AURCANA CORPORATION

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

Canadian Funds

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

AURCANA CORPORATION
Consolidated Balance Sheets - Unaudited
(Expressed in Canadian dollars)

ASSETS	September 30, 2010	December 31, 2009
Current		
Cash	**$ 253,201**	$ 2,852,174
Accounts receivable - trade	**1,586,211**	1,052,517
- other	**60,000**	257,308
Prepaid expenses and advances	**281,930**	279,051
Marketable securities (Note 6)	**-**	637,500
Inventory (Note 4)	**1,546,048**	1,361,922
	3,727,390	6,440,472
Amounts receivable – long term (Note 5)	**820,312**	766,357
Marketable securities – long term (Note 6)	**430,000**	510,000
Property, plant and equipment (Note 7)	**11,748,132**	7,916,519
Mineral properties (Note 8)	**63,994,687**	63,978,122
	$ 80,720,521	$ 79,611,470
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 9)	**$ 7,287,299**	$ 4,361,865
Convertible debenture (Note 12)	**9,411,372**	-
Current portion of notes payable (Note 10)	**1,292,308**	1,391,375
	17,990,979	5,753,240
Notes payable (Note 10)	**2,491,068**	2,393,328
Deferred revenue (Note 11)	**18,791,766**	22,185,697
Convertible debenture (Note 12)	**-**	8,919,003
Asset retirement obligation (Note 13)	**1,371,411**	1,338,036
Future income tax liability	**16,472,597**	16,754,344
	57,117,821	57,343,648
SHAREHOLDERS' EQUITY		
Capital stock (Note 14)	**57,567,256**	55,684,504
Contributed surplus (Note 14(e))	**7,712,638**	7,077,058
Accumulated other comprehensive earnings	**30,000**	286,250
Deficit	**(42,486,892)**	(41,378,297)
Total equity attributable to equity holders of the parent	**22,823,002**	21,669,515
Non-controlling interest (Note 3)	**779,698**	598,307
	23,602,700	22,267,822
	$ 80,720,521	$ 79,611,470

Nature of Business and Going Concern (Note 1)

Commitments (Note 18)

Subsequent Events (Notes 11, 19(b) and 21)

Approved on behalf of the Board:

______Lenic Rodriguez_____, Director

______ _Ron Nichols_______, Director

- See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements -

AURCANA CORPORATION
Consolidated Statements of Comprehensive Earnings (Loss) - Unaudited
(Expressed in Canadian dollars)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Mining Operations				
Sales, net of royalties (Note 17)	**$ 7,476,157**	$ 5,228,565	**$ 17,089,398**	$ 12,647,262
Cost of sales (excluding amortization and depletion)	**(4,468,269)**	(3,478,227)	**(11,415,068)**	(9,738,254)
Earnings from Mining Operations	**3,007,888**	1,750,338	**5,674,330**	2,909,008
Loss From Trading Activity, net *(* Note 17)	**(1,045,470)**	-	**(2,218,539)**	-
Expenses				
Accretion of asset retirement obligation (Note 13)	**15,869**	25,345	**47,609**	50,107
Administrative expenses	**572,484**	480,249	**1,409,070**	1,487,121
Amortization	**260,882**	278,159	**760,471**	581,780
Depletion of mineral properties (Note 8)	**557,107**	13,149	**1,461,936**	763,623
Financing costs (Note 14(f))	**392,317**	-	**447,692**	-
Interest and financing	**45,618**	35,030	**179,510**	56,151
Investor relations	**27,398**	21,386	**190,742**	68,825
Listing and filing fees	**4,198**	2,770	**40,254**	11,628
Professional fees	**110,060**	85,428	**472,376**	140,137
Property evaluation	**-**	2,520	**-**	86,910
Stock-based compensation (Note 14(d))	**58,769**	340,070	**270,612**	391,191
Total Expenses	**2,044,702**	1,284,106	**5,280,272**	3,637,473
Earnings (Loss) from Operations	**(82,284)**	466,232	**(1,824,481)**	(728,465)
Other income	**560,065**	3,983	**612,524**	89,758
Foreign exchange gain (loss)	**1,030,350**	1,930,564	**407,498**	3,974,475
Loss on sale of investments (Note 6)	**-**	-	**(122,745)**	-
Gain on debt settlement	**-**	224,702	**-**	1,247,427
Net Earnings (Loss) for the Period	**$ 1,508,131**	$ 2,625,481	**$ (927,204)**	$ 4,583,195
Net earnings (loss) for the period attributable to:				
Non-controlling interest (Note 3)	**$ 132,113**	$ 236,549	**$ 181,391**	$ 236,549
Equity holders of the parent	**1,376,018**	2,388,932	**(1,108,595)**	4,346,646
	$ 1,508,131	$ 2,625,481	**$ (927,204)**	$ 4,583,195
Net earnings (loss) for the period attributable to Equity holders of the parent	**$ 1,376,018**	$ 2,388,932	**$ (1,108,595)**	$ 4,346,646
Deficit, beginning of period	**(43,862,910)**	(43,190,973)	**(41,378,297)**	(45,148,687)
Deficit, End of Period	**$ (42,486,892)**	$ (40,802,041)	**$ (42,486,892)**	$ (40,802,041)
Earnings (Loss) Per Share - Basic	**$ 0.01**	$ 0.02	**$ (0.01)**	$ 0.04
Earnings (Loss) Per Share - Diluted	**$ 0.01**	$ 0.02	**N/A**	$ 0.04
Weighted average number of shares outstanding - Basic	**127,538,644**	108,583,933	**123,086,202**	108,583,933
Weighted average number of shares outstanding - Diluted	**129,655,940**	108,583,933	**N/A**	108,583,933

- See Accompanying Notes to the Unaudited Interim Consolidated Financial Statements -

AURCANA CORPORATION
Consolidated Statements of Comprehensive Earnings (Loss) - Unaudited
(Expressed in Canadian dollars)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net Earnings (Loss) for the Period	**$ 1,508,131**	$ 2,625,481	**$ (927,204)**	$ 4,583,195
Other Comprehensive Loss				
Unrealized gain (loss) on marketable securities (Note 6)	**40,000**	-	**(80,000)**	-
Effect of sale of marketable securities	**-**	-	**(176,250)**	-
Comprehensive Earnings (Loss) for the Period	**$ 1,548,131**	$ 2,625,481	**$ (1,183,454)**	$ 4,583,195

Consolidated Statements of Accumulated Other Comprehensive Earnings - Unaudited
(Expressed in Canadian dollars)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Accumulated Other Comprehensive Earnings (Loss), Beginning of Period	**$ (10,000)**	$ -	**$ 286,250**	$ -
Other Comprehensive Earnings (Loss)				
Unrealized gain (loss) on marketable securities (Note 6)	**40,000**	-	**(80,000)**	-
Reduction as a result of the sale of marketable securities	**-**	-	**(176,250)**	-
Accumulated Other Comprehensive Earnings, End of Period	**$ 30,000**	$ -	**$ 30,000**	$ -

AURCANA CORPORATION
Consolidated Statements of Cash Flows - Unaudited
(Expressed in Canadian dollars)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Operating Activities				
Net earnings (loss) for the period	**$ 1,508,131**	$ 2,625,481	**$ (927,204)**	$ 4,583,195
Items not involving cash:				
Accretion of convertible debenture	**164,123**	-	**492,369**	-
Accretion of asset retirement obligation	**15,869**	25,345	**42,289**	50,107
Amortization	**260,882**	278,159	**760,471**	581,780
Depletion of mineral property	**557,107**	13,149	**1,461,936**	763,623
Financing fees	**392,317**	-	**447,692**	-
Finders' fees	**12,276**	-	**12,276**	-
Gain on debt settlement	**-**	(224,702)	**-**	(1,247,427)
Interest income (Note 5)	**(22,915)**	-	**(67,335)**	-
Loss on sale of investments (Note 6)	**-**	-	**122,745**	-
Mineral property adjustments	**-**	(481,780)	**-**	(481,780)
Non-controlling interest	**-**	147,134	**-**	147,144
Recognition of deferred revenue	**(1,889,266)**	(456,282)	**(3,102,734)**	(1,832,638)
Stock-based compensation	**58,769**	340,070	**270,612**	391,191
Unrealized foreign exchange (gain) loss	**(544,176)**	(341,333)	**(568,478)**	(2,882,665)
Unrealized loss on change in silver price for silver in arrears (Note 17)	**89,107**	-	**512,164**	-
	602,224	1,925,241	**(543,197)**	72,530
Net change in non-cash w orking capital	**(963,332)**	(1,036,395)	**1,410,736**	1,179,412
Cash provided by (used in) operating activities	**(361,108)**	888,846	**867,539**	1,251,942
Investing Activities				
Purchase of plant and equipment	**(1,502,562)**	(1,600,815)	**(4,112,941)**	(1,675,768)
Mineral property expenditures	**(426,246)**	(625,122)	**(1,478,501)**	(1,557,984)
Proceeds from sale of marketable securities	**-**	-	**338,505**	-
Cash used in investing activities	**(1,928,808)**	(2,225,937)	**(5,252,937)**	(3,233,752)
Financing Activities				
Due from joint venture partner	**-**	1,042,495	**-**	984,708
Receipt (repayment) of notes payable, net	**695,193**	631,727	**(1,327)**	631,479
Share capital issued, net	**222,502**	-	**1,787,752**	-
Cash provided by financing activities	**917,695**	1,674,222	**1,786,425**	1,616,187
Net increase (decrease) in cash	**(1,372,221)**	337,131	**(2,598,973)**	(365,623)
Cash, beginning of period	**1,625,422**	1,031,730	**2,852,174**	1,734,484
Cash, end of period	**$ 253,201**	$ 1,368,861	**$ 253,201**	$ 1,368,861
Interest paid	**$ 41,913**	**$ 35,030**	**$ 179,510**	**$ 56,151**
Taxes paid	**$ -**	**$ -**	**$ -**	**$ -**

Supplemental cash flow information (Note 20)

1. NATURE OF BUSINESS AND GOING CONCERN

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

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

While these unaudited interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future, there are events and conditions that cast significant doubt on the validity of that assumption. The Company had a working capital deficiency of $14,263,589 as at September 30, 2010, recorded a net loss of $927,204 for the nine months ended September 30, 2010 and had an accumulated deficit of $42,486,892 at September 30, 2010. The Company has fallen into arrears on its required silver deliveries (Notes 11 and 17) and will need to raise sufficient funds to meet these obligations as well as fund ongoing exploration and administrative expenses (see Note 21) The Company has no assurance that such financing will be available or be available on favourable terms. Factors that could affect the availability of financing include the Company's performance (as measured by various factors including the progress and results of the Shafter and La Negra projects), the state of international debt and equity markets, investor perceptions and expectations and the global financial and metals markets.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

These unaudited interim consolidated 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 of Maconi. During the quarter ended September 30, 2009, the Company diluted its former joint venture partner from a 20% interest to an 8% minority interest and took over management of the mine. Accordingly, prior to dilution the Company recognized 80% of the profit or loss of Maconi. Subsequent to the dilution of its former joint venture partner, the Company consolidates 100% of the profit or loss and assets and liabilities of Maconi, and recognizes an 8% non-controlling interest in the results of Maconi. Maconi owns 100% of Minera La Negra S.A. de C.V. ("**Minera La Negra**"), a Mexican corporation.

The accompanying unaudited interim consolidated financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian GAAP on a basis consistent with those outlined in the Company's audited financial statements for the year ended December 31, 2009. These notes do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the most recent annual financial statements of the Company.

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of new accounting standards

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

The Canadian Institute of Chartered Accountants ("**CICA**") concurrently issued Section 1601 "*Consolidated Financial Statements*" and Section 1602 "*Non-Controlling Interests*", which replace Section 1600 "*Consolidated Financial Statements*". Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination.

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.

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%, was to 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.

Non-controlling interest, December 31, 2009	$ 598,307
Non-controlling interest share of net earnings of La Negra for the nine months ended September 30, 2010	181,391
Non-controlling interest, September 30, 2010	$ 779,698

4. INVENTORY

As at September 30, 2010, inventory consisted of the following:

	September 30, 2010	December 31, 2009
Supplies inventory	$ 1,076,217	$ 1,147,253
Stockpile inventory	449,251	178,011
Concentrates and in-process inventory	20,580	36,658
Total inventory	$ 1,546,048	$ 1,361,922

(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**").

As partial consideration, the Company is to receive approximately $1,030,000 (US$1 million) in two payments of $515,000 (US$500,000) on the earlier of 24 and 36 months from November 30, 2009 or 12 and 24 months after the commencement of commercial production. 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 period	67,335
Unrealized foreign exchange loss	(13,380)
Carrying value, September 30, 2010	$ 820,312

6. MARKETABLE SECURITIES

As partial consideration for the sale of Rosario (Note 5), Silvermex issued 1,000,000 common shares to the Company, and also issued 250,000 shares as an extension fee.

During the nine months ended September 30, 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 earnings.

At September 30, 2010, the Company held nil (December 31, 2009: 1,250,000) common shares of Silvermex, of which nil (December 31, 2009: 750,000) were held in escrow.

As partial consideration, at the earlier of commencement of commercial production or within 24 months from November 30, 2009, Silvermex will issue an additional 1,000,000 common shares. These shares are recorded as long-term marketable securities as they represent future payments to be received on November 30, 2011 or the earlier of commencement of commercial production at Rosario, which is not expected to take place within the next 12 months.

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

Balance, December 31, 2009	$ 510,000
Unrealized loss	(80,000)
Balance, September 30, 2010	$ 430,000

(Expressed in Canadian dollars)

7. PROPERTY, PLANT AND EQUIPMENT

As at September 30, 2010, property, plant and equipment consisted of the following:

	Cost	Accumulated Amortization	Net Book Value
Land and Buildings	$ 1,525,746	$ -	$ 1,525,746
Plant & equipment	12,106,542	2,380,178	9,726,364
Vehicles	485,534	215,987	269,547
Computer equipment	382,478	250,005	132,473
Other	109,366	15,364	94,002
	$ 14,609,666	$ 2,861,534	$ 11,748,132

As at December 31, 2009, property, plant and equipment consisted of the following:

	Cost	Accumulated Amortization	Net Book Value
Land and buildings	$ 894,900	$ -	$ 894,900
Plant & equipment	8,273,441	1,767,213	6,506,228
Vehicles	460,772	162,803	297,969
Computer equipment	334,887	161,242	173,645
Other	49,463	5,686	43,777
	$ 10,013,463	$ 2,096,944	$ 7,916,519

Plant and equipment of $844,580 (December 31, 2009: $844,580) held by the Company's wholly-owned subsidiary Silver Assets, Inc. is not subject to depreciation as the project is not in production.

8. MINERAL PROPERTIES

	La Negra, Mexico	Shafter, Texas	Total
Balance, December 31, 2009	$ 7,929,188	$ 56,048,934	$ 63,978,122
Mineral property expenditures	-	686,132	686,132
Capitalized interest expense (Note 12)	-	300,000	300,000
Capitalized accretion expense (Note 12)	-	492,369	492,369
Depletion	(1,461,936)	-	(1,461,936)
Balance, September 30, 2010	$ 6,467,252	$ 57,527,435	$ 63,994,687

a) La Negra Mine, Queretaro State, Mexico

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

As its initial 20% contribution to the former joint venture (see Note 3), Reyna contributed all the legal rights and obligations it held to acquire a 100% interest in La Negra, valued in the JV Agreement at US $1,500,000.

(Expressed in Canadian dollars)

8. MINERAL PROPERTIES (continued)

a) La Negra Mine, Queretaro State, Mexico (continued)

Under the terms of the JV Agreement, the Company agreed to pay $1,250,000 and issue 3,000,000 common shares of the Company to Reyna. The capital stock obligations were measured at the fair value of the Company's common shares on the agreement date ($600,000). There are no further obligations to issue shares.

The Company also issued 1,000,000 warrants to Reyna, with each warrant entitling Reyna to purchase one common share of the Company for $0.25 on or before May 18, 2008. The warrants were fair valued at $293,099 using the Black-Scholes option pricing model. A finder's fee of US $170,000 was paid in cash. The warrants were exercised prior to expiry in 2008.

During the year ended December 31, 2009, the Company diluted Reyna's ownership interest to 8% and consequently the Company holds a 100% interest in La Negra, subject to an 8% non-controlling interest (Note 3).

b) Shafter Silver Mine, Texas

On July 15, 2008, the Company, through its wholly-owned subsidiary Silver Assets, Inc. ("**Silver Assets**"), acquired 100% of the Shafter silver mine ("**Shafter**") from Silver Standard Resources Inc. ("**Silver Standard**"). Shafter is located in Presidio County, southwest Texas.

In consideration, the Company paid Silver Standard US $23 million in cash; issued 15 million common shares of the Company to Silver Standard (fair value $6,900,000); and issued a $10 million convertible debenture to Silver Standard which pays a 3.17% weighted average coupon with a three-year term and is convertible into 6.62 million common shares of the Company at $1.51 per share (Note 12).

9. ACCOUNTS PAYABLE

As at September 30, 2010, accounts payable consisted of the following:

	September 30, 2010	December 31, 2009
Silver arrears (Note 11)	$ 2,549,000	$ 1,356,000
Salaries, source deductions and employee benefits	890,000	609,000
Royalties	1,080,000	662,000
Explosives	432,000	183,000
Power	164,982	123,647
Convertible debenture interest (Note 12)	84,795	184,795
Suppliers	274,000	270,000
Other	1,812,522	973,423
Total accounts payable	$ 7,287,299	$ 4,361,865

10. NOTES PAYABLE

	September 30, 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	$ 364,440	$ 618,650
Notes payable to the Company's principal customer, repayable in monthly instalments totalling US$80,000; bearing interest at LIBOR plus 5% per annum (Note 18)	3,418,936	3,166,053
	3,783,376	3,784,703
Less: Current portion	(1,292,308)	(1,391,375)
	$ 2,491,068	$ 2,393,328

On August 20, 2010, the Company renegotiated a credit facility agreement (the "**Loan**") with Trafigura Beheer B.V. ("**Trafigura**"). As at June 30, 2010, the outstanding balance under the original loan was $2,671,352. On August 20, 2010, the Company exercised its right to draw down the loan to its full amount of US$3,400,000. The Company received approximately US$1,380,000 on August 23, 2010.

The principal of the loan is repayable in monthly installments of not less than US$80,000 plus interest equal to the one-month LIBOR rate plus 5% and is repayable in full on October 31, 2013. The loan is secured by the Company's 100% indirect interest in Shafter through a pledge of the shares of each of the Company's subsidiaries Silver Assets and Rio Grande Mining Company. The Company has guaranteed the repayment of the Loan, with such guarantee evidenced by way of a formal guarantee.

The Company issued an aggregate of 2,125,203 common share purchase warrants to Trafigura with each warrant entitling Trafigura to purchase one common share of the Company at an exercise price of $0.30 per share with an expiry of August 20, 2012 (note 14(f)).

Scheduled principal repayments are as follows:

2010	$ 368,632
2011	1,231,569
2012	988,608
2013	1,194,567
	$ 3,783,376

11. DEFERRED REVENUE

In June 2008, the Company contracted to sell to Silver Wheaton (Caymans) Ltd. ("**Silver Wheaton**") the equivalent of 50% of the silver metal produced from ore extracted during the mine-life at La Negra. In consideration, the Company received an upfront cash payment of US$25 million which it recorded as deferred revenue, and a further sale price of US$3.90 per ounce of silver sold to Silver Wheaton, with the sale price subject to an inflationary adjustment in year three. Under the terms of the agreement, the Company must deliver sufficient ounces of silver to Silver Wheaton within a forty year term, on a prescribed formula, or a portion of the deferred revenue, without interest, will become repayable to Silver Wheaton. All of the shares of Minera La Negra have been pledged as security for the agreement with Silver Wheaton. As the sale amount and the corresponding deferred revenue are denominated in US dollars, the amounts included in the unaudited interim consolidated financial statements include an adjustment for unrealized foreign exchange variations.

(Expressed in Canadian dollars)

11. DEFERRED REVENUE (continued)

During the first quarter of 2009, due to ongoing negotiations surrounding the re-pricing of shipments with the concentrate buyer, and other factors, the Company fell into arrears on its payments of refined silver produced from La Negra to Silver Wheaton pursuant to the terms of the agreement with Silver Wheaton. The Company and Silver Wheaton negotiated a draft agreement to remedy this situation. As at September 30, 2010, the definitive agreement was still being finalized. The draft agreement and subsequent verbal agreements require that a minimum 20% of the silver metal produced is to be repaid each month. Subsequent to September 30, 2010, the Company signed an agreement with Silver Wheaton whereby Silver Wheaton is permitting the Company to extinguish the entire silver purchase agreement for an amount of US$25 million plus all and any silver arrears outstanding as at the date of extinguishment, with the agreement having an expiry date of December 31, 2010. As described in Note 21, the Company is attempting to raise between $50 million and $60 million through a private placement of equity units, and if the private placement is successful, a portion of the proceeds will be used to extinguish the silver purchase agreement in full.

Included in accounts payable and accrued liabilities at September 30, 2010 was an amount of $2.55 million (December 31, 2009: $1.36 million) owing to Silver Wheaton for 138,392 ounces (December 31, 2009: 99,986 ounces) of silver arrears (see Note 9).

Deferred revenue is calculated as follows:

	US Dollars	Canadian Dollars
Balance, December 31, 2009	$ 21,197,876	$ 22,185,697
Recognized as revenue (Note 17)	(2,935,713)	(3,102,804)
Unrealized foreign exchange gain	-	(291,127)
Balance, September 30, 2010	$ 18,262,163	$ 18,791,766

12. CONVERTIBLE DEBENTURE

In July 2008, as noted in Note 8(b), the Company issued a convertible debenture to Silver Standard as part of the purchase price to acquire Shafter. 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 to be $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.

The following table details the change in the convertible debenture for the nine months ended September 30, 2010:

Balance, December 31, 2009	$ 8,919,003
Accretion for the period	492,369
Balance, September 30, 2010	$ 9,411,372

As a result of the convertible debenture being due within one year of September 30, 2010, the Company has included the convertible debenture in current liabilities on the consolidated balance sheet as at September 30, 2010.

(Expressed in Canadian dollars)

13. ASSET RETIREMENT OBLIGATION

Management has estimated reclamation and closure costs for the La Negra mine workings using its best judgment of such future costs and based on an anticipated mine life of 5 years. The ultimate value of the asset retirement obligation ("**ARO**") 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 ARO will be recognized prospectively in the year such adjustment is made.

The ARO has been calculated using a discount rate of 5% and an inflation rate of 2.50%. The future amount of the obligation is $1,469,699 and the reclamation activities are estimated to commence in approximately 5 years.

Details are as follows:

Balance, December 31, 2009	$ 1,338,036
Accretion	42,289
Unrealized foreign exchange gain	(8,914)
Balance, September 30, 2010	$ 1,371,411

14. CAPITAL STOCK

a) Authorized

An unlimited number of common shares

b) Share issuance details

	Shares	Amount
Balance, December 31, 2009	120,171,660	$ 55,684,504
Issued pursuant to private placement	6,485,000	1,621,250
Share issuance costs	-	(61,998)
Exercise of stock options	1,000,000	318,250
Exercise of warrants	17,500	5,250
Balance, September 30, 2010	127,674,160	$ 57,567,256

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.

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.

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.

(Expressed in Canadian dollars)

14. CAPITAL STOCK (continued)

c) Stock options (continued)

A summary of the changes in stock options is presented below:

Balance, December 31, 2009	12,012,500
Granted	1,500,000
Exercised	(1,000,000)
Expired	(1,400,000)
Balance, September 30, 2010	11,112,500

The weighted average exercise price of the stock options outstanding at September 30, 2010 was $0.38 (December 31, 2009: $0.45) and the weighted average remaining life of the options was 3.08 (December 31, 2009: 3.67) years. The options granted during the nine months ended September 30, 2010 had a weighted average exercise price of $0.29, the exercised options had a weighted average exercise price of $0.22 and the expired options had a weighted average price of $1.02.

The following stock options were outstanding as at September 30, 2010:

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	3,012,500	$ 0.10	August 13, 2014
1,650,000	1,650,000	$ 0.29	December 9, 2014
200,000	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
11,112,500	10,450,000		

d) Stock-based compensation

The Company applies the fair value method of accounting for all awards of stock options by using the Black-Scholes Option Pricing Model ("**Black-Scholes Model**"). For the 1,150,000 stock options that were granted during the nine months ended September 30, 2010, the stock-based compensation expense was $270,612 (2009: $391,191). The fair value of the stock options granted was calculated using the following weighted average assumptions:

	2010	2009
Risk-free interest rate	1.91%	2.98%
Expected stock price volatility	85.08%	119.26%
Expected dividend yield	0.0%	0.0%
Expected option life in years	4.0	5.0

(Expressed in Canadian dollars)

14. CAPITAL STOCK (continued)

e) Contributed surplus

Balance, December 31, 2009	$	7,077,058
Fair value of stock options vested		270,612
Fair value of warrants issued to Auramet (Note 14(f))		55,375
Fair value of warrants issued to Trafigura (Note 10)		392,317
Fair value of finders' fee warrants		12,276
Exercise of stock options		(95,000)
Balance, September 30, 2010	$	7,712,638

f) Share purchase warrants

A summary of the changes in warrants is presented below:

Balance, December 31, 2009	6,208,560
Issued pursuant to private placement	6,485,000
Issued to Auramet	300,000
Issued as finders' fee	108,000
Issued to Trafigura (Note 10)	2,125,203
Exercised	(17,500)
Balance, September 30, 2010	15,209,263

On March 2, 2010, and pursuant to an advisory agreement, the Company issued 300,000 share purchase warrants to Auramet Trading, LLC ("**Auramet**"). Each warrant is exercisable into one common share of the Company at an exercise price of $0.35 per share. The warrants expire on March 2, 2013.

For the 2,533,203 warrants that were issued to Trafigura, Auramet and private placement finders during the nine months ended September 30, 2010, the fair value of the warrants using the Black-Scholes Model was $465,062, of which $447,692 was included as financing costs in the statement of earnings and $17,370 was included in share issuance costs. The following weighted average assumptions were used:

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

The following warrants were outstanding as at September 30, 2010:

Number of Warrants	Exercise Price		Expiry Date
5,793,864	$	0.35	May 16, 2011
397,196	$	0.30	May 16, 2011
2,125,203	$	0.30	August 20, 2012
300,000	$	0.35	March 2, 2013
6,593,000	$	0.40	June 30, 2013
15,209,263			

(Expressed in Canadian dollars)

15. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2010, the Company paid or accrued:

- Management fees of $260,000 (2009: $203,096) to companies controlled by directors and officers or former directors and officers;
- Administrative management fees of $77,051 (2009: $71,096) to companies controlled by officers;
- Technical, geological and consulting services of $117,950 (2009: $65,674) to companies controlled by directors or officers; and
- Consulting fees of $37,500 (2009: $126,000) to former officers or companies controlled by former officers.

As at September 30, 2010, prepaid expenses and advances contained an amount of $2,075 (December 31, 2009: $56,434) paid to officers and directors as advances for travel, accommodation and conference costs.

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

16. SEGMENTED DISCLOSURE

The Company operates in only one sector, the exploration and development of mineral properties. Geographical disclosure as at September 30, 2010 and for the nine months then ended is as follows:

	Revenue	Earnings (Loss)	Property, Plant and Equipment	Mineral Properties	Total Capital Assets	Total Assets
Canada	$ -	$ (4,337,675)	$ 429,593	$ -	$ 429,593	$ 1,925,937
United States	-	285,617	844,580	57,527,435	58,372,015	58,371,606
Mexico	17,089,398	3,124,854	10,473,959	6,467,252	16,941,211	20,422,978
Total	$17,089,398	$ (927,204)	$ 11,748,132	$ 63,994,687	$ 75,742,819	$ 80,720,521

The following revenue and earnings information is for the nine months ended September 30, 2009 and the balance sheet information is at December 31, 2009:

	Revenue	Earnings	Property, Plant and Equipment	Mineral Properties	Total Capital Assets	Total Assets
Canada	$ -	$ 378,223	$ 381,436	$ -	$ 381,436	$ 3,137,420
United States	-	2,024,602	907,125	56,048,934	56,956,059	56,111,479
Mexico	12,647,262	2,180,370	6,627,958	7,929,188	14,557,146	20,362,571
Total	$12,647,262	$ 4,583,195	$ 7,916,519	$ 63,978,122	$ 71,894,641	$ 79,611,470

17. SALES AND ECONOMIC DEPENDENCE

Details of sales generated from customers that individually account for approximately 10% or more of consolidated sales for the nine months ended September 30 are as follows:

	2010	2009
Number of significant customers	1	1
Amount of sales to significant customers	$ 17,089,398	$ 12,647,262
Total consolidated sales	$ 17,089,398	$ 12,647,262
Total percentage of consolidated sales generated from significant customers	100%	100%

The Company has an exclusive multi-year sales agreement with Trafigura for the sale of all or substantially all of its copper and zinc concentrate from La Negra (Note 18). The Company is economically dependent upon a single customer and upon the successful renewal or replacement of this contract at economic rates.

Pursuant to the Silver Wheaton agreement (Note 11), the Company recognized the following loss from trading activity during the nine months ended September 30:

	2010	2009
Sales earned from Silver Wheaton (US$3.90/ounce)	$ 1,267,528	$ -
Recognition of deferred revenue (Note 11)	3,102,804	-
	4,370,332	-
Cost of sales (at market price)	(5,773,470)	-
Unrealized loss on change in silver price for silver in arrears	(512,164)	-
Foreign exchange loss	(303,237)	-
Loss from trading activity	$ (2,218,539)	$ -

During 2009, the Company did not separate the transactions with Silver Wheaton from normal mining operations and therefore the loss from trading activity was $Nil.

18. COMMITMENTS

Supply agreement

On November 14, 2006 and January 19, 2007, Minera La Negra signed purchase contracts for copper and zinc, respectively, with Trafigura whereby Trafigura agreed to purchase 100%, evenly spread from January to December, copper and zinc concentrates produced by La Negra. Prices are based on the published prices in the Metal Bulletin in London in US dollars at the transaction date unless fixed for the month at the discretion of the Company. In August 2010, the copper purchase contract was extended to 2014 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).

18. COMMITMENTS (continued)

Deferred Revenue

The Company has commitments to deliver 50% of its silver production from La Negra as payment for the funds received from the advance silver sale. During 2009, this was renegotiated to a minimum 10% delivery, with the balance of ounces owing to accrue interest at a rate of 3.25% (US Prime rate) (Note 11).

19. CONTINGENCIES

a) During the nine months ended September 30, 2010, the Company received a notice of legal action filed in Mexico by Mechanismos Mineros ("**Mechanismos**"), a former contractor who was responsible for labour outsourcing at La Negra. The suit alleged that Mechanismos was entitled to severance payments of approximately Mexican Pesos ("**MP**") $1 million (approximately $82,000). The Company denies any such liability and has consequently filed a counter claim for MP$2.4 million (approximately $196,000) alleging non-payment of payroll deductions withheld. The Company further alleges that Mechanismos has unlawfully retained legal, personnel and tax documents which are the property of the Company and which may be damaging to the Company. The Company believes the law suit filed by Mechanismos is without merit and no provision for the law suit or the counter claim has been recorded.

b) During the nine months ended September 30, 2010, the Company received a notice of assessment with respect to value-added tax and other taxes which the Government of Mexico believed are outstanding in the amount of MP$66 million (approximately $5.46 million). The notice was issued due to the inability of the Company to provide documentation to the government to support previous tax filings. The documentation had been retained by Mechanismos. Pursuant to a court order, the documentation was eventually returned to the Company and was submitted to the government. As the Company believed that the assessment was in error and would eventually be reversed, no provision was ever recorded for this amount.

   In October 2010, the government notified the Company that upon final review, the Company had satisfied all government requests and the government concluded that there were no outstanding tax liabilities and that the file would be closed without any obligations to the Company.

20. SUPPLEMENTAL CASH FLOW INFORMATION

The non-cash transactions for the nine months ended September 30, 2010 consisted of the Company issuing 300,000 share purchase warrants with a fair value of $55,375 to Auramet (Note 14(f)), 2,125,203 share purchase warrants with a fair value of $392,317 to Trafigura (Note 14(f)) and 108,000 share purchase warrants with a fair value of $12,276 as finders' fees in relation to the Financing (Note 14(b)).

21. SUBSEQUENT EVENT

On November 19, 2010, the Company entered into an agency agreement with Sunel Securities Inc. ("**Sunel**"), whereby Sunel will assist the Company, on a best-efforts basis, to raise gross proceeds of between $50 million and $60 million through a private placement of equity units (the "**Units**") at a price of $0.31 per Unit (the "**Offering**"). Each Unit will consist of one common share of the Company and one-half of one common share purchase warrant, with each whole warrant entitling the holder to purchase one common share of the Company at a price of $0.41 per share for a period of 36 months from closing of the Offering.

Sunel will receive a cash commission equal to 7% of the gross proceeds of the Offering and in addition, the Company will issue compensation options to Sunel, entitling Sunel to purchase broker units ("**Broker Units**") up to 7% of the number of Units sold pursuant to the Offering at a price of $0.41 per Broker Unit for a period of 24 months from closing of the Offering. Each Broker Unit will consist of one common share of the Company and one-half of one common share broker warrant, with each whole broker warrant entitling Sunel to purchase one common share of the Company at a price of $0.41 per share for a period of 24 months from closing of the Offering.

21. SUBSEQUENT EVENT (continued)

The Offering is subject to certain conditions, including, but not limited to, the receipt of all necessary approvals, including regulatory approval. All securities issued with respect to the Offering will be subject to a four month hold period.

The Company plans to use the net proceeds from the Offering to finance capital expenditures on Shafter, for general working capital purposes and to buy back the La Negra life-of-mine silver purchase agreement from Silver Wheaton (Note 11) plus the outstanding silver balance in arrears (Note 9), which will release the Company from all future obligations under the Silver Wheaton agreement.

The Company has also entered into a non-binding agreement with Sprott Asset Management LP ("**SAM**") for a US$12.5 million senior secured note offering (the "**Note Offering**") and a non-binding agreement with Sprott Resource Lending Partnership ("**SRLP**") for a US$12.5 million senior secured debt financing (the "**Debt Financing**"). The Debt Financing will be advanced in two tranches. US$5 million of the Debt Financing will be advanced to the Company on the closing of the initial tranche of the Debt Financing. The remaining US$7.5 million of the Debt Financing and the entire US$12.5 million under the Note Offering will be advanced at the request of the Company upon completion of certain conditions precedent. The proceeds from the Note Offering and Debt Financing, together with a portion of the Offering, will be used to finance the development of Shafter through to production. The Company will grant security over substantially all of its properties and assets in favour of both SAM and SRLP, whose security interests will rank equally as between them.

In consideration for the Note Offering and the Debt Financing, the Company will issue to each of SAM and SRLP 6 million share purchase warrants exercisable into common shares of the Company at an exercise price of $0.50 per share for a period of 24 months from the date of closing of the initial tranche of the Debt Financing. In addition, SAM and SRLP will each receive a non-refundable bonus payment of $625,000 from the Company, payable, at the option of the Company, in cash or common shares of the Company upon closing of the initial tranche of the Debt Financing. The Company will also pay a cash commission to Sunel of 2% of the maximum principal amount of the Debt Financing and the Note Offering upon closing of the intial tranche of the Debt Financing.

The Debt Financing will be repayable in 11 quarterly installments, commencing on June 30, 2011, and ending on December 31, 2013. The Note Offering will be repayable in 8 quarterly installments, commencing on March 31, 2012, and ending on December 31, 2013.

Pursuant to the Note Offering, the Company will deliver the cash equivalent of a total of 830,000 ounces of silver to SAM, priced at the closing price of silver on the day prior to each delivery over the term of the notes. Pursuant to the Debt Financing, the Company will deliver the cash equivalent of 830,000 ounces of silver to SRLP, priced at the lesser of: (a) the closing price of silver on the day prior to each delivery over the term of the Debt Financing; or (b) US$19 per ounce. If the prior day's closing spot price is greater than US$23, SRLP will also receive 50% of the price over US$23 multiplied by the number of ounces. The Company has guaranteed a minimum rate of return of 5% per annum on both the Note Offering and the Debt Financing.

The initial tranche of the Debt Financing is subject to definitive documentation, normal course due diligence and the receipt of all necessary approvals, including regulatory approval.