



AURCANA CORPORATION

Condensed Interim Consolidated Financial Statements

June 30, 2012

(Unaudited)

Expressed in United States dollars unless otherwise stated

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NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements of the Company for the six months ended June 30, 2012 have been prepared by and are the responsibility of management in accordance with International Financial Reporting Standards applicable to unaudited condensed interim financial reporting.

The Company's independent auditor has not audited or performed a review of these financial statements, in accordance with standards established by the Canadian Institute of Chartered Accountant for a review of unaudited condensed consolidated interim financial statements by an entity's auditor.

Aurcana Corporation

Condensed Interim Consolidated Statements of Financial Position
(Unaudited, expressed in United States dollars, unless otherwise stated)

	Notes	June 30 2012	December 31 2011
Assets			
Current assets			
Cash and cash equivalents	16	\$ 17,040,538	\$ 36,560,380
Trade and other receivable	3	6,144,051	3,451,158
Inventories	4	3,839,944	2,359,605
Short-term investments	5	500,933	383,481
Amounts receivable	6	983,243	942,616
Prepaid expenses and advances		861,924	403,999
		29,370,633	44,101,239
Non Current assets			
Property, plant and equipment	7	78,944,764	52,728,808
Mineral Properties	8	62,949,610	55,116,656
Deferred tax asset		1,200,339	1,304,810
Long term deposits		936,196	936,196
		\$ 173,401,542	\$ 154,187,709
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	\$ 10,169,137	\$ 9,193,574
Income tax		244,549	119,635
Current portion of long-term debt	10	2,494,454	1,150,164
		12,908,140	10,463,373
Long-term debt	10	3,468,188	1,668,123
Provision for environmental rehabilitation	11	2,773,773	2,738,587
		19,150,101	14,870,083
Equity			
Share capital	12	156,594,352	146,556,711
Contributed Surplus		29,945,985	28,440,706
Accumulated other comprehensive loss		(2,266,541)	(2,262,183)
Deficit		(30,056,076)	(34,845,299)
Total equity attributable to equity holders of the parent		154,217,720	137,889,935
Non-controlling interest	13	33,721	1,427,691
Total equity		154,251,441	139,317,626
		\$ 173,401,542	\$ 154,187,709

Commitments (Note 15)

Subsequent event (Note 23)

See accompanying notes to these condensed interim consolidated financial statements.

Approved on behalf of the Board of Directors:

_____ Director

_____ Director

Aurcana Corporation
Condensed Interim Consolidated Statements of Operations
(Unaudited, expressed in United States dollars, unless otherwise stated)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2012	2011	2012	2011
Revenues					
Mining operations	18	\$ 13,273,096	\$ 12,392,391	\$ 24,854,817	\$ 23,246,242
Costs of sales					
Mining operating expenses	19	7,792,457	7,087,402	13,866,738	12,584,083
Earnings from mine operations		5,480,639	5,304,989	10,988,079	10,662,159
Other items					
Administrative costs	20	1,599,381	1,630,814	2,601,249	2,557,136
Financing expense and others	21	92,485	37,023	125,218	118,776
Stock-based compensation	12	2,369,411	1,077,355	3,742,320	3,669,261
Foreign exchange (gain) loss		(806,133)	511,669	(482,490)	635,039
Other expenses		268,208	300,227	379,069	380,942
		3,523,352	3,557,088	6,365,366	7,361,154
Income before income taxes		1,957,287	1,747,901	4,622,713	3,301,005
Current Income tax expense		554,290	181,103	1,130,593	1,043,513
Deferred income tax expense		(129)	-	96,867	-
Net income for the Period		\$ 1,403,126	\$ 1,566,798	\$ 3,395,253	\$ 2,257,492
Attributable to:					
Non-controlling interest		3,507	161,144	8,736	466,165
Equity holders of the Company		1,399,619	1,405,654	3,386,517	1,791,327
		\$ 1,403,126	\$ 1,566,798	\$ 3,395,253	\$ 2,257,492
Weighted average number of shares –					
basic		448,667,341	341,697,303	443,100,132	334,361,354
Weighted average number of shares –					
diluted		491,135,224	419,364,729	486,324,771	410,944,181
Net income per share – basic & diluted					
Basic		\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
Diluted		\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00

See accompanying notes to these condensed interim consolidated financial statements.

Aurcana Corporation

Condensed Interim Consolidated Statements of Comprehensive Income
(Unaudited, expressed in United States dollars, unless otherwise stated)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2012	2011	2012	2011
Net income for the period		\$ 1,403,126	\$ 1,566,798	\$ 3,395,253	\$ 2,257,492
Currency translation adjustment		(435,638)	(149,013)	(121,810)	155,520
Unrealized gain (loss) on Short-term investments	5	29,755	(192,614)	117,452	(332,418)
Comprehensive income for the period		997,243	1,225,171	3,390,895	2,080,594
Attributable to:					
Non-controlling interest		3,507	161,144	8,736	466,165
Equity holders of the Company		993,736	1,064,027	3,382,159	1,614,429
		\$ 997,243	\$ 1,225,171	\$ 3,390,895	\$ 2,080,594

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited, expressed in United States dollars, unless otherwise stated)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity Attributable to Shareholders of the Company	Non- controlling Interest	Total Equity
Balance, December 31, 2010	90,861,167	\$ 23,075,899	\$ (1,552,567)	\$ (41,828,429)	\$ 70,556,070	\$ 753,975	\$ 71,310,045
Currency translation adjustment	-	-	155,520	-	155,520	-	155,520
Unrealized gain (loss) on available for sale investments	-	-	(332,418)	-	(332,418)	-	(332,418)
Net income for the period	-	-	-	1,791,327	1,791,327	466,165	2,257,492
Shares issued for:							
Exercise of warrants	11,680,316	(2,864,154)	-	-	8,816,162	-	8,816,162
Exercise of options	807,874	(306,257)	-	-	501,617	-	501,617
Share issue costs	(46,185)	-	-	-	(46,185)	-	(46,185)
Stock-based compensation	-	3,669,261	-	-	3,669,261	-	3,669,261
Balance, June 30, 2011	103,303,172	23,574,749	(1,729,465)	(40,037,102)	85,111,354	1,220,140	86,331,494
Currency translation adjustment	-	-	(273,379)	-	(273,379)	-	(273,379)
Unrealized gain (loss) on available for sale investments	-	-	(259,339)	-	(259,339)	-	(259,339)
Net income for the period	-	-	-	5,191,803	5,191,803	207,551	5,399,354
Shares issued for:							
Private placement	29,126,036	4,455,440	-	-	33,581,476	-	33,581,476
Exercise of warrants	15,247,136	(3,292,610)	-	-	11,954,526	-	11,954,526
Exercise of options	1,050,585	(439,547)	-	-	611,038	-	611,038
Share issue costs	(2,170,218)	-	-	-	(2,170,218)	-	(2,170,218)
Stock-based compensation	-	4,142,674	-	-	4,142,674	-	4,142,674
Balance, December 31, 2011	146,556,711	\$ 28,440,706	\$ (2,262,183)	\$ (34,845,299)	\$ 137,889,935	\$ 1,427,691	\$ 139,317,626
Adjustment of non-controlling interest (note 13)	-	-	-	1,402,706	1,402,706	(1,402,706)	-
Currency translation adjustment	-	-	(121,810)	-	(121,810)	-	(121,810)
Unrealized gain (loss) on available for sale investments	-	-	117,452	-	117,452	-	117,452
Net income for the period	-	-	-	3,386,517	3,386,517	8,736	3,395,253
Shares issued for:							
Exercise of warrants	9,887,079	(2,642,452)	-	-	7,244,627	-	7,244,627
Exercise of options	896,151	(340,178)	-	-	555,973	-	555,973
Issuance of warrants	(745,589)	745,589	-	-	-	-	-
Stock-based compensation	-	3,742,320	-	-	3,742,320	-	3,742,320
Balance, June 30, 2012	156,594,352	\$ 29,945,985	\$ (2,266,541)	\$ (30,056,076)	\$ 154,217,720	\$ 33,721	\$ 154,251,441

See accompanying notes to these condensed interim consolidated financial statements.

Aurcana Corporation
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited, expressed in United States dollars, unless otherwise stated)

	<u>Six months ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Net income for the period	3,395,253	2,257,492
Items not involving cash:		
Depreciation, depletion and amortization	2,438,378	1,969,489
Accretion of amounts receivable	(40,627)	(48,185)
Financing expense and others	125,218	118,776
Stock-based compensation	3,742,320	3,669,261
Unrealized foreign exchange (gain) loss	616,044	(990,797)
Deferred Income Tax expense	104,471	-
Operating Cash Flow before movements in working capital items	10,381,057	6,976,036
Net change to non-cash working capital balances		
Trade and other receivables	(2,692,893)	(1,739,674)
Inventories	(1,480,339)	(308,460)
Income Taxes Payable	124,914	(688,298)
Prepaid expenses and advances	(457,925)	(14,918)
Accounts payable and accrued liabilities	(250,968)	759,432
Cash provided by operating activities	5,623,846	4,984,118
Cash flows from investing activities		
Purchase of property, plant and equipment	(27,952,407)	(19,538,664)
Expenditures on mineral properties	(7,308,350)	(646,074)
Long term deposits	-	(936,196)
Cash used in investing activities	(35,260,757)	(21,120,934)
Cash flows from financing activities		
Share capital issued, net of share issue costs	7,800,600	9,271,594
Financing cost	(90,032)	(75,091)
Advances of notes payable, net	3,144,355	2,401,057
Cash provided by financing activities	10,854,923	11,597,560
Decrease in cash and cash equivalents	(18,781,988)	(4,539,256)
Effect of exchange rate changes on cash	(737,854)	1,198,677
Cash and cash equivalents, beginning of the year	36,560,380	22,176,481
Cash and cash equivalents, end of the Period	17,040,538	18,835,902

Supplemental Cash Flow information (Note 16)

See accompanying notes to these condensed interim consolidated financial statements

AURCANA CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited, expressed in United States dollars, unless otherwise stated)

1. Governing Statutes and Purpose of the Organization

Aurcana Corporation (the "Company") was originally incorporated in Canada under the laws of Ontario in 1917 and on September 14, 1998 was continued under the *Canada Business Corporations Act* ("CBCA"). The Company is currently engaged in the production and sale of copper, silver, lead and zinc concentrates and the exploration, development and operation of natural resource properties. The Company's principal operating unit is the La Negra Mine, located in Queretaro State, Mexico and the Company's main developing property is the Shafter Silver Properties located in Presidio County, S.W. Texas.

The Company's shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at Suite 1750-1188 West Georgia Street, Vancouver, B.C., V6E 4A2, Canada.

2. Basis of Preparation and adoption of International Financial Reporting Standards ("IFRS")

The Company is following the same accounting policies and methods of computation in these condensed consolidated interim financial statements as it did in the audited consolidated financial statements for the year ended December 31, 2011.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

The Audit Committee approved the statements on behalf of the Board of Directors on Aug 14, 2012.

3. Trade and Other Receivable

	June 30 2012	December 31 2011
Trade receivables	\$ 5,870,308	\$ 2,869,636
Other receivables	273,743	581,522
	\$ 6,144,051	\$ 3,451,158

4. Inventories

	June 30 2012	December 31 2011
Supplies inventory	\$ 2,923,896	\$ 1,540,244
Stockpile inventory	875,501	763,732
Concentrates and in-process	40,547	55,629
	\$ 3,839,944	\$ 2,359,605

AURCANA CORPORATION**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited, expressed in United States dollars, unless otherwise stated)****5. Short-term investments**

As partial consideration for the sale of Rosario (Note 6), Silvermex issued 1,000,000 common shares to the Company.

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

	June 30 2012	December 31 2011
Current portion:		
Balance beginning of the year	\$ 383,481	\$ 975,238
Unrealized gain (loss)	117,452	(591,757)
Balance end of the period / year	<u>\$ 500,933</u>	<u>\$ 383,481</u>

The unrealized gain (loss) on these securities has been recorded in other comprehensive income.

6. 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") for cash and share consideration (Note 6) and recorded a loss of \$1,295,063 in the year ended December 31, 2009.

As part of the required cash consideration, the Company is to receive approximately \$1 million USD in two payments of \$500,000. The first payment was due by April 9, 2012 (subsequently received - see Note 23) and the second payment is 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 changes in accounts receivable is presented below:

	June 30 2012	December 31 2011
Carrying value, beginning of the year	\$ 942,616	\$ 820,079
Accretion for the period / year	40,627	122,537
Carrying value, end of the period / year	<u>\$ 983,243</u>	<u>\$ 942,616</u>

AURCANA CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in United States dollars, unless otherwise stated)

7. Property, Plant and Equipment

	Buildings	Plant and Equipment	Mine Development Cost	Exploration Properties	Vehicles	Computer Equipment	Other	Assets under construction	Total
Cost									
Balance at December 31, 2010	\$ 667,243	\$ 10,432,756	\$ 2,692,404	\$ 321,673	\$ 324,155	\$ 367,300	\$ 110,871	\$ -	\$ 14,916,402
Additions	808,037	15,429,938	4,904,562	682,159	409,703	99,006	45,336	20,979,115	43,357,856
Balance at December 31, 2011	1,475,280	25,862,694	7,596,966	1,003,832	733,858	466,306	156,207	20,979,115	58,274,258
Additions	129,078	7,742,630	3,259,775	1,622,363	33,143	21,194	154,060	15,121,935	28,084,178
Balance at June 30, 2012	\$ 1,604,358	\$ 33,605,324	\$ 10,856,741	\$ 2,626,195	\$ 767,001	\$ 487,500	\$ 310,267	\$ 36,101,050	\$ 86,358,436
Accumulated depreciation									
Balance at December 31, 2010	\$ 24,931	\$ 2,553,836	\$ -	\$ -	\$ 166,072	\$ 258,301	\$ 17,320	\$ -	\$ 3,020,460
Charge for the year	28,139	2,116,131	207,232	-	108,705	52,165	12,618	-	2,524,990
Balance at December 31, 2011	53,070	4,669,967	207,232	-	274,777	310,466	29,938	-	5,545,450
Charge for the period	19,758	1,643,973	131,545	-	36,835	25,369	10,742	-	1,868,222
Balance at June 30, 2012	\$ 72,828	\$ 6,313,940	\$ 338,777	\$ -	\$ 311,612	\$ 335,835	\$ 40,680	\$ -	\$ 7,413,672
Net book value									
Balance at December 31, 2010	\$ 642,312	\$ 7,878,920	\$ 2,692,404	\$ 321,673	\$ 158,083	\$ 108,999	\$ 93,551	\$ -	\$ 11,895,942
Balance at December 31, 2011	\$ 1,422,210	\$ 21,192,727	\$ 7,389,734	\$ 1,003,832	\$ 459,081	\$ 155,840	\$ 126,269	\$ 20,979,115	\$ 52,728,808
Balance at June 30, 2012	\$ 1,531,530	\$ 27,291,384	\$ 10,517,964	\$ 2,626,195	\$ 455,389	\$ 151,665	\$ 269,587	\$ 36,101,050	\$ 78,944,764

Mining and plant equipment and assets under construction, which are not in production, are not subject to amortization.

AURCANA CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited expressed in United States dollars, unless otherwise stated)

8. Mineral Properties

<i>Cost</i>	La Negra	Shafter	Total
	Mexico	Texas	
	Producing mine	Mine under construction	
Balance as at December 31, 2010	\$ 12,717,017	\$ 41,162,737	\$ 53,879,754
Expenditures	-	6,643,549	6,643,549
Capitalized accretion	-	2,285,520	2,285,520
Capitalized interest expense	-	399,775	399,775
Balance as at December 31, 2011	12,717,017	50,491,581	63,208,598
Expenditures	-	8,403,110	8,403,110
Balance at June 30, 2012	\$ 12,717,017	\$ 58,894,691	\$ 71,611,708
 <i>Accumulated depletion</i>			
Balance as at December 31, 2010	\$ 7,137,688	\$ -	\$ 7,137,688
Charge for the year	954,254	-	954,254
Balance as at December 31, 2011	8,091,942	-	8,091,942
Charge for the period	570,156	-	570,156
Balance at June 30, 2012	\$ 8,662,098	\$ -	\$ 8,662,098
 <i>Net book value</i>			
Balance as at December 31, 2010	\$ 5,579,329	\$ 41,162,737	\$ 46,742,066
Balance as at December 31, 2011	\$ 4,625,075	\$ 50,491,581	\$ 55,116,656
Balance at June 30, 2012	\$ 4,054,919	\$ 58,894,691	\$ 62,949,610

Mineral properties which are not in production are not subject to amortization.”

9. Accounts Payable and Accrued Liabilities

	June 30	December 31
	2012	2011
Royalties	\$ 1,708,964	\$ 1,236,338
Salaries, source deductions and employee benefits	1,238,371	904,420
Employees’ statutory profit sharing	366,622	708,662
Mine suppliers	2,859,135	1,472,890
Construction in progress suppliers	131,771	3,602,753
Surface Exploration	1,053,853	-
Expenditures on Mineral Properties	1,094,760	-
Freights	815,905	477,269
Other	899,756	791,242
	\$ 10,169,137	\$ 9,193,574

AURCANA CORPORATION**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited expressed in United States dollars, unless otherwise stated)****10. Current and Long-term Debt**

	June 30 2012	December 31 2011
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US\$74,111 at 8.9% per annum, maturing April 2014	1,630,428	2,075,091
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US\$20,098 at 7.9% per annum, maturing December 2014	602,946	743,196
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US\$47,219 at 7.9% per annum, maturing January 2015	1,463,778	-
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US\$17,601 at 7.9% per annum, maturing March 2015	580,849	-
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US\$24,853 at 7.9% per annum, maturing May 2015	844,992	-
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US\$23,990 at 7.9% per annum, maturing May 2015	839,649	-
Total	\$ 5,962,642	\$ 2,818,287
Current portion	\$ 2,494,454	\$ 1,150,164
Long-term debt	3,468,188	1,668,123
	\$ 5,962,642	\$ 2,818,287

The current portion includes the last six months for 2012 (July to December) and the first six months for 2013.

Schedule principal repayments are as follows:

2012	\$ 1,247,228	\$ 1,150,164
2013	2,494,457	1,130,503
2014	1,901,573	537,620
2015	319,384	-
	\$ 5,962,642	\$ 2,818,287

The net book value of the assets in note 7 under capital lease is \$9,000,139.

AURCANA CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited expressed in United States dollars, unless otherwise stated)

11. Provision for Environmental Rehabilitation

The Company has accrued an estimated liability related to reclamation and closure costs at the La Negra Mine based on the total future remediation cost, discounted to June 30, 2012 using a 6.35% discount rate (December 31, 2011 - 6.35%) and a 3.41% inflation rate (December 31, 2011: 3.41%), in the amount of \$1,502,364 (December 31, 2011 - \$1,467,178).

The Company has accrued an initial estimated liability related to reclamation and closure costs at the Shafter mine based on the total future remediation cost, discounted to June 30, 2012 using a 2.0% discount rate (December 31, 2011 – 2.0%) and a 3.2% inflation rate (December 31, 2011 – 3.2%), in the amount of \$1,271,409 (December 31, 2011 - \$1,271,409).

The liability is subject to revision based on future mine resource realization, and other factors which affect the costs incurred at future dates.

The provision for environment rehabilitation for the Periods ended June 30, 2012 and 2011 are as follows:

	June 30	December 31
	2012	2011
	<u> </u>	<u> </u>
Environmental rehabilitation, beginning of the year	\$ 2,738,587	\$ 1,396,514
Addition	-	1,271,409
Accretion	35,186	70,664
Environmental rehabilitation, end of the period / year	<u>\$ 2,773,773</u>	<u>\$ 2,738,587</u>

AURCANA CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited expressed in United States dollars, unless otherwise stated)

12. Equity

Authorized - An unlimited number of common shares

Share issuance details:

	Number of Shares	Amount
Balance, December 31, 2010	322,854,948	\$ 90,861,167
Share issuance costs	-	(46,185)
Exercised warrants	22,298,077	11,680,316
Exercised options	1,835,000	807,874
Balance, June 30, 2011	346,988,025	103,303,172
Issued pursuant to private placement	52,853,000	29,126,036
Share issuance costs	-	(2,170,218)
Exercised warrants	29,415,378	15,247,136
Exercised options	1,510,000	1,050,585
Balance, December 31, 2011	430,766,403	146,556,711
Issuance of warrants	-	(745,589) *
Exercised warrants	17,750,945	9,887,079
Exercised options	2,130,000	896,151
Balance at June 30, 2012	450,647,348	\$ 156,594,352

* Upon exercise of 1,915,000 agent compensation options from the financing of December 7, 2010, the Company issued 1,915,000 common shares and an additional 957,500 share purchase warrants, which were fair valued at \$745,589 using the Black-Scholes model.

On November 15, 2011, Aurcana completed its private placement financing. The private placement offering (the "Offering") of units ("Units") was conducted through a syndicate of agents led by RBC Capital Markets and included, BMO Capital Markets, Dundee Securities Ltd. and Stonecap Securities Inc. (the "Agents"). Pursuant to the Offering, Aurcana sold an aggregate 52,853,000 Units at a price of CDN\$0.65 per Unit for aggregate gross proceeds of approximately CDN\$34.4 million (\$33.6 million).

Each Unit consists of one common share in the capital of the Company (the "Unit Shares") and one half of one common share purchase warrant (each whole warrant, a "Warrant"). Each full Warrant will entitle the holder, on exercise, to purchase one additional common share of the Company (a "Warrant Share"), at a price of CDN\$1.00 at any time until the close of business on the day which is 24 months from the date of issue of the Warrant.

AURCANA CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited expressed in United States dollars, unless otherwise stated)

12. Equity (continued)

Stock options

On June 29, 2011, the Company adopted a new fixed option plan (the “New Plan”), pursuant to which the Company may grant up to 34,698,803 stock options to directors, officers, employees and consultants. The exercise price, term and vesting period of each option are determined by the board of directors within regulatory guidelines.

<u>Stock options</u>	Number of Share Options	Weighted Average Exercise Price per Share (\$CDN)
Balance, December 31, 2010	11,037,500	0.38
Granted	20,225,000	0.72
Exercised	(1,835,000)	0.27
Forfeited, Expired or cancelled	(250,000)	0.76
Balance, June 30, 2011	29,177,500	0.58
Granted	1,700,000	0.69
Exercised	(1,510,000)	0.39
Forfeited, Expired or cancelled	(1,500,000)	0.90
Balance, December 31, 2011	27,867,500	0.62
Granted	7,175,000	1.02
Exercised	(2,130,000)	0.24
Forfeited, Expired or cancelled	(1,437,500)	1.13
Balance, June 30, 2012	31,475,000	0.72

The Company’s weighted average share price on the date for the options exercised during the period ended June 30, 2012 was CDN\$0.78 per share, at the same date the number of vested options was 25,766,667 with an average exercise price of CDN\$0.66 per share.

Stock based compensation

For the period ended June 30, 2012 the stock-based compensation expense was \$3,742,320 (June 30, 2011 – \$3,669,261). Fair value of stock options granted as above is calculated using the following weighted average assumptions:

For the period ended June 30, 2012 the stock-based compensation expense was USD\$3,742,320 (June 30, 2011 - USD\$3,669,261).

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Risk-free interest rate	1.17%	2.14%
Expected stock price volatility	80.16%	86.79%
Expected dividend yield	n/a	0.00%
Expected option life in years	3.8	4.3

AURCANA CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited expressed in United States dollars, unless otherwise stated)

12. Equity (continued)

<u>Share purchase warrants</u>	Number of Share Warrants
Balance, December 31, 2010	123,273,429
Issued	404,023
Exercised	(22,298,077)
Expired	(64,181)
Balance at June 30, 2012	<u>101,315,194</u>
Issued pursuant to private placements	27,729,854
Exercised	(29,415,378)
Expired	(300,000)
Balance, December 31, 2011	<u>99,329,670</u>
Issued ⁽¹⁾	1,821,462
Exercised	(17,750,945)
Expired	-
Balance at June 30, 2012	<u><u>83,400,187</u></u>

(1) The 1,821,462 warrants issued were pursuant to the exercise of 1,915,000 agents compensation units at price of CDN\$0.41.

As of June 30, 2012 details of outstanding warrants are as follows:

Number of	Exercise	Expiry Date
3,156,000	\$ 0.40	June 30, 2013
24,960	\$ 0.35	June 30, 2013
47,626,926	\$ 0.41	December 7, 2013
6,165,801	\$ 0.41	December 7, 2012
<u>26,426,500</u>	\$ 1.00	November 29, 2013
<u><u>83,400,187</u></u>		

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

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Risk-free interest rate	1.06%	1.02%
Expected stock price volatility	63.44%	75.92%
Expected dividend yield	n/a	n/a
Expected warrant life in years	0.8	1.9

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13. Non-Controlling Interest

The non-controlling interest is comprised of the following:

Balance, December 31, 2010	\$ 753,975
Non-controlling interest's share of profit in La Negra Mine	<u>673,716</u>
Balance, December 31, 2011	1,427,691
Adjustment of non-controlling interest	(1,402,706)
Non-controlling interest's share of profit in La Negra Mine	<u>8,736</u>
Balance at June 30, 2012	<u><u>\$ 33,721</u></u>

On February 17, 2012, the Company increased its ownership in Real de Maconi S.A. de C.V. ("Real Maconi") from 92% to 99.86 % as a result of a recent capital restructure of Real de Maconi. Real de Maconi holds a 99.99% interest (one share representing a .00002% interest is held by a third party) in Minera La Negra S.A. de C.V. which has a 100% interest in the La Negra Mine.

The capital restructure was the result of Real De Maconi's 2010 tax audit wherein the Mexican Tax Authorities required Real de Maconi to reclassify certain accounting transactions resulting in a reclassification and roll back of the capitalization of the equity accounts. The result of the roll back increased Aurcana's ownership of Real de Maconi to 99.86% leaving a non-controlling interest of 0.14% to a third party.

14. Related Party Transactions

Except as noted elsewhere in these condensed interim consolidated financial statements, the Company conducted the following related party transactions:

a) Trading transactions

The Company's related parties consist of companies owned by executive officers and directors and payments to these parties are as follows:

	Note	June 30 2012	June 30 2011
Technical and consulting fees	(i)	\$ 122,979	\$ 350,536
General and administrative expenses	(ii)	92,920	40,913
Management fees	(iii)	<u>646,433</u>	<u>659,822</u>
Related party transactions fees		<u><u>\$ 862,332</u></u>	<u><u>\$ 1,051,271</u></u>

- i) To companies controlled by officers or directors.
- ii) To a company controlled by corporate secretary for management services performed as an officer.
- iii) To a company controlled by President & CEO for management services performed.

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Notes to Condensed Interim Consolidated Financial Statements
(Unaudited expressed in United States dollars, unless otherwise stated)

14. Related Party Transactions (continued)

b) Compensation of key management personnel

	June 30 2012	June 30 2011
Related party transactions fees	\$ 862,332	\$ 1,051,271
Directors' fees	97,527	41,472
Officer salaries	107,388	114,049
Share-based payment	3,742,320	3,057,754
	<u>\$ 4,809,567</u>	<u>\$ 4,264,546</u>

15. 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 of the following month of shipment is made. In August 2010 the copper purchase contract was extended to the end of 2012.

On March 2011, La Negra signed a purchase contract with Glencore, whereby Glencore's Mexican subsidiary (Metagri), agreed to purchase 100% of lead concentrate to be produced during the years 2011 and 2012. Prices are based on the published prices in the Metal Bulletin in London in US dollars no later than within five days of the monthly lot.

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).

AURCANA CORPORATION**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited expressed in United States dollars, unless otherwise stated)****16. Supplemental Cash Flow Information**

Cash and cash equivalents of the Company are comprised of bank balances and short-term investments, which are convertible to cash, with a term of 90 days or less as follows:

	June 30	December 31
	2012	2011
Cash	\$ 7,581,594	\$ 21,243,815
Short-term investments	9,458,944	15,316,565
Cash and cash equivalents	<u>\$ 17,040,538</u>	<u>\$ 36,560,380</u>

Supplemental disclosures of cash flow information:	June 30	December 31
	2012	2011
Cash interest paid	\$ 90,032	\$ 73,290
Income taxes paid	<u>1,102,546</u>	<u>2,052,107</u>

The short-term investments were made on overnight basis and at rates from 0.2% to 1.1% per annum.

Non-cash investing and financing activities are as follows:

	June 30	December 31
	2012	2011
Accounts payable related to construction in progress suppliers	131,771	3,602,753
Accrued interest on convertible debt capitalized to mineral property	-	399,775

AURCANA CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited expressed in United States dollars, unless otherwise stated)

17. Segmented Information

The reportable operating segments have been identified as the La Negra mine, the Shafter mine and Corporate, while all other projects and properties have been aggregated into the category "All Other Segments". The Company manages its business, including the allocation of resources and assessment of performance, on a project by project basis, except where the Company's projects are substantially connected and share resources and administrative functions.

June 30, 2012	La Negra	Shafter	Corporate	All other segments	Total
Sales to external customers	\$ 24,854,817	\$ -	\$ -	\$ -	\$ 24,854,817
Mining operating expenses	11,428,360	-	-	-	11,428,360
Depreciation and amortization	1,868,222	-	-	-	1,868,222
Depletion of mineral properties	570,156	-	-	-	570,156
Gross income	10,988,079	-	-	-	10,988,079
Expenses	325,686	134,230	5,215,475	689,975	6,365,366
Income (loss) before income taxes	10,662,393	(134,230)	(5,215,475)	(689,975)	4,622,713
Income tax expense (recovery)	2,154,985	(505,211)	(422,314)	-	1,227,460
Net income for the period	8,507,408	370,981	(4,793,161)	(689,975)	3,395,253
Property, plant and equipment	30,204,147	48,686,687	53,930	-	78,944,764
Mineral properties	4,054,919	58,894,691	-	-	62,949,610
Total capital assets	34,259,066	107,581,378	53,930	-	141,894,374
Total assets	43,802,468	110,110,648	19,361,287	127,139	173,401,542
Total liabilities	8,404,284	10,160,704	570,092	15,021	19,150,101

June 30, 2011	La Negra	Shafter	Corporate	All other segments	Total
Sales to external customers	\$ 23,246,242	\$ -	\$ -	\$ -	\$ 23,246,242
Mining operating expenses	10,614,594	-	-	-	10,614,594
Depreciation and amortization	926,884	-	-	-	926,884
Depletion of mineral properties	1,042,605	-	-	-	1,042,605
Gross income	10,662,159	-	-	-	10,662,159
Expenses	520,812	50,967	6,581,958	207,417	7,361,154
income (loss) before income taxes	10,141,347	(50,967)	(6,581,958)	(207,417)	3,301,005
Income tax expense	1,043,513	-	-	-	1,043,513
Net income for the period	9,097,834	(50,967)	(6,581,958)	(207,417)	2,257,492
Property, plant and equipment	15,281,713	17,018,456	231,614	-	32,531,783
Mineral properties	4,536,725	43,459,681	-	-	47,996,406
Total capital assets	19,818,438	60,478,137	231,614	-	80,528,189
Total assets	26,512,891	61,145,273	20,843,574	114,097	108,615,835
Total liabilities	6,899,849	3,812,954	10,773,132	44,114	21,530,049

AURCANA CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited expressed in United States dollars, unless otherwise stated)

18. Revenues

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenues from mining operations:				
Mining operations	\$ 13,273,096	\$ 12,392,391	\$ 24,854,817	\$ 23,246,242
	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Gross revenues from Mining operations (\$millio	\$ 17.1	\$ 16.5	\$ 31.7	\$ 29.7
Deductions T.C., refining and smelting charges deducted by the customers	3.3	2.9	6.0	4.9
Net Revenues before Royalties	13.8	13.6	25.7	24.8
Royalties	0.5	0.5	0.8	0.8
Revenues from mining operations	13.3	13.1	24.9	24.0
Net Revenues by customer:				
Trafigura (Corminmex)	\$ 7.4	\$ 6.5	\$ 13.4	\$ 17.7
Glencore (Metagri)	6.4	7.1	12.3	7.1
	13.8	13.6	25.7	24.8

19. Mining operating expenses

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Mine and Mill supplies	\$ 2,795,197	\$ 2,766,585	\$ 4,768,296	\$ 4,844,447
Power	454,963	408,142	878,666	778,633
Salaries and benefits	2,753,511	2,531,289	5,122,090	4,502,766
Freight and delivery	373,531	252,349	659,308	488,748
Sub-total	6,377,202	5,958,365	11,428,360	10,614,594
Depreciation and amortization	1,088,770	592,459	1,868,222	926,884
Depletion of mineral properties	326,485	536,578	570,156	1,042,605
	\$ 7,792,457	\$ 7,087,402	\$ 13,866,738	\$ 12,584,083

AURCANA CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited expressed in United States dollars, unless otherwise stated)

20. Administrative costs

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Administrative costs[1]	\$ 1,163,880	\$ 1,170,611	\$ 1,830,178	\$ 1,796,717
Professional fees	74,933	201,616	119,052	288,141
Investor relations	320,295	215,593	570,917	388,940
Listing and filing fees	40,273	42,994	81,102	83,338
	<u>\$ 1,599,381</u>	<u>\$ 1,630,814</u>	<u>\$ 2,601,249</u>	<u>\$ 2,557,136</u>

[1] Administrative costs break down:	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Management fees	\$ 548,498	\$ 640,269	\$ 646,433	\$ 730,269
Rent and overhead	36,341	34,428	74,133	71,593
Travel and accommodation	73,348	96,306	164,456	221,961
Office	114,813	58,526	153,722	90,329
Insurance	6,810	6,891	56,241	13,468
Salaries and Consulting fees	222,903	266,746	434,482	486,777
Directors Fees	68,056	8,950	97,527	40,950
Other	93,111	58,495	203,184	141,370
	<u>\$ 1,163,880</u>	<u>\$ 1,170,611</u>	<u>\$ 1,830,178</u>	<u>\$ 1,796,717</u>

21. Financing expense

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Accretion of provision for environmental rehabilitation (note 11)	\$ 17,250	\$ 21,842	\$ 35,186	\$ 43,685
Accretion of Convertible debenture	-	(45,719)	-	-
Financing expense and bank charges	75,235	60,900	90,032	75,091
	<u>\$ 92,485</u>	<u>\$ 37,023</u>	<u>\$ 125,218</u>	<u>\$ 118,776</u>

AURCANA CORPORATION**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited expressed in United States dollars, unless otherwise stated)****22 Earnings per Share**

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income for the year attributable to equity holders of the Company	\$ 1,399,619	\$ 1,405,654	\$ 3,386,517	\$ 1,791,327
Weighted average number of shares – basic	448,667,341	341,697,303	443,100,132	334,361,354
Adjustment for:				
Share options	6,957,960	5,270,019	6,844,614	6,134,359
Warrants	35,509,923	72,397,407	36,380,025	70,448,468
Weighted average number of shares – diluted	491,135,224	419,364,729	486,324,771	410,944,181

23. Subsequent event:

Silvermex payment due on April 9, 2012 in the amount of \$500,000 (note 6) was mutually agreed to be extended for three additional months, and on July 9, 2012 Silvermex paid the \$500,000 as agreed.