AURCANA CORPORATION

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

Canadian Funds

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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
Consolidated Balance Sheets - Unaudited
(Expressed in Canadian dollars)

		September 30, 2009		December 31, 2008
ASSETS				
Current				
Cash and cash equivalents	**$**	**1,368,861**	$	1,734,484
Accounts receivable - trade		**417,257**		49,774
- other		**1,015,078**		3,125,362
Prepaid expenses and advances		**316,796**		192,209
Due from joint venture partner *(Note 3)*		**-**		984,708
Inventory *(Note 4)*		**1,686,094**		1,380,007
		4,804,086		7,466,544
Property, Plant and Equipment *(Note 5)*		**7,151,526**		6,057,538
Mineral Properties *(Notes 6 and 7)*		**69,228,321**		67,645,254
	$	**81,183,933**	$	81,169,336
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**2,465,170**	$	2,597,885
Current portion of notes payable *(Note 8)*		**2,827,242**		1,606,011
		5,292,412		4,203,896
Notes Payable *(Note 8)*		**2,432,864**		4,270,043
Deferred Revenue *(Note 9)*		**24,260,829**		29,363,955
Convertible Debenture *(Note 10)*		**8,738,838**		8,198,333
Asset Retirement Obligation *(Note 11)*		**1,210,257**		1,005,906
Future Income tax Liability		**19,762,314**		19,762,314
		61,697,514		66,804,447
Non-Controlling Interest *(Note 3)*		**383,693**		-
		62,081,207		66,804,447
SHAREHOLDERS' EQUITY				
Capital Stock *(Note 12)*		**53,747,609**		53,747,609
Contributed Surplus *(Note 12d)*		**6,157,158**		5,765,967
Deficit		**(40,802,041)**		(45,148,687)
		19,102,726		14,364,889
	$	**81,183,933**	$	81,169,336

Going Concern *(Note 1)*
Commitments *(Note 16)*
Subsequent Events *(Note 18)*

Approved on behalf of the Board:

"Lenic Rodriguez", Director

"Ron F. Nichols", Director

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	**2009**	2008
REVENUES		(Restated - Note 17)		(Restated - Note 17)
Sales *(Note 15)*	**$ 5,228,565**	$ 2,126,202	**$ 12,647,262**	$ 6,628,528
Cost of sales	**(3,478,227)**	(4,014,723)	**(9,738,254)**	(9,082,864)
Amortization	**(278,159)**	(215,843)	**(581,780)**	(497,016)
Depletion of mineral properties	**(13,149)**	(600,114)	**(763,623)**	(1,671,995)
Accretion of ARO	**(25,345)**	(11,515)	**(50,107)**	(34,547)
Earnings (loss) from mining operations	**1,433,685**	(2,715,993)	**1,513,498**	(4,657,894)
EXPENSES				
Administrative expense	**480,249**	214,684	**1,487,121**	867,775
Interest and financing	**35,030**	24,540	**56,151**	30,399
Investor relations	**21,386**	109,684	**68,825**	295,220
Corporate finance fees	**-**	624,000	**-**	624,000
Listing and filing fees	**2,770**	4,763	**11,628**	32,427
Professional fees	**85,428**	195,430	**140,137**	291,063
Property evaluation	**2,520**	87,598	**86,910**	615,486
Stock-based compensation *(Note 12c)*	**340,070**	308,882	**391,191**	420,882
	(967,453)	(1,569,581)	**(2,241,963)**	(3,177,252)
Income (loss) from operations	**466,232**	(4,285,574)	**(728,465)**	(7,835,146)
Foreign exchange gain (loss)	**1,930,564**	(932,313)	**3,974,475**	(838,183)
Gain on debt settlement (Note 8)	**224,702**	-	**1,247,427**	-
Other income	**3,983**	45,176	**89,758**	156,128
Income (loss) before Non-controlling Interest	**2,625,481**	(5,172,711)	**4,583,195**	(8,517,201)
Non-Controlling Interest*(Note 3)*	**(236,549)**	-	**(236,549)**	-
Net Earnings (loss) and Comprehensive Income (Loss) for the Period	**2,388,932**	(5,172,711)	**4,346,646**	(8,517,201)
Deficit, beginning of period	**(43,190,973)**	(24,386,391)	**(45,148,687)**	(21,041,901)
Deficit, End of Period	**$ (40,802,041)**	$ (29,559,102)	**$ (40,802,041)**	$ (29,559,102)
Earnings (loss) Per Share – Basic	**$ 0.02**	$ (0.05)	**$ 0.04**	$ (0.09)
Earnings (loss) Per Share – Diluted	**$ 0.02**	$ (0.05)	**$ 0.04**	$ (0.09)
Weighted average number of shares outstanding - Basic	**108,583,933**	99,287,321	**108,583,933**	98,413,004
Weighted average number of shares outstanding – Diluted	**108,583,933**	99,287,321	**108,583,933**	98,413,004

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

		Three Months Ended September 30		Nine Months Ended September 30
	2009	2008	**2009**	2008
		(Restated)		(Restated)
Cash Flows From Operating Activities				
Net Earnings (Loss) and comprehensive income (loss) for the period	**$ 2,388,922**	$ (5,172,711)	**$ 4,346,646**	$ (8,517,201)
Items not involving cash				
Amortization	**278,159**	215,843	**581,780**	497,016
Depletion of mineral property	**13,149**	600,114	**763,623**	1,671,995
Stock-based compensation	**340,070**	308,882	**391,191**	420,882
Accretion of ARO	**25,345**	11,515	**50,107**	34,547
Due to (from) JV partner	**1,042,495**	14,868	**984,708**	(843,869)
Mineral property adjustments	**(481,780)**	-	**(481,780)**	-
Non-Controlling interest	**383,693**	-	**383,693**	
Unrealized foreign exchange	**(341,333)**	210,800	**(2,882,665)**	207,392
Gain on debt settlement	**(224,702)**	-	**(1, 247,427)**	-
	3,424,018	(3,810,689)	**2,889,376**	(6,529,238)
Non-cash working capital change				
Accounts receivable	**754,671**	24,452,463	**1,742,801**	(248,456)
Account payable and accrued liabilities	**(1,096,137)**	2,151,643	**(132,715)**	1,727,251
Other	**(694,929)**	(476,089)	**(430,674)**	(433,769)
	(1,036,395)	26,128,017	**1,179,412**	1,045,026
	2387,623	22,317,328	**4,069,288**	(5,484,212)
Cash Flows From Investing Activities				
Purchase of plant and equipment	**(1,600,815)**	(1,700,608)	**(1,675,768)**	(3,682,497)
Expenditures on mineral properties	**(625,122)**	(21,917,088)	**(1,557,984)**	(23,819,140)
	(2,225,937)	(23,617,696)	**(3,233,752)**	(27,501,637)
Cash Flows From Financing Activities				
Deferred revenue	**-**	(506,529)	**-**	25,083,163
Share capital issued for cash	**-**	-	**-**	250,000
Repayment on silver sale advances	**(456,282)**	-	**(1,832,638)**	-
Notes payable	**631,727**	383,597	**631,479**	(1,146,159)
	(175,445)	(122,932)	**(1,201,159)**	24,187,004
Net Decrease in Cash and Cash Equivalents	**337,131**	(1,423,300)	**(365,623)**	(8,798,845)
Cash and cash equivalents - beginning of period	**1,031,730**	4,314,837	**1,734,484**	11,690,382
Cash and Cash Equivalents - End of Period	**$ 1,368,861**	$ 2,891,537	**$ 1,368,861**	$ 2,891,537

- See Accompanying Notes -

1. NATURE OF BUSINESS AND GOING CONCERN

The Company was originally incorporated under the laws of Ontario in 1917 and on September 14, 1998 was continued under Section 187 of the Canada Business Corporations Act. Its principal business activity is the production 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. Although the Company has incurred income for the nine-month period ended September 30, 2009 of $2,388,932, it has an accumulated deficit of $40.8 million at September 30, 2009. The Company owes its sole customer a net amount of $3,569,331 (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

These interim consolidated 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.

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

The accompanying unaudited interim financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those outlined in the Company's audited financial statements for the year ended December 31, 2008. These notes do not include all of the information and disclosures required by Canadian generally accepted accounting principles for annual financial statements. These interim financial statements should be read in conjunction with the most recent annual financial statements of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES continued

Adoption of new accounting standards

i) Effective January 1, 2009, CICA Handbook Section 3064, "Goodwill and Intangible Assets", replaces Section 3062, "Goodwill and Intangible Assets," and CICA Section 3450, "Research and Development Costs," and EIC-27, "Revenues and Expenditures During the Pre-operating Period". The new Section also caused amendments to Accounting Guideline (AcG) 11, "Enterprises in the Development Stage," and CICA Section 1000, "Financial Statement Concepts." The Standard reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarifies the application of the concept of matching revenues and expenses such that the current practice of recognizing assets that may not meet the definition and recognition criteria are eliminated. The standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The effect of this change is being evaluated by the Company.

ii) Emerging Issues Committee Abstract EIC 173, "Credit Risk and the Fair Value of Financial Assets and Liabilities" was adopted effective January 20, 2009. The EIC determines that counterparty credit risk and an entity`s own credit risk should be taken into account in estimating the fair value of financial assets and liabilities, including derivatives. It was determined that this Abstract did not have a material impact on the consolidated financial statements of the Company, as the previously recognized fair values of financial assets and liabilities reflected an appropriate measure of the parties' credit risk.

iii) Emerging Issues Committee Abstract EIC 174, "Impairment Testing of Mineral Exploration Properties" was adopted effective February 28, 2009. The EIC provides guidance on the appropriateness of capitalizing exploration costs prior to establishing mineral reserves and also provides additional guidance to evaluating capitalized exploration costs for possible impairment. The adoption of this Abstract did not have any impact on the Company`s consolidated financial statements since it is the Company's accounting policy to expense exploration costs incurred on any properties in the pre-feasibility stage.

3. DILUTION OF JOINT VENTURE PARTNER

During the quarterended September 30, 2009, the Company diluted its former joint venture partner from a 20% interest in Maconi to an 8% minority interest.

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

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

The non-controlling interest is determined as follows:

Net assets of Maconi at the effective date of the dilution event	$	1,189,639
Amount due from former joint venture partner at the effective date of the dilution event		(1,042,495)
Non-controlling interest share of net earnings for the period from the dilution date to September 30, 2009		147,144
Non-controlling interest – September 30, 2009	$	383,693

4. INVENTORY

		September 30, 2009		December 31, 2008
Supplies inventory	**$**	**1,285,660**	$	758,872
Stockpile inventory		**259,481**		18,685
Concentrates and in-process inventory		**140,953**		602,450
Total inventory	**$**	**1,686,094**	$	1,380,007

5. PROPERTY, PLANT AND EQUIPMENT

September 30, 2009		**Cost**		**Impairment**	**Accumulated Amortization**		**Net Book Value**
Land	**$**	**1,228,545**	**$**	**1,055,300**	**-**	**$**	**173,245**
Plant & equipment		**9,224,395**		**834,525**	**1,699,510**		**6,690,360**
Vehicles		**381,993**		**59,606**	**182,194**		**140,213**
Computer equipment		**439,491**		**92,741**	**217,726**		**129,024**
Other		**25,083**		**2,959**	**3,440**		**18,684**
	$	**11,299,506**	**$**	**2,045,131**	**2,102,849**	**$**	**7,151,526**
December 31, 2008							
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

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

As its 20% contribution to the former 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.

Under the terms of the former Joint Venture Agreement, the Company 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	

6. ACQUISITIONS *continued*

The capital stock obligations were measured at the fair value of the Company's common shares on the agreement date ($600,000). There are no further obligations to issue shares.

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.

(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 12% 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		(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, 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
Mineral Property expenditures		-		-		357,983		357,983
Change from joint venture accounting to consolidation		1,223,212		-		-		1,223,212
Capitalized interest expense (Note 10)		-		-		225,000		225,000
Capitalized accretion expense (Note 10)		-		-		540,495		540,495
Depletion		(763,623)		-		-		(763,623)
Balance, September 30, 2009	$	8,612,639	$	4,759,921	$	55,855,761	$	69,228,321

- La Negra Mine, Queretaro State, Mexico

The Company holds a 92% interest in the La Negra Property after considering the non-controlling interest held by the former joint venture partner (Note 3 and 6a).

- 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 (paid)
February 7, 2010	US$	731,500
	US$	1,288,250

7. Mineral Properties *continued*

At December 31, 2008, 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). The sale of the property is scheduled to close on November 30, 2009.

- 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

		September 30, 2009		December 31, 2008
Capital equipment contracts, repayable in quarterly payments totalling US$112,336 at 8.68% per annum, maturing between December 2009 and February 2010 and secured by the related equipment *(Note 5)*	**$**	**529,976**	$	598,976
Notes payable to the Company's principal customer *(Note 15)*, repayable in monthly instalments totalling US$80,000; bearing interest at LIBOR plus 2% per annum; unsecured.		**3,569,331**		3,788,662
Note payable to IMMSA, US$1,000,000, for the acquisition of the Rosario property, non-interest bearing; unsecured *(Note 7)*		**1,160,799**		1,488,416
		5,260,106		5,876,054
Less: Current Portion		**(2,827,242)**		(1,606,011)
	$	**2,432,864**	$	4,270,043

Scheduled principal repayments are as follows:

Twelve months ended December 31,		
2009	$	847,526
2010		1,986,436
2011		1,289,677
2012		1,136,467
	$	5,260,106

During 2008 revenues from concentrate sales were recognized at the time of shipment to the port in Mexico based on metal prices at that time at 90% provisional value. Final pricing was generally set at 4 months after shipment or alternatively 1 month after receipt at smelter. With the precipitous decline in metal prices mid-year, a large number of open contracts for shipments were effectively re-priced at the lower prices in effect at settlement. This resulted in an adjustment to sales during 2008 of US$4.8 million (approximately $5.1 million Canadian). This adjustment was reflected in the 2008 audited financial statements of the Company and resulted in an increase in notes payable to the concentrate buyer.

During the second and third quarters, the Company negotiated a settlement of the above re-pricing. As a result of the negotiations, a gain of $1,247,427 has been recognized.

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 16)*. 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. During the quarter, the Company was in arrears on its silver deliveries to Silver Wheaton. See Note 17 – Subsequent events. The balance owing of US $1,195,202 (approximately $1.38 million) has been added to accounts payable.

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
Repayments		(1,676,137)		(1,832,638)
Unrealized foreign exchange gain		-		(3,270,488)
Balance, September 30, 2009	$	22,337,565	$	24,260,829

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

		September 30, 2009		December 31, 2008
$10 million face value convertible debenture, bearing interest at 3% per annum, convertible into common shares at $1.51 per share, due in full July 15, 2011, unsecured – at Inception *(Note 6b)*	**$**	**8,198,333**	$	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		**540,495**		360,333
		8,738,838		8,198,333
Less: Current Portion		**-**		-
	$	**8,738,838**	$	8,198,333

The Company recorded the fair value of the conversion option to be $941,060 and recorded this amount in "contributed surplus" *(Note 12d).* The convertible liability was discounted by $1,220,940 to yield an effective interest rate of 12% on the debt portion of the instrument.

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, 2007		921,238
Accretion		45,576
Obligations incurred during the year		39,092
Balance December 31, 2008	$	1,005,906
Accretion		50,107
Unrealized foreign exchange		154,244
Obligations incurred during the year		-
Balance September 30, 2009	$	1,210,257

12. CAPITAL STOCK

(a) Authorized

An unlimited number of common shares

(b) Share issuance details

	September 30, 2009			December 31, 2008		
	Shares		**Amount**	Shares		Amount
Balance – Beginning of period	**108,583,933**	**$**	**53,747,609**	90,543,933	$	45,615,710
Private placement	**-**		**-**	-		-
Acquisition of Shafter *(Note 6b)*	**-**		**-**	15,000,000		6,900,000
Issued for agent advisory fee *(Note 9)*	**-**		**-**	1,040,000		488,800
Shares issued for property *(Note 6a)*	**-**		**-**	1,000,000		200,000
Exercise of warrants *(Note 12e)*	**-**		**-**	1,000,000		250,000
Fair value of warrants exercised *(Note 12d)*	**-**		**-**	-		293,099
Balance – End of period	**108,583,933**	**$**	**53,747,609**	108,583,933	$	53,747,609

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).*

(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, 2009	December 31, 2008
Opening	**8,400,000**	5,525,000
Granted	**4,575,000**	3,075,000
Exercised	**-**	-
Expired and cancelled	**(2,527,500)**	(200,000)
Options outstanding – End of period	**10,447,500**	8,400,000

The weighted average exercise price of the stock options outstanding at September 30, 2009 was $0.49 and the weighted average remaining life of the options is 3.69 years.

12. CAPITAL STOCK - *continued*

Expiry Date	Exercise Price	Number of Shares
August 18, 2011	$0.59	1,200,000
August 24, 2011	$0.59	600,000
March 22, 2012	$1.50	1,247,000
March 30, 2012	$1.65	150,000
September 7, 2012	$1.25	500,000
December 12 2012	$0.64	100,000
May 15, 2013	$0.58	150,000
September 9, 2013	$0.31	2,125,000
September 20, 2013	$0.16	150,000
January 16, 2014	$0.13	350,000
August 13, 2014	$0.10	3,875,000
		10,447,500

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, 2009, 10,447,500 of the outstanding options have vested, leaving a balance of nil 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.

For the nine months ended September 30, 2009 the stock based compensation expense was $391,191 (2008 $420,882). For the year ended December 31, 2008 the stock-based compensation expense was $438,183. The fair value of stock options granted as above is calculated using the following range of assumptions:

	2009	2008
Risk free interest rate	**2.98 – 3.00%**	2.88 - 3.00%
Expected stock price volatility	**89.33 – 124.67%**	89.33 – 92.65%
Expected dividend yield	**0.00%**	0.00%
Expected option life in years	**5.0**	5.0

(d) Contributed surplus

	September 30, 2009	December 31, 2008
Balance - Beginning of period	$ **5,765,967**	$ 4,679,823
Fair value of stock-based compensation *(Note 12c)*	**391,191**	438,183
Fair value of conversion rights on convertible debentures *(Notes 6b and10)*	**-**	941,060
Fair value of warrants exercised	**-**	(293,099)
Balance - End of period	$ **6,157,158**	$ 5,765,967

12. CAPITAL STOCK - *continued*

(e) Share purchase warrants

Balance - December 31, 2007	10,106,950
Issued	-
Exercised	(1,000,000)
Expired	(9,106,950)
Balance - December 31, 2008 and September 30, 2009	-

13. RELATED PARTY TRANSACTIONS

During the nine month period ended September 30, 2009, the Company paid or accrued

- Management fees of $203,096 (2008 - $380,862) to companies controlled by directors or former directors;
- Technical, geological and consulting services of $65,674 (2008 - $104,200) to companies controlled by directors or officers; and
- Consulting fees of $126,000 (2008 - $100,500) to officers or companies controlled by officers.

As at September 30, 2009:

- Prepaid expenses and deposits included an amount of $nil (2008 - $9,000) for management fees paid to a company controlled by common directors;
- Accounts payable included $nil (2008 - $12,000) 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.

14. SEGMENTED DISCLOSURE

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

September 30, 2009	**Revenue**	**Property, Plant & Equipment**		**Mineral properties**		**Total Capital Assets**
Canada	**-**	**378,273**		**-**		**378,273**
United States	**-**	**844,580**		**55,855,761**		**56,700,341**
Mexico	**12,949,200**	**5,928,673**		**13,372,560**		**19,301,233**
Total	**12,949,200**	**7,151,526**	**$**	**69,228,321**	**$**	**76,379,847**
December 31, 2008						
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

15. SALES AND ECONOMIC DEPENDENCE

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

	September 30, 2009	Dec. 31, 2008
Number of large customers	**1**	1
Amount of sales to large customers	**12,647,262**	11,789,811
Total consolidated sales	**12,647,262**	11,789,811
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 16)*. The Company is economically dependent upon a single customer and upon the successful renewal or replacement of this contract at economic rates.

16. 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 (US$250,000 paid) and $731,500 during 2010 *(Note 7)*. The payment due August 7, 2009 is currently being held pending the sale of the Rosario property.

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).*

17. RESTATEMENT TO FINANCIAL STATEMENTS

During the preparation of the consolidated financial statements for the year ended December 31, 2008, the Company determined that the effects of drastically falling concentrate prices, which commenced in the second quarter, had materially affected the quarterly results for the 2008 fiscal year. The misstatement was a result of the length of time required to settle on the final price and grade of concentrate sales from the La Negra mine under the terms of the contract then in effect. The contract allowed for the final sale price to be set based on prices in existence several months after the original sale was completed.

In addition, the recording of the Shafter property acquisition did not reflect the tax implications of the acquisition, specifically with respect to Future Income Taxes.

Additional changes were made to reflect other non-material items found during the preparation of the consolidated financial statements for the year ended December 31, 2008. The format of the Q3 2008 financial statements have also been amended to reflect the presentation in effect as of the 2008 year end.

The Q3 2008 financial statements have been restated to give effect to the revalued invoices for the period, resulting in the following changes to the financial statements:

		Previously Reported		Restated		Adjustments
Consolidated Balance Sheet						
Total Assets	$	75,661,817	$	86,388,648	$	10,726,831
Total Liabilities		40,255,463		56,451,475		16,196,012
Shareholders’ Equity	$	35,406,354	$	29,937,172	$	(5,469,182)
For the 9 months ended September 30, 2008						
Sales	$	10,401,269	$	6,628,528	$	(3,772,741)
Gross Margin (loss)		1,318,405		(2,454,336)		(3,772,741)
Expenses		(6,620,694)		(6,218,993)		401,701
Net Loss	$	(5,146,160)	$	(8,517,201)	$	(3,371,041)
For the 3 months ended September 30, 2008						
Sales	$	3,848,356	$	2,126,202	$	(1,722,154)
Gross Margin (loss)		(166,367)		(1,888,521)		(1,722,154)
Expenses		(3,624,308)		(3,329,366)		294,942
Net Loss	$	(3,745,498)	$	(5,172,711)	$	(1,427,213)

18. SUBSEQUENT EVENTS

Subsequent to the quarter end, the Company:

- Commenced a non-brokered private placement for up to 15,000,000 units at $0.22 for proceeds of $3,300,000. Each unit will consist of one share and one half of one common share purchase warrant. One full common share purchase warrant will permit the holder to purchase a further common share for a period of 18 months from closing at a price of $0.35 per share, provided that if the closing price of the Company's shares as traded on the Exchange, subsequent to four months from closing, is at or over $0.70 per share for 20 consecutive trading days, the Company will have the right to accelerate the expiry of the warrants upon giving 30 days notice to the holders thereof. Finders' fees in the amount of 7% cash and warrants at a price of $0.30 per warrant on the same terms as the Offering Warrants may be paid on a portion of the financing. The proceeds of the private placement will be used for the advancement of, the Company's expansion plans for La Negra Mine from 1000 tonnes per day to 1500 tons per day; feasibility and permitting work at the Shafter Mine; and to provide general working capital;

- Entered into a definitive agreement effective October 9, 2009 for the sale of the Rosario exploration and development project located in Sinaloa, State, Mexico. Under the terms of the Agreement, Silvermex will pay CDN$250,000 and reimburse Aurcana for all maintenance expenses incurred from August 1, 2009 to November 15, 2009 less any amounts due from the sale of certain equipment to Aurcana. In addition to the cash payment Silvermex will issue 1,000,000 common shares on closing. Upon commencement of commercial production or within 24 months from the effective Date, Silvermex will issue an additional 1,000,000 common shares. The 2,000,000 common shares are subject to a voluntary escrow and will be released at a rate of 25% every three months, commencing three months from the date of issuance. Upon the earlier of six months from the commencement of commercial production or 30 months from the effective Date Silvermex will pay to Aurcana an aggregate of US$2,500,000 in five installments of US$500,000 over a 36 month period. Aurcana at its election may take common shares in lieu of cash payments effective as of installment three. Silvermex also assumed the payment obligations to Grupo Mexico due on August 7, 2009 (US$366,893 paid by Silvermex) and US$731,500 plus IVA due on February 7, 2010;

- The Company received a notice of a legal action filed in Mexico by Mechanismos Mineros ("Mechanismos"), a former contractor who was responsible for labour outsourcing at the La Negra mine. The suit alleged that Mechanismos was entitled to severance payments of approximately MP$1,000,000. The Company denies any such liability and filed a counter claim for MP$2.4 million alleging non-payment of payroll deductions withheld. The Company further alleges that Mechanismos has unlawfully retained legal, personnel, tax and documents which are the property of the Company, which may be damaging to the Company.