AURCANA CORPORATION
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

Six Month Period Ended – June 30, 2007

(Un-audited – prepared by Management)

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MANAGEMENT COMMENT

These interim consolidated financial statements for the six months ended June 30, 2007 of Aurcana Corporation have been prepared by management and have not been subject to review by the Company's auditors

AURCANA CORPORATION
(A Development Stage Company)
Consolidated Balance Sheets
(Unaudited – Prepared by Management)

ASSETS		**30 June 2007**		31 December 2006
Current				
Cash	$	**16,472,402**	**$**	2,011,458
Accounts receivable		**1,251,279**		8,350
Prepaid expenses and advances		**118,379**		199,829
Inventory		**1,029,044**		-
		18,871,104		2,219,637
Plant and equipment *(Note 5)*		**3,091,618**		2,638,469
Mineral Properties *(Note 7)*		**11,171,011**		8,163,982
	$	**33,133,733**	**$**	13,022,088
LIABILITIES				
Current				
Accounts payable *(Note 11)*	$	**1,210,092**	**$**	108,025
Current portion of notes payable *(Note 8)*		**383,750**		334,031
Acquisition liability *(Note 6)*		**-**		1,166,400
Loan payable *(Note 9)*		**1,105,936**		934,865
Due to Reyna Mining & Engineering S.A. de C.V. *(Note 6)*		**794,475**		598,502
		3,494,253		3,141,823
Due to Reyna Mining & Engineering S.A. de C.V. *(Note 6)*		**-**		844,698
Notes Payable *(Note 8)*		**510,375**		761,431
		4,004,628		4,747,952
Continued Operations *(Note 1)*				
Commitments *(Note 13)*				
Subsequent Events *(Note 13)*				
SHAREHOLDERS' EQUITY				
Capital Stock *(Note 10)*		**45,840,282**		24,205,811
Obligation to Issue Shares *(Note 6)*		**200,000**		400,000
Contributed Surplus *(Note 10)*		**4,205,724**		1,555,853
Deficit *(Statement 2)*		**(21,116,901)**		(17,887,528)
		29,129,105		8,274,136
	$	**33,133,733**	**$**	13,022,088

Approved on behalf of the Board:

______________________________________**,** Director
Ken Booth

______________________________________**,** Director
Brian Flower

- See Accompanying Notes -

AURCANA CORPORATION
Consolidated Statements of Operations and Deficit
(A Development Stage Company)
Six Months Ended June 30
(Unaudited – Prepared by Management)

	Three Months Ended		Six Months Ended	
	30 June 2007	30 June 2006	**30 June 2007**	30 June 2006
Expenses				
Bank charges and interest	$ **1,945**	$ 2,076	$ **3,626**	$ 2,076
Consulting fees	**60,381**	10,952	**94,454**	18,015
Depreciation	**751**	45	**1,348**	91
General office & overhead	**52,794**	112,104	**146,233**	120,550
Interest income	**(52,217)**	(12,348)	**(130,901)**	(13,484)
Investor relations	**12,111**	-	**64,663**	-
Management fees	**31,250**	17,500	**75,375**	38,500
Professional fees	**6,754**	14,049	**28,705**	14,299
Regulatory fees	**4,938**	4,215	**18,143**	10,581
Stock-based compensation	**-**	-	**2,863,621**	-
Listing and filing fees	**2,052**	14,642	**10,838**	18,084
Travel	**44,002**	17,267	**60,854**	17,418
Loss Before Other Items	**(164,761)**	(180,502)	**(3,172,296)**	(226,130)
Property Evaluation	**-**	(13,024)	**(4,219)**	(20,732)
(Loss) Gain on Foreign Exchange Conversion	**267,022**	(77,156)	**(52,858)**	(76,687)
Write Off Mineral Property Costs	**-**	(157,759)	**-**	(157,759)
Net Income (Loss) for the Period	**102,261**	(428,441)	**(3,229,373)**	(481,308)
Deficit, beginning of period	**(21,219,162)**	(15,693,530)	**(17,887,528)**	(15,640,663)
Deficit, End of Period	$ **(21,116,901)**	$ (16,121,971)	$ **(21,116,901)**	$ (16,121,971)
Income (Loss) Per Share	$ **0.00**	$ (0.01)	$ **(0.04)**	$ (0.01)
Weighted Average Number of Shares Outstanding	**89,778,274**	41,882,653	**82,783,514**	41,809,173

- See Accompanying Notes -

AURCANA CORPORATION
Consolidated Statement of Cash Flows
(A Development Stage Company)
Six Months Ended June 30
(Unaudited – Prepared by Management)

	Three Months Ended		Six Months Ended	
	30 June 2007	30 June 2006	**30 June 2007**	30 June 2006
Operating Activities				
Income (Loss) for the Period	$ **102,261**	$ (428,441)	$ **(3,229,373)**	$ (481,308)
Items not involving cash				
Depreciation	**751**	45	**1,348**	91
Stock-based compensation	**-**	-	**2,863,621**	-
Write-off of mineral properties	**-**	157,759	**-**	157,759
Operating Cash Flow	**103,012**	(270,637)	**(364,404)**	(323,458)
Changes in Non-Cash Working Capital				
Accounts receivable	**(643,199)**	(3,941)	**(1,242,929)**	60,005
Accounts Payable	**(149,617)**	93,440	**1,102,067**	115,120
Prepaid expenses and advances	**(88,043)**	(319,021)	**81,450**	(319,021)
Inventory	**(1,029,044)**	-	**(1,029,044)**	-
Due to related parties	**(583,988)**	(81,214)	**(648,725)**	(28,734)
	(2,493,891)	(310,736)	**(1,737,181)**	(172,630)
Cash Used in Operating Activities	**(2,390,879)**	(581,373)	**(2,101,585)**	(496,088)
Investing Activities				
Purchase of equipment	**(358,418)**	(190,212)	**(454,497)**	(190,212)
Expenditures on mineral properties	**(845,276)**	(2,688,219)	**(3,007,029)**	(2,746,738)
Cash Used in Investing Activities	**(1,203,694)**	(2,878,431)	**(3,461,526)**	(2,936,950)
Financing Activities				
Acquisition liability	**-**	-	**(1,166,400)**	-
Notes payable	**(489,334)**	-	**(30,266)**	-
Issue of common shares	**116,000**	5,143,894	**21,220,721**	7,387,362
Cash Provided by Financing Activities	**(373,334)**	5,143,894	**20,024,055**	7,387,362
Inflow (Outflow) of Cash and Cash equivalents	**(3,967,907)**	1,684,090,	**14,460,944**	3,954,324
Cash and Cash Equivalents, Beginning of Period	**20,440,309**	2,306,894	**2,011,458**	36,660
Cash and Cash Equivalents – End of Period	$ **16,472,402**	$ 3,990,984	$ **16,472,402**	$ 3,990,984
Supplemental Cash Flow Information				
Issue of shares for mineral properties	$ **-**	$ 200,000	$ **-**	$ 200,000

- See Accompanying Notes -

1. CONTINUED OPERATIONS

The Company was originally incorporated under the laws 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.

The Company is in the development stage. The investment in and expenditures on mineral property interests and related capital assets comprise substantially all of the Company's assets. The recovery of the carrying value of the investment in these assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development, upon future profitable operations from the properties or proceeds from the disposition thereof in excess of their carrying values.

As at 30 June 2007, the Company had a working capital surplus of $15,376,851and a deficit of $21,219,162. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a going-concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company's ability to continue as a going-concern is dependent on the Company being able to satisfy its liabilities as they become due and attainment of profitable mining operations. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going-concern.

These financial statements are presented in Canadian dollars unless otherwise noted.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") based on accounting policies and practices consistent with those used in the preparation of the annual audited consolidated financial statements. The interim consolidated financial statements do not include all information and note disclosures required by Canadian GAAP for annual financial statements, and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2006.

Principles of consolidation

These financial statements include the accounts of Aurcana Corporation and its wholly-owned subsidiaries, Aurcana de Mexico S.A. de C.V. and Minera Aurcana S.A. de C.V., both Mexican corporations. All significant intercompany balances and transactions have been eliminated.

These financial statements include the Company's 80% proportionate share of the assets, liabilities, income and expenses of its joint venture investment in Real de Maconi S.A. de C.V. ("Maconi"), a Mexican corporation, which has a 100% interest in Minera La Negra S.A. de C.V. ("Minera La Negra"), a Mexican corporation.

2. SIGNIFICANT ACCOUNTING POLICIES *Continued*

Financial Instruments

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

i) Section 3855 – Financial Instruments – Recognition and Measurement This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based methods are used to measure the recorded amounts. It also specifies how financial instrument gains and losses are to be presented. The adoption of this standard had no significant effect on these financial statements.

ii) Section 1530 – Comprehensive Income – This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized. The adoption of this standard had no significant effect on these financial statements.

iii) Section 3865 – Hedges - This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG–13 “Hedging Relationships” and Section 1650 “Foreign Currency Translation”, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The adoption of this standard had no significant effect on these financial statements.

3. COMPARATIVE FIGURES

Certain of the 2006 comparative figures have been reclassified to conform to the current period´s presentation.

4. FINANCIAL INSTRUMENTS

Fair value

The carrying values of cash, accounts receivable, accounts payable and accrue liabilities, acquisition liability, and loan payable approximate their fair values because of the short-term maturity of these financial instruments.

The carrying value of notes payable approximates their fair value as this financial instrument bears interest at an approximate market rate of interest.

It is not practical to determine the fair value of the amount due to Reyna Mining & Engineering S.A. de C.V. as there is no active market for this financial instrument.

Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and accounts receivable. This risk is minimized to the extent that cash is placed with major financial institutions and accounts receivable consist of amounts due from Canada Revenue Agency.

4. FINANCIAL INSTRUMENTS *Continued*

Interest rate risk

Interest rate risk consists of two components:

To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company is exposed to interest rate cash flow risk on its loan payable with variable interest rates as the payments on the loan will fluctuate during the term of the loan as interest rates fluctuate.

The Company is exposed to interest rate price risk on its notes payable with fixed interest rates as the market rate of interest differs from the interest rate of the notes payable.

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 June 30, 2007, the Company had investments in mineral properties that require the Company to make payments in US dollars and Mexican pesos, and US dollar and Mexican pesos work commitments. The Company's ability to make these payments to satisfy its obligations for work commitments will be affected by foreign currency rate fluctuations. The Company does not utilize derivatives or other techniques to manage foreign currency risk.

As at June 30, 2007, the Company had US $824,657 (December 31, 2006 $279,037) and Mexican pesos $1,803,707 (December 31, 2006 - $528,815) on hand.

5. PLANT AND EQUIPMENT

Details are as follows:

		Cost	Accumulated Amortization		30 Ju 2007 Net Book Value		December 31 2006 Net Book
Plant & equipment	$	2,706,631	123,048	$	**2,583,583**	$	2,380,439
Vehicles		199,616	7,700		**191,916**		125,822
Computer equipment		307,616	13,361		**294,255**		124,772
Furniture & equipment		28,309	6,445		**21,864**		7,436
	$	3,242,172	150,554	$	**3,091,618**	$	2,638,469

Amortization is taken on plant and equipment when they are put into use.

6. ACQUISITION

On February 2, 2006, the Company announced it signed a letter of intent (“LOI”) with Reyna Mining & Engineering S.A. de C.V. (“Reyna”), whereby the Company and Reyna will jointly develop the La Negra mine in Queretaro State, Mexico (the “La Negra Property”). Previously, on December 23, 2005, Reyna had signed a LOI with Industriales Penoles S.A. de C.V. (“Penoles”) whereby Reyna can acquire a 100% interest in Minera La Negra (the “Penoles LOI”), which owns a 100% interest in the La Negra Property.

On March 24, 2006, under the terms of the LOI, the Company and Reyna entered into a formal joint venture agreement (“JV Agreement”) to jointly develop the La Negra Property (the “Joint Venture”). The Joint Venture’s assets, liabilities and operations will be held by Maconi. Under the terms of the JV Agreement, Reyna will transfer all the legal rights and obligations acquired through the Penoles LOI, valued in the JV Agreement at US $1,500,000, in return for a 20% interest in the Joint Venture. The Company acquired its 80% interest in the Joint Venture by making the following contributions to the Joint Venture:

(i) US $2,000,000 upon subscription by the Company (paid);
(ii) US $1,000,000 within 10 working days prior to the first anniversary of the Company’s subscription (contributed by common shares issued as disclosed below).
(iii) US $1,500,000 within 5 working days after the date of the Joint Venture’s 100% acquisition of Minera La Negra (paid); and
(iv) US $1,500,000 within 60 working days after the date of the Joint Venture’s 100% acquisition of Minera La Negra (paid).

6. ACQUISITION *Continued*

Under the terms of the JV Agreement, the Company is to make the following payments to Reyna as consideration for signing the JV Agreement:

Payments in cash totalling US $1,250,000:

(v) US $25,000 upon signing (paid);
(vi) US $500,000 12 months from the date of acquisition of Minera La Negra by the Joint Venture (paid); and
(vii) US $725,000 24 months from the date of acquisition of Minera La Negra by the Joint Venture.

Payments in common shares of the Company:

(viii) 1,000,000 ($200,000) common shares 30 calendar days from the date of acquisition of Minera La Negra by the Joint Venture (issued);
(ix) 1,000,000 ($200,000) common shares 12 months from the date of acquisition of Minera La Negra by the Joint Venture (issued); and
(x) 1,000,000 ($200,000) common shares 24 months from the date of acquisition of Minera La Negra by the Joint Venture.

The capital stock obligations were measured at the fair value of the Company's common shares on the agreement date and those unfulfilled have been reflected as "Obligation to Issue Shares".

The Company also issued to Reyna 1,000,000 warrants, each warrant entitling Reyna to purchase one common share for $0.25 on or before May 18, 2008. The warrants were fair valued at $293,099 using the Black Scholes option pricing model.

The cash, common shares and fair value of warrants paid to Reyna have been included in, "Investment in and Expenditures on Mineral Properties". A finder's fee of US $170,000 was paid in cash.

On May 18, 2006, Maconi signed a formal purchase agreement with Penoles whereby the Joint Venture will acquire 100% of Minera La Negra for US $3,000,000 (the "purchase price") to be paid as follows:

(i) US $2,000,000 upon execution of the purchase agreement (paid); and
(ii) US $1,000,000 12 months from the date of execution of the purchase agreement.

Upon execution of the purchase agreement, the Company will own 80% of the La Negra Property and Reyna the remaining 20% through their respective interests in the Joint Venture.

6. ACQUISITION *Continued*

During the first quarter, Maconi and Penoles agreed to amend the terms of the Purchase Agreement whereby the remaining US $1,000,000 owed to Penoles by the Joint Venture (note 6(ii)) was settled by the issuance of 1,114,631 common shares of the Company. This share issuance was a contribution by the Company to the Joint Venture in settlement of the Company's required contribution in note 6(ii) above.

The Company's consolidated statements of operations and deficit include its 80% share of the operating results of Minera La Negra from the date of acquisition.

The Company's proportionate interest on acquisition of Minera La Negra has been allocated as follows:

Purchase price	$ 2,579,280
Fair market value of net assets acquired	
Cash	2,355
Accounts receivable	32,225
Plant	824,976
Mineral property	1,747,580
	2,607,136
Liabilities	(27,856)
	2,579,280
Purchase price discrepancy	$ -

7. MINERAL PROPERTIES

Expenditures incurred on mineral properties are as follows:

	La Negra, Mexico	Rosario, Mexico	Total
Balance, December 31, 2006	$ 8,163,982	$ -	$ 8,163,982
Acquisition costs	-	376,352	376,352
Deferred expenditures	2,986,065	162,790	3,148,855
Receipts for ore shipped and offsetting costs	(518,178)	-	(518,178)
Total net expenditures during the period	2,467,887	539,142	
Balance, June 30, 2007	$ 10,631,869	$ 539,142	$ 11,171,011

La Negra Mine, Queretaro State, Mexico

The Company holds an 80% interest in the La Negra Property (note 6). During the quarter the Company began regular shipment of ore, the cash received on those shipments has been offset against costs while in development stage. The Company, subsequent to June 30, 2007 has entered full operations and is recognizing revenue.

Rosario Property, Mexico

On February 22, 2007, the Company received Exchange approval to enter into an Option Agreement to acquire, through its subsidiary, Aurcana de Mexico, a 100% interest in the silver-zinc-lead-gold Rosario Property located in Sinaloa State, Mexico.

Under the terms of the Option Agreement, the Company has the exclusive option to purchase the Rosario Property ("Option to Purchase"). Following its technical and legal review of the Rosario Property, the Company may exercise the Option to Purchase and execute a Sale and Purchase Agreement to acquire a 100% undivided interest in the Rosario Property within six months of signing the Option Agreement. Subsequent to the period-end the Company signed a formal agreement *(Note 13).*

7. MINERAL PROPERTIES *Continued*

Title to mineral property interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Realization of assets

The investment in and expenditures on resource 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.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.
If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

8. NOTES PAYABLE

During the year ended December 31, 2006, the Joint Venture purchased mining equipment in the aggregate amount of US $1,351,581 from Atlas Copco Mexicana, S.A. de C.V. ("Atlas"). Pursuant to the purchase, the Joint Venture signed notes payable to Atlas for the total cost of the mining equipment less the down payment of US $176,293 for a net amount due of US $1,175,288. The notes are interest bearing at 8.68% and are repayable in quarterly instalments of US $9,308 to US $40,733 including principal and interest over a three-year period by the Joint Venture. At June 30, 2007, the Company's proportionate share outstanding was as follows:

Notes payable	$	894,125
Current portion		(383,750)
Long-term	$	510,375

The Company has guaranteed 100% of the outstanding balance.

The Company's proportionate share of repayments due in each of the next three years is as follows:

2007	383,750
2008	341,645
2009	168,730
	894,125

9. LOANS PAYABLE

During the year ended December 31, 2006, the Joint Venture entered into an agreement with Trafigura Beheer B.V. ("Trafigura") for the La Negra Mine to sell its copper concentrate to Trafigura ("Copper Concentrate Contract"). In relation to the Copper Concentrate Contract, Trafigura provided financing in the form of a loan of US $1,000,000 ($1,152,900) (the "Loan"). The Joint Venture is obligated to repay the Loan in monthly installments of US $100,000 ($115,290) plus interest from April 1, 2007 to November 1, 2007, and a US $200,000 ($230,580) payment on December 1, 2007. The Loan bears interest at LIBOR (three months) plus 2% and is guaranteed 100% by the Company.

During the six months ended June 30, 2007, Trafigura provided an additional loan of US $500,000 ($576,450). The Joint Venture is obligated to repay the additional Loan in monthly installments of US $57,645 plus interest from April 1, 2007 to October 1, 2007 and on December 1, 2007. On November 1, 2007, the Company must make a US $100,000 payment. In relation to this contract, Minera La Negra signed a purchase contract with Trafigura whereby Trafigura agreed to purchase 100% of zinc concentrate to be produced during the year 2007 by the La Negra Mine based on published prices in the Metal Bulletin in London in US dollars.

10. CAPITAL STOCK

Authorized
Unlimited number of common shares
Unlimited Class "B" preference shares

Issued and outstanding:

	June 30, 2007		June 30, 2006	
$	Shares	Amount	Shares	Amount
Balance – Beginning of period	70,929,302	24,205,811	31,800,603	15,681,976
Private placement	16,850,000	21,000,000	22,350,000	4,470,000
Issuance for acquisition liability	1,114,631	1,170,361		
Exercise of options	475,000	280,250	725,000	84,000
Exercise of Warrants			12,246,300	3,061,575
Fair value of options exercised	-	213,613	-	-
Shares issued for property	1,000,000	200,000	1,000,000	200,000
Share issue costs	-	(1,167,027)	-	(228,213)
Balance – End of period	91,368,933	45,840,282	31,975,603	23,269,338

During the 6 month period ended 30 June 2007, the Company had the following capital stock transactions:
On March 7, 2007, the Company closed the brokered portion of a private placement announced February 13, 2007 and has issued 4,000,000 units ("Units") at a price of $1.25 per Unit for total gross proceeds of $5,000,000. Canaccord Capital Corporation acted as the agent ("Agent") for the brokered portion of the financing.

On March 9, 2007, the Company closed a non-brokered private placement for 12,800,000 Units at a price $1.25 per Unit for total gross proceeds of $16,000,000.

Each Unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share of the Company at any time up to 18 months after the closing of the private placement at a price of $1.85 per share; provided that if the closing price of the Company's shares as traded on the Exchange, subsequent to four months from closing, is at or over $3 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.

The Company paid the Agent a commission of $350,000 representing 7% of the gross proceeds of the private placement and issued the Agent 50,000 common shares of the Company in payment of a corporate finance fee. In addition, the Agent received 280,000 Agent's warrants ("Agent's Warrants") representing 7% of the Units sold. Each Agent's Warrant is exercisable at any time up to 18 months following the closing of the private placement at an exercise price of $1.50 per share. Additional costs of $40,000 were incurred by the Company in relation to the brokered portion of the private placement.

The Company, in connection with the non-brokered private placement, will pay a finder's fee of 5% of the gross proceeds and warrants representing 5% of the gross Units sold on a portion of the financing. The warrants will be exercisable at any time up to 18 months following the closing of the private placement at an exercise price of $1.50 per share.

Issued 1,000,000 ($200,000) common shares to Reyna Mining for the acquisition of Minera La Negra *(note 6)*

Issued 1,114,631 ($1,170,361) common shares to Penoles to retire the acquisition liability.

Issued 475,000 common shares on the exercise of options.

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.

During the period ended 30 June 2007 the change in stock options was as follows:

	2007	2006
Options Outstanding – Beginning of the period	**3,075,000**	1,525,000
Granted	**2,500,000**	-
Forfeited	**-**	-
Exercised	**(475,000)**	(725,000)
Options outstanding – End of period	**5,100,000**	800,000

The weighted average exercise price of the stock options outstanding at 30 June 2007 was $1.00 and the weighted average remaining life of the options is 4.39 years.

Stock options outstanding and exercisable as at June 30, 2007 are as follows:

Expiry Date	Exercise Price	Number of Shares
28 September 2008	$ 0.13	20,000
18 November 2008	$ 0.14	5,000
18 August 2011	$ 0.59	1,975,000
24 August 2011	$ 0.59	600,000
22 March 2012	$1.50	2,200,000
30 March 2012	$1.65	300,000
		5,100,000

During the period ended 30 June 2007, the Company granted 2,200,000 stock options at a price of $1.50.and 300,000 stock options at a price of $1.65 per common share to various directors, officers and consultants of the Company. The options were granted in accordance with the terms of the Company's 10% Rolling Stock Option Plan approved August 11, 2006, which can be exercised for periods of between two to five years.

All options outstanding at 30 June 2007 have vested.

Stock Based Compensation

For the period ended 30 June 2007, 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.

For the 6 month periods ended 30 June the stock-based compensation expense was $2,863,621 (2006 - $nil). The fair value of stock options granted as above is calculated using the following weighted average assumptions:

	2007
Risk free interest rate	**4.00%**
Expected stock price volatility	**98.34%**
Expected dividend yield	**0.00%**
Expected option life in years	**4.96**

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Contributed surplus

During the periods ended 30 June the change in contributed surplus was as follows

	2007	2006
Balance - Beginning of period	$ **1,555,853**	$ 174,924
Fair value of stock-based compensation	**2,863,621**	-
Fair value of stock options exercised	**(213,613)**	-
Balance - End of period	$ **4,205,861**	$ 174,924

Share purchase warrants

During the periods ended 30 June the change in share purchase warrants was as follows:

	2007	2006
Balance - Beginning of period	**1,000,000**	1,000,000
Issued	**9,105,950**	-
Exercised	**-**	-
Balance - End of period	**10,106,950**	1,000,000

The weighted average exercise price of share purchase warrants outstanding at 30 June 2007 was $1.67 and the weighted average life of the share purchase warrants outstanding at 30 June 2007 was 1.31 years

Share purchase warrants outstanding as at 30 June 2007 are as follows:

Expiry Date	Exercise Price	Number of Warrants
May 18, 2008	$ 0.25	1,000,000
November 7, 2008	$1.85	2,000,000
November 9, 2008	$1.85	6,400,000
November 9, 2008	$1.50	705,950

11. RELATED PARTY TRANSACTIONS

During the 6 month period ended June 30, 2007, the Company paid or accrued

- Management fees of $137,598 (2006 - $35,000) to a company controlled by directors;
- Technical, geological and consulting services of $40,825 (2006 - $14,750) to a company controlled by a director;
- Rent of $19,300 (2006 – 15,000) to a company controlled by directors;

As at June 30, 2007:

- Prepaid expenses and deposits included an amount of $6,625 (December 31, 2006 - $6,625) for management fees paid to a company controlled by directors; and
- Accounts payable included $11,647 (December 31, 2006 - $1,077) to an officer and to a company controlled by a director.

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

12. COMMITMENTS

Supply agreement

On November 14, 2006, Minera La Negra signed a purchase contract with Trafigura Beheer B.V. ("Trafigura") whereby Trafigura agreed to purchase 100%, evenly spread from January to December, of copper concentrate to be produced during the years 2007, 2008 and 2009 by the La Negra Mine. Production is estimated to be 8,000 to 10,000 tons per year for prices based on the published prices in the Metal Bulletin in London in US dollars (note 9).

Office Lease

Effective October 1, 2006, the Company executed a lease for new office space for a period of 14.5 months less two days, expiring on December 13, 2007, at a monthly rate of $3,420 per month.

Effective May 1, 2007, the Company executed a lease for new office space for a period of 36 months, expiring on May 31 2010 the minimum annual payments are as follows:

2007	36,190
2008	48,865
2009	49,914
2010	20,980

13. SUBSEQUENT EVENTS

Subsequent to June 30 2007, the Company exercised the option to purchase 100% of the Rosario silver-lead-zinc-gold property located in south eastern Sinaloa State Mexico from Industrial Minera Mexico, S.A. de C.V. (Note 7).

The consideration for the purchase of the Rosario Property is US $3,000,000, with US $250,000 (paid subsequent) due upon signing of the Option Agreement. The remaining Rosario Purchase Price of US $2,750,000 will be payable over two years and is subject to a guarantee from the Company.

In the 3rd quarter the Company has reached 75% through-put at the La Negra mill and consequently reached full operations, at that time, the Company began to recognize revenues.