FINANCIAL REVIEW 2010

AURCANA
CORPORATION

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Management Discussion and Analysis

For the year ended December 31, 2010

This Management Discussion and Analysis ("MD&A") should be read in conjunction with Aurcana Corporation's (the "Company" or "Aurcana") audited consolidated financial statements for the years ended December 31, 2010 and 2009 and the related notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This information can be found on SEDAR at www.sedar.com and on the Company's website www.aurcana.com. The reader should be aware that historical results are not necessarily indicative of future performance.

Expressed in Canadian dollars, unless stated otherwise, this MD&A is current as of May 2, 2011.

Highlights

- 67% increase in net revenues to $26.9 million for the year ended December 31, 2010 from $16.1 million in 2009;
- 154% increase in earnings from mining operations (excluding amortization and depletion) to $10.7 million for the year ended December 31, 2010 from $4.2 million in 2009;
- 40% increase in ore processed to 422,603 tonnes during 2010 year from 300,952 tonnes in 2009;
- 32% increase in copper concentrate produced to 11,945 tonnes during 2010 year from 9,036 tonnes in 2009;
- 12% increase in ounces of silver produced to 838,077 during 2010 year from 749,942 in 2009;
- 55% increase in zinc concentrate produced to 5,345 tonnes during 2010 year from 3,448 tonnes in 2009;
- In July 2010, the Company successfully concluded an on time and on budget expansion of La Negra mine ("La Negra") to produce 1,500 tonnes per day from the prior 1,000 tonnes per day;
- On December 7, 2010, the Company closed a $60 million equity financing;
- On December 14, 2010, the Company bought back the silver stream purchase agreement from Silver Wheaton (Caymans) Ltd. ("Silver Wheaton") in the amount of US$25 million and a final silver payment of approximately 206,000 silver ounces;
- On December 30, 2010, the Company paid out the balance of US$3,080,000, covering the notes payable owed to Trafigura Beheer B.V. ("Trafigura");
- The Company started construction of the Shafter silver mine ("Shafter") project, 100% owned by the Company, after completing the equity financing on December 7, 2010. The Shafter feasibility study shows an estimated payback of 1.9 years based on $15.53 per ounce of silver and the construction is estimated to be completed by May 2012;
- A total of 477,759 tonnes were mined during the year, 68,219 tonnes were from NI 43-101 Measured and Indicated (reducing M&I from 604,986 tonnes to 529,253 during the year), none mined from NI 43-101 Inferred, none mined from Historical and 409,591 tonnes mined from new discoveries;
- La Negra's production increase was successfully supported by a 2010 diamond drilling in-house program of 11,000 metres; and
- La Negra's underground drilling and development indicates 590,000 tonnes of mineralized material were located within extensions of six known mineral zones. This material cannot be designated as ore because it is not compliant with NI 43-101 regulations.

Forward-Looking Statements

This report contains "forward-looking statements," including, but not limited to, statements regarding the Company's expectations as to the market price of minerals, strategic plans, future commercial production, production targets and timetables, mine operating costs, capital expenditures, work programs, exploration budgets and mineral reserve and resource estimates. Forward-looking statements express, as at the date of this report, the Company's plans, estimates, forecasts, projections, expectations, or beliefs as to future events or results. Forward-looking statements involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements and Aurcana assumes no obligation to update forward-looking information in light of actual events or results.

Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward-looking statements, include, but are not limited to, factors associated with fluctuations in the market price of minerals, mining industry risks and hazards, environmental risks and hazards, uncertainty as to calculation of mineral reserves and resources, requirement of additional financing, risks of delays in construction and other risks. Actual results may differ materially from those currently anticipated in such statements.

The forward-looking information in this MD&A is based on management's current expectations and Aurcana assumes no obligations to update such information to reflect later events or developments, except as required by law. Additional information, about the risks and uncertainties of the Company's business, is provided in its disclosure materials including its most recent annual and quarterly filings, filed with the securities regulatory authorities in Canada available at www.sedar.com.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

Nature of Business

Aurcana was incorporated under the laws of Ontario on October 12, 1917 under the name "Cane Silver Mines Limited" and was continued under the Canadian Business Corporations Act on September 14, 1998 under the name Aurcana Corporation. Aurcana is a reporting issuer in British Columbia, Alberta and Ontario. The Company is listed on the TSX Venture Exchange ("TSX-VE") under the symbol AUN and was elevated to Tier 1 Status in October 2008.

The principal business of the Company is the acquisition, exploration and development of mineral properties, primarily silver-copper-zinc-lead mines. Since 2007, the Company has been operating La Negra in which it holds a 92% indirect interest in the state of Queretaro, Mexico. In addition, in 2008 the Company purchased a 100% indirect interest in Shafter in Texas, USA.

La Negra

- 422,603 tonnes of ore processed during the year;
- Copper concentrate produced – 11,945 tonnes (11,821 tonnes sold);
- Zinc concentrate produced – 5,345 tonnes (5,273 tonnes sold);
- Silver produced – 838,077 ounces (808,921 ounces sold);

The difference between production and shipment in all cases reflects the timing of the shipping relative to month end and varying inventory levels.

Shafter

- In July 2008, the Company completed the acquisition of Shafter, from Silver Standard Resources Inc. ("Silver Standard") for $38.7 million;
- In July 2008, Tetra Tech Inc., of Golden, Colorado completed a NI 43-101 compliant report disclosing a Measured and Indicated Resource

estimated at 24.6 million ounces of silver and an Inferred Resource estimated at 22.8 million ounces of silver using a four ounce per ton cut off. The full report can be viewed on the Aurcana website www.aurcana.com or on SEDAR www.sedar.com.;

- In October 2010, the Company completed a NI 43-101 compliant feasibility study at a rate of 1,500 tons per day; and
- Highlights of the report are: Payback estimated at under 2 years based on a silver price of $15.53 per ounce; an internal rate of return ("IRR") estimated at 32% pre tax; net present value ("NPV") estimated at $34 million; an initial capital expenditure estimated at $45 million; annual silver production estimated at 3.8 million ounces.

Corporate

- Robert J Tweedy was appointed as a new Director of the Company on July 2010.

Overall Performance

Aurcana is engaged in the business of mining, exploration and development of mineral properties. The principal focus is the operation and development of mineral properties, primarily silver operations located in Mexico and the United States. The Company is currently operating the La Negra silver-copper-zinc-lead mine, located in the state of Queretaro, through Real de Maconi S.A. de C.V. In addition to the Mexico operations, the Company has acquired Shafter located in Presidio County, southwest Texas which is held through the Company's 100% owned US subsidiary Silver Assets Inc.

Earnings

The Company had earnings from operations of $3.4 million for 2010 compared to a loss of $2.3 million in 2009; a loss from trading activity of $5.2 million for 2010 compared to a loss of $ 1.5 million in 2009; a net loss of the year for $6.1 million compared to a net profit of $3.9 million in 2009. Loss per share was $0.04 compared to earnings of $0.03 per share on both a basic and fully diluted basis for the previous year.

The increase in earnings from operations was mainly related to increased volumes and selling prices of the metals sold by the Company.

The increased loss on the trading activity was due to the low overall price recognized for the ounces delivered to Silver Wheaton under the now terminated silver stream purchase agreement as compared to the cost of acquiring the silver certificates at market and the loss of $7.7 million on the termination of the agreement.

The Company also experienced only a $1.5 million foreign exchange gain in the current year as compared to a $7.7 million gain in the prior year, which also explains the swing from a net profit of $3.9 million in 2009 to a loss of $10.7 million in 2010. At the end of 2009 the Company had a large exposure to the US dollar mainly because of the Silver Wheaton liability which at the end of 2010 was paid out.

Revenue

During the year ended December 31, 2010, the Company realized revenues from the sale of 11,821 tonnes of copper concentrate (2009 – 9,318 tonnes); 5,273 tonnes of zinc concentrate (2009 – 3,860 tonnes) and 808,921 ounces of silver (2009 – 746,493 ounces) for total net revenues of $26.9 million (2009 – $16.1 million). These figures exclude sales related to the Company's trading activities, which were necessitated by the contract related to the Company's deferred revenue.

The average price for sales of copper, zinc and silver during the period were copper – $3.4198 (2009: $2.3422) per pound; silver – $20.238 (2009: $14.674) per ounce and zinc $0.9792 (2009: $0.7525) per pound. Metal prices were a significant factor in the increased profitability of the Company.

Sale of Silver

In June 2008, the Company agreed to sell to Silver Wheaton the equivalent of 50% of the silver metal produced from ore extracted during the mine-life at La Negra. The agreement was made in consideration of a prepayment to Cane Silver Inc., a 100% owned subsidiary of the Company, of US$25 million in cash. A fee per ounce of silver of US$3.90 was payable to Cane, subject to an inflationary adjustment in year three. Under the terms of the agreement, the Company was required to deliver sufficient ounces of silver to Silver Wheaton within a forty year term, on a prescribed formula, or a portion of the deferred revenue, without interest, will become repayable to Silver Wheaton. All of the shares of La Negra were pledged as security for the agreement with Silver Wheaton. As the sale amount and the corresponding deferred revenue are denominated in US dollars, the amount included in the consolidated financial statements includes an adjustment for unrealized foreign exchange variations.

During the year ended December 31, 2010, the Company reached an agreement with Silver Wheaton to buy back the Silver Stream Purchase Agreement ("SPA") for a US$25 million payment and a final silver payment of 212,007 ounces in arrears. Consequently, the Company is no longer obligated to sell 50% of its silver production to Silver Wheaton, and can now receive the full benefits of 100% of its silver production at La Negra on a go forward basis.

The Company recognized the following loss from trading activity:

	2010	2009
Sales earned from Silver Wheaton (US$3.90/ounce)	**$ 1,674,825**	$ 1,124,373
Recognition of deferred revenue	**3,641,671**	1,739,730
	5,316,496	2,864,103
Cost of sales (at market price)	**(10,512,311)**	(4,331,551)
Loss from trading activity	**$ (5,195,815)**	$ (1,467,448)

The Company also recorded a loss on termination of the SPA in the amount of $7,681,310 (2009 – $nil) during the year ended December 31, 2010, including legal fees of $232,936. The termination of the SPA greatly enhances the cash flow at the corporate level derived from La Negra in Mexico, which will provide additional funds to Aurcana to supplement the funds received from its equity financing.

Cost of Sales

The cost of sales (excluding amortization and depletion) in 2010 was $16.2 million compared to $12.0 million for 2009. The increase in cost of sales represents an increase of approximately 35% as compared to a 40% increase in ore processed of 422,603 tonnes during 2010 year from 300,952 tonnes in 2009 which means a reduction of 4% during 2010 mainly due to La Negra's expansion of its processing capacity.

La Negra Mine

Mining operations and exploration drilling at La Negra continue to delineate additional mineralized zones, either between or as extensions of existing ore zones, which is expected to add to the mine life of La Negra. La Negra drill crews have completed 11,000 metres of diamond drilling during 2010. Exploration drilling and underground development during 2010 resulted in a positive NI 43-101 Measured and Indicated Resource of 188,941 tonnes at the Maravillas deposit, which is one of the 27 orebodies identified.

The tailings facility has the capacity to accept tailings from the 1,500 t/d plant for 5 more years. A new tailings area has been identified to assure continued mine operations beyond 10 years. Environmental studies and other permit requirements have been initiated

Plant optimization studies continued throughout the year. Metallurgical studies were conducted to investigate the production of a lead-silver concentrate using gravimetric separation, which would remove a penalty for lead and result in a higher quality copper concentrate. Additional metallurgical studies were conducted for mill expansion design, optimizing the flotation circuit, and the potential of stockpiling high lead and high copper ore types for separate processing to reduce penalties and produce a lead concentrate.

Quarter Ended	Dec 31 2010	Sep 30 2010	Jun 30 2010	Mar 31 2010	Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009
Inventory (start of period):								
Ore stockpiles (tonnes)	**63,834**	**61,268**	**40,758**	**11,736**	15,688	6,632	1,220	720
Zinc concentrate (tonnes)	**41**	**142**	**103**	**45**	51	109	371	473
Copper/silver concentrate (tonnes)	**241**	**127**	**79**	**84**	55	41	282	409
Production								
Ore mined (tonnes)	**127,353**	**128,666**	**113,711**	**108,029**	89,208	84,204	78,228	69,246
Ore milled (tonnes)	**124,345**	**125,050**	**94,201**	**79,007**	86,358	72,716	72,323	69,555
Average grade								
Zinc (%)	**117%**	**146%**	**118%**	**90%**	95%	90%	118%	94%
Copper (%)	**45%**	**48%**	**48%**	**48%**	50%	56%	52%	65%
Silver (g/t)	**79**	**78**	**73**	**74**	91	89	113	99
Zinc concentrate (tonnes)	**1,324**	**1,964**	**1,124**	**933**	929	765	925	829
Containing: Zinc (tonnes)	**560**	**850**	**552**	**365**	344	326	433	358
Copper concentrate (tonnes)	**3,274**	**3,766**	**2,852**	**2,053**	2,483	2,211	1,958	2,384
Containing: Copper (tonnes)	**456**	**492**	**388**	**335**	376	356	433	390
Silver (oz)	**251,020**	**250,953**	**182,009**	**154,095**	211,244	167,559	205,108	166,031
Inventory (end of period)								
Ore stockpiles (tonnes)	**66,265**	**63,834**	**61,268**	**40,758**	11,736	15,688	6,632	1,220
Zinc concentrate (tonnes)	**94**	**41**	**142**	**103**	45	51	109	371
Copper/silver concentrate (tonnes)	**100**	**241**	**127**	**79**	84	55	41	282
Sales								
Zinc concentrate (DMT)	**1,248**	**2,065**	**1,085**	**874**	928	925	1,069	938
Containing payable 85%: Zinc (tonnes)	**426**	**730**	**394**	**318**	344	358	403	331
Copper concentrate (tonnes)	**3,310**	**3,658**	**2,788**	**2,065**	2,428	2,183	2,105	2,602
Payable copper metal (tonnes)	**417**	**442**	**351**	**318**	335	323	313	432
Payable silver (ounces)	**244,052**	**238,722**	**172,356**	**153,790**	192,926	162,086	200,834	190,647

Shafter Project

On July 17, 2008, Aurcana closed the acquisition of a 100% interest in Shafter located in southwest Texas from Silver Standard. Aurcana paid Silver Standard US$23 million in cash; issued 15 million Aurcana common shares and issued a $10 million convertible debenture paying a 3% coupon.

In July 2008, Tetra Tech Inc. completed a NI 43-101 compliant report disclosing a Measured and Indicated Resource estimated at 24.6 million ounces (2,900,000 tons at 8.48 ounces per ton) of silver and an Inferred Resource estimated at 22.8 million ounces (2,167,000 tons at 10.52 ounces per ton) of silver using a four ounce per ton cut off.

The majority of necessary infrastructure is in place with a power line and paved highway crossing the property and an electrical sub-station on site. A 1,050 foot shaft serviced by an 80 ton per hour hoist and 5,100 feet of underground development were installed by Gold Fields Mining Corporation between 1978 and 1982. A portion of the extensive historical underground workings will be integrated into the mine plan.

In October 2010, the Company completed a NI 43-101 compliant feasibility study. The feasibility study includes trade-off studies in mine, mill and infrastructure which optimize production capacity and maximize Shafter's economic return. The study recommends the use of a decline to access the deposit, and mechanized room and pillar extraction. The decline facilitates the efficient movement of supplies and large equipment for production and allows the existing shaft to be used for hoisting ore from the deepest area of the mine and reducing the truck haulage distance. Daily production is expected to be sustained at a rate of 1,500 tons per day. Accessing the ore body by decline will facilitate early production and cash flow, as it will target high-grade resource blocks in the upper levels of the mine above the water table.

The highlights of the report are:

- Payback estimated at under 2 years based on a silver price of $15.53 per ounce, and 1 year at $21 per ounce;
- An internal rate of return ("IRR") estimated at 32% pre tax at $15.53 per ounce, and 73% at $21 per ounce;
- A pre-tax net present value ("NPV") estimated at $34 million at $15.53 per ounce using a 5% discount rate, and $104 million at $21 per ounce;
- An initial capital expenditure estimated at $45 million;
- Annual silver production estimated at 3.8 million ounces in years one and two; an average cost estimated at $8.27 per ounce of silver;
- An estimated mine life of 5 years, based on Measured and Indicated Resources;
- Average silver production estimated at 3.4 million ounces per year, life of mine; and an estimated 1,500 tons per day production rate achieved by driving a decline.

The base case revenue was based on the three year average silver price of $15.53 per ounce as published by the London Metal Exchange in October 2010. Only Measured and Indicated Resources were used in the feasibility study, project economics and life-of-mine determination. Project configuration and trade-off studies were finalized in early 2010 based on the basic engineering performed by SNC Lavalin. The finalized project configuration resulting from this work has allowed the permit amendment applications to be submitted, and forms the basis of the feasibility study published in November 2010.

Project execution planning is such that mine and process plant construction started immediately upon reception of equity financing on December 7, 2010 with an 18 month construction timeline.

Market Trends

Silver prices saw a dramatic increase from average prices of US$4.87/ounce in 2003 to US$13.38 in 2007 with a drop in price to US$10.79/ounce at December 31, 2008; US$16.99/ounce as of December 31, 2009, and US$30.63/ounce as of December 31, 2010.

Copper prices had seen an overall increase in price since 2003 of US$1.30/lb to US$3.23/lb in 2007. With declines in commodities and overall financial markets in mid 2008, copper was at US$1.31/lb on December 31, 2008; US$ 3.32/lb at December 31, 2009 and then has steadily improved to US$4.42/lb at December 31, 2010.

Zinc prices have essentially followed the same trend with prices in 2003 of US$0.47/lb increasing to US$1.68/lb in June 2007 and with the same decline seen with most commodities prices was at US$0.51/lb on December 31, 2008; US$1.16/lb as of December 31, 2009 and US$1.10/lb as of December 31, 2010.

The Company is currently reviewing its options with respect to hedging in 2011. Currently we can fix prices on a monthly basis with our concentrate buyer.

Administrative Expenses

Administrative expenses for the year ended December 31, 2010 was $2.1 million (2009: $1.8 million):

	Year ended December 31 **2010**	2009
Management fees*	$ **360,000**	$ 183,000
Rent and overhead	**121,000**	93,000
Travel and accommodation**	**284,000**	158,000
Office	**150,000**	36,000
Insurance	**40,000**	24,000
Admin, salaries and consulting fees***	**1,058,000**	941,000
Maintenance of Rosario mine	–	258,000
Other	**98,000**	110,000
	$ 2,111,000	$ 1,803,000

* Management fees increased due to a compensation package to the new President & CEO starting May 2009.

** More road shows were done to promote value of Aurcana.

*** Increase mainly because CFO was hired on full-time basis; previous CFO was part-time.

Financing Costs

On August 20, 2010, the Company renegotiated a credit facility agreement ("Loan") with its principal customer Trafigura. As at June 30, 2010, the outstanding balance under the original loan was US$2,020,000 and the Company exercised its right to draw down the loan to its full amount of US$3,400,000. The Company received approximately US$1,380,000 on August 23, 2010, which was used to purchase silver in arrears owed to Silver Wheaton.

As compensation for the renegotiation, the Company issued an aggregate of 2,125,203 common shares purchase warrants to Trafigura with each warrant entitling Trafigura to purchase one common share of the Company at an exercise price of $0.30 per share with an expiry of August 20, 2012. The $392,317 that was recorded as financing costs was the fair value of the warrants using the Black-Scholes pricing model. Also $99,238 fees were paid to Sprott for a credit facility plus legal fees on restructuring of the Trafigura debt.

Professional Fees

The Company incurred professional fees for the year of $583,541 (2009: $221,616). The main increase was due to additional legal fees incurred on the Trafigura debt renegotiation; International Financial Reporting Standards ("IFRS") accounting fees; audit fee increases; and tax analysis studies.

Investor Relations

The Company incurred investor relation expenditures for the year of $250,468 (2009: $216,401).

Selected Annual Information

Fiscal Year Ended	**December 2010**	December 2009	December 2008
Total revenues	**$ 26,936,880**	$ 16,133,550	$ 8,790,780
Administrative expenses	**2,111,439**	1,803,427	1,890,546
Depletion of mineral properties	**2,022,672**	1,727,290	2,789,848
Stock-based compensation	**272,602**	802,287	438,183
Write off and impairment of mineral property costs and property, plant and equipment	–	–	4,039,708
Earnings (loss) from operations	**3,356,811**	(2,301,903)	(10,885,934)
Net income (loss)	**(6,054,162)**	3,948,179	(24,106,786)
Basic gain (loss) per share	**(0.04)**	0.03	(0.24)
Fully diluted gain (loss) per share	**(0.04)**	0.03	–
Total assets	**105,172,294**	79,611,470	81,169,336
Current assets	**26,510,649**	6,440,472	7,466,544
Mineral properties	**64,250,514**	63,978,122	67,645,254
Current liabilities	**12,882,022**	5,753,240	4,203,896
Total liabilities	**29,855,321**	57,343,648	66,804,447
Cash dividends declared	**$ Nil**	$ Nil	$ Nil

Quarter Ended	**Dec 31 2010**	Sept 30 2010	June 30 2010	March 31 2010
Total revenues	**$ 9,847,482**	$ 7,476,157	$ 4,935,470	$ 4,677,771
Income (loss) from operations	**5,181,292**	(82,284)	(1,129,925)	(612,272)
Net income (loss)	**(5,126,958)**	1,508,131	(3,136,875)	701,540
Income (loss) per share	**$ (0.02)**	$ 0.01	$ (0.03)	$ 0.00

	Dec 31 2009	Sept 30 2009	June 30 2009	March 31 2009
Total revenues	$ 2,294,296	$ 5,228,565	$ 5,223,323	$ 3,387,366
Income (loss) from operations	(3,040,975)	466,232	(685,116)	(509,492)
Net income (loss)	(576,266)	2,388,932	2,837,670	(879,946)
Income (loss) per share	$ (0.01)	$ 0.02	$ 0.03	$ (0.00)

Liquidity

At December 31, 2010, the Company had working capital of $13.6 million (2009 – working capital of $0.6 million) which consisted of $22.1 million held in cash and short term deposits; account receivables of $1.6 million (trade) and $0.2 million (other); prepaid expenses of $0.1 million; inventory of $1.6 million, and marketable securities of $1.0 million. These amounts are offset by accounts payable of $4.3 million; the current portion of the Company's notes payable of $0.2 million in relation to equipment purchases at La Negra; Income Tax at La Negra of $0.7 million and the current portion of the Convertible Debenture with Silver Standard of $7.7 million.

As required under current Canadian GAAP, the Company has recorded a Future Income Tax Liability ("FITL") of $13.6 million in its financial statements with respect to the acquisition of the Shafter project in 2008. During 2009, the FITL increased to $16.8 million as a result of foreign exchange and then decreased to $13.6 million in 2010 as a result of a foreign exchange gain. FITL is not considered in the assessment of liquidity as it is an accounting estimate, required under Canadian GAAP, representing the potential future tax liability attached to the Shafter project. Any actual tax liability will exist if, as and when the Shafter project comes into production and is profitable. The actual tax liability at that time may differ from the estimate recorded. This accounting estimate may be revised or eliminated upon conversion to IFRS.

While the Company continues to make improvements at La Negra, and considering that the operation generated positive cash flows since the Company assumed direct control at the mine, the operation has yet to reach consistent profitability such that the Company can realize additional cash flows from the mine. Should Aurcana be unable to realize a profit on its assets and discharge its liabilities in the normal course of business, the realizable value of its assets may be materially less than the amounts recorded on the balance sheets.

Outstanding Share Capital

The Company is authorized to issue an unlimited number of common shares without par value.

As at December 31, 2010, the Company had 322,854,948 common shares issued and outstanding.

As at December 31, 2010, the Company had 11,037,500 share purchase options outstanding at various exercise prices and maturing at various future dates.

As at December 31, 2010, the Company had 123,273,429 warrants outstanding:

- Exercisable at a price of $0.30 and $0.35 expiring May 16, 2011 a total of 4.9 million.
- At a price of $0.30 expiring August 20, 2012 a total of 2.1 million.
- At a price of $0.35 expiring March 2, 2013 a total of 0.3 million.
- At a price of $0.40 expiring June 30, 2013 a total of 6.2 million.
- At a price of $0.35 expiring June 30, 2013 a total of 0.1 million.
- At a price of $ 0.41 expiring July 12, 2013 a total of 96.8 million.
- At a price of $ 0.41 expiring July 12, 2012 a total of 12.8 million.

Transactions with Related Parties

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

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

Commitments

Supply Agreement

On November 14, 2006, La Negra signed a purchase contract with Trafigura whereby Trafigura agreed to purchase 100%, evenly spread from January to December, of copper concentrate to be produced during the years 2007, 2008 and 2009 by La Negra. Prices are based on the published prices in the Metal Bulletin in London in US dollars at the transaction date unless fixed by Aurcana for the month at the discretion of the Company. In August 2010, the copper purchase contract was extended to 2012 and the parties agreed to review the zinc purchase contract by the end of 2011.

Office Lease

Effective May 1, 2010, the Company executed a lease for new office space for a period of 60 months, expiring on April 30, 2015. The minimum annual payments are $86,160 (May 1, 2010 to April 30, 2012), $89,750 (May 1, 2012 to April 30, 2013) and $93,340 (May 1, 2013 to April 30, 2015).

Changes in Accounting Policies

These financial statements are presented in accordance with GAAP applicable in Canada, and have been prepared in accordance with the Significant Accounting Policies described in Note 2 of our audited financial statements for the year ended December 31, 2010, except as noted below.

Adoption of New Accounting Standards

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

The Canadian Institute of Chartered Accountants ("CICA") concurrently issued Section 1582 "Business Combinations," Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replaced Section 1581 Business Combinations" and Section 1600 "Consolidated Financial Statements." Section 1582 effectively harmonizes the business combinations standard under Canadian GAAP with IFRS. The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination.

The Company has early adopted the requirements of CICA 1582, 1601 and 1602, effective January 1, 2010. The adoption resulted in a reclassification of non-controlling interests of $788,587 to shareholders' equity as at December 31, 2010. In addition, non-controlling interests are now presented within shareholders' equity on the consolidated balance sheet and the non-controlling interests in income are no longer deducted in arriving at consolidated net earnings. There is no effect from adoption on previous business combinations.

International Financial Reporting Standards

Publicly listed enterprises will be required to adopt IFRS in replacement of Canadian GAAP on January 1, 2011. This transition will require the Company to present its March 31, 2011 financial statements under IFRS, with restated comparative information. The conversion to IFRS will impact the Company's accounting policies, information technology, and financial reporting systems which include internal controls over financial reporting, data systems, and disclosure controls and procedures.

The Company has retained a consultant to prepare a diagnostic of the key elements of the transition to IFRS that will impact the Company's financial statements. This diagnostic has identified and ranked the key IFRS to Canadian GAAP differences applicable to Aurcana and assessed the potential impact to the financial statements, note disclosures, and exemptions available on transition.

While the Company has begun assessing the adoption of IFRS for 2011 and will begin implementing accounting systems necessary to accommodate the transition within a reasonable timeframe, the financial reporting impact of the transition to IFRS cannot be reasonably quantified at this time. Based on work completed thus far, the Company has identified the following possible financial reporting impacts:

- **Business Combinations:** Business combinations recorded under IFRS may be significantly different than those recorded under Canadian GAAP prior to the adoption of CICA 1582. The Company has early adopted the requirements of CICA 1582, 1601 and 1602 effective January 1, 2010, and as a result, does not expect the transition to IFRS 3 "Business Combinations," to have a significant impact as the standards are largely converged and IFRS allows for certain exemptions for first-time adopters.
- **Impairment Testing:** Both Canadian GAAP and IFRS require an entity to undertake impairment testing where there is an indication of impairment for property, plant and equipment. However, the methodology for such testing is different under Canadian GAAP than it is under IFRS.

  Canadian GAAP provides a two-step approach to testing a long-lived asset for impairment, where the first step is a test for recoverability whereby the carrying value is compared to the undiscounted cash flows that the asset is expected to generate. If the undiscounted cash flows exceed the carrying amount, no impairment charge is necessary. If the undiscounted cash flows are lower than the carrying amount of the asset, then the asset is written down to the estimated fair value, determined based on the discounted cash flows.

  Under IFRS, the first step of the Canadian GAAP impairment test is eliminated and the undiscounted cash flows are not considered. The carrying value of the asset is compared to its recoverable amount, determined to be the higher of an asset's fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. An impairment loss is recognized to the extent that the carrying value exceeds the recoverable amount.

  Unlike Canadian GAAP where impairment reversals are not permitted, IFRS requires the reversal of a prior impairment, which could result in greater variability in earnings if the recoverable amount of a previously impaired asset is determined to be higher than its carrying value.

  The preliminary conclusion is that there will be no adjustment required to the carrying values of the Company's mineral properties or its property, plant and equipment.
- **Income Taxes:** There are a number of IFRS and Canadian GAAP differences in accounting for income taxes, the most significant relates to the calculation of temporary differences on non-monetary items and the initial recognition exemption on an asset acquisition.

  Under Canadian GAAP, deferred tax balances are calculated in the currency in which the taxes are denominated and then converted to the accounting presentation currency at the current rate. IFRS requires that deferred taxes be determined in an entity's functional accounting currency. The different treatment under IFRS results in a measurement difference for deferred taxes on monetary items where an entity's tax and accounting functional currencies differ.

  IFRS provides an initial recognition exemption such that a deferred tax asset or liability is not recognized in the event that it arises from initial recognition of an asset or liability acquired outside of a business combination. This exemption does not exist in Canadian GAAP.

  The Company expects there will be a material reduction of approximately $13.6 million to the carrying value of the Shafter project and the related future income taxes payable on conversion to IFRS.
- **Property, Plant and Equipment:** IFRS requires a componentization approach, separately identifying and measuring significant individual assets, and depreciating over their useful lives. IFRS also allows companies to elect fair value as the deemed cost of an individual asset as of the date of transition. The Company is reviewing the valuation of certain assets in Mexico in this regard. These changes have the potential of significantly changing the results currently reflected in the Company's current statements of operations. However, management do not expect a material adjustment as the main assets subject to depreciation are located in Mexico and have already been subjected to componentization at the mine level.
- **Asset Retirement Obligations:** IFRS has a lower threshold for recognition of provisions than Canadian GAAP. For example, under IFRS a provision for asset retirement obligations would be recorded to the extent that it is probable and represents a legal or constructive obligation. This could result in the additional recognition of provisions upon transition to IFRS. The measurement of those provisions may also be adjusted, as IFRS requires re-measurement of the liability at each reporting date as well as potential differences in the discount rate used in the calculation. These differences may result in higher volatility within the income statement and differences in presentation.
- **Foreign Currency Translation:** Canadian GAAP requires an entity to determine the functional currency of the parent company and then assess whether a subsidiary is an integrated or self-sustaining entity. This determination dictates the method of foreign exchange translation for the consolidated financial statements. IFRS requires functional currency to be assessed independently for each entity within a consolidated group and introduces the concept of primary and secondary factors. The Company is assessing the effect of this change.
- **Share-Based Payments:** Canadian GAAP requires that share-based payments are measured at fair value with an expense recorded over the vesting period of the instrument. The Company's Canadian GAAP accounting policy is largely consistent with IFRS with the exception of the initial inclusion of a forfeiture rate in the fair value estimation and minor changes to the initial valuation of option tranches which vest over different periods. We have not yet determined the impact that these changes will have on our consolidated financial statements.

In addition to the above-noted impacts, the Company has also performed an analysis of the optional exemptions available under IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). The decisions reached regarding these optional exemptions are preliminary at this time, and the most significant are as follows:

- **Share-Based Payments:** Full retrospective application is avoided for equity instruments which have vested as of January 1, 2010, the date of transition to IFRS.
- **Business Combinations (IFRS 3):** Permits an entity that has conducted prior business combinations to apply IFRS 3 on a prospective basis from the date of transition. This avoids the requirement to restate prior business combinations.
- **Changes in Existing Decommissioning, Restoration and Similar Liabilities (IFRIC 1):** This exemption allows a first-time adopter to utilize a practical methodology rather than full retrospective restatement for the initial measurement of the liability and cost of the related asset.
- **Borrowing Costs (IAS 23):** This exemption allows a first-time adopter to apply IAS 23 (revised) from the date of transition prospectively to IFRS for all qualifying assets for which the capitalization start date is on or after that date. Borrowing costs will not be capitalized retrospectively and the Company will only capitalize borrowing costs incurred after the date of transition (January 1, 2010).

The next phase of the Company's changeover plan is to determine specific financial reporting impacts, continue to select accounting policies and quantify differences to Canadian GAAP. The Company's Audit Committee is overseeing the IFRS conversion project and holds management accountable for a successful IFRS transition.

Accounting Estimates

The information provided in this report including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Financial Instruments

The Company is exposed to certain financial risks, including currency risk, credit risks, liquidity risk, price risk and interest risk.

(a) Currency risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, the United States and Mexico and a portion of its expenses are incurred in US dollars and Mexican pesos. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar or Mexican peso could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

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

		December 31 2010
Cash and cash equivalents	US$	9,988,560
Accounts receivable		1,859,270
Accounts payable		(1,588,879)
Notes payable		(235,929)
Future income tax liability		(13,599,048)
	US$	(3,576,026)
Canadian dollar equivalent	$	(3,556,715)

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

		December 31 2010
Cash and cash equivalents	MP$	492,488
Income Tax and PSE (La Negra)		(16,429,782)
Accounts payable and accrued liabilities		(11,951,216)
	MP$	(27,888,510)
Canadian dollar equivalent	$	(2,247,232)

Based on the above net exposures as at December 31, 2010, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar and the Mexican peso would result in a material change to the Company's loss in terms of unrealized foreign exchange of approximately $0.6 million.

(b) Credit risk:

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from amounts receivable and marketable securities.

The Company's trade receivables are the result of sales of concentrates to one significant purchaser. As such, the Company is at risk with respect to collections of these receivables.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities are due within the current operating period.

The Company's expected source of cash flow in the upcoming year will be through its operations at La Negra, equity financing and entering into joint venture agreements, or a combination thereof.

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

Payments due by period (000's)

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Accounts payable	$ 3,656	$ 3,656	$ Nil	$ Nil	$ Nil
Notes payable	235	235	Nil	Nil	Nil
Income tax and PSE (La Negra)	1,324	1,324	Nil	Nil	Nil
Convertible debentures*	10,468	8,167	2,301	Nil	Nil
Environmental obligations	1,470	Nil	Nil	Nil	1,470
Total	$ 17,153	$ 13,382	$ 2,301	$ Nil	$ 1,470

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

(d) Price risk:

The Company is subject to revenue price risk from fluctuations in the market prices of copper, silver and zinc. The Company is also exposed to commodity price risk on diesel fuel through its mining operations. The Company's risk management policy does not currently provide for the management of these exposures through the use of derivative financial instruments. 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.

(e) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Risks and Uncertainties

The operations of Aurcana are speculative due to the high risk nature of its business which involves copper and zinc production and exploration and development of mining properties. The following is a brief discussion of those distinctive or special characteristics of Aurcana's operations and industry which may have a material impact on, or constitute risk factors in respect of, Aurcana's financial performance.

Mining Risks and Insurance

The business of mining is subject to certain types of risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected changes to rock formations, changes in the regulatory environment, cave-ins and flooding. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Any payments made with regards to such liabilities may have a material adverse effect on Aurcana's financial performance and results of operations. The Company carries insurance to protect itself against certain risks of mining and processing to the extent that is economically feasible but which may not provide adequate coverage in all circumstances.

Uncertainty of Mineral Reserves

Mineral reserves and mineral resources are estimates of the size and grade of deposits based on limited sampling and on certain assumptions and parameters. No assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery of payable metals will be realized. The ore grade actually recovered by the Company may differ from the estimated grades of the mineral reserves and mineral resources. Prolonged declines in the market price of copper or zinc may render mineral reserves containing relatively lower grades of mineralization uneconomic to exploit and could materially reduce the Company's reserves. Should such reductions occur, the Company could be required to take a material write-down of its investment in mining properties or delay or discontinue production or the development of new projects, resulting in increased net losses and reduced cash flow. Market price fluctuations, as well as increased production costs or reduced recovery rates, may render mineral reserves containing relatively lower grades of mineralization uneconomical to recover and may ultimately result in a restatement of mineral resources. Short-term factors relating to mineral reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may impair the profitability of a mine in any particular accounting period.

The Company adjusts its mineral reserves annually by the amount extracted in the previous year, by the additions and reductions resulting from new geological information and interpretation, actual mining experience, and from changes in operating costs and metal prices. Mineral reserves are not revised in response to short-term cyclical price variations in metal markets.

Replacement of Mineral Reserves

There are a number of uncertainties inherent in any program relating to the location of economic mineral reserves, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities and the appropriate financing thereof. Accordingly, there can be no assurance that the Company's programs will yield new mineral reserves to replace mined reserves and to expand current mineral reserves.

Reclamation Obligations

Reclamation requirements may change and do vary depending on the location and the government regulatory body, but they are similar in that they aim to minimize long term effects of exploration and mining disturbance by requiring the operating company to control possible deleterious effluents and to re-establish to some degree predisturbance land forms and vegetation. The Company calculates its estimates of the ultimate reclamation liability based on current laws and regulations and the expected future costs to be incurred in reclaiming, restoring and closing its operating mine site. It is possible that the Company's estimate of its ultimate reclamation liability could change in the near term due to possible changes in laws and regulations and changes in cost estimates.

Exploration Risks

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration programs planned will result in a profitable commercial mining operation.

Whether any mineral deposit is commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices which are highly cyclical; and government regulations, including minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Aurcana not receiving an adequate return on invested capital.

Conflicting Interests

Certain of the directors and officers of Aurcana also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by such directors and officers involving Aurcana will be made in accordance with their duties and obligations to deal fairly and in good faith to Aurcana and such other companies. In addition, such directors and officers are required to declare and refrain from voting on any matter in which such directors and officers may have a conflict of interest.

Permitting and Title

Aurcana's operations may require licenses and permits from various governmental authorities. There can be no assurance that Aurcana will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and production operations on Aurcana's properties.

Any of Aurcana's properties may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. If a title defect or defects do exist, it is possible that Aurcana may lose all, or a portion, of its interest in the affected mineral claims. Aurcana has no present knowledge of any defect in the title of any of the properties in which the Company has or may acquire an interest.

Management Services

The success of Aurcana depends to a large extent, on the ability and judgment of the senior management of Aurcana and upon Aurcana's ability to retain the services of senior management. The loss of their services may have a material adverse affect on Aurcana.

Market Influences

The Company's Common Shares are listed for trading on the TSX-VE. Shareholders of the Company may be unable to sell significant quantities of the Common Shares into the public trading markets without a significant reduction in the price of the shares, if at all. The market price of the Common Shares may be affected significantly by factors such as changes in the Company's operating results, the availability of financings, fluctuations in the price of metals, the interest of investors, traders and others in small exploration stage public companies such as the Company and general market conditions. In recent years the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly small capitalization exploration companies similar to the Company, have experienced wide fluctuations, which have not necessarily been related to the operating performances, underlying asset values or future prospects of such companies. There can be no assurance that future fluctuations in the price of the Company's shares will not occur.

Controls and Procedures

In connection with Exemption Orders issued in November 2007 and revised in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificate under National Instrument ("NI") 52-109 (Certification of Disclosure in an Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with Canadian GAAP.

TSX-VE listed companies are not required to provide representations in the annual filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a TSX-VE issuer to design and implement on a cost effective basis DC&P and ICFR as defined in Multinational Instrument 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Additional information on the Company can be found on SEDAR at www.sedar.com and on the Company's website at www.aurcana.com.

Independent Auditor's Report

To the Shareholders of Aurcana Corporation

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aurcana Corporation and its subsidiaries as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

May 2, 2011

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Consolidated Balance Sheets

December 31, 2010 and 2009
Expressed in Canadian dollars

ASSETS	2010	2009
Current		
Cash	$ 22,057,371	$ 2,852,174
Accounts receivable – trade	1,579,086	1,052,517
– other	206,969	257,308
Prepaid expenses and advances	89,033	279,051
Marketable securities (Note 6)	970,000	637,500
Inventory (Note 4)	1,608,190	1,361,922
	26,510,649	6,440,472
Amounts receivable – long term (Note 5)	815,674	766,357
Marketable securities – long term (Note 6)	–	510,000
Property, plant and equipment (Note 7)	12,362,789	7,916,519
Mineral properties (Note 8)	64,250,514	63,978,122
Future income tax asset (Note 16)	1,232,668	–
	$ 105,172,294	$ 79,611,470

LIABILITIES	2010	2009
Current		
Accounts payable and accrued liabilities (Note 9)	$ 4,295,279	$ 4,361,865
Income taxes payable	684,601	–
Convertible debenture – current portion (Note 12)	7,666,752	–
Notes payable – current portion (Note 10)	235,390	1,391,375
	12,882,022	5,753,240
Notes payable (Note 10)	–	2,393,328
Deferred revenue (Note 11)	–	22,185,697
Convertible debenture (Note 12)	1,988,771	8,919,003
Asset retirement obligation (Note 13)	1,385,480	1,338,036
Future income tax liability (Note 16)	13,599,048	16,754,344
	29,855,321	57,343,648

SHAREHOLDERS' EQUITY	2010	2009
Capital stock (Note 14)	99,657,659	55,684,504
Contributed surplus (Note 14(e))	21,923,466	7,077,058
Accumulated other comprehensive income	570,000	286,250
Deficit	(47,622,739)	(41,378,297)
Total equity attributable to equity holders of the parent	74,528,386	21,669,515
Non-controlling interest (Note 3)	788,587	598,307
	75,316,973	22,267,822
	$ 105,172,294	$ 79,611,470

Commitments (Note 21)

Subsequent Events (Note 24)

Approved on behalf of the Board:

Lenic M Rodriguez
Director

Adrian Aguirre
Director

Consolidated Statements of Operations and Deficit

Years ended December 31, 2010 and 2009
Expressed in Canadian dollars

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

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2010 and 2009
Expressed in Canadian dollars

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

Consolidated Statements of Accumulated Other Comprehensive Earnings (Loss)

Years ended December 31, 2010 and 2009
Expressed in Canadian dollars

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

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009
Expressed in Canadian dollars

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

Supplemental cash flow information (Note 20)

Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009
Expressed in Canadian dollars

1. NATURE OF BUSINESS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These financial statements include the accounts of: Aurcana Corporation and its wholly-owned subsidiaries, Silver Assets Inc., a US corporation, Cane Silver Inc., a Barbados corporation and Minera Aurcana S.A. de C.V., a Mexican corporation.

Real de Maconi S.A. de C.V. ("Maconi"), a Mexican corporation, was formerly accounted for by the proportionate consolidation method. Under this method, the Company included in its accounts its proportionate share of the assets, liabilities, revenues and expenses. During the quarter ended September 30, 2009, the Company diluted its former joint venture partner from a 20% interest to an 8% minority interest and took over management of the mine. Accordingly, prior to dilution the Company recognized 80% of the profit or loss of Maconi. Subsequent to the dilution of its former joint venture partner, the Company consolidates 100% of the profit or loss and assets and liabilities of Maconi, and recognizes an 8% non-controlling interest in the results of Maconi. Maconi substantively owns 100% of Minera La Negra S.A. de C.V. ("La Negra"), a Mexican Corporation, subject to one nominal share held by a second shareholder in order to comply with Mexican Company Law.

All significant inter-company balances and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, term deposits and short term highly liquid investments with the original term to maturity of three months or less, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value.

Marketable Securities

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

Inventory

Mine stores and finished concentrates are valued at the lower of average cost and net realizable value. Cost of finished concentrates inventory includes direct mining and production costs, direct mine overhead costs, amortization and depletion. Cost of sales includes costs of finished concentrates plus shipping costs less amortization and depletion, which is disclosed separately in the statement of income.

Foreign Currency Translation

The Company's measurement currency is the Canadian dollar. The operations of the Company's subsidiaries and joint venture operations are considered integrated foreign operations and are translated into Canadian dollars at the average rate of exchange per quarter for items included in the consolidated statements of loss and deficit, the rate prevailing at the balance sheet dates for monetary assets and liabilities, and historical rates for all other items. Translation gains and losses are included in the determination of operating results in the period incurred.

Amortization, Depletion and Impairment

Mining machinery, plant and property are depleted on a unit of production basis, based on estimated recoverable reserves. Estimated recoverable reserves include proven and probable reserves and the portion of mineralized zones expected to be classified as reserves.

The carrying values of producing mineral properties and property, plant and equipment are reviewed when events or changes in circumstances arise that may result in impairments in the carrying value of those assets. An impairment loss would be recognized when the carrying amount of a long-lived asset is not recoverable based on a comparison to the undiscounted future net cash flows. The impairment loss is based on the present value of expected future net cash flow. Estimated future net cash flows is calculated for each property using: estimated recoverable reserves; estimated future metal price realization (considering historical and current prices, price trends and related factors); and estimated operating, capital and other cash flow. Estimates of future cash flow are subject to risks and uncertainties. It is possible that changes could occur which may affect the recoverability of the carrying value of mineral properties.

Plant and equipment is amortized on a straight-line basis over their estimated useful lives. Amortization begins when plant and equipment are put into use. The rates of amortization used are as follows:

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

In accordance with Emerging Issues Committee Abstract ("EIC") 152 – "Mining Assets – Impairment and Business Combinations" the Company includes value beyond proven and probable reserves in its estimate of future cash flow when testing for impairment and determining fair value.

Mineral Properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the mineral property is abandoned or sold, or mineralization has been determined and the mineral property interests are either developed or the Company's mineral rights are allowed to lapse. All deferred mineral property expenditures are reviewed, at least annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment.

When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, or the Company's assessment of its inability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written-off, if the properties are abandoned, sold or the claims are allowed to lapse.

From time-to-time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to income.

Earnings (Loss) per Share

Basic earnings (loss) per share computations are based on the weighted average number of common shares issued and outstanding during the year. The Company uses the treasury stock method to calculate diluted earnings (loss) per share, which assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. Since the Company incurred losses during 2009 and 2010, the conversion of convertible debentures and the exercise of outstanding stock options and warrants have not been included in this calculation as it would be anti-dilutive.

Future Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

Revenue Recognition

The Company produces copper, silver and zinc in concentrate. Copper and zinc products are sold under pricing arrangements where final prices are set at a specified future date based on market copper and zinc prices. Revenues are recognized when title and risk pass to the customer using forward prices for the expected date of final settlement. Changes between the prices recorded upon recognition of revenue and the final price due to fluctuations in copper and zinc market prices result in the existence of an embedded derivative in the accounts receivable. This embedded derivative is recorded at fair value, with changes in fair value classified as a component of revenue. Silver revenue results from the sale of silver contained in the copper concentrate.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include the recovery of mineral properties costs, the measurement of stock-based compensation, the fair value of asset retirement obligations, the carrying amounts of plant and equipment, rates of amortization, the determination of the valuation allowance for future income tax assets and the determination of fair value of assets and liabilities in acquisition. Actual results could differ from those estimates.

Stock-Based Compensation

The Company accounts for stock options and warrants at fair value pursuant to Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments." Compensation expense for options granted is determined based on the estimated fair value of the options at the measurement date using the Black-Scholes option pricing model. The cost is recognized over the vesting period of the respected options and is either expensed to administration or recorded in exploration or development costs when grants are to individuals working directly on mineral projects. Consideration paid by the option holder, at the time options are exercised, is recorded as an increase to share capital.

Asset Retirement Obligations

The Company recognizes a liability for legal or contractual obligations relating to the retirement of mineral properties and property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs are recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in contractual requirements, laws or regulation, the extent of environmental remediation required or completed, and the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

Estimates of Proven and Probable Mineral Reserves

Management's calculation of proven and probable reserves is based upon engineering and geological estimates and financial estimates including mineral prices and operating and development costs. The Company depreciates some of its assets over proven and probable mineral reserves. Changes in geological interpretations of the Company's ore bodies and changes in mineral prices and operating costs may change the Company's estimate of proven and probable reserves. It is possible that the Company's estimate of proven and probable reserves could change in the near term and that could result in revised charges for depreciation and depletion in future periods.

Deferred Revenue

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

New Canadian Accounting Pronouncements

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

CICA concurrently issued Section 1582 "Business Combinations," Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replaced Section 1581 Business Combinations" and Section 1600 "Consolidated Financial Statements." Section 1582 effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination.

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

3. DILUTION OF JOINT VENTURE PARTNER

During the year ended December 31, 2009, the Company diluted its former joint venture partner from a 20% interest in Maconi to an 8% minority interest.

Pursuant to the terms of the former joint venture agreement under which the Maconi joint venture operated, and prior to the dilution, any funding by the corporation, as to 80%, should be matched by a 20% contribution by the joint venture partner. As a result of the non-contribution by the joint venture partner, the Company elected to dilute the joint venture partner, resulting in the joint venture partner holding a non-controlling interest.

Prior to the dilution, the Company recognized 80% of the profit or loss of Maconi. Subsequent to dilution the Company consolidates 100% of the profit or loss of Maconi, and recognizes an 8% non-controlling interest. All amounts previously booked as receivable from the former joint venture partner were eliminated upon the dilution.

The non-controlling interest is determined as follows:

Non-controlling interest share of net assets of the La Negra mine at the effective date of the dilution event	$ 420,518
Non-controlling interest share of net earnings of the La Negra mine for the period from the dilution date to December 31, 2009	177,789
Non-controlling interest, December 31, 2009	598,307
Non-controlling interest share of net earnings of La Negra for the year ended December 31, 2010	190,280
Non-controlling interest, December 31, 2010	$ 788,587

4. INVENTORY

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

5. AMOUNTS RECEIVABLE

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

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

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

6. MARKETABLE SECURITIES

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

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

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

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

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

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

7. PROPERTY, PLANT AND EQUIPMENT

As of December 2010	Cost	Accumulated Amortization	Net Book Value
Buildings	$ 2,013,011	$ –	$ 2,013,011
Plant and equipment*	12,384,058	2,619,431	9,764,627
Vehicles	618,662	245,811	372,851
Computer equipment	384,962	269,837	115,126
Other	115,199	18,024	97,174
	$ 15,515,892	$ 3,153,103	$ 12,362,789

As of December 2009	Cost	Accumulated Amortization	Net Book Value
Buildings	$ 894,900	$ –	$ 894,900
Plant and equipment*	8,273,441	1,767,213	6,506,228
Vehicles	460,772	162,803	297,969
Computer equipment	334,887	161,242	173,645
Other	49,463	5,686	43,777
	$ 10,013,463	$ 2,096,944	$ 7,916,519

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

8. MINERAL PROPERTIES

	La Negra, Mexico	Rosario, Mexico	Shafter, Texas	Total
Balance, December 31, 2008	$ 8,153,050	$ 4,759,921	$ 54,732,283	$ 67,645,254
Adjustment to mineral properties on dilution of JV partner	1,503,428	–	–	1,503,428
Mineral property expenditures	–	–	400,100	400,100
Capitalized interest expense	–		195,881	195,881
Capitalized accretion expense	–		720,670	720,670
Depletion	(1,727,290)	–	–	(1,727,290)
Cost of mineral property sold	–	(4,759,921)	–	(4,759,921)
Balance, December 31, 2009	7,929,188	–	56,048,934	63,978,122
Mineral property expenditures	–	–	1,158,544	1,158,544
Capitalized interest expense (Note 12)	–	–	400,000	400,000
Capitalized accretion expense (Note 12)	–	–	736,520	736,520
Depletion	(2,022,672)	–	–	(2,022,672)
Balance, December 31, 2010	$ 5,906,516	$ –	$ 58,343,998	$ 64,250,514

(a) La Negra Mine, Queretaro State, Mexico

In March 2006, the Company entered into a joint venture agreement with Reyna Mining & Engineering S.A. de C.V. ("Reyna") to operate Maconi through which they were jointly developing the La Negra mine in Queretaro State, Mexico as held in the Company's subsidiary, Minera La Negra. The joint venture was initially on the basis of 80% for the Company and 20% for Reyna. During the year ended December 31, 2009, the Company diluted Reyna's ownership interest to 8% (Note 3).

(b) Shafter Silver Mine, Texas USA

On July 15, 2008, the Company closed the acquisition of 100% of the Shafter silver mine ("Shafter") from Silver Standard Resources Inc. ("Silver Standard"). Shafter is located in Presidio County, southwest Texas.

To acquire Shafter, Aurcana paid Silver Standard US$23 million in cash; issued 15 million Aurcana common shares (fair value $6,900,000); and issued a $10 million convertible debenture paying a 3% coupon with a three year term and convertible into 6.62 million Aurcana common shares at $1.51 per share.

The Company has recorded the fair value of the conversion option to be $941,060 and has recorded this amount in "contributed surplus" (Note 14(e)). The convertible liability was discounted by $1,220,940 to yield an effective interest rate of 12% on the debt portion of the instrument; with the convertible debenture liability assigned an initial fair value of $9,058,940 (Note 12).

The purchase price allocation for the Company's 100% interest on the acquisition of Shafter was as follows:

Purchase price	
Cash	$ 23,000,000
Issuance of 15 million shares	6,900,000
Issuance of debentures (Note 12)	10,000,000
Discount of debt portion (Note 12)	(1,220,940)
	38,679,060
Fair market value of net assets acquired	
Cash	6,339
Land and buildings	173,245
Equipment	671,335
Mineral property	54,083,508
	54,934,427
Accounts payable and accrued liabilities	(58,176)
Future income tax liability	(16,197,191)
Purchase price allocated	$ 38,679,060

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

10. NOTES PAYABLE

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

(a) During the year ended December 31, 2009, the Company negotiated a settlement of the amounts owing to Trafigura Beheer B.V. ("Trafigura"), resulting in a gain on debt settlement with Trafigura of $1,247,220. During the year ended

December 31, 2010, the Company extended the original due date of the note payable to Trafigura and issued 2,125,203 share purchase warrants to Trafigura at a fair value of $392,317 as compensation for the extension (Note 14(e) and 14(f)). The remaining balance of the loan was fully repaid in the year ended December 31, 2010.

11. DEFERRED REVENUE

In June 2008, the Company agreed to sell to Silver Wheaton (Caymans) Ltd. ("Silver Wheaton") 50% of the silver metal produced from ore extracted during the mine-life at La Negra mine (Note 19) under a Silver Stream Purchase Agreement ("SPA"). The SPA was made in consideration of a prepayment to Cane Silver Inc., a 100% owned subsidiary of the Company, of US$25 million in cash. A fee per ounce of silver of US$3.90 was also payable to Cane.

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

Details are as follows:

	US Dollars	Canadian Dollars
Balance, December 31, 2008	$ 24,013,702	$ 29,363,955
Recognized as revenue	(1,523,807)	(1,739,730)
Unrealized foreign exchange gain	–	(4,086,301)
Reclassified to accounts payable	(1,292,019)	(1,352,227)
Balance, December 31, 2009	21,197,876	22,185,697
Recognized as revenue (Note 19)	(3,535,812)	(3,641,671)
Contract termination	(17,662,064)	(17,370,107)
Realized foreign exchange gain	–	(1,173,919)
Balance, December 31, 2010	$ –	$ –

Loss on termination of silver sale agreement:

Termination payment	$ 25,000,000	$ 24,813,154
Deferred revenue balance at termination	(17,662,064)	(17,370,107)
Legal fees	232,936	238,263
Loss on termination	$ 7,570,872	$ 7,681,310

12. CONVERTIBLE DEBENTURE

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

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

Details are as follows:

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

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

13. ASSET RETIREMENT OBLIGATION

Management has estimated reclamation and closure costs for the current mine workings using its best judgment of such future costs and based on an anticipated mine life of five years. The ultimate value of the asset retirement obligation is uncertain and may change in future years based on updated estimates of costs, mine life, and other new information. Any future changes in the estimate of the asset retirement obligation will be recognized prospectively in the year such adjustment is made.

The asset retirement obligation has been calculated using a discount rate of 5% and an inflation rate of 2.50%. The future amount of the obligation is $1,469,999 and the reclamation activities are estimated to commence in 5 years.

Details are as follows:

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

14. CAPITAL STOCK

(a) Authorized

An unlimited number of common shares

(b) Share issuance details

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

During 2010 the Company:

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

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

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

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

During 2009 the Company:

Completed a non-brokered private placement for 11,587,727 units at $0.22 for net proceeds of $2,445,699. Each unit consisted of one share and one half of one common share purchase warrant. One full common share purchase warrant will permit the holder to purchase a further common share for a period of 18 months from closing at a price of $0.35 per share, provided that if the closing price of the Company's shares as traded on the TSX Venture Exchange, subsequent to four months from closing, is at or over $0.70 per share for 20 consecutive trading days, the Company will have the right to accelerate the expiry of the warrants upon giving 30 days notice to the holders thereof. Finders' fees in the amount of 7% cash and warrants at a price of $0.30 per warrant on the same terms as the offering warrants were paid on a portion of the financing.

(c) Stock options

The Company has a Rolling Stock Option Plan whereby the Company may grant options to directors, officers, employees and consultants of up to 10% of the common shares outstanding at the time of grant. The exercise price, term and vesting period of each option are determined by the board of directors within regulatory guidelines.

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

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

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

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

The options granted during the period were granted in accordance with the terms of the Company's 10% Rolling Stock Option Plan approved September 18, 2009, which can be exercised for periods of between two to five years.

(d) Stock-based compensation

For the year ended December 31, 2010, the Company applied the fair value method in accounting for all awards of stock options by using the Black-Scholes option pricing model. The Black-Scholes option pricing model was created for use in estimating the fair value of freely tradable fully transferable options. The Company's stock options have characteristics significantly different from those of traded options and, because changes in the highly subjective input assumptions can materially affect the calculated values, management believes that the accepted Black-Scholes model does not necessarily provide a reliable measure of the fair value of the Company's stock option awards.

For the year ended December 31, 2010, the stock-based compensation expense was $272,602 (2009 – $802,287). The fair value of stock options granted as above is calculated using the following weighted average assumptions:

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

(e) Contributed surplus

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

(f) Share purchase warrants

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

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

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

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

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

15. RELATED PARTY TRANSACTIONS

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

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

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

16. INCOME TAXES

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

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

The income tax expense (recovery) is comprised of:

	2010	2009
Current income tax expense	**$ 740,324**	$ –
Future income tax recovery	**(3,476,088)**	–
Income tax expense (recovery)	**$ (2,735,764)**	$ –

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

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

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

	USA	Canada
2014	–	332,000
2015	–	248,000
2016	–	–
Beyond 2017	5,169,946	10,926,000
	5,169,946	11,506,000

17. SEGMENTED DISCLOSURE

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

	Revenue	Earnings (Loss)	Property, Plant and Equipment	Mineral Properties	Total Capital Assets	Total Assets
December 31, 2010						
Canada	**$ –**	**$ (13,754,209)**	**$ 248,808**	**$ –**	**$ 248,808**	**$ 25,948,573**
United States	**–**	**5,565,561**	**844,580**	**58,343,998**	**59,188,578**	**59,242.421**
Mexico	**26,936,880**	**2,134,486**	**11,269,401**	**5,906,516**	**17,175,917**	**19,981,300**
Total	**$ 26,936,880**	**$ (6,054,162)**	**$ 12,362,789**	**$ 64,250,514**	**$ 76,613,303**	**$105,172,294**
December 31, 2009						
Canada	$ –	$ 1,604,368	$ 381,436	$ –	$ 381,436	$ 3,137,420
United States	–	(10,410)	907,125	56,048,934	56,997,623	56,111,479
Mexico	16,133,550	2,176,432	6,627,958	7,929,188	14,352,680	20,362,571
Total	$ 16,133,550	$ 3,770,390	$ 7,916,519	$ 63,978,122	$ 71,731,739	$ 79,611,470

18. SALES AND ECONOMIC DEPENDENCE

Details of sales generated from customers that individually account for approximately 10% or more of consolidated sales are as follows:

	2010	2009
Number of significant customers	**1**	1
Amount of sales to significant customers	**$ 26,936,880**	$ 16,133,550
Total consolidated sales	**$ 26,936,880**	$ 16,133,550
Total percentage of consolidated sales generated from significant customers	**100%**	100%

The Company has signed an exclusive multi-year sales agreement for the sale of all or substantially all of its copper and zinc concentrate from the La Negra mine (Note 21). The Company is economically dependent upon a single customer and upon the successful renewal or replacement of this contract at economic rates.

19. LOSS FROM TRADING ACTIVITY

The Company recognized the following loss from trading activity:

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

20. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
Interest paid	**$ 630,580**	$ 284,793
Taxes paid	**$ 740,324**	$ 52,114

Supplemental Cash Flow Information of Non-Cash Investing and Financing Activities	2010	2009
Marketable securities obtained on disposal of subsidiary (Note 6)	**$ 338,505**	$ 861,250
Amounts receivable obtained on disposal of subsidiary (Note 5)	**815,674**	766,357
Accretion of convertible debt capitalized to mineral property (Note 12)	**736,520**	720,670
Accrued interest on convertible debt capitalized to mineral property (Note 8)	**400,000**	195,881
Mineral property and property, plant and equipment disposed on disposal of subsidiary	**–**	5,352,581
Accounts payable extinguished on disposal of subsidiary	**–**	547,677
Notes payable extinguished on disposal of subsidiary	**$ –**	$ 1,149,578

21. COMMITMENTS

Supply agreement

On November 14, 2006, La Negra signed a purchase contract with Trafigura whereby Trafigura agreed to purchase 100%, evenly spread from January to December, of copper concentrate to be produced during the years 2007, 2008 and 2009 by the La Negra mine. Prices are based on the published prices in the Metal Bulletin in London in US dollars at the transaction date unless fixed by the Company for the month at the discretion of the Company. In August 2010, the copper purchase contract was extended to 2012 and the parties agreed to review the zinc purchase contract by the end of 2011.

Office Lease

Effective May 1, 2010, the Company executed a lease for new office space for a period of 60 months, expiring on April 30, 2015. The minimum annual payments are $86,160 (May 1, 2010 to April 30, 2012), $89,750 (May 1, 2012 to April 30, 2013) and $93,340 (May 1, 2013 to April 30, 2015).

22. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity and long-term debt. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company has not changed its approach to capital management during the current year. The Company is not subject to any external capital restrictions.

23. FINANCIAL INSTRUMENTS

Financial instruments include cash and any contracts that give rise to a financial asset to one party and a financial liability or equity instrument to another party. During 2009, CICA Handbook Section 3862, "Financial instruments – Disclosures," was amended to require disclosures about the classification and fair value of financial instruments, including their classification within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

At December 31, 2010, the Company's financial instruments, which are measured at fair value on a recurring basis, were cash equivalents and marketable securities that are classified as "Level 2" and the Company's carrying value approximates fair value.

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

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

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

Fair Values

As at December 31, 2010, the Company's carrying values of accounts receivable and accounts payable approximate their fair values due to their short term to maturity.

The Company's is exposed to certain financial risks, including currency risk, credit risk, liquidity risk, price risk and interest risk.

(a) Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, the United States and Mexico and a portion of its expenses are incurred in US dollars and Mexican pesos. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar or Mexican peso could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

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

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

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

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

Based on the above net exposures as at December 31, 2010, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar and the Mexican peso would result in a material change to the Company's loss in terms of unrealized foreign exchange of approximately $0.6 million.

(b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from amounts receivable and marketable securities.

The Company's trade receivables are the result of sales of concentrates to one significant purchaser. As such, the Company is at risk with respect to collections of these receivables. The Company's other receivables consist of sales taxes due from the Federal Governments of Canada and Mexico.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities are due within the current operating period.

The Company's expected source of cash flow in the upcoming year will be through its operations at La Negra mine, debt financing and entering into joint venture agreements, or a combination thereof.

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

	Payments due by period (000's)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Accounts payable	$ 3,656	$ 3,656	$ Nil	$ Nil	$ Nil
Notes payable	$ 235	$ 235	$ Nil	$ Nil	$ Nil
Income tax and PSE (La Negra)	$ 1,324	$ 1,324	$ Nil	$ Nil	$ Nil
Convertible debentures	$ 10,400	$ 10,400	$ Nil	$ Nil	$ Nil
Environmental obligations	$ 1,470	$ Nil	$ Nil	$ Nil	$ 1,470
Total	$ 17,085	$ 15,615	$ Nil	$ Nil	$ 1,470

(d) Price risk

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

(e) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

24. SUBSEQUENT EVENTS

Subsequent to year end:

a) Debt restructure

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

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

b) Credit Facility

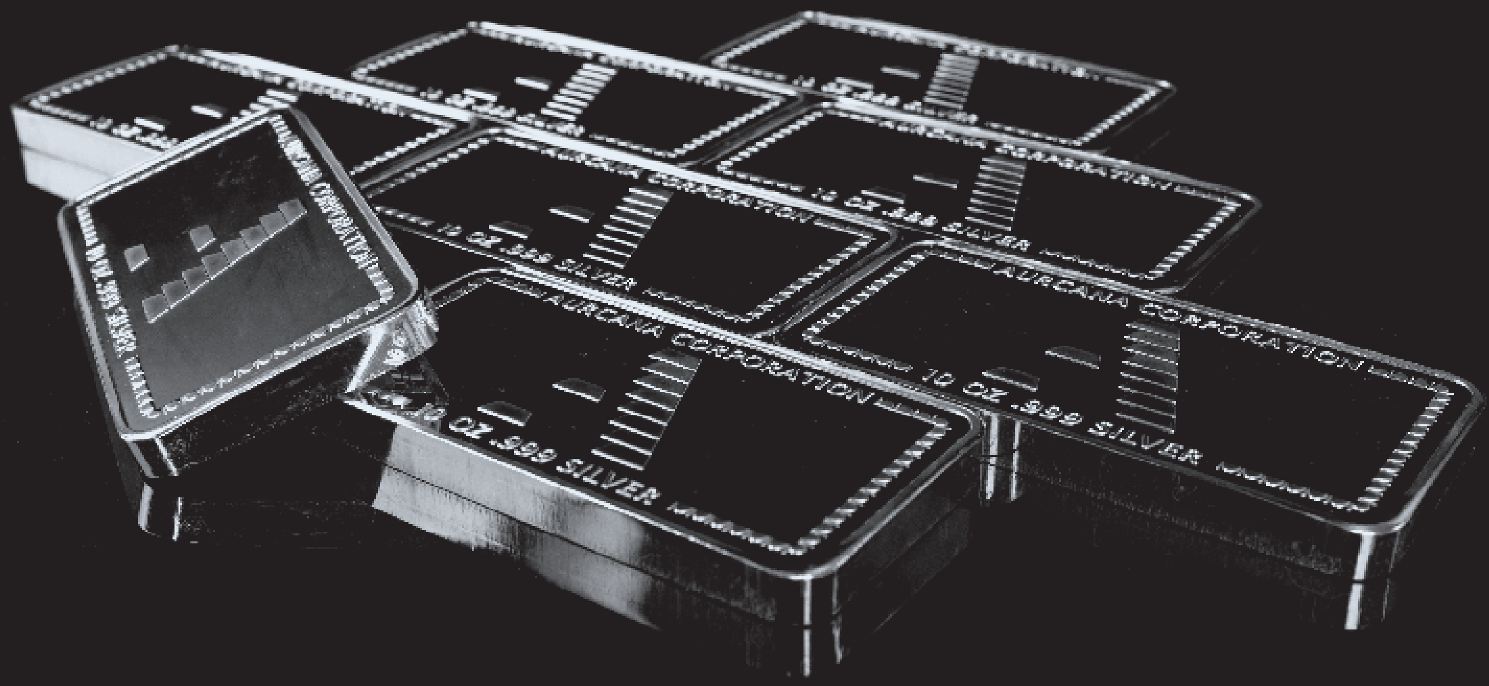
On October 26, 2010, the Company had entered into two non-binding term sheets ("Non-Binding Term Sheets") with respect to the debt facility. The Company's only obligations to Sprott Asset Management LP ("SAM") and Sprott Resource Lending Partnership ("SLP") if the Company did not proceed with the credit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

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

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

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

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



Corporate Information

Aurcana Corporation
Suite 1750
1188 West Georgia Street
Vancouver, BC
Canada V6E 4A2

T 604 331 9333
F 604 633 9179
TF 866 532 9333

info@aurcana.com
aurcana.com

Officers & Directors

Lenic M Rodriguez *President, CEO and Director*
Andy Nichols *Vice President, Operations*
Nils von Fersen *Vice President, Exploration*
Salvador Huerta *Chief Financial Officer*
Terese J Gieselman *Corporate Secretary/Treasurer*
Adrian Aguirre *Director*
Paul Matysek *Director*
Ron Nichols *Director*
Bob Tweedy *Director*

Managers

Sandy McVey *Manager of Projects*

Technical Advisory Committee

Jerry Blackwell
Ken Collison
Dr. Peter Megaw

Registrar & Transfer Agent

Equity Transfer & Trust Company
Suite 1620, 1185 West Georgia Street
Vancouver, BC
Canada V6E 4E6

Legal Counsel

Axium Law Group
Suite 3350, Four Bentall Centre
1055 Dunsmuir Street
PO Box 49222
Vancouver, BC
Canada V7X 1J2

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
7th Floor, 250 Howe Street
Vancouver, BC
Canada V6C 3S7

Capitalization

Symbol	TSX.V – AUN
Issued and outstanding	331,650,230
Options	19,202,500
Warrants	116,163,147
Convertible debenture	6,622,517
Fully diluted	473,638,394

as of March 31, 2011

Contact

Gary Lindsey
Investor Relations
gary@stratastargroup.com
T 720 273 6224

AURCANA
CORPORATION

Aurcana Corporation
Suite 1750
1188 West Georgia Street
Vancouver, BC
Canada V6E 4A2

T 604 331 9333
F 604 633 9179
TF 866 532 9333

info@aurcana.com
aurcana.com