AURCANA CORPORATION

Consolidated Financial Statements

December 31, 2013

Expressed in United States dollars unless otherwise stated

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April 30, 2014

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, 2013 and December 31, 2012 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the years then ended, 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, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

PricewaterhouseCoopers LLP
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(Expressed in United States dollars, unless otherwise stated)

	Notes	December 31 2013	December 31 2012
Assets			
Current assets			
Cash and cash equivalents	22	**$ 20,277,510**	$ 10,027,622
Trade and other receivables	5	**2,130,151**	3,817,901
Inventories	6	**6,070,263**	4,790,008
Short-term investments	7	**-**	715,780
Amounts receivable	8	**-**	599,525
Prepaid expenses and advances	9	**713,039**	930,724
		29,190,963	20,881,560
Non Current assets			
Property, plant and equipment	10	**69,965,516**	123,701,038
Mineral Properties	11	**19,050,541**	45,751,535
Deferred tax asset	13	**5,632,765**	1,092,186
Long term deposits		**227,902**	941,492
		$ 124,067,687	$ 192,367,811
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	**$ 15,333,058**	$ 10,880,576
Income tax payable	13	**-**	457,397
Current portion of long-term debt	14	**2,782,667**	2,344,771
Current portion of borrowings	15	**14,817,219**	-
		32,932,944	13,682,744
Non Current liabilities			
Long-term debt	14	**2,457,737**	4,737,521
Borrowings	15	**26,999,441**	-
Derivative liability	16	**10,932,524**	-
Deferred tax liability	13	**7,624,990**	-
Provision for environmental rehabilitation	17	**1,716,965**	2,662,433
		82,664,601	**21,082,698**
Equity	18		
Share capital		**168,678,333**	168,524,625
Contributed surplus		**32,329,060**	28,882,425
Accumulated other comprehensive loss		**(1,295,529)**	(2,655,669)
Deficit		**(158,354,262)**	(23,510,416)
Total equity attributable to equity holders of the parent		**41,357,602**	171,240,965
Non-controlling interest	19	**45,484**	44,148
Total equity		**41,403,086**	171,285,113
		$ 124,067,687	$ 192,367,811

Nature of Operations and Liquidity (Note 1)
Commitments and contingencies (Note 21)
Subsequent events (Note 34)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

"Robert J. Tweedy" — ***Director***

"Adrian Aguirre" — ***Director***

(Expressed in United States dollars, unless otherwise stated)

	Notes	Year ended December 31, 2013	2012
Revenues			
Mining operations	24	$ **44,972,176**	$ 56,928,792
Costs of sales	25	**33,492,907**	31,917,759
Earnings from mine operations		**11,479,269**	25,011,033
Other items			
Administrative costs	26	**4,973,520**	4,613,765
Financing expense and others	27	**4,443,368**	148,710
Stock-based compensation	18	**2,682,612**	4,807,807
Impairment of property, plant and equipment assets and mining interests	10, 11, 29	**114,127,359**	-
Shafter production delay and other costs	30	**12,311,827**	-
Shafter restructuring costs	31	**3,594,990**	-
Loss on sale of short-term Investments	7	**420,968**	-
Foreign exchange loss (gain)		**2,547,364**	(543,515)
Change in fair value of derivatives	16	**(2,927,373)**	-
Other expenses		**506,008**	719,169
		142,680,643	9,745,936
(Loss) income before income taxes		**(131,201,374)**	15,265,097
Current Income tax expense	13	**930,616**	2,920,996
Deferred income tax expense	13	**2,710,520**	2,392,761
Net (loss) income for the year		$ **(134,842,510)**	$ 9,951,340
Attributable to:			
Non-controlling interest		**1,336**	19,163
Equity holders of the Company		**(134,843,846)**	9,932,177
		$ **(134,842,510)**	$ 9,951,340
Weighted average number of shares – basic	28	**58,404,714**	56,333,391
Weighted average number of shares – diluted	28	**58,404,714**	60,586,317
Net income (loss) per share – basic & diluted			
Basic	28	$ **(2.31)**	$ 0.18
Diluted	28	$ **(2.31)**	$ 0.16

See accompanying notes to these consolidated financial statements.

(Expressed in United States dollars, unless otherwise stated)

	Notes	Year ended December 31, 2013	2012
Net (loss) income for the year		**$ (134,842,510)**	$ 9,951,340
Items of other comprehensive income that may be reclassified subsequently to net income			
Currency translation adjustment		**1,214,669**	(725,785)
Reversal of unrealized loss on sale of Short-term investments	7	**145,471**	-
Unrealized gain on Short-term investments	7	**-**	332,299
Comprehensive (loss) income for the year		**$ (133,482,370)**	$ 9,557,854
Attributable to:			
Non-controlling interest		**$ 1,336**	$ 19,163
Equity holders of the Company		**(133,483,706)**	9,538,691
		$ (133,482,370)	$ 9,557,854

See accompanying notes to these consolidated financial statements.

(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, 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 19)	-	-	-	1,402,706	1,402,706	(1,402,706)	-
Currency translation adjustment	-	-	(725,785)	-	(725,785)	-	(725,785)
Unrealized gain 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
Currency translation adjustment	-	-	1,214,669	-	1,214,669	-	1,214,669
Reversal of unrealized loss on sale of Short-term investments	-	-	145,471	-	145,471	-	145,471
Net (loss) for the year	-	-	-	(134,843,846)	(134,843,846)	1,336	(134,842,510)
Shares issued for:							
Exercise of warrants	153,708	(30,912)	-	-	122,796	-	122,796
Issuance of warrants	-	692,356	-	-	692,356	-	692,356
Stock-based compensation	-	2,785,191	-	-	2,785,191	-	2,785,191
Balance, December 31, 2013	$ 168,678,333	$ 32,329,060	$ (1,295,529)	$ (158,354,262)	$ 41,357,602	$ 45,484	$ 41,403,086

See accompanying notes to these consolidated financial statements.

(Expressed in United States dollars, unless otherwise stated)

	Year ended December 31,	
	2013	2012
Cash flows from operating activities		
Net income (loss) for the year	**$ (134,842,510)**	$ 9,951,340
Items not involving cash:		
Depreciation, depletion and amortization	**2,971,089**	4,880,544
Accretion of amounts receivable	**(1,415)**	(156,909)
Financing expense and others	**4,443,368**	148,710
Loss on sale of Short-term investments	**420,968**	-
Impairment of property, plant and equipment assets and mining interests	**114,127,359**	-
Restructuring cost	**3,594,989**	-
Stock-based compensation	**2,682,612**	4,807,807
Unrealized foreign exchange (gain) loss	**1,809,755**	(572,967)
Change in fair value of derivatives	**(2,927,373)**	-
Deferred Income Tax expense	**2,710,520**	2,392,761
Operating Cash Flow before movements in working capital items	**(5,010,638)**	21,451,286
Net change to non-cash working capital balances		
Trade and other receivables	**1,687,750**	(699,042)
Inventories	**(2,330,881)**	(2,430,403)
Amounts Receivable	**600,940**	500,000
Income Taxes Payable	**(457,397)**	337,762
Prepaid expenses and advances	**30,447**	(526,725)
Accounts payable and accrued liabilities	**4,849,720**	2,079,380
Cash provided by operating activities	**(630,059)**	20,712,258
Cash flows from investing activities		
Purchase of property, plant and equipment	**(37,888,981)**	(36,173,951)
Expenditures on mineral properties	**(1,877,607)**	(30,322,134)
Proceeds from sale of short-term investments	**440,283**	-
Long term deposits	**151,872**	(5,296)
Cash used in investing activities	**(39,174,433)**	(66,501,381)
Cash flows from financing activities		
Share capital issued, net of share issue costs	**153,708**	14,929,804
Financing cost and interest	**(2,755,333)**	(116,925)
Proceeds from borrowings and capital equipment contracts	**73,000,000**	7,181,426
Payments on borrowings and capital equipment contracts	**(20,091,888)**	(2,917,421)
Cash provided by financing activities	**50,306,487**	19,076,884
Increase (decrease) in cash and cash equivalents	**10,501,995**	(26,712,239)
Effect of exchange rate changes on cash	**(252,107)**	179,481
Cash and cash equivalents, beginning of the year	**10,027,622**	36,560,380
Cash and cash equivalents, end of the year	**$ 20,277,510**	$ 10,027,622

Supplemental Cash Flow information (Note 22)

See accompanying notes to these consolidated financial statements.

1. Nature of Operations and Liquidity

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 development property is the Shafter silver property ("Shafter"), 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.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business operations. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities. Despite the current liquidity challenges, the La Negra mine is a valuable long-life asset, which is currently producing operating cash flows for the Company. The Company indicates that the cash flow generated from the operating activities may not be sufficient to meet the Company's commitments and the Company is exploring various alternatives of financing.

As at December 31, 2013, the Company had consolidated cash and cash equivalents of $20.3 million, a consolidated working capital deficiency of $3.7 million and an accumulated deficit of $158.3 million. The consolidated working capital deficiency is largely a result of the current portion of amounts due under the Company's borrowings (Note 15).

During 2013, MF2 Investment Holding Company (Cayman) Limited, an affiliate of Orion Mine Finance Fund I ("Orion") provided the Company with a $50 million loan (Note 15) and related offtake agreement related to Shafter production to sell silver and gold produced from the Shafter mine to Orion at market prices for either a 6 year period, or until Aurcana has sold a minimum of 27 million oz. of silver, whichever is later, subject to an early buy-out provision. The Loan proceeds were used by the Company to finance the construction and upgrade work for Shafter mine and the balance of the Loan was used to repay certain indebtedness and for operating purposes of the La Negra properties. The loan was for 39 months and required monthly payments commencing 4 months after closing, which occurred September 19, 2013. The loan agreement provided for an early repayment option at any time without charge. Interest payable was set at 3 month US$ LIBOR (subject to a 1% minimum) plus 5.5%. The related offtake agreement required the Company to sell silver and gold produced from the Shafter mine to Orion at the prices selected by Orion as either spot price at the delivery date or an average spot price during the first, second or third week after the delivery date for either a 6 year period, or until Aurcana has sold a minimum of 27 million oz. of silver, whichever is later, subject to an early buy-out provision.

On December 19, 2013, the Company placed the Shafter Mine on care and maintenance and in January 2014 the Company entered into negotiations with Orion to amend the terms of the loan and the offtake agreement.

1. Nature of Operations and Liquidity (continued)

Subsequent to December 31, 2013, the Company and Orion reached an agreement to amend the credit facility agreement, terminate the offtake agreement and announced a bought deal private placement (note 34).

The Company also entered into a short-term loan in the amount of $15 million with one of its concentrate purchasers. As of December 31, 2013, the unpaid balance of such loan was $4,750,000 (note 15).

The Company believes that based on its current cash position, the amendment to the Orion loan, the termination of the Shafter offtake agreement and cash generated from the operation of the La Negra mine, it will have sufficient funds to meet its minimum obligations, including general corporate activities, for at least the next 12 months. Liquidity beyond the twelve month period is dependent on the results of the La Negra mine operations and ongoing prices for silver.

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 30, 2014.

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"). The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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, – all these companies are 100% owned intermediate holding companies. The Company also 100% owns Rio Grande Mining Company which owns the Company's Shafter property and Shafter Properties Inc., a dormant subsidiary.

3. Summary of Significant Accounting Policies (continued)

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 19). Maconi substantively owns 100% of Minera La Negra S.A. de C.V. ("La Negra"), a Mexican Corporation that operates La Negra mine, 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.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company had the following subsidiaries at December 31, 2013

Name	Country of Incorporation	Nature of Business	Proportion of ordinary shares held by the Group	Proportion of ordinary shares held by non-controlling interest
Aurcana Corporation	Canada	Holding Company	100%	-
Cane Silver Inc.	Barbados	Consulting	100%	-
Real de Maconi S.A. de C.V.	Mexico	Intermediate Holding Company	99.86%	0.14%
Minera Aurcana S.A. de C.V.	Mexico	Intermediate Holding Company	100%	-
Perforadora Aurcana S. de R.L. de C.V.	Mexico	Exploration Company	100%	-
Minera La Negra S.A. de C.V.	Mexico	Mining Operations	99.86%	0.14%
Silver Assets Inc.	United States	Intermediate Holding Company	100%	-
Rio Grande Mining Company	United States	Mining Operations	100%	-
Shafter Properties Inc.	United States	Intermediate Holding Company	100%	-

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.

3. Summary of Significant Accounting Policies (continued)

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 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.

(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.

3. Summary of Significant Accounting Policies (continued)

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.

(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 are 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 flow to the entity 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.

3. Summary of Significant Accounting Policies (continued)

(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.

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%

3. Summary of Significant Accounting Policies (continued)

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 respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit on a pro-rata basis or based upon specific asset valuations, as appropriate. Impairment losses are recognized in profit and loss in 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.

(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.

3. Summary of Significant Accounting Policies (continued)

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.

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.

3. Summary of Significant Accounting Policies (continued)

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.

(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

3. Summary of Significant Accounting Policies (continued)

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.

(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. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

3. Summary of Significant Accounting Policies (continued)

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 has identified derivative financial liabilities at FVTPL.

(i) Financial liabilities at fair value through profit or loss ("FVTPL")

Financial liabilities at fair value through profit or loss ("FVTPL") are measured at fair value with changes in fair value during the reporting year being recognised in the profit or loss.

(ii) 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.

(iii) 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 profit or loss.

3. Summary of Significant Accounting Policies (continued)

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.

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.

3. Summary of Significant Accounting Policies (continued)

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.

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.

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, 2014, 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 - classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 has two measurement categories: amortized costs and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value with change in fair value through profit or loss. In addition, this new standard has been updated to include guidance on financial liabilities and derecognition of financial instruments. Mandatory effective date of this standard has not yet been determined. The extent of impact of IFRS 9 has not yet been determined.

- IFRIC 21-Levies is an interpretation of IAS 37, Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to the liability to pay a leyy is the activity described in relevant legislation that triggers the payment of the levy. IFRIC 21 is effective the fiscal year beginning January 1, 2014. The final interpretation is currently being evaluated to determine the impact is expected to have on the consolidated financial statements.

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

3. Summary of Significant Accounting Policies (continued)

- IAS 36- Impairment of assets amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are effective for the fiscal year beginning January 1, 2014. The final interpretation is currently being evaluated to determine the impact is expected to have on the consolidated financial statements.

The Company anticipates that the adoption of the following other standards and interpretations in future periods will have no material impact on the financial statements of the Company:

IFRS 9, IFRS 7 and IAS 39 Amendments	Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39(iii)
IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities(i)
IAS 19 Amendments	Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions(ii)
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities(i)
IAS 39 Amendments	Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting(i)

(i) Effective for annual periods beginning on or after January 1, 2014.
(ii) Effective for annual periods beginning on or after July 1, 2014.
(iii) Mandatory effective date not yet determined.

Use of Estimates and Judgments

The preparation of the 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.

3. Summary of Significant Accounting Policies (continued)

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) Liquidity and Going Concern Assumption

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments, management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions.

Changes in these inputs may alter the Company's ability to meet its ongoing obligations and future contractual commitments and could result in adjustments to the amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern (Note 1).

(ii) Fair Value of Derivatives and Other Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

The group uses its judgement to select a variety of methods and make assumptions that are based on market conditions existing at the end of each reporting period. The Company has used the silver commodity prices and the related volatility of the silver prices, the company's credit rating and credit risk spread based on the credit rating, market interest rates, and the expected silver delivery schedule from its Shafter mine for the valuation of the Orion loan agreement liability and embedded derivatives and the Orion offtake agreement derivative entered into in September 2013. Management valued the Orion loan prepayment option derivative and the Offtake agreement derivative separately and made the significant judgment that market participants would value these derivatives in a similar way, i.e. without taking into account potential interaction of these derivatives. . Management also concluded that a market participant would value the offtake agreement derivative without giving weight to the early termination feature.

The fair value of the derivatives embedded in the Orion loan agreement and the offtake agreement as at December 31, 2013 were $10.9 million. The fair value of the derivatives would be an estimated $0.3 million lower or $0.5 million higher were the credit spread used in the valuation of the derivative liabilities 5% higher or lower from management's estimates, respectively.

3. Summary of Significant Accounting Policies (continued)

(iii) 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.

(iv) Review of Carrying Value of Assets and Impairment Charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs to sell or the value in use) in the case of non-financial assets and objective evidence indicating impairment in the case of financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognized in profit or loss and the resulting carrying amounts of assets. (Note 10 and 29)

(v) 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.

(vi) 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.

(vii) 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.

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.

3. Summary of Significant Accounting Policies (continued)

(viii) 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.

4. Adoption of New and Amended IFRS Pronouncements

As of January 1, 2013, the Company adopted the new and amended IFRS pronouncements in accordance with the transitional provisions outlined in the respective standards as listed below.

a) Pronouncement affecting financial statement presentation or disclosures

i) IFRS 12, Disclosure of interests in other entities

The Company adopted IFRS 12 on January 1, 2013. IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities.

The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption. IFRS 12 does not require the disclosures to be included for any period that precedes the first annual period for which IFRS 12 is applied.

ii) IFRS 13, Fair value measurement

The Company adopted IFRS 13 with prospective application from January 1, 2013. IFRS 13 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 adoption of IFRS 13 had an impact on the Company's consolidated financial statements for the current period – please refer to Note 32.

iii) Amendment to IAS 1, Presentation of Financial Statements

The Company adopted the amendments to IAS 1 which required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The Company has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

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

4. Adoption of New and Amended IFRS Pronouncements (continued)

b) Pronouncements affecting accounting policies only

i) IFRS 10, Consolidated financial statements

The Company adopted IFRS 10 on January 1, 2013 with retrospective application. IFRS 10 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. IFRS 10 supercedes IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities.

The Company has concluded that IFRS 10 did not have a material effect on the consolidated financial statements for the current period or prior periods presented as the adoption did not result in the consolidation status of any of the subsidiaries.

ii) IFRS 11, Joint arrangements

The Company adopted IFRS 11 on January 1, 2013 with retrospective application. IFRS 11 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 IFRS 11 did not have a material effect on the consolidated financial statements for the current period or prior periods presented as the Company does not have any joint arrangements.

5. Trade and Other Receivables

	December 31 2013	December 31 2012
Trade receivables	**$ 1,490,116**	$ 3,207,773
Other receivables	**640,035**	610,128
	$ 2,130,151	$ 3,817,901

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

6. Inventories

	December 31 2013	December 31 2012
Supplies inventory	$ 2,780,146	$ 2,997,914
Stockpile inventory	1,225,096	1,014,115
Concentrates and in-process	2,065,021	777,979
	$ 6,070,263	$ 4,790,008

The Company recognised $1,050,626 of inventory impairment as a result of placing its Shafter mine in care and maintenance. Inventories of $312,444 are carried at their net realisable value at December 31, 2013.

7. Short-term investments

As partial consideration for the sale of Rosario (Note 8), Silvermex Resources Inc. (Silvermex) issued 1,000,000 common shares of Silvermex 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 common shares of Silvermex shares were converted to 35,500 common shares of First Majestic.

The 35,500 First Majestic shares were sold in July 2013.

	December 31 2013	December 31 2012
Balance beginning of the year	$ 715,780	$ 383,481
Reverse unrealized loss	145,470	-
Proceeds from sale	(440,283)	-
Loss on sale	(420,967)	-
Unrealized gain	-	332,299
Balance end of the period / year	$ -	$ 715,780

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

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

8. Amounts Receivable

On November 30, 2009, the Company sold its Rosario exploration and development project located in Sinaloa State, Mexico ("Rosario") to Silvermex for cash and share consideration (Note 7).

As part of the required cash consideration, the Company received $1 million USD in two payments of $500,000.

A summary of changes in accounts receivable is presented below:

		December 31 2013		December 31 2012
Carrying value, beginning of the year	**$**	**599,525**	$	942,616
Payment Received		**(500,000)**		(500,000)
Receivable from vendors		**(100,940)**		100,940
Accretion for the period		**1,415**		55,969
Carrying value, end of the period /year	**$**	**-**	$	599,525

9. Prepaid expenses and advances

		December 31 2013		December 31 2012
Prepaid expenses	**$**	**574,609**	$	817,740
Other		**138,430**		112,984
	$	**713,039**	$	930,724

As a result of placing its Shafter mine on care and maintenance the Company recognised $748,957 impairment of the prepaid expenses balance related to the deposit with the power supplier company.

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

10. 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 11)	-	-	-	-	-	-	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
Additions	586,302	2,527,569	8,312,050	41,230	8,570	18,396	25,254,284	36,748,401
Reclasification	5,381,812	35,895,215	3,500,000	103,958	348,426	1,526,448	(46,755,859)	-
Change in ARO estimated	-	-	-	-	-	(1,046,610)	-	(1,046,610)
Disposals	-	-	-	(22,251)	-	-	-	(22,251)
Impairment of property, plant and equipment (Note 29)	(1,921,090)	(31,459,938)	-	(278,079)	(373,280)	-	(52,507,951)	(86,540,338)
Balance at December 31, 2013	$ 6,015,037	$ 44,886,873	$ 28,730,411	$ 724,167	$ 523,741	$ 846,523	$ 547,651	$ 82,274,403
Accumulated depreciation								
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
Charge for the period	90,643	2,530,201	82,099	82,643	68,668	36,072	-	2,890,326
Disposals	-	-	-	(15,602)	-	-	-	(15,602)
Balance at December 31, 2013	$ 202,846	$ 10,656,087	$ 514,127	$ 403,632	$ 437,920	$ 94,275	$ -	$ 12,308,887
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
Balance at December 31, 2013	$ 5,812,191	$ 34,230,786	$ 28,216,284	$ 320,535	$ 85,821	$ 752,248	$ 547,651	$ 69,965,516

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

**During the year ended December 2013, the Company capitalized interest expenses in the amount of $318,427 (for the year ended December 2012 - $409,434) related to the finance contracts for equipment used in the construction of the Shafter property.

(Expressed in United States dollars, unless otherwise stated)

11. Mineral Properties

Cost	La Negra, Mexico, Producing Mine	Shafter, Texas, USA, In Construction	Shafter, Exploration	Total
Balance as at December 31, 2010	$ 12,717,017	$ 41,162,737	$ -	$ 53,879,754
Expenditures	-	6,643,549	-	6,643,549
Capitalized accretion	-	2,285,520	-	2,285,520
Capitalized interest expense	-	399,775	-	399,775
Balance 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 10)	-	(39,788,665)	-	(39,788,665)
Balance at December 31, 2012	12,717,017	37,964,850	4,136,498	54,818,365
Expenditures	-	-	985,673	985,673
Impairment of mining interests (Note 29)	-	(22,464,850)	(5,122,171)	(27,587,021)
Balance at December 31, 2013	$ 12,717,017	$ 15,500,000	$ -	$ 28,217,017
Accumulated depletion				
Balance 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
Charge for the period	99,646	-	-	99,646
Balance at December 31, 2013	$ 9,166,476	$ -	$ -	$ 9,166,476
Net book value				
Balance 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
Balance at December 31, 2013	$ 3,550,541	$ 15,500,000	$ -	$ 19,050,541

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 at December 31, 2012 represented the costs of acquiring the mineral property.

Shafter exploration column shows only the figures related with surface exploration.

(Expressed in United States dollars, unless otherwise stated)

12. Accounts Payable and Accrued Liabilities

	December 31 2013	December 31 2012
Royalties	$ 1,833,660	$ 451,555
Property taxes	2,322,352	962,352
Salaries, payroll deductions and employee benefits.	2,044,526	1,381,833
Employees' statutory profit sharing	332,629	1,052,643
Mine suppliers - operating	6,699,907	3,219,189
Mine suppliers - capital	1,512,181	3,704,826
Other	587,803	108,178
	$ 15,333,058	$ 10,880,576

13. 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:

	2013	**2012**
Earnings before income taxes	**$ (131,201,374)**	$ 15,265,097
Canadian federal and provincial income tax rates	**25.75%**	25.00%
Income tax expense based on above rates	**(33,784,354)**	3,816,274
Increase (decrease) due to:		
Non-deductible (taxable) items and other	**1,140,251**	1,334,176
Foreign exchange	**1,447,964**	(114,532)
Losses and temporary differences for which no future income tax asset has been recognized	**43,355,619**	1,179,410
Deferred taxes related to new Mexican mining duty	**2,393,376**	-
Amount under provided for in prior years	**134,715**	-
Previously unrecognized tax assets	**-**	(1,624,613)
Withhholding tax	**38,786**	137,392
Difference between foreign and Canadian tax rates	**(11,085,221)**	585,650
Income tax expense	**$ 3,641,136**	$ 5,313,757

The income tax expense is comprised of:		
Current income tax expense	**$ 930,616**	$ 2,920,996
Deferred income tax expense	**2,710,520**	2,392,761
Income tax expense	**$ 3,641,136**	$ 5,313,757

Income tax expense (recovery) by country:		
Canada	**$ (2,093,052)**	$ 642,385
United States	**1,154,120**	(1,154,120)
Mexico	**4,580,068**	5,825,492
Income tax expense	**$ 3,641,136**	$ 5,313,757

(Expressed in United States dollars, unless otherwise stated)

13. Income Taxes (continued)

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

	2013	2012
Non-capital losses	**$ (3,477,661)**	$ (1,035,726)
Capital losses	**(967,726)**	-
Mineral properties	**(2,053,848)**	(3,256,030)
Asset retirement obligations	**(381,978)**	(601,379)
Share issue costs	**(427,435)**	(775,966)
Accruals and other items	**(2,071,455)**	(695,999)
Unrealized foreign exchange gains	**1,063,484**	-
Property, Plant and Equipment	**10,308,845**	5,272,914
	$ 1,992,226	$ (1,092,186)

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

	2013	2012
Non-capital losses	**$ 4,712,308**	$ 1,644,962
Capital losses	**296,479**	1,286,670
Property, Plant and Equipment	**167,784**	276,291
Mineral property	**30,216,617**	877,829
Other items	**742,295**	-
	$ 36,135,483	$ 4,085,752

(Expressed in United States dollars, unless otherwise stated)

13. Income Taxes (continued)

Unrecognized tax losses:

As at December 31, 2013 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	Total
2018		$ 541,863	$ -	$ 541,863
2019		222,039	7,187,669	7,409,708
2020		33,069		33,069
2021			1,011,602	1,011,602
2022		14,334	602,128	616,462
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		274,881		274,881
2032		316,214		316,214
2033		9,982,560		9,982,560
Capital losses - No expiry	2,280,605	-		2,280,605
	$ 2,280,605	**$ 12,835,066**	**$8,801,399**	**$23,917,070**

The Company has income tax loss carry-forwards of approximately $12.8 million (2012 - $3.7 million) for United States tax purposes. These unrecognized tax losses will expire from 2018 to 2033. 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, 2013, which could further limit the availability of losses prior to the date of such a future change in control

(Expressed in United States dollars, unless otherwise stated)

13. Income Taxes (continued)

	December 31, 2013	December 31, 2012
Current Income tax expense	**$ (930,616)**	$ (2,920,996)
Tax installments paid	**2,434,972**	(2,463,599)
Income tax receivable (payable)	**$ 1,504,356**	$ (457,397)

In December 2013, Mexico enacted tax reform legislation that increases the effective tax rate applicable to the Company's Mexican operations effective January 1, 2014. The law increases the future corporate income tax rate to 30% from 28%, creates a 10% withholding tax on dividends paid to non-resident shareholders (subject to any reduction by an Income Tax Treaty) and implements a new 7.5% Special Mining Duty ("SMD") generally applicable to earnings before income tax, depreciation, depletion, amortization, and interest. The SMD is deductible for income tax purposes. The Company recognized a non-cash charge of $2,393,376 related to the deferred tax effect of the above tax changes. For purposes of calculating the deferred tax effect of the SMD as at December 31, 2013, the net book value of the Company's Mexican mineral properties, plant and equipment net of their reclamation liability were deemed to have no tax basis and the resulting SMD liability was then offset by the associated future income tax benefit.

In addition to the above Mexican tax law changes; Mexico also enacted a 0.5% Extraordinary Mining Duty ("EMD") on gross revenues from precious metals effective January 1, 2014.

(Expressed in United States dollars, unless otherwise stated)

14. Current and Long-term Debt

	December 31 2013	December 31 2012
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US$14,813 plus interest at 7.9% per annum, maturing January 2016	**$ 370,324**	$ 533,266
Republic Bank - Capital equipment contracts, repayable in monthly payments totalling US$34,714 including interest at 8.1% per annum, maturing August 2015	**647,619**	1,031,250
TAB Bank - Capital equipment contracts, repayable in monthly payments totaling US$158,474 including interest at 6.9% per annum, maturing December 2015 *	**3,544,957**	5,143,926
Macquire Eqipment Finance- Capital equipment contracts, repayable in monthly payments totalling US$16,065 including interest at 3.25% per annum, maturing December 2014	**189,434**	373,850
Atlas Copco - Capital equipment contracts, repayable in monthly payments totalling US$27,115 plus interest at 8.8% per annum, maturing June 2015	**488,070**	-
Total	**$ 5,240,404**	$ 7,082,292

	December 31 2013	December 31 2012
Current portion	**$ 2,782,667**	$ 2,344,771
Long-term debt	**2,457,737**	4,737,521
	$ 5,240,404	$ 7,082,292

* Subsequent to December 31, 2013, agreement with TAB Bank was revised to pay off the balance on May 5th, 2014 (Note 34).

(Expressed in United States dollars, unless otherwise stated)

14. Current and Long-term Debt (continued)

In assets under construction, the Company capitalized interest expenses in the amount of $318,427 for 2013 (the year ended December 2012: $409,434), for the leases of Shafter (Note 10).

Schedule of principal repayments is as follows:		December 31 2013	December 31 2012
	2013	$ -	$ 2,344,771
	2014	2,782,667	2,457,287
	2015	2,442,923	2,280,234
	2016	14,814	-
		$ 5,240,404	$ 7,082,292

The net book value of the assets financed by the capital equipment contracts is $13,558,697 (Note 10).

15. Borrowings

(a) Glencore

The Company, through its subsidiary Minera La Negra, arranged a US$18 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. The loan is unsecured, bears interest at the three months US Libor rate plus 4.50% per annum.

During July 2013, the Company received an additional $3,000,000 from the concentrate buyer and postponed repayment of the July installment in the amount of $1,750,000. Scheduled repayments are disclosed in the table below.

(b) Orion

Key commercial terms

On September 19, 2013, the Company executed definitive agreements with MF2 Investment Holding Company (Cayman) Limited, an affiliate of Orion, for a loan in the principal amount of US$50,000,000 and an off-take agreement (“Off-Take”). The Company paid certain transaction fees and costs in the amount of $1,075,000 in establishing the loan facility, including $825,000 paid to Orion and $250,000 paid to third parties.

15. Borrowings (continued)

The loan was advanced on September 19, 2013 and the term of loan is 39 months, with no principal payable until January 31, 2014. Early repayment of the loan may occur at any time without penalty. Interest payable is set at 3 month US$ LIBOR (subject to a 1% minimum) plus 5.5%. Scheduled repayments are disclosed in the table below. Subsequent to December 31, 2013, the Company re-negotiated the terms of this loan (Note 34).

The Company has agreed to sell silver and gold produced from the Shafter mine to Orion under the Off-Take at the prices selected by Orion as either spot price at the delivery date or an average spot price during the first, second or third week after the delivery date, for either a 6 year period, or until Aurcana has sold a minimum of 27 million oz of silver or gold, whichever is later, subject to an early buy-out provision. Subsequent to December 31, 2013, the Company negotiated an early settlement of the Off-Take (Note 34).

Debt host and embedded derivatives

The offtake derivative is a written option and is carried at fair value through profit and loss. The Orion loan is a hybrid instrument, containing a debt host component and two embedded derivatives – a prepayment and interest floor options that require separation as derivatives. These features were recorded at fair value with the remainder of the proceeds of transaction allocated to the loan.

The debt host component is classified as other financial liability and is measured at amortized cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the loan. Accretion of $2.0 million has been recognized since the initial measurement as of September 19, 2013 to December 31, 2013.

Valuation methodology

The floor option derivative was valued upon initial measurement and subsequent periods using the Black-Scholes model adjusted to account for the Company's credit risk. The prepayment option derivative was valued upon initial measurement and subsequent periods using a methodology, which is based on two coupled Black-Scholes partial differential equations which are solved using a finite difference. Key inputs used by the Company in its valuation include: the USD discount curve, the USD 1 month forward curve, the interest rate implied volatility, and the Company’s credit spread.

The offtake agreement derivative was decomposed into the sum of cash flows which depends on Comex and London silver prices. Future Comex and London silver prices were generated using a correlated geometric Brownian motion. A Monte Carlo simulation is used to value the offtake written option; this technique relies on random sampling and is often used when there is no analytic or exact solution to the valuation. Key inputs used by the Company in the Monte Carlo simulation include: the USD risk free rate, the silver convenience yield calculated from silver future prices, Comex and London historical silver prices, the historical correlation of the Comex and London silver price return, the silver at-the-money implied volatility.

(Expressed in United States dollars, unless otherwise stated)

15. Borrowings (continued)

Valuation assumptions

Key unobservable inputs used in the valuation model are the estimated delivery schedule based on the Company's life of mine plan and the credit spread of the Company.

The Company's credit spread as of the inception dates was calibrated by setting the fair value of the credit facility and the silver agreement equal to total proceeds of transaction, resulting in a credit spread of 31.33% as at the inception date ("the calibrated spread"). The spread as at December 31, 2013 was then obtained by adding 3% over the calibrated spread given the decreased credit rating of the Company.

	5% decrease in credit spread	5% increase in credit spread
Increase/(decrease in fair value at December 31, 2013	$520,364	($364,625)

Presentation

Based on the Company's valuation as at December 31, 2013, the fair value of the derivatives decreased by $2,927,373 since inception. The decrease was recorded as other income for the year ended December 31, 2013.

For the year ended December 31, 2013, the Company recorded accretion of $2,001,559 related to Orion loan as a finance cost. To calculate the accretion expense, the Company uses the contract life of 3 years and an effective interest rate of 28.83%.

(Expressed in United States dollars, unless otherwise stated)

15. Borrowings (continued)

The movements of the amounts due under loan are as follows:

Details are as follows :

Glencore (a)	**2013**	2012
Principal advanced	**$ 18,000,000**	$ -
Repayments	**13,250,000**	-
Balance	**$ 4,750,000**	$ -
Orion (b)		
Principal advanced	**$ 50,000,000**	$ -
Transaction costs	**1,075,000**	-
Derivative liability	**13,859,897**	-
Fair value of loan at September 19, 2013	**$ 35,065,103**	$ -
Accretion	**2,001,559**	-
Balance at December 31, 2013	**$ 37,066,662**	$ -
Total borrowings	**$ 41,816,662**	$ -

(c) Scheduled repayments

Schedule of principal repayments is as follows:

	December 31 2013	December 31 2012
2013	**$ -**	-
2014	**21,416,668**	-
2015	**16,666,668**	-
2016	**16,666,664**	-
	$ 54,750,000	$ -

(Expressed in United States dollars, unless otherwise stated)

15. Borrowings (continued)

Schedule of principal repayments is as follows:

	December 31 2013	December 31 2012
Less one year	$ 21,416,668	-
one to two years	16,666,668	-
two to three years	16,666,664	-
	$ 54,750,000	$ -

(d) Carrying amounts and fair value of the current and non-current borrowings are as follows:

	Carrying amount		Fair value	
	2013	2012	2013	2012
Glencore Loan	4,750,000	-	4,750,000	-
Orion Loan	37,066,660	-	36,331,611	-
Derivatives	10,932,524	-	10,932,524	-
Total	52,749,184	-	52,014,135	-

(Expressed in United States dollars, unless otherwise stated)

16. Derivatives

As discussed in Note 15, the Company entered in the Loan agreement and the Offtake agreement with Orion. These agreements contain derivatives.The fair value of the derivatives as at December 31, 2013, was $10.9 million. The Company recorded $2.9 million gain on change in fair value of these derivatives since inception.

Details are as follows:

Derivative liability – at inception	$13,859,897
Change in fair value	(2,927,373)
Derivative liability – December 31, 2013	$10,932,524

17. 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 anticipated total future remediation cost, discounted to December 31, 2013 using a 5.9% discount rate (December 31, 2012 - 5.21%) and a 3.39% inflation rate (December 31, 2012: 3.57%), in the amount of $1,237,127 (December 31, 2012 - $1,083,625).

The Company has accrued an estimated liability related to reclamation and closure costs at the Shafter mine based on the anticipated total future remediation cost in the amount of $479,838 (December 31, 2012 - $1,578,808). Due the Shafter mine is in care and maintenance the Company didn´t apply as of December 2013 any discount rate (December 31, 2012 – 2.53%) or inflation rate (December 31, 2012 – 2.1%).

The environmental remediation 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.

The provision for environmental rehabilitation for the year ended December 2013 and year 2012 is as follows:

	December 31 2013	December 31 2012
Environmental rehabilitation, beginning of the year	**$ 2,662,433**	$ 2,738,587
Addition (Reduction) and change in estimates	**(1,014,590)**	(107,939)
Accretion	**69,122**	31,785
Enviromental rehabilitation, end of the period	**$ 1,716,965**	$ 2,662,433

(Expressed in United States dollars, unless otherwise stated)

18. Equity

Authorized - An unlimited number of common shares

Share issuance details:

	Number of Common Shares		Amount	
Balance, December 31, 2011	53,845,618	$	146,556,711	
Tax benefit of share issuance costs recognized	-		2,135,960	
Issuance of warrants	-		(2,073,864)	*
Exercised warrants	3,860,347		18,060,816	
Exercised options	672,500		3,845,002	
Balance, December 31, 2012	58,378,465		168,524,625	
Exercised warrants	34,099		153,708	
Balance, December 31, 2013	58,412,564	$	168,678,333	

* Upon exercise of 674,836 agent compensation options from the financing which closed on December 7, 2010, the Company issued 674,836 common shares and an additional 337,418 share purchase warrants, which were ascribed a fair valued of $2,073,864 using the Black-Scholes model.

Effective April 30, 2013, following the approval of the shareholders on March 28, 2013 and after the acceptance of the TSX Venture Exchange, Company's common shares were consolidated on a basis of eight (8) pre-consolidation Common Shares for each one (1) post-consolidation Common Share.

Aurcana's listed warrants to purchase Common Shares continued to trade on the Exchange. The Warrants were consolidated on the basis of eight (8) existing Warrants ("Pre-Consolidation Warrants") for one (1) new Warrant ("a Post-Consolidation Warrant"), with any fractional Post-Consolidation Warrant rounded down to the nearest whole number. Post-Consolidation Warrants have an exercise price of $8.00 and could have been exercised at any time up until November 29, 2013.

(Expressed in United States dollars, unless otherwise stated)

18. Equity (continued)

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 May 25, 2012, the Company amended a fixed stock option plan (the "Amended Plan"), pursuant to which the Company may grant up to stock options exercisable to acquire up to 5,608,997 common shares (on a post-consolidation basis) 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.

Stock options	Number of Common Share Purchase Options	Weighted Average Exercise Price per Share ($CDN)
Balance, December 31, 2011	3,483,438	4.96
Granted	1,065,625	8.08
Exercised	(672,500)	3.44
Expired	(191,406)	8.08
Forfeited	(170,313)	7.76
Balance, December 31, 2012	3,514,844	5.89
Granted	525,000	6.32
Exercised	-	-
Expired	(453,500)	6.04
Forfeited	(126,970)	7.78
Balance, December 31, 2013	3,459,375	5.87

At December 31, 2013, the number of vested options was 3,194,857, with an average exercise price of CDN$5.81 per share.

(Expressed in United States dollars, unless otherwise stated)

18. Equity (continued)

Outstanding	Vested	Exercise Price ($CDN)	Expiry Date
225,000	225,000	$0.80	August 13, 2014
65,625	65,625	$2.28	December 18, 2014
9,375	9,375	$2.20	February 12, 2015
43,750	43,750	$4.88	January 14, 2016
865,625	865,625	$6.08	February 22, 2016
9,375	9,375	$6.08	May 4, 2016
987,500	987,500	$5.52	May 30, 2016
31,250	31,250	$5.36	September 27, 2016
37,500	37,500	$5.60	December 5, 2016
651,563	526,758	$8.16	June 12, 2017
18,750	11,719	$7.44	August 14, 2017
73,438	36,719	$7.76	December 6, 2017
415,625	323,828	$6.32	February 28, 2018
25,000	20,833	$6.32	February 28, 2015
3,459,375	3,194,857	$5.81	

Stock based compensation

For the year ended December 31, 2013 the stock-based compensation expense was $2,785,191 (2012: $5,299,692). The stock-based compensation was allocated to operations in the amount of $2,682,612 (2012: $4,807,807) and to construction in progress in the amount of $102,579 (2012: $491,885). The fair value of stock options granted as above is calculated using the following weighted average assumptions:

	December 31, 2013	December 31, 2012
Risk-free interest rate	1.24%	1.20%
Expected stock price volatility	79.98%	80.16%
Expected dividend yield	n/a	n/a
Expected option life in years	4.9	3.4

(Expressed in United States dollars, unless otherwise stated)

18. Equity (continued)

Common Share Purchase Warrants	Number of Common Share Warrants
Balance, December 31, 2011	12,416,209
Issued [1]	586,916
Exercised	(3,860,363)
Expired	-
Balance, December 31, 2012	9,142,762
Issued	1,000,000
Exercised	(34,099)
Expired	(3,303,432)
Balance, December 31, 2013	6,805,231

(1) The 586,916 warrants issued were due to the exercise of 674,836 agents compensation units at a price of CDN$3.28.

As of December 31, 2013 details of outstanding warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
1,000,000	$2.31	September 26, 2014
5,511,481	$3.28	December 7, 2014
293,750	$2.49	June 30, 2015
6,805,231		

(Expressed in United States dollars, unless otherwise stated)

19. Non-Controlling Interest

The non-controlling interest is comprised of the following:

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		19,163
Balance, December 31, 2012		44,148
Non-controlling interest's share of profit in La Negra Mine		1,336
Balance, December 31, 2013	$	45,484

The capital restructure of Real de Maconi, S.A. de C.V. ("Real de Maconi") was a result of a 2010 tax audit conducted by the Mexican Tax Authority (the "Tax Authority"). The Tax Authority requested that Real de Maconi reclassify an accounting transaction classified as a capitalization in favor of a third party. The transaction was previously classified as interest of the same third party and as that said party failed to submit to the Tax Authority the evidence of any deposit made for that matter, said transaction had to be considered income for Real de Maconi, generating the corresponding tax thereof.

Therefore a reclassification was made through a roll back of the equity accounts, thereby increasing the Company's ownership in Real de Maconi to 99.86% and leaving a non-controlling interest of 0.14% to a third party in compliance with the tax audit conducted by the Tax Authority.

20. Related Party Transactions

Except as noted elsewhere in these 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 2013	December 31 2012
Technical and consulting fees	(i)	$ 519,448	$ 222,702
General and administrative expenses	(ii)	-	147,530
Management fees	(iii)	513,162	928,860
Related party transactions fees		$ 1,032,610	$ 1,299,092

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

20. Related Party Transactions (continued)

During the year ended December 31, 2013, transactions with related parties were measured at fair value. On September 11, 2013, the Company was advanced a $5 million bridge loan ("Bridge Loan") by First Access Financial Group, Inc. ("First Access"), a company controlled by the President and Chief Executive Officer of the Company. The Bridge Loan was intended to provide additional liquidity to the Company until the closing of the loan with Orion (Note 15). The terms of the Bridge Loan provided interest at a rate of 1.25% per month, with the first 90 days of interest being prepaid in advance and an origination fee of US$125,000 and the issuance of 1,000,000 common share purchase warrants. The Warrants expire on September 26, 2014, have an exercise price of $2.31 per share, and were ascribed an aggregate fair value of US$688,931 using the Black-Sholes model. The fair value of the warrants was recorded as financing expense for the year 2013. Assumptions used in the Black-Sholes model are: risk free interest rate: 1.22%, expected life: 1 year, expected volatility: 101.42%, expected dividend per share: $nil.

Upon the closing of the loan with Orion, the Bridge Loan was fully repaid to First Access and, in consideration of the short time the Bridge Loan was outstanding, First Access agreed to amend the terms of the Bridge Loan such that the origination fee and all pre-paid interest were refunded to the Company, and interest was only paid on the period from the date of advancement of the Bridge Loan until its repayment in the amount of $ 56,667.

b) Compensation of key management personnel

	December 31 2013	December 31 2012
Related party transactions fees	$ 1,032,610	$ 1,299,092
Directors' fees	257,142	217,172
Officer salaries	302,971	278,614
Stock-based compensation	2,785,191	3,609,283
	$ 4,377,914	$ 5,404,161

21. Commitments and contingencies

Supply agreements

On November 14, 2006, La Negra signed a sales contract with Trafigura Beheer B.V. ("Trafigura") whereby Trafigura agreed to purchase 100% at regular intervals, from January to December, of copper and zinc concentrate to be produced at the La Negra mine during the years 2007, 2008, 2009 and extended until the end of 2013.

On March 2011, La Negra signed a sales contract with Glencore, whereby Glencore's Mexican subsidiary (Metagri), agreed to purchase 100% of lead concentrate to be produced at the La Negra mine until the end of 2013. Prices set in both agreements 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. During July 2013, the agreement with Glencore was amended to include lead, copper and zinc concentrates for 2014.

21. Commitments and contingencies (continued)

As of December 2013, the Company has a commitment in the amount of $1,712,663 to an equipment manufacturer in order to acquire a raise bore machine for La Negra mine.

On September 19, 2013, the Company executed definitive agreements with MF2 Investment Holding Company (Cayman) Limited, affiliate of Orion, for a loan facility in the principal amount of US$50,000,000 and an Off-Take for the purchase of silver and gold dore produced by the Company's Shafter mine (Note 15). The Company has agreed to sell silver and gold produced by the Shafter mine to Orion at the prices selected by Orion as either spot price at the delivery date or an average spot price during the first, second and third week after the delivery date, for either a 6 year period, or until Aurcana has sold a minimum of 27 million oz. of silver, whichever is later, subject to an early buy-out provision. Subsequent to December 31, 2013, the Company early terminated the Off-Take (Note 34).

A class action has been filed in the Ontario Superior Court of Justice naming the Company and certain officers of the Company as defendants. The plaintiff asserts that certain of the Company's news releases misrepresented the production level at the Shafter Property. The plaintiff seeks to certify a class action on behalf of a class that purchased the Company's publicly traded securities between December 14, 2012 and May 17, 2013 and seeks damages on behalf of that class in the sum of $50 million or such other sum as the court finds appropriate. The Company intends to vigorously dispute these allegations. Management has not disclosed the amount of any provision or expected insurance recovery as the net amount of these is not expected to be material and to disclose the amounts could be prejudicial.

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).

Shafter equipment operating lease

On June 30, 2013 the Company signed an operating lease agreement for mining equipment for Shafter in the amount of $1,227,024 with a term of 30 months and $44,467 equal payments.

La Negra equipment operating lease.

The company has an operating lease agreement for La Negra in the amount of $1,954,756 with a term of 36 months and $55,295 equal payments; signed on September 24, 2013.

(Expressed in United States dollars, unless otherwise stated)

22. 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 2013	December 31 2012
Cash	**$ 20,239,721**	$ 3,313,406
Short-term investments	**37,789**	6,714,216
Cash and cash equivalents	**$ 20,277,510**	$ 10,027,622

Supplemental disclosures of cash flow information:

	December 31 2013	December 31 2012
Cash interest paid	**$ 2,755,333**	$ 116,925
Tax installments paid	**2,434,972**	2,583,234

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

Non-cash investing and financing activities are as follows:

	December 31 2013	December 31 2012
Increase (decrease) in accounts payable related to construction in progress and equipment suppliers	**$ (2,192,645)**	$ 946,890
Interest on debt capitalized to Construction in progress	**318,427**	409,434

(Expressed in United States dollars, unless otherwise stated)

23. Segmented Information

The reportable operating segments have been identified as the La Negra mine, the Shafter Property 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, 2013	La Negra	Shafter	Corporate and other segments	Total
Sales to external customers	$ 44,972,176	$ -	$ -	$ 44,972,176
Mining operating expenses	27,399,842	-	-	27,399,842
Royalties	1,202,242	-	-	1,202,242
Freight and delivery	1,919,734	-	-	1,919,734
Depreciation and amortization	2,863,747	-	-	2,863,747
Depletion of mineral properties	107,342	-	-	107,342
Gross income	11,479,269	-	-	11,479,269
Impairment of PP&E and mining interests	-	114,127,359	-	114,127,359
Shafter production delay and other costs	-	12,311,827	-	12,311,827
Shafter restructuring costs	-	3,594,990	-	3,594,990
General and administrative expenses	1,985,264	491,117	10,170,086	12,646,467
Intersegment charges (recovery)	3,640,810	(6,544,627)	2,903,817	-
Income (loss) before income taxes	5,853,195	(123,980,666)	(13,073,903)	(131,201,374)
Income tax expense	4,580,067	1,154,120	(2,093,051)	3,641,136
Net income (loss) for the year	1,273,128	(125,134,786)	(10,980,852)	(134,842,510)
Property, plant and equipment	49,840,280	20,070,446	54,790	69,965,516
Mineral properties	3,550,541	15,500,000	-	19,050,541
Total capital assets	53,390,821	35,570,446	54,790	89,016,057
Total assets	61,085,415	37,487,683	25,494,589	124,067,687
Total liabilities	23,252,325	11,005,270	48,407,006	82,664,601

23. Segmented Information (continued)

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

24. Revenues

Revenues:	**Year ended December 31,**	
La Negra mine	**2013**	2012
Revenues from mining operations	**$ 44,972,176**	$ 56,928,792

Figures in $million:		
Gross revenues from Mining operations	**$ 55.0**	$ 69.6
Deductions T.C., refining and smelting charges deducted by the customers	**10.0**	12.7
Revenues from mining operations	**$ 45.0**	$ 56.9
Net Revenues by customer:		
Customer "A"	**$ 28.2**	$ 31.2
Customer "B"	**16.8**	25.7
Revenues from mining operations	**$ 45.0**	$ 56.9

(Expressed in United States dollars, unless otherwise stated)

25. Cost of Sales

	Year ended December 31, 2013	2012
Mine and Mill supplies	**$ 10,053,646**	$ 9,703,429
Power	**2,758,124**	2,129,928
Salaries and benefits	**14,292,199**	11,069,595
Profit Sharing Employees	**295,873**	1,110,370
Royalties	**1,202,242**	1,675,919
Freight and delivery	**1,919,734**	1,347,974
Depreciation and amortization	**2,863,747**	3,905,656
Depletion of mineral properties	**107,342**	974,888
Total Cost of Sales	**$ 33,492,907**	$ 31,917,759

Cost of sales includes change in finished goods inventory for the year for $1,287,042 (2012: $652,350).

26. Administrative costs

	Year ended December 31, 2013	2012
Administrative costs[1]	**$ 3,050,252**	$ 3,293,190
Professional fees	**959,946**	323,716
Investor relations	**367,011**	357,112
Marketing	**487,046**	551,476
Listing and filing fees	**109,265**	88,271
	$ 4,973,520	$ 4,613,765

[1] Administrative costs break down:

	2013	2012
Management fees	**$ 513,162**	$ 928,860
Rent and overhead	**181,215**	160,138
Travel and accommodation	**248,605**	304,182
Office	**261,255**	226,485
Salaries and Consulting fees	**1,221,435**	972,378
Directors Fees	**257,142**	217,172
Other	**367,438**	483,975
	$ 3,050,252	$ 3,293,190

(Expressed in United States dollars, unless otherwise stated)

27. Financing expense

	Year ended December 31,	
	2013	2012
Accretion of provision for environmental rehabilitation (note 11)	**$ 69,122**	$ 31,785
Accretion of Orion loan (Note 15)	**2,001,557**	-
Financing expense and bank charges	**2,372,689**	116,925
	$ 4,443,368	$ 148,710

28. Earnings per Share

	Year ended December 31,	
	2013	2012
Net income (loss) for the period attributable to equity holders of the Company	**$ (134,843,846)**	$ 9,932,177
Weighted average number of common shares – basic	**58,404,714**	56,333,391
Adjustment for:		
Share options	**-**	678,487
Warrants	**-**	3,574,439
Weighted average number of common shares – diluted	**58,404,714**	60,586,317
Earnings per share:		
Basic	**$ (2.31)**	$ 0.18
Diluted	**$ (2.31)**	$ 0.16

29. Impairment of property, plant and equipment assets and mining interests

The Company reviews each asset or cash generating unit at each reporting date to determine whether there are any indicators of impairment. If any such indicators exist, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use.

The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, metal prices, production and grades, operating costs, future capital expenditures and appropriate discount rates for future cash flows. The estimates and assumptions are subject to risk and uncertainty, and as such there is the possibility that changes in circumstances could alter these projections materially, which could impact the recoverable amount of the assets.

As at December 31, 2013, management of the Company determined that the decline in market capitalization of the Company, the decline in the price of silver metal, the expected decrease in the Shafter resources estimate and revised cost of production constituted impairment indicators for the Shafter mine. The Company involved external independent valuation company in order to prepare a fair value less cost to sell assessment for Shafter mine property.

External independent valuation company used appraised value method (cost approach) and comparable transaction analysis (market approach) for the valuation of the Shafter mineral property. For the property plant and equipment valuation, appraiser assessed the market prices assuming a liquidation value as most appropriate approach. The valuation was performed on March 21, 2014

The appraised value method was based on the assumption that the value of a property is enhanced or diminished by an exploration program and that funds spent on a property, and those to be spent in the immediate future, will produce value in today's dollars, proportionate to the expenditures.

Comparable transaction analysis was used for the market approach. It is based on the principle of substitution, which says that the economic value of a thing tends to be determined by the cost of acquiring an equally desirable substitute. An equally desirable substitute is not an identical asset.

For the total market strategy data sets were analyzed.

(Expressed in United States dollars, unless otherwise stated)

29. Impairment of property, plant and equipment assets and mining interests (continued)

The results of the Shafter impairment are reflected in the following table

Impairment of property, plant and equipment assets and mining interests for Shafter

	PP&E	Mineral properties	Total
Buildings	$ 1,921,090	$ -	$ 1,921,090
Plant and Equipment	31,459,938	-	31,459,938
Vehicles	278,079	-	278,079
Computer Equipment	373,280	-	373,280
Assets Under Construction	52,507,951	-	52,507,951
Mineral properties	-	22,464,850	22,464,850
Exploration	-	5,122,171	5,122,171
Total	$ 86,540,338	$ 27,587,021	$ 114,127,359

Management assessed impairment indicators for La Negra mine and have concluded that no impairment indicators exists requiring a formal impairment assessment.

30. Shafter production delay and other costs

The Company experienced certain production delays and other costs related to the Shafter property, which did not qualify for capitalization including certain repairs and maintenance and costs related to care and maintenance activities in the amount of $12,311,827.

31. Shafter restructuring costs

The following table shows the restructuring costs related to the Shafter property being placed on care and maintenance.

Employee termination cost	$	1,795,407
Impairment of inventories		1,050,626
Write-off electric power prepaid		748,956
Total	$	3,594,989

32. 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.

At December 31, 2013, the Company's Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in USD dollars:

		December 31, 2013
Cash and cash equivalents	CDN$	57,011
Other receivable		40,003
Accounts payable		(349,717)
	CDN$	(252,703)
USD$ Equivalent		**(237,592)**

Based on the above net exposures as at December 31, 2013, 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 $23,759 change to the Company's net income for the year.

32. Financial Instruments (continued)

At December 31, 2013, 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:

		December 31, 2013
Cash and cash equivalents	MXP$	304,980
Other receivable		1,764,702
Accounts payable		(50,940,513)
	MXP$	(48,870,831)
USD$ Equivalent		**(3,737,302)**

Based on the above net exposures as at December 31, 2013, 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 $373,730 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.

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, 2013 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.

32. Financial Instruments (continued)

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 La Negra; equity financing; loans, leasing financing and entering into joint venture agreements, or a combination thereof. See Note 1 for additional discussion of Liquidity.

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

	Payments due by period (000's)				
	Total	< 1 year	1-2 years	2-3 years	3-4 years
	$	$	$	$	$
Accounts payable	15,332	$15,332	$ Nil	$ Nil	$ Nil
Long Term-debt	5,241	4,603	623	15	$ Nil
Borrowings	54,751	21,417	16,667	16,667	$ Nil
Total	$75,324	$41,352	$17,290	$16,682	$ Nil

(d) Price risk

				10% variance on:				Sensitivity effect on	
Metal content	**2013 Average sales price**	**Price as at December 31, 2013**	**Unit**	**Average sales price**	**Price as at December 31, 2013**	**Volume on Sales of 2013**	**Unit**	**Average sales price**	**Price as at December 31, 2013**
Silver	$ 22.92	$ 19.50	oz	$ 2.29	$ 1.95	1,073,072	oz	$ 2,459,481	$2,092,490
Copper	3.29	3.35	lb	0.33	0.34	2,190	tn	1,588,453	1,617,421
Zinc	0.86	0.95	lb	0.09	0.10	5,946	tn	1,127,347	1,245,325
Lead	0.97	1.00	lb	0.10	0.10	1,709	tn	365,467	376,770
								5,540,748	5,332,007
				T.C. refining and smelting charges				1,043,530	1,004,216
				Revenues before royalties				4,497,218	4,327,791
				Royalties on Revenues				120,224	115,695
				Net revenues				4,376,993	4,212,096

32. Financial Instruments (continued)

The impact of a 10% variance on 2013 average price represents an increase or decrease of $4,376,993 in revenues from mining operations.

The impact of a 10% variance on price at December 31, 2013, represents an increase or decrease of $4,212,096 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.

Based on the gross revenues generated from sales of copper, silver, lead and zinc for the year ended December 31, 2013, and assuming that all other variables remain constant, a 10% depreciation or appreciation in the prices of these commodities would result in a $4.4 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, accounts payable and accrued liabilities, borrowings, embedded derivative liability and long-term debt. The carrying values of cash and cash equivalents, trade and other receivables 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.

(Expressed in United States dollars, unless otherwise stated)

32. Financial Instruments (continued)

The following table summarizes the fair value hierarchy, as of December 31, 2013:

Recurring measurements	Fair Value Through Profit or Loss	Loans and Receivables	Other Financial Assets and Liabilities	Total	Fair Value Hierarchy
Financial Liabilities					
Derivative liabilities	$ (10,932,524)	$ -	$ -	$(10,932,524)	Level 3
Borrowings	-	-	(41,816,660)	(41,816,660)	n/a
Capital lease	-	-	(5,240,404)	(5,240,404)	n/a
	$ (10,932,524)	**$ -**	**$ (47,057,064)**	**$(57,989,588)**	

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

Recurring measurements	Fair Value Through Profit or Loss	Loans and Receivables	Other Financial Assets and Liabilities	Total	Fair Value Hierarchy
Financial Assets					
Short-term investments	$ 715,780	$ -	$ -	$ 715,780	Level 1
Amounts receivable	-	599,525	-	599,525	n/a
	$ 715,780	**$ 599,525**	**-**	**$ 1,315,305**	
Financial Liabilities					
Capital lease	-	-	(7,082,292)	(7,082,292)	n/a
	$ 715,780	**$ 599,525**	**$ (7,082,292)**	**$ (5,766,987)**	

Non-recurring measurements:

Assets at fair value	Fair value at December 31, 2013	Fair value Hierarchy
Inventories	$ 312,444	Level 3
Property pland and equipment	19,590,608	Level 3
Mineral properties	15,500,000	Level 3
Total	**$ 35,403,052**	

Fair value of $312,444 inventories were determined based on proceeds from sale of these inventories. Fait value of Shafter Property plant and equipment and mineral properties was determined by an independent appraiser as disclosed in Note 10 and 11.

32. Financial Instruments (continued)

The carrying value and fair value of trade and other receivable and accounts payable and accrued liabilities as of December 31, 2013 are approximately the same. 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.

The valuation technique used in the determination of fair values within Level 3 of the hierarchy, and the key unobservable inputs used in the valuation model are disclosed in Note 15.

33. 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.

34. Subsequent events

a) In January 2014, the agreement with TAB Bank was amended to allow for the pay off the remaining balance in 2014. In the first quarter of 2014, the Company paid $1,733,957 to TAB Bank, leaving a balance of $1,811,000 due on May 1, 2014.Additionaly, the Company paid to TAB Bank $12,500: $5,000 forbearance fee and $7,500 for the appraisal of equipment.

34. Subsequent events (continued)

b) On April 29, 2014, Aurcana entered into an agreement to amend the terms of its US$50,000,000 outstanding unsecured loan owing to MF2 Investment Holding Company (Cayman) Limited (the "Original Lender"), an affiliate of Orion Mine Finance Group, as originally announced on September 19, 2013. The Original Lender assigned all of its rights and obligations under the original credit agreement and related transaction documents to Orion Mine Finance (Master) Fund I LP (the "Lender"), an affiliate of Orion Mine Finance Group. Pursuant to an amended and restated credit facility agreement (the "Amended Credit Facility Agreement") between the Company and the Lender dated April 29, 2014. The principal amount under the Loan has been reduced to US$40,000,000. In consideration for an aggregate debt settlement of US$10,333,333, Aurcana agreed to issue up to 16,499,501 common shares of the Company (the "Settlement Shares") to Orion at a deemed issue price of US$0.62 or Cdn$0.69, in consideration for reducing the principal amount outstanding under the Loan and terminating the Shafter Mine silver and gold offtake agreement. The Company has issued an aggregate of 6,418,249 such Settlement Shares, with the balance of 10,081,252 common shares to be issued upon receipt of regulatory approval. The Settlement Shares are subject to a hold period under applicable securities laws expiring four months and one day following the date of their issuance and will be deposited in escrow on closing pursuant to the terms of a voluntary escrow agreement, to be released in quarterly installments over a period of 12 months from closing, subject to earlier release in certain circumstances. The Loan is to be repaid in 48 equal monthly installments. Early prepayment may occur at any time without charges. Interest on the Loan will continue to accrue at a rate equal to LIBOR (subject to a minimum of 1%) plus 5.5% per annum. The Loan will continue to be guaranteed by Aurcana's subsidiaries and will also be secured against all of the Company's and its subsidiaries' present and future assets.

Concurrently, Aurcana entered into offtake agreements with the Lender in respect of copper, zinc and lead concentrate produced at its La Negra mine for the period from January 1, 2017 to December 31, 2020.