

AURCANA CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

Canadian Funds

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May 2, 2011

Independent Auditor's Report

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To the Shareholders of Aurcana Corporation

We have audited the accompanying consolidated financial statements of Aurcana Corporation (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and deficit, comprehensive income (loss), accumulated other comprehensive income and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aurcana Corporation and its subsidiaries as at December 31, 2010 and 2009 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

AURCANA CORPORATION
Consolidated Balance Sheets
(Expressed in Canadian dollars)
December 31, 2010 and 2009

ASSETS	2010	2009
Current		
Cash	\$ 22,057,371	\$ 2,852,174
Accounts receivable - trade	1,579,086	1,052,517
- other	206,969	257,308
Prepaid expenses and advances	89,033	279,051
Marketable securities (Note 6)	970,000	637,500
Inventory (Note 4)	1,608,190	1,361,922
	<u>26,510,649</u>	<u>6,440,472</u>
Amounts receivable – long term (Note 5)	815,674	766,357
Marketable securities – long term (Note 6)	-	510,000
Property, plant and equipment (Note 7)	12,362,789	7,916,519
Mineral properties (Note 8)	64,250,514	63,978,122
Future income tax asset (Note 16)	1,232,668	-
	<u>\$ 105,172,294</u>	<u>\$ 79,611,470</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 4,295,279	\$ 4,361,865
Income taxes payable	684,601	-
Convertible debenture - current portion (Note 12)	7,666,752	-
Notes payable - current portion (Note 10)	235,390	1,391,375
	<u>12,882,022</u>	<u>5,753,240</u>
Notes payable (Note 10)	-	2,393,328
Deferred revenue (Note 11)	-	22,185,697
Convertible debenture (Note 12)	1,988,771	8,919,003
Asset retirement obligation (Note 13)	1,385,480	1,338,036
Future income tax liability (Note 16)	13,599,048	16,754,344
	<u>29,855,321</u>	<u>57,343,648</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 14)	99,657,659	55,684,504
Contributed surplus (Note 14(e))	21,923,466	7,077,058
Accumulated other comprehensive income	570,000	286,250
Deficit	(47,622,739)	(41,378,297)
Total equity attributable to equity holders of the parent	<u>74,528,386</u>	<u>21,669,515</u>
Non-controlling interest (Note 3)	788,587	598,307
	<u>75,316,973</u>	<u>22,267,822</u>
	<u>105,172,294</u>	<u>\$ 79,611,470</u>

Commitments (Note 21)

Subsequent Events (Note 24)

Approved on behalf of the Board:

_____, Director

_____, Director

AURCANA CORPORATION
Consolidated Statement of Operations and Deficit
(Expressed in Canadian dollars)
December 31, 2010 and 2009

	2010	2009
Mining Operations		
Sales, net of royalties <i>(Note 17)</i>	\$ 26,936,880	\$ 16,133,550
Cost of sales (excluding amortization and depletion)	16,190,854	11,967,716
Earnings from Mining Operations	10,746,026	4,165,834
Expenses		
Accretion of asset retirement obligation <i>(Note 13)</i>	63,479	58,122
Administrative expenses	2,111,439	1,803,427
Amortization	1,056,159	833,679
Depletion of mineral properties ^f <i>(Note 8)</i>	2,022,672	^f 1,727,290
Interest and financing	324,229	294,093
Investor relations	250,468	216,401
Listing and filing fees	56,033	40,103
Professional fees	583,541	221,616
Profit sharing and other non-income taxes	648,593	383,234
Property evaluation	-	87,485
Stock-based compensation <i>(Note 14(d))</i>	272,602	802,287
Total Expenses	7,389,215	6,467,737
Earnings (Loss) from Operations	3,356,811	(2,301,903)
Loss from trading activity, net <i>(Note 19)</i>	(5,195,815)	(1,467,448)
Loss on termination of silver sale contract <i>(Note 11)</i>	(7,681,310)	-
Loan extension fees <i>(Note 10)</i>	(392,317)	-
Other income (expense)	(95,083)	67,512
Foreign exchange gain	1,518,127	7,697,861
Impairment of property, plant and equipment <i>(Note 7)</i>	(177,594)	-
Loss on sale of subsidiary <i>(Note 5)</i>	-	(1,295,063)
Loss on sale of investments <i>(Note 6)</i>	(122,745)	-
Gain on debt settlement <i>(Note 10)</i>	-	1,247,220
Earnings (Loss) before Income Taxes	(8,789,926)	3,948,179
Current income tax expense <i>(Note 16)</i>	(740,324)	-
Future income tax recovery <i>(Note 16)</i>	3,476,088	-
Net earnings (loss) for the year	\$ (6,054,162)	\$ 3,948,179
Net earnings (loss) for the year attributable to:		
Non-controlling interest <i>(Note 3)</i>	190,280	\$ 177,789
Equity holders of the parent	(6,244,442)	3,770,390
	\$ (6,054,162)	\$ 3,948,179
Net earnings (loss) for the year		
attributable to equity holders of the parent	\$ (6,244,442)	\$ 3,770,390
Deficit, beginning of year	(41,378,297)	(45,148,687)
Deficit, End of year	\$ (47,622,739)	\$ (41,378,297)
Earnings (Loss) Per Share - Basic	\$ (0.04)	\$ 0.03
Earnings (Loss) Per Share - Diluted	\$ (0.04)	\$ 0.03
Weighted average number of shares outstanding - Basic	137,712,614	109,549,577
Weighted average number of shares outstanding - Diluted	159,836,536	118,164,273

AURCANA CORPORATION
Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2010 and 2009
(Expressed in Canadian dollars)

	2010	2009
Net Earnings (Loss) for the year	\$ (6,054,162)	\$ 3,948,179
Other Comprehensive Income		
Unrealized gain on marketable securities <i>(Note 6)</i>	460,000	286,250
Effect of sale of marketable securities	176,250	-
Comprehensive Income (Loss) for the year	\$ (5,417,912)	\$ 4,234,429
Comprehensive Income for the year attributable to:		
Non-controlling interest <i>(Note 3)</i>	\$ 190,280	\$ 177,789
Equity holders of the parent	(5,608,192)	44,056,640
	\$ (5,417,912)	\$ 4,234,429

Consolidated Statements of Accumulated Other Comprehensive Earnings (Loss)
(Expressed in Canadian dollars)
Years Ended December 31, 2010 and 2009

	2010	2009
Accumulated Other Comprehensive Income, Beginning of year	\$ 286,250	\$ -
Other Comprehensive Income (Loss)		
Unrealized gain on marketable securities <i>(Note 6)</i>	460,000	286,250
Reduction as a result of the sale of marketable securities	(176,250)	-
Accumulated Other Comprehensive Income, End of year	\$ 570,000	\$ 286,250

AURCANA CORPORATION
Notes to Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009
(Expressed in Canadian dollars)

	2010	2009
Operating Activities		
Net earnings (loss) for the year	\$ (6,054,162)	\$ 3,770,390
Items not involving cash:		
Recognition of deferred revenue (Note 11)	(3,641,671)	(1,739,730)
Loss on termination of silver sale contract (Note 11)	7,681,310	-
Amortization	1,056,159	833,679
Depletion of mineral property	2,022,672	1,727,290
Accretion of asset retirement obligation	63,479	58,122
Stock-based compensation	272,602	802,287
Future income tax recovery	(3,476,088)	-
Loss on sale of subsidiary	-	1,295,063
Unrealized foreign exchange gain	(2,060,644)	(7,552,919)
Gain on debt settlement	-	(1,247,220)
Financing costs paid in warrants	447,692	-
Accretion of amount receivable (Note 5)	(90,503)	-
Loss on sale of investments (Note 6)	122,745	-
	<u>(3,656,409)</u>	<u>(2,053,038)</u>
Net change in non-cash working capital	(314,465)	1,635,571
Cash provided by (used in) operating Activities	<u>(3,970,874)</u>	<u>(417,467)</u>
Investing Activities		
Purchase of plant and equipment	(5,502,429)	(760,004)
Mineral property expenditures	(1,158,544)	(455,985)
Proceeds from sale of marketable securities	338,505	-
Cash used in investing activities	<u>(6,322,468)</u>	<u>(1,215,989)</u>
Financing Activities		
Cash paid to terminate silver sale contract (Note 11)	(25,051,417)	305,447
Receipt (repayment) of notes payable, net	(3,549,313)	305,447
Share capital issued, net	58,099,269	2,445,699
Cash provided by financing activities	<u>29,498,539</u>	<u>2,751,146</u>
Net increase in cash	<u>19,205,197</u>	<u>1,117,690</u>
Cash, beginning of year	2,852,174	1,734,484
Cash, end of year	<u>\$ 22,057,371</u>	<u>\$ 2,852,174</u>

Supplemental cash flow information (Note 20)

AURCANA CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian dollars)

1. NATURE OF BUSINESS

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 and sale of copper, silver and zinc and the exploration and development of natural resource properties.

2. SUMMARY OF 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 substantively owns 100% of Minera La Negra S.A. de C.V. ("La Negra"), a Mexican Corporation, subject to one nominal share held by a second shareholder in order to comply with Mexican Company Law.

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.

Marketable Securities

Marketable securities are recorded at fair value based on quoted market prices.

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.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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 2009 and 2010, 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.

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.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES – continued

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 has been recognized to earnings over the estimated silver reserves on a per ounce of silver delivered basis.

New Canadian Accounting Pronouncements

Effective January 1, 2010 the Company adopted the following new accounting standards:

The Canadian Institute of Chartered Accountants ("**CICA**") concurrently issued Section 1582 "*Business Combinations*", Section 1601 "*Consolidated Financial Statements*" and Section 1602 "*Non-Controlling Interests*", which replaced Section 1581 "*Business Combinations*" and Section 1600 "*Consolidated Financial Statements*". Section 1582 effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("**IFRS**"). 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. 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.

The Company has early adopted the requirements of CICA 1582, 1601 and 1602, effective January 1, 2010. The adoption resulted in a reclassification of non-controlling interests of \$598,307 to shareholders' equity as at December 31, 2009. In addition, non-controlling interests are now presented within shareholders' equity on the consolidated balance sheet and the non-controlling interests in income are no longer deducted in arriving at consolidated net earnings. There is no effect from adoption on previous business combinations.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian dollars)

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	<u>177,789</u>
Non-controlling interest, December 31, 2009	598,307
Non-controlling interest share of net earnings of La Negra for the year ended December 31, 2010	<u>190,280</u>
Non-controlling interest, December 31, 2010	<u><u>\$ 788,587</u></u>

4. INVENTORY

	2010	2009
Supplies inventory	\$ 1,049,384	\$ 1,147,253
Stockpile inventory	534,091	178,011
Concentrates and in-process inventory	24,715	36,658
Total inventory	<u>\$ 1,608,190</u>	<u>\$ 1,361,922</u>

AURCANA CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian dollars)

5. AMOUNTS RECEIVABLE

On November 30, 2009, the Company sold its Rosario exploration and development project located in Sinaloa, State, Mexico ("Rosario") to Silvermex Resources Inc. ("Silvermex") and recorded a loss of \$1,295,063 in the year ended December 31, 2009.

As partial consideration, the Company is to receive approximately \$994,600 (US\$1 million) in two payments of \$497,300 (US\$500,000) with \$500,000 due by April 9, 2012 and \$500,000 due by October 9, 2012. The carrying value of this receivable is calculated using a 12% discount rate and will be accreted up to its principal balance over the term of the receivable using the effective interest method. A summary of the changes in amounts receivable is presented below:

Carrying value, December 31, 2009	\$ 766,357
Accretion for the year	90,503
Unrealized foreign exchange loss	<u>(41,186)</u>
Long-term portion, December 31, 2010	<u>\$ 815,674</u>

6. MARKETABLE SECURITIES

As partial consideration for the sale of Rosario (*Note 5*) and a related extension agreement, Silvermex issued 1,250,000 common shares to the Company.

During the year ended December 31, 2010, the Company sold all 1,250,000 Silvermex shares for gross proceeds of \$338,505, resulting in a loss of \$122,745, which was included in the loss on sale of investments in the consolidated statement of operation.

At December 31, 2010, the Company held nil (December 31, 2009: 1,250,000) common shares of Silvermex.

As partial consideration for the sale of Rosario (*Note 5*), at the earlier of commencement of commercial production at Rosario or within 24 months from October 2009, Silvermex will issue an additional 1,000,000 common shares. These shares are recorded as short term marketable securities as they represent future payments to be received on or before October 2011. The unrealized gain on this securities has been recorded in other comprehensive income.

The 1,000,000 Silvermex shares to be received are carried at fair market value based on quoted market prices as follows:

Current portion:	
Balance, December 31, 2009	\$ 637,500
Unrealized loss	(176,250)
Proceeds from sale of Silvermex shares	(338,505)
Loss on sale of investments	(122,745)
Transfer from long-term	<u>970,000</u>
Balance, December 31, 2010	<u>\$ 970,000</u>
Long-Term:	
Balance, December 31, 2009 (long term)	\$ 510,000
Unrealized Gain	460,000
Transfer to current portion	<u>(970,000)</u>
Balance, December 31, 2010	<u>\$ -</u>

AURCANA CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian dollars)

7. PROPERTY, PLANT AND EQUIPMENT

As of December 2010

	Cost	Accumulated Amortization	Net Book Value
Buildings	\$ 2,013,011	\$ -	\$ 2,013,011
Plant & equipment *	12,384,058	2,619,431	9,764,627
⌘ Vehicles	618,662	⌘ 245,811	372,851
Computer equipment	384,962	269,837	115,126
Other	115,199	18,024	97,174
	<u>\$ 15,515,892</u>	<u>\$ 3,153,103</u>	<u>\$ 12,362,789</u>

As of December 2009

	Cost	Accumulated Amortization	Net Book Value
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
	<u>\$ 10,013,463</u>	<u>\$ 2,096,944</u>	<u>\$ 7,916,519</u>

* During the year ended December 31, 2010, the Company recorded an impairment charge of \$ 177,594 to recognize the current value of a mill which is not in use.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian dollars)

8. MINERAL PROPERTIES

Expenditures incurred on mineral properties are as follows:

	La Negra, Mexico	Rosario, Mexico	Shafter, Texas	Total
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	1,503,428	-	-	1,503,428
Mineral property expenditures	-	-	400,100	400,100
Capitalized interest expense	-	-	195,881	195,881
Capitalized accretion expense	-	-	720,670	720,670
Depletion	(1,727,290)	-	-	(1,727,290)
Cost of mineral property sold	-	(4,759,921)	-	(4,759,921)
Balance, December 31, 2009	7,929,188	-	56,048,934	63,978,122
Mineral property expenditures	-	-	1,158,544	1,158,544
Capitalized interest expense (Note 12)	-	-	400,000	400,000
Capitalized accretion expense (Note 12)	-	-	736,520	736,520
Depletion	(2,022,672)	-	-	(2,022,672)
Balance, December 31, 2010	\$ 5,906,516	\$ -	\$ 58,343,998	\$ 64,250,514

(a) La Negra Mine, Queretaro State, Mexico

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 Company's subsidiary, Minera La Negra. The joint venture was initially on the basis of 80% for the Company and 20% for Reyna. During the year ended December 31, 2009, the Company diluted Reyna's ownership interest to 8% (Note 3).

(b) Shafter Silver Mine, Texas USA

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 14(e)). The convertible liability was discounted by \$1,220,940 to yield an effective interest rate of 12% on the debt portion of the instrument; with the convertible debenture liability assigned an initial fair value of \$9,058,940 (Note 12).

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8. MINERAL PROPERTIES – *continued*

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2010	December 31, 2009
Silver arrears *	\$ 184,300	\$ 1,356,000
Convertible debenture interest (<i>Note 12</i>)	185,205	184,795
Royalties	840,444	662,000
Salaries, source deductions and employee benefits	379,518	277,880
Employees' statutory profit sharing	639,311	383,234
Suppliers	846,043	270,000
Explosives	201,271	183,000
Power	155,594	123,647
Other	863,593	590,189
	<u>\$ 4,295,279</u>	<u>\$ 4,030,745</u>
Total accounts payable		

*represents 6,017 ounces of silver owed to Silver Wheaton at December 31, 2010 (paid in January 2011)

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10. NOTES PAYABLE

	December 31, 2010	December 31, 2009
Capital equipment contracts, repayable in quarterly payments totalling US\$60,000 at 8.78% per annum, maturing December 2011 and secured by the related equipment	\$ 235,390	\$ 618,650
Notes payable to the Company's principal customer (Trafigura), bearing interest at LIBOR plus 5% per annum (a)	-	3,166,053
	235,390	3,784,703
Less: Current portion	(235,390)	(1,391,375)
	<u>\$ -</u>	<u>\$ 2,393,328</u>

(a) During the year ended December 31, 2009, the Company negotiated a settlement of the amounts owing to Trafigura, resulting in a gain on debt settlement with Trafigura of \$1,247,220. During the year ended December 31, 2010, the Company extended the original due date of the note payable to Trafigura and issued 2,125,203 share purchase warrants to Trafigura at a fair value of \$ 392,317 as compensation for the extension (*Note 14e and 14f*). The remaining balance of the loan was fully repaid in the year ended December 31, 2010.

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 (*Note 19*) under a Silver Stream Purchase Agreement ("SPA"). The SPA 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 was also payable to Cane.

During the year ended December 31, 2010 the Company negotiated the termination of the SPA in consideration of a \$US 25 million payment (paid). The Company also agreed to deliver sufficient silver to repay the amount accrued for silver deliveries in arrears to Silver Wheaton in the amount of 212,017 ounces, of which 206,000 ounces were delivered in December 2010 and 6,017 ounces were delivered in January 2011 (*Note 9*). The termination of the SPA eliminates the Company's obligation to deliver 50% of its future silver production to Silver Wheaton.

Details are as follows:

	US Dollars	Canadian Dollars
Balance, December 31, 2008	\$ 24,013,702	\$ 29,363,955
Recognized as revenue	(1,523,807)	(1,739,730)
Unrealized foreign exchange gain	-	(4,086,301)
Reclassified to accounts payable	(1,292,019)	(1,352,227)
Balance, December 31, 2009	21,197,876	22,185,697
Recognized as revenue (<i>Note 19</i>)	(3,535,812)	(3,641,671)
Contract termination	(17,662,064)	(17,370,107)
Realized foreign exchange gain	-	(1,173,919)
Balance, December 31, 2010	<u>\$ -</u>	<u>\$ -</u>
Loss on termination of silver sale agreement:		
Termination payment	\$ 25,000,000	\$ 24,813,154
Deferred revenue balance at termination	(17,662,064)	(17,370,107)
Legal fees	232,936	238,263
Loss on termination	<u>\$ 7,570,872</u>	<u>\$ 7,681,310</u>

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12. CONVERTIBLE DEBENTURE

In July 2008, the Company issued a convertible debenture to Silver Standard as part of the purchase price to acquire Shafter (*Note 8(b)*). The convertible debenture is unsecured, has a \$10 million face value, bears interest at 1.5% per annum for the first year and 4% per annum for the 2 following years, is convertible into common shares of the Company at \$1.51 per share and is due in full on July 15, 2011.

At inception, the Company recorded the fair value of the conversion option at \$941,060 and recorded this amount in "contributed surplus". The convertible liability was discounted by \$1,220,940 to yield an effective interest rate of 12% on the debt portion of the instrument. The Company capitalizes the interest and the accretion expense to Shafter, the purchase of which was financed by the convertible debenture.

Details are as follows:

Balance, December 31, 2008	\$ 8,198,333
Accretion for the year	<u>720,670</u>
Balance, December 31, 2009 (Long term)	8,919,003
Accretion for the year	<u>736,520</u>
	9,655,523
Current portion	<u>(7,666,752)</u>
Balance, December 31, 2010 (Long term)	<u>\$ 1,988,771</u>

The payment terms of the convertible debenture were restructured subsequent to December 31, 2010, such that \$7,500,000 is due July 31, 2010 and the balance is to be repaid in equal quarterly installments of \$750,000 per quarter commencing on October 15, 2011 (*Note 23a*).

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, 2008	\$ 1,005,906
Accretion	58,122
Unrealized foreign exchange loss	<u>274,008</u>
Balance, December 31, 2009	1,338,036
Accretion	63,479
Unrealized foreign exchange gain	<u>(16,035)</u>
Balance, December 31, 2010	<u>\$ 1,385,480</u>

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14. CAPITAL STOCK

(a) Authorized

An unlimited number of common shares

(b) Share issuance details

	Shares	Amount
Balance, December 31, 2008	108,583,933	\$ 53,747,609
Issued pursuant to private placement	11,587,727	2,445,699
Fair value of warrants issued in private placement	-	(508,804)
Balance, December 31, 2009	120,171,660	55,684,504
Issued pursuant to private placement	200,033,380	47,282,862
Share issuance costs	-	(4,260,161)
Exercise of stock options	1,075,000	345,371
Exercise of warrants	1,574,908	605,083
Balance, December 31, 2010	322,854,948	\$ 99,657,659

During 2010 the Company:

On December 7, 2010, the Company completed a fully subscribed Equity Offering (the "Offering"). The Company has issued 193,548,387 units (the "Units") at a purchase price of \$0.31 per Unit for gross proceeds of CDN\$60,000,000. Each Unit consists of one common share (a "Share") of the Company and one half of one common share purchase warrant. Each whole common share purchase warrant (a "Warrant") permits the holder thereof to purchase a further common share (a "Warrant Share") of the Company for a period of 36 months from the closing of the Offering at a purchase price of CDN\$0.41 per Warrant Share

Sunel Securities Inc., its US placement agent, Sunrise Securities Corp. and its sub-agents (collectively, the "Agent") acted as lead agent on the Offering. The Company paid to the Agent a cash commission of CDN \$3,969,674, representing 7% of the gross proceeds of the Offering generated by the Agent, and issued to the Agent 12,805,262 compensation options (the "Compensation Options"), which is equal to 7% of the number of Units sold by the Agent pursuant to the Offering. Each Compensation Option is exercisable into one broker's unit (a "Broker's Unit") at a price of CDN\$0.41 per Broker's Unit for a period of 24 months from the closing date of the Offering. Each Broker's Unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Broker's Warrant"). Each Broker's Warrant entitles the holder to purchase one common share in the capital of the Company (a "Broker's Warrant Share") for a period of 24 months from the closing of the Offering at a purchase price of CDN\$0.41 per Broker's Warrant Share. In addition, the Company paid commissions of \$13,020 cash and issued 42,000 warrants ("Compensation Warrant") Each Compensation Warrant entitles the holder to purchase one common share in the capital of the Company (a "Compensation Share") for a period of 24 months from the closing of the Offering at a purchase price of CDN\$0.41 per Compensation Warrant Share. accordance with Canadian securities legislation currently in effect, the Shares, the Warrants and the Warrant Shares issued pursuant to the Offering will have a restricted "hold" period in Canada of four months plus one day from the date of closing of the Offering.

On July 5, 2010 and July 26, 2010, the Company completed the second and third tranches of the Financing by issuing 720,000 and 340,000 units, respectively, for gross proceeds of \$265,000. The units issued were under the same terms as the Units.

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14. CAPITAL STOCK - continued

On June 30, 2010, the Company completed the first tranche of a non-brokered private placement by issuing 5,425,000 units (each a "Unit") at a price of \$0.25 per Unit, for gross proceeds of \$1,356,250 (the "Financing"). Each Unit consisted of one common share of the Company and one common share purchase warrant (each a "Warrant"), with each warrant entitling the holder to purchase one common share of the Company at a price of \$0.40 per share expiring on June 30, 2013. Cash of \$12,600 was accrued and 50,400 warrants on the same terms as the Warrants were issued as Finders' fees.

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.

(c) Stock options

The Company has a Rolling 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.

Balance, December 31, 2008	8,400,000
Granted	6,275,000
Exercised	-
Expired	<u>(2,662,500)</u>
Balance, December 31, 2009	12,012,500
Granted	1,500,000
Exercised	(1,075,000)
Expired	<u>(1,400,000)</u>
Balance, December 31, 2010	<u>11,037,500</u>

The weighted average exercise price of the stock options outstanding at December 31, 2010 was \$0.38(2009: \$0.45) and the weighted average remaining life of the options is 3.1 years (2009: 3.67) years. The 1,500,000 (2009: 6,275,000) options granted had a weighted average exercise price of \$0.29 (2009: \$0.15), and a weighted average grant date fair value of \$4.16 (2009: \$4.42) per option granted.

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14. CAPITAL STOCK - *continued*

As of December 31, 2010 details of outstanding stock options are as follows:

Outstanding	Vested	Exercise Price	Expiry Date
600,000	600,000	\$ 0.59	August 18, 2011
500,000	500,000	\$ 0.59	August 24, 2011
912,500	912,500	\$ 1.50	March 22, 2012
150,000	150,000	\$ 1.65	March 30, 2012
100,000	100,000	\$ 0.64	December 12, 2012
150,000	150,000	\$ 0.58	May 15, 2013
1,625,000	1,625,000	\$ 0.31	September 9, 2013
350,000	350,000	\$ 0.13	January 16, 2014
3,575,000	2,825,000	\$ 0.10	August 13, 2014
1,650,000	1,650,000	\$ 0.29	December 9, 2014
125,000	100,000	\$ 0.28	February 12, 2011
700,000	700,000	\$ 0.28	February 12, 2015
250,000	250,000	\$ 0.37	May 17, 2015
350,000	350,000	\$ 0.25	July 6, 2015
<u>11,037,500</u>	<u>10,262,500</u>		

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.

(d) Stock-based compensation

For the year ended December 31, 2010, 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.

For the year ended December 31 the stock-based compensation expense was \$272,602 (2009 - \$802,287). The fair value of stock options granted as above is calculated using the following weighted average assumptions:

	2010	2009
Risk-free interest rate	1.91%	3.00%
Expected stock price volatility	85.08%	124.67%
Expected dividend yield	0.0%	0.0%
Expected option life in years	3.7	5.0

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14. CAPITAL STOCK - continued

(e) Contributed surplus

Balance, December 31, 2008	\$ 5,765,967
Fair value of stock-based compensation	802,287
Fair value of warrant issued on unit financing	508,804
Balance, December 31, 2009	<u>7,077,058</u>
Fair value of stock-based compensation	272,602
Fair value of warrant issued on unit financing	14,276,388
Fair value of warrants issued to Auramet (Note 14(f))	55,375
Fair value of warrants issued to Trafigura	392,317
Fair value of finders' fee warrants	12,276
Fair value of warrants exercised	(61,054)
Fair value of stock options exercised	<u>(101,496)</u>
Balance, December 31, 2010	<u><u>\$ 21,923,466</u></u>

(f) Share purchase warrants

Balance, December 31, 2008	-
Issued pursuant to private placement	<u>6,208,560</u>
Balance, December 31, 2009	6,208,560
Issued pursuant to private placement	103,259,172
Issued to Auramet	300,000
Issued as finders' fee	108,000
Issued to Trafigura	2,125,203
Issued as agents' fee	12,847,402
Exercised	<u>(1,574,908)</u>
Balance, December 31, 2010	<u><u>123,273,429</u></u>

The fair value of share purchase warrants issued as per above is calculated using the following weighted average assumptions:

Risk-free interest rate	1.27%
Expected stock price volatility	115.92%
Expected dividend yield	0.0%
Expected warrant life in years	1.9

As of December 31, 2010 details of outstanding warrants are as follows:

Number of Warrants	Exercise Price	Expiry Date
4,677,114	\$ 0.35	May 16, 2011
246,938	\$ 0.30	May 16, 2011
2,125,203	\$ 0.30	August 20, 2012
300,000	\$ 0.35	March 2, 2013
6,245,000	\$ 0.40	June 30, 2013
57,600	\$ 0.35	June 30, 2013
96,774,172	\$ 0.41	July 12, 2013
<u>12,847,402</u>	<u>\$ 0.41</u>	<u>July 12, 2012</u>
<u><u>123,273,429</u></u>		

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15. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company paid or accrued:

- Management fees of \$360,000 (2009: \$183,600) to companies controlled by directors or former directors;
- Administrative management fees of \$130,943 (2009: \$105,798) to companies controlled by directors;
- Technical and consulting services of \$387,800 (2009:\$277,900) to companies controlled by directors or officers; and
- Consulting fees of \$37,500 (2009: \$60,000) to former officers and companies controlled by former officers.

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

16. INCOME TAXES

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	<u>2010</u>	<u>2009</u>
Net Income (loss) for the year before taxes	\$ (8,789,926)	\$ 3,770,390
Statutory rate :	28.5%	30.0%
Tax expense (recovery) at statutory rates	(2,505,129)	1,131,117
Non-deductible (taxable) items and other items	(3,281,875)	(2,007,623)
Effect of foreign tax rate differences	3,252,059	(449,431)
Effect of change in enacted rates	64,724	36,471
Previously unrecognized tax losses	(793,704)	-
Current valuation allowance (recovery)	524,161	1,289,466
Income tax expense (recovery)	<u>\$ (2,735,764)</u>	<u>\$ -</u>

The income tax expense (recovery) is comprised of:

Current income tax expense	\$ 740,324	\$ -
Future income tax recovery	(3,476,088)	-
Income tax expense (recovery)	<u>\$ (2,735,764)</u>	<u>\$ -</u>

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

	<u>2010</u>	<u>2009</u>
Future income tax assets – Canada and Mexico		
Non-capital loss carry-forwards	\$ 2,590,318	\$ 4,290,140
Deferred financing costs and other	990,697	908,804
Provisions	730,896	-
Resource properties	627,529	(2,872,366)
	<u>4,939,440</u>	<u>2,326,578</u>
Valuation allowance	(3,706,772)	(2,326,578)
Future income tax assets	<u>\$ 1,232,668</u>	<u>\$ -</u>
Future income tax liabilities – U.S.A.		
Non-capital loss carry-forwards	\$ 2,095,795	\$ 1,779,452
Resource properties	(15,694,843)	(18,533,796)
Future income tax liability	<u>\$ (13,599,048)</u>	<u>\$ (16,754,344)</u>

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16. INCOME TAXES - *continued*

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

	USA	Canada
2014	-	332,000
2015	-	248,000
2016	-	-
Beyond 2017	5,169,946	10,926,000
	<u>\$ 5,169,946</u>	<u>\$ 11,506,000</u>

17. SEGMENTED DISCLOSURE

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

	Revenue	Earnings (Loss)	Property, Plant & Equipment	Mineral Properties	Total Capital Assets	Total Assets
	\$	\$	\$	\$	\$	\$
December 31, 2010						
Canada	-	(13,754,209)	248,808	-	248,808	25,948,573
United States	-	5,565,561	844,580	58,343,998	59,188,578	59,242,421
Mexico	26,936,880	2,134,486	11,269,401	5,906,516	17,175,917	19,981,300
Total	<u>26,936,880</u>	<u>(6,054,162)</u>	<u>12,362,789</u>	<u>64,250,514</u>	<u>76,613,303</u>	<u>105,172,294</u>
December 31, 2009						
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	<u>16,133,550</u>	<u>3,770,390</u>	<u>7,916,519</u>	<u>63,978,122</u>	<u>71,731,739</u>	<u>79,611,470</u>

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:

	2010	2009
Number of significant customers	1	1
Amount of sales to significant customers	\$ 26,936,880	\$ 16,133,550
Total consolidated sales	\$ 26,936,880	\$ 16,133,550
Total percentage of consolidated sales generated from significant 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 21*). The Company is economically dependent upon a single customer and upon the successful renewal or replacement of this contract at economic rates.

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19. LOSS FROM TRADING ACTIVITY

The Company recognized the following loss from trading activity:

	2010		2009
Cash portion of sales received from Silver Wheaton	\$ 1,674,825	\$	1,124,373
Recognition of deferred revenue (Note 11)	3,641,671		1,739,730
	5,316,496		2,864,103
Cost of sales - purchase of silver certificates	(10,512,311)	\$	(4,331,551)
Loss from trading activity	\$ (5,195,815)	\$	(1,467,448)

20. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
	\$	\$
Interest paid	630,580	284,793
Taxes Paid	740,324	52,114
Supplemental Cash Flow Information of Non-cash Investing and Financing Activities	2010	2009
	\$	\$
Marketable securities obtained on disposal of subsidiary (Note 6)	338,505	861,250
Amounts receivable obtained on disposal of subsidiary (Note 5)	815,674	766,357
Accretion of convertible debt capitalized to mineral property (Note 12)	736,520	720,670
Accrued interest on convertible debt capitalized to mineral property (Note 8)	400,000	195,881
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	-	1,149,578

21. 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 at the discretion of the Company. In August 2010 the copper purchase contract was extended to 2012 and the parties agreed to review the zinc purchase contract by the end of 2011.

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).

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22. 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.

23. 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, 2010, 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.

Cash and cash equivalents are classified as "Assets held for trading" and are measured at fair value at the end of each period with any resulting gains or losses recognized in operations. Accounts receivable are classified as "loans and receivables" and are recorded at amortized cost using the effective interest rate method, which upon their initial measurement is equal to their fair value. Subsequent measurement of trade receivables is at amortized cost, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Marketable securities have been designated as "Available for sale." Accordingly, gains or losses arising from changes in fair value are recorded as other comprehensive income and included in accumulated other comprehensive income in the Company's consolidated balance sheet until the investments are sold or management determines that other than temporary impairments in the value of the investments have occurred, at which time the accumulated gains or losses are transferred to earnings.

Accounts payable and accrued liabilities, convertible debenture and notes payable are classified as "other financial liabilities" and are measured at amortized cost using the effective interest rate method.

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23. FINANCIAL INSTRUMENTS - continued

Fair Values

As at December 31, 2010, 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, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

		December 31, 2010
Cash and cash equivalents	US\$	9,988,560
Accounts receivable		1,859,270
Accounts payable		(1,588,879)
Notes payable		(235,929)
Future income tax liability		(13,672,882)
	US\$	(3,649,860)
Canadian dollar equivalent	\$	(3,630,015)

At December 31, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		December 31, 2010
Cash and cash equivalents	MP\$	492,488
Income Tax (La Negra)		(8,495,922)
Accounts payable and accrued liabilities		(19,885,076)
	MP\$	(27,888,510)
Canadian dollar equivalent	\$	(2,247,232)

Based on the above net exposures as at December 31, 2010, 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 \$0.6 million.

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23. FINANCIAL INSTRUMENTS - continued

(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, debt 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	\$3,656	\$3,656	\$Nil	\$Nil	\$Nil
Notes payable	\$235	\$235	\$Nil	\$Nil	\$Nil
Income tax and PSE (La Negra)	\$1,324	\$1,324	\$Nil	\$Nil	\$Nil
Convertible debentures	\$10,400	\$10,400	\$Nil	\$Nil	\$Nil
Environmental obligations	\$1,470	\$Nil	\$Nil	\$Nil	\$1,470
Total	\$17,085	\$15,615	\$Nil	\$Nil	\$1,470

(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. 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.

(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.

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24. SUBSEQUENT EVENTS

Subsequent to year end:

a) Debt restructure

The Company and Silver Standard Resources Inc. ("Silver Standard") have agreed to restructure the terms of the \$10,000,000 convertible debenture (the "Debenture") which the Company issued to Silver Standard on July 15, 2008. The Debenture has a three year term, and bears interest at a rate of 1.5% in the first year, and 4% thereafter. Under the terms of the amended Convertible Debenture:

- The maturity date of the Debenture is extended from July 15, 2011 to July 15, 2012;
- The Company has agreed to repay an aggregate of \$7,000,000 of the principal owing under the Debenture on or before July 15, 2011;
- The remaining \$3,000,000 principal balance will be repaid in equal quarterly installments of \$750,000 per quarter commencing on October 15, 2011;
- The rate of interest on the principal outstanding after July 15, 2011 will be 9% per annum; and
- The Company may prepay the Debenture at any time prior to maturity without penalty.

b) Credit Facility

On October 26, 2010, the Company had entered into two non-binding term sheets ("Non-Binding Term Sheets") with respect to the debt facility. The Company's only obligations to SAM and SLP if the Company did not proceed with the credit facility is privacy, confidentiality, jurisdiction and the payment of legal fees and other out of pocket expenses in connection with the Non-Binding Terms Sheets

On March 30, 2011, the Company's Board of Directors did not approve the terms of a proposed US\$25M credit facility announced on November 19, 2010 to provide additional funding to advance the Company's Shafter Project in Texas with Sprott Asset Management LP ("SAM") and Sprott Resource Lending Partnership ("SLP"). The Board determined that the restrictive covenants proposed in the credit facility and the cost to the Company was not in the best interests of the Company and its shareholders. The Board of Directors provided authority to the Company's President to renegotiate the terms of the credit facility but the negotiations with SAM and SLP have been unsuccessful.

On April 15, 2011, Aurcana was served with a Notice of Civil Claim filed in the British Columbia Supreme Court against Aurcana by SAM and SLP seeking damages for breach of good faith negotiations and making a claim for:

- Specific performance of the financing including payment to SAM and SLP standby fees calculated on the current price of silver;
- Damages for Breach of Contract;
- Accounting for profits and benefits;
- Punitive and exemplary damages; and
- Interests and costs and such other relief.

The Company has acted in good faith on behalf of its shareholders and in accordance with the terms of the Non-Binding Term Sheets and will vigorously defend the claim as it is the Company's belief that it was under no obligation to proceed with the credit facility and therefore no liability has been recorded as at December 31, 2010.