AURCANA CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

Canadian Funds

1515 - 1188 WEST GEORGIA STREET, VANCOUVER BC V6E 4A2
PHONE: (604) 331-9333 FAX: (604) 633-9179
WEBSITE: www.aurcana.com

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
PricewaterhouseCoopers Place
250 Howe Street, Suite 700
Vancouver, British Columbia
Canada V6C 3S7
Telephone +1 604 806 7000
Facsimile +1 604 806 7806

Auditors' Report

To the Shareholders of Aurcana Corporation

We have audited the consolidated balance sheets of Aurcana Corporation as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, B.C.
May 5, 2009

AURCANA CORPORATION
Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2008 and 2007

ASSETS		**2008**		2007
Current				
Cash and cash equivalents	**$**	**1,734,484**	$	11,690,382
Accounts receivable - trade		**49,774**		1,558,468
- other		**3,125,362**		1,721,635
Prepaid expenses and advances		**192,209**		210,898
Due from joint venture partner *(Note 3)*		**984,708**		181,553
Inventory *(Note 4)*		**1,380,007**		643,966
		7,466,544		16,006,902
Property, Plant and Equipment *(Note 5)*		**6,057,538**		5,666,389
Mineral Properties *(Notes 6 and 7)*		**67,645,254**		14,184,404
	$	**81,169,336**	$	35,857,695
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**2,597,885**	$	1,609,749
Current portion of notes payable *(Note 8)*		**1,606,011**		2,245,741
		4,203,896		3,855,490
Notes Payable *(Note 8)*		**4,270,043**		1,627,335
Deferred Revenue *(Note 9)*		**29,363,955**		-
Convertible Debenture *(Note 10)*		**8,198,333**		-
Asset Retirement Obligation *(Note 11)*		**1,005,906**		921,238
Future Income tax Liability (*Note 14)*		**19,762,314**		-
		66,804,447		6,404,063
SHAREHOLDERS' EQUITY				
Capital Stock *(Note 12)*		**53,747,609**		45,615,710
Obligation to Issue Shares *(Note 6)*		**-**		200,000
Contributed Surplus *(Note 12d)*		**5,765,967**		4,679,823
Deficit		**(45,148,687)**		(21,041,901)
		14,364,889		29,453,632
	$	**81,169,336**	$	35,857,695

Going Concern *(Note 1)*
Commitments *(Note 17)*
Subsequent Event *(Note 21)*

Approved on behalf of the Board:

"*Ken Booth*" **,** Director

"*Ron Nichols*" **,** Director

AURCANA CORPORATION
Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Expressed in Canadian dollars)

Years ended December 31, 2008 and 2007

		2008		2007
REVENUES				
Sales *(Note 16)*	**$**	**11,789,811**	$	6,580,237
Cost of sales		**(15,396,704)**		(3,884,214)
Gross Margin		**(3,606,893)**		2,696,023
EXPENSES				
Administrative expense		**1,890,546**		1,497,591
Amortization		**747,954**		295,978
Depletion of mineral properties		**2,789,848**		1,204,825
Accretion of asset retirement obligation *(Note 11)*		**45,576**		-
Interest and financing		**86,933**		217,629
Investor relations		**364,735**		344,930
Listing and filing fees		**35,896**		38,879
Professional fees		**492,697**		204,511
Property evaluation		**386,673**		16,808
Stock-based compensation *(Note 12c)*		**438,183**		2,666,149
		7,279,041		6,487,300
Loss Before the Under-Noted		**(10,885,934)**		(3,827,415)
Other income		**240,509**		673,042
Foreign exchange loss		**(5,856,530)**		(36,138)
Impairment of property, plant and equipment *(Note 5)*		**(2,045,131)**		
Write off mineral property costs *(Note 7)*		**(1,994,577)**		-
Loss before income taxes		**(20,541,663)**		(3,154,373)
Future income tax expense *(Note 14)*		**(3,565,123)**		-
Net Loss and Comprehensive Loss for the Year		**(24,106,786)**		(3,154,373)
Deficit, beginning of year		**(21,041,901)**		(17,887,528)
Deficit, End of Year	**$**	**(45,148,687)**	$	(21,041,901)
Loss Per Share	**$**	**(0.24)**	$	(0.04)
Weighted average number of shares - Basic and Diluted		**99,036,317**		86,723,436

AURCANA CORPORATION
Consolidated Statement of Cash Flows
(Expressed in Canadian dollars)

Years Ended December 31, 2008 and 2007

Cash Resources Provided by (Used In)		2008		2007
Operating Activities				
Net Loss and comprehensive loss for the year	**$**	**(24,106,786)**	$	(3,154,373)
Items not involving cash				
Amortization		**747,954**		295,977
Depletion of mineral property		**2,789,848**		1,204,825
Stock-based compensation		**438,183**		2,666,149
Future income tax expense		**3,565,123**		-
Advisory fee paid in shares		**488,800**		-
Unrealized foreign exchange		**5,084,837**		-
Impairment of property, plant and equipment		**2,045,131**		
Write-off of mineral properties		**1,994,577**		-
		(6,952,333)		1,012,579
Net change in non-cash working capital		**174,345**		(2,425,064)
		(6,777,988)		(1,412,485)
Investing Activities				
Purchase of plant and equipment		**(692,370)**		(3,479,937)
Expenditures on mineral properties		**(27,077,620)**		(5,800,259)
		(27,769,990)		(9,280,196)
Financing Activities				
Due from joint venture partner		**(803,155)**		(1,624,753)
Notes payable		**866,117**		833,672
Deferred revenue, net		**24,279,118**		-
Share capital issued		**250,000**		21,383,500
Share issuance costs		**-**		(1,229,891)
Loan Payable		**-**		1,009,077
		24,592,080		20,371,605
Net Increase (Decrease) in Cash and Cash Equivalents		**(9,955,898)**		9,678,924
Cash and cash equivalents - beginning of year		**11,690,382**		2,011,458
Cash and Cash Equivalents - End of Year	**$**	**1,734,484**	$	11,690,382

Supplemental cash flow information *(Note 20)*

1. NATURE OF BUSINESS AND GOING CONCERN

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

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

While these consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future, there are events and conditions that cast significant doubt on the validity of that assumption. The Company has incurred a loss for the year ended December 31, 2008 of $24.1 million and has an accumulated deficit of $45.1 million at December 31, 2008. Subsequent to December 31, 2008, the Company has fallen into arrears on its required silver deliveries *(Notes 9, 17 and 21)* and the Company owes its sole customer a net amount of $3,788,662 *(Note 8)* for copper price settlements on copper sales completed in 2008. The Company will need to raise sufficient funds to meet these obligations as well as fund ongoing exploration and administration expenses. The Company has no assurance that such financing will be available or be available on favourable terms. Factors that could affect the availability of financing include the Company's performance (as measured by various factors including the progress and results of the Shafter and La Negra projects), the state of international debt and equity markets, investor perceptions and expectations and the global financial and metals markets. If successful, the Company would obtain additional financing through but not limited to, the issuance of additional equity.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These financial statements include the accounts of: Aurcana Corporation and its wholly-owned subsidiaries, Silver Assets Inc., a U.S. corporation, Cane Silver Inc., a Barbados corporation, and 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. ("Maconi"), a Mexican corporation 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. ("La Negra"), a Mexican Corporation.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.
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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 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. The rates of amortization used are as follows:

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

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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 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 has losses, the conversion of convertible debentures, the exercise of outstanding stock options and warrants has 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 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 recoverable 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.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

Adoption of new accounting standards

Effective January 1, 2008 the Company adopted the following new accounting standards:

Section 1400 - General Standards on Financial Statement Presentation

CICA Handbook Section 1400, as amended, changed the guidance related to management's responsibility to assess the ability of an entity to continue as a going concern. Management is required to make an assessment of the Company's ability to continue as a going concern, taking into account all information available for at least, but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern. The adoption of this standard had no impact on the Company's disclosures as these uncertainties have been, and continue to be, fully described herein.

Section 1535 - Capital Disclosures

Handbook Section 1535 "Capital Disclosures" specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. See Note 18.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Section 3031 – Inventories

This specifies standards for the measurement and disclosure of inventories. The adoption of this standard did not significantly impact the financial statements of the Company.

Financial Instruments - Disclosure (Section 3862) and Presentation (Section 3863)

These standards revise and enhance CICA 3861, *Financial Instruments - Disclosure and Presentation* (Section 3861). They carry forward the presentation requirements of Section 3861 and increase the disclosures required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. See Note 19.

Recent accounting pronouncements

Section 3064 replaces CICA 3062 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of IAS 38, Intangible Assets. CICA 1000 - *Financial Statement Concepts* is amended to clarify criteria for recognition of an asset. CICA 3450 - *Research and Development Costs* is replaced by guidance in CICA 3064. EIC 27 is no longer applicable for entities that have adopted CICA 3064. A number of other EIC abstracts have inconsequential amendments. AcG 11 - *Enterprises in the Development Stage* is also amended to delete references to deferred costs and to provide guidance on development costs as intangible assets under CICA 3064. These changes are effective for the Company commencing January 1, 2009. The Company is currently assessing the financial reporting impact of this standard.

International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. We are currently assessing the financial reporting impact of the transition to IFRS and the changeover date.

3. DUE FROM JOINT VENTURE PARTNER

Pursuant to the terms of the joint venture agreement under which the Maconi joint venture operates, any funding by the corporation, as to 80%, should be matched by a 20% contribution by the joint venture partner.

As of year end, the joint venture partner owed the joint venture $1,230,884 (approximately MP$13.7 million). Upon proportionate consolidation, 80% of this amount, or $984,708 is recorded as a receivable from the joint venture partner.

The Company is reviewing its options under this agreement, and may choose to demand payment or dilute the partner. As of year end no decision had been made in this regard.

4. INVENTORY

		2008		2007
Supplies inventory	**$**	**758,872**	$	461,634
Stockpile inventory		**18,685**		55,152
Concentrates and in-process inventory		**602,450**		127,180
Total inventory	**$**	**1,380,007**	$	643,966

5. PROPERTY, PLANT AND EQUIPMENT

December 31, 2008		**Cost**		**Impairment**	**Accumulated Amortization**		**Net Book Value**
Land	**$**	**1,228,545**	**$**	**1,055,300**	**-**	**$**	**173,245**
Plant & equipment		**7,265,069**		**834,525**	**929,068**		**5,501,476**
Vehicles		**336,155**		**59,606**	**88,153**		**188,396**
Computer equipment		**397,999**		**92,741**	**118,578**		**186,680**
Other		**13,457**		**2,959**	**2,757**		**7,741**
	$	**9,241,225**	**$**	**2,045,131**	**1,138,556**	**$**	**6,057,538**
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

During the year ended December 31, 2008, the Company recorded an impairment charge of $2,045,131 following an impairment assessment on the property, plant and equipment and the mineral property *(Note 7)* related to the Rosario property.

6. ACQUISITIONS

(a) 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 Joint Venture 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 the issuance of common shares of the Company fair valued at $1,170,361.

6. ACQUISITIONS *continued*

Under the terms of the Joint Venture Agreement, the Company has agreed to make the following payments or commitments to Reyna:

		Cash		Shares	
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) and those not issued at each period end are reflected as an "obligation to issue shares" in the amount of $Nil (2007: $200,000).

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 12e)*. The warrants were fair valued at $293,099 using the Black Scholes option pricing model. A finder's fee of US $170,000 was paid in cash. The warrants were exercised prior to expiry in 2008.

During 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, during the year ended December 31, 2007, under the amended terms for the issuance of 1,114,631 shares at a fair value $1,170,361 *(Note 12b)*.

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)
Purchase price allocated	$	2,579,280

Required disclosures of the 100% activities of the joint venture as at December 31, 2008 and for the year then ended are as follows:

Current assets	$	5,308,000
Long term assets	$	16,029,000
Revenues	$	14,737,000
Expenses	$	19,757,000
Loss for the year	$	(5,020,000)

6. ACQUISITIONS *continued*

(b) 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.

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 12d)*. The convertible liability has also been discounted by $1,220,940 to yield an effective interest rate of 15% on the debt portion of the instrument, with the convertible debenture liability assigned an initial fair value of $9,058,940 *(Note 10)*. The Company used the Black-Scholes model to value the conversion option using the following assumptions; risk-free interest rate of 3.2%; expected stock price volatility of 87.74%; expected dividend yield of 0.00%; and an expected life of 3 years.

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

Purchase price	
Cash	$ 23,000,000
Issuance of 15 million shares *(Note 12b)*	6,900,000
Issuance of debentures *(Note 10)*	10,000,000
Discount of debt portion *(Note 10)*	(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 *(Note 7)*	54,083,508
	54,934,427
Accounts payable and accrued liabilities	(58,176)
Future income tax liability *(Note 14)*	(16,197,191)
Preliminary purchase price allocated	$ 38,679,060

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	-	2,360,602	-	376,352
Mineral property expenditures	3,348,767	1,515,878	-	4,864,645
Depletion	(1,204,825)	-	-	(1,204,825)
Balance December 31, 2007	$ 10,307,924	$ 3,876,480	$ -	$ 14,184,404
Acquisition costs *(Note 6b)*	-	-	54,083,508	54,083,508
Mineral Property expenditures	-	2,878,018	149,538	3,027,556
Capitalized interest expense *(Note 10)*	-	-	138,904	138,904
Capitalized accretion expense *(Note 10)*	-	-	360,333	360,333
Depletion	(2,154,874)	-	-	(2,154,874)
Write-off of mineral property costs	-	(1,994,577)	-	(1,994,577)
Balance, December 31, 2008	$ 8,153,050	$ 4,759,921	$ 54,732,283	$ 67,645,254

7. Mineral Properties *continued*

La Negra Mine, Queretaro State, Mexico

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

Rosario Property, Mexico

On 22 February 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 from Industrial Minera Mexico, SA de CV ("IMMSA").

Under the terms of the Option Agreement, the Company had the exclusive option to purchase the Rosario Property ("Option to Purchase"). Following its technical and legal review of the Rosario Property, the Company on 7 August 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 22 February 2007	US$	250,000	(i)
On or before 7 August 2007	US$	250,000	(i)
On or before 7 February 2008	US$	1,250,000	(i)
On or before 7 February 2009	US$	1,250,000	(ii)
	US$	3,000,000	

(i) Paid
(ii) The February 2009 payment was subsequently re-negotiated as follows:

March 10, 2009	US$	250,000 (paid)
August 7, 2009	US$	306,750
February 7, 2010	US$	731,500
	US$	1,288,250

At year end, the Company determined that it was unlikely to proceed with any further activity on the Rosario property, accordingly the Company wrote down the value of the property to its estimated recoverable value, incurring a loss of $4,039,708, comprised of $2,045,131 of property, plant and equipment *(Note 5)* and $1,994,577 on the mineral property costs (above).

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.

8. NOTES PAYABLE

		2008		2007
Capital equipment contracts, repayable in quarterly payments totalling US$112,336 at 8.68% per annum, maturing between December 2009 and February 2010 and secured by the related equipment *(Note 5)*	**$**	**598,976**	$	691,510
Notes payable to the Company's principal customer *(Note 16)*, repayable in monthly instalments totalling $US150,000; bearing interest at LIBOR plus 2% per annum; unsecured.		**3,788,662**		706,318
Note payable to IMMSA, US$1,288,250, for the acquisition of the Rosario property, non-interest bearing; unsecured *(Note 7)*		**1,488,416**		2,475,248
		5,876,054		3,873,076
Less: Current Portion		**(1,606,011))**		(2,245,741)
	$	**4,270,043**	$	1,627,335

Scheduled principal repayments are as follows:

Twelve months ended December 31,		
2009	$	1,606,011
2010		1,924,858
2011		2,345,185
	$	5,876,054

9. 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 *(Notes 17 and 21)*. 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 is also payable to Cane, subject to an inflationary adjustment in year three. The terms of the sale require repayment over a period of forty years. Under the terms of the agreement with Silver Wheaton, if this situation is not resolved, then Silver Wheaton shall have the right, upon written notice to the Company, at its option to demand repayment of the remaining balance of the deferred revenue, without interest.

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. The amounts are calculated as follows:

		US Dollars		Canadian Dollars
Balance, December 31, 2007	$	-	$	-
Sale advance		25,000,000		25,331,192
Repayments		(986,298)		(1,052,074)
Unrealized foreign exchange loss		-		5,084,837
Balance, December 31, 2008	$	24,013,702	$	29,363,955

All of the shares of Minera La Negra S.A. de C.V., have been pledged as security for the agreement with Silver Wheaton.

A financial advisor to the Company on the Silver Wheaton deal was paid a financial advisory fee of 2.5% of the $25,000,000 cash payment payable through the issuance of 1,040,000 (fair value: $488,500) common shares of the Company (issued). The amount has been expensed in the year ended December 31, 2008.

10. CONVERTIBLE DEBENTURE

		2008		2007
$10 million face value convertible debenture, bearing interest at 3% per annum, convertible into common shares at $1.51 per share, due in full July 15, 2011, unsecured – at Inception *(Note 6b)*	**$**	**10,000,000**	$	-
Fair value attributed to conversion feature *(Notes 6b and 12d)*		**(941,060)**		-
Discount of liability portion		**(1,220,940)**		-
Accretion for the period		**360,333**		-
		8,198,333		-
Less: Current Portion		**-**		-
	$	**8,198,333**	$	-

The Company has recorded the fair value of the conversion option to be $941,060 and has recorded this amount in "contributed surplus" *(Note 12d).* The convertible liability has also been discounted by $1,220,940 to yield an effective interest rate of 12% on the debt portion of the instrument. During the year ended December 31, 2008, the Company accrued $138,904 of interest on the convertible debenture and capitalized the amount together with the $360,333 of accretion expense to the Shafter mineral property *(Note 7)*, which was financed by the convertible debenture.

11. 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 undiscounted amount of the obligation is $1,299,000 and the reclamation activities are estimated to commence in 7 years.

Details are as follows:

Balance December 31, 2006	$	-
Obligations incurred during the year		921,238
Balance December 31, 2007		921,238
Accretion		45,576
Obligations incurred during the year		39,092
Balance December 31, 2008	$	1,005,906

12. CAPITAL STOCK

(a) Authorized

An unlimited number of common shares

(b) Share issuance details

	December 31, 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
Acquisition of Shafter *(Note 6b)*	**15,000,000**		**6,900,000**	-		-
Issuance for acquisition liability *(Note 6a)*	**-**		**-**	1,114,631		1,170,361
Issued for agent advisory fee *(Note 9)*	**1,040,000**		**488,800**	-		-
Shares issued for property *(Note 6a)*	**1,000,000**		**200,000**	1,000,000		200,000
Exercise of warrants *(Note 12e)*	**1,000,000**		**250,000**	-		-
Exercise of options *(Note 12c)*	**-**		**-**	650,000		383,500
Fair value of warrants exercised *(Note 12d)*	**-**		**293,099**	-		-
Fair value of options exercised *(Note 12d)*	**-**		**-**	-		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**	**$**	**53,747,609**	90,543,933	$	45,615,710

During 2008 the Company:

- Issued 15,000,000 ($6,900,000) common shares to Silver Standard for the acquisition of the Shafter Silver Mine *(Note 6b)*;
- Issued 1,000,000 ($200,000) common shares to Reyna Mining for the acquisition of Minera La Negra *(Note 6a)*; and
- Issued 1,040,000 shares ($488,800) to the agent as an advisory fee *(Note 9).*

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

12. CAPITAL STOCK - *continued*

(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.

	December 31, 2008	December 31, 2007
Opening	**5,525,000**	3,075,000
Granted	**3,075,000**	3,100,000
Exercised	**-**	(650,000)
Expired and cancelled	**(200,000)**	-
Options outstanding – End of period	**8,400,000**	5,525,000

The weighted average exercise price of the stock options outstanding at December 31, 2008 was $0.78 and the weighted average remaining life of the options is 3.45 years.

Expiry Date	Exercise Price	Number of Shares
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	150,000
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
October 20, 2013	$0.16	150,000
		8,400,000

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 December 31, 2008, 8,212,500 of the outstanding options have vested, leaving a balance of 187,500 remaining to vest.

For the year ended December 31, 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.

12. CAPITAL STOCK - *continued*

For the year ended December 31 the stock-based compensation expense was $438,183 (2007 - $2,666,149). The fair value of stock options granted as above is calculated using the following weighted average assumptions:

	2008	2007
Risk free interest rate	**2.88 - 3.00%**	4.03%
Expected stock price volatility	**89.33 – 92.65%**	101.29%
Expected dividend yield	**0.00%**	0.00%
Expected option life in years	**5.0**	4.5

(d) Contributed surplus

	December 31, 2008	December 31, 2007
Balance - Beginning of period	$ **4,679,823**	$ 1,555,853
Fair value of stock-based compensation *(Note 12c)*	**438,183**	2,666,149
Fair value of conversion rights on convertible debentures *(Notes 6b and10)*	**941,060**	-
Fair value of agents and finder's fee warrants	**-**	370,665
Fair value attributed to mineral properties	**-**	343,750
Fair value of warrants exercised	**(293,099)**	-
Fair value of stock options exercised	**-**	(256,594)
Balance - End of period	$ **5,765,967**	$ 4,679,823

(e) Share purchase warrants

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

As of year end no warrants were issued and outstanding.

13. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008, the Company paid or accrued

- Management fees of $160,367 (2007 - $161,625) to a company controlled by common directors;
- Administrative management fees of $327,773 (2007 - $343,980) to a company controlled by a director.
- Technical and consulting services of $124,200 (2007 - $93,100) to a company controlled by a director;
- Consulting fees of $220,945 (2007 - $127,583) to officers, a former officer and a company controlled by an officer;
- Rent of $nil (2007 - $19,300) to a company controlled by common directors;

As at December 31, 2008:

- Prepaid expenses and deposits included an amount of $8,925 (2007 - $9,010) for management fees paid to a company controlled by common directors; and
- Accounts payable included $3,230 (December 31, 2007 - $37) to an officer and to a company controlled by an officer.

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

14. INCOME TAXES

		2008		2007
Net loss for the year before taxes	$	**20,541,663**	$	3,154,000
Statutory rate :		**31.0%**		34.1%
Tax recovery at statutory rates		**(6,367,916)**		(1,076,000)
Permanant differences		**1,470,943**		500,000
Effect of change in enacted rates		**97,938**		-
Efect of foreign tax rate differences		**158,981**		-
Effect of change in foreign exchange rates		**4,415,328**		1,000
Current valuation allowance (recovery) and other		**3,789,849**		575,000
Future income tax expense	$	**3,565,123**	$	-

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

		2008		2007
Non-capital loss carry-forwards	$	**6,546,099**	$	1,777,000
Deferred financing costs and other		**921,684**		337,000
Resource properties		**(23,614,054)**		97,000
		(16,146,271)		2,211,000
Valuation allowance		**(3,616,044)**		(2,211,000)
Future income and mining tax liability	$	**(19,762,314)**	$	-

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

		USA		Mexico		Canada
2009	$	-	$	-	$	301,000
2010		-		-		345,000
2011		-		381,000		332,000
2012		-		240,000		248,000
Beyond 2012		5,896,000		11,140,000		3,349,000
	$	5,896,000	$	11,761,000	$	3,929,000

15. SEGMENTED DISCLOSURE

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

December 31, 2008	**Revenue**	**Property, Plant & Equipment**		**Mineral properties**		**Total Capital Assets**
Canada	**-**	**16,103**		**-**		**16,103**
United States	**-**	**844,580**		**54,732,283**		**55,576,863**
Mexico	**11,789,811**	**5,196,855**		**12,912,971**		**18,109,826**
Total	**11,789,811**	**6,057,538**	$	**67,645,254**	$	**73,702,792**
December 31, 2007						
Canada	-	34,169	$	-	$	34,169
Mexico	6,580,237	5,632,220		14,184,404		19,816,625
Total	6,580,237	5,666,389	$	14,184,404	$	19,850,794

16. SALES AND ECONOMIC DEPENDENCE

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

	2008	2007
Number of large customers	**1**	1
Amount of sales to large customers	**11,789,811**	6,580,237
Total consolidated sales	**11,789,811**	6,580,237
Total percentage of consolidated sales generated from large 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 17)*. The Company is economically dependent upon a single customer and upon the successful renewal or replacement of this contract at economic rates.

17. 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. Prices are based on the published prices in the Metal Bulletin in London in US dollars*.*

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 payments totaling US$1,288,250 of which US$556,750 is payable during 2009 and $731,500 during 2010 *(Note 7)*.

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 $50,391 in 2009 and $21,180 in 2010.

Deferred Revenue

The Company has commitments to deliver 50% of its silver production from the La Negra property as payment for the funds received from the advance silver sale *(Notes 9 and 21).*

18. 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, as well as the cash and cash equivalents, and investments. 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 period. The Company is not subject to any external capital restrictions.

The Company expects that it will be necessary to raise additional capital during the current fiscal year to meet its budgeted exploration and development plans and operations.

19. FINANCIAL RISK MANAGEMENT

The Company's 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, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

		December 31, 2008
Cash and cash equivalents	US$	677,232
Notes payable		(4,956,095)
Future income tax liability		(16,137,770)
Deferred revenue		(24,013,702)
	US$	(44,430,335)
Canadian dollar equivalent	C$	(54,409,388)

At December 31, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		December 31, 2008
Cash and cash equivalents	MP$	420,916
Amounts receivable		33,439,948
Accounts payable and accrued liabilities		(79,351,913)
	MP$	(45,491,049)
Canadian dollar equivalent	C$	(4,076,907)

Based on the above net exposures as at December 31, 2008, 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 $5.9 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.

19. FINANCIAL RISK MANAGEMENT - *continued*

(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	$2,598	$2,598	$Nil	$Nil	$Nil
Notes payable	$5,876	$1,606	$4,270	$Nil	$Nil
Convertible debentures	$10,000	$Nil	$10,000	$Nil	$Nil
Environmental obligations	$1,299	$Nil	$Nil	$Nil	$1,299
Total	$19,773	$4,204	$14,270	$Nil	$1,299

(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.

19. FINANCIAL RISK MANAGEMENT - *continued*

The impact of a 10% movement in commodity prices, based upon 2008 sales and commodity forward selling prices at December 31, 2008, would be an increase in revenue of $1.3 million or a decrease in revenue of $1,6 million.

(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.

20. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and Cash Equivalents is comprised of:				
Cash		**882,678**		1,691,802
Government-backed investment certificates		**851,806**		9,998,580
		1,734,484		11,690,382
Supplemental Cash Flow Information of Non-cash Investing and Financing Activities				
Shares issued to acquired Shafter assets *(Note 6b)*		**6,900,000**		-
Shares issued to settle purchase obligation *(Note 6a)*		**-**		1,170,361
Convertible debt issued to acquire Shafter assets *(Note 6b)*		**10,000,000**		-
Obligation to issues shares for mineral properties *(Note 6a)*	**$**	**(200,000)**	$	(200,000)

21. SUBSEQUENT EVENT

Subsequent to year end, the Company fell into arrears on its silver deliveries to Silver Wheaton *(Note 9)*. The Company and Silver Wheaton are discussing alternatives to remedy this situation; however at the date of this report no definitive agreement has been reached.