AURCANA CORPORATION
(A Development Stage Company)

Consolidated Financial Statements
December 31, 2006 and 2005

Index | **Page**

AUDITORS' REPORT

TO THE SHAREHOLDERS OF AURCANA CORPORATION
(A Development Stage Company)

We have audited the consolidated balance sheets of Aurcana Corporation (a Development Stage Company) as at December 31, 2006 and 2005 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
March 22, 2007

7th Floor, Marine Building
355 Burrard Street, Vancouver, BC
Canada V6C 2G8

Fax: 604.688.4675
Telephone: 604.687.1231
Web: SmytheRatcliffe.com

AURCANA CORPORATION
(A Development Stage Company)
Consolidated Balance Sheets (note 1)
December 31

	2006	2005
		(note 3)
Assets		
Current		
Cash	$ 2,011,458	$ 36,660
Accounts receivable	8,350	70,203
Prepaid expenses and advances	199,829	0
	2,219,637	106,863
Plant and Equipment (note 5)	2,638,469	923
Investment in and Expenditures on Mineral Properties (note 7)	8,163,982	157,759
	$ 13,022,088	$ 265,545
Liabilities		
Current		
Accounts payable (note 11)	$ 108,025	$ 49,308
Current portion of notes payable (note 8)	334,031	0
Acquisition liability (note 6)	1,166,400	0
Loan payable (note 9)	934,865	0
Due to Reyna Mining & Engineering S.A. de C.V. (note 6)	598,502	0
	3,141,823	49,308
Due to Reyna Mining & Engineering S.A. de C.V. (note 6)	844,698	0
Notes Payable (notes 8 and 14)	761,431	0
	4,747,952	49,308
Shareholders' Equity		
Capital Stock (note 10(b))	24,205,811	15,681,976
Obligation to Issue Shares (note 6)	400,000	0
Contributed Surplus (note 10(d))	1,555,853	174,924
Deficit	(17,887,528)	(15,640,663)
	8,274,136	216,237
	$ 13,022,088	$ 265,545

Commitments (note 13)
Subsequent Events (note 14)

Approved on behalf of the Board:

"Ken Booth"
____________________ Director
Ken Booth

"Brian Flower"
____________________ Director
Brian Flower

See notes to consolidated financial statements.

AURCANA CORPORATION
(A Development Stage Company)
Consolidated Statements of Operations and Deficit
Years Ended December 31

	2006	2005 (note 3)
Expenses		
Stock-based compensation (note 10(c))	$ 1,228,250	$ 33,203
Management fees	112,750	80,500
Consulting fees	71,227	0
Bank charges and interest, net	66,009	(955)
Transfer agent fees and shareholder information	53,376	14,039
General office and administration	49,835	4,658
Professional fees	44,845	21,413
Travel	32,644	1,650
Rent and overhead	32,221	28,750
Investor relations	17,455	0
Regulatory fees	9,611	6,145
Corporate development	8,116	0
Insurance	7,981	0
Salaries and wages	0	3,593
Amortization	1,592	1,338
Loss Before Other Items	(1,735,912)	(194,334)
Other Items		
Property evaluation	(262,742)	(36,683)
Foreign exchange loss	(251,033)	(548)
Other income	160,581	0
Write-off of mineral property	(157,759)	(387,050)
Net Loss for Year	(2,246,865)	(618,615)
Deficit, Beginning of Year	(15,640,663)	(15,022,048)
Deficit, End of Year	$ (17,887,528)	$ (15,640,663)
Loss Per Share	$ (0.04)	$ (0.02)
Weighted Average Number of Common Shares Outstanding	55,811,790	31,751,963

See notes to consolidated financial statements.

AURCANA CORPORATION
(A Development Stage Company)
Consolidated Statements of Cash Flows
Years Ended December 31

		2006		2005
				(note 3)
Operating Activities				
Loss for year	$	(2,246,865)	$	(618,615)
Items not involving cash				
Amortization		1,592		1,338
Stock-based compensation		1,228,250		33,203
Write-off of mineral property		157,759		387,050
		(859,264)		(197,024)
Changes in non-cash working capital				
Accounts receivable		61,853		(54,891)
Prepaid expenses and advances		(199,829)		6,211
Accounts payable		58,717		35,453
		(79,259)		(13,227)
Cash Used in Operating Activities		(938,523)		(210,251)
Investing Activities				
Purchases of plant and equipment		(1,686,720)		0
Expenditures on mineral properties		(5,961,439)		54,257
Cash Provided by (Used In) Investing Activities		(7,648,159)		54,257
Financing Activities				
Proceeds from loan payable		934,865		0
Due to Reyna Mining & Engineering S.A. de C.V.		1,443,200		0
Proceeds from issuance of common shares		8,340,875		0
Share issue costs		(157,460)		0
Cash Provided By Financing Activities		10,561,480		0
Inflow (Outflow) of Cash		1,974,798		(155,994)
Cash, Beginning of Year		36,660		192,654
Cash, End of Year	$	2,011,458	$	36,660
Non-Cash Items				
Acquisition liability	$	1,166,400	$	0
Equipment financing	$	1,095,462	$	0
Issuance of shares for mineral properties	$	200,000	$	10,000
Issuance of warrants for mineral properties	$	293,099	$	0
Obligation to issue shares for mineral properties	$	400,000	$	0
Interest paid	$	0	$	0
Income taxes paid	$	0	$	0

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING-CONCERN

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 December 31, 2006, the Company had a working capital deficiency of $922,186 (note 14(b)) and a deficit of $17,887,526. 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 to obtain the necessary financing to complete the exploration and development of its mineral interests, the attainment of profitable mining operations, or the receipt of proceeds from the disposition of its mineral property interests. 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

(a) Principles of consolidation

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

(b) Amortization

Plant and equipment is stated at cost less accumulated amortization. Amortization is provided on a declining-balance basis at the rate of 20% per annum.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Mineral properties (Continued)

All deferred mineral property expenditures are reviewed, at least annually, 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, or the Company's assessment of its inability 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

The Company's functional currency is the Canadian dollar. Foreign currency transactions and balances are translated into Canadian dollars as follows:

(i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;

(ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of assets or assumption of liabilities; and

(iii) Revenues and expenses (excluding amortization, which is translated at the same rate as the related asset), at the average rate of exchange by quarter.

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

(e) Loss per share

Basic loss per share computations are based on the weighted average number of common shares issued and outstanding during the year. Diluted loss per share is calculated using the treasury stock method, however, has not been presented as the effects of outstanding options and warrants are anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(g) 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Significant estimates include the carrying amounts of plant and equipment, rates of amortization, the recoverable amount of investments in and expenditures on mineral properties, the variables used to calculate the fair value of stock-based compensation, the fair value of asset retirement obligations, the determination of the valuation allowance for future income tax assets and the determination of fair value of assets and liabilities in acquisition. While management believes the estimates are reasonable, actual results could differ from those estimates and would impact future results of operations and cash flows.

(h) Stock-based compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus under shareholders’ equity. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

(i) Asset retirement obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation (“ARO”) in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has no material AROs to record in the financial statements.

3. COMPARATIVE FIGURES

Certain of the 2005 comparative figures have been reclassified to conform to the current year's presentation.

4. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying values of cash, accounts receivable, accounts payable, 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 practicable 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.

(b) 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.

(c) Interest rate risk

Interest rate risk consists of two components:

(i) 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.

(ii) 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.

(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, 2006, 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.

4. FINANCIAL INSTRUMENTS

(d) Currency risk (Continued)

As at December 31, 2006, the Company had US $279,037 ($328,108) and Mexican pesos 528,815 ($62,117) on hand.

5. PLANT AND EQUIPMENT

		2006				
		Cost		Accumulated Amortization		Net Book Value
Mining plant and equipment	$	2,503,487	$	123,048	$	2,380,439
Vehicles		133,522		7,700		125,822
Computer equipment		137,378		12,606		124,772
Furniture and equipment		13,146		5,710		7,436
	$	2,787,533	$	149,064	$	2,638,469

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

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 ($2,057,700) 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 subsequent to December 31, 2006 as disclosed below). The $1,166,400 (US $1,000,0000) has been included in the Company's balance sheet as "Acquisition Liability";

6. ACQUISITION (Continued)

(iii) US $1,500,000 ($1,680,000) 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 ($1,695,000) within 60 working days after the date of the Joint Venture's 100% acquisition of Minera La Negra (paid).

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 ($30,000) upon signing (paid);
(vi) US $500,000 ($582,550) 12 months from the date of acquisition of Minera La Negra by the Joint Venture; and
(vii) US $725,000 ($844,698) 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; 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 (see note 10(c) for assumptions).

The cash, common shares and fair value of warrants paid to Reyna have been included in, "Investment in and Expenditures on Mineral Properties".

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 ($3,224,100) (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.

Subsequent to December 31, 2006, 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.

A finder's fee of US $170,000 ($195,415) was paid in cash.

6. ACQUISITION (Continued)

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	$	0

7. INVESTMENT IN AND EXPENDITURES ON MINERAL PROPERTIES

Expenditures incurred on mineral properties are as follows:

	La Negra, Mexico (note 7(a))	Altiplano, Mexico (note 7(b))	Real de Catorce, Mexico (note 7(c))	Total
Balance, December 31, 2004	$ 0	$ 589,066	$ 0	$ 589,066
Acquisition costs	0	10,000	0	10,000
Deferred expenditures				
Drilling and analysis	0	22,148	0	22,148
Consulting fees	0	4,038	0	4,038
Field costs	0	122	2,005	2,127
	0	26,308	2,005	28,313
Expenditures for the year	0	36,308	2,005	38,313
Recovery of expenditures	0	(82,570)	0	(82,570)
Write-off of mineral properties	0	(385,045)	(2,005)	(387,050)
Balance, December 31, 2005	0	157,759	0	157,759
Acquisition costs	5,517,465	0	0	5,517,465
Deferred expenditures				
Plant refurbishment	742,638	0	0	742,638
Management and administration	692,021	0	0	692,021
Development and site costs	364,049	0	0	364,049
Consulting fees and labour	307,711	0	0	307,711
Licenses and taxes	5,645	0	0	5,645
Equipment repairs	189,693	0	0	189,693
Maps and miscellaneous	165,612	0	0	165,612
Engineering	33,116	0	0	33,116
Mine planning	2,988	0	0	2,988
Amortization	143,044	0	0	143,044
	2,646,517	0	0	2,646,517
Expenditures for the year	8,163,982	0	0	8,163,982
Write-off of mineral properties	0	(157,759)	0	(157,759)
Balance, December 31, 2006	$ 8,163,982	$ 0	$ 0	$ 8,163,982

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

(a) La Negra Mine, Queretaro State, Mexico

The Company holds an 80% interest in the La Negra Property (note 6).

(b) Altiplano Project – Mexico

On September 3, 2003, the Company announced it signed a LOI with Exploraciones del Altiplano S.A. de C.V ("Altiplano"), whereby the Company can acquire a 100% interest in five exploration properties over four years subject to a 3% net smelter return royalty ("NSR"). The Company committed to conduct an aggregate of 5,000 meters of drilling in the first year. On signing the formal agreement, the Company paid Altiplano US $15,000 and issued Altiplano 200,000 common shares at a deemed price of $0.21 per share. 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, 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 each 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 to 2008 with exercise prices of $0.13 to $0.14 per share, to the owners of Altiplano in their capacity as consultants to the Company. Of these stock options, 800,000 were cancelled upon termination of the agreement in 2005.

Based on exploration work completed to December 31, 2005, 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 at December 31, 2005. 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. 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 $300,000 over four years, pay the required property taxes to the Mexican government and make property payments to Altiplano.

The Company elected to terminate the agreement in May 2006, and accordingly, has written off the remaining capitalized acquisition and exploration costs in 2006.

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

(c) 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 the Company’s option. As at December 31, 2005, all deferred exploration expenses were written off.

(d) 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.

(e) 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.

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

(f) 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 ($1,556,330) 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 ($198,754 (paid)) for a net amount due of US $1,175,288 ($1,369,328). The notes are interest bearing at 8.68% and are repayable in quarterly instalments of US $9,308 ($10,844) to US $40,733 ($47,458) including principal and interest over a three-year period by the Joint Venture. At December 31, 2006, the Company’s proportionate share outstanding was as follows:

Notes payable	$ 1,095,462
Current portion	(334,031)
Long-term	$ 761,431

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:

	US	Cdn
2007	$ 286,697	$ 334,031
2008	312,745	364,380
2009	340,788	397,051
	$ 940,230	$ 1,095,462

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 ($1,168,581) (the "Loan"). The Joint Venture is obligated to repay the Loan in monthly installments of US $100,000 ($116,510) plus interest from April 1, 2007 to November 1, 2007, and a US $200,000 ($233,020) payment on December 1, 2007. The Loan bears interest at LIBOR (three months) plus 2% and is guaranteed 100% by the Company.

Subsequent to December 31, 2006, Trafigura provided an additional loan of US $500,000. The Joint Venture is obligated to repay the additional Loan in monthly installments of US $50,000 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

(a) Authorized

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

(b) Issued and outstanding

	Number of Common Shares	Amount
Balance, December 31, 2004	31,600,730	$ 15,671,976
Issued for property	200,000	10,000
Balance, December 31, 2005	31,800,730	15,681,976
Private placement	23,382,272	5,037,750
Issued for property	1,000,000	200,000
Exercise of options	1,500,000	171,500
Exercise of warrants	13,246,300	3,211,575
Fair value of options exercised		140,420
Share issue costs		(237,410)
Balance, December 31, 2006	70,929,302	$ 24,205,811

10. CAPITAL STOCK (Continued)

(b) Issued and outstanding (Continued)

During the year ended December 31, 2006, the Company:

(i) Completed a non-brokered private placement of 22,350,000 units ("Unit") at $0.20 per unit for gross proceeds of $4,470,000. Each Unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of 12 months from the date of issue at a price of $0.25 per share. If the closing of the Company's shares, as traded on the Exchange, is at or over $0.45 per share for 20 consecutive trading days, the Company would have the right to accelerate the expiry of the warrants upon giving 30 days' notice to the holders thereof (issued May 23, 2006). Share issuance and related costs of $228,213 were paid in cash and 1,071,300 warrants were issued for a portion of the placement.

Pursuant to the accelerated expiry notice, the Company issued 12,246,300 common shares on exercise of 12,246,300 share purchase warrants at a price of $0.25 per warrant for $3,061,575;

(ii) Issued 1,000,000 shares at a deemed price of $0.20 to Reyna pursuant to the executed JV Agreement (note 6(viii));

(iii) Completed a non-brokered private placement with Penoles of 1,032,272 common shares at the Discounted Market Price of $0.55 per common share for gross proceeds of US $500,000 ($567,750). Related share issue costs were $9,197;

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

(iv) 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 7(b)).

(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.

10. CAPITAL STOCK (Continued)

(c) Stock options (Continued)

The Company's stock options as at December 31, 2006 and 2005 and changes during the years then ended are as follows:

	Shares	Weighted Average Exercise Price
Balance, December 31, 2004	1,650,000	$ 0.13
Granted	750,000	$ 0.10
Cancelled	(875,000)	$ 0.13
Outstanding as at December 31, 2005	1,525,000	$ 0.11
Exercised	(1,500,000)	$ 0.11
Granted	3,050,000	$ 0.59
Outstanding and exercisable as at December 31, 2006	3,075,000	$ 0.59

Stock options outstanding and exercisable as at December 31, 2006 are as follows:

Expiry Date	Exercise Price	Number of Shares
August 18, 2008	$ 0.59	75,000
September 28, 2008	$ 0.13	20,000
November 18, 2008	$ 0.14	5,000
August 18, 2011	$ 0.59	2,375,000
August 24, 2011	$ 0.59	600,000
		3,075,000

During the year ended December 31, 2006, the Company granted 3,050,000 stock options at a price of $0.59 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.

For the year ended December 31, 2006, 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.

10. CAPITAL STOCK (Continued)

(c) Stock options (Continued)

The stock-based compensation expense was $1,228,250 (2005 - $33,203). The fair value of stock options granted as above and the issue of warrants (note 6) are calculated using the following weighted average assumptions:

	2006	2005
Expected life (years)	5	5
Interest rate	4.10%	3.95%
Volatility	105.52%	108.51%
Dividend yield	0.00%	0.00%

(d) Contributed surplus

The Company's contributed surplus as at December 31, 2006 and 2005 and the changes during the years are as follows:

	2006	2005
Balance, beginning of year	$ 174,924	$ 141,721
Fair value of stock-based compensation	1,228,250	33,203
Fair value of warrants granted for property (note 6)	293,099	0
Fair value of stock options exercised	(140,420)	0
Balance, end of year	$ 1,555,853	$ 174,924

(e) Share purchase warrants

The Company's share purchase warrants as at December 31, 2006 and 2005 and the changes during the year, are as follows:

	Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2004	12,880,200	$ 0.12
Expired	(11,880,200)	$ (0.12)
Outstanding, December 31, 2005	1,000,000	$ 0.15
Issued (note 10(b)(i))	13,246,300	$ 0.25
Exercised	(13,246,300)	$ (0.24)
Outstanding, December 31, 2006	1,000,000	$ 0.25

10. CAPITAL STOCK (Continued)

(e) Share purchase warrants (Continued)

Share purchase warrants outstanding as at December 31, 2006 are as follows:

Expiry Date	Exercise Price	Number of Warrants
May 18, 2008	$ 0.25	1,000,000

11. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2006, the Company paid or accrued

(a) Management fees of $112,750 (2005 - $84,000) to a company controlled by directors;
(b) Technical, geological and consulting services of $44,338 (2005 – $15,447) to a company controlled by a director;
(c) Rent of $24,500 (2005 - $27,500) to a company controlled by directors;
(d) A cash bonus payment of $50,000 (2005 - $Nil) to a company controlled by directors, in relation to the acquisition of the La Negra Mine; and
(e) Consulting fees of $57,907 (205 - $Nil) to a company controlled by an officer.

As at December 31, 2006:

(f) Prepaid expenses and deposits included an amount of $6,625 for management fees paid to a company controlled by directors; and
(g) Accounts payable included $1,040 to a company controlled by a director and $37 due to a company controlled by an officer.

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

12. INCOME TAXES

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

		2006		**2005**
Income tax benefit computed at Canadian statutory rates	$	(766,181)	$	(215,649)
Non-deductible accounting amortization		49,321		466
Non-deductible meals and entertainment expenses		2,725		0
Non-deductible write-off of mineral properties		53,796		134,926
Non-deductible stock-based compensation		418,833		11,575
Financing fees		(33,734)		(17,934)
Unrecognized tax losses		275,240		86,616
	$	0	$	0

12. INCOME TAXES (Continued)

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:

2007	$	96,000
2008		95,000
2009		301,000
2010		345,000
2011		332,000
2012		248,000
2013		690,000
	$	2,107,000

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

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:

		2006		**2005**
Future income tax assets				
Tax value over book value of resource properties	$	21,591	$	1,260,089
Tax value over book value of plant and equipment		14,616		1,511
Tax value over book value of share issuance costs		47,223		23,431
Non-capital loss carry-forwards		718,908		525,482
		802,338		1,810,513
Valuation allowance		(802,338)		(1,810,513)
Net future income tax assets	$	0	$	0

13. COMMITMENTS

(a) 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).

13. COMMITMENTS (Continued)

(b) 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.

14. SUBSEQUENT EVENTS

(a) 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. In the event the Company executes the Sale and Purchase Agreement, consideration for the purchase of the Rosario Property is US $3,000,000 ("Rosario Purchase Price"), with US $250,000 due upon signing of the Option Agreement (paid). Should the Company proceed with the Sale and Purchase Agreement, the US $250,000 payment will form part of the Rosario Purchase Price. 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 ("Rosario Guarantee").

A cash finder's fee of US $182,500 is payable to Reyna upon execution of the Sale and Purchase Agreement and the delivery of the Rosario Guarantee.

(b) Private placement

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

14. SUBSEQUENT EVENTS (Continued)

(b) Private placement (Continued)

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.

(c) Options

On March 22, 2007, the Company granted 2,200,000 options to directors, officers and consultants of the Company at a price of $1.50 per common share. The Options have been granted in accordance with the policies of the Exchange and the terms of the Company's 10% Rolling Stock Option Plan approved August 11, 2006.