



**SILVER WHEATON CORP.**

Second Quarter Report

June 30, 2005

# Management's Discussion and Analysis of Operations and Financial Condition Six Months Ended June 30, 2005

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*This Management's Discussion and Analysis should be read in conjunction with the Company's unaudited consolidated financial statements for the six months ended June 30, 2005 and related notes thereto which have been prepared in accordance with Canadian generally accepted accounting principles. In addition, the following should be read in conjunction with the 2004 audited consolidated financial statements, the related annual Management's Discussion and Analysis, and the Annual Information Form/40F on file with the Canadian provincial securities regulatory authorities and the US Securities and Exchange Commission. All figures are in United States dollars unless otherwise noted. This Management's Discussion and Analysis has been prepared as of July 26, 2005.*

## SECOND QUARTER HIGHLIGHTS

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- **Record net earnings of \$6.7 million (\$0.04 per share) from the sale of 2.7 million ounces of silver.**
- **Record operating cash flows of \$9.3 million.**
- **Cash and cash equivalents at June 30, 2005 of \$33.3 million.**
- **The Company's shares began trading on the American Stock Exchange.**
- **The Company is debt free, unhedged and seeking further acquisitions.**

## OVERVIEW

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Silver Wheaton Corp. ("Silver Wheaton" or the "Company") is a growth-oriented silver company, and is the only mining company with 100% of its revenue from silver production. The Company's goal is to be recognized as the largest, most profitable and best managed pure silver company in the world.

During the four months ended December 31, 2004, Silver Wheaton acquired the rights to purchase all of the silver produced by Goldcorp Inc.'s ("Goldcorp", formerly Wheaton River) Luismin mines in Mexico, and by Lundin Mining's Zinkgruvan mine in Sweden (the "Luismin Transaction" and the "Zinkgruvan Transaction," respectively).

Both mines are low-cost producers and are expected to have remaining lives of over 20 years. The Company is actively pursuing further growth opportunities either by way of entering into long-term silver purchase contracts, or by acquiring silver exploration, development or production assets.

During 2004, the year end of the Company was changed from August 31 to December 31. The current fiscal period ended June 30, 2005 includes the results of operations for the six month period then ended. Comparative figures are for the six month period ended May 31, 2004.

## SUMMARIZED FINANCIAL RESULTS

	<b>June 30 2005 (3 Months)</b>	March 31 2005 (3 Months)	December 31 2004 (4 Months)	August 31 2004 (3 Months)	May 31 2004 (3 Months)	February 29 2004 (3 Months)	November 30 2003 (3 Months)	August 31 2003 (3 Months)
<b>Silver sales</b> (\$000's)	\$ <b>19,263</b>	\$ 16,077	\$ 10,986	\$ -	\$ -	\$ -	\$ -	\$ -
Ounces (000's)	<b>2,668</b>	2,323	1,505	-	-	-	-	-
Average realized silver price (\$'s per ounce)	\$ <b>7.22</b>	\$ 6.92	\$ 7.30	\$ -	\$ -	\$ -	\$ -	\$ -
Total cash cost (\$'s per ounce)	\$ <b>3.90</b>	\$ 3.90	\$ 3.90	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net earnings (loss)</b> (\$000's)	\$ <b>6,722</b>	\$ 5,182	\$ 1,765	\$ (16)	\$ (20)	\$ (152)	\$ 36	\$ 26
<b>Basic and diluted earnings (loss) per share</b>	\$ <b>0.04</b>	\$ 0.03	\$ 0.02	\$ (0.01)	\$ (0.01)	\$ (0.09)	\$ 0.02	\$ 0.02
<b>Cash flow from operations</b> (\$000's)	\$ <b>9,265</b>	\$ 5,150	\$ 8,356	\$ (56)	\$ (19)	\$ 8	\$ (1)	\$ (67)
<b>Cash and cash equivalents</b> (\$000's)	\$ <b>33,279</b>	\$ 24,014	\$ 19,989	\$ 320	\$ 324	\$ 343	\$ 82	\$ 92
<b>Total assets</b> (\$000's)	\$ <b>167,056</b>	\$ 160,355	\$ 156,988	\$ 53,491	\$ 325	\$ 343	\$ 574	\$ 543
<b>Shareholders' equity</b> (\$000's)	\$ <b>166,470</b>	\$ 159,653	\$ 154,431	\$ 50,171	\$ 320	\$ 330	\$ 482	\$ 446

## RESULTS OF OPERATIONS AND OPERATIONAL REVIEW

	<b>Three Months Ended June 30, 2005</b>			
	Luismin	Zinkgruvan	Corporate	<b>Total</b>
<b>Silver sales</b> (\$000's)	\$ 14,970	\$ 4,293	\$ -	\$ <b>19,263</b>
Ounces (000's)	2,088	580	-	<b>2,668</b>
Average realized silver price (\$'s per ounce)	\$ 7.17	\$ 7.40	\$ -	\$ <b>7.22</b>
Total cash cost (\$'s per ounce)	\$ 3.90	\$ 3.90	\$ -	\$ <b>3.90</b>
<b>Net earnings (loss)</b> (\$000's)	\$ 6,034	\$ 1,088	\$ (400)	\$ <b>6,722</b>

**Six Months Ended June 30, 2005**

	Luismin		Zinkgruvan		Corporate	<b>Total</b>	
<b>Silver sales</b> (\$000's)	\$	28,654	\$	6,686	\$	-	\$ <b>35,340</b>
Ounces (000's)		4,062		929		-	<b>4,991</b>
Average realized silver price (\$'s per ounce)	\$	7.05	\$	7.19	\$	-	\$ <b>7.08</b>
Total cash cost (\$'s per ounce)	\$	3.90	\$	3.90	\$	-	\$ <b>3.90</b>
<b>Net earnings (loss)</b> (\$000's)	\$	11,304	\$	1,490	\$	(890)	\$ <b>11,904</b>

The Company has three business segments, the Luismin contract, the Zinkgruvan contract and corporate operations.

**Luismin**

On October 15, 2004, a 100% subsidiary of the Company, Silver Wheaton (Caymans) Corp. ("SW Caymans"), entered into an agreement to purchase all of the silver produced by Goldcorp's Luismin mining operations in Mexico. During the three months ended June 30, 2005, SW Caymans purchased 2,088,000 ounces (six months ended June 30, 2005 – 4,062,000 ounces) of silver under the contract at a total cash cost of \$3.90 per ounce, and sold it for an average price of \$7.17 per ounce (six months - \$7.05 per ounce). The Company's cash flows and net earnings under the Luismin silver contract for the three months ended June 30, 2005 were \$6,829,000 (six months - \$12,646,000) and \$6,034,000 (six months - \$11,304,000), respectively.

As at December 31, 2004, Luismin had proven and probable silver reserves of 40.3 million ounces and inferred silver resources of 145.6 million ounces. Luismin has historically converted resources into reserves at a rate of 90%, which would result in a remaining mine life of over 20 years.

The results of the Luismin mine operations for the three months ended June 30, 2005 are shown below:

	2005		2004		
	Q2	Q1	Q4	Q3	Q2
• Ore milled (tonnes)	218,700	199,000	199,900	187,800	192,600
• Grade (grams/tonne)					
- Gold	6.23	6.59	5.35	5.95	5.61
- Silver	310.35	334.63	280.28	326.23	302.17
• Recovery (%)					
- Gold	95%	95%	94%	95%	95%
- Silver	91%	88%	88%	91%	89%
• Production (ounces)					
- Gold	41,800	40,000	32,300	34,200	33,300
- Silver	1,974,400	1,894,000	1,586,900	1,798,700	1,664,400
• Sales (ounces)					
- Gold	44,000	38,300	32,800	33,400	33,500
- Silver	2,088,000	1,974,400	1,615,100	1,792,000	1,654,500

## Zinkgruvan

On December 8, 2004, SW Caymans entered into an agreement to purchase all of the silver produced by Lundin Mining's Zinkgruvan mining operations in Sweden ("Zinkgruvan"). During the three months ended June 30, 2005, SW Caymans purchased 476,200 ounces (six months ended June 30, 2005 – 807,000 ounces) of silver under the contract at a cash cost of \$3.90 per ounce, and sold 580,400 ounces (six months – 929,400 ounces) for an average price of \$7.40 per ounce (six months - \$7.19 per ounce). The Company's cash flows and net earnings under the Zinkgruvan silver contract for the period were \$1,624,000 (six months – \$2,113,000) and \$1,088,000 (six months - \$1,490,000), respectively.

As at December 31, 2004, Zinkgruvan had proven and probable silver reserves of 28.7 million ounces, measured and indicated resources of 8.1 million ounces and inferred silver resources of 27.5 million ounces. The Zinkgruvan mine is expected to produce approximately 2 million ounces of silver annually for a minimum of 20 years, and is one of the lowest cost zinc mines in the world. The mine is located in south-central Sweden and has been in production on a continuous basis since 1857.

## Corporate

(in thousands)	Three Months Ended		Six Months Ended	
	June 30 2005	May 31 2004	June 30 2005	May 31 2004
General and administrative	\$ 508	\$ 21	\$ 923	\$ 41
Share purchase options	38	-	78	-
Project evaluation	54	-	62	-
Interest income	(183)	-	(259)	-
Foreign exchange (gain) loss	(17)	-	86	-
Corporate net loss	\$ 400	\$ 21	\$ 890	\$ 41

General and administrative expenses totalled \$508,000 for the three months ended June 30, 2005 (six months ended June 30, 2005 - \$923,000), including \$107,700 (six months - \$266,800) paid to Goldcorp for management and administrative services at cost. Also included in general and administrative expenses were professional service fees, including legal, accounting and audit fees, totalling \$162,000 (six months - \$289,600), and investor relations and regulatory fees of \$95,000 (six months - \$146,000).

Increased interest income of \$183,000 for the three months ended June 30, 2005 was the result of increased cash balances held in short-term money market instruments.

Prior period expenses relate to managing Dial, the Company's former subsidiary, which was sold on February 25, 2004.

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2005 the Company had cash and cash equivalents of \$33.3 million (December 31, 2004 - \$20.0 million) and working capital of \$33.3 million (December 31, 2004 - \$18.1 million).

In the opinion of management, the working capital at June 30, 2005, together with cash flows from operations, are sufficient to support the Company's normal operating requirements on an ongoing basis. During the three and six month periods ending June 30, 2005 the Company generated operating cash flows of \$9.3 million and \$14.4 million respectively.

No share purchase options were exercised during the three months ended June 30, 2005. As of July 26, 2005, there were 167,052,500 outstanding common shares, 6,575,000 share purchase options and 157,912,500 share purchase warrants, which each give the holder the right to purchase 0.20 of one of the Company's common shares.

#### *Contractual obligations*

In connection with the Luismin and Zinkgruvan Transactions, the Company has committed to purchase 100% of the silver produced by each mine for a per-ounce cash payment of the lesser of \$3.90 and the then prevailing market price, subject to adjustment. This inflationary adjustment which will begin in 2007, is intended to reflect the effects of inflation on operating costs, and is subject to a minimum of 0.4% and a maximum of 1.65% per annum. Under the Luismin agreement, Silver Wheaton will be obligated to pay 50% of any capital expenditure required to be made by Luismin at its mining operations in excess of 110% of the projected capital expenditures outlined in the contract, however, these costs will be reimbursed during periods where actual capital expenditures fall below 90% of projected capital expenditures.

#### *Related party transactions*

At June 30, 2005, as a result of the Luismin Transaction, Goldcorp owned 64.7% of the Company's outstanding common shares. Between April 1 and June 30, 2005, the Company purchased 2,088,000 ounces (six months ended June 30, 2005 – 4,062,000 ounces) of silver from a subsidiary of Goldcorp at a price of \$3.90 per ounce for total consideration of approximately \$8.1 million (six months - \$15.8 million).

The Company has an agreement with Goldcorp whereby Goldcorp provides management and administrative services at cost. During the three months ended June 30, 2005, total management fees paid to Goldcorp were \$107,700 (six months - \$266,800). This agreement allows for cancellation with 30 days notice at any time.

In addition, during the three months ended June 30, 2005, payments made by Goldcorp on the Company's behalf totalled approximately \$120,700 (six months - \$158,800). At June 30, 2005, the Company owed Goldcorp \$31,500.

## OUTLOOK

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The Company expects to sell approximately 10.0 million and 10.5 million ounces of silver in 2005 and 2006 respectively, at a cash cost of \$3.90 per ounce.

The Company is actively pursuing further growth opportunities, either by way of entering into long-term silver purchase contracts, or by acquiring silver exploration, development or production assets.

*Additional information relating to the Company, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

*This Management's Discussion & Analysis contains certain forward-looking statements. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding future plans and objectives of the Company are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed in Company documents filed from time to time with the Toronto Stock Exchange and other regulatory authorities.*

## Consolidated Statements of Operations

(US dollars and shares in thousands, except per share amounts - Unaudited)

	Note	Three Months Ended		Six Months Ended	
		June 30 2005	May 31 2004	June 30 2005	May 31 2004
Silver sales		\$ 19,263	\$ -	\$ 35,340	\$ -
Cost of sales		10,405	-	19,466	-
Depreciation and amortization		1,736	-	3,080	-
		<u>12,141</u>	<u>-</u>	<u>22,546</u>	<u>-</u>
Earnings from operations		<u>7,122</u>	<u>-</u>	<u>12,794</u>	<u>-</u>
Expenses and other income					
General and administrative		508	21	923	41
Share purchase options	5	38	-	78	-
Project evaluation		54	-	62	-
Interest income		(183)	-	(259)	-
Foreign exchange (gain) loss		(17)	-	86	-
		<u>400</u>	<u>21</u>	<u>890</u>	<u>41</u>
Earnings (loss) before discontinued operations		<u>6,722</u>	<u>(21)</u>	<u>11,904</u>	<u>(41)</u>
Loss from discontinued operations		-	-	-	(100)
Net earnings (loss)		<u>\$ 6,722</u>	<u>\$ (21)</u>	<u>\$ 11,904</u>	<u>\$ (141)</u>
Basic and diluted earnings (loss) per share from continuing operations		\$ 0.04	\$ (0.01)	\$ 0.07	\$ (0.02)
Basic and diluted earnings (loss) per share from discontinued operations		\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.06)
Basic and diluted earnings (loss) per share		\$ 0.04	\$ (0.01)	\$ 0.07	\$ (0.08)
Weighted average number of shares outstanding					
- basic		167,026	1,720	167,018	1,720
- diluted		167,899	1,720	167,862	1,720

The accompanying notes form an integral part of these consolidated financial statements

## Consolidated Balance Sheets

(US dollars and shares in thousands - Unaudited)

	Note	<b>June 30 2005</b>	December 31 2004
<b>Assets</b>			
Current			
Cash and cash equivalents		\$ 33,279	\$ 19,989
Accounts receivable		487	163
Silver inventory		-	478
Other		71	49
		<b>33,837</b>	20,679
Other		45	-
Deferred project evaluation costs		-	55
Silver contracts	4	133,174	136,254
		<b>\$ 167,056</b>	<b>\$ 156,988</b>
<b>Liabilities</b>			
Current			
Accounts payable		\$ 549	\$ 2,496
Accrued liabilities		37	61
		<b>586</b>	2,557
<b>Shareholders' Equity</b>			
Share purchase options		5,124	5,046
Warrants		28,562	28,579
Share capital			
Common shares			
Authorized: unlimited shares, no par value;			
Issued and outstanding: 167,028 (December 31, 2004 – 167,010)		119,538	119,464
Retained earnings		13,246	1,342
		<b>166,470</b>	154,431
		<b>\$ 167,056</b>	<b>\$ 156,988</b>
Commitments (Note 8)			

The accompanying notes form an integral part of these consolidated financial statements

## Consolidated Statements of Shareholders' Equity

(US dollars and shares in thousands - Unaudited)

	Common Shares		Warrants		Share	Subscription	Retained	Total
	Shares	Amount	Warrants	Amount	Purchase Options	Receipts	Earnings (Deficit)	
At September 1, 2003	1,720	\$ 718	-	\$ -	\$ -	\$ -	\$ (272)	\$ 446
Subscription receipts	-	-	-	-	-	49,855	-	49,855
Share purchase options exercised	20	13	-	-	(2)	-	-	11
Fair value of share purchase options issued	-	-	-	-	10	-	-	10
Net loss	-	-	-	-	-	-	(151)	(151)
At August 31, 2004	1,740	731	-	-	8	49,855	(423)	50,171
Shares issued	165,200	125,481	-	-	-	(49,855)	-	75,626
Share issue costs	-	(6,790)	-	-	-	-	-	(6,790)
Share purchase options exercised	70	42	-	-	(8)	-	-	34
Warrants issued	-	-	158,000	28,579	-	-	-	28,579
Fair value of share purchase options issued	-	-	-	-	5,046	-	-	5,046
Net earnings	-	-	-	-	-	-	1,765	1,765
At December 31, 2004	167,010	119,464	158,000	28,579	5,046	-	1,342	154,431
Fair value of share purchase options issued	-	-	-	-	78	-	-	78
Warrants exercised	18	74	(88)	(17)	-	-	-	57
Net earnings	-	-	-	-	-	-	11,904	11,904
At June 30, 2005	<u>167,028</u>	<u>\$119,538</u>	<u>157,912</u>	<u>\$28,562</u>	<u>\$ 5,124</u>	<u>\$ -</u>	<u>\$ 13,246</u>	<u>\$166,470</u>

The accompanying notes form an integral part of these consolidated financial statements

## Consolidated Statements of Cash Flows

(US dollars in thousands - Unaudited)

	Note	Three Months Ended		Six Months Ended	
		June 30 2005	May 31 2004	June 30 2005	May 31 2004
<b>Operating Activities</b>					
Net earnings (loss) from continuing operations		\$ 6,722	\$ (21)	\$ 11,904	\$ (41)
Items not affecting cash					
Depreciation and amortization		1,736	-	3,080	-
Project evaluation costs written off		54	-	54	-
Share purchase options	5	38	10	78	10
Change in non-cash working capital	6	703	(8)	(713)	20
Cash generated by (applied to) operating activities		9,253	(19)	14,403	(11)
<b>Financing Activities</b>					
Share issue costs		-	-	(642)	-
Warrants exercised		57	-	57	-
Cash generated by (applied to) financing activities		57	-	(585)	-
<b>Investing Activities</b>					
Other		(45)	-	(45)	-
Silver contracts		-	-	(483)	-
Cash applied to investing activities		(45)	-	(528)	-
<b>Cash flows from discontinued operations</b>					
Sale of discontinued operations		-	-	-	247
Increase (decrease) in cash and cash equivalents		9,265	(19)	13,290	236
Cash and cash equivalents, beginning of period		24,014	343	19,989	88
Cash and cash equivalents, end of period		\$ 33,279	\$ 324	\$ 33,279	\$ 324

The Company paid no interest or income taxes for the six months ended June 30, 2005 and May 31, 2004.

The accompanying notes form an integral part of these consolidated financial statements

**1. NATURE OF OPERATIONS**

Silver Wheaton Corp. ("Silver Wheaton" or "the Company") is engaged in the silver mining business.

On October 15, 2004, the Company entered into an agreement to purchase all of the silver produced by Wheaton River Minerals Ltd's ("Wheaton River") Luismin mining operations in Mexico for a payment equal to the lesser of \$3.90 or the prevailing market price per ounce of delivered silver, subject to adjustment (Note 3). On April 15, 2005, Wheaton River amalgamated with Goldcorp Inc. to form Goldcorp Inc. ("Goldcorp") and the silver purchase agreement with Silver Wheaton was assumed by Goldcorp.

In addition, on December 8, 2004, the Company entered into an agreement to purchase all of the silver produced by Lundin Mining Corporation's Zinkgruvan mine in Sweden for a payment equal to the lesser of \$3.90 or the prevailing market price per ounce of delivered silver, subject to adjustment (Note 3).

The Company began trading on the TSX on October 22, 2004 and on the AMEX on July 6, 2005, under the symbol SLW. In December, 2004, the Company's name was changed from Chap Mercantile Inc to Silver Wheaton Corp. and the outstanding shares were consolidated on a 5 for 1 basis. The year end of the Company was changed from August 31 to December 31.

The Company is actively pursuing further growth opportunities, either by way of entering into long-term silver purchase contracts, or by acquiring silver exploration, development or production assets.

**2. ACCOUNTING POLICIES**

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial information and they follow the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ended December 31, 2004. These unaudited interim consolidated financial statements do not include all the information and note disclosure required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the most recent annual audited consolidated financial statements and the note below. There are no material differences between Canadian GAAP and accounting principles generally accepted in the United States ("US GAAP") that affect the Company's financial statements.

**3. ACQUISITIONS**

(a) *Luismin silver contract*

On October 15, 2004, the Company entered into an agreement to purchase all of the silver produced by Wheaton River's Luismin mining operations in Mexico, for an upfront payment of \$36.7 million (Cdn\$46.0 million) in cash and 108 million common shares (post-consolidation) of the Company. In addition, a per ounce cash payment of the lesser of \$3.90 and the prevailing market price, subject to adjustment, is due (the "Luismin Transaction"). Under the agreement Luismin is required to deliver a minimum of 120 million ounces over the 25 year period following the contract date. If the actual amount of silver delivered is less than this minimum, a penalty of \$0.50 per ounce of the shortfall is payable. In addition, under the agreement, Silver Wheaton will be obligated to pay 50% of any capital expenditure required to be made by Luismin at its mining operations in excess of 110% of the projected capital

expenditures outlined in the contract, however, these costs will be reimbursed during periods where actual capital expenditures fall below 90% of projected capital expenditures.

If Silver Wheaton or Goldcorp acquires a direct or indirect interest in a precious metal exploration or development property situated anywhere in Mexico, which it does not currently own an interest in, and the property becomes the subject of a positive feasibility study or consists of active mining operations within a period of three years from the date of the contract, then the owner of the interest must offer the other party the opportunity to purchase and participate in the project so the resulting project ownership would be Goldcorp 51% / Silver Wheaton 49% and Goldcorp will be entitled to become operator of the project.

For a period of three years, Goldcorp, so long as it owns at least 20% of the outstanding shares of the Company, has the right to maintain its pro-rata interest in Silver Wheaton should Silver Wheaton issue any additional Silver Wheaton shares pursuant to an equity financing or otherwise.

Luismin operations are expected to produce approximately 8 million ounces of silver per annum for a minimum of 20 years. The allocation of the purchase price is summarized in the table below:

(in thousands)

Purchase Price

Cash	\$	36,744
Shares		21,958
Acquisition costs		430
	\$	<u>59,132</u>

The Luismin Transaction resulted in the acquisition of control of Silver Wheaton by Goldcorp. As a result, the cost of the Luismin silver contract was recorded in Silver Wheaton's books at Goldcorp's book value, plus acquisition costs of \$430,000.

(b) *Zinkgruvan silver contract*

On December 8, 2004, the Company entered into an agreement to purchase all of the silver produced by Lundin Mining Corporation's Zinkgruvan mine in Sweden for an upfront payment of \$50 million in cash, 6 million Silver Wheaton common shares (post-consolidation) and 30 million Silver Wheaton common share purchase warrants. In addition, a per ounce cash payment of the lesser of \$3.90 and the prevailing market price, subject to adjustment, is due (the "Zinkgruvan Transaction"). Under the agreement Zinkgruvan is required to deliver a minimum of 40 million ounces over the 25 year period following the contract date. If the actual amount of silver delivered is less than this minimum, a penalty of \$1.00 per ounce of the shortfall is payable. In addition, under the Zinkgruvan agreement, the Company is not liable for any capital asset expenditures.

Each warrant grants the holder the right to purchase 0.20 of one of the Company's post-consolidation common shares. The Warrants have been recorded at their fair value, which has been determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of the Company's share price of 40%, an annual risk free interest rate of 3.0% and expected lives of three years.

The Zinkgruvan mine is expected to produce approximately 2 million ounces of silver annually for a minimum of 20 years. The allocation of the purchase price is summarized in the table below:

(in thousands)

Purchase Price	
Cash	\$ 50,000
Shares and warrants	27,866
Acquisition costs	53
	<u>\$ 77,919</u>

#### 4. SILVER CONTRACTS

(in thousands)	June 30, 2005			December 31, 2004		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Luismin (Note 3a)	\$ 59,132	\$ (2,095)	\$ 57,037	\$ 59,132	\$ (586)	\$ 58,546
Zinkgruvan (Note 3b)	77,919	(1,782)	76,137	77,919	(211)	77,708
	<u>\$ 137,051</u>	<u>\$ (3,877)</u>	<u>\$ 133,174</u>	<u>\$ 137,051</u>	<u>\$ (797)</u>	<u>\$ 136,254</u>

#### 5. SHARE PURCHASE OPTIONS

During the three months ended June 30, 2005, the Company granted 50,000 (six months – 100,000) share purchase options at an exercise price of Cdn\$3.25 which expire on May 2, 2010. The share purchase option expense for the three and six month periods ended June 30, 2005 was determined using an option pricing model assuming no dividends are to be paid, a weighted average volatility of the Company's share price of 40%, an annual risk free interest rate of 3.0% and expected lives of three years. During the period, no options were exercised.

#### 6. SUPPLEMENTAL CASH FLOW INFORMATION

(in thousands)	Three Months Ended		Six Months Ended	
	June 30 2005	May 31 2004	June 30 2005	May 31 2004
Change in non-cash working capital				
Accounts receivable	\$ 397	\$ -	\$ (324)	\$ -
Silver inventory	406	-	478	-
Other	15	-	(22)	-
Accounts payable	(57)	(8)	(821)	20
Accrued liabilities	(58)	-	(24)	-
	<u>\$ 703</u>	<u>\$ (8)</u>	<u>\$ (713)</u>	<u>\$ 20</u>

## 7. RELATED PARTY TRANSACTIONS

At June 30, 2005, as a result of the Luismin Transaction, Goldcorp owned 64.7% of the Company's outstanding common shares. Between April 1 and June 30, 2005, the Company purchased 2,088,000 ounces (six months ended June 30, 2005 – 4,062,000 ounces) of silver from a subsidiary of Goldcorp at a price of \$3.90 per ounce for total consideration of approximately \$8.1 million (six months - \$15.8 million).

The Company has an agreement with Goldcorp whereby Goldcorp provides management and administrative services at cost. During the three months ended June 30, 2005, total management fees paid to Goldcorp were \$107,700 (six months - \$266,800). This agreement allows for cancellation with 30 days notice at any time.

In addition, during the three months ended June 30, 2005, payments made by Goldcorp on the Company's behalf totalled approximately \$120,700 (six months - \$158,800). At June 30, 2005, the Company owed Goldcorp \$31,500.

## 8. COMMITMENTS

In connection with the Luismin and Zinkgruvan Transactions (Note 3), the Company has committed to purchase 100% of the silver produced by each mine for a per-ounce cash payment of the lesser of \$3.90 and the then prevailing market price, subject to adjustment.

## 9. SEGMENTED INFORMATION

The Company's reportable operating segments are summarized in the table below. This information has been segmented on a silver contract basis. Prior to the Luismin Transaction on October 15, 2004, the Company operated in one business segment, which was discontinued. As a result, similar figures are not applicable for prior periods.

(in thousands)	<b>Three Months Ended June 30, 2005</b>			
	<u>Luismin</u>	<u>Zinkgruvan</u>	<u>Corporate</u>	<u>Consolidated</u>
<b>Statements of Operations</b>				
Sales	\$ 14,970	\$ 4,293	\$ -	\$ <b>19,263</b>
Cost of sales	8,141	2,264	-	<b>10,405</b>
Depreciation	795	941	-	<b>1,736</b>
Earnings from operations	6,034	1,088	-	<b>7,122</b>
Expenses and other income				
General and administrative	-	-	508	<b>508</b>
Share purchase options	-	-	38	<b>38</b>
Project evaluation	-	-	54	<b>54</b>
Interest income	-	-	(183)	<b>(183)</b>
Foreign exchange gain	-	-	(17)	<b>(17)</b>
	-	-	400	<b>400</b>
Net earnings (loss)	\$ 6,034	\$ 1,088	\$ (400)	\$ <b>6,722</b>

**Six Months Ended June 30, 2005**

(in thousands)	<u>Luismin</u>	<u>Zinkgruvan</u>	<u>Corporate</u>	<u>Consolidated</u>
<b>Statements of Operations</b>				
Sales	\$ 28,654	\$ 6,686	\$ -	\$ <b>35,340</b>
Cost of sales	15,841	3,625	-	<b>19,466</b>
Depreciation	<u>1,509</u>	<u>1,571</u>	<u>-</u>	<u><b>3,080</b></u>
Earnings from operations	<u>11,304</u>	<u>1,490</u>	<u>-</u>	<u><b>12,794</b></u>
Expenses and other income				
General and administrative	-	-	923	<b>923</b>
Share purchase options	-	-	78	<b>78</b>
Project evaluation	-	-	62	<b>62</b>
Interest income	-	-	(259)	<b>(259)</b>
Foreign exchange loss	<u>-</u>	<u>-</u>	<u>86</u>	<u><b>86</b></u>
	<u>-</u>	<u>-</u>	<u>890</u>	<u><b>890</b></u>
Net earnings (loss)	<u>\$ 11,304</u>	<u>\$ 1,490</u>	<u>\$ (890)</u>	<u><b>\$ 11,904</b></u>

(in thousands)	<u>Luismin</u>	<u>Zinkgruvan</u>	<u>Corporate</u>	<u>Consolidated</u>
<b>Total assets (June 30, 2005)</b>	\$ 57,037	\$ 76,513	\$ 33,506	\$ <b>167,056</b>
<b>Total assets (December 31, 2004)</b>	\$ 58,546	\$ 77,708	\$ 20,734	\$ <b>156,988</b>