AURCANA CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Canadian Funds

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Auditors' Report

To the Shareholders of Aurcana Corporation

We have audited the consolidated balance sheets of Aurcana Corporation ("the Company") as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, comprehensive income (loss), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

signed PricewaterhouseCoopers LLP

Chartered Accountants
April 30, 2010

AURCANA CORPORATION
Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2009 and 2008

ASSETS		**2009**		2008
Current				
Cash and cash equivalents	**$**	**2,852,174**	$	1,734,484
Accounts receivable - trade		**1,052,517**		49,774
- other		**257,308**		3,125,362
Prepaid expenses and advances		**279,051**		192,209
Marketable securities *(Note 6)*		**637,500**		-
Due from joint venture partner *(Note 3)*		**-**		984,708
Inventory *(Note 4)*		**1,361,922**		1,380,007
		6,440,472		7,466,544
Amounts receivable – long term *(Note 5)*		**766,357**		-
Marketable securities – long term *(Note 6)*		**510,000**		-
Property, Plant and Equipment *(Note 7)*		**7,916,519**		6,057,538
Mineral Properties *(Notes 8 and 9)*		**63,978,122**		67,645,254
	$	**79,611,470**	$	81,169,336

LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**4,361,865**	$	2,597,885
Current portion of notes payable *(Note 10)*		**1,391,375**		1,606,011
		5,753,240		4,203,896
Notes Payable *(Note 10)*		**2,393,328**		4,270,043
Deferred Revenue *(Note 11)*		**22,185,697**		29,363,955
Convertible Debenture *(Note 12)*		**8,919,003**		8,198,333
Asset Retirement Obligation *(Note 13)*		**1,338,036**		1,005,906
Future Income tax Liability (*Note 16)*		**16,754,344**		19,762,314
		57,343,648		66,804,447
Non-Controlling Interest (Note 3)		**598,307**		-
SHAREHOLDERS' EQUITY				
Capital Stock *(Note 14)*		**55,684,504**		53,747,609
Contributed Surplus *(Note 14d)*		**7,077,058**		5,765,967
Accumulated Other Comprehensive Income		**286,250**		-
Deficit		**(41,378,297)**		(45,148,687)
		21,669,515		14,364,889
	$	**79,611,470**	$	81,169,336

Nature of Business and Going Concern *(Note 1)* **Commitments *(Note 19)*** **Subsequent Event *(Note 23)***

Approved on behalf of the Board:

_________________, Director

_________________, Director

- See Accompanying Notes -

AURCANA CORPORATION
Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)

Years ended December 31, 2009 and 2008

		2009	2008
Mining Operations			
Sales *(Note 18)*		**$ 16,133,550**	$ 8,790,780
Cost of sales		**(11,967,716)**	(12,282,004)
Amortization		**(833,679)**	(747,954)
Depletion of mineral properties		**(1,727,290)**	(2,789,848)
Accretion of asset retirement obligation *(Note 13)*		**(58,122)**	(45,576)
Profit sharing		**(331,120)**	-
Taxes		**(52,114)**	-
Earnings (Loss) from Mining Operations		**1,163,509**	(7,074,602)
Loss from trading activity, net *(Note 18)*		**(1,467,448)**	(115,669)
Corporate Expenses			
Administrative expense		**1,803,427**	1,890,546
Interest and financing		**294,093**	86,933
Investor relations		**216,401**	364,735
Listing and filing fees		**40,103**	35,896
Professional fees		**221,616**	492,697
Property evaluation		**87,485**	386,673
Stock-based compensation *(Note 14c)*		**802,287**	438,183
Total Corporate Expenses		**(3,465,412)**	(3,695,663)
Earnings (Loss) from Operations		**(3,769,351)**	(10,885,934)
Other income		**67,512**	240,509
Foreign exchange gain (loss)		**7,697,861**	(10,271,858)
Impairment of property, plant and equipment *(Note 7)*		**-**	(2,045,131)
Loss on sale of subsidiary *(Note 9)*		**(1,295,063)**	-
Gain on settlement of debt *(Note 10)*		**1,247,220**	-
Write off mineral property costs *(Note 9)*		**-**	(1,994,577)
Earnings (Loss) before Income Taxes and Non-Controlling Interest		**3,948,179**	(24,956,991)
Future income tax recovery (expense) *(Note 16)*		**-**	850,205
Non-Controlling Interest (Note 3)		**(177,789)**	-
Net Earnings (Loss) for the Year		**3,770,390**	(24,106,786)
Deficit, beginning of year		**(45,148,687)**	(21,041,901)
Deficit, End of Year		**$ (41,378,297)**	$ (45,148,687)
Earnings (Loss) Per Share	**- Basic**	**$ 0.03**	$ (0.24)
	-Fully Diluted	**$ 0.03**	-
Weighted average number of shares	**- Basic**	**109,549,577**	99,036,317
Weighted average number of shares	**- Fully Diluted**	**118,164,273**	-

- See Accompanying Notes -

AURCANA CORPORATION
Consolidated Statements of Comprehensive Income (Loss)
(Expressed in Canadian dollars)

Years Ended December 31, 2009 and 2008

		2009		2008
Net Earnings (Loss) for the Year	**$**	**3,770,390**	$	(24,106,786)
Other Comprehensive Income				
Unrealized gain on marketable securities *(Note 6)*		**286,250**		-
Comprehensive Earnings (Loss) for the Year	**$**	**4,056,640**	$	(24,106,786)

Consolidated Statements of Accumulated Other Comprehensive Income
(Expressed in Canadian dollars)

Years Ended December 31, 2009 and 2008

		2009		2008
Accumulated Other Comprehensive Income, Beginning of Year	**$**	**-**	$	-
Other Comprehensive Income				
Unrealized gain on marketable securities *(Note 6)*		**286,250**		-
Accumulated Other Comprehensive Income, End of Year	**$**	**286,250**	$	-

AURCANA CORPORATION
Consolidated Statement of Cash Flows
(Expressed in Canadian dollars)

Years Ended December 31, 2009 and 2008

Cash Resources Provided by (Used In)	2009	2008
Operating Activities		
Net Earnings (loss) for the year	**$ 3,770,390**	$ (24,106,786)
Items not involving cash		
Recognition of deferred revenue	**(1,739,730)**	(1,052,074)
Amortization	**833,679**	747,954
Depletion of mineral property	**1,727,290**	2,744,272
Accretion of asset retirement obligation	**58,122**	45,576
Stock-based compensation	**802,287**	438,183
Future income tax expense (recovery)	**-**	(850,205)
Advisory fee paid in shares	**-**	488,800
Loss on sale of Rosario	**1,295,063**	-
Unrealized foreign exchange	**(7,552,919)**	9,500,165
Gain on debt settlement	**(1,247,220)**	-
Impairment of property, plant and equipment	**-**	2,045,131
Write-off of mineral properties	**-**	1,994,577
	(2,053,038)	(8,004,407)
Net change in non-cash working capital	**1,635,571**	174,345
	(417,467)	(7,830,062)
Investing Activities		
Purchase of plant and equipment	**(760,004)**	(692,370)
Expenditures on mineral properties	**(455,985)**	(27,077,620)
	(1,215,989)	(27,769,990)
Financing Activities		
Due from joint venture partner	**-**	(803,155)
Notes payable	**305,447**	866,117
Deferred revenue	**-**	25,331,192
Share capital issued	**2,445,699**	250,000
	2,751,146	25,644,154
Net Increase (Decrease) in Cash and Cash Equivalents	**1,117,690**	(9,955,898)
Cash and cash equivalents - beginning of year	**1,734,484**	11,690,382
Cash and Cash Equivalents - End of Year	**$ 2,852,174**	$ 1,734,484

Supplemental cash flow information *(Note 22)*

1. NATURE OF BUSINESS AND GOING CONCERN

Aurcana Corporation (the "Company") was originally incorporated under the laws of Ontario in 1917 and on 14 September 1998 was continued under Section 187 of the Canada Business Corporations Act. Its principal business activity is the production of copper, silver and zinc and the exploration and development of natural resource properties.

These financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

While these consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future, there are events and conditions that cast significant doubt on the validity of that assumption. The Company has generated earnings for the year ended December 31, 2009 of $3.8 million and has an accumulated deficit of $41.4 million at December 31, 2009. The Company has fallen into arrears on its required silver deliveries *(Notes 11 and 19)* and will need to raise sufficient funds to meet these obligations as well as fund ongoing exploration and administration expenses. The Company has no assurance that such financing will be available or be available on favourable terms. Factors that could affect the availability of financing include the Company's performance (as measured by various factors including the progress and results of the Shafter and La Negra projects), the state of international debt and equity markets, investor perceptions and expectations and the global financial and metals markets. If successful, the Company would obtain additional financing through but not limited to, the issuance of additional equity.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These financial statements include the accounts of: Aurcana Corporation and its wholly-owned subsidiaries, Silver Assets Inc., a U.S. corporation, Cane Silver Inc., a Barbados corporation and Minera Aurcana S.A. de C.V., a Mexican corporation.

Real de Maconi S.A. de C.V. ("Maconi"), a Mexican corporation, was formerly accounted for by the proportionate consolidation method. Under this method, the Company included in its accounts its proportionate share of the assets, liabilities, revenues and expenses. During the quarter ended September 30, 2009, the Company diluted its former joint venture partner from a 20% interest to an 8% minority interest and took over management of the mine. Accordingly, prior to dilution the Company recognized 80% of the profit or loss of Maconi. Subsequent to the dilution of its former joint venture partner, the Company consolidates 100% of the profit or loss and assets and liabilities of Maconi, and recognizes an 8% non-controlling interest in the results of Maconi. Maconi owns 100% of Minera La Negra S.A. de C.V. ("La Negra"), a Mexican Corporation.

All significant inter-company balances and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, term deposits and short term highly liquid investments with the original term to maturity of three months or less, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Marketable Securities

Marketable securities are classified as available-for-sale. Unrealized holding gains and losses related to available-for-sale investments are excluded from net earnings and are included in other comprehensive income ("OCI") until such gains or losses are realized or an other-than-temporary impairment is determined to have occurred.

Inventory

Mine stores and finished concentrates are valued at the lower of average cost and net realizable value. Cost of finished concentrates inventory includes direct mining and production costs, direct mine overhead costs, amortization and depletion. Cost of sales includes costs of finished concentrates plus shipping costs less amortization and depletion, which is disclosed separately in the statement of income.

Foreign currency translation

The Company's measurement currency is the Canadian dollar. The operations of the Company's subsidiaries and joint venture operations are considered integrated foreign operations and are translated into Canadian dollars at the average rate of exchange per quarter for items included in the consolidated statements of loss and deficit, the rate prevailing at the balance sheet dates for monetary assets and liabilities, and historical rates for all other items. Translation gains and losses are included in the determination of operating results in the period incurred.

Amortization, Depletion and Impairment

Mining machinery, plant and property are depleted on a unit of production basis, based on estimated recoverable reserves. Estimated recoverable reserves include proven and probable reserves and the portion of mineralized zones expected to be classified as reserves.

The carrying values of producing mineral properties and property, plant and equipment, are reviewed when events or changes in circumstances arise that may result in impairments in the carrying value of those assets. An impairment loss would be recognized when the carrying amount of a long-lived asset is not recoverable based on a comparison to the undiscounted future net cash flows. The impairment loss is based on the present value of expected future net cash flow. Estimated future net cash flows calculated for each property using: estimated recoverable reserves; estimated future metal price realization (considering historical and current prices, price trends and related factors); and, estimated operating, capital and other cash flow. Estimates of future cash flow are subject to risks and uncertainties. It is possible that changes could occur which may affect the recoverability of the carrying value of mineral properties.

Plant and equipment is amortized on a straight-line basis over their estimated useful lives. Amortization begins when plant and equipment are put into use. The rates of amortization used are as follows:

Plant & equipment	Based on depletion over 5 years
Vehicles	25%
Computer equipment	30%
Other	10% - 12%

In accordance with Emerging Issues Committee Abstract ("EIC") 152 - "Mining Assets - Impairment and Business Combinations" the Company includes value beyond proven and probable reserves in its estimate of future cash flow when testing for impairment and determining fair value.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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 mineral property is abandoned or sold, or mineralization has been determined and the mineral property interests are either developed or the Company's mineral rights are allowed to lapse. 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, sold or the claims are 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.

Earnings (loss) per share

Basic earnings (loss) per share computations are based on the weighted average number of common shares issued and outstanding during the year. The Company uses the treasury stock method to calculate diluted earnings (loss) per share, which assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. Since the Company has loss during 2008, the conversion of convertible debentures, the exercise of outstanding stock options and warrants has not been included in this calculation of that year as it would be anti-dilutive.

Future 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.

Revenue Recognition

The Company produces copper, silver and zinc in concentrate. Copper and zinc products are sold under pricing arrangements where final prices are set at a specified future date based on market copper and zinc prices. Revenues are recognized when title and risk pass to the customer using forward prices for the expected date of final settlement. Changes between the prices recorded upon recognition of revenue and the final price due to fluctuations in copper and zinc market prices result in the existence of an embedded derivative in the accounts receivable. This embedded derivative is recorded at fair value, with changes in fair value classified as a component of revenue. Silver revenue results from the sale of silver contained in the copper concentrate.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP 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 periods. Significant estimates include the recoverable of mineral properties costs, the measurement of stock-based compensation, the fair value of asset retirement obligations, the carrying amounts of plant and equipment, rates of amortization, the determination of the valuation allowance for future income tax assets and the determination of fair value of assets and liabilities in acquisition. Actual results could differ from those estimates.

Stock-based compensation

The Company accounts for stock options and warrants at fair value pursuant to Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". Compensation expense for options granted is determined based on the estimated fair value of the options at the measurement date using the Black-Scholes option pricing model. The cost is recognized over the vesting period of the respected options and is either expensed to administration or recorded in exploration or development costs when grants are to individuals working directly on mineral projects. Consideration paid by the option holder, at the time options are exercised, is recorded as an increase to share capital. .

Asset retirement obligations

The Company recognizes a liability for legal or contractual obligations relating to the retirement of mineral properties and property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs are recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in contractual requirements, laws or regulation, the extent of environmental remediation required or completed, and the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

Estimates of Proven and Probable Mineral Reserves

Management's calculation of proven and probable reserves is based upon engineering and geological estimates and financial estimates including mineral prices and operating and development costs. The Company depreciates some of its assets over proven and probable mineral reserves. Changes in geological interpretations of the Company's ore bodies and changes in mineral prices and operating costs may change the Company's estimate of proven and probable reserves. It is possible that the Company's estimate of proven and probable reserves could change in the near term and that could result in revised charges for depreciation and depletion in future periods.

Deferred Revenue

Deferred revenue will be recognized to earnings over the estimated silver reserves on a per ounce of silver delivered basis. Changes in geological interpretations of the Company's ore bodies and changes in mineral prices and operating costs may change the Company's estimate of proven and probable reserves. As a result, the units of production denominator may be adjusted in the future.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Adoption of new accounting standards

Effective January 1, 2009 the Company adopted the following new accounting standards:

i) CICA Handbook Section 3064, “Goodwill and Intangible Assets”, replaces Section 3062, “Goodwill and Intangible Assets,” and CICA Section 3450, “Research and Development Costs,” and EIC-27, “Revenues and Expenditures During the Pre-operating Period”. The new Section also caused amendments to Accounting Guideline (AcG) 11, “Enterprises in the Development Stage,” and CICA Section 1000, “Financial Statement Concepts.” The Standard reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarifies the application of the concept of matching revenues and expenses such that the current practice of recognizing assets that may not meet the definition and recognition criteria are eliminated. The standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The adoption of this section did not have any impact on the consolidated financial statements of the Company.

ii) On January 20, 2009 the CICA issued EIC 173, “Credit Risk and the Fair Value of Financial Assets and Liabilities”. The EIC determines that counterparty credit risk and an entity`s own credit risk should be taken into account in estimating the fair value of financial assets and liabilities, including derivatives. It was determined that this Abstract did not have a material impact on the consolidated financial statements of the Company, as the previously recognized fair values of financial assets and liabilities reflected an appropriate measure of the parties’ credit risk.

iii) Financial instruments - disclosures – Section 3862 was amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises and other entities that choose to apply this Section. Financial instruments, where fair value is recognized in the balance sheet, have been prioritized into three levels in accordance with the fair value hierarchy included in Canadian GAAP. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs other than quoted prices included in level one that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level three includes inputs for the asset or liability that are not based on observable market data. The amendments apply to annual financial statements for years ending after September 30, 2009. The adoption of Section 3862 resulted in additional disclosures as provided in note 20.

iv) On March 29, 2009 the CICA issued EIC 174, “Impairment Testing of Mineral Exploration Properties” was adopted effective January 1, 2009. The EIC provides guidance on the appropriateness of capitalizing exploration costs prior to establishing mineral reserves and also provides additional guidance to evaluating capitalized exploration costs for possible impairment. The release of this Abstract did not have any impact on the Company`s consolidated financial statements since it is the Company’s accounting policy to expense exploration costs incurred on any properties in the pre-feasibility stage.

New Canadian Accounting Pronouncements

Business combinations and related sections

In January 2009, the CICA issued Section 1582 “Business Combinations” to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards. The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." On adoption, non-controlling interests will be presented within shareholders' equity on the balance sheet. The non-controlling interests in income will no longer be deducted in arriving at consolidated net earnings. There is no effect from adoption on previous business combinations.

The Company as early adopted the requirements of CICA 1582, 1601 and 1602, effective January 1, 2010. The adoption will result in a reclassification of non-controlling interests of $598,307 to shareholders' equity in the 2010 fiscal year.

3. DILUTION OF JOINT VENTURE PARTNER

During the year ended December 31, 2009, the Company diluted its former joint venture partner from a 20% interest in Maconi to an 8% minority interest.

Pursuant to the terms of the former joint venture agreement under which the Maconi joint venture operated, and prior to the dilution, any funding by the corporation, as to 80%, should be matched by a 20% contribution by the joint venture partner. As a result of the non-contribution by the joint venture partner, the Company elected to dilute the joint venture partner, resulting in the joint venture partner holding a non-controlling interest.

Prior to the dilution, the Company recognized 80% of the profit or loss of Maconi. Subsequent to dilution the Company consolidates 100% of the profit or loss of Maconi, and recognizes an 8% non-controlling interest. All amounts previously booked as receivable from the former joint venture partner were eliminated upon the dilution.

The non-controlling interest is determined as follows:

Non-controlling interest share of net assets of the La Negra mine at the effective date of the dilution event		420,518
Non-controlling interest share of net earnings of the La Negra mine for the period from the dilution date to December 31, 2009		177,789
Non-controlling interest – December 31, 2009	$	598,307

As of December 31, 2008, the joint venture partner owed the joint venture $1,230,884 (approximately MP$13.7 million). Upon proportionate consolidation, 80% of this amount, or $984,708 was recorded as a receivable from the joint venture partner. At dilution this amount was eliminated.

4. INVENTORY

		2009		2008
Supplies inventory	**$**	**1,147,253**	$	758,872
Stockpile inventory		**178,011**		18,685
Concentrates and in-process inventory		**36,658**		602,450
Total inventory	**$**	**1,361,922**	$	1,380,007

(Expressed in Canadian dollars)

5. AMOUNTS RECEIVABLE

During the year ended December 31, 2009, the Company sold the Rosario property (Note 9c) to Silvermex Resources Inc. ("Silvermex"). As partial consideration, the Company is to receive $1,046,600 (US$1 million) in two payments of $523,300 (US$500,000) on the earlier of 24 and 36 months from November 30, 2009 or 12 and 24 months after the commencement of production. At December 31, 2009, the carrying value of this receivable was estimated at $766,357 using a 12% discount rate and will be accreted up to principal balance over the term of the receivable using the effective interest method.

		2009		2008
Due from Silvermex – face value	**$**	**1,046.600**	$	-
Discount to fair value (net of accretion)		**(280,243)**		-
Carrying value – December 31, 2009	**$**	**766,357**	$	-

6. MARKETABLE SECURITIES

Marketable Securities are carried at fair market value based on quoted market prices as follows:

		2009		2008
Fair value of 1,250,000 Silvermex shares received on Rosario sale	**$**	**461,250**	$	-
Unrealized gain		**176,250**		-
Fair value – December 31, 2009 - Current	**$**	**637,500**	$	-
Fair value of 1,000,000 Silvermex shares receivable on Rosario sale	**$**	**400,000**	$	-
Unrealized gain		**110,000**		-
Fair value – December 31, 2009 – Long-term	**$**	**510,000**	$	-

At December 31, 2009 the Company held 1,250,000 (2008 – Nil) shares of Silvermex, acquired pursuant to the sale of the Rosario property. One million of these shares are held in escrow and will be released quarterly in 2010 *(Note 9)*. At acquisition these shares were fair valued at $461,250. At year end the fair value was $637,500.

An additional 1,000,000 shares are recorded as Marketable Securities – Long term as they represent future payments to be received on the earlier of Silvermex entering into production or 24 months from the closing date of the sale. These shares were recorded in the financial statements at a fair value of $400,000 *(Note 9c)* and at December 31, 2009 the fair value had increased to $510,000.

(Expressed in Canadian dollars)

7. PROPERTY, PLANT AND EQUIPMENT

December 31, 2009	**Cost**	**Impairment**	**Accumulated Amortization**	**Net Book Value**
Land and Buildings	**$ 894,900**	**$ -**	**-**	**$ 894,900**
Plant & equipment	**8,273,441**	**-**	**1,767,213**	**6,506,228**
Vehicles	**460,772**	**-**	**162,803**	**297,969**
Computer equipment	**334,887**	**-**	**161,242**	**173,645**
Other	**49,463**	**-**	**5,686**	**43,777**
	$ 10,013,463	**$ -**	**2,096,944**	**$ 7,916,519**
December 31, 2008				
Land and buildings	$ 1,228,545	$ 1,055,300	-	$ 173,245
Plant & equipment	7,265,069	834,525	929,068	5,501,476
Vehicles	336,155	59,606	88,153	188,396
Computer equipment	397,999	92,741	118,578	186,680
Other	13,457	2,959	2,757	7,741
	$ 9,241,225	$ 2,045,131	1,138,556	$ 6,057,538

During the year ended December 31, 2008, the Company recorded an impairment charge of $2,045,131 following an impairment assessment on the property, plant and equipment and the mineral property *(Note 9c)* related to the Rosario property. In 2009 the Company completed the sale of the Rosario property.

Plant and equipment of $844,580 held by Silver Assets, Inc. are not subject to depreciation as the project is not in production.

8. ACQUISITIONS

(a) La Negra Mine Acquisition

In March 2006, the Company entered into a joint venture agreement with Reyna Mining & Engineering S.A. de C.V. (“Reyna”) to operate Maconi through which they were jointly developing the La Negra mine in Queretaro State, Mexico as held in the 100% subsidiary, Minera La Negra.

As its 20% contribution to the former joint venture Reyna contributed all the legal rights and obligations it held to acquire a 100% interest in La Negra, valued in the Joint Venture Agreement at US $1,500,000.

Under the terms of the former Joint Venture Agreement, the Company agreed to pay $1,250,000 and issue 3,000,000 shares. The capital stock obligations were measured at the fair value of the Company’s common shares on the agreement date ($600,000). There are no further obligations 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 18 May 2008 *(Note 14e)*. The warrants were fair valued at $293,099 using the Black Scholes option pricing model. A finder’s fee of US $170,000 was paid in cash. The warrants were exercised prior to expiry in 2008. During the year ended December 31, 2009, the Company diluted Reyna’s ownership interest to 8% *(Note 3).*

(Expressed in Canadian dollars)

8. ACQUISITIONS – *continued*

(b) Shafter Silver Mine Acquisition

On July 15, 2008, the Company closed the acquisition of 100% of the Shafter silver mine (Shafter) from Silver Standard Resources Inc. ("Silver Standard"). Shafter is located in Presidio County, southwest Texas.

To acquire Shafter Aurcana paid Silver Standard US$23 million in cash; issued 15 million Aurcana common shares (fair value $6,900,000); and issued a $10 million convertible debenture paying a 3% coupon with a three year term and convertible into 6.62 million Aurcana common shares at $1.51 per share.

The Company has recorded the fair value of the conversion option to be $941,060 and has recorded this amount in "contributed surplus" *(Note 14d)*. The convertible liability was discounted by $1,220,940 to yield an effective interest rate of 15% on the debt portion of the instrument; with the convertible debenture liability assigned an initial fair value of $9,058,940 *(Note 12)*.

The Company used the Black-Scholes model to value the conversion option using the following assumptions; risk-free interest rate of 3.2%; expected stock price volatility of 87.74%; expected dividend yield of 0.00%; and an expected life of 3 years.

The purchase price allocation for the Company's 100% interest on the acquisition of Shafter was as follows:

Purchase price		
Cash	$	23,000,000
Issuance of 15 million shares *(Note 14b)*		6,900,000
Issuance of debentures *(Note 12)*		10,000,000
Discount of debt portion *(Note 12)*		(1,220,940)
	$	38,679,060
Fair market value of net assets acquired		
Cash		6,339
Land and buildings		173,245
Equipment		671,335
Mineral property *(Note 9)*		54,083,508
		54,934,427
Accounts payable and accrued liabilities		(58,176)
Future income tax liability *(Note 16)*		(16,197,191)
Purchase price allocated	$	38,679,060

(Expressed in Canadian dollars)

9. MINERAL PROPERTIES

Expenditures incurred on mineral properties are as follows:

	La Negra, Mexico	Rosario, Mexico	Shafter, Texas	Total
Balance December 31, 2007	$ 10,307,924	$ 3,876,480	$ -	$ 14,184,404
Acquisition costs *(Note 8b)*	-	-	54,083,508	54,083,508
Mineral Property expenditures	-	2,878,018	149,538	3,027,556
Capitalized interest expense *(Note 12)*	-	-	138,904	138,904
Capitalized accretion expense *(Note 12)*	-	-	360,333	360,333
Depletion	(2,154,874)	-	-	(2,154,874)
Write-off of mineral property costs	-	(1,994,577)	-	(1,994,577)
Balance, December 31, 2008	$ 8,153,050	$ 4,759,921	$ 54,732,283	$ 67,645,254
Adjustment to mineral properties on dilution of JV partner *(Note 3)*	1,503,428	-	-	1,503,428
Mineral Property expenditures	-	-	400,100	400,100
Capitalized interest expense *(Note 12)*	-	-	195,881	195,881
Capitalized accretion expense *(Note 12)*	-	-	720,670	720,670
Depletion	(1,727,290)	-	-	(1,727,290)
Sale of mineral property	-	(4,759,921)	-	(4,759,921)
Balance, December 31, 2009	$ 7,929,188	$ -	$ 56,048,934	$ 63,978,122

a) La Negra Mine, Queretaro State, Mexico

The Company holds a 100% interest in the La Negra Property, subject to an 8% non-controlling interest (*Note 8a*).

b) Shafter Property, Texas

The Company owns 100% of the Shafter silver mine (Shafter) (*Note 8b*) through Silver Assets, Inc.

(Expressed in Canadian dollars)

9. MINERAL PROPERTIES – *continued*

c) Rosario Property, Mexico

At December 31, 2008, the Company determined that it was unlikely to proceed with any further activity on the Rosario property, accordingly the Company wrote down the value of the property to its estimated recoverable value, incurring a loss of $4,039,708, comprised of $2,045,131 of property, plant and equipment *(Note 7)* and $1,994,577 on the mineral property costs (above).

On October 9, 2009 the Company entered into a definitive agreement for the sale of the Rosario exploration and development project located in Sinaloa, State, Mexico. Under the terms of the Agreement, Silvermex paid $250,000 and reimbursed Aurcana for all maintenance expenses incurred from August 1, 2009 to November 15, 2009 less the amounts due from the sale of certain equipment to the Company. In addition Silvermex issued 1,000,000 common shares *(Note 6)* on November 30, 2009 (the "closing date"), and also issued 250,000 shares *(Note 6)* as a fee for the extension from September 30 to the closing date (fair value upon issuance $461,250). Upon commencement of commercial production or within 24 months from November 30, 2009, Silvermex will issue an additional 1,000,000 common shares *(Note 6)* (fair Value at agreement closing date $400,000).

A further US$1 million is due in two payments of US$500,000 on the earlier of 24 and 36 months from November 30, 2009 or 12 and 24 months after the commencement of production. This amount is recorded at a 12% discount on the balance sheet as $766,357 and will be accreted to full value at receipt *(Note 5).* The Company at its election may take common shares in lieu of cash payments effective as of installment three. Silvermex also assumed the payment obligations to Grupo Mexico ("IMMSA") due on August 7, 2009 (US$366,893 paid by Silvermex) and US$731,500 plus Mexican Value Added Tax ("IVA") due on February 7, 2010 *(Note 10)*.

At December 31, 2009 the Company determined a loss in the disposal of Aurcana de Mexico as follows:

	December 31, 2009
	$
Reimbursements for maintenance incurred from August 1 to November 15, 2009	139,996
250,000 Silvermex shares fair valued at $0.245 at October 9, 2009 *(Note 6)*	61,250
1,000,000 Silvermex shares fair valued at $0.40 at closing date *(Note 6)*	400,000
1,000,000 Silvermex shares to be received within 24 months from closing date fair valued at $0.40 *(Note 6)*	400,000
US$1,000,000 to be received on the earlier of 24 and 36 months or commencement of production *(Note 5)*	766,357
Total proceeds	1,767,603
Net assets of Aurcana de Mexico disposed	(3,062,666)
Loss on disposal of subsidiary	($1,295,063)

10. NOTES PAYABLE

		2009		2008
Capital equipment contracts, repayable in quarterly payments totalling US$65,000 at 8.68% per annum, maturing December 2011 and secured by the related equipment *(Note 7)*	**$**	**618,650**	$	598,976
Notes payable to the Company's principal customer *(Note 18)*, repayable in monthly instalments totalling US$80,000; bearing interest at LIBOR plus 2% per annum		**3,166,053**		3,788,662
Note payable to IMMSA, US$1,288,250, for the acquisition of the Rosario property, non-interest bearing; unsecured – Assumed by Silvermex on sale of Rosario *(Note 9c)*		**-**		1,488,416
		3,784,703		5,876,054
Less: Current Portion		**(1,391,375)**		(1,606,011)
	$	**2,393,328**	$	4,270,043

Scheduled principal repayments are as follows:

Twelve months ended December 31,		
2010	$	1,391,375
2011		1,253,949
2012		1,139,379
	$	3,784,703

During 2008 revenues from concentrate sales were recognized at the time of shipment to the port in Mexico based on metal prices at that time. Final pricing was generally set at 4 months after shipment or alternatively 1 month after receipt at smelter. With the decline in metal prices during mid-year, a large number of open contracts for shipments were effectively re-priced at the lower prices in effect at settlement. This resulted in an adjustment to sales during 2008 approximately $5.1 million (US$4.8 million). This adjustment was reflected in the 2008 audited financial statements of the Company and resulted in an increase in notes payable to the concentrate buyer.

During the year ended December 31, 2009, the Company negotiated a settlement of the above re-pricing, resulting in a gain on debt settlement with Trafigura of $1,247,220.

11. DEFERRED REVENUE

In June 2008, the Company agreed to sell to Silver Wheaton (Caymans) Ltd. ("Silver Wheaton") 50% of the silver metal produced from ore extracted during the mine-life at La Negra *(Notes 19)*. The agreement was made in consideration of a prepayment to Cane Silver Inc., a 100% owned subsidiary of the Company, of US$25 million in cash. A fee per ounce of silver of US$3.90 is also payable to Cane, subject to an inflationary adjustment in year three. Under the terms of the agreement, the Company must deliver sufficient ounces of silver to Silver Wheaton within a forty year term, on a prescribed formula, or a portion of the deferred revenue, without interest, will become repayable to Silver Wheaton. All of the shares of La Negra have been pledged as security for the agreement with Silver Wheaton. As the sale amount and the corresponding deferred revenue are denominated in US dollars, the amount included in the consolidated financial statements includes an adjustment for unrealized foreign exchange variations.

(Expressed in Canadian dollars)

11. DEFERRED REVENUE - ***continued***

During the first quarter of 2009, due to ongoing negotiations surrounding the re-pricing of shipments with the concentrate buyer, and other factors, the Company fell into arrears on its payments of refined silver produced from its La Negra project to Silver Wheaton pursuant to the terms of the Silver off take Agreement with Silver Wheaton. The Company and Silver Wheaton negotiated a draft agreement to remedy this situation. At the date of this report the definitive agreement was still being finalized The draft agreement and subsequent verbal agreements required that a minimum 10% of the Silver owed would be repaid each month, with the balance of ounces owing to accrue interest at a rate of 3.25% (US Prime rate). US$1.29 million (C$1.35 million) of silver arrears are included in accounts payable.

The amounts are calculated as follows:

		US Dollars		Canadian Dollars
Balance, December 31, 2007	$	-	$	-
Sale advance		25,000,000		25,331,192
Recognized as revenue on deliveries		(986,298)		(1,052,074)
Unrealized foreign exchange loss		-		5,084,837
Balance, December 31, 2008	$	24,013,702	$	29,363,955
Recognized as revenue on deliveries		(1,523,807)		(1,739,730)
Unrealized foreign exchange gain		-		(4,086,301)
Balance, December 31, 2009	$	22,489,895	$	23,537,924
Amount reclassified as account payable		(1,292,019)		(1,352,227)
Deferred Revenue, December 31, 2009	$	21,197,876		22,185,697

(Expressed in Canadian dollars)

12. CONVERTIBLE DEBENTURE

		2009		2008
$10 million face value convertible debenture, bearing interest at 1.5% per annum for the first year and 4% per annum for the two following years, convertible into common shares at $1.51 per share, due in full July 15, 2011, unsecured – at Inception *(Note 8b)*	**$**	**8,198,333**	$	10,000,000
Fair value attributed to conversion feature *(Notes 8b and 14d)*		**-**		(941,060)
Discount of liability portion		**-**		(1,220,940)
Accretion for the period		**720,670**		360,333
	$	**8,919,003**	$	8,198,333

In 2008 the Company recorded the fair value of the conversion option to be $941,060 and recorded this amount in "contributed surplus" *(Note 14d).* The convertible liability was also discounted by $1,220,940 to yield an effective interest rate of 12% on the debt portion of the instrument. During the year ended December 31, 2009, the Company accrued $183,562 (2008:$138,904) of interest on the convertible debenture and capitalized the amount together with the $720,670 (2008: $360,333) of accretion expense to the Shafter mineral property *(Note 9b)*, which was financed by the convertible debenture. $150,000 of the accrued interest was paid during the year.

During the year ended December 31, 2009, the Company negotiated a change in interest rates on the convertible debenture. The original terms were a 3% interest rate for the three year term of the convertible debenture. The revised terms require interest of 1.5% for the first year ($150,000 paid) and 4% for the remaining two years. The renegotiation did not result in any significant change of the fair value of the debt.

13. ASSET RETIREMENT OBLIGATION

Management has estimated reclamation and closure costs for the current mine workings using its best judgment of such future costs and based on an anticipated mine life of five years. The ultimate value of the asset retirement obligation is uncertain and may change in future years based on updated estimates of costs, mine life, and other new information. Any future changes in the estimate of the asset retirement obligation will be recognized prospectively in the year such adjustment is made.

The asset retirement obligation has been calculated using a discount rate of 5% and an inflation rate of 2.50%. The future amount of the obligation is $1,469,999 and the reclamation activities are estimated to commence in 5 years.

Details are as follows:

Balance December 31, 2007	$	921,238
Accretion		45,576
Obligations incurred during the year		39,092
Balance December 31, 2008		1,005,906
Accretion		58,122
Unrealized foreign exchange		274,008
Balance December 31, 2009	$	1,338,036

(Expressed in Canadian dollars)

14. CAPITAL STOCK

(a) Authorized

An unlimited number of common shares

(b) Share issuance details

	December 31, 2009			December 31, 2008		
	Shares		**Amount**	Shares		Amount
Balance – Beginning of year	**108,583,933**	**$**	**53,747,609**	90,543,933	$	45,615,710
Private placement	11,587,727		2,445,699	-		-
Fair value of warrants issued	**-**		(508,804)	-		-
Acquisition of Shafter *(Note 8b)*	**-**		**-**	15,000,000		6,900,000
Issued for agent advisory fee *(Note 11)*	**-**		**-**	1,040,000		488,800
Shares issued for property *(Note 8a)*	**-**		**-**	1,000,000		200,000
Exercise of warrants *(Note 14e)*	**-**		**-**	1,000,000		250,000
Fair value of warrants exercised *(Note 14d)*	**-**		**-**	-		293,099
Balance – End of year	**120,171,660**	**$**	**55,684,504**	108,583,933	$	53,747,609

During 2009 the Company:

- Completed a non-brokered private placement for 11,587,727 units at $0.22 for net proceeds of $2,445,699. Each unit consisted of one share and one half of one common share purchase warrant. One full common share purchase warrant will permit the holder to purchase a further common share for a period of 18 months from closing at a price of $0.35 per share, provided that if the closing price of the Company's shares as traded on the TSX Venture Exchange, subsequent to four months from closing, is at or over $0.70 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 in the amount of 7% cash and warrants at a price of $0.30 per warrant on the same terms as the offering warrants were paid on a portion of the financing.

During 2008 the Company:

- Issued 15,000,000 ($6,900,000) common shares to Silver Standard for the acquisition of the Shafter Silver Mine *(Note 8b)*;
- Issued 1,000,000 ($200,000) common shares to Reyna for the acquisition of La Negra *(Note 8a)*; and
- Issued 1,040,000 shares ($488,800) to the agent as an advisory fee *(Note 11).*

(Expressed in Canadian dollars)

14. CAPITAL STOCK - *continued*

(c) Stock based compensation

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.

	December 31, 2009	December 31, 2008
Opening	**8,400,000**	5,525,000
Granted	**6,275,000**	3,075,000
Expired and cancelled	**(2,662,500)**	(200,000)
Options outstanding – End of period	**12,012,500**	8,400,000

The weighted average exercise price of the stock options outstanding at December 31, 2009 was $0.45 (2008: $0.78) and the weighted average remaining life of the options is 3.67 (2008: 3.45) years. The 6,275,000 shares issued had a weighted average price of $0.15, and the expired and cancelled shares had a weighted average price of $0.79.

Expiry Date	Exercise Price	Number of Shares
August 18, 2011	$0.59	1,200,000
August 24, 2011	$0.59	500,000
March 22, 2012	$1.50	1,212,500
March 30, 2012	$1.65	150,000
September 7, 2012	$1.25	500,000
December 12 2012	$0.64	100,000
May 15, 2013	$0.58	150,000
September 9, 2013	$0.31	2,125,000
October 20, 2013	$0.16	150,000
January 16, 2014	$0.13	350,000
August 13, 2014	$0.11	3,875,000
December 9, 2014	$0.285	1,700,000
		12,012,500

The options granted during the period were granted in accordance with the terms of the Company's 10% Rolling Stock Option Plan approved September 18, 2009, which can be exercised for periods of between two to five years.

As at December 31, 2009, 11,900,000 of the outstanding options have vested, leaving a balance of 112,500 remaining to vest.

For the year ended December 31, 2009, the Company applied the fair value method in accounting for all awards of stock options by using the Black-Scholes option pricing model. The Black-Scholes Option Pricing Model was created for use in estimating the fair value of freely tradable fully transferable options. The Company's stock options have characteristics significantly different from those of traded options and, because changes in the highly subjective input assumptions can materially affect the calculated values, management believes that the accepted Black-Scholes model does not necessarily provide a reliable measure of the fair value of the Company's stock option awards.

(Expressed in Canadian dollars)

14. CAPITAL STOCK - *continued*

For the year ended December 31 the stock-based compensation expense was $802,287 (2008 - $438,183). The fair value of stock options granted as above is calculated using the following weighted average assumptions:

	2009	2008
Risk free interest rate	**3.00%**	2.88 - 3.00%
Expected stock price volatility	**124.67%**	89.33 – 92.65%
Expected dividend yield	**0.00%**	0.00%
Expected option life in years	**5.0**	5.0

(d) Contributed surplus

	December 31, 2009	December 31, 2008
Balance - Beginning of year	$ **5,765,967**	$ 4,679,823
Fair value of stock-based compensation *(Note 14c)*	**802,287**	438,183
Fair value of conversion rights on convertible debentures *(Notes 8b and 12)*	**-**	941,060
Fair value of warrants	**508,804**	-
Fair value of warrants exercised	**-**	(293,099)
Balance - End of year	$ **7,077,058**	$ 5,765,967

(e) Share purchase warrants

	December 31, 2009	December 31, 2008
Balance - Beginning of year	**-**	10,106,950
Issued	**6,208,560**	-
Exercised	**-**	(1,000,000)
Expired	**-**	(9,106,950)
Balance - End of year	**6,208,560**	**-**

As of year end warrants were issued and outstanding as follows:

Expiry date May 16, 2011, exercisable at $0.35	**5,793,864**	-
Expiry date May 16, 2011, agents warrants exercisable at $0.30	**414,696**	-
Balance - End of year	**6,208,560**	**-**

(Expressed in Canadian dollars)

15. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, the Company paid or accrued:

- Management fees of $183,600 (2008: $160,367) to companies controlled by directors or former directors;
- Administrative management fees of $162,553 (2008: $327,773) to companies controlled by directors;
- Technical and consulting services of $154,457 (2008:$124,200) to companies controlled by directors or officers; and
- Consulting fees of $287,740 (2008: $220,945) to officers, former officers and companies controlled by officers.

As at December 31, 2009:

- Prepaid expenses and deposits included an amount of $nil (2008: $8,925) for management fees paid to a company controlled by common directors;
- Travel advances of $56,434 (2008:$nil) paid to officers and directors; and
- Accounts payable included $nil (2008: $3,230) to an officer and 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.

16. INCOME TAXES

		2009		2008
Net Income (loss) for the year before taxes	$	**3,770,390**	$	(24,956,991)
Statutory rate :		**30.0%**		31.0%
Tax expense (recovery) at statutory rates		**1,131,117**		(7,736,667)
Non-deductible (taxable) items		**(2,007,623)**		1,470,943
Effect of change in enacted rates		**(449,431)**		97,938
Effect of foreign tax rate differences		**36,471**		158,981
Current valuation allowance (recovery) and other		**1,289,466**		5,158,600
Future income tax expense (recovery)	$	**-**	$	(850,205)

Significant components of the Company's future tax assets (liabilities) as at December 31 are as follows:

		2009		2008
Non-capital loss carry-forwards	$	**6,069,592**	$	6,546,099
Deferred financing costs and other		**908,804**		921,684
Resource properties		**(21,406,162)**		(23,614,054)
		(14,427,766)		(16,146,271)
Valuation allowance		**(2,326,578)**		(3,616,044)
Future income and mining tax liability	$	**(16,754,344)**	$	(19,762,314)

The Company has non-capital losses available that may be carried forward to apply against future income taxes. These losses expire as follows:

		USA		Mexico		Canada
2010	$	-	$	-	$	345,000
2011		-		-		332,000
2012		-		174,000		248,000
2013		-		372,000		-
Beyond 2013		6,207,000		8,906,000		4,078,000
	$	6,207,000	$	9,452,000	$	5,003,000

(Expressed in Canadian dollars)

17. SEGMENTED DISCLOSURE

The Company operates in only one sector, mineral properties exploration and development, geographical disclosure is as follows:

December 31, 2009	**Revenue**	**Earnings (Loss)**	**Property, Plant & Equipment**	**Mineral properties**	**Total Capital Assets**	**Total Assets**
Canada	**-**	**1,604,368**	**381,436**	**-**	**381,436**	**3,137,420**
United States	**-**	**(10,410)**	**907,125**	**56,048,934**	**56,997,623**	**56,111,479**
Mexico	**16,133,550**	**2,176,432**	**6,627,958**	**7,929,188**	**14,352,680**	**20,362,571**
Total	**$ 16,133,550**	**$ 3,770,390**	**$ 7,916,519**	**$ 63,978,122**	**$ 71,731,739**	**$ 79,611,470**
December 31, 2008						
Canada	-	(8,204,547)	16,103	-	16,103	2,223,905
United States	-	(3,571,805)	844,580	54,732,283	55,576,863	55,632,993
Mexico	8,790,780	(12,384,434)	5,196,855	12,912,971	18,109,826	23,312,438
Total	$ 8,790,780	$ (24,106,786)	$ 6,057,538	$ 67,645,254	$ 73,702,792	$ 81,169,336

18. SALES AND ECONOMIC DEPENDENCE

Details of sales generated from customers that individually account for approximately 10% or more of consolidated sales are as follows:

	2009	2008
Number of large customers	**1**	1
Amount of sales to large customers	**16,133,550**	8,790,780
Total consolidated sales	**16,133,550**	8,790,780
Total percentage of consolidated sales generated from large customers	**100%**	100%

The Company has signed an exclusive multi-year sales agreement for the sale of all or substantially all of its copper and zinc concentrate from the La Negra mine *(Note 19)*. The Company is economically dependent upon a single customer and upon the successful renewal or replacement of this contract at economic rates.

Pursuant to the Silver Wheaton agreement (Note 11), the Company recognized the following loss from trading activity:

	2009	2008
Cash portion of sales received from Silver Wheaton	**$ 1,124,373**	$ 2,398,199
Recognition of deferred revenue (Note 11)	**1,739,730**	1,052,074
	2,864,103	3,450,273
Cost of sales – purchase of silver certificates	**(4,331,551)**	(3,565,942)
Loss from trading activity	**$ (1,467,448)**	$ (115,669)

19. COMMITMENTS

Supply agreement

On November 14, 2006, 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. Prices are based on the published prices in the Metal Bulletin in London in US dollars at the transaction date unless fixed by us for the month.

Office Lease

Effective May 1, 2010, the Company executed a lease for new office space for a period of 60 months, expiring on April 30, 2015. The minimum annual payments are $86,160 (May 1, 2010 to April 30, 2012), $89,750 (May 1, 2012 to April 30, 2013) and $93,340 (May 1, 2013 to April 30, 2015).

Deferred Revenue

The Company has commitments to deliver 50% of its silver production from the La Negra property as payment for the funds received from the advance silver sale. During the year, this was renegotiated to a minimum 10% delivery *(Notes 11).*

20. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity and long-term debt. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company has not changed its approach to capital management during the current year. The Company is not subject to any external capital restrictions.

The Company expects that it will be necessary to raise additional capital to meet its budgeted exploration and development plans and operations.

Additional comments regarding capital management is disclosed in note 1.

21. FINANCIAL INSTRUMENTS

Financial instruments include cash and any contracts that give rise to a financial asset to one party and a financial liability or equity instrument to another party. During 2009, CICA Handbook Section 3862, *"Financial instruments – Disclosures"*, was amended to require disclosures about the classification and fair value of financial instruments, including their classification within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

At December 31, 2009, the Company's financial instruments, which are measured at fair value on a recurring basis, were cash equivalents and marketable securities are classified as "Level 2" and the Company's carrying value approximates fair value.

Fair Values

As at December 31, 2009, the Company's carrying values of accounts receivable, and accounts payable approximate their fair values due to their short term to maturity.

The Company's is exposed to certain financial risks, including currency risk, credit risks, liquidity risk, price risk and interest risk.

(a) Currency risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, the United States and Mexico and a portion of its expenses are incurred in US dollars and Mexican Pesos. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar or Mexican Peso could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

		December 31, 2009
Cash and cash equivalents	US$	1,382,822
Accounts receivable		1,150,791
Accounts payable		(6,168,563)
Future income tax liability		(16,137,770)
Deferred revenue		(19,846,469)
	US$	**(39,619,189)**
Canadian dollar equivalent	**$**	**(41,465,443)**

21. FINANCIAL INSTRUMENTS - *continued*

At December 31, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		December 31, 2009
Cash and cash equivalents	MP$	842,903
Amounts receivable		531,781
Accounts payable and accrued liabilities		(12,847,281)
	MP$	**(11,472,597)**
Canadian dollar equivalent	**$**	**(924,921)**

Based on the above net exposures as at December 31, 2009, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar and the Mexican Peso would result in a material change to the Company's loss in terms of unrealized foreign exchange of approximately $4.2 million.

Additional comments regarding capital management are disclosed in note 1.

(b) Credit risk:

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from amounts receivable and marketable securities.

The Company's trade receivables are the result of sales of concentrates to one significant purchaser. As such, the company is at risk with respect to collections of these receivables. The Company's other receivables consist of sales taxes due from the Federal Governments of Canada and Mexico.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities are due within the current operating period.

The Company's expected source of cash flow in the upcoming year will be through its operations at La Negra, equity financing and entering into joint venture agreements, or a combination thereof.

The following table summarizes the Company's known undiscounted financial liabilities:

	Payments due by period (000's)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Accounts payable	$4,362	$4,362	$Nil	$Nil	$Nil
Notes payable	$3,784	$1,391	$2,393	$Nil	$Nil
Convertible debentures	$10,800	$400	$10,400	$Nil	$Nil
Environmental obligations	$1,470	$Nil	$Nil	$Nil	$1,470
Total	$20,416	$6,153	$12,793	$Nil	$1,470

(Expressed in Canadian dollars)

21. FINANCIAL INSTRUMENTS - *continued*

(d) Price risk

The Company is subject to revenue price risk from fluctuations in the market prices of copper, silver and zinc. The Company is also exposed to commodity price risk on diesel fuel through its mining operations. The Company's risk management policy does not currently provide for the management of these exposures through the use of derivative financial instruments. Commodity price risk is also the risk that metal prices will move adversely during the time period between shipment of the concentrate and final payment for the concentrate. The Company's commodity price risk related to financial instruments primarily relates to changes in fair value of embedded derivatives in accounts receivable reflecting commodity sales provisionally priced based on the forward price curve at the end of each quarter.

The impact of a 10% movement in commodity prices, based upon 2008 sales and commodity forward selling prices at December 31, 2008, would be an increase in revenue of $1.3 million or a decrease in revenue of $1.6 million.

(e) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

22. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and Cash Equivalents is comprised of:	**2009** **$**	2008 $
Cash	**2,852,174**	882,678
Government-backed investment certificates	**-**	851,806
	2,852,174	1,734,484
Interest paid	**284,793**	86,993
Taxes Paid	**52,114**	-

Supplemental Cash Flow Information of Non-cash Investing and Financing Activities	**2009** **$**	2008 $
Shares issued to acquired Shafter assets *(Note 8b)*	**-**	6,900,000
Convertible debt issued to acquire Shafter assets *(Note 8b)*	**-**	10,000,000
Obligation to issues shares for mineral properties *(Note 8a)*	**-**	200,000
Marketable securities obtained on disposal of subsidiary *(Note 9c)*	**861,250**	-
Amounts receivable obtained on disposal of subsidiary *(Note 9c)*	**766,357**	-
Mineral property and property, plant and equipment disposed on disposal of subsidiary	**5,352,581**	-
Accounts payable extinguished on disposal of subsidiary	**547,677**	-
Notes payable extinguished on disposal of subsidiary *(Note 9c)*	**1,149,578**	-

23. SUBSEQUENT EVENTS

Subsequent to year end, the Company:

- Received a notice of a legal action filed in Mexico by Mechanismos Mineros ("Mechanismos"), a former contractor who was responsible for labour outsourcing at the La Negra mine. The suit alleged that Mechanismos was entitled to severance payments of approximately MP$1 million (approximately $80,000). The Company denies any such liability and filed a counter claim for MP$2.4 million (approximately $190,000) alleging non-payment of payroll deductions withheld. The Company further alleges that Mechanismos has unlawfully retained legal, personnel, tax and documents which are the property of the Company, which may be damaging to the Company.

- Received a notice of assessment with respect to IVA and other taxes which the Government of Mexico believes are outstanding in the amount of MP$66 million (approximately $5.3 million). The notice was issued due to the inability of the Company to provide documentation to the government to support previous tax filings. The documentation had been retained by Mechanismos. Pursuant to a court order the documentation was eventually returned to the Company, and is being submitted to the government. The Company is currently in communication with the tax authorities, and believes that the assessment is in error and will be reversed. Accordingly, no provision is recorded for this amount.

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial standard presentation adopted in 2009.