

**LATIN AMERICAN MINERALS INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

*(An Exploration Stage Enterprise)*

**(Expressed in Canadian Dollars)**

**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

## AUDITORS' REPORT

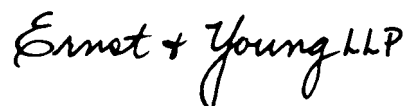
To the Shareholders of  
**Latin American Minerals Inc.**

We have audited the consolidated balance sheets of **Latin American Minerals Inc.** as at December 31, 2006 and 2005, and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated 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 December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with Canadian generally accepted accounting principles.

Vancouver, Canada,  
April 20, 2007.



Chartered Accountants



**LATIN AMERICAN MINERALS INC.**  
**(An Exploration Stage Enterprise)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Expressed in Canadian Dollars)  
**FOR THE YEARS ENDED DECEMBER 31**

	<b>2006</b>	<b>2005</b>
<b>EXPENSES</b>		
Capital tax	\$ 16,996	\$ -
Consulting fees (Note 7a and 7h)	72,226	93,187
Corporate administration fees (Note 7b and 7c)	124,227	36,000
Directors fees (Note 7d and 7e)	52,955	-
Office and general	69,239	52,231
Professional fees (Note 7f and 7g)	253,580	43,538
Property investigation	40,299	9,391
Salaries and benefits	34,036	-
Shareholder relations	11,179	8,245
Stock based compensation (Note 5b)	288,800	-
Telecommunications	2,828	5,117
Transfer and filing fees	60,717	13,998
Travel	44,353	20,210
	<u>1,071,435</u>	<u>281,917</u>
<b>OTHER ITEMS</b>		
Interest income	12,586	5,173
Foreign exchange loss	(6,895)	(1,749)
Write down of mineral properties (Note 3)	(115,319)	-
	<u>(109,628)</u>	<u>3,424</u>
<b>Loss before non-controlling interest</b>	1,181,063	278,493
<b>Non-controlling interest</b>	<u>(3,677)</u>	<u>-</u>
<b>Net loss for the year</b>	1,177,386	278,493
<b>Deficit, beginning of the year</b>	<u>387,750</u>	<u>109,257</u>
<b>Deficit, end of the year</b>	<u>\$ 1,565,136</u>	<u>\$ 387,750</u>
<b>Loss per share (basic and diluted)</b>	<u>\$ 0.07</u>	<u>\$ 0.02</u>
<b>Weighted average number of shares outstanding</b>	<u>16,346,586</u>	<u>13,747,260</u>

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

**LATIN AMERICAN MINERALS INC.**  
**(An Exploration Stage Enterprise)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
**FOR THE YEARS ENDED DECEMBER 31**

	<b>2006</b>	<b>2005</b>
<b>OPERATIONS:</b>		
Net loss for the year	\$ (1,177,386)	\$ (278,493)
Adjust for non-cash items:		
Write down of mineral properties	115,319	-
Stock based compensation	288,800	-
Non-controlling interest	<u>3,677</u>	<u>-</u>
	(769,590)	(278,493)
Change in non-cash working capital:		
Decrease (increase) in accounts receivable	(285,150)	8,558
Increase in prepaid expenses	(391)	-
Increase (decrease) in accounts payable and accrued liabilities	432,787	(2,534)
Increase (decrease) in due to related parties	<u>29,125</u>	<u>(13,958)</u>
	<u>(593,219)</u>	<u>(286,427)</u>
<b>FINANCING:</b>		
Proceeds from the issuance of share capital	4,095,000	-
Share issuance costs incurred	(546,889)	-
Exercise of stock options	<u>40,000</u>	<u>-</u>
	<u>3,588,111</u>	<u>-</u>
<b>INVESTING:</b>		
Acquisition of equipment	(136,403)	-
Acquisition of mineral properties	(143,142)	-
Deferred exploration and development costs	<u>(261,541)</u>	<u>-</u>
	<u>(541,086)</u>	<u>-</u>
<b>Change in cash during the year</b>	2,453,806	(286,427)
<b>Cash, beginning of the year</b>	<u>486,340</u>	<u>772,767</u>
<b>Cash, end of the year</b>	<u>\$ 2,940,146</u>	<u>\$ 486,340</u>
<b>OTHER SUPPLEMENTARY INFORMATION</b>		
Interest expense paid	\$ 3,292	\$ -
Income taxes paid	-	-

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**LATIN AMERICAN MINERALS INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Latin American Minerals Inc. (“Latin” or the “Company”) was incorporated under the Canada Business Corporations Act on December 9, 2003. Effective April 4, 2006, the Company graduated from a Capital Pool Company (“CPC”) listing to a Tier 2 Mining Issuer on the TSX Venture Exchange (the “TSX-V” or “Exchange”). Its principal business activities are the exploration and development of resource properties. The Company has a 95% owned subsidiary in Argentina known as Latin American Minerals Argentina S.A.

The Company is in the process of exploring and developing its resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. Certain conditions, described below, currently exist which cast doubt upon the validity of this assumption.

During the year ended December 31, 2006, the Company incurred a loss of \$1,177,386 (2005 - \$278,493) and at December 31, 2006, the Company has working capital of \$2,703,676 (2005 - \$426,241) and an accumulated deficit of \$1,565,136 (2005 - \$387,750). The Company has incurred losses since inception. The Company’s continuing operations are dependent upon the continued support of related parties and the ability of the Company to raise equity financing. Should the Company not be able to continue to operate as a going concern, adjustments might be necessary to the carrying values of assets and liabilities and the reported results from operations.

The recoverability of amounts shown as mineral properties and deferred charges is dependent upon the discovery of economically recoverable reserves, the Company’s ability to obtain financing to develop the properties, and the ultimate realization of profits through future production or sale of properties. These and other uncertainties could adversely affect the future carrying value of mineral properties and deferred charges.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflected the following significant accounting policies:

**a) Principles of Consolidation**

These consolidated financial statements include the accounts of the Company’s subsidiary, Latin American Minerals Argentina S.A.

Latin American Minerals S.A. earns no revenue and can only sustain itself by receiving funds from Latin American Mineral Ltd. In accordance, the Company uses the temporal method of foreign currency translation (Note 2i) to account for its integrated subsidiary. All material intercompany transactions and balances have been eliminated.

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**b) Mineral Properties**

The Company is in the exploration stage and defers all expenditures related to its mineral properties until such time as the property is put into commercial production, sold or abandoned. Under this method, the amounts reported represents costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values.

If the property is put into commercial production, the expenditures will be depleted based upon the proven reserves available. If the property is sold or abandoned, then the expenditure will be charged to operations. The Company does not accrue the estimated future costs of maintaining in good standing its mineral properties.

In the event that reserves are determined, the carrying values of a mineral property interest, on a property-by-property basis, will be reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, then the mineral property will be written down to its net recoverable value. The ultimate recoverability of the amounts capitalized is dependent upon the identification of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and to realize profitable production and proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment will be based on current conditions. However, it is possible that changes could occur in the near term, which could adversely affect management's estimates and may result in future write-downs of the capitalized property carrying values.

**c) Loss per Share**

Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is determined using the treasury method. All outstanding options and warrants are anti-dilutive, and therefore have no effect on determination of loss per share.

**d) Financial Instruments**

The Company's financial instruments consist of receivables, prepaid expenses, payables, and amount due to related parties. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) Use of Estimates and Measurement Uncertainty**

Estimates by management represent an integral component of financial statements prepared in conformity with Canadian generally accepted accounting principles. The estimates made in these financial statements reflect management's judgement based on past experiences, present conditions, and expectation of future events. Where estimates were made, the reported amounts for assets, liabilities, revenues and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time these financial statements were prepared. Significant estimates include the recoverability of mineral properties and deferred charges, the physical and economic lives of equipment, and the variables in calculating the fair value of stock based compensation.

**f) Income Taxes**

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheets are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect of a change in a tax rate is recognized in income in the period that includes the date of enactment or substantive enactment. The recognition of future benefits is limited to the extent that the realization of such benefits is more likely than not.

**g) Long-Lived Assets Impairment**

Long-lived assets of the Company are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations (undiscounted and without interest charges). If impairment is deemed to exist, the assets will be written down to their fair value.

**h) Stock-Based Compensation**

The Company has an incentive stock option plan. The Company has adopted the recommendation of CICA Handbook Section 3870 – "Stock Based Compensation and Other Stock Based Payments" to account for stock based transactions with employees, directors, and outside consultants. Accordingly the fair value of stock options is charged to operations as appropriate, with an offsetting credit to contributed surplus. The fair value of stock options which vest immediately is recorded at the date of grant; the fair value of options that vest in future is recognized on a graded basis over the vesting period. Any consideration received on exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is assessed using the Black-Scholes Options Pricing Model.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**i) Foreign Currency Translation**

The Company uses the temporal method of foreign currency translation to account for its integrated subsidiaries. Balances denominated in foreign currencies are translated into Canadian dollar equivalents as follows:

- i. Monetary assets and liabilities at year-end rates;
- ii. All other assets and liabilities at historical rates;
- iii. Revenue and expense transactions at the average rate of exchange prevailing during the year, except for amortization which is translated at historical rates.

Exchange gain or losses arising on these translations are charged to operations as incurred.

**j) Field & Office Equipment**

Field and office equipment are amortized on a straight line basis over the estimated useful life of the asset.

**k) Comparative figures**

Certain comparative figures for the year ended December 31, 2005 have been reclassified to conform with the current year's presentation.

**3. MINERAL PROPERTIES**

**Summary of Exploration and Development Expenditures**

A Summary of resource properties and deferred exploration costs is as follows:

	December 31, 2005	Acquisition Cost	Deferred Exploration	Write-down of Mineral Properties	December 31, 2006
Los Menucos / Uspallata Graben (iii)	\$ -	\$ 69,252	\$ 46,067	\$ (115,319)	\$ -
La Carolina (i)	-	43,348	110,116	-	153,464
Cerro Amarillo (ii)	-	122,598	105,358	-	227,956
	\$ -	\$ 235,198	\$ 261,541	\$ (115,319)	\$ 381,420

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**3. MINERAL PROPERTIES (continued)**

**(i) La Carolina**

Pursuant to an agreement (the "La Carolina Agreement") dated November 9, 2005 with Geocom Resources Inc. ("Geocom"), TNR Gold Corp. ("TNR") and Compania Minera Solitario Argentina S.A. ("Solitario"), known collectively as the Optionors, the Company has the right to earn a 75% interest, subject to a 1% NSR, in the La Carolina Property located in the San Luis Province, Argentina.

Effective April 4, 2006, the La Carolina Agreement received Exchange approval to serve as the Company's Qualifying Transaction for the purposes of the policies of the TSX-V. As a result, the Company's classification on the TSX-V has been changed from a Capital Pool Company to a Tier 2 Mining Issuer.

Under the La Carolina Agreement the Company can earn a 75% interest in the La Carolina Property by:

- (a) making exploration expenditures on the La Carolina Property totalling \$1.13 million by the fifth anniversary date of Exchange approval for the Qualifying Transaction, provided that a minimum exploration expenditure of \$56,500 is made by the first anniversary of TSX-V approval; and
- (b) by making cash payments totalling \$146,250 and issuing 125,000 common shares of the Company (the "Shares") as follows, each divided equally between Geocom and TNR:
  - i) \$29,250 (paid) and 25,000 Shares (issued) upon receipt of TSX-V approval; and
  - ii) an additional \$29,250 and 25,000 Shares by the first anniversary of TSX-V approval; and
  - iii) an additional \$29,250 and 25,000 Shares by the second anniversary of TSX-V approval; and
  - iv) an additional \$29,250 and 25,000 Shares by the third anniversary of TSX-V approval; and
  - v) an additional \$29,250 and 25,000 Shares by the fourth anniversary of TSX-V approval.

Upon making \$585,000 in total exploration expenditures and paying \$73,125 in cash and issuing 62,500 Shares to Geocom and TNR, the Company will have earned a 37.5% interest in the La Carolina Property. The 37.5% interest earned by the Company will be held by Solitario in trust for the benefit of the Company until such time as the full 75% interest is vested by the Company. Notwithstanding the consideration set out above, upon full vesting of its 75% interest in the La Carolina Property, the Company will issue to the Optionors an additional 100,000 Shares divided equally between TNR and Geocom.

Upon satisfaction of the requirements set out in paragraphs (a) and (b) above, the Optionors and the Company have agreed to form a joint venture which shall provide for the Company having a 75% participating interest and the Optionors having a 25% participating interest. Should either party fail to participate in an approved program, then their interest shall be diluted. If one of the joint venture partners is diluted to a 10% interest, then its participating interest will immediately convert to a 1% NSR. The joint venture agreement will provide the Company with the option to purchase the 1% NSR at anytime for \$1.17 million.

Any additional claims staked by the parties within 2 km of the La Carolina Property will automatically become part of the La Carolina Agreement.

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**3. MINERAL PROPERTIES (continued)**

**(ii) Cerro Amarillo**

Pursuant to an agreement dated April 19, 2006 with a local owner, the Company has the option to acquire a 100% interest in the Cerro Amarillo copper-gold porphyry project in the Mendoza Province, Argentina. The Company has the option, over a period of five years, to acquire the mineral concessions outright for \$1.7 million. To maintain its option the Company is required to make escalating payments totalling \$772,000 over the same period (which would terminate if the Company exercises its option to acquire the property outright) and undertake a minimum work commitment of \$117,000 in the first year and \$234,000 in the second year of the agreement. On October 19, 2006 the second payment of \$45,200 was renegotiated by paying \$22,600 on October 24, 2006 and the remaining \$22,600 were refinanced up to December 19, 2006. In addition, a royalty amounting to 1% Net Smelter Return capped at \$1.13 million is payable on production.

A finder's fee of 45,000 common shares of the Company was paid in connection with the transaction to Dr. Willem Fuchter.

**(iii) Los Menucos / Uspallata Graben**

Pursuant to an agreement dated September 19, 2005 with Arminex S.A. ("Arminex"), the Company acquired a 100% interest in the Los Menucos Property located in the Rio Negro Province, Argentina and the Uspallata Graben Property located in the Mendoza and San Juan Province, Argentina. Consideration for the properties was a cash payment of \$67,800. However, there are some outstanding mining canon approximating \$234,000 payments on Los Menucos property. Management considers that the geological upside of the properties do not justify meeting those cannon payments to keep the properties in good standing, and accordingly decide to write off the property during the last quarter of 2006. The Company is currently analyzing if they are going to keep a portion of those properties or divest from all of them.

**4. FILED & OFFICE EQUIPMENT**

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Field and Office Equipment	\$ 136,403	\$ -	\$ 136,403	\$ -

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**5. SHARE CAPITAL**

	Number of Shares	Amount
Authorized:		
Unlimited common shares without par value		
Issued and fully paid:		
Balance as at December 31, 2004	12,750,000	\$ 813,991
Private placement	<u>1,120,000</u>	<u>-</u>
Balance as at December 31, 2005	13,870,000	\$ 813,991
Acquisition of mineral property La Carolina	25,000	14,750
Finder's fee for mineral property Cerro Amarillo	45,000	29,700
Private placements	15,869,000	4,111,000
Exercise of stock options	400,000	40,000
Warrants issued under private placements	-	(687,952)
Share issue costs	<u>-</u>	<u>(742,889)</u>
Balance as at December 31, 2006	<u>30,209,000</u>	<u>\$ 3,578,600</u>

In February 2005, the Company completed a non-brokered private placement and issued 1,120,000 common shares for gross proceeds of \$168,000. The fund from this private placement were received by the Company in December 2004.

In February 2006, the Company completed a non-brokered private placement of 625,000 units at a price of \$0.48 per share for aggregate gross proceeds of \$300,000. Each unit will consist of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share at a price of \$0.59 for a period of two years from the date of closing. The value of \$76,245 (\$0.12 per warrant) has been attributed to the warrants issued under these private placement based on the Black Scholes pricing model and has been credited to warrants within shareholders' equity.

In December 2006, the Company completed an underwritten private placement of 15,244,000 units at a price of \$0.25 per share for aggregate gross proceeds of \$3,811,000. Each unit will consist of one common share and one-half of one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share at a price of \$0.35 for a period of two years, from the date of closing. As consideration for the underwritten portion of the private placement, the Company paid cash commission of \$247,600 and issued 64,000 common shares with 32,000 warrants to the underwriter as well as 1,518,000 broker warrants with a fair value of \$180,000. The value of \$611,707 (\$0.08 per warrant) has been attributed to the warrants issued under these private placement based on the Black Scholes pricing model and has been credited to warrants within shareholders' equity.

The share issuance costs consist of \$30,000 finder's fee related to private placement in February 2006 and \$263,600 broker commission related to private placement in December 2006. The fair value of the warrants was \$180,000. The rest are legal fees amount to \$269,289.

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**5. SHARE CAPITAL** (continued)

**(a) Escrow**

At December 31, there are 7,590,000 shares of the Company subject to a TSXV required escrow agreement (the "Escrow Agreement") that may not be transferred, assigned or otherwise dealt with until they are totally released from escrow. On each subsequent April and November 4, and additional 1,518,000 shares can be released from escrow.

**(b) Incentive Stock Options**

The following table summarizes information about stock options outstanding at December 31, 2006:

Number of Stock Options	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
600,000	\$ 0.10	April 9, 2009	2.27 years
100,000	\$ 0.66	April 20, 2011	4.30 years
640,000	\$ 0.25	October 18, 2011	4.80 years
1,340,000			3.63 years

A summary of the changes in the Company's stock options during the year is set out below:

	Number of Shares	Weighted Average Exercise Price
Balance exercisable at December 31, 2005	1,200,000	\$ 0.10
Granted during the year	1,040,000	\$ 0.42
Exercised during the year	(400,000)	\$ 0.10
Cancelled during the year	(500,000)	\$ 0.46
Balance at December 31, 2006	1,340,000	\$ 0.21
Exercisable at December 31, 2006	1,340,000	\$ 0.21

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**5. SHARE CAPITAL** (continued)

**(b) Incentive Stock Options** (continued)

During the year, the Company issued a total of 1,040,000 incentive stock options; 640,000 incentive stock options to directors at an exercise price of \$0.25 per share; 300,000 incentive stock options to directors at an exercise price of \$0.66 per share; and 100,000 incentive stock options to an officer at an exercise price of \$0.70 per share. All option grants have a term of 5 years.

Due to the resignation of a Director and in accordance with the Company's incentive stock option plan, a total of 200,000 options which were granted on April 9, 2004 cancelled on September 29, 2006.

Due to the resignation of a Director and in accordance with the Company's incentive stock option plan, a total of 200,000 options which were granted on April 20, 2006 cancelled on September 24, 2006.

Due to the resignation of an officer and in accordance with the Company's incentive stock option plan, a total of 100,000 options which were granted on May 16, 2006 cancelled on November 29, 2006.

The fair value of options granted during the year have been estimated using an option-pricing model. Assumptions used in the pricing model are as follows: risk-free interest rate of 3.5%, dividend yield of 0%, volatility of 100%, and expected life of 3.25 years.

The fair value of these options amounts to \$288,800 and has been expensed during the year and credited to contributed surplus within shareholders' equity. The weighted average fair value of the options granted is \$0.28 per option.

**(c) Share Purchase Warrants**

The following table summarizes information about share purchase warrants outstanding at December 31, 2006:

Number of Warrants	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
625,000	\$ 0.59	April 6, 2008	1.73 years
7,622,000	\$ 0.35	November 20, 2007	0.89 years
1,340,200	\$ 0.25	May 21, 2008	1.39 years
177,800	\$ 0.25	June 2, 2008	1.42 years
<b>9,765,000</b>			<b>0.97 years</b>

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**5. SHARE CAPITAL** (continued)

**(c) Share Purchase Warrants**

A summary of the changes in the share purchase warrants during the year is set out below:

	Warrants Outstanding	Weighted Average Exercise Price
Balance as at December 31, 2005	-	\$ -
Granted during the year	9,765,000	\$ 0.37
Exercised during the year	-	\$ -
Cancelled during the year	-	\$ -
<b>Balance as at December 31, 2006</b>	<b>9,765,000</b>	<b>\$ 0.37</b>

The fair values of warrants granted during the year have been estimated using an option-pricing model. Assumptions used in the pricing model are as follows: risk-free interest rate of 3.75%, dividend yield of 0%, volatility of 100%, and expected life of 1.5 years.

The fair value of these warrants amounts to \$867,952 and has been credited to contributed surplus within shareholders' equity. The weighted average fair value of the warrants granted is \$0.12 per option.

**6. INCOME TAXES**

A reconciliation of income taxes (recovery) at statutory rates is as follows:

	2006	2005
Loss before income taxes (recovery)	\$ (1,177,000)	\$ (278,000)
Income tax rate	34.12%	34.87%
Current income taxes (recovery)	\$ (401,000)	\$ (97,000)
Permanent differences	103,000	-
Tax rate changes	61,000	4,000
Unrecognized benefits of non-capital losses and resource deductions	237,000	93,000
<b>Total income taxes (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

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**6. INCOME TAXES (continued)**

Details of the Company's future income tax assets are as follows:

	2006	2005
Non-capital losses	\$ 411,000	\$ 149,000
Mineral properties	42,000	-
Share issuance costs	156,000	26,000
Less: Valuation allowance	(609,000)	(175,000)
<b>Future Income Tax Asset (Liability)</b>	<b>\$ -</b>	<b>\$ -</b>

The Company has available for deduction against future taxable income non-capital losses of \$1,225,000. Future tax benefits which may arise as a result of these non-capital losses have not been recognized in these financial statements and have been offset by a valuation allowance. The expiration of these losses will occur as follows:

Year	Amount
2014	\$ 135,000
2015	\$ 303,000
2016	\$ 787,000
<b>Total</b>	<b>\$1,225,000</b>

**7. RELATED PARTY TRANSACTIONS**

During the year, the Company incurred the following related party transactions:

- (a) \$38,751 in corporate and administration fees, \$5,790 in office rent and \$9,001 in accounting fees totalling \$53,542 (2005 - \$nil) to HRG Management Ltd., a company which shared a former common director.
- (b) \$85,476 in management fees to senior officers and directors of the Company. At December 31, 2006, a total of \$27,000 (2005 - \$nil) remained unpaid and was included in due to related parties.
- (c) \$30,500 in management fees to former director of the Company.
- (d) \$35,000 in director fees to directors of the Company. At December 31, 2006, a total of \$30,000 (2005 - \$nil) remained unpaid and was included in due to related parties.
- (e) \$11,000 in director fees to former directors of the Company.

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**7. RELATED PARTY TRANSACTIONS (continued)**

- (f) \$272,515 in legal fees to a law firm of which a partner is a director of the Company. At December 31, 2006, a total of \$218,825 (2005 - \$nil) remained unpaid and is included in accounts payable for legal services.
- (g) \$9,913 in accounting fees to an accounting firm of which a partner is a director of the Company. At December 31, 2006, a total of \$975 (2005 - \$nil) remained unpaid and is included in accounts payable for accounting services.
- (h) \$35,534 in consulting fees paid to a director of the Company. At December 31, 2006, a total of \$35,534 (2005 - \$nil) remained unpaid and is included in accounts payable.
- (i) \$85,001 in engineering fees paid to a director of the Company.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The significant non-cash transaction for the year was the Company incurring \$44,450 in mineral property acquisition costs through the issuance of common shares.

**9. SUBSEQUENT EVENTS**

**(a) Tendal**

On January 31, 2007 the Company acquired a 100% interest in the Tendal zinc-silver property in La Rioja Province of Argentina for \$52,000 and 200,000 common shares of the Company. The property comprises four concessions covering 24,296 hectares. Subsequently the Company acquired 2 more concessions with an additional 12,192 hectares.

**(b) Paso Yobai**

On Feb. 21, 2007 the Company entered in to two option agreements for 70% interests in two mining concessions. The Paso Yobai Project includes the Minera Guira mining concession for which the 70% interest can be earned by payments of \$2.457million over 3 years plus 100,000 shares of the company and by expending \$585,000 and during the first year.

The Minas Paraguay concession requires cash payments of \$2.4 million over 3 years plus company shares valued at \$58,500 and mining exploration expenditures of \$878,000 over 2 years.

Both agreements are subject to a 60 day due diligence period and the approval of the TSX Venture exchange, the Paraguay government and the Company's board of directors.

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**9. SUBSEQUENT EVENTS (continued)**

**(c) Cerro Amarillo**

The Company has not been able to gain access to the Las Lanás Property. Therefore the original option agreement was renegotiated to allow for the \$117,000 Cdn. (\$100,000 US) in exploration expenditures due in 2007 to be deferred to 2008 and the \$234,000 Cdn (\$200,000 US) exploration expenditure due in 2008 to be deferred in 2009.

**(d) Issuance of Share Purchase Warrants**

On January 10, 2007 the Company has granted an aggregate of 1,195,000 common share purchase options, exercisable for up to five years at a price of \$0.40 per share, to certain officers, directors, employees and a consultant of the Company