AURCANA CORPORATION
(An Exploration Stage Company)

Consolidated Financial Statements
December 31, 2005 and 2004

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AUDITORS' REPORT

TO THE SHAREHOLDERS OF AURCANA CORPORATION

We have audited the consolidated balance sheets of Aurcana Corporation as at December 31, 2005 and 2004 and the consolidated statements of operations and 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 December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe" (signed)

Chartered Accountants

Vancouver, British Columbia
February 13, 2006 except as to note 11
which is as of March 17, 2006

AURCANA CORPORATION
(An Exploration Stage Company)
Consolidated Balance Sheets (note 2)
As at December 31

		2005		2004
Assets				
Current				
Cash	**$**	**36,660**	$	192,654
Accounts receivable		**70,203**		15,312
Advances		**—**		6,211
		106,863		214,177
Equipment (note 6)		**923**		2,261
Investment In and Expenditures On Mineral Properties (note 5)		**157,759**		589,066
	$	**265,545**	$	805,504
Liabilities				
Current				
Accounts payable (note 8)	**$**	**49,308**	$	13,855
Shareholders' Equity				
Capital Stock (note 7)		**15,681,976**		15,671,976
Contributed Surplus (note 7(e))		**174,924**		141,721
Deficit		**(15,640,663)**		(15,022,048)
		216,237		791,649
	$	**265,545**	$	805,504

Commitment (note 10)
Subsequent Events (note 12)

Approved on behalf of the Board:

"Ken Booth"
______________________________ Director
Ken Booth

"Brian Flower"
______________________________ Director
Brian Flower

See notes to financial statements.

AURCANA CORPORATION
(An Exploration Stage Company)
Consolidated Statements of Operations and Deficit
Year Ended December 31

	2005	2004
Expenses		
Depreciation	$ **1,338**	$ 1,338
Interest income	**(955)**	(1,820)
Management fees	**80,500**	84,000
Professional fees	**21,413**	16,764
Regulatory fees	**6,145**	8,788
Rent and overhead	**35,058**	43,940
Salaries and wages	**3,593**	2,880
Stock-based compensation – consultants	**33,203**	5,061
Transfer agent fees and shareholder information	**14,039**	46,140
Loss Before Other Items	**(194,334)**	(207,091)
Exploration Expenditures	**(36,683)**	(74,203)
Loss On Foreign Exchange Conversion	**(548)**	(5,729)
Write Off of Mineral Properties	**(387,050)**	(212,986)
Net Loss for the Year	**(618,615)**	(500,009)
Deficit, Beginning of Year	**(15,022,048)**	(14,522,039)
Deficit, End of Year	$ **(15,640,663)**	$ (15,022,048)
Loss Per Share	**$ (0.02)**	$ (0.02)
Weighted Average Number of Shares Outstanding	**31,751,963**	30,152,045

See notes to financial statements.

AURCANA CORPORATION
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
Year Ended December 31

	2005	2004
Operating Activities		
Net loss	**$ (618,615)**	$ (500,009)
Items not involving cash		
Depreciation	**1,338**	1,338
Write-off of mineral properties	**387,050**	212,986
Stock-based compensation	**33,203**	5,061
Operating Cash Flow	**(197,024)**	(280,624)
Changes in Non-Cash Working Capital		
Accounts receivable	**(54,891)**	(7,121)
Accounts payable	**35,453**	(20,362)
Advances	**6,211**	(6,211)
Prepaid expenses	**—**	6,701
	(13,227)	(26,993)
Cash Used in Operating Activities	**(210,251)**	(307,617)
Investing Activity		
Recovery (expenditures) on mineral properties	**54,257**	(739,052)
Financing Activity		
Issuance of common shares	**—**	320,400
Outflow of Cash and Cash Equivalents	**(155,994)**	(726,269)
Cash, Beginning of Year	**192,654**	918,923
Cash, End of Year	**$ 36,660**	$ 192,654
Supplemental Cash Flow Information		
Issue of shares for mineral properties	**$ 10,000**	$ 63,000
Income tax paid	**$ —**	**$** —
Interest paid	**$ —**	$ —

See notes to financial statements.

1. NATURE OF OPERATIONS

The Company was originally incorporated under the laws of the Province of Ontario in 1917 and on September 14, 1998 was continued under Section 187 of the Canada Business Corporations Act. Its principal business activity is the exploration and development of natural resource properties either directly or indirectly through its investments.

2. GOING-CONCERN

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles on a going-concern basis, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business.

The investment in and expenditures on resource properties comprise substantially all of the Company's assets. Recovery of the carrying value of the investment in these assets is dependent upon the existence of economically recoverable reserves, establishing legal ownership of the resource properties, the ability of the Company to obtain necessary financing to complete the exploration and development, the attainment of future profitable production or the disposition of these assets for proceeds in excess of their carrying values.

The Company has incurred significant operating losses with an accumulated deficit of $15,640,663 at December 31, 2005. The Company's ability to continue as a going-concern is dependent upon its ability to secure additional financing on a timely basis and achieve sufficient cash flows to cover obligations and expenses. The Company is actively pursuing a mining development in Mexico subsequent to the date of these financial statements, and has subject to regulatory approval, completed a senior financing in order to finance the acquisition. The Company anticipates completion of this financing and acquisition of the mining development by the Company’s second quarter 2006. These financial statements do not give effect to any adjustments to the amounts and classifications of assets and liabilities, which might be necessary should the Company be unable to continue its operations as a going-concern.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

These accounts include the accounts of Aurcana Corporation and its wholly-owned subsidiary, Aurcana de Mexico S.A. de C.V., a Mexican corporation.

(b) Variable interest entities

Effective January 1, 2005, the Company adopted the recommendations of Canadian Institute of Chartered Accountants Handbook Accounting Guideline 15 (AcG-15), Consolidation of Variable Interest Entities, effective for annual and interim periods beginning on or after November 1, 2004. Variable interest entities (VIEs) refer to those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying VIEs and criteria for determining which entity, if any, should consolidate them. Adoption of this accounting policy has not affected the Company’s financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) **Mineral properties**

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse. All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments to the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written-off if the properties are abandoned or the claims allowed to lapse.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to income.

(d) **Foreign currency translation**

Foreign currency balances, including those of the integrated foreign subsidiary, are expressed in Canadian dollars on the following bases:

(i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
(ii) Investment in and expenditures on mineral properties, at historical exchange rates; and
(iii) Revenues and expenses, at the average rate of exchange for each quarter.

Gains and losses arising from this translation of foreign currency are included in net loss for the year.

(e) **Loss per share**

Loss per share computations are based on the weighted average number of common shares outstanding during the year. Diluted loss per share has not been presented separately as the outstanding stock options and warrants are anti-dilutive.

3. Significant Accounting Policies (Continued)

(f) **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

(g) **Stock-based compensation plans**

The Company accounts for stock options granted to directors, employees and consultants using the fair value method. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model and charged to earnings over the vesting period with a corresponding increase in contributed surplus. Upon exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to capital stock.

(h) **Asset retirement obligations**

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The adoption of this accounting policy has not affected the Company’s financial statements.

(i) **Amortization**

The Company provides for amortization of its equipment as follows:

Furniture and equipment - Straight-line over 5 years
Computers - Straight-line over 5 years

4. FINANCIAL INSTRUMENTS

(a) **Fair value**

The carrying values of cash, accounts receivable, advances and accounts payable approximate their fair values because of the short maturity of these financial instruments.

(b) **Credit risk**

The Company's financial asset that is exposed to credit risk consists primarily of cash to the extent that it is held in foreign institutions.

4. FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities.

(d) Currency risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred by the Company are not denominated in Canadian dollars. As at December 31, 2005, the Company had investments in mineral properties that require the Company to make payments in US dollars and US dollar work commitments (note 5). The Company's ability to make these payments and complete its work commitment obligations will be affected by currency fluctuations.

5. INVESTMENT IN AND EXPENDITURES ON MINERAL PROPERTIES

	San Carlos, Mexico	Altiplano, Mexico	Real de Catorce, Mexico	Total
Balance, December 31, 2003	$ —	$ —	$ —	$ —
Acquisition costs	21,000	—	—	21,000
Deferred expenditures				
Consulting fees	—	119,142	—	119,142
Field costs	—	1,716	—	1,716
Drilling and analysis	—	527,601	—	527,601
Camp costs and general	—	84,592	—	84,592
Land costs	—	79,836	—	79,836
Expenditures for the year	21,000	812,887	—	833,887
Write-off of mineral properties	(21,000)	(191,986)	—	(212,986)
Recovery of expenditures	—	(31,835)	—	(31,835)
Balance, December 31, 2004	—	589,066	—	589,066
Acquisition costs	—	10,000	—	10,000
Deferred expenditures				
Consulting fees	—	4,038	—	4,038
Field costs	—	122	2,005	2,127
Drilling and analysis	—	22,148	—	22,148
Expenditures for the year	—	36,308	2,005	38,313
Subtotal	—	625,374	2,005	625,374
Write-off of mineral properties	—	(385,045)	(2,005)	(387,050)
Recovery of expenditures	—	(82,570)	—	(82,570)
Balance, December 31, 2005	$ —	$ 157,759	$ —	$ 157,759

5. INVESTMENT IN AND EXPENDITURES ON MINERAL PROPERTIES (Continued)

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

(i) San Carlos Project, Monterrey, Mexico

In 2001, the Company signed an agreement with Minera Zapata S.A. de C.V. (“Minera”), a wholly-owned Mexican subsidiary of Almaden Minerals Ltd. (“Almaden”), to earn up to a 60% interest in the 11,190 hectare San Carlos project. The property is located 250 kilometres south of Monterrey, Mexico.

During January 2004, the Company cancelled its agreement with Minera with respect to the San Carlos Project. On February 20, 2004, in accordance with the agreement, the Company issued 100,000 common shares at a deemed price of $0.21 per share. The cost assigned of $21,000 was written off in accordance with the write-off of all property acquisition and exploration expenditures on the property as at December 31, 2004.

(ii) Altiplano Project – Mexico

On September 3, 2003, the Company announced it had signed a Letter of Intent (“LOI”) with Exploraciones del Altiplano S.A. de C.V (“Altiplano”), whereby the Company can acquire a 100% interest in five gold-silver exploration properties over four years subject to a 3% net smelter return royalty (“NSR”). The Company committed to conduct an aggregate of 5,000 metres of drilling on the five properties in the first year. On signing the formal agreement, the Company paid Altiplano US $15,000 and issued Altiplano 200,000 common shares on February 20, 2004 at a deemed price of $0.21 per share ($42,000 included in land costs). Following completion of the first year of exploration commitment on each of the individual properties, should the Company wish to continue with its option on any particular property then the Company must pay Altiplano US $50,000 and issue 200,000 common shares (issued). In order to complete the 100% interest in each individual property, the Company is required to fund US $200,000 of exploration in year two, US $300,000 in year three and US $400,000 in year four and make cash and share payments, respectively, of US $50,000 and 200,000 shares at the end of year two, and US $100,000 and 200,000 shares at the end of years three and four. One percent of the NSR on any property may be purchased for US $1,000,000. The Company also granted 1,000,000 incentive stock options exercisable up to 2008 with exercise prices of $0.13 to $0.14 per share to the owners of Altiplano in their capacity as consultants to Aurcana. 800,000 of these stock options were cancelled upon termination of the agreement in 2005.

Based on exploration work completed to date, the Company discontinued work on four of the five properties known as the Cerro Blanco, Sabinas, Veta Venado and Penoles and will not proceed with any further work on these four properties. As a result, acquisition and exploration expenditures of $385,045 were written off. The Altiplano agreement was terminated on August 5, 2005 and neither party is bound by any contractual obligation. The remaining property under the agreement is La Virgen.

On April 25, 2005, the Company entered into an agreement with Mauricio Hochschild & Compania S.A.C. (“Hochschild Agreement”) relating to the exploration of La Virgen.

5. INVESTMENT IN AND EXPENDITURES ON MINERAL PROPERTIES (Continued)

(ii) Altiplano Project – Mexico (Continued)

Under the terms of the Hochschild Agreement, Hochschild must spend a total of US $2,500,000 on exploration and pay the owner a total of US $300,00 over four years, pay the required property taxes to the Mexican government and make property payments to Altiplano. Hochschild must spend US $150,000 in the first year, US $500,000 in year two, US $850,000 in year three and US $1,000,000 million in year four and pay the owner US $25,000 on signing, US $75,000 by April 4, 2006, US $100,000 by April 4, 2007 and US $100,000 by April 4, 2008. Once Hochschild has spent US $2,500,000 and made payments to Altiplano, Hochschild will have earned a 70% interest in the property. Aurcana's obligation is to issue 200,000 common shares to Altiplano on each anniversary of the agreement for four years at which point Aurcana will have a 30% interest. Should Hochschild withdraw or default on this agreement the Company has the option to continue making the expenditures and required payments that Hochschild defaulted and by doing so earn 100% interest in the property. Should the Company not exercise this option and comply with its part of the agreement, the Company will only earn its 30% interest in the property. Once Hochschild and Aurcana have earned their interests, the property will be subject to a 3% NSR, which can be repurchased within six years from the date of signing by paying US $1,000,000 to buy 1% of the NSR, by paying US $3,000,000 to buy 2% of the NSR or by paying US $6,000,000 to buy 3% of the NSR.

(iii) Real de Catorce Project - Mexico

On June 29, 2004, the Company received regulatory approval for its acquisition of a 100% interest in the Real de Catorce silver property located in San Luis Potosi State, Mexico. Under the terms of the LOI, the Company can earn a 100% interest in the Real de Catorce project subject to a 3% NSR. On signing the formal agreement, the Company will pay Real de Catorce US $5,000. Following completion of the first year exploration commitment of US $100,000, should the Company wish to continue with its option, then the Company must pay Real de Catorce US $50,000 and issue 100,000 common shares. In order to complete the purchase of a 100% interest, the Company would fund US $200,000 of exploration in year two, US $300,000 in year three and US $400,000 in year four and make cash and share payments of US $50,000 and 100,000 shares at the end of year two and US $100,000 and 100,000 shares at the end of years three and four. One percent of the NSR may be purchased for US $1,000,000.

On July 25, 2005, the Company announced it would not be proceeding with the Real de Catorce project as the Company had a LOI signed with Genco Resources Ltd. ("Genco") to joint venture the property but the terms of the underlying agreement were changed by the property owner and Genco decided not to proceed with the execution of a final agreement. The property owner subsequently cancelled Aurcana's option. As at December 31, 2005, all deferred exploration expenses had been written off.

6. EQUIPMENT

	2005		
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	$ 5,351	$ 4,428	$ 923

6. EQUIPMENT (Continued)

	2004		
	Cost	**Accumulated Amortization**	**Net Book Value**
Furniture and equipment	$ 5,351	$ 3,090	$ 2,261

7. CAPITAL STOCK

(a) **Authorized**
Unlimited number of common shares
Unlimited Class "B" preference shares

(b) **Issued and outstanding**

	Number of Common Shares	Amount
Balance – December 31, 2003	28,585,603	$ 15,288,576
Exercise of warrants	1,715,000	220,400
Private placement	1,000,000	100,000
Issued for property	300,000	63,000
Balance – December 31, 2004	31,600,603	15,671,976
Issued for property	200,000	10,000
Balance – December 31, 2005	31,800,603	$ 15,681,976

During the year ended December 31, 2004, the Company:

(i) Completed a non-brokered private placement of 1,000,000 units at $0.10 per unit for gross proceeds of $100,000. Each unit consists of one common share and one non-transferable share purchase warrant. Each warrant is exercisable to purchase one common share at $0.12 to December 16, 2005 and $0.15 to December 16, 2006.

(ii) Issued 255,000 common shares pursuant to the exercise of 255,000 share purchase warrants at a price of $0.12 per warrant for $30,600.

(iii) Issued 1,460,000 common shares pursuant to the exercise of 1,460,000 share purchase warrants at a price of $0.13 per warrant for $189,800.

(iv) Issued 200,000 common shares at a deemed price of $0.21 to Altiplano pursuant to the execution of a formal agreement with respect to the acquisition of five exploration properties (note 5).

7. CAPITAL STOCK (Continued)

(v) Issued 100,000 common shares at a deemed price of $0.21 to Almaden pursuant to the disposition of the San Carlos, Mexico property in accordance with the terms of the agreement (note 5).

During the year ended December 31, 2005, the Company:

- Issued 200,000 common shares at a deemed price of $0.05 to Minera Laramide pursuant to the continuation of the La Virgen property under the Altiplano agreement (note 5).

(c) **Stock options**

The Company has a stock option plan whereby the Company may grant options to directors, officers, employees and consultants of up to 10% of the common shares outstanding at the time of grant. The exercise price, term and vesting period of each option are determined by the board of directors within regulatory guidelines.

The Company's stock options as at December 31, 2005 and 2004 and changes during the years then ended are as follows:

		2005		**2004**
	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding, beginning of year	**1,650,000**	**$ 0.13**	1,650,000	$ 0.13
Granted	**750,000**	**$ 0.10**	50,000	$ 0.22
Cancelled	**(875,000)**	**$ 0.13**	(50,000)	$ 0.22
Outstanding and exercisable, end of year	**1,525,000**	**$ 0.11**	1,650,000	$ 0.13

7. CAPITAL STOCK (Continued)

(c) **Stock options** (Continued)

Stock options outstanding and exercisable as at December 31, 2005 and 2004 are as follows:

Expiry Date	Exercise Price	2005 Number of Shares	2004 Number of Shares
February 28, 2007	$ 0.12	**475,000**	550,000
August 22, 2007	$ 0.16	**100,000**	100,000
September 25, 2008	$ 0.13	**120,000**	600,000
November 18, 2008	$ 0.14	**80,000**	400,000
December 15, 2010	$ 0.10	**750,000**	0
		1,525,000	1,650,000

(d) **Stock-based compensation**

During the year ended December 31, 2005, the Company granted options for a total of 750,000 shares to directors, officers and consultant with an exercise price of $0.10 per share, which can be exercised for a period of up to five years.

For the years ended December 31, 2004 and 2005, the Company applied the fair value method in accounting for its stock options granted to directors, officers and consultants by using the Black-Scholes option pricing model. Stock-based compensation expense of $33,203 (2004 - $5,061) was charged as expenses for the year.

The fair value of each option granted is calculated using the following weighted average assumptions:

	2005	2004
Expected life (years)	**5**	2
Interest rate	**3.95%**	4.17%
Volatility	**108.51**	104.19%
Dividend yield	**0.00%**	0.00%

7. CAPITAL STOCK (Continued)

(e) **Contributed surplus**

Contributed surplus represents accumulated stock-based compensation expense, reduced by the fair value of the stock options exercised.

		2005		2004
Balance – beginning of year	**$**	**141,721**	$	136,660
Fair value of stock-based compensation		**33,203**		5,061
Balance – end of year	**$**	**174,924**	$	141,721

(f) **Share purchase warrants**

The Company's share purchase warrants as at December 31, 2005 and 2004 and the changes during the years then ended are as follows:

	2005		2004	
	Warrants	**Weighted Average Exercise Price**	**Warrants**	**Weighted Average Exercise Price**
Warrants outstanding and exercisable - beginning of year	**12,880,200**	**$ 0.12**	16,398,533	$ 0.15
Issued	**—**	**0.00**	1,000,000	0.15
Expired	**(11,880,200)**	**(0.12)**	(2,803,333)	0.30)
Exercised	**—**	**0.00**	(1,715,000)	(0.13)
Warrants outstanding and exercisable – end of year	**1,000,000**	**$ 0.15**	12,880,200	$ 0.12

7. CAPITAL STOCK (Continued)

(f) Share purchase warrants (Continued)

Share purchase warrants outstanding at December 31, 2005 and 2004 are as follows:

	Exercise	Number of Shares	
Expiry Date	**Price**	**2005**	**2004**
November 24, 2005 (expired)	$ 0.12	—	11,880,200
December 16, 2006	$ 0.15	**1,000,000**	1,000,000

8. RELATED PARTY TRANSACTIONS

As at December 31, 2005:

(a) $28,734 (2004 - $5,845) was due to companies related by common directors and was included in accounts payable; and

(b) $Nil (2004 - $9,447) was owed by a company related by common directors and was included in accounts receivable.

During the year ended December 31, 2005, the Company:

(a) paid management fees of $84,000 (2004 - $84,000) to a company controlled by a director;

(b) paid technical, geological and consulting services of $15,447 (2004 - $80,188) to companies controlled by directors; and

(c) paid rent of $27,500 (2004 - $Nil) to a company controlled by directors.

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

9. INCOME TAXES

The reconciliation of income tax attributable to continuing operations computed at the statutory tax rates to income tax expense is:

		2005		2004
Income tax benefit computed at Canadian statutory rate	**$**	**(215,649)**	$	(190,003)
Non-deductible accounting amortization		**466**		508
Non-deductible write-off of mineral properties		**134,926**		80,935
Non-deductible stock-based compensation		**11,575**		1,923
Financing fees		**(17,934)**		(19,549)
Unrecognized tax losses		**86,616**		126,186
	$	**0**	$	0

The Company has non-capital losses available that may be carried forward to apply against future income for Canadian tax purposes. The losses expire as follows:

		2005
2006	$	123,000
2007		96,000
2008		95,000
2009		301,000
2010		345,000
2014		332,000
2015		248,000
	$	1,540,000

The potential benefit of these loss carry-forwards has not been recorded in these financial statements.

9. INCOME TAXES (Continued)

Future income tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The applicable tax rate to be expected is 34%. Significant components of the Company's future tax assets as at December 31 are as follows:

	2005	2004
Future income tax assets		
Tax over book value of resource properties	**$ 1,260,089**	$ 1,315,485
Tax over book value of property and equipment	**1,511**	1,101
Tax over book value of share issuance costs	**23,431**	42,786
Non-capital loss carry-forwards	**525,482**	528,347
	1,810,513	1,887,719
Valuation allowance	**(1,810,513)**	(1,887,719)
Net future income tax assets	**$ 0**	$ 0

10. COMMITMENT

The Company is committed to rental payments of $32,500 in aggregate to a company controlled by directors over the term of the lease expiring in January 2007.

11. SUBSEQUENT EVENTS

(a) On February 2, 2006, the Company signed a LOI with Reyna Mining & Engineering S.A. de C.V. ("Reyna") to acquire the La Negra silver-zinc-copper-lead mine in Queretaro State, Mexico, approximately 250 kilometres northeast of Mexico City.

Under the terms of the LOI, the Company and Reyna will form a joint venture whereby the Company will own an 80% interest in La Negra, and Reyna will own 20%. Reyna has a LOI to acquire 100% of the La Negra mine from the vendor of the mine. Aurcana will be responsible for the cost of the acquisition and up to US $3,000,000 in expected costs and working capital to bring the mine back into production. The total cost of the acquisition is US $3,000,000 of which US $2,000,000 is to be paid to the vendor on or before April 15, 2006 or such later date as the parties may agree in order to comply with regulatory approval requirements and US $1,000,000 to be paid on March 15, 2007. Under the terms of the LOI, Aurcana is required to pay Reyna US $25,000 on execution of the LOI (paid), US $500,000 and US $725,000 on the dates which are twelve and twenty-four months, respectively, from the execution of a definitive joint venture agreement. Aurcana will issue to Reyna three million shares of which one million shares will be issued on the execution of a definitive agreement and one million shares on each of the dates, which are twelve and twenty-four months, respectively, following the execution of a formal joint venture agreement. The principals of Reyna will also be consultants to Aurcana and as such will be entitled to up to one million share purchase options with terms standard to options granted to consultants. The above terms will be subject to regulatory approval, title due diligence and the formation of a definitive agreement with the vendor of the mine.

A finder's fee of US $170,000 (4% of the gross purchase price) will be paid in cash to First Access Financial, subject to regulatory approval, on this acquisition.

11. SUBSEQUENT EVENTS (Continued)

(b) On March 17, 2006, the Company completed a non-brokered private placement for a maximum of 22,500,000 units for total proceeds of $4,500,000, which was oversubscribed. Each unit will consist of one common share (a "Share") and one-half of a share purchase warrant. One full warrant (a "Warrant") will permit the holder to purchase a further common share (a "Warrant Share") for a period of 12 months from closing at a price of $0.25 per Warrant Share. If the closing price of the Company's shares as traded on the TSX Venture Exchange ("Exchange") is at or over $0.45 per share for 20 consecutive trading days, the Company will have the right to accelerate the expiry of the Warrants upon giving 30 days notice to the holders thereof.

Finders' fees of $221,540 will be paid and 922,400 warrants will be issued as finders' fees on a portion of the financing.

The proceeds of the private placement will be used principally for the acquisition of the La Negra Mine located in Queretaro State, Mexico (note 11(a)), and for working capital purposes.

The private placement transaction and the closing of the acquisition of the La Negra Mine is subject to acceptance by the Exchange and any other regulatory authorities.