



AURCANA CORPORATION

Consolidated Financial Statements

December 31, 2012

Expressed in United States dollars unless otherwise stated

1750 - 1188 West Georgia Street, Vancouver BC V6E 4A2 CANADA

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April 11, 2013

Independent Auditor's Report

To the Shareholders of Aurcana Corporation:

We have audited the accompanying consolidated financial statements of Aurcana Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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 International Financial Reporting Standards, 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 as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Aurcana Corporation
Consolidated Statements of Financial Position
(Expressed in United States dollars, unless otherwise stated)

	Notes	December 31 2012	December 31 2011
Assets			
Current assets			
Cash and cash equivalents	18	\$ 10,027,622	\$ 36,560,380
Trade and other receivables	4	3,817,901	3,451,158
Inventories	5	4,790,008	2,359,605
Short-term investments	6	715,780	383,481
Amounts receivable	7	599,525	942,616
Prepaid expenses and advances		930,724	403,999
		20,881,560	44,101,239
Non Current assets			
Property, plant and equipment	8	123,701,038	52,728,808
Mineral Properties	9	45,751,535	55,116,656
Deferred tax asset	11	1,092,186	1,304,810
Long term deposits		941,492	936,196
		\$ 192,367,811	\$ 154,187,709
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	\$ 10,880,576	\$ 9,193,574
Income tax payable	11	457,397	119,635
Current portion of long-term debt	12	2,344,771	1,150,164
		13,682,744	10,463,373
Long-term debt	12	4,737,521	1,668,123
Provision for environmental rehabilitation	13	2,662,433	2,738,587
		21,082,698	14,870,083
Equity			
Share capital	14	168,524,625	146,556,711
Contributed Surplus		28,882,425	28,440,706
Accumulated other comprehensive loss		(2,655,669)	(2,262,183)
Deficit		(23,510,416)	(34,845,299)
Total equity attributable to equity holders of the parent		171,240,965	137,889,935
Non-controlling interest	15	44,148	1,427,691
Total equity		171,285,113	139,317,626
		\$ 192,367,811	\$ 154,187,709

Commitments (Note 17)

Subsequent events (Note 27)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

“Robert W. Tweedy”
Director

“Adrian Aguirre”
Director

Aurcana Corporation
Consolidated Statements of Operations
(Expressed in United States dollars, unless otherwise stated)

	Notes	Years ended December 31,	
		2012	2011
Revenues			
Mining operations	20	\$ 56,928,792	\$ 47,544,858
Costs of sales			
	21	31,917,759	24,363,046
Earnings from mine operations		25,011,033	23,181,812
Other items			
Administrative costs	22	4,613,765	4,563,380
Financing expense and others	23	148,710	143,954
Stock-based compensation	14	4,807,807	7,811,935
Foreign exchange (gain) loss		(543,515)	271,200
Other expenses		719,169	747,875
		9,745,936	13,538,344
Income before income taxes		15,265,097	9,643,468
Current Income tax expense	11	2,920,996	2,052,107
Deferred income tax expense	11	2,392,761	(65,486)
Net income for the year		\$ 9,951,340	\$ 7,656,847
Attributable to:			
Non-controlling interest		19,163	673,716
Equity holders of the Company		9,932,177	6,983,131
		\$ 9,951,340	\$ 7,656,847
Weighted average number of shares – basic	24	450,667,126	351,308,109
Weighted average number of shares – diluted	24	484,690,536	421,434,690
Net income per share – basic & diluted			
Basic	24	\$ 0.02	\$ 0.02
Diluted	24	\$ 0.02	\$ 0.02

See accompanying notes to these consolidated financial statements.

Aurcana Corporation
Consolidated Statements of Comprehensive Income
(Expressed in United States dollars, unless otherwise stated)

	Notes	Years ended December 31,	
		2012	2011
Net income for the year		\$ 9,951,340	\$ 7,656,847
Currency translation adjustment		(725,785)	(117,859)
Unrealized gain (loss) on Short-term investments	6	332,299	(591,757)
Comprehensive income for the year		\$ 9,557,854	\$ 6,947,231
Attributable to:			
Non-controlling interest		\$ 19,163	\$ 673,716
Equity holders of the Company		9,538,691	6,273,515
		\$ 9,557,854	\$ 6,947,231

See accompanying notes to these consolidated financial statements.

Aurcana Corporation
Consolidated Statements of Changes in Equity
(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	-	-	(117,859)	-	(117,859)	-	(117,859)
Unrealized gain (loss) on available for sale investments	-	-	(591,757)	-	(591,757)	-	(591,757)
Net income for the year	-	-	-	6,983,130	6,983,130	673,716	7,656,846
Shares issued for:							
Private placement	29,126,036	4,455,440	-	-	33,581,476	-	33,581,476
Exercise of warrants	26,927,452	(6,156,764)	-	-	20,770,688	-	20,770,688
Exercise of options	1,858,459	(745,804)	-	-	1,112,655	-	1,112,655
Share issue costs	(2,216,403)	-	-	-	(2,216,403)	-	(2,216,403)
Stock-based compensation	-	7,811,935	-	-	7,811,935	-	7,811,935
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	-	-	(725,785)	-	(725,785)	-	(725,785)
Unrealized gain (loss) on available for sale investments	-	-	332,299	-	332,299	-	332,299
Net income for the year	-	-	-	9,932,177	9,932,177	19,163	9,951,340
Shares issued for:							
Exercise of warrants	18,060,816	(5,401,217)	-	-	12,659,599	-	12,659,599
Exercise of options	3,845,002	(1,530,620)	-	-	2,314,382	-	2,314,382
Issuance of warrants	(2,073,864)	2,073,864	-	-	-	-	-
Tax benefit of share issue costs recognized	2,135,960	-	-	-	2,135,960	-	2,135,960
Stock-based compensation	-	5,299,692	-	-	5,299,692	-	5,299,692
Balance, December 31, 2012	168,524,625	\$ 28,882,425	\$ (2,655,669)	\$ (23,510,416)	\$ 171,240,965	\$ 44,148	\$ 171,285,113

See accompanying notes to these consolidated financial statements.

Aurcana Corporation
Consolidated Statements of Cash Flows
(Expressed in United States dollars, unless otherwise stated)

	Years ended December 31,	
	2012	2011
Cash flows from operating activities		
Net income for the year	\$ 9,951,340	\$ 7,656,847
Items not involving cash:		
Depreciation, depletion and amortization	4,880,544	3,479,244
Accretion of amounts receivable	(156,909)	(122,537)
Financing expense and others	148,710	143,954
Stock-based compensation	4,807,807	7,811,935
Unrealized foreign exchange (gain) loss	(572,967)	582,236
Deferred Income Tax expense	2,392,761	(65,486)
Operating Cash Flow before movements in working capital items	21,451,286	19,486,193
Net change to non-cash working capital balances		
Trade and other receivables	(699,042)	(1,655,458)
Inventories	(2,430,403)	(742,731)
Amounts Receivable	500,000	-
Income Taxes Payable	337,762	(568,663)
Prepaid expenses and advances	(526,725)	(314,485)
Accounts payable and accrued liabilities	2,079,380	872,572
Cash provided by operating activities	20,712,258	17,077,428
Cash flows from investing activities		
Purchase of property, plant and equipment	(36,173,951)	(39,755,102)
Expenditures on mineral properties	(30,322,134)	(6,643,549)
Long term deposits	(5,296)	(936,196)
Cash used in investing activities	(66,501,381)	(47,334,847)
Cash flows from financing activities		
Share capital issued, net of share issue costs	14,929,804	53,248,416
Convertible debenture (Payment)	-	(10,280,932)
Financing cost	(116,925)	(73,290)
Advances of notes payable, net	4,264,005	2,581,626
Cash provided by financing activities	19,076,884	45,475,820
Decrease in cash and cash equivalents	(26,712,239)	15,218,400
Effect of exchange rate changes on cash	179,481	(834,501)
Cash and cash equivalents, beginning of the year	36,560,380	22,176,481
Cash and cash equivalents, end of the year	\$ 10,027,622	\$ 36,560,380

Supplemental Cash Flow information (Note 18)

See accompanying notes to these consolidated financial statements

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") under the historical cost convention, as modified by revaluation of certain financial assets.

These financial statements were approved for issue by the Board of Directors on April 11, 2013.

3. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments. The Company's principal accounting policies are outlined below:

Basis of Consolidation

The consolidated financial statements include the accounts of Aurcana Corporation and entities controlled by the Company ("its subsidiaries"). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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, Perforadora Aurcana S. de R.L. de C.V. and Minera Aurcana S.A. de C.V., Mexican corporations.

Real de Maconi S.A. de C.V. ("Maconi"), a Mexican corporation, is fully consolidated with the Company at 100% of profit or loss and assets and liabilities of Maconi, and recognizes a 0.01% non-controlling interest in the results of Maconi (Note 15). 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 intra-group balances and transactions are eliminated in full on consolidation.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company, until the date on which control ceases

Foreign Currency

(i) Functional and Presentation Currency

The financial statements of each entity in the Company group are measured using the currency of the primary economic environment in which each entity operates (the “functional currency”). The consolidated financial statements are presented in United States dollars.

The functional currency of Aurcana Corporation is the Canadian dollar, the functional currency of Silver Assets Inc. is the United States dollar and the functional currency of its Mexican subsidiaries is the United States dollar.

The financial statements of the parent company are translated into the U.S. dollar presentation currency as follows:

- Assets and liabilities – at the closing rate at the date of the statement of financial position.
- Income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates).
- All resulting foreign exchange gains or losses are recognized in other comprehensive income as cumulative translation adjustments.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from the item are considered to form part of the net investment in a foreign operation and are recognized in other comprehensive income.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of an entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

(iii) Translation of subsidiary results into the presentation currency

The results and statements of financial position of all the Company's subsidiaries with functional currencies different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- Income and expenses for each statement of income are translated at average exchange rates, unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions; and
- All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognized in a separate component of equity. When a foreign operation is sold, such exchange differences are recognized in the statement of income as part of the gain or loss on sale.

Stock-based Compensation

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The Company records compensation expense under the plan for all options issued. The fair value of all stock-based awards is estimated using the Black-Scholes option pricing model at the grant date. The share-based compensation expense is recognized over the tranche's vesting period, in earnings or capitalized as appropriate, based on the number of options expected to vest. None of the Company's awards call for settlement in cash or other assets. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital.

Mineral Properties

Mineral properties are stated at cost on a property-by-property basis. The recorded cost of mineral properties is based on acquisition costs incurred to date, less recoveries and write-offs.

Title to mineral properties, concessions, and shareholdings in Canada, U.S.A., Mexico, and Barbados involves certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyance history and unregistered prior agreements. Management has investigated the titles to all of its concessions and shareholdings, and, to the best of its knowledge, believes they are in good standing.

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(i) Capitalization

All direct and indirect costs relating to the acquisition and exploration of mineral properties are capitalized on a basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold, or when management has determined that there is impairment in the carrying values of those mineral properties. The Company capitalizes costs if it has the legal right to the mineral claim or the right to explore the area. Capitalized costs, net of any recoveries, are deferred until commercial production is achieved.

Costs associated with commissioning new assets, in the period before they are capable of operating in the manner intended by management, are capitalized. Development costs incurred on borrowings related to construction or development projects is capitalized until the point when substantially all the activities that are necessary to make the asset ready for its intended use are complete.

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefit either from future exploration or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Management makes certain estimates and assumptions about future events or circumstances, in particular when an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

(ii) Depreciation

Amortization of mineral properties is based on the units-of-production basis, using estimated proven and probable reserves and the measured and indicated resources expected to be converted to proven and probable reserves, not to exceed the assets useful life. Properties are abandoned either when the lease expires or when management determines that no further work will be performed on the property since it has no value to the Company. When significant properties in an area of interest are abandoned, the costs related thereto are charged to income on a pro-rata basis to the total costs to date included in the area, in the year of abandonment.

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.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. The cost capitalized is determined by the fair value of consideration given to acquire the asset at the time of acquisition or construction, the direct cost of bringing the asset to the condition necessary for operation, and the estimated future cost of dismantling and removing the asset.

(i) Depreciation

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.

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

The depreciation method, useful life and residual values are reviewed annually.

Impairment

(i) Impairment for Mineral Properties

The carrying values of mineral properties are reviewed by management for impairment annually, on a property-by-property basis. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. Impairment losses recognized in respects to cash-generating units are allocated to cash generating units, and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. Impairment losses are recognized in profit and loss for the period it is identified.

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
(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(ii) Impairment for Exploration and Evaluation Assets

Management reviews the carrying amount of exploration and evaluation assets on an annual basis and recognizes impairment based on current exploitation results, and management's assessment of the probability of profitable exploitation at each property or realizable value from disposal of such property. If a project does not prove to be viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off in the year.

Management's assessment of each property's estimated fair value is based on review of other mineral property transactions that have occurred in the same geographic area as that of the properties under review.

(iii) Reversal of Impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

Borrowing costs

The Company capitalizes any borrowing costs which are directly attributable to the acquisition, construction, or production of an asset which takes a substantial period of time to get ready for its intended use. Capitalization of costs begins when costs are incurred and activities are undertaken to prepare the asset for its intended use, and ceases when the asset is substantially complete or commissioned for use. Borrowing costs are amortized over the useful life of the related asset.

Inventories

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 operations.

Consumables and supplies, which consist of spare parts and consumable goods used for general repairs and maintenance, are recorded at the lower of cost and net realizable value.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Provisions

(i) General

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The expense relating to any provision is presented in profit or loss net of any reimbursement. Provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(ii) Environmental Rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Such costs are discounted to their net present value and are provided for and capitalized at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged against profits over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision.

Revenue

(i) Revenue Recognition

Revenue from the sale of precious metals is recognized upon delivery when significant risks and rewards of ownership of metal or metal-bearing concentrate passes to the buyer, probable that the economic benefits will flow to the Company, revenue can be reliably measured, and collection is reasonably assured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, royalties and sales taxes or duty.

(ii) Deferred Revenue

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

Financial Assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, held to maturity investments, available-for-sale financial assets, and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(i) Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets are classified as FVTPL when the financial asset is held for trading or is designated as FVTPL.

A financial asset is classified as held for trading when it is purchased and incurred with the intention of generating profits in the near term, part of an identified portfolio of financial instruments that the Company manages and has actual pattern of short-term profit-taking; or is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. Transaction costs are expensed in the year in which the costs are incurred. The Company does not have any assets classified as FVTPL investments.

(ii) Held to Maturity Investments

Investments are measured at amortized cost using the effective interest rate method. Transaction costs are added and amortized to the statement of operations over the life of the financial instrument on an effective yield basis. The Company does not have any assets classified as held to maturity investments.

(iii) Available-for-sale Financial Assets

Financial assets classified as available-for-sale are carried at fair value (where determinable based on market prices of actively traded securities) with changes in fair value recorded in other comprehensive income. Available-for-sale securities are written down to fair value through earnings when there is objective evidence that a financial asset is impaired. The Company classifies short-term investments as available-for-sale financial assets.

(iv) Loans and Receivables

Loans and receivables are measured at amortized cost using the effective interest rate method. The Company has cash and cash equivalents, trade and other receivables classified as loans and receivables.

(v) Derecognition of Financial Assets

A financial asset is derecognized when the contractual right to the asset’s cash flows expire or if the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(vi) Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Evidence of impairment may include indicators that the issuer or counterparty is experiencing significant financial difficulty, default or delinquency in interest or principal payments, or it has become probable that the borrower will enter bankruptcy or other financial reorganization.

Impairment for financial assets carried at amortized cost, is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate of the financial asset.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. Uncollectible amounts in trade receivables are written off against the allowance account.

Available-for-sale financial assets are impaired if the cost (net of any principal payment and amortizations) is greater than the current fair value, less any impairment previously recognized in profit or loss. The impairment amount is transferred from equity to the income statement.

For all other financial assets carried at amortized cost in which impairment was previously recognized, if subsequent measurement indicates that the recorded impairment has decreased, and the decrease can be related objectively to an event occurring after the impairment was recognized, then the reversal of the impairment is recognized in the income statement. On the date of the impairment reversal, the carrying value of the financial asset cannot exceed its amortized cost had impairment not been recognized.

Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss ("FVTPL") or other financial liabilities. The Company does not have any financial liabilities at FVTPL.

(i) Other Financial Liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost, with any resulting premium or discount from the face value being amortized to income or expense using the effective interest rate method.

The Company has classified short-term notes, convertible debentures, long-term debt, and accounts payable, and accrued liabilities as other financial liabilities.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(ii) Derecognition of Financial Liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or they expire.

Derivatives

All derivative instruments are recorded on the balance sheet at fair value with changes in fair value recorded in the Statement of Operations.

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value on the balance sheet with subsequent changes in fair value recognized in income. The Company has not identified any embedded derivatives that are required to be accounted for separately from the host contract.

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.

Short-Term Investments

Short-term investments are classified as "available for sale", and consist of highly liquid equity securities. These equity securities are initially recorded at fair value. Changes in the market value of these equity securities are recorded as changes to other comprehensive income or loss.

Leases

Leases which transfer substantially all of the benefits and risks incidental to the ownership of property are accounted for as finance leases. Assets under finance lease are originally capitalized at the lower of the fair market value of the leased property and the net present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted income (loss) per share is computed similar to basic income (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed conversion of debt and exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Equity Instruments

The Company records proceeds from share issuances net of issue costs.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Accounting standards and amendments issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company reviewed the new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

- IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. The standard is applicable for annual periods beginning on or after January 1, 2015, with earlier application permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company has concluded that this standard will have no impact on its consolidated financial statements.
- IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint agreement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. The Company has concluded that this standard will have no impact on its consolidated financial statements.
- IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The Company has concluded that this standard will have no impact on its consolidated financial statements.
- IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The Company has concluded that this standard will have no impact on its consolidated financial statements.
- IAS 19, Employee Benefits, has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The Company has concluded that this amendment will have no impact on its consolidated financial statements.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Use of Estimates and Judgments

The preparation of the condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are as follows:

(i) Environmental Rehabilitation Provision

The Company's estimate on reclamation costs could change as a result of contractual requirements, laws or regulation, the extent of environmental remediation required or completed, and the means of reclamation or changes in cost estimate. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in estimates.

(i) Exploration and Evaluation Assets

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is recognized in loss in the period that the new information becomes available.

(ii) Determination of Functional Currency

In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, management has determined that the functional currency of Aurcana Corporation is the Canadian dollar and its subsidiaries are the United States dollar.

(iii) Units of Production Depreciation and Useful Life

Estimated recoverable reserves are used in determining the amortization of mine specific assets. This results in an amortization charge proportional to the depletion of the anticipated remaining life of mine production.

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Each asset's life is assessed annually and considerations are made in regards to both its physical life limitations and present assessments of economically recoverable reserves of the mine properties. Such calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Changes are accounted for prospectively.

(ii) Recovery of Deferred Tax Assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

4. Trade and Other Receivable

	December 31 2012	December 31 2011
Trade receivables	\$ 3,207,773	\$ 2,869,636
Other receivables	610,128	581,522
	\$ 3,817,901	\$ 3,451,158

5. Inventories

	December 31 2012	December 31 2011
Supplies inventory	\$ 2,997,914	\$ 1,470,244
Stockpile inventory	1,014,115	763,732
Concentrates and in-process	777,979	125,629
	\$ 4,790,008	\$ 2,359,605

AURCANA CORPORATION
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6. Short-term investments

As partial consideration for the sale of Rosario (Note 7), Silvermex issued 1,000,000 common shares to the Company, which had an original fair value of CDN \$400,000. On July 6, 2012, Silvermex was acquired by First Majestic Silver Corp. ("First Majestic"), and 1,000,000 Silvermex shares were converted to 35,500 First Majestic shares.

The First Majestic shares are carried at fair market value based on quoted market prices as follows:

	December 31 2012	December 31 2011
Balance beginning of the year	\$ 383,481	\$ 975,238
Unrealized gain (loss)	332,299	(591,757)
Balance end of the year	<u>\$ 715,780</u>	<u>\$ 383,481</u>

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

7. 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).

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 and was received on July 9, 2012 as mutually agreed. The second payment was due by October 9, 2012 and paid in full on January 7, 2013 as mutually agreed (Note 27). 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.

Amounts receivables include \$100,940 paid to Boart Long Year ("Boart") as a guarantee, for the lease of equipment for Rio Grande. This amount was collected from Boart in January 2013 (Note 27).

A summary of changes in accounts receivable is presented below:

	December 31 2012	December 31 2011
Carrying value, beginning of the year	\$ 942,616	\$ 820,079
Payment Received	(500,000)	-
Receivable from vendors	100,940	-
Accretion for the year	55,969	122,537
Carrying value, end of the year	<u>\$ 599,525</u>	<u>\$ 942,616</u>

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8. Property, Plant and Equipment

	Buildings	Plant and Equipment	Mine Development Cost	Vehicles	Computer Equipment	Other	Assets Under Construction	Total
Cost								
Balance at December 31, 2010	\$ 667,243	\$ 10,432,756	\$ 3,014,077	\$ 324,155	\$ 367,300	\$ 110,871	\$ -	\$ 14,916,402
Additions	808,037	15,429,938	5,586,721	409,703	99,006	45,336	20,979,115	43,357,856
Balance at December 31, 2011	\$ 1,475,280	\$ 25,862,694	\$ 8,600,798	\$ 733,858	\$ 466,306	\$ 156,207	\$ 20,979,115	\$ 58,274,258
Additions	492,733	12,061,333	8,317,563	145,451	73,719	192,082	13,789,397	35,072,278
Transfer from Mineral Properties (Note 9)							39,788,665	39,788,665
Balance at December 31, 2012	\$ 1,968,013	\$ 37,924,027	\$ 16,918,361	\$ 879,309	\$ 540,025	\$ 348,289	\$ 74,557,177	\$ 133,135,201
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 year	59,133	3,455,919	224,796	61,814	58,786	28,265	-	3,888,713
Balance at December 31, 2012	\$ 112,203	\$ 8,125,886	\$ 432,028	\$ 336,591	\$ 369,252	\$ 58,203	\$ -	\$ 9,434,163
Net book value								
Balance at December 31, 2011	\$ 1,422,210	\$ 21,192,727	\$ 8,393,566	\$ 459,081	\$ 155,840	\$ 126,269	\$ 20,979,115	\$ 52,728,808
Balance at December 31, 2012	\$ 1,855,810	\$ 29,798,141	\$ 16,486,333	\$ 542,718	\$ 170,773	\$ 290,086	\$ 74,557,177	\$ 123,701,038

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

AURCANA CORPORATION
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9. Mineral Properties

<i>Cost</i>	La Negra Mexico Producing Mine	Shafter Texas, USA In Construction	Shafter Exploration	Total
Balance as at December 31, 2011	\$ 12,717,017	\$ 50,491,581	\$ -	\$ 63,208,598
Expenditures	-	27,261,934	4,136,498	31,398,432
Transfer to Assets Under Construction (Note 8)		(39,788,665)		(39,788,665)
Balance at December 31, 2012	\$ 12,717,017	\$ 37,964,850	\$ 4,136,498	\$ 54,818,365
 <i>Accumulated depletion</i>				
Balance as at December 31, 2011	\$ 8,091,942	\$ -	\$ -	\$ 8,091,942
Charge for the year	974,888	-	-	974,888
Balance at December 31, 2012	\$ 9,066,830	\$ -	\$ -	\$ 9,066,830
 <i>Net book value</i>				
Balance as at December 31, 2011	\$ 4,625,075	\$ 50,491,581	\$ -	\$ 55,116,656
Balance at December 31, 2012	\$ 3,650,187	\$ 37,964,850	\$ 4,136,498	\$ 45,751,535

Mineral properties which are not in production are not subject to amortization. During the year ended December 31, 2012, the Company transferred all costs related to the development and construction of the Shafter project to property, plant and equipment – assets under construction. The remaining balance of \$37,964,850 represents the costs of acquiring the mineral property.

In 2012, the Company capitalized interest expense in the amount of \$409,434 (2011 - \$399,775) related to the finance contracts for equipment used in the construction of the Shafter mine (Note 12).

AURCANA CORPORATION
Notes to Consolidated Financial Statements
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10. Accounts Payable and Accrued Liabilities

	December 31 2012	December 31 2011
Royalties	\$ 451,555	\$ 1,236,338
Salaries, payroll deductions and employee benefits	1,381,833	904,420
Employees' statutory profit sharing	1,052,643	708,662
Mine suppliers - operating	3,219,189	2,794,976
Mine suppliers - capital	3,704,826	2,757,936
Other	1,070,530	791,242
	<u>\$ 10,880,576</u>	<u>\$ 9,193,574</u>

11. 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. A reconciliation of these differences is as follows:

	2012	2011
Earnings before income taxes	\$ 15,265,097	\$ 9,643,468
Canadian federal and provincial income tax rates	25.0%	26.5%
Income tax expense based on above rates	<u>3,816,274</u>	2,555,519
Increase (decrease) due to:		
Non-deductible items and other items	1,334,176	2,466,974
Foreign exchange	(114,532)	1,204,678
Losses and temporary differences for which no future income tax asset has been recognized	1,179,410	939,947
Amount under provided for in prior years	-	62,342
Previously unrecognized tax assets	(1,624,613)	(3,822,760)
Withholding tax	137,392	-
Difference between foreign and Canadian tax rates	585,650	(1,420,079)
Income tax expense	<u>\$ 5,313,757</u>	<u>\$ 1,986,621</u>

The income tax expense (recovery) is comprised of:

Current income tax expense	\$ 2,920,996	\$ 2,052,107
Future income tax expense (recovery)	2,392,761	(65,486)
Income tax expense	<u>\$ 5,313,757</u>	<u>\$ 1,986,621</u>

Income tax expense (recovery) by country:

Canada	\$ 642,385	\$ (2,203,628)
United States	(1,154,120)	-
Mexico	5,825,492	4,190,249
Income tax expense	<u>\$ 5,313,757</u>	<u>\$ 1,986,621</u>

AURCANA CORPORATION
Notes to Consolidated Financial Statements
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11. Income Taxes (continued)

The components of recognized deferred income tax liabilities (assets) are as follows:

	2012	2011
Non-capital losses	\$ (1,035,726)	\$ (2,203,628)
Mineral properties	(3,256,030)	(499,282)
Asset retirement obligations	(601,379)	(315,552)
Share issue costs	(775,966)	-
Accruals and other items	(695,999)	(825,402)
Property, Plant and Equipment	5,272,914	2,539,054
	<u>\$ (1,092,186)</u>	<u>\$ (1,304,810)</u>

The components of unrecognized deferred income tax assets are as follows:

	2012	2011
Non-capital losses	\$ 1,644,962	\$ 2,294,858
Capital losses	1,286,670	1,243,074
Property, Plant and Equipment	276,291	4,118
Mineral property	877,829	1,936,038
Share issue costs	-	1,114,839
Other items	-	14,750
	<u>\$ 4,085,752</u>	<u>\$ 6,607,677</u>

AURCANA CORPORATION
Notes to Consolidated Financial Statements
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11. Income Taxes (continued)

Unrecognized tax losses:

As at December 31, 2012 the Company has tax losses for income tax purposes which may be used to reduce future taxable income. The income tax benefit, if any, of these losses have not been recorded in these consolidated financial statements because of the uncertainty of their recovery. The future expiration and potential tax benefit of the losses are as follows:

YEAR	Canada	United States	Barbados	Mexico	Total
2018		\$ 541,863			\$ 541,863
2019		222,039	8,199,271		8,421,310
2020		33,069		297,838	330,907
2022		14,334			14,334
2023		11,956			11,956
2024		193,820			193,820
2025		100,952			100,952
2026		164,165			164,165
2027		148,444			148,444
2028		168,559			168,559
2029		414,262			414,262
2030		247,948			247,948
2031		273,720			273,720
2032		1,197,101			1,197,101
Capital losses - No expiry	10,069,844				10,069,844
	\$ 10,069,844	\$ 3,732,232	\$ 8,199,271	\$ 297,838	\$ 22,299,185

The Company has income tax loss carry-forwards of approximately \$3.7 million (2011 - \$5.8 million) for United States tax purposes. These unrecognized tax losses will expire from 2018 to 2032. Future use of these U.S. loss carry-forwards is subject to certain limitations under provisions of the Internal Revenue Code including limitations subject to Section 382, which relates to a 50% change in control over a three-year period, and are further dependent upon the Company attaining profitable operations. An ownership change under Section 382 occurred on July 15, 2008 when the Company acquired Shafter, thereby limiting losses incurred prior to that date under Section 382. An additional change in control may have occurred on December 7, 2010 when the Company issued 193,548,387 shares pursuant to an equity offering, which could further limit the availability of losses prior to that date. Future changes in control may occur after December 31, 2012, which could further limit the availability of losses prior to the date of such a future change in control

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11. Income Taxes (continued)

Current income taxes payable:

	December 31, 2012	December 31, 2011
Current Income tax expense	\$ 2,920,996	\$ 2,052,107
Instalments	2,463,599	1,932,472
Income tax payable	\$ 457,397	\$ 119,635

12. Current and Long-term Debt

	December 31 2012	December 31 2011
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US\$74,111 plus interest at 8.9% per annum, maturing April 2014	-	2,075,091
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US\$20,098 plus interest at 7.9% per annum, maturing December 2014	-	743,196
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US\$14,813 plus interest at 7.9% per annum, maturing December 2015	533,266	-
First National Capital - Capital equipment contracts, repayable in monthly payments totalling US\$34,714 including interest at 8.1% per annum, maturing August 2015	1,031,250	-
First National Capital - Capital equipment contracts, repayable in monthly payments totalling US\$34,714 including interest at 6.9% per annum, maturing December 2015	5,143,926	-
Macquire Equipment Finance- Capital equipment contracts, repayable in monthly payments totalling US\$16,065 plus interest at 3.25% per annum, maturing December 2014	373,850	-
Total	\$ 7,082,292	\$ 2,818,287

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12. Current and Long-term Debt (continued)

	December 31 2012	December 31 2011
	<u> </u>	<u> </u>
Current portion	\$ 2,344,771	\$ 1,150,164
Long-term debt	<u>4,737,521</u>	<u>1,668,123</u>
	<u><u>\$ 7,082,292</u></u>	<u><u>\$ 2,818,287</u></u>

During 2012, the Company has entered into capital equipment contracts with Sandvik Finance for the Shafter Project. In December 2012, the Company replaced certain of the Sandvik capital equipment contracts related to the Shafter project with First National Capital capital equipment contracts in order to benefit from more favourable interest rates and an extended repayment period (maturing December 2015).

In 2012, the Company capitalized interest expenses in the amount of \$409,434 for the leases of Shafter, in mineral properties account (Note 9).

Schedule of principal repayments is as follows:

	December 31 2012	December 31 2011
	<u> </u>	<u> </u>
2012	\$ -	\$ 1,150,164
2013	2,344,771	1,130,503
2014	2,457,287	537,620
2015	<u>2,280,234</u>	<u>-</u>
	<u><u>\$ 7,082,292</u></u>	<u><u>\$ 2,818,287</u></u>

The net book value of the assets in note 8 financed by the capital equipment contracts is \$11,117,861.

13. 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 December 31, 2012 using a 5.21% discount rate (December 31, 2011 - 6.35%) and a 3.57% inflation rate (December 31, 2011: 3.41%), in the amount of \$1,083,625 (December 31, 2011 - \$1,467,178).

The Company has accrued an estimated liability related to reclamation and closure costs at the Shafter mine based on the total future remediation cost, discounted to December 31, 2012 using a 2.53% discount rate (December 31, 2011 – 2.0%) and a 2.1% inflation rate (December 31, 2011 – 3.2%), in the amount of \$1,578,808 (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 such as inflation and discount rates. In 2012 the liability was reduced by \$107,939 due to the changes in inflation and discount rates.

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13. Provision for Environmental Rehabilitation (continued)

The provision for environment rehabilitation for the years ended 2012 and 2011 is as follows:

	December 31	December 31
	2012	2011
Environmental rehabilitation, beginning of the year	\$ 2,738,587	\$ 1,396,514
Addition (Reduction)	(107,939)	1,271,409
Accretion	31,785	70,664
Environmental rehabilitation, end of the year	<u>\$ 2,662,433</u>	<u>\$ 2,738,587</u>

14. 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
Issued pursuant to private placement	52,853,000	29,126,036
Tax benefit of share issuance costs recognized	-	(2,216,403)
Exercised warrants	51,713,455	26,927,452
Exercised options	3,345,000	1,858,459
Balance, December 31, 2011	430,766,403	146,556,711
Issued pursuant to private placement	-	-
Tax benefit of share issuance costs recognized	-	2,135,960
Issuance of warrants	-	(2,073,864) *
Exercised warrants	30,882,776	18,060,816
Exercised options	5,380,000	3,845,002
Balance, December 31, 2012	<u>467,029,179</u>	<u>\$ 168,524,625</u>

* Upon exercise of 5,398,690 agent compensation options from the financing of December 7, 2010, the Company issued 5,398,690 common shares and an additional 2,699,345 share purchase warrants, which were fair valued at \$2,073,864 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).

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14. Equity (continued)

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.

During the year ended December 31, 2012, the Company met the recognition criteria and recorded the benefit of certain tax assets, including those related to historic share issuance costs. As a result, the Company recognized a credit of \$2,135,960 against share capital in the year ended December 31, 2012.

Stock options

On June 29, 2011, the Company adopted a 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	21,925,000	0.72
Exercised	(3,345,000)	0.33
Expired	(1,333,333)	0.92
Forfeited	(416,667)	0.76
Balance, December 31, 2011	27,867,500	0.62
Granted	8,525,000	1.01
Exercised	(5,380,000)	0.43
Expired	(1,531,250)	1.01
Forfeited	(1,362,500)	0.97
Balance, December 31, 2012	28,118,750	0.74

The Company's weighted average share price on the date for the options exercised during the year ended December 31, 2012 was CDN \$0.74 per share.

At December 31, 2012, the number of vested options was 23,635,938 with an average exercise price of CDN\$0.70 per share.

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Notes to Consolidated Financial Statements
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14. Equity (continued)

Outstanding	Vested	Exercise Price (\$CDN)	Expiry Date
400,000	400,000	0.31	September 9, 2013
1,800,000	1,800,000	0.10	August 13, 2014
525,000	525,000	0.29	December 18, 2014
75,000	75,000	0.28	February 12, 2015
350,000	350,000	0.61	January 14, 2016
7,575,000	7,575,000	0.76	February 22, 2016
75,000	75,000	0.76	May 4, 2016
8,700,000	8,700,000	0.69	May 30, 2016
150,000	150,000	0.79	September 12, 2016
450,000	225,000	0.67	September 27, 2016
300,000	200,000	0.70	December 5, 2016
5,325,000	3,193,750	1.02	June 11, 2017
350,000	175,000	1.02	June 11, 2013
693,750	173,438	1.02	June 12, 2017
150,000	18,750	0.93	August 14, 2017
1,200,000	-	0.97	December 6, 2017
28,118,750	23,635,938		

Stock based compensation

For the year ended December 31, 2012 the stock-based compensation expense was \$ 5,299,692 (2011: \$7,811,935). The stock-based compensation was allocated to operations in the amount of \$4,807,807 (2011: \$7,811,935) and to construction in progress \$491,885 (2011: \$ nil). The fair value of stock options granted as above is calculated using the following weighted average assumptions:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Risk-free interest rate	1.20%	2.14%
Expected stock price volatility	80.16%	86.79%
Expected dividend yield	n/a	n/a
Expected option life in years	3.4	4.3

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14. Equity (continued)

Share Purchase Warrants	Number of Share Warrants
Balance, December 31, 2010	123,273,429
Issued	28,133,877
Exercised	(51,713,455)
Expired	(364,181)
Balance, December 31, 2011	<u>99,329,670</u>
Issued ⁽¹⁾	4,695,325
Exercised	(30,882,776)
Expired	-
Balance, December 31, 2012	<u><u>73,142,219</u></u>

(1) The 4,695,325 warrants issued were due to the exercise of 5,398,690 agents compensation units at price of CDN\$0.41.

As of December 31, 2012 details of outstanding warrants are as follows:

Number of	Exercise Price	Expiry Date
2,430,000	\$ 0.40	June 30, 2013
24,960	\$ 0.35	June 30, 2013
26,426,500	\$ 1.00	November 29, 2013
<u>44,260,759</u>	\$ 0.41	December 7, 2013
<u><u>73,142,219</u></u>		

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Risk-free interest rate	1.08%	1.02%
Expected stock price volatility	57.41%	75.92%
Expected dividend yield	n/a	n/a
Expected warrant life in years	0.5	1.9

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15. 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>19,163</u>
Balance at December 30, 2012	<u><u>\$ 44,148</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 100% interest in Minera La Negra S.A. de C.V., subject to a third party holding one nominal share as required by Mexican company law.

The capital restructure was a 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.

16. 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	December 31 2012	December 31 2011
Technical and consulting fees	(i)	\$ 222,702	\$ 535,533
General and administrative expenses	(ii)	147,530	121,204
Management fees	(iii)	928,860	849,235
Related party transactions fees		<u>\$ 1,299,092</u>	<u>\$ 1,505,972</u>

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

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16. Related Party Transactions (continued)

b) Compensation of key management personnel

	December 31 2012	December 31 2011
Related party transactions fees	\$ 1,299,092	\$ 1,505,972
Directors' fees	217,172	159,236
Officer salaries	278,614	187,680
Stock-based compensation	3,609,283	5,440,260
	<u>\$ 5,404,162</u>	<u>\$ 7,293,148</u>

17. 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 2013 on the same terms.

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 until 2013. Prices are based on the average of the month in which the shipment is made as per the published prices in the Metal Bulletin in London in US dollars.

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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18. 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 an initial term of 90 days or less as follows:

	December 31 2012	December 31 2011
Cash	\$ 3,313,406	\$ 21,243,815
Short-term investments	6,714,216	15,316,565
Cash and cash equivalents	\$ 10,027,622	\$ 36,560,380

Supplemental disclosures of cash flow information:

	December 31 2012	December 31 2011
Cash interest paid	\$ 116,925	\$ 73,290
Income taxes paid	2,583,234	2,052,107

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:

	December 31 2012	December 31 2011
Accounts payable related to construction in progress and equipment suppliers	\$ 946,890	\$ 2,757,936
Interest on convertible debt capitalized to mineral property	409,434	399,775

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19. Segmented Information

The reportable operating segments have been identified as the La Negra mine, the Shafter mine and Corporate and 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.

December 31, 2012	La Negra	Shafter	Corporate and other segments	Total
Sales to external customers	\$ 56,928,792	\$ -	\$ -	\$ 56,928,792
Mining operating expenses	24,013,322	-	-	24,013,322
Royalties	1,675,919	-	-	1,675,919
Freight and delivery	1,347,974	-	-	1,347,974
Depreciation and amortization	3,905,656	-	-	3,905,656
Depletion of mineral properties	974,888	-	-	974,888
Gross income	25,011,033	-	-	25,011,033
General and administrative expenses	305,125	52,977	9,387,834	9,745,936
Intersegment charges (recovery)	4,373,835	6,544,627	(10,918,462)	-
Income (loss) before income taxes	20,355,011	(6,597,604)	1,507,690	15,265,097
Income tax expense (recovery)	5,825,492	(1,154,120)	642,385	5,313,757
Net income for the year	14,529,519	(5,443,484)	865,305	9,951,340
Property, plant and equipment	36,976,059	86,647,364	77,615	123,701,038
Mineral properties	3,650,187	42,101,348	-	45,751,535
Total capital assets	40,626,246	128,748,712	77,615	169,452,573
Total assets	44,169,384	133,214,603	14,983,824	192,367,811
Total liabilities	8,178,591	12,631,282	272,825	21,082,698

December 31, 2011	La Negra	Shafter	Corporate and other segments	Total
Sales to external customers	\$ 47,544,858	\$ -	\$ -	\$ 47,544,858
Mining operating expenses	18,253,007	-	-	18,253,007
Royalties	1,662,680	-	-	1,662,680
Freight and delivery	968,115	-	-	968,115
Depreciation and amortization	2,524,990	-	-	2,524,990
Depletion of mineral properties	954,254	-	-	954,254
Gross income	23,181,812	-	-	23,181,812
General and administrative expenses	1,737,891	(24,769)	11,825,222	13,538,344
Intersegment charges (recovery)	11,215,881	2,710,423	(13,926,304)	-
Income (loss) before income taxes	21,443,921	24,769	(11,825,222)	9,643,468
Income tax expense	4,190,249	-	(2,203,628)	1,986,621
Net income for the year	17,253,672	24,769	(9,621,594)	7,656,847
Property, plant and equipment	24,848,086	27,475,358	405,364	52,728,808
Mineral properties	4,625,075	50,491,581	-	55,116,656
Total capital assets	29,473,161	77,966,939	405,364	107,845,464
Total assets	36,889,123	79,764,504	37,534,082	154,187,709
Total liabilities	8,298,104	6,028,344	543,635	14,870,083

AURCANA CORPORATION
Notes to Consolidated Financial Statements
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20. Revenues

	Years ended December 31,	
	2012	2011
Revenues from mining operations	\$ 56,928,792	\$ 47,544,858
Figures in \$million:		
Gross revenues from Mining operations	\$ 69.6	\$ 57.8
Deductions T.C., refining and smelting charges deducted by the customers	12.7	10.2
Revenues from mining operations	\$ 56.9	\$ 47.6
Net Revenues by customer:		
Trafigura (Corminmex)	\$ 31.2	\$ 28.3
Glencore (Metagri)	25.7	19.3
Revenues from mining operations	\$ 56.9	\$ 47.6

21. Cost of Sales

	Years ended December 31,	
	2012	2011
Mine and Mill supplies	\$ 10,813,799	\$ 7,723,455
Power	2,129,928	1,620,862
Salaries and benefits	11,069,595	8,908,690
Royalties	1,675,919	1,662,680
Freight and delivery	1,347,974	968,115
Depreciation and amortization	3,905,656	2,524,990
Depletion of mineral properties	974,888	954,254
Total Cost of Sales	\$ 31,917,759	\$ 24,363,046

Cost of sales includes change in finished goods inventory during year of \$652,350 (2011: \$21,097).

AURCANA CORPORATION
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22. Administrative costs

	Years ended December 31,	
	2012	2011
Administrative costs[1]	\$ 3,293,190	\$ 2,990,345
Professional fees	323,716	774,583
Investor relations	357,112	333,246
Marketing	551,476	336,574
Listing and filing fees	88,271	128,632
	\$ 4,613,765	\$ 4,563,380

[1] Administrative costs break down:

Management fees	\$ 928,860	\$ 849,235
Rent and overhead	160,138	145,853
Travel and accommodation	304,182	361,457
Office	226,485	185,817
Salaries and Consulting fees	972,378	989,584
Directors Fees	217,172	159,236
Other	483,975	299,163
	\$ 3,293,190	\$ 2,990,345

23. Financing expense

	Years ended December 31,	
	2012	2011
Accretion of provision for environmental rehabilitation	\$ 31,785	\$ 70,664
Financing expense and bank charges	116,925	73,290
	\$ 148,710	\$ 143,954

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24. Earnings per Share

	Years ended December 31,	
	2012	2011
Net income for the year attributable to equity holders of the Company	\$ 9,932,177	\$ 6,983,131
Weighted average number of shares – basic	450,667,126	351,308,109
Adjustment for:		
Share options	5,427,898	5,212,458
Warrants	28,595,512	64,914,123
Weighted average number of shares – diluted	484,690,536	421,434,690
Earnings per share:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02

25. Financial Instruments

The Company's is exposed to certain financial risks, including foreign exchange risk and price risk.

(a) Foreign exchange risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates in currencies other than the functional currency of each entity. A significant change in the currency exchange rates between the local functional currency of each entity and the other currencies it employs 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.

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25. Financial Instruments (continued)

At December 31, 2012, the Company's Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in USD dollars:

		<u>December 31, 2012</u>
Cash and cash equivalents	USD\$	113,843
Other receivable		4,217,952
Accounts payable		<u>(2,757,452)</u>
	USD\$	<u>1,574,343</u>
CDN\$ Equivalent		1,582,413

Based on the above net exposures as at December 31, 2012, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US Dollar against the CDN Dollar would result in a \$158,241 change to the Company's net income for the year.

At December 31, 2012, the Company's Mexican operations (U.S. dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		<u>December 31, 2012</u>
Cash and cash equivalents	MXP\$	2,107,779
Other receivable		21,464
Accounts payable		<u>(56,749,135)</u>
	MXP\$	<u>(54,619,892)</u>
USD\$ Equivalent		(4,198,268)

Based on the above net exposures as at December 31, 2012, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the USD Dollar against the Mexican Peso would result in a \$419,827 change to the Company's net income for the year.

(b) Credit risk:

The Company's credit risk is primarily attributable to cash and bank balances, short-term deposits, accounts receivable and amounts receivable.

The Company limits its credit exposure on cash held in bank accounts by holding its key transactional bank accounts with banks of investment grade. As the Company has its operations in developing countries, it is unavoidable that some cash is held with regional banks in areas where the banking system does not operate as efficiently as in major financial centers. In these circumstances, the Company attempts to keep only minimal balances with such banks.

AURCANA CORPORATION

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25. Financial Instruments (continued)

The Company manages its credit risk on short-term deposits by only investing with counterparties that carry investment grade ratings as assessed by external rating agencies and spreading the investments across these counterparties. Under the Company's risk management policy, allowable counterparty exposure limits are determined by the level of the rating unless exceptional circumstances apply. A rating of "A-" grade or equivalent is the minimum allowable rating required as assessed by international credit rating agencies. Likewise, it is the Company's policy to deal with banking counterparties for derivatives who are rated "A-" grade or above by international credit rating agencies and graduated counterparty limits are applied depending upon the rating.

Exceptions to the policy for dealing with relationship banks with ratings below "A-" are reported to, and approved by, the Audit Committee. As at December 31, 2012 substantially all cash and short-term deposits are with counterparties with ratings "A-" or higher.

The Company's credit risk associated with trade accounts receivable is managed through establishing long-term contractual relationships with international trading companies using industry-standard contract terms. 100% of the Company's product sales and trade accounts receivable are generated from two customers representing 100% of the total sales for the year. Other accounts receivable consist of amounts owing from government authorities in relation to the refund of value-added taxes applying to inputs for the production process and property, plant and equipment expenditures.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

(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 by maintaining cash and cash equivalent balances and available credit facilities to ensure that it is able to meet its short-term and long-term obligations as and when they fall due. Company-wide cash projections are managed centrally and regularly updated to reflect the dynamic nature of the business and fluctuations caused by commodity price and exchange rate movements.

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 from both at La Negra and Shafter; equity financing; loans, leasing financing and entering into joint venture agreements, or a combination thereof.

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25. Financial Instruments (continued)

The following table summarizes the Company's 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	11,338	\$11,338	\$ Nil	\$ Nil	\$ Nil
Notes payable	7,082	2,345	4,738	Nil	Nil
Total	\$18,420	\$13,683	\$4,738	\$ Nil	\$ Nil

(d) Price risk

Metal content	2012 Average sales price	Price as at December 31, 2012	Unit	10% variance on:		Volume on Sales of 2012	Unit	Sensitivity effect on	
				Average sales price	Price as at December 31, 2012			Average sales price	Price as at December 31, 2012
Silver	\$ 31.12	\$ 29.95	oz	\$ 3.11	\$ 3.00	1,244,460	oz	\$ 3,872,760	\$ 3,727,158
Copper	3.59	3.59	lb	0.36	0.36	1,961	tn	1,551,772	1,551,772
Zinc	0.88	0.92	lb	0.09	0.09	5,896	tn	1,143,846	1,195,839
Lead	0.94	1.06	lb	0.09	0.11	1,884	tn	390,373	440,207
								6,958,751	6,914,977
T.C. refining and smelting charges								1,265,872	1,257,909
Revenues before royalties								5,692,879	5,657,068
Royalties on Revenues								167,592	166,538
Net revenues								5,525,287	5,490,530

The impact of a 10% variance on 2012 average price represents an increase or decrease of \$5,525,287 in revenues from mining operations.

The impact of a 10% variance on price at December 31, 2012, represents an increase or decrease of \$5,490,530 in revenues from mining operations

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

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25. Financial Instruments (continued)

Based on the gross revenues generated from sales of copper, silver, lead and zinc for the year ended December 31, 2012, and assuming that all other variables remain constant, a 10% depreciation or appreciation in the prices of these commodities would result in a \$4.6 million decrease or increase, respectively, to the Company's reported in earnings or loss for the year.

(e) Fair value estimation

The Company's financial instruments include cash and cash equivalents, trade and other receivables, short-term investments, amounts receivable, advances, accounts payable and accrued liabilities and other long-term debt. The carrying values of cash and cash equivalents, trade and other receivables, advances and accounts payable and accrued liabilities, approximate their fair values due to the relatively short-term nature of these amounts.

The Company classifies the fair value of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are: Level 1, which are inputs that are unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, which are inputs other than Level 1 quoted prices that are observable for the asset or liability, either directly or indirectly; and Level 3, which are inputs for the asset or liability that are not based on observable market data.

The following table summarizes the fair value hierarchy, as of December 31, 2012:

	Fair Value Through Profit or Loss \$	Loans and Receivables \$	Other Financial Assets and Liabilities \$	Total \$	Fair Value Hierarchy
Financial Assets					
Cash and cash equivalents	-	10,027,622	-	10,027,622	n/a
Trade and other receivable	-	3,817,901	-	3,817,901	n/a
Short-term investments	715,780	-	-	715,780	Level 1
Amounts receivable	-	599,525	-	599,525	n/a
	715,780	14,445,048	-	15,160,828	
Financial Liabilities					
Accounts payable and accrued liabilities	-	-	(10,880,576)	(10,880,576)	n/a
Long Term Debt	-	-	(7,082,292)	(7,082,292)	n/a
	715,780	14,445,048	(17,962,868)	(2,802,040)	

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25. Financial Instruments (continued)

The following table summarizes the fair value hierarchy, as of December 31, 2011:

	Fair Value Through Profit or Loss	Loans and Receivables	Other Financial Assets and Liabilities	Total	Fair Value Hierarchy
	\$	\$	\$	\$	
Financial Assets					
Cash and cash equivalents	-	36,560,380	-	36,560,380	n/a
Trade and other receivable	-	3,451,158	-	3,451,158	n/a
Short-term investments	383,481	-	-	383,481	Level 1
Amounts receivable	-	942,616	-	942,616	n/a
	383,481	40,954,154	-	41,337,635	
Financial Liabilities					
Accounts payable and accrued liabilities	-	-	(9,193,574)	(9,193,574)	n/a
Long Term Debt	-	-	(2,818,287)	(2,818,287)	n/a
	383,481	40,954,154	(12,011,861)	29,325,774	

There were no material differences between the carrying value and fair value of long-term assets and liabilities as of December 31, 2012. The Company assesses its financial instruments and non-financial contracts on a regular basis to determine the existence of any embedded derivatives which would be required to be accounted for separately at fair value and to ensure that any embedded derivatives are accounted for in accordance with the Company's policy.

26. Management of Capital

In the management of capital, the Company includes the components of shareholders' equity.

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 its capital structure, the Company may attempt to issue new shares, issue debt and 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 dividends.

The Company's investment policy is to limit investments to guaranteed investment certificates, banker's acceptance notes, investment savings accounts or money market funds with high quality financial institutions in Canada and treasury bills, selected with regards to the expected timing of expenditures from operations.

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27. Subsequent events

- (a) The payment due from First Majestic (former "Silvermex") on October 9, 2012 in the amount of \$500,000 (Note 7), was collected in full on January 7, 2013.
- (b) Amounts receivable (Note 7) includes \$100,940 advanced to Boart Long Year as a guarantee, for the lease of certain equipment for Rio Grande. In the first quarter of 2013, the Company entered into a capital equipment contract in the amount of \$373,850 related to this advance. \$48,195 was applied as an advance on the first three lease payments and the balance was refunded to the Company.
- (c) The Company has arranged a US\$15 million credit facility with its concentrate buyer on production from the La Negra Mine. Under this facility US\$15 million was received on March 28, 2013, with periodic repayments scheduled through to December 31, 2013.