at \$3.00 for a period of one year until March 15, 2008.

Although the Company does not exercise control over NUX as the decision making process requires majority board members’ approval, the Company has been considered to have the ability to exercise significant influence on NUX. The Company thus accounts for its investment in NUX on the equity basis, which is carried at cost, adjusted for the Company’s proportionate share of their undistributed earnings or losses. For the year ended March 31, 2007, a total of \$252,839 (2006 - \$28,630) of equity loss had been recorded.

The following is the summary of the investment in NUX:

	March 31, 2007	March 31, 2006
Cost of 4,987,501 (2006 - 1,670,835) shares of NUX	\$ 7,521,457	\$ 883,709
Equity in loss of investee company	(281,469)	(28,630)
Investment in NUX on equity basis	\$ 7,239,988	\$ 855,079

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(c) Investment in Luoning Country Smelter

During the 2007 fiscal year, Henan Found entered into a joint venture agreement, for a 22.5% participation interest, in a custom built 150,000-tonne/year lead-silver-gold smelter in Luoning County, Luoyang City, Henan Province, China. Henan Found's share, 22.5% of the cost, will be \$6.71 million (RMB¥45 million) for the first phase and is expected to be financed by cash flow from its Ying Silver Mine. The construction of the smelter has received preliminary approval from the Henan provincial government and is subject to further approval by related Chinese governmental authorities. As of March 31, 2007, Henan Found contributed its first installment of \$67,095 (RMB¥450,000) to set up the joint venture.

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	March 31, 2007			March 31, 2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Building	\$ 3,262,007	\$ 34,845	\$ 3,227,162	\$ 154,766	\$ 4,318	\$ 150,448
Computer equipment	330,149	114,113	216,036	95,671	66,443	29,228
Computer software	122,089	13,750	108,339	65,899	3,714	62,185
Equipment and furniture	480,571	38,130	442,441	150,734	29,494	121,240
Machinery	1,214,037	42,651	1,171,386	203,589	8,304	195,285
Mining equipment	492,106	116,981	375,125	491,643	67,182	424,461
Motor vehicle	968,586	123,479	845,107	322,136	50,956	271,180
Leasehold improvement	116,936	6,724	110,212	-	-	-
Construction in process	2,576,009	-	2,576,009	486,525	-	486,525
	\$ 9,562,490	\$ 490,673	\$ 9,071,817	\$ 1,970,963	\$ 230,411	\$ 1,740,552

During the year ended March 31, 2007, the Company disposed equipment and furniture for proceeds of \$14,988 (2006 – \$nil) due to the move of head office. A loss of \$4,988 (2006 – \$nil) was recorded.

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10. MINERAL RIGHTS AND PROPERTIES

Mineral rights and properties are comprised of the following:

	Tuobuka	Ying	HPG	NZ	Total
Balance, March 31, 2005	\$1,668,740	\$ 262,761	\$ -	\$ -	\$ 1,931,501
Additions during the year:					-
Acquisition of mineral rights and properties	-	4,281,626	-	-	4,281,626
Capitalized exploration and development costs	-	-	-	-	-
Consulting and management fees	-	255,072	-	-	255,072
Drilling, assay fee and reporting	31,150	1,779,718	-	-	1,810,868
Office and miscellaneous	8,235	700,520	-	-	708,755
Tunneling and trenching	6,366	1,867,386	-	-	1,873,752
Exploration and development cost recovery	-	(5,425,282)	-	-	(5,425,282)
Mineral interest written off	(1,714,491)	-	-	-	(1,714,491)
Balance, March 31, 2006	-	3,721,801	-	-	3,721,801
Additions during the year:					
Acquisition of mineral rights and properties	-	2,878,838	6,494,306	1,762,940	11,136,084
Capitalized asset retirement obligation	-	1,300,000	-	-	1,300,000
Capitalized exploration and development costs					
Consulting and management fees	-	259,415	-	-	259,415
Drilling, assay fee and reporting	-	1,246,445	-	-	1,246,445
Office and miscellaneous	-	6,825	-	-	6,825
Tunneling and trenching	-	2,452,885	-	-	2,452,885
Amortization	-	(1,301,156)	-	-	(1,301,156)
Balance, March 31, 2007	\$ -	\$ 10,565,053	\$ 6,494,306	\$ 1,762,940	\$ 18,822,299

Although the Company has taken steps to verify title to the mineral properties in which it, through its subsidiaries, has an interest, in accordance with industry standards for the stage of exploration of such properties, those procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

(a) *Tuobuka Property*

During the year ended March 31, 2006, the Company wrote off the mineral exploration expenses of \$1,714,491 capitalized in relation to the Tuobuka Property as the Company decided to suspend carrying out any exploration work on the Tuobuka Property. No further work done on Tuobuka Property for the year ended March 31, 2007.

(b) *Ying Property*

In May 2004, the Company, through its wholly owned subsidiary, Victor Mining Ltd., entered into a cooperative joint venture agreement with a Chinese party to earn a 77.5% interest in the high grade Ying Silver-Lead-Zinc Project located in Henan Province, China. Under the cooperative agreement, the Company had the right to earn up to 77.5% of the Ying Project by funding exploration and development of the Project in the amount of \$4,445,121 (US\$3,670,000) to the joint venture company, Henan Found Mining Co. Ltd. ("Henan Found"), over a period of three years for

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a 55% interest in Henan Found and paying \$1,767,652 (US\$1,500,000) to the Chinese party over a period of three years to earn another 22.5% interest in Henan Found. In September 2005, the Company reached an agreement with the Chinese partner to immediately earn its 77.5% interest in the Ying Project through making the required cash contributions. Pursuant to the agreement, the Chinese partner will maintain a fully carried 22.5% interest. The operating results of Henan Found have been consolidated into the Company's consolidated financial statements from October 1, 2005.

Since the commercial operation commenced on April 1, 2006, the Ying Property becomes the major revenue and profit contributor of the Company.

During the year ended March 31, 2007 Henan Found acquired two additional exploration permits adjacent to the existing boundary of Ying Project for cash consideration of \$509,400 (RMB¥3,416,500), which was paid and capitalized as acquisition cost of mineral rights and properties. The exploration permits were transferred to Henan Found during the year ended March 31, 2007.

In July 2006, Henan Found, reached a settlement with a third party by paying the third party a total of \$1,051,155 (RMB¥7.05 million), of which \$1,013,880 (RMB¥6.8 million) was paid, to stop its unauthorized mining activities on the Ying Property. The payment made by Henan Found had been capitalized as acquisition cost of mineral rights and properties.

(c) HPG Silver-Gold-Lead Property

In May 2006, the Company, through its indirectly wholly owned subsidiary, Victor Resources Ltd., entered into an agreement to acquire a 60% interest of the HPG silver-gold-lead operating mine and property within the Ying Silver Project, Henan Province, China. The HPG gold-silver-lead property consists of two adjacent mining licenses surrounded by one exploration permit within the Ying Silver Project area in Henan, and a flotation mill and associated facilities. A joint venture company, Henan Huawei Mining Co. Ltd. ("Huawei"), was established, with all necessary governmental approvals, including approvals from the Ministry of Commerce, and issuance of the business license, being received on January 15, 2007.

In January 2007, the Company and the Chinese joint venture partner have agreed to increase the contributed capital of Huawei by \$301,800 (RMB¥2 million) to \$2,112,600 (RMB¥14 million) and as a result the total payments required by the Company total \$6,522,493 (RMB¥43.2 million). In January 2007, the Company paid a total of \$6,206,826 (US\$5,271,286 or RMB¥41.1 million) resulting in total payment of \$6,839,600 (RMB¥45.3 million), under the HPG Project, of which \$317,107 (RMB¥2.1 million) was returned to the Company. The Company has made all required payments to the vendor and has contributed the required investment to Huawei, to earn a 60% interest in Huawei, which is the operator and 100% interest holder of HPG properties. Transfer of the mining licenses and exploration permit from the vendor to the Huawei is currently in process.

On May 11, 2007, the Company, through its indirectly wholly owned subsidiary, Victor Resources Ltd., signed an agreement to acquire a further 20% interest in Huawei from its joint venture partner, in which 10% interest will be held in trust for a shareholder of the joint venture partner. Total consideration for the 20% interest is \$1,983,030 million (RMB¥13.3 million) with the Company's share of approximately \$991,515 (RMB¥6.65 million) paid in full. While

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government approval is expected to be received shortly, the Company is now entitled to a 70% interest, in any future profit and funding requirements, of Huawei.

(d) NZ Gold- Silver Property

In October 2006, the Company, through its 77.5% owned subsidiary company, Henan Found, entered into an agreement with a third party, related by common control, to acquire a 100% interest in the NZ Gold-Silver property (the “NZ Property”), on its behalf.

As at March 31, 2007, the third party has completed its acquisition of the NZ Property, by payment of \$1,267,350 (RMB¥8,500,000), and is in the process of transferring the ownership of the NZ Property to Henan Found.

11. ASSET RETIREMENT OBLIGATIONS

The Company’s assets retirement obligations relate to the reclamation cost of the Ying property and were calculated using a credit-adjusted risk-free discount rate of 6.0%. The total undiscounted amount of cash flows required to settle the obligations is estimated at approximately \$1.56 million and is expected to be settled gradually over the estimated mine life of 6 years. These obligations will be funded from the Company’s resources upon local government’s fee payment request.

The following table presented the reconciliation of the beginning and ending obligations associated with the retirement of the properties:

Balance, March 31, 2006	\$	-
Obligations incurred during the year		1,300,000
Obligations discharged upon payments to local government		(260,925)
Accretion of asset retirement obligations		70,478
Balance, March 31, 2007	\$	1,109,553
Less: current portion of asset retirement obligations		(337,115)
Long term portion of asset retirement obligations	\$	772,438

12. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

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(b) Issued and outstanding

Changes in outstanding common shares were as follows:

	Number of Shares	Amount
Balance, March 31, 2005	40,595,407	\$ 27,211,096
Options exercised	1,189,250	516,575
Warrants exercised	1,477,500	3,806,500
Private Placement	2,000,000	6,362,121
Contributed surplus transferred as per options and warrants exercised	-	335,709
Share cancellation under the Normal Course Issuer Bid	(200,000)	(101,091)
Balance, March 31, 2006	45,062,157	\$ 38,130,910
Options exercised	987,239	889,160
Warrants exercised	522,500	2,403,500
Private Placement	2,501,250	44,484,295
Contributed surplus transferred as per options exercised	-	1,151,459
Contributed surplus transferred as per share cancellation	-	4,766,361
Share cancellation under the Normal Course Issuer Bid	(420,500)	(5,499,104)
Balance, March 31, 2007	48,652,646	\$ 86,326,581

In September 2005, the Company completed a non-brokered private placement of 2,000,000 Units at \$3.20 per Unit for net proceeds of \$6,362,121. Each Unit was comprised of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$4.60 per share. All warrants were exercised prior to their expiry date of September 15, 2006. During the year of 2006, the Company acquired and cancelled 200,000 its common shares from the open market at cost of \$101,091.

On April 26, 2006, the Company completed a short form prospectus financing which raised gross proceeds of \$47,773,875 through the sale of 2,501,250 units at a price of \$19.10 per Unit. Each Unit is comprised of one common share of the Company and one half share purchase warrant. Each whole warrant is exercisable up to October 25, 2007 at a strike price of \$24 per common share.

On June 13, 2006, the Board of Directors approved another Normal Course Issuer Bid to acquire up to 1,000,000 of its common shares, over a one year period. Purchases will be made at the discretion of the Directors at prevailing market prices, through the facilities of the TSX Exchange. The Company intends to hold for cancellation all shares acquired under the Normal Course Issuer Bid. As at March 31, 2007, a total of 420,500 of its common shares were acquired and cancelled under the Normal Course Issuer Bid at a cost of \$5,499,104 and a total of \$4,766,361 was transferred from contributed surplus upon the share cancellations.

(c) Share Purchase Warrants

The Company adopted the Residual Approach in valuing the share purchase warrants attached to private placement units issued. Under this approach, proceeds up to the Company's share market value are allocated to the shares and only the excess above the market value is allocated to the

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attached share purchase warrants. No value has been allocated to these warrants as determined under the Residual Approach.

The following is a summary of warrant transactions:

Number of Warrants Outstanding as at March 31, 2006	Issued during the year	Number of Warrants Exercised during the year	Balance of Warrants Outstanding as at March 31, 2007	Exercised Price Per Warrant	Expiry Date
522,500	-	(522,500)	-	\$ 4.60	September 15, 2006
-	1,250,623	-	1,250,623	24.00	October 25, 2007
522,500	1,250,623	(522,500)	1,250,623		

(d) Stock Options

The Company is able to grant stock options to acquire up to 6,500,000 shares. The options are exercisable for a period of up to ten years from the date of grant, as determined by the Board of Directors. The exercise price cannot be less than the last price on the TSX Exchange immediately preceding the grant of the option. Options vest over a minimum period of eighteen months from the date of grant.

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The following is a summary of option transactions:

	Number of Shares		Weighted Average Exercise Price Per Share
Balance, March 31, 2005	3,416,375	\$	0.59
Options granted	517,000		2.64
Options exercised	(1,189,250)		0.43
Options cancelled	(107,500)		0.56
Balance, March 31, 2006	2,636,625		1.07
Options granted	433,500		13.33
Options exercised	(987,239)		0.90
Options cancelled	(26,250)		13.05
Balance, March 31, 2007	2,056,636	\$	3.58

During the year ended March 31, 2007, the Company granted incentive stock options to directors, employees, and consultants for 433,500 shares at a price ranging from \$12.95 to \$16.97 per share and exercisable for five years. 200,000 options granted in the year were 8.333% vested on grant date and 8.333% of the options are vested every three months after the date of grant for three years while the remaining 233,500 options were 8.333% vested between one to four months from the grant date and 8.333% of the options are vested every three months thereafter for three years.

The fair value of each option granted was estimated using the Black-Scholes option pricing model with weighted average assumptions as follows:

	2007	2006
Risk free interest rate	4.01% to 4.23%	2.93% to 3.79%
Expected life of options in years	1 to 3 years	1 to 5 years
Expected volatility	95% to 119%	105% to 147%
Dividend per share	\$0.00	\$0.00

The weighted average grant date fair value of options granted during the year was \$9.46 (2006: \$2.06). For the year ended March 31, 2007, a total of \$2,226,425 (2006 - \$2,295,591) were recorded as stock-based compensation expenses on the consolidated statements of income (loss).

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The following table summarizes information about stock options outstanding at March 31, 2007:

	Range of Exercise Prices	Number Outstanding at March 31 2007	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at March 31 2007	Weighted Average Exercise Price
\$	0.35	275,000	0.71	\$ 0.35	275,000	\$ 0.35
	0.40	25,000	0.49	0.40	25,000	0.40
	0.50	200,000	1.29	0.50	20,000	0.50
	0.55	550,000	2.54	0.55	550,000	0.55
	1.60	33,334	1.10	1.60	-	1.60
	1.90	300,000	2.92	1.90	300,000	1.90
	2.25	112,802	1.19	2.25	112,802	2.25
	3.90	150,000	1.69	3.90	75,000	3.90
	12.95	200,000	4.29	12.95	53,000	12.95
	13.28	82,000	4.38	13.28	13,670	13.28
	13.40	128,500	4.42	13.40	27,253	13.40
	\$0.35 - \$13.40	2,056,636	2.41	\$ 3.58	1,451,725	\$ 1.91

Subsequent to March 31, 2007, a total of 260,900 options were granted to directors, officers, employees, and consultants at a price of \$20.21 per share vesting 8.333% six months after the grant date and a further 8.333% every three months thereafter with an expiry date of April 10, 2012.

Subsequent to March 31, 2007, a total of 259,804 options were exercised at strike prices ranging from \$0.35 to \$13.40 per share for total proceeds of \$855,847 and a total of 75,001 options were cancelled.

(e) Shareholders Right Plan

At the Annual General Meeting held on August 4, 2005, a Shareholders Rights Plan has been approved by shareholders for implementation. The Rights Plan is designed to encourage the fair treatment of shareholders in the event of any take-over offer for the Company. The Rights Plan will provide the Board of Directors and the shareholders with more time than the 35 days provided by statute, to fully consider any unsolicited take-over bid for the Company without undue pressure, and allow the Board of Directors to pursue, if appropriate, other alternatives to maximize shareholder value and to allow additional time for competing bids to emerge. Under the Rights Plan, a bidder making a Permitted Bid (as defined in the Plan) for the common shares of the Company may not take up any shares before the close of business on the 60th day after the date of the bid and unless at least 50% of the Company's common shares not beneficially owned by the person making the bid and certain related parties are deposited, in which case the bid must be extended for 10 business days on the same terms to allow other shareholders to deposit to the Bid. The Rights Plan will encourage an offeror to proceed by way of Permitted Bid or to approach the Board of Directors with a view to negotiation by creating the potential for substantial dilution

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of the offeror's position if a non-Permitted Bid is attempted. The Permitted Bid provisions of the Rights Plan are designed to ensure that, in any take-over bid, all shareholders are treated equally, receive the maximum available value for their investment and are given adequate time to properly assess the bid on a fully informed basis

13. CONTRIBUTED SURPLUS

The schedule of contributed surplus as at March 31, 2007 is as follows:

	Amount
Balance, March 31, 2005	\$ 2,926,853
Stock based compensation	2,295,591
Transferred to share capital per options exercised	(335,709)
Balance, March 31, 2006	\$ 4,886,735
Stock based compensation	2,226,425
Contributed surplus transferred as per shares cancellation	(4,766,361)
Contributed surplus transferred as per options exercised	(1,151,459)
Balance, March 31, 2007	\$ 1,195,340

14. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in the financial statements, the Company had the following related party transactions during the period:

(a) *During year ended March 31, 2007, the Company incurred:*

- (i) consulting fees of \$173,750 (2006 - \$174,000) payable to a company owned by an officer and director of the Company and to an officer of the Company;
- (ii) legal fees of \$87,642 (2006 - \$77,546) payable to a law firm controlled by a director of the Company;
- (iii) management fees of \$143,518 (2006 - \$128,801) payable to company owned by an officer and director of the Company, and to an officer and director of the Company;
- (iv) accounting fees of \$88,066 (2006 - \$69,614) payable to an accounting firm controlled by a former officer of the Company;
- (v) directors' fees of \$41,404 (2006 - \$nil); and,
- (vi) expenses and exploration costs recovery of \$366,550 (2006 - \$nil) from NUX.

(b) *As of March 31, 2007, the related transaction balances included the following:*

- (i) \$nil (2006 - \$22,085, which was included in accounts payable) due to a law firm controlled by a director of the Company;

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- (ii) \$nil (2006 - \$32,843, which was included in accounts payable) due to three directors for their services provided;
- (iii) \$nil (2006 - \$8,246, which was included in accounts payable) due to an accounting firm controlled by a former officer of the Company;
- (iv) \$nil (2006 - \$5,812) due to two directors for expenses incurred on behalf of the Company;
- (v) \$nil (2006 - \$14,199) due to a company with a former director in common for expense incurred on behalf the Company;
- (vi) \$39,750 (2006 - \$17,130) due to a company controlled by a director of the Company for its services provided;
- (vii) \$151,769 (2006 - \$nil) due to the joint venture partner of Huawei for funds advanced by Huawei; and
- (viii) \$32,660 (2006 - \$nil) due from a Chinese company related by common control; and
- (ix) \$1,377,863 (2006 - \$nil) due to NUX for funds advanced from NUX and services rendered and costs incurred on behalf of NUX by the Company.

On December 8, 2006, NUX entered into a Declaration of Trust Agreement (the "Trust Agreement") with Yunnan Jin Chang Jiang Mining Co. Ltd. ("YJCJM" and the "Trustee"), an indirectly wholly owned subsidiary of the Company, to hold in trust for NUX, two exploration permits ("Guangdong Project") located in Guangdong Province, China. Pursuant to the agreement, NUX paid \$35,331 (US\$30,000) to the Company as the handling fee and NUX is responsible for all costs in relation to the exploration permits.

On January 25, 2007, NUX advanced \$1,461,092 (US\$1,240,000) to the Company. The loan is unsecured, non-interest bearing, and due on demand. The loan will be paid by offsetting the Guangdong Project exploration expenditures incurred by YJCJM on behalf of NUX.

On March 15, 2007, the Company participated in NUX's private placement and acquired 900,000 units at \$2.50 per unit with warrants to acquire a further 450,000 units at \$3.00 per unit per a period of one year to expire on March 15, 2008. As at the date of this report, the Company owns 4,987,501 common shares of NUX representing an equity interest of 17.7%.

The transactions with related parties during the year are measured at the exchange amount, which is the amount of consideration established and agreed by the parties.

The balances with related parties are unsecured, non-interest bearing, and due on demand.

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15. INCOME TAXES

(a) Income tax expense

The Company's wholly-owned subsidiary, YJCJM, 77.5% owned subsidiary, Henan Found, and 60% owned subsidiary, Huawei, are considered as Foreign Investment Enterprises (a "FIE") in China. Under current Chinese income taxes laws, a qualified FIE is entitled to tax incentives of a five-year tax holiday (year one and two are tax exempt with years three to five at a reduced tax rate of 15%) commencing with the first year the FIE records a net profit or commencing January 1, 2008 for FIE that have yet achieved a profit.

YJCJM and Huawei have not yet recorded a net profit to date and thereby have not filed for any tax exemptions.

Based on the past two years' sale revenue of Henan Found, management believes that Henan Found is a qualified FIE and is entitled to the tax holiday. Henan Found has not paid any income tax installment for calendar years 2006 and 2007. Henan Found has filed with the local tax authorities to apply for a certificate of the tax holiday, and the local tax authorities have reviewed the financial statements of Henan Found, and Henan Found is waiting for the final result. While management is confident that Henan Found is a qualified FIE, the local tax authorities may challenge the loss reported in Henan Found's 2005 calendar year financial results; therefore, management conservatively provided for the event the tax holiday commences with calendar year 2005. As a result, based on Henan Found's financial results for the first calendar quarter of 2007, the Company recorded an income tax provision of \$1,623,286. The computation for the Henan Found tax provision is as follows:

	2007
Income before non-controlling interest for three months ended March 31, 2007	10,968,191
Less: non-deductible and non-taxable items	(146,287)
Adjusted Income before non-controlling interest for three months ended March 31, 2007	10,821,904
Income tax rate	15%
Income tax expense	\$ 1,623,286
Effects on foreign exchange translation	55,160
Income tax payable	\$ 1,678,446

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The provision for income taxes differs from the amount computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before income tax provision due to the following:

	2007	2006
Income (loss) before non-controlling interest	\$ 33,922,509	\$ (6,389,943)
Canadian combined federal and provincial income tax rate	34.12%	34.50%
Expected income tax recovery (expense)	(11,574,360)	2,204,530
Difference in foreign tax rates	9,752,683	152,638
Non-deductible stock based compensation	759,656	791,979
Non-taxable mineral property option income	(748,550)	(59,060)
Others	330,085	(1,756,562)
Changes due to foreign exchange	(11,018)	-
Benefits of losses not recognized	(131,782)	(1,333,525)
	\$ (1,623,286)	-

(b) Future income tax

The approximate tax effect of each type of temporary difference that gives rise to the Company's future tax assets is as follows:

	2007	2006
Future income tax assets arising from tax loss carryforwards	\$ 3,235,965	\$ 2,278,655
Addition (utilization) of unused cumulative exploration and development expenses	(96,080)	957,310
Excess of tax value of capital asset over the book value	8,087	-
Share issued costs	838,605	-
Capital loss	(1,089)	-
Utilization of unused non-capital loss	(894,658)	-
Others	43,628	-
	\$ 3,134,458	3,235,965
Valuation allowance	(3,134,458)	(3,235,965)
Excess of accounting base over tax base relating to mineral rights and properties	1,620,042	-
Net future income taxes liabilities	\$ 1,620,042	\$ -

The Company has Canadian non-capital losses of approximately \$3.8 million expiring in periods ranging from 2 to 20 years available to be applied against future Canadian income for Canadian tax purposes. In addition, the Company also has capital losses of approximately \$28,400 in Canada available to apply against future capital gains for Canadian tax purposes. The management of the Company believes it is unlikely the benefit of the future income tax assets will be realized against future Canadian income for Canadian tax purposes. As a result, a full revaluation was recorded against the future tax assets.

16. FINANCIAL INSTRUMENTS

The fair values of the Company's cash and cash equivalents, short term investments, accounts receivable and prepaids, accounts payable and accrued liabilities, deposits received from customers,

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and amount due to related parties are estimated to approximate their carrying values as they are short term in nature. The fair value of the long term investments is estimated using the lower of carrying value and market price as disclosed in Note 8.

The Company undertakes transactions denominated in foreign currencies and as such is exposed to risk due to fluctuations in foreign exchange rates. The Company does not use derivative instruments to reduce its exposure to foreign currency and metal price volatility risks.

Credit risks may potentially arise if counterparty fails to perform its obligations. The Company invests its cash balances in money market instruments with financial institutions that enjoy high credit standing.

The majority of the Company's assets, liabilities, revenues and expenses are denominated in Chinese Yuan ("RMB¥"), which was tied to the U.S. Dollar until July 2005 and is now tied to a basket of currencies of China's largest trading partners. The RMB¥ is not a freely convertible currency. As at March 31, 2007, approximately \$21,405,140 (March 31, 2006 - \$3,206,632) of cash and cash equivalents, and short term investments were held in RMB¥.

17. SEGMENTED INFORMATION

(a) Industry information

The Company operates in one reportable operating segment, being the acquisition, exploration, development, and operation of mineral properties.

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(b) Geographic information

	Canada	China	BVI	Total
March 31, 2007				
<u>Balance sheet items</u>				
Mineral rights and properties	\$ -	\$ 18,822,299	\$ -	\$ 18,822,299
Property, plant and equipment	375,934	8,695,883	-	9,071,817
Investment at equity	-	-	7,239,988	7,239,988
Long term investments	250,000	67,095	-	317,095
<u>Operation results</u>				
Sales	\$ -	\$ 45,290,340	\$ -	\$ 45,290,340
Cost of sales	-	(10,165,496)	-	(10,165,496)
Earnings from mine operation	-	35,124,844	-	35,124,844
Expenses	(5,384,068)	(1,916,864)	(9,128)	(7,310,060)
Interest, option and other income	1,852,655	137,549	4,387,748	6,377,952
Loss and other expenses	(245,489)	(33,727)	8,989	(270,227)
Non controlling interest	-	(7,190,415)	-	(7,190,415)
Income tax expenses	-	(1,623,286)	-	(1,623,286)
Net income (loss)	\$ (3,776,902)	\$ 24,498,101	\$ 4,387,609	\$ 25,108,808
March 31, 2006				
<u>Balance sheet items</u>				
Mineral rights and properties	\$ -	\$ 3,721,801	\$ -	\$ 3,721,801
Property, plant and equipment	39,540	1,701,012	-	1,740,552
Investment at equity	-	-	855,079	855,079
Long term investments	500,000	-	-	500,000
<u>Operation results</u>				
Sales	\$ -	\$ -	\$ -	\$ -
Cost of sales	-	-	-	-
Earnings from mine operation	-	-	-	-
Expenses	(4,295,488)	(2,573,523)	(4,242)	(6,873,253)
Interest, option and other income	151,114	148,403	343,127	642,644
Loss and other expenses	(159,334)	-	-	(159,334)
Non controlling interest	-	130,688	-	130,688
Net income (loss)	\$ (4,303,708)	\$ (2,294,432)	\$ 338,885	\$ (6,259,255)

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(c) Sales by metal

For the year ended March 31, 2007, the Company generated sales of \$45,290,340 (2006 - \$nil) which comprised of the following:

	2007
Silver (Ag)	\$ 20,493,069
Gold (Au)	78,384
Lead (Pb)	16,019,484
Zinc (Zn)	8,694,166
Other	5,237
	\$ 45,290,340

(d) Major customers

During the year ended March 31, 2007, there were four customers (2006 – nil) who individually accounted for 14% to 23% and collectively, 72% of the total revenue of the Company.

18. Commitments

- (a) Commitments on smelter investment - Note 8(c).
- (b) With respect to its leasehold obligations, the Company has commitments totaling \$581,048 over 5 years (2008 – 2011: \$162,153 per year, 2012: \$94,589).

19. Contingencies

The Company's interest in the NZ Property, is held through a third party (see Note 10(d)). Subsequent to the year ended March 31, 2007, the third party has commenced the transferring of the ownership of the property to Henan Found.