# AURCANA CORPORATION

## UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**September 30, 2008**

**Canadian Funds**

**1515 - 1188 WEST GEORGIA STREET, VANCOUVER BC V6E 4A2**
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## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

**AURCANA CORPORATION**
**Interim Consolidated Balance Sheets**
**(Unaudited)**
*Canadian Funds*

| | | September 30, 2008 | | December 31, 2007 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash and cash equivalents | $ | **2,891,537** | $ | 11,690,382 |
| Accounts receivable - trade | | **2,562,157** | | 1,558,468 |
| - other | | **2,758,489** | | 1,721,635 |
| Prepaid expenses and advances | | **283,299** | | 210,898 |
| Due from joint venture partner | | **1,025,422** | | 181,553 |
| Inventory *(Note 4)* | | **803,588** | | 643,966 |
| | | **10,324,492** | | 16,006,902 |
| **Property, Plant and Equipment** *(Note 5)* | | **8,851,870** | | 5,666,389 |
| **Mineral Properties** *(Note 7)* | | **56,485,455** | | 14,184,404 |
| | $ | **75,661,817** | $ | 35,857,695 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | $ | **1,806,846** | $ | 1,609,749 |
| Current portion of notes payable *(Note 8)* | | **2,545,391** | | 2,245,741 |
| | | **4,352,237** | | 3,855,490 |
| **Notes Payable *(Note 8)*** | | **181,526** | | 1,627,335 |
| **Unearned Revenue *(Note 9)*** | | **24,830,363** | | - |
| **Convertible debentures (*Note 6*)** | | **10,062,500** | | - |
| **Asset Retirement Obligation *(Note 10)*** | | **828,837** | | 921,238 |
| | | **40,255,463** | | 6,404,063 |
| **SHAREHOLDERS' EQUITY** | | | | |
| **Capital Stock *(Note 11)*** | | **56,289,710** | | 45,615,710 |
| **Obligation to Issue Shares *(Note 6)*** | | **-** | | 200,000 |
| **Contributed Surplus *(Note 11)*** | | **5,304,705** | | 4,679,823 |
| **Deficit** | | **(26,188,061)** | | (21,041,901) |
| | | **35,406,354** | | 29,453,632 |
| | $ | **75,661,817** | $ | 35,857,695 |

**Commitments *(Note 14)***

On behalf of the Board:

*" Ken Booth "*, Director
Ken Booth

*" Ron Nichols "*, Director
Ron Nichols

- See Accompanying Notes -

**AURCANA CORPORATION**
**Interim Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit (Unaudited)**
*Canadian Funds*

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Sales *(Note 13)* | **$ 3,848,356** | $ 3,963,456 | **$ 10,401,269** | $ 3,963,456 |
| Cost of sales | **(4,014,723)** | (2,742,136) | **(9,082,864)** | (2,742,136) |
| Gross Margin | **(166,367)** | 1,194,320 | **1,318,405** | 1,194,320 |
| **EXPENSES** | | | | |
| Administrative expense | **349,885** | 543,449 | **1,002,976** | 859,921 |
| Amortization | **215,843** | 198,594 | **497,016** | 199,942 |
| Depletion of mineral properties | **600,114** | 699,970 | **1,671,995** | 699,970 |
| Accretion of ARO | **11,515** | - | **34,547** | - |
| Foreign exchange translation loss | **932,313** | 49,350 | **838,183** | 102,208 |
| Interest and financing | **87,040** | 34,548 | **92,899** | 38,174 |
| Corporate finance fees | **624,000** | - | **624,000** | - |
| Investor relations | **109,684** | 86,023 | **295,220** | 150,686 |
| Listing and filing fees | **4,763** | 7,290 | **32,427** | 36,271 |
| Professional fees | **195,430** | 38,284 | **291,063** | 66,989 |
| Property evaluation | **87,598** | - | **615,486** | - |
| Stock-based compensation *(Note 11)* | **406,123** | - | **624,882** | 2,863,621 |
| | **3,624,308** | 1,657,508 | **6,620,694** | 5,017,782 |
| **Loss Before the Under-Noted** | **(3,790,675)** | (463,188) | **(5,302,291)** | (3,823,462) |
| Other income | **45,176** | 318,766 | **156,128** | 449,667 |
| **Net Loss and Comprehensive Loss for the Period** | **(3,745,498)** | (144,422) | **(5,146,160)** | (3,373,795) |
| Deficit, beginning of period | **(22,442,563)** | (21,116,901) | **(21,041,901)** | (17,887,528) |
| **Deficit, End of Period** | **$ (26,188,061)** | $ (21,261,323) | **$ (26,188,061)** | $ (21,261,323) |
| **Loss Per Share – Basic** | **$ (0.04)** | $ 0.00 | **$ (0.05)** | $ (0.04) |
| **Loss Per Share – Diluted** | **$ (0.04)** | $ 0.00 | **$ (0.05)** | $ (0.04) |
| **Weighted average number of shares outstanding - Basic** | **99,287,321** | 90,368,933 | **98,413,004** | 82,783,514 |
| **Weighted average number of shares outstanding – Diluted** | **99,287,321** | 90,368,933 | **98,413,004** | 82,783,514 |

**AURCANA CORPORATION**
**Interim Consolidated Statement of Cash Flows**
**(Unaudited)**
*Canadian Funds*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **Cash Flows From Operating Activities** | | | | |
| Net Loss and comprehensive loss for the period | **$ (3,745,498)** | $ (144,422) | **$ (5,146,160)** | $ (3,373,795) |
| Items not involving cash | | | | |
| Amortization | **215,843** | 198,594 | **497,016** | 199,942 |
| Depletion of mineral property | **600,114** | 699,970 | **1,671,995** | 699,970 |
| Stock-based compensation | **406,123** | - | **624,882** | 2,863,621 |
| Accretion of ARO | **11,515** | - | **34,547** | - |
| Unrealized foreign exchange | **9,054** | - | **5,646** | - |
| | **1,242,649** | 745,142 | **2,834,086** | 389,738 |
| **Non-cash working capital change** | | | | |
| Accounts receivable | **24,452,463** | - | **(2,040,543)** | (2,545,000) |
| Account payable and accrued liabilities | **621,489** | - | **197,097** | 1,537,000 |
| Other | **(274,343)** | (129,112) | **(232,023)** | (205,465) |
| | **24,799,609** | (129,112) | **(2,075,469)** | (1,213,465) |
| | **22,269,760** | 625,030 | **(4,387,543)** | (823,727) |
| **Cash Flows From Investing Activities** | | | | |
| Purchase of plant and equipment | **(1,700,608)** | (330,771) | **(3,682,497)** | (785,410) |
| Expenditures on mineral properties | **(21,917,088)** | (1,495,895) | **(23,819,140)** | (4,502,924) |
| | **(23,617,696)** | (1,826,666) | **(27,501,637)** | (5,288,334) |
| **Cash Flows From Financing Activities** | | | | |
| Due to joint venture partner | **14,868** | (73,246) | **(843,869)** | (721,970) |
| Long-term debt | **-** | (67,186) | **-** | (268,523) |
| Unearned revenue | **(500,829)** | - | **24,830,363** | - |
| Share capital issued for cash | **-** | - | **250,000** | 20,050,359 |
| Acquisition liability | **-** | - | **-** | (1,166,400) |
| Notes payable | **383,597** | (310,096) | **(1,146,159)** | (139,025) |
| | **(102,364)** | (450,528) | **23,090,335** | 18,920,841 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(1,423,300)** | (1,652,164) | **(8,798,845)** | 12,808,780 |
| Cash and cash equivalents - beginning of period | **4,314,837** | 16,472,402 | **11,690,382** | 2,011,458 |
| **Cash and Cash Equivalents - End of Period** | **$ 2,891,537** | $ 14,820,238 | **$ 2,891,537** | $ 14,820,238 |

## 1. NATURE OF BUSINESS

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Principles of consolidation

These financial statements include the accounts of: Aurcana Corporation and its wholly-owned subsidiaries, Silver Assets Inc., Aurcana de Mexico S.A. de C.V. and Minera Aurcana S.A. de C.V., both Mexican corporations. The Company's 80% interest in the joint venture, Real de Maconi S.A. de C.V., a Mexican corporation (Maconi) is accounted for by the proportionate consolidation method. Under this method, the Company includes in its accounts its proportionate share of the assets, liabilities, revenues and expenses. The joint venture has a 100% interest in Minera La Negra S.A. de C.V., a Mexican Corporation (La Negra). All significant inter-company balances and transactions have been eliminated.

These interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") based on accounting policies and practices consistent with those used in the preparation of the annual audited consolidated financial statements. The interim consolidated financial statements do not include all information and note disclosure required by Canadian GAAP for annual financial statements, and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007.

### 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.

### 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 are 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 Property plant and equipment are put into use. In accordance with 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

### 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.

## 3. FINANCIAL INSTRUMENTS

Fair value - The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, approximate their fair values because of the short-term maturity of these financial instruments.

The carrying value of notes payable approximates their fair value as this financial instrument bears interest at an approximate market rate of interest.

Credit risk - The Company's financial assets that are exposed to credit risk consist primarily of cash and accounts receivable. This risk is minimized to the extent that cash is placed with major financial institutions and accounts receivable consist of amounts due from Government Agencies.

Currency risk - The Company is exposed to foreign currency fluctuations to the extent expenditures incurred by the Company are not denominated in Canadian dollars. As at September 30, the Company had investments in mineral properties that require the Company to make payments in US dollars and Mexican pesos, and US dollar and Mexican pesos work commitments. The Company's ability to make these payments to satisfy its obligations for work commitments will be affected by foreign currency rate fluctuations. The Company does not utilize derivatives or other techniques to manage foreign currency risk.

## 4. INVENTORY

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| Supplies inventory | $ **760,869** | $ 461,634 |
| Stockpile inventory | **19,912** | 55,152 |
| Concentrates and in-process inventory | **22,807** | 127,180 |
| Total inventory | $ **803,588** | $ 643,966 |

## 5. PROPERTY, PLANT AND EQUIPMENT

| **September 30, 2008** | **Cost** | **Accumulated Amortization** | **Net Book Value** |
|---|---|---|---|
| **Land** | **$ 1,366,462** | **$ -** | **$ 1,366,462** |
| **Plant & equipment** | **7,319,558** | **792,355** | **6,727,204** |
| **Vehicles** | **354,201** | **68,748** | **285,453** |
| **Computer equipment** | **431,663** | **79,800** | **351,863** |
| **Other** | **131,804** | **10,917** | **120,887** |
| | **$ 9,803,689** | **$ 951,819** | **$ 8,851,870** |
| December 31, 2007 | | | |
| Land | $ 1,055,300 | $ - | $ 1,055,300 |
| Plant & equipment | 4,276,984 | 368,260 | 3,908,724 |
| Vehicles | 310,540 | 35,122 | 275,418 |
| Computer equipment | 349,330 | 49,346 | 299,984 |
| Other | 132,446 | 5,483 | 126,963 |
| | $ 6,124,600 | $ 458,211 | $ 5,666,389 |

## 6. ACQUISITION

### *La Negra Mine Acquisition*

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 are jointly developing the La Negra mine in Queretaro State, Mexico as held in the 100% subsidiary La Negra

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

The Company acquired its 80% interest in the Joint Venture by making the following contributions to the Joint Venture:

| | | |
|---|---|---|
| Upon subscription by the Company | $ 2,000,000 | Paid |
| Within 10 days of the first anniversary of the Company’s subscription | $ 1,000,000 | (i) |
| Within 5 days of the JV 100% acquisition of La Negra | $ 1,500,000 | Paid |
| Within 60 working days of the 100% acquisition of La Negra | $ 1,500,000 | Paid |
| | $ 6,000,000 | |

(i) contributed by common shares in the Company fair valued at $1,170,361

## 6. ACQUISITION *continued*

Under the terms of the JV Agreement, the Company has agreed to make the following payments or commitments to Reyna as consideration for signing the JV Agreement:

| | | Cash | | Shares of the Company | |
|---|---|---|---|---|---|
| Upon signing | $ | 25,000 | (paid) | | |
| Within 30 days of the date of acquisition of La Negra | | - | | 1,000,000 | (issued) |
| Within 12 months of the acquisition of La Negra | | 500,000 | (paid) | 1,000,000 | (issued) |
| Within 24 months of the acquisition of La Negra | | 725,000 | (paid) | 1,000,000 | (issued) |
| | $ | 1,250,000 | | 3,000,000 | |

The capital stock obligations were measured at the fair value of the Company's common shares on the agreement date ($600,000).

The Company also issued to Reyna 1,000,000 warrants, each warrant entitling Reyna to purchase one common share for $0.25 on or before 18 May 2008 (note 11f). The warrants were fair valued at $293,099 using the Black Scholes option pricing model. A finder's fee of US $170,000 was paid in cash.

During May 2006, Maconi entered a formal purchase agreement with Penoles S.A. de C.V. ("Penoles") whereby the Joint Venture acquired 100% of Minera La Negra for US $3,000,000 (the "purchase price") the agreement was subsequently amended and paid as follows:

| | | Cash | Shares |
|---|---|---|---|
| Upon execution of the purchase agreement | $ | 2,000,000 | - |
| Within 12 months of execution of the purchase agreement (i) | | - | 1,114,631 |

(i) Under the initial terms of the agreement the requirement was for $1,000,000. This was settled under the amended terms for a fair value issuance of shares (fair value $1,170,361).

The Company's 80% proportionate interest on acquisition of La Negra is as follows:

| | | |
|---|---|---|
| Purchase price | $ | 2,579,280 |
| Fair market value of net assets acquired | | |
| Cash | | 2,355 |
| Accounts receivable | | 32,225 |
| Plant | | 824,976 |
| Mineral property | | 1,747,580 |
| | | 2,607,136 |
| Liabilities | | (27,856) |
| | | 2,579,280 |
| Purchase price discrepancy | $ | - |

### *Shafter Silver Mine Acquisition*

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. Shafter has a measured and indicated resource of 21,000,000 ounces of silver and an inferred resource of 20,200,000 ounces of silver.

To acquire Shafter 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 with a three year term and convertible into 6.62 million Aurcana common shares at $1.51 per share.

## 6. ACQUISITION *continued*

Canaccord Capital Corporation acted as financial advisor to the Company on the Silver Wheaton deal for a financial advisory fee of 2.5% of the $25,000,000 cash payment payable through the issuance of 1,040,000 common shares of the Company (issued).

The Company's 100% interest on the acquisition of Shafter is as follows:

| | | |
|---|---|---|
| Purchase price | | |
| Cash | $ | 23,000,000 |
| Issuance of 15 million shares | | 9,600,000 |
| Issuance of debentures | | 10,000,000 |
| | $ | 42,600,000 |
| Fair market value of net assets acquired | | |
| Cash | | 6,339 |
| Land and buildings | | 311,162 |
| Equipment | | 1,011,703 |
| Mineral property | | 41,328,972 |
| | | 42,658,176 |
| Liabilities | | (58,176) |
| | $ | 42,600,000 |
| Purchase price discrepancy | $ | - |

## 7. Mineral Properties

Expenditures incurred on mineral properties are as follows:

| | | La Negra, Mexico | | Rosario, Mexico | | Shafter, Texas | | Total |
|---|---|---|---|---|---|---|---|---|
| Balance December 31, 2006 | $ | 8,163,982 | $ | - | $ | - | $ | 8,163,982 |
| Acquisition costs | | | | 376,352 | | - | | 376,352 |
| Mineral property expenditures | | 2,467,887 | | 162,790 | | - | | 2,630,677 |
| Balance December 31, 2007 | $ | 10,307,924 | $ | 3,876,480 | $ | - | $ | 14,184,404 |
| Acquisition costs | | - | | - | | 41,328,972 | | 41,328,792 |
| Mineral Property expenditures | | - | | 2,579,017 | | 65,238 | | 2,644,255 |
| Depletion | | (1,671,996) | | - | | - | | (1,671,996) |
| Balance, September 30, 2008 | $ | 8,635,928 | $ | 6,455,497 | $ | 41,394,210 | $ | 56,485,455 |

### La Negra Mine, Queretaro State, Mexico

The Company holds an 80% interest in the La Negra Property (note 6). On July 1, 2007, the Company entered into commercial production.

## 7. Mineral Properties *continued*

### Rosario Property, Mexico

On February 22, 2007, the Company received Exchange approval to enter into an Option Agreement to acquire, through its subsidiary, Aurcana de Mexico, a 100% interest in a silver-zinc-lead-gold Property, Rosario (“Rosario”) located in Sinaloa State, Mexico for $US 3,000,000.

Under the terms of the Option Agreement, the Company had the exclusive option to purchase the Rosario Property. Following its technical and legal review of the Rosario Property, the Company on August 7, 2007 exercised the Option to Purchase and executed a Sale and Purchase Agreement to acquire a 100% undivided interest in Rosario, under the following terms

| | | | |
|---|---|---|---|
| On or before February 22, 2007 | US$ | 250,000 | (paid) |
| On or before August 7, 2007 | US$ | 250,000 | (paid) |
| On or before February 7, 2008 | US$ | 1,250,000 | (paid) |
| On or before February 7, 2009 | US$ | 1,250,000 | |
| | US$ | 3,000,000 | |

### Shafter Property, Texas

The Company owns 100% of the Shafter silver mine (Shafter) through Silver Assets, Inc. Shafter is located in Presidio County, southwest Texas. Shafter has a measured and indicated resource of 23,800,000 ounces of silver and an inferred resource of 22,800,000 ounces of silver

## 8. NOTES PAYABLE

| | | **September 30, 2008** | | December 31, 2007 |
|---|---|---|---|---|
| Capital equipment contracts, repayable in quarterly payments totalling US$112,336 at 8.68% per annum, maturing between December 2009 and February 2010 and secured by the related equipment *(Note 5)* | **$** | **496,196** | $ | 691,510 |
| Notes payable to the Company’s principal customer *(Note 14)*, repayable in monthly instalments totalling $US 41,000 bearing interest at LIBOR plus 2% per annum. The note is guaranteed by the Company | | **486,708** | | 706,318 |
| Estimated note payable to principal customer | | **438,088** | | - |
| Note payable to IMMSA for the acquisition of the Rosario property, non-interest bearing *(Note 7)* | | **1,305,925** | | 2,475,248 |
| | | **2,726,917** | | 3,873,076 |
| Less: Current Portion | | **(2,545,391)** | | (2,245,741) |
| | **$** | **181,526** | $ | 1,627,335 |

Scheduled principal repayments are as follows:

| | | |
|---|---|---|
| Twelve months ended September 30 | | |
| 2009 | $ | 2,463,043 |
| 2010 | | 263,913 |
| | $ | 2,726,956 |

## 9. UNEARNED REVENUE

In June 2008, Aurcana Corporation agreed to sell to Silver Wheaton (Caymans) Ltd. ("Silver Wheaton") 50% of the silver metal to be produced from ore extracted during the mine-life at La Negra. The sale was made in consideration of a prepayment to Cane Silver Inc., a 100% owned subsidiary of Aurcana, of US$25 million in cash, plus a fee per ounce of payable silver to be delivered to Silver Wheaton of the lesser of US$3.90 (subject to an inflationary adjustment beginning after year three) and the prevailing market price per ounce.

The following table reconciles movements on deferred revenue associated with the Silver Wheaton transaction:

| | | **September 30, 2008** | | December 31, 2007 |
|---|---|---|---|---|
| Unearned revenue - beginning of period | $ | **-** | $ | - |
| Additions | | **25,400,894** | | - |
| Revenue recognized | | **(570,531)** | | - |
| Unearned revenue- end of period | $ | **24,830,363** | $ | - |

During the nine months ended September 30, 2008, Aurcana delivered concentrate containing 79,574 ounces (2007 – Nil) of silver for credit to Silver Wheaton.

## 10. ASSET RETIREMENT OBLIGATION

During the year ended December 31, 2007 the Company revised its estimate of asset retirement obligations, associated with the La Negra Mine.

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 Company has estimated the fair value of the asset retirement obligation at December 31, 2007 to be $1,039,200. The obligation has been calculated using a discount rate of 5% and an inflation rate of 2.50%.

| | | **September 30, 2008** | | December 31, 2007 |
|---|---|---|---|---|
| Total asset retirement obligation – beginning of period | $ | **921,238** | $ | - |
| Total accretion during the period | | **34,547** | | 921,238 |
| Use of ARO during the period | | **(126,948)** | | - |
| Total asset retirement obligation – end of period | $ | **828,837** | $ | 921,238 |

## 11. CAPITAL STOCK

### (a) Authorized

An unlimited number of common shares

### (b) Share issuance details

| | **September 30, 2008** | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | **Shares** | | **Amount** | Shares | | Amount |
| Balance – Beginning of period | **90,543,933** | **$** | **45,615,710** | 70,929,302 | $ | 24,205,811 |
| Private placement | **-** | | **-** | 16,850,000 | | 21,062,500 |
| Issuance for acquisition liability | **-** | | **-** | 1,114,631 | | 1,170,361 |
| Issued for agent advisory fee | **1,040,000** | | **624,000** | - | | - |
| Shares issued for property | **16,000,000** | | **9,800,000** | 1,000,000 | | 200,000 |
| Exercise of warrants (note 10f) | **1,000,000** | | **250,000** | - | | - |
| Exercise of options (note 10c) | **-** | | **-** | 650,000 | | 383,500 |
| Fair value of options exercised (note 10e) | **-** | | **-** | - | | 256,594 |
| Fair value of agent and finders fee warrants | **-** | | **-** | - | | (370,665) |
| Share issue costs | **-** | | **-** | - | | (1,292,391) |
| Balance – End of period | **108,583,933** | **$** | **57,289,710** | 90,543,933 | $ | 45,615,710 |

During the nine months ended September 30, 2008 the Company:

- Issued 15,000,000 ($9,600,000) common shares to Silver Standard for the acquisition of the Shafter Silver Mine (note 6);
- Issued 1,000,000 ($200,000) common shares to Reyna Mining for the acquisition of Minera La Negra (note 6); and
- Issued 1,040,000 shares ($624,000) to the agent as an advisory fee.

During 2007 the Company:

- closed a brokered private placement of 4,000,000 units at a price of $1.25 per Unit for total gross proceeds of $5,000,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitled the holder to purchase one additional share of the Company at a price of $1.85 until September 7, 2008;
- Paid the Agent a commission of $350,000 and issued 50,000 common shares (fair value $62,500) of the Company in payment of a corporate finance fee. In addition, the Agent received 280,000 Agent's warrants (fair value $146,808) exercisable at any time up to 18 months following the closing of the private placement at an exercise price of $1.50 per share;
- Closed a non-brokered private placement of 12,800,000 units at a price of $1.25 per Unit for total gross proceeds of $16,000,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional share of the Company at a price of $1.85 until September 9, 2008;
- In connection with the non-brokered private placement, paid a finder's fee of 5% of the gross proceeds and 426,950 warrants (fair value $223,857) exercisable at any time up to 18 months following the closing of the private placement at an exercise price of $1.50 per share; and

## 11. CAPITAL STOCK - continued

- The Company also issued 1,114,631 (fair value $1,170,361) shares to Penoles to retire the acquisition liability *(Note 6).*

### (c) Stock based compensation

The Company has a 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.

| | **September 30, 2008** | December 31, 2007 |
|---|---|---|
| Opening | **5,525,000** | 3,075,000 |
| Granted | **2,925,000** | 3,100,000 |
| Exercised | **-** | (650,000) |
| Expired | **(45,000)** | - |
| Options outstanding – End of period | **8,405,000** | 5,525,000 |

The weighted average exercise price of the stock options outstanding at September 30, 2008 was $0.81 and the weighted average remaining life of the options is 3.67 years.

| Expiry Date | Exercise Price | Number of Shares |
|---|---|---|
| November 18, 2008 | $0.14 | 5,000 |
| August 18, 2011 | $0.59 | 1,800,000 |
| August 24, 2011 | $0.59 | 600,000 |
| March 22, 2012 | $1.50 | 2,175,000 |
| March 30, 2012 | $1.65 | 300,000 |
| September 7, 2009 | $1.25 | 500,000 |
| December 12 2012 | $0.64 | 100,000 |
| May 15, 2013 | $0.58 | 150,000 |
| September 9, 2013 | $0.31 | 2,775,000 |
| | | 8,405,000 |

The options granted during the period were granted in accordance with the terms of the Company's 10% Rolling Stock Option Plan approved 11 August 2006, which can be exercised for periods of between two to five years.

As at September 30, 2008, 8,280,000 of the outstanding options have vested, leaving a balance of 125,000 remaining to vest.

For the period ended September 30, 2008, 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.

## 11. CAPITAL STOCK - *continued*

For the period ended September 30 the stock-based compensation expense was $624,882 (2007 - $2,863,621). The fair value of stock options granted as above is calculated using the following weighted average assumptions:

| | **2008** | 2007 |
|---|---|---|
| Risk free interest rate | **3.14%** | 4.03% |
| Expected stock price volatility | **89.33 - 96.18%** | 101.29% |
| Expected dividend yield | **0.00%** | 0.00% |
| Expected option life in years | **5.0** | 4.5 |

### (e) Contributed surplus

| | **September 30, 2008** | December 31, 2007 |
|---|---|---|
| Balance - Beginning of period | $ **4,679,823** | $ 1,555,853 |
| Fair value of stock-based compensation | **624,882** | 2,666,149 |
| Fair value of agents and finder's fee warrants | **-** | 370,665 |
| Fair value attributed to mineral properties | **-** | 343,750 |
| Fair value of stock options exercised | **-** | (254,594) |
| Balance - End of period | $ **5,304,705** | $ 4,679,823 |

### (f) Share purchase warrants

| | **September 30, 2008** | December 31, 2007 |
|---|---|---|
| Balance - Beginning of period | **10,106,950** | 1,000,000 |
| Issued | **-** | 9,106,950 |
| Exercised | **(1,000,000)** | - |
| Expired | **(9,106,950** | - |
| Balance - End of period | **-** | 10,106,950 |

As of September 30, 2008 no warrants were issued and outstanding.

## 12. RELATED PARTY TRANSACTIONS

During the nine month period ended September 30, 2008, the Company paid or accrued

- Management fees of $160,367 (2007 - $112,875) to a company controlled by common directors;
- Administrative management fees of $220,495 (2007 - $211,104) to a company controlled by a director;
- Technical, geological and consulting services of $124,200 (2007 - $58,550) to a company controlled by a director;
- Consulting fees of $71,772 (2007 - $93,310) to officers or a company controlled by an officer.

As at September 30, 2008:

- Prepaid expenses and deposits included an amount of $6,825 (December 31, 2007 - $9,000 )for management fees paid to a company controlled by common directors;
- Accounts payable included $3,230 (December 31, 2007 - $1,000) to an officer and to a company controlled by a director.

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

## 13. Sales and Economic Dependence

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

| | |
|---|---|
| Number of large customers | **1** |
| Amount of sales to large customers | **10,401,269** |
| Total consolidated sales | **10,401,269** |
| Total percentage of consolidated sales from large customers | **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 15)*. The Company is economically dependent upon a single customer and upon the successful renewal or replacement of this contract at economic rates.

## 14. Commitments

Supply agreement

On November 14, 2006, Minera La Negra signed a purchase contract with Trafigura Beheer B.V. ("Trafigura") whereby Trafigura agreed to purchase 100%, evenly spread from January to December, of copper concentrate to be produced during the years 2007, 2008 and 2009 by the La Negra Mine. Production is estimated to be 8,000 to 10,000 tonnes per year for prices based on the published prices in the Metal Bulletin in London in US dollars *(Note 8).*

Acquisition of Rosario property

The Company has commitments, through its subsidiary Aurcana de Mexico S.A. de C.S.V., on the acquisition of the Rosario property requiring payment of US$1,250,000 on each of 07 February 2008 *(paid)* and 2009. *(Notes 7 and 8)*.

Office Lease
Effective May 1, 2007, the Company executed a lease for new office space for a period of 36 months, expiring on May 31, 2010. The minimum annual payments are as follows:

| | |
|---|---|
| 2008 | $ 49,331 |
| 2009 | $ 50,391 |
| 2010 | $ 21,180 |