



**ANNUAL REPORT**

**DECEMBER 31, 2009**



May 6, 2010

Dear Fellow Shareholder,

I write to you now after a challenging year that has nevertheless seen Esperanza's continued growth and development. We have entered 2010 in a much stronger position and I look forward to the opportunity to honor our commitment for the future success of your Company.

Your Company is also well financed with a treasury sufficient to the requirements in front of it. Esperanza completed a \$5.6 million financing in February of this year and the treasury now stands at near \$10 million. Over the past few months the share price has also responded positively. From its low of less than \$0.40 per share at the end of 2008 it is now trading at \$1.55 as of this writing – an increase of more than 280 percent. It is also 24% over the recent financing price.

### **Cerro Jumil**

Our major goal for 2009 was completion of a Preliminary Economic Assessment of the Cerro Jumil project. Last year I wrote that the purposes of the PEA were to “demonstrate potential economic viability of the project...and to help our geologists and engineers more precisely define the required follow-up study.” The study was completed in September of last year and pointed toward an anticipated pre-tax 28 percent rate of return using a gold price of \$900 per ounce.

More importantly from an operational point of view is that the study provided a detailed set of engineering recommendations which acts as a road map to feasibility. Your Company is currently implementing the recommended work including metallurgical testing, additional drilling to better quantify and expand the deposit, and geotechnical studies to provide more precise data for project design. Our intention is to have this “feasibility database” largely collected by early 2011 and to be in a position to contract a team of feasibility engineers.

Concurrent with the technical studies, Esperanza is building its relationships with the local community and the various government organizations that will be involved in the permitting of the project. We have worked hard to identify the various stakeholders and have sought out their involvement. To that end, we have an experienced team of Mexican professionals managing the project. Esperanza has strengthened that team by contracting a new Mexican Community/Government Relations Manager. I believe that this groundwork is as necessary to the success of the project as any technical studies and will go a long way in expediting the permitting process as well as maintaining future relationships with the community and the Mexican Government.

## **San Luis**

I wrote last year that we had expected the final feasibility study for the San Luis project by the second quarter of last year. Unfortunately, I have to report that the study is still underway. Silver Standard, the project's operator, now reports that it expects to complete the study by the second quarter of 2010. This delay is obviously disappointing for us but we continue to be confident that this is an exceptional project

Silver Standard has provided all funding for the study under the terms of the earn-in agreement. Upon completion of the study Silver Standard will have earned a 70 percent interest in the project.

## **Project Generation**

Exploration continues to be an integral part of our growth strategy. Cerro Jumil and San Luis are both grass-roots discoveries by Esperanza geologists – something of which we are all very proud. We continue with active exploration in both Peru and Mexico where we have multiple gold and silver prospects. We hope to drill at least two of them this year although this is dependent on the reaching satisfactory agreements with the local communities, full permit approvals, and availability of drill rigs.

## **Changes**

As you will notice in the accompanying materials Michael Halvorson is not standing for re-election to the Board of Directors. Mike has let us know that he would like to reduce his various corporate activities. To those of you who may know Mike, retire is not a word that applies to him so he will continue with your Company as an advisor to me. His contribution to the development of Esperanza is immeasurable and I thank him for all his hard work and look forward to our continued collaboration.

We have been fortunate that Geoff Chater has agreed to stand for election to the Board as a replacement for Mike. Geoff is an experienced industry professional having served in various corporate positions, most recently with First Quantum Resources Ltd. and now Greystar Resources Ltd. We are fortunate he has agreed to join Esperanza and I look forward to working with him.

I'd like to close this letter, as always, by thanking you for your continued support. We are always happy to talk with you and update you on our activities. You can learn more about our activities and investor presentations on our website ([www.esperanzasilver.com](http://www.esperanzasilver.com)), become a fan on our Facebook feed or just call the office. I look forward to hearing from you.

Signed: "*William Pincus*"

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William Pincus  
President and CEO

**ESPERANZA SILVER CORPORATION**  
**(An Exploration-Stage Company)**

**Management's Discussion and Analysis**

**Year Ended December 31, 2009**

**GENERAL**

This discussion and analysis of financial position and results of operations is prepared as at April 14, 2010 and should be read in conjunction with the audited consolidated financial statements of Esperanza Silver Corporation (the "Company" or "Esperanza") for the years ended December 31, 2009 and 2008 and the related notes thereto. Those consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These documents and other information relevant to the Company's activities are available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com). All dollar amounts included therein and in the following management discussion and analysis ("MD&A") are in Canadian dollars except where noted.

**FORWARD-LOOKING INFORMATION**

This MD&A may contain "forward looking statements" that reflect the Company's current expectations and projections about its future results. When used in this MD&A, words such as "estimate", "intend", "expect", "anticipate" and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause Esperanza's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties identified elsewhere in this MD&A, actual results may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**DESCRIPTION OF BUSINESS**

Esperanza is a mineral exploration company dedicated to the future development of its two advanced-stage projects: Cerro Jumil and San Luis. It has entered into a joint-venture on its San Luis project in Peru and continues to hold 100% of the Cerro Jumil project in Mexico. The Company continues to identify and explore new precious metal projects in Mexico and Peru. Additional information is available at the Company's website at [www.esperanzasilver.com](http://www.esperanzasilver.com).

## **EXPLORATION REVIEW**

### **Cerro Jumil, Mexico**

In the first quarter of 2009, the Company submitted a permit application for a drilling campaign designed to: a) fill in blank areas within the defined resources, b) test a newly identified target immediately west of the Las Calabazas area, and (c) explore the northern extension of the West Zone where silver has been discovered. Drilling began in the fourth quarter of 2009. In the third quarter of 2009 the Company completed a Preliminary Economic Assessment (“PEA”) of the 100% owned Cerro Jumil property. The results of the PEA were positive. Refer to the news release on September 8, 2009 which can be found on [www.sedar.com](http://www.sedar.com) or the Company’s website [www.esperanzasilver.com](http://www.esperanzasilver.com).

The current drill program which began in the fourth quarter of 2009 is evaluating areas of the property where limited or no previous drilling had been completed. The results have been encouraging so far and the Company anticipates that it will continue to add to or upgrade its resource base as drilling continues in this area. This current drill program should be finished by early summer and a revised resource estimate will be completed shortly thereafter. The gold deposit is exposed on surface which provides easy access for metallurgical sampling. Concurrent with the on-going drill program, Esperanza is selecting sites for bulk metallurgical samples. A comprehensive series of advanced tests have been planned by Esperanza’s consulting metallurgist in conjunction with Esperanza geologists and will begin once final sample locations are defined.

The drilling at Cerro Jumil is a part of a comprehensive work program recommended by the 2009 PEA and is designed to move the project to the full feasibility level as rapidly as possible. Additional work planned for 2010 in addition to the advanced metallurgical testing includes: geotechnical analysis, environmental baseline data collection and other efforts required to advance the project.

### **San Luis Project, Peru**

The property is currently held 55% by Silver Standard Resources Inc. (“Silver Standard”) and 45% by the Company. On March 26, 2007, Silver Standard elected to exercise its option to earn up to 70% of the San Luis project in Peru by funding all activities necessary to complete a feasibility study. Silver Standard also became the operator of the project. Upon delivery of a feasibility study recommending commercial production Silver Standard will have the option to increase its share to 80% by funding all pre-production capital. The Company has been informed by Silver Standard that a feasibility study is now underway.

### **Pucarana, Peru**

On March 5, 2007 the Company announced it had reached a definitive agreement on the Pucarana, Peru mineral property with Canadian Shield Resources Inc. Pursuant to the agreement, Esperanza has an option to earn a 51% interest by expending US\$650,000 over a two year period commencing upon receipt of drill permits, with a commitment to fund US\$200,000 in exploration expenditures in the first year. Esperanza also has the option to earn a subsequent 9% interest (for a total of 60%) by making additional exploration expenditures of US\$650,000 over a two year period. A cash payment of US\$30,000 was paid on signing of a definitive agreement and a second payment of US\$50,000 is due if Esperanza elects to exercise the right to earn the additional 9% interest. The expenditure commitments are contingent upon Esperanza receiving exploration and drilling permits.

Esperanza has completed a first phase of trenching and sampling over potential mineral zones. An application for drill permits is now being prepared.

### **Bolivia Exploration**

In 2009, Esperanza decided not to continue mineral exploration in Bolivia and wound up its subsidiary, Empresa Minera Atocha.

## **RESULTS OF OPERATIONS**

### **Year Ended December 31, 2009**

The Company recorded a loss of \$2,608,913 for the year ended December 31, 2009. The loss was significantly lower than for 2008 due to: lower mineral property write-offs and lower stock-based compensation, partially offset by lower interest income and higher general exploration expenditures. In 2008, Esperanza wrote off a significant amount exploration costs pertaining to the AT Properties in Mexico and also some write-offs in Peru as it decided to abandon a number of its exploration properties. In the 2009 the write downs were minor and only pertained to Peru. Stock-based compensation was lower because the value per option granted in 2009 was considerably less than in 2008 due to lower stock prices. Interest income was lower due to much lower interest rates in 2009 compared to 2008 and due to a lower amount of cash available for investment. Exploration costs were higher in 2009 because the Company was spending more time generating new projects whereas in the prior year the Company had a significant number of projects that it was already exploring and was spending less on searching for new projects.

### **Three Months Ended December 31, 2009**

The Company recorded a loss of \$678,337 for the three months ended December 31, 2009 (2008 - \$2,844,589). The loss was significantly higher in 2008 due to the write off of a number of exploration properties in Mexico and Peru.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company started 2009 with working capital of \$9,351,557 and had working capital of \$5,598,144 at December 31, 2009. The decrease in working capital of \$3,753,413 was due mainly to the investment in mineral properties of approximately \$1,766,000 and the loss from operations of \$1,279,000, partially offset by cash received on the exercise of stock options in the amount of \$208,500. Most of the expenditures on mineral properties were incurred completing a preliminary economic assessment, additional drilling and field work on the Cerro Jumil property in Mexico and field work done on various early-stage properties in Peru. Working capital includes a receivable from the Mexican government for value added tax in the amount of \$213,000. The Company is in the process of filing claims for this outstanding balance and expects that the full amount will be recoverable. Esperanza is dependent on raising funds through the issuance of shares and attracting joint venture partners in order to finance further property acquisitions and to explore and develop its mineral properties. On February 16, 2010, the Company completed a private placement of 4,000,000 units at a price of \$1.25 per unit for gross

proceeds of \$5,000,000 (refer to note 14 of the audited consolidated year-end financial statements). On March 4, 2010 the Company completed a second private placement of 500,000 units at a price of \$1.25 per unit for gross proceeds of \$625,000. Esperanza currently has sufficient working capital to fund its exploration and administrative expenditures for the next twelve months.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

There are no off-balance sheet arrangements or obligations that are not disclosed in the financial statements.

#### **RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2009 the Company paid \$190,800 (2008 - \$Nil) to Seabord Services Corp. ("Seabord"), a management company with two officers in common, for office space and administrative services. At December 31, 2009, the Company was indebted to Seabord in the amount \$Nil (2008 - \$Nil). At December 31, 2009, Esperanza had deposits for future services with Seabord amounting to \$10,000 which were included in prepaid expenses. These transactions were in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties. All balances due to related parties are included in accounts payable and accrued liabilities.

#### **MANAGEMENT COMPENSATION**

During the year ended December 31, 2009, Esperanza paid the following amounts as salaries to senior management: Bill Pincus, President - \$171,352; Steve Zuker, Vice-President - \$ 125,658; Bill Bond, Vice-President - \$125,658; and Paul Bartos, Vice-President - \$125,658. In addition to the salaries paid to management, at year-end bonuses totaling US\$125,000 were accrued to the President (US\$50,000) and each Vice-President (US\$25,000). David Miles, the chief financial officer and Kim Casswell, the corporate secretary are employees of Seabord and received no management compensation from Esperanza. Esperanza's directors who are not part of management are paid directors' fees. For the year ended December 31, 2009, the following directors' fees were paid: George Elliott - \$22,000, Brian Bayley - \$21,500, Mike Halvorson - \$20,000 and Steve Ristorcelli - \$22,500.

## QUARTERLY INFORMATION

	2009		2009	
Quarter Ended	Dec. 31	Sept. 30	June 30	Mar. 31
Operating expenses	\$ 692,211	\$ 575,412	\$ 905,915	\$ 575,581
Loss for the period	(678,337)	(562,378)	(854,657)	(513,541)
Loss per share (basic and diluted)	(0.01)	(0.01)	(0.02)	(0.01)

	2008		2008	
Quarter Ended	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Operating expenditures	\$ 703,980	\$ 534,226	\$ 481,479	\$ 1,545,925
Loss for the period	(2,844,589)	(480,046)	(396,045)	(1,408,565)
Loss per share (basic and diluted)	(0.06)	(0.01)	(0.01)	(0.03)

### 2009

For the quarter ended December 31, 2009 both operating expenses and the loss for the quarter were higher than for the prior quarter due to higher costs for administration, exploration and investor relations partially offset by lower foreign exchange. Administration costs were higher due to a higher allocation of management time to that category and due to a portion of year-end bonuses accrued to Denver staff being allocated to administration. Exploration expenses were higher due to a higher level of activity on general reconnaissance work than for the prior quarter. Investor relations costs were higher due to higher activity at investor conferences. The foreign exchange loss was much lower than in the prior quarter as the Mexican peso was stable in the quarter whereas in the prior quarter the peso dropped by 9%.

For the quarter ended September 30, 2009 both operating expenses and the loss for the quarter were lower than for the prior quarter because stock-based compensation was significantly lower.

For the quarter ended June 30, 2009, both operating expenses and the loss for the period were higher than for the prior quarter because stock-based compensation expense was significantly higher.

For the quarter ended March 31, 2009, operating expenditures were lower than in the previous quarter mainly due to lower exploration costs. Exploration expenditures are costs directed towards new project generation and there was a lower level of activity for these types of expenditures in the first quarter of 2009. The loss for the first quarter was much less than for the previous quarter because in the fourth quarter there was a mineral property write-off of \$2,236,319 and there was no corresponding write-off in the first quarter.

## **2008**

For the quarter ended December 31, 2008, operating expenditures were higher than in the prior quarter due to higher exploration expenses as a result of allocating more resources to finding new properties as opposed to working on projects already owned or under option agreements. The loss for the quarter ended December 31, 2008 was much higher than in the prior quarter because Esperanza wrote off a significant amount of capitalized mineral property costs in Mexico and Peru whereas in the prior quarter there was only a minor write-off pertaining to the Atocha property.

For the quarter ended September 30, 2008, operating expenditures were higher than in the prior quarter due to an unfavourable foreign exchange variance and higher exploration expenses which were partially offset by lower investor relations and lower stock-based compensation costs. The unfavourable exchange variance was mainly due to the weakening of the Mexican peso against the Canadian dollar in the quarter, whereas the peso strengthened against the Canadian dollar in the prior quarter. Exploration expenses were higher than in the prior quarter due to an increase in regional exploration in Peru. Investor relations costs were lower in the current quarter due to attending fewer trade shows. Lower stock-based compensation costs in the current quarter were the result of the Company's lower share price which reduced the values generated by the Black-Scholes option pricing model.

For the quarter ended June 30, 2008, operating expenditures were significantly lower than in the prior quarter due to lower stock-based compensation, consulting and investor relations costs and a favourable foreign exchange variance. Stock-based compensation was lower because there were no grants in the current quarter whereas there were 1,100,500 options granted in the previous quarter. Consulting costs were lower because bonuses were awarded in the prior quarter and none in the current quarter. Investor relations costs were lower mainly due to the seasonality of trade shows. The favourable foreign exchange variance was due to the strengthening of the Mexican peso against the Canadian dollar in the current quarter.

## **SELECTED ANNUAL FINANCIAL INFORMATION**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Operating Expenses	\$ 2,749,119	\$ 3,265,610	\$ 3,491,824
Net Loss	(2,608,913)	(5,129,245)	(2,839,379)
Loss per Share – Basis and Diluted	(0.05)	(0.11)	(0.06)
Capitalized Minerals Property Costs	1,765,919	5,048,383	3,859,162
Total Assets	19,270,621	21,250,623	25,817,957
<b>Cash Flows (Used In):</b>			
Operating	\$ (1,287,876)	\$ (2,408,992)	\$ (720,945)
Investing	(1,765,919)	(5,058,177)	(3,974,597)
Financing	208,516	325,800	16,174,455
Net Increase (Decrease) in Cash	\$ (2,845,279)	\$ (7,141,369)	\$ 11,478,913

## **2009**

In 2009, Esperanza had lower operating expenses due to lower stock-based compensation partially offset by higher general exploration expenses and a higher foreign exchange loss. Stock-based compensation was lower because the value per option granted in 2009 was considerably less than in 2009 due to lower stock prices. Exploration costs were higher in 2009 because the Company was spending more time generating new projects whereas in the prior year the Company had a significant number of projects that it was already exploring and was spending less on searching for new projects. Foreign exchange was higher in 2009 due to the decline in the value of the Mexican peso during the year which resulted in an exchange loss on translation of Esperanza's Mexican assets. The net loss was significantly lower in 2009 due to the lower operating expenses as noted above plus in 2008 there was a significant write-off of capitalized mineral property costs as a result of abandoning a number of exploration properties in Mexico and Peru.

Cash used in operations in 2009 was much less than for 2008 because Esperanza collected a significant amount of the IVA receivable from the Mexican government whereas in 2008 the Company paid out much more in IVA than it collected. Cash used in investing activities was much lower in 2009 because the Company conducted much less exploration and development work on its properties in order to conserve capital as a result of impact of the world financial crisis. As in 2008, funds raised by financing activities were due to the exercise of stock options.

## **2008**

In 2008 Esperanza had lower operating expenses due to lower stock-based compensation and a favourable variance on foreign exchange. Stock-based compensation was lower than in 2007 mainly because the value per option was significantly lower because the weighted average exercise price declined from \$3.27 in 2007 to \$1.34 in 2008. The foreign exchange variance was favourable because the Company invested about \$3.9 million in mineral properties in 2007 and during 2007 the US dollar weakened significantly against the Canadian dollar and Esperanza incurred a significant loss on translation of the accounts of its Mexican subsidiary as a result. These favourable variances were partially offset by higher office and rent costs as a result of moving the Denver personnel into better office space. The Company also began paying directors' fees in 2008 which partially offset the lower costs for stock-base compensation and foreign exchange. The net loss in 2008 was higher than for 2007 as a result of writing off a number of properties in Mexico and Peru and due to lower interest income because there was less cash to invest than in the prior year.

Cash used in operations in 2008 was well above 2007 because the IVA receivable in Mexico increased significantly and the Company used working capital to reduce the accounts payable balance during the year whereas in 2007 Esperanza collected on amounts due from its JV partner and reduced the cash outflow as a result of increasing accounts payable during the year. In addition the Company generated less interest on invested cash in 2008 than in 2007. Investing activity was higher in 2008 because in 2007 the Company received a significant cash contribution for development activities from its joint venture partner in Peru. In 2008, Esperanza was incurring the bulk of its development costs in Mexico and there was no contribution during the year from a joint venture partner. Cash from financing activities was much lower in 2008 because the Company did not do a private placement compared to 2007 when the Company raised over \$16 million from a private placement and the exercise of warrants.

## **SUBSEQUENT EVENTS**

On February 16, 2010, the Company announced that it had completed a private placement of 4,000,000 units at a price of \$1.25 per unit for gross proceeds of \$5,000,000. Each unit consists of one common share ("Share") and one non-transferable common share purchase warrant ("Warrant") to purchase another share for \$1.75 which expires on February 16, 2012. If, after the expiry of all Canadian resale restrictions, the closing price of Esperanza's common shares on the TSX Venture Exchange is \$2.20 or greater for a period of 20 consecutive days, the Company may accelerate the expiry of the Warrants, to 21 trading days after giving notice thereof. All Shares, Warrants and any Shares issued upon exercise of the Warrants, are subject to a regulatory hold period expiring on June 17, 2010. Finder's fees were payable in cash to Haywood Securities Inc. (\$22,981), Global Resource Investments Inc. (\$193,750) and Lincoln Peck Financial Inc. (\$6,250) in consideration of their efforts in locating investors. On March 4, 2010, the Company completed a second private placement of 500,000 units with the same terms as the first private placement, for total proceeds of \$625,000. The 500,000 non-transferable common share purchase warrants issued as part of this private placement expire on March 4, 2012.

## **CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Company has made significant progress with respect to its transition to International Financial Reporting Standards ("IFRS") reporting. The first IFRS reporting period will be the quarter ended March 31, 2011. Because Esperanza is an "Exploration-Stage" company, the IFRS transition issues are not as complex as for a company with operating mines and revenues from the sales of concentrates or bullion. However, 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. The most significant impact with respect to the restatement of 2010 financials will be the effect of adopting the IFRS policy with respect to foreign currency translation, particularly as it applies to the translation of Esperanza's wholly-owned subsidiaries.

### **Exemptions**

Esperanza has made the following decisions regarding the optional exemptions provided under IFRS transitional rules.

### **Business Combinations**

For business combinations, the Company has decided to take the exemption which means that it does not have to restate the accounting for any business combinations that occurred before January 1, 2010. If the Company enters into any business combinations in 2010, it will likely adopt the new CICA Handbook standard for business combinations which is in compliance with current IFRS standards. This means that the Company will most likely not have to restate any 2010 business combinations in order to be IFRS compliant.

### **Fair Value or Revaluation as Deemed Cost**

Esperanza will use the cost method of accounting for office and field equipment and therefore will not elect to fair value any of the Company's equipment.

## **Cumulative Translation Differences**

On translation of a foreign operation in accordance with IAS 21 “The Effect of Changes in Foreign Exchange Rates”, certain exchange differences are recognized as a separate component of equity and under the amendments to IAS 21 in 2007, are to be shown as part of other comprehensive income. IAS 21 also requires an entity to disclose the net exchange differences classified as a separate component of equity as well as a reconciliation of the opening and closing balances. On subsequent disposal of a foreign operation, the accumulated translation differences related to the specific foreign operation are recognized in profit or loss for the period as part of the gain or loss on disposal of the subsidiary.

Under IFRS 1 a first-time adopter may elect not to calculate this translation difference retrospectively and thereby set corresponding translation differences at the date of transition to zero. The gain or loss on subsequent disposal of a foreign operation then includes only foreign exchange differences that arose subsequent to the date of transition. The Company has elected not to calculate this translation difference retrospectively.

## **Jointly Controlled Entities**

The Company has not reached a final conclusion regarding how it will account for jointly controlled entities under IFRS but at this point it is considering using the equity method and this would result in a difference between the current balance sheet presentation under Canadian GAAP and its transitional IFRS balance sheet.

## **Additional Note Disclosures**

The Company will have to provide more note disclosure under IFRS than under current Canadian GAAP. However, Esperanza is an exploration-stage company and consequently the note disclosures are not nearly as onerous as for an operating company. Additional note disclosure will mainly be required for long-term assets and equity but the Company is currently capturing enough information in order to provide this disclosure.

## **NEW ACCOUNTING PRONOUNCEMENTS**

New accounting pronouncements which may impact the Company in the future are as follows:

### **Business Combinations, Consolidated Financial Statements and Non-Controlling Interest**

In January 2009, the CICA issued CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidations”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business

combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards (“IAS”) 27, Consolidated and Separate Financial Statements (January 2008). Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These new sections effectively bring Canadian GAAP into line with IFRS. The Company does not expect to adopt these new CICA Handbook sections prior to January 1, 2011. At that point, the Company will begin reporting its financial results under IFRS and therefore does not expect that these new Handbook sections will have any impact on the Company’s financial statements in the interim period.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### **Financial Instrument Disclosures**

In May 2009, the CICA amended Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair market value measurements for financial statements and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The fair value hierarchical classification of the Company’s cash and cash equivalents at December 31, 2009 is Level 1.

### **Exploration Costs**

On March 27, 2009, the Emerging Issues Committee of the CICA approved abstract EIC-174 – Mining Exploration Costs and withdrew EIC – 126 – Accounting by Mining Enterprises for Exploration Costs. The publication of EIC-174 covers all guidance in EIC-126 and provides additional guidance for mining exploration enterprises in circumstances where a test for impairment is required. The adoption of this abstract did not have any impact on the Company’s consolidated financial statements.

## **RISKS AND UNCERTAINTIES**

### **Mineral Property Exploration and Mining Risks**

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company’s properties has a known commercial ore deposit, although Esperanza has published a PEA, which indicates that Cerro Jumil may be shown to have a commercial ore deposit upon completing a pre-feasibility or feasibility study. The main operating risks include: ensuring ownership of and access to

mineral properties by confirmation that option agreements, concessions and leases are in good standing and obtaining permits for drilling, other exploration activities and/or extraction.

One of the Company's projects is near a known archeological site. The Company is working with appropriate government authorities to assess any archeological value within the Company's proposed areas of operation. It is possible that certain areas may be excluded from mining activities.

Esperanza is currently earning an interest in one of its properties through an option agreement and acquisition of title to the property will only be completed when the option conditions have been met. These conditions generally include making property payments and incurring exploration expenditures on the properties. If the Company does not satisfactorily complete these option conditions in the time frame laid out in the option agreements, the Company's title to the related property will not vest and the Company will have to write-off the previously capitalized costs related to that property.

The market prices for silver, gold and other metals can be volatile and there is no assurance that a profitable market will exist for a production decision to be made or for the ultimate sale of the metals even if commercial quantities of precious and other metals are discovered.

#### **Financing and Share Price Fluctuation Risks**

Esperanza has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the Company's projects may be dependent upon the Company's ability to obtain financing through equity or debt financing or other means. Failure to obtain this financing could result in delay or indefinite postponement of further exploration and development of its projects which could result in the loss of one or more of its properties.

Recently, the securities markets have experienced a high degree of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies such as Esperanza, have experienced wide fluctuations in share prices which have not necessarily been related to their operating performance, underlying asset values or prospects. There can be no assurance that these kinds of share price fluctuations will not occur in the future, and if they do occur, how severe the impact may be on Esperanza's ability to raise additional funds through equity issues.

#### **Political and Currency Risks**

The Company is operating in countries that currently have varied political environments. Changing political situations may affect the manner in which the Company operates. The Company's equity financings are sourced in Canadian dollars but for the most part it incurs its expenditures in local currencies or in US dollars. At this time there are no currency hedges in place. Therefore a weakening of the Canadian dollar against the US dollar, Mexican peso or Peruvian sole could have an adverse impact on the amount of exploration conducted.

#### **Insured and Uninsured Risks**

In the course of exploration, development and production of mineral properties, the Company is subject to a number of risks and hazards in general, including adverse environmental conditions, operational

accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in the damage to the Company's property or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums or for other reasons. Should such liabilities arise, they could reduce or eliminate future profitability, result in increased costs, have a material adverse effect on the Company's financial results and cause a decline in the value of the securities of the Company.

Some work is carried out through independent consultants and the Company requires that all consultants carry their own insurance to cover any potential liabilities as a result of their work on a project.

### **Environmental Risks and Hazards**

The activities of the Company are subject to environmental regulations issued and enforced by government agencies in jurisdictions where the Company has operations or activities. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not adversely affect Esperanza's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present.

### **Competition**

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition and development of its projects as well as for the recruitment and retention of qualified employees.

### **OUTSTANDING SHARE DATA**

As at April 14, 2010 there were 52,754,521 common shares issued and outstanding. There were also 3,126,800 stock options outstanding with exercise prices ranging between \$0.40 and \$1.91 per share. All of the outstanding options have vested. As a result of the two private placements in 2010, the Company has 4,500,000 common share purchase warrants outstanding with an exercise price of \$1.75 and with expiry dates of February 16, 2012 and March 4, 2012.

**Consolidated Financial Statements**

**ESPERANZA SILVER CORPORATION**

**For the Years Ended December 31, 2009, 2008 and 2007**

**AUDITORS' REPORT**

To the Shareholders of Esperanza Silver Corporation,

We have audited the consolidated balance sheets of Esperanza Silver Corporation as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for each of the years in the three year period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the 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, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three year period ended then ended in accordance with Canadian generally accepted accounting principles.

*"De Visser Gray LLP"*

**CHARTERED ACCOUNTANTS**

Vancouver, British Columbia  
April 8, 2010

**ESPERANZA SILVER CORPORATION**

Consolidated Balance Sheets

*(Expressed in Canadian Dollars)*

As at December 31,

	2009	2008
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 5,584,553	\$ 8,429,832
Receivables	255,987	1,089,455
Prepaid expenses	17,739	21,578
	<u>5,858,279</u>	<u>9,540,865</u>
<b>Equipment</b> (Note 4)	14,251	77,415
<b>Mineral properties</b> (Note 5)	13,398,091	11,632,343
	<u>\$ 19,270,621</u>	<u>\$ 21,250,623</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 260,135	\$ 189,308
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)	34,960,559	34,611,921
Contributed surplus (Note 6)	5,961,586	5,752,140
Deficit	(21,911,659)	(19,302,746)
	<u>19,010,486</u>	<u>21,061,315</u>
	<u>\$ 19,270,621</u>	<u>\$ 21,250,623</u>

**Nature of operations** (Note 1)**Commitments and contingencies** (Note 8)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

"George Elliott" Director"William J. Pincus" Director

**ESPERANZA SILVER CORPORATION**

## Consolidated Statements of Operations, Comprehensive Loss and Deficit

*(Expressed in Canadian Dollars)*

Years ended December 31,

	2009	2008	2007
<b>OPERATING EXPENSES</b>			
Accounting and legal	\$ 112,388	\$ 119,639	\$ 126,898
Amortization	23,735	30,489	12,325
Administration and office	1,045,406	1,006,802	835,609
Directors' fees	86,000	78,526	-
Exploration expenses	604,358	481,773	490,023
Foreign exchange	107,733	19,192	203,053
Investor relations and shareholder communications	318,739	359,921	312,755
Stock-based compensation (Note 6 (e))	349,568	1,066,015	1,336,658
Transfer agent and regulatory fees	81,107	86,735	138,008
Travel and related costs	20,085	16,518	36,494
<b>LOSS BEFORE OTHER ITEMS</b>	<b>(2,749,119)</b>	<b>(3,265,610)</b>	<b>(3,491,823)</b>
<b>OTHER ITEMS</b>			
Interest income	144,220	372,684	646,281
Gain on the disposal of fixed assets	-	-	6,163
Miscellaneous income	39,148	-	-
Write-off of mineral properties (Note 5)	(43,162)	(2,236,319)	-
<b>Net loss and comprehensive loss for the year</b>	<b>(2,608,913)</b>	<b>(5,129,245)</b>	<b>(2,839,379)</b>
<b>Deficit, beginning of year</b>	<b>(19,302,746)</b>	<b>(14,173,501)</b>	<b>(11,334,122)</b>
<b>Deficit, end of year</b>	<b>\$ (21,911,659)</b>	<b>\$ (19,302,746)</b>	<b>\$ (14,173,501)</b>
Basic and diluted loss per share	\$(0.05)	\$ (0.11)	\$ (0.06)
Weighted average number of shares outstanding	47,652,523	47,299,635	44,550,285

See accompanying notes to the consolidated financial statements.

**ESPERANZA SILVER CORPORATION**  
Consolidated Statements of Cash Flows  
*(Expressed in Canadian Dollars)*  
Years ended December 31,

	2009	2008	2007
<b>CASH FLOWS FROM (TO)</b>			
<b>Operations:</b>			
Net loss for the year	\$ (2,608,913)	\$ (5,129,245)	\$ (2,839,379)
Items not affecting cash:			
Amortization	30,675	37,822	20,634
Gain on disposal of equipment	-	-	(6,163)
Stock-based compensation	349,568	1,066,015	1,336,658
Write-off of mineral property costs	43,162	2,236,319	-
Changes in non-cash working capital items:			
Receivables	833,468	(571,970)	69,995
Due from joint venture partner	-	-	597,840
Prepaid expenses	3,839	2,738	13,450
Accounts payable and accrued liabilities	60,325	(50,671)	86,020
	<u>(1,287,876)</u>	<u>(2,408,992)</u>	<u>(720,945)</u>
<b>Investing:</b>			
Mineral property costs	(1,765,919)	(5,048,383)	(3,859,162)
Proceeds from the disposal of equipment	-	-	23,540
Purchase of equipment	-	(9,794)	(138,975)
	<u>(1,765,919)</u>	<u>(5,058,177)</u>	<u>(3,974,597)</u>
<b>Financing:</b>			
Shares issued for cash	208,516	325,800	17,102,643
Shares issue costs	-	-	(928,188)
	<u>208,516</u>	<u>325,800</u>	<u>16,174,455</u>
<b>Change in cash and cash equivalents in the year</b>	<b>(2,845,279)</b>	<b>(7,141,369)</b>	<b>11,478,913</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>8,429,832</b>	<b>15,571,201</b>	<b>4,092,288</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,584,553</b>	<b>\$ 8,429,832</b>	<b>\$ 15,571,201</b>
<b>Supplementary information:</b>			
Cash interest received	\$ 277,181	\$ 240,163	\$ 753,885
Amortization capitalized to mineral properties	39,831	-	-
Shares issued for mineral properties (Note 5 (b))	-	56,550	85,000
Securities issued as part of share issue costs	-	-	346,211

During the year ended December 31, 2009, there was \$35,579 (2008 -\$29,077; 2007 -\$864,860) in accounts payable that related to mineral property costs.

Included in cash and cash equivalents at December 31, 2009 is \$ 5,353,354 (2008 – \$8,250,000; 2007 – nil) in short term investments and \$ 231,199 (2008 - \$179,832; 2007 - \$15,571,201) held in bank accounts.

See accompanying notes to the consolidated financial statements.

## **ESPERANZA SILVER CORPORATION**

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

Years ended December 31, 2009, 2008 and 2007

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### **1. NATURE OF OPERATIONS**

Esperanza Silver Corporation (the "Company") was formed effective December 1, 1990 by way of amalgamation pursuant to the Company Act (British Columbia). The Company's principal business activities include the acquisition, exploration and development of mineral resource properties. The Company is in the process of exploring its mineral properties and has not yet determined whether they contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their exploration and development, confirmation of the Company's interest in the underlying claims and leases, and from future profitable production or proceeds from the disposition of the mineral properties.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of presentation and consolidation**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). They include the accounts of the Company and its wholly-owned subsidiaries: Esperanza Services Inc., Esperanza Silver de Mexico S.A. de C.V., Esperanza Silver Peru S.A.C, Empresa Minera Atocha, Esperanza Resources (BVI) Inc., Esperanza Minerals (BVI) Inc. and Esperanza Exploration (BVI) Inc. All significant intercompany transactions and balances have been eliminated.

#### **Cash and cash equivalents**

Cash and cash equivalents are comprised of cash and highly liquid investments having original terms to maturity of 90 days or less when acquired.

#### **Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over three to five years, which represents the estimated useful lives of the assets.

#### **Mineral properties**

Exploration and development expenditures incurred for regional reconnaissance or property investigations prior to the acquisition of a property are charged to operations. Expenditures incurred subsequent to acquisition are capitalized and will be amortized on the unit-of-production method when, and if, estimated proven or probable reserves can be determined by independent consulting engineers and production has begun. When there is little prospect of further work on a property being carried out by the Company, the deferred costs associated with that property are charged to operations during the year such determination is made. The amounts shown for mineral properties represent acquisition costs and exploration costs incurred to date after the property was acquired or optioned, less recoveries and write-offs, and are not intended to reflect present or future values.

A mineral property acquired under an option agreement where payments are made at the sole discretion of the Company, is capitalized at the time of payment. Option payments received are treated as a reduction of the carrying value of the related acquisition cost for the mineral property until the payments are in excess of acquisition costs, at which time they are then credited to operations. Option payments are at the discretion of the optionee and, accordingly, are accounted for when receipt is reasonably assured.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfer and may be affected by undetected defects.

#### **Asset retirement obligations**

The Company recognizes a liability for an asset retirement obligation when it is determinable and calculates the liability based upon discounted future payments to be made. A corresponding amount is added to the carrying value of the related long-lived asset, and this amount is subsequently allocated to expense over its expected life. Adjustments will also be made in

## ESPERANZA SILVER CORPORATION

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

Years ended December 31, 2009, 2008 and 2007

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

subsequent periods to changes in asset retirement obligations due to changes in estimates. As at December 31, 2009, the present value of the Company's asset retirement obligations is nominal.

#### Retirement of long-lived assets

Long-lived assets are assessed for impairment when events and circumstances warrant, when the carrying amounts of the assets exceeds its estimated undiscounted net cash flow from use or its fair value, at which time the impairment is charged to earnings.

#### Foreign Currency Translation

The Company translates its foreign operations on the following basis: monetary assets and liabilities are translated at the rate of exchange in effect as at the balance sheet date and non-monetary assets and liabilities are translated at their applicable historical rates. Revenues and expenses are translated at the average rates prevailing for the year, except for amortization that is translated at the historical rates associated with the assets being amortized. Foreign exchange gains and losses from the translation of foreign operations are recognized in the current period.

#### Stock-based compensation

The Company has a stock option plan which is described in note 6(c) and accounts for all grants of options to employees, non-employees and directors in accordance with the fair value method for accounting for stock-based compensation as defined by accounting principles generally accepted in Canada. Stock-based compensation expense is calculated using the Black-Scholes option pricing model ("Black-Scholes") (see Note 6 (e)).

#### Income taxes

The Company uses 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 of existing assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. 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 substantively enacted. 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.

#### Loss per share

Basic loss per share has been calculated using the weighted average number of common shares issued and outstanding during the year. Diluted earnings per share are calculated using the treasury stock method. However, in the Company's case, diluted loss per share is the same as basic loss per share, as the effect of outstanding options and warrants on loss per share would be anti-dilutive.

#### Estimates

The preparation of financial statements 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 period. Significant areas requiring the use of management estimates include the determination of impairment of mineral properties, the variables used in the calculation of stock-based acquisition costs and compensation expense and the determination of future income tax assets and liabilities. Actual results could differ from these estimates.

#### Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

## **ESPERANZA SILVER CORPORATION**

Notes to the Consolidated Financial Statements

*(Expressed in Canadian Dollars)*

Years ended December 31, 2009, 2008 and 2007

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### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **New Accounting Pronouncements**

New accounting pronouncements which may impact the Company in the future are as follows:

#### **Business Combinations, Consolidated Financial Statements and Non-Controlling Interest**

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements (January 2008).

Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These new sections effectively bring Canadian GAAP into line with IFRS. The Company does not expect to adopt these new CICA Handbook sections prior to January 1, 2011. At that point, the Company will begin reporting its financial results under IFRS and therefore does not expect that these new Handbook sections will have any impact on the Company's financial statements in the interim period.

#### **Financial Instrument Disclosures**

In May 2009, the CICA amended Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair market value measurements for financial statements and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The fair value hierarchical classification of the Company's cash and cash equivalents at December 31, 2009 is Level 1.

#### **Exploration Costs**

On March 27, 2009, the Emerging Issues Committee of the CICA approved abstract EIC-174 – Mining Exploration Costs and withdrew EIC – 126 – Accounting by Mining Enterprises for Exploration Costs. The publication of EIC-174 covers all guidance in EIC-126 and provides additional guidance for mining exploration enterprises in circumstances where a test for impairment is required. The adoption of this abstract did not have any impact on the Company's consolidated financial statements.

**ESPERANZA SILVER CORPORATION**

Notes to the Consolidated Financial Statements

*(Expressed in Canadian Dollars)*

Years ended December 31, 2009, 2008 and 2007

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**3. FINANCIAL INSTRUMENTS**

The Company's financial instruments are comprised of cash and cash equivalents, receivables and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from financial instruments. Receivables have been designated as "Loans and receivables" and have been measured at cost. Accounts payable have been designated as "Other liabilities" and have been measured at cost. The fair value of cash and cash equivalents approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

**4. EQUIPMENT**

	2009		2008
Cost	Accumulated Amortization	Net Book Value	Net Book Value
\$ 188,644	\$ 174,393	\$ 14,251	\$ 77,415

**ESPERANZA SILVER CORPORATION**

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

Years ended December 31, 2009, 2008 and 2007

**5. MINERAL PROPERTIES**

The continuity of expenditures on mineral properties is as follows:

	Mexico		Bolivia	Peru					Total
	Cerro Jumil	AT Properties	Atocha	Utcucocha	Sante Fe	San Luis	Other	Total Peru	
<b>Balance, December 31, 2007</b>	\$ 7,868,012	\$ 367,271	\$25,000	\$ 25,010	\$ 29	\$ 821,246	\$ 460,026	\$1,306,311	\$ 9,566,594
Acquisition costs	-	95,706	-	-	-	-	-	-	95,706
<b>Exploration and Development</b>									
Assays	242,694	154,549	-	11,262	358	-	3,200	14,820	412,063
Community programs	46,118	-	-	862	-	-	7,966	8,828	54,946
Drilling	1,103,367	566,449	-	-	-	-	-	-	1,669,816
Environmental	54,851	-	-	-	-	-	-	-	54,851
Field costs	167,094	61,776	-	1,026	412	23,349	22,507	47,294	276,164
Geological Studies	608,048	293,431	-	132,927	19,206	25,825	127,350	305,308	1,206,787
Geophysics	-	1,909	-	-	-	-	-	-	1,909
Office & administrative	1,665	16,248	-	17,843	2,175	30	23,824	43,872	61,785
Property tax	24,759	15,397	-	135	-	-	-	135	40,291
Road and access costs	53,989	150,004	-	-	-	-	-	-	203,993
Travel	46,093	37,381	-	6,938	1,043	10,116	10,377	28,474	111,948
Vehicles	55,260	23,952	-	11,723	870	-	20,004	32,597	111,809
	2,403,938	1,416,802	-	182,716	24,064	59,320	215,228	481,328	4,302,068
Mineral property write-off	(30,576)	(1,784,073)	(25,000)	-	-	-	(396,670)	(396,670)	(2,236,319)
<b>Balance, December 31, 2008</b>	\$ 10,241,374	\$ -	\$ -	\$ 207,726	\$24,093	\$ 880,566	\$ 278,584	\$1,390,969	\$ 11,632,343

**ESPERANZA SILVER CORPORATION**

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

Years ended December 31, 2009, 2008 and 2007

	Mexico		Peru				Total Peru	Total
	Cerro Jumil	Guadalupe	Utcucocha	Sante Fe	San Luis	Other		
<b>Balance, December 31, 2008</b>	\$ 10,241,374	\$ -	\$ 207,726	\$ 24,093	\$ 880,566	\$ 278,584	\$ 1,390,969	\$ 11,632,343
Acquisition costs	-	382	-	6,482	-	9,784	16,648	16,648
<b>Exploration and Development:</b>								
Assays	25,822	1,576	1,768	9,499	-	2,165	15,008	40,830
Community programs	-	59	8	-	-	2,966	3,033	3,033
Consulting	331,203	2,630	62	1,060	3,364	8,490	15,606	346,809
Contract services	29,469	-	-	304	2,893	4,736	7,933	37,402
Drilling	117,148	-	-	-	-	-	-	117,148
Environmental / permitting	74,238	-	-	-	-	6,179	6,179	80,417
Field costs	112,225	1,947	78	386	23,348	3,460	29,219	141,444
Freight	-	-	-	-	-	2,572	2,572	2,572
Office & administrative	12,324	364	177	10,104	-	1,371	12,016	24,340
Property tax	31,603	6,234	8,174	-	-	39,899	54,307	85,910
Salaries and benefits	242,972	44,991	19,677	39,762	22,309	90,467	217,206	460,178
PEA	207,321	-	-	-	-	-	-	207,321
Road and access costs	30,718	-	-	29,767	-	431	30,198	60,916
Travel	26,380	2,520	2,220	3,892	3,623	7,602	19,857	46,237
Vehicles	71,076	778	505	1,903	-	12,282	15,468	86,544
Feasibility studies	-	-	-	-	11,477	-	11,477	11,477
Warehouse rental	39,684	-	-	-	-	-	-	39,684
	1,352,183	61,481	32,669	103,159	67,014	192,404	456,727	1,808,910
Mineral property write-off	-	-	-	-	-	(43,162)	(43,162)	(43,162)
<b>Balance, December 31, 2009</b>	\$ 11,593,557	\$ 61,481	\$ 240,395	\$ 127,252	\$ 947,580	\$ 427,826	\$ 1,804,534	\$ 13,398,091

## ESPERANZA SILVER CORPORATION

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

Years ended December 31, 2009, 2008 and 2007

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### 5. MINERAL PROPERTIES (continued)

#### (a) Cerro Jumil (formerly La Esperanza), Mexico

The Company entered into an option agreement with Recursos Cruz del Sur, S.A. de C.V. ("Recursos") dated May 7, 2003 whereby it obtained the option to acquire a 100% interest, subject to a 3% net smelter royalty ("NSR"), in the Esperanza silver/gold project in Morelos State, Mexico. The exercise price of the option was US\$2,000,000 plus value-added tax payable in Mexico, and the issuance of 170,000 common shares of the Company. From May, 2003 to October 2006, the Company made cash option payments of US\$80,000 and issued 170,000 common shares to Recursos in accordance with the option agreement.

In October 2006, the Company renegotiated the option agreement and earned its option by paying US\$417,375 plus value added tax ("VAT") and issuing 500,000 common shares plus VAT in conjunction with the early exercise of the Company's option to purchase a 100% interest in the property. The property is subject to a 3 % NSR on any mineral production.

#### (b) AT Properties, Mexico

In September 2007, the Company agreed to acquire a four-year option on seven gold and silver exploration properties in Mexico's Durango and Chihuahua states from Exploraciones del Altiplano S.A. de C.V. and Compania Minera Terciario S.A. de C.V., two privately-held companies. Under the terms of the agreement Esperanza paid US\$30,000 and issued 20,000 common shares upon signing the definitive agreement for the four-year purchase option of the seven properties. In 2008, the Company paid an additional \$39,156 and issued 45,000 more shares valued at \$56,550.

After conducting exploration and drilling, the Company terminated the option agreements in October 2008, with Exploraciones del Altiplano S.A. de C.V. and Compana Minera Terciario S.A. de C.V., on the seven AT Properties in Mexico. The Company wrote-off the accumulated capitalized costs for these properties in the fourth quarter of 2008 which amounted to \$1,814,649.

#### (c) Silver Standard Exploration Agreement

In the first quarter of 2005, the Company entered into a prospecting agreement with Silver Standard to explore for bulk mineable silver deposits in central Peru. Under the terms of the agreement, Silver Standard would contribute US\$300,000 and the Company would contribute US\$200,000 during the first two years of the program. In March of 2007, this agreement was allowed to expire.

#### (d) San Luis, Peru

During the year ended December 31, 2005, the Company announced the acquisition of the San Luis project via claim-staking. The project was subject to the exploration agreement, described above in Note 5 (c), with Silver Standard Resources Inc. ("Silver Standard"), a company that had a director in common until February, 2008. Silver Standard elected to form a separate 50%-50% joint-venture for the San Luis project. Under the terms of the agreement, Silver Standard has increased its ownership to 55% by funding the first US\$500,000 of exploration expenditures subsequent to the acquisition of the property. Silver Standard has subsequently elected to increase its ownership to 70% by funding all activities required to complete a feasibility study and it may further increase its ownership to 80% by funding all development activities necessary to place the property into production. Silver Standard announced in November 2008, that it had commenced a feasibility study on the San Luis property.

## ESPERANZA SILVER CORPORATION

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

Years ended December 31, 2009, 2008 and 2007

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### 5. MINERAL PROPERTIES (Continued)

#### (e) Flor de Loto, Peru

The Flor de Loto project is located in Lima Department, Peru approximately 150 kilometers northeast of Lima. The property consists of two concessions totaling 1,000 hectares. On December 15, 2003, the Company, through its Peruvian subsidiary, signed an option-to-purchase agreement with the owner. In December 2008, the Company decided to abandon this property and has no further obligations under the option agreement. In the fourth quarter of 2008, the Company wrote-off the accumulated capitalized costs for this property which amounted to \$307,418.

#### (f) Pucarana, Peru

In May 2007, the Company announced that it had finalized an earn-in agreement whereby it can earn up to a 60% interest in Canadian Shield Resources Inc. ("Canadian Shield") Pucarana Gold Property ("Pucarana"), located in southern Peru. The Company has the right to earn a 60% interest in Pucarana by expending US\$1,300,000 over a four year period commencing upon receipt of a drill permit (the "Effective Date"), and by making payments of US\$80,000 to Gallant Minerals Peru Ltd. S.A. (Canadian Shield's Peruvian subsidiary). The Company must make the following expenditures: US\$200,000 prior to the first anniversary of the Effective Date; US\$450,000 prior to the second anniversary of the Effective Date; US\$325,000 prior to the third anniversary of the Effective Date; and US\$325,000 prior to the fourth anniversary of the Effective Date. The Company must also make the following cash payments: US\$30,000 upon signing the agreement (paid) and US\$50,000 upon exercising the option to earn an additional 9% interest. The work commitment for the first twelve months from the Effective Date and the first payment are firm commitments and all additional work commitments and payments are at the sole discretion of the Company. Upon the Company earning either its 51% interest, or 60% interest if it so elects, the two companies will form a joint venture in which all future expenditures shall be made on a pro rated basis, with standard dilution formulas applied if either party elects not to participate in funding further exploration expenses. In the event either party is diluted to a joint venture interest of 10% or less, that interest will be converted to a 2% NSR with the right of the other party to purchase each 0.5% interest in the NSR for US\$500,000. If the price of gold exceeds US\$500, the purchase price for the NSR increases proportionately to the price of gold. The Company has not received a drill permit at this time and accordingly the Effective Date of the agreement has not been determined.

#### (g) Other Properties, Peru

The Company currently holds interests in eight properties besides San Luis and Pucarana. Of the six properties, Guadalupe, Utcuchocha and Sante Fe are the ones which the Company is focusing its exploration efforts on. During the year ended December 31, 2009, the Company decided to abandon some minor mineral properties in Peru and wrote off capitalized mineral property costs amounting to \$43,162. During the year ended December 31, 2008 the Company decided to abandon four properties in Peru and wrote-off \$89,252 in capitalized costs with respect to those properties.

#### (h) Atocha Property, Bolivia

On December 23, 2003, the Company acquired a 100% indirect interest in the Atocha Project concessions, comprising approximately 7,250 hectares located in West Central Bolivia. The vendor also received a 1.5% NSR royalty for any minerals produced from this property. The Company, at its option, could purchase the royalty for US\$202,000. During the year ended December 31, 2005 the Company wrote-down the carrying value of the Atocha property to \$25,000. In the quarter ended September 30, 2008 the Company decided that no further exploration work would be done on this property and wrote-off the remaining balance of capitalized costs in the amount of \$25,000. During the year ended December 31, 2009, Esperanza decided to discontinue exploration activities in Bolivia and wound up its wholly owned subsidiary, Empresa Minera Atocha.

**ESPERANZA SILVER CORPORATION**

Notes to the Consolidated Financial Statements

*(Expressed in Canadian Dollars)*

Years ended December 31, 2009, 2008 and 2007

**6. SHARE CAPITAL**

- (a) Authorized  
An unlimited number of common shares without par value.

- (b) Issued and outstanding

	Number Of shares	Stated Value	Contributed Surplus
Balance December 31, 2006	40,006,845	\$ 18,011,880	\$ 3,307,703
Shares issued for property option	40,000	85,000	-
Shares issued for exercise of options	232,000	179,245	-
Shares issued for exercise of warrants	1,937,976	1,921,898	-
Shares issued on private placement	4,110,000	15,001,500	-
Less: share issuance costs	-	(928,188)	-
Less: Agents options and warrants issued on private placement	-	(346,211)	346,211
Reclassification on exercise of stock options	-	79,392	(79,392)
Reclassification on exercise of agents' warrants	-	8,457	(8,457)
Stock based compensation	-	-	1,336,658
Balance December 31, 2007	46,326,821	\$ 34,012,973	\$ 4,902,723
Shares issued on the exercise of options	1,150,000	325,800	-
Shares issued for exploration properties	45,000	56,550	-
Reclassify contributed surplus on exercise of options	-	216,598	(216,598)
Stock-based compensation	-	-	1,066,015
Balance December 31, 2008	47,521,821	\$ 34,611,921	\$ 5,752,140
Shares issued on the exercise of options	412,700	208,516	-
Reclassify contributed surplus on exercise of options	-	140,122	(140,122)
Stock-based compensation	-	-	349,568
Balance December 31, 2009	47,934,521	\$ 34,960,559	\$ 5,961,586

On February 8, 2007, the Company closed a private placement of 4,110,000 units at a price of \$3.65 each for gross proceeds of \$15,001,500. Each unit consisted of one common share and one half share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of \$4.35 until February 8, 2009. Finders' fees relating to this private placement were comprised of a cash payment of \$899,949, the issuance of agents' options enabling the agents to acquire up to 232,864 units with an exercise price of \$3.65 per unit on the same terms as the private placement.

- (c) Options

The Company adopted a share option plan ("the Plan") pursuant to the policies of the TSX Venture Exchange ("the Exchange"). The maximum aggregate number of shares that may be reserved for issuance under the Plan is limited to 10% of the issued common shares of the Company. The maximum term of the options is five years and the vesting requirements are determined at the time of each grant.

**ESPERANZA SILVER CORPORATION**

Notes to the Consolidated Financial Statements

*(Expressed in Canadian Dollars)*

Years ended December 31, 2009, 2008 and 2007

**6. SHARE CAPITAL (continued)**

The Plan has been approved by the Exchange and is approved by the shareholders of the Company each year at its annual general meeting. During the years ended December 31, 2009 and 2008 the change in stock options outstanding was as follows:

	Number of Shares	Weighted Average Exercise Price
Balance as of December 31, 2007	4,390,864	1.61
Granted	1,210,500	1.34
Exercised	(1,150,000)	0.28
Expired	(267,864)	3.27
Balance as of December 31, 2008	4,183,500	1.79
Granted	997,500	0.69
Exercised	(412,700)	0.51
Expired	(1,321,500)	3.07
Balance as of December 31, 2009	3,446,800	1.14

During the twelve months ended December 31, 2009, the Company granted 997,500 stock options, had 412,700 options exercised and 1,321,500 stock options cancelled or expired. As at December 31, 2009, stock options are outstanding enabling the holders to acquire up to 3,446,800 common shares with a weighted average exercise price of \$1.14 per share, as follows:

Grant Date	Number Outstanding	Exercise Price	Number Vested	Expiry Date
14-Jun-05	300,000	0.40	300,000	14-Jun-10
5-Jul-05	5,000	0.355	5,000	5-Jul-10
23-Sep-05	75,000	0.65	75,000	23-Sept-10
18-May-06	735,500	1.56	735,500	18-May-11
12-Sep-07	200,000	1.91	200,000	12-Sept-12
8-Feb-08	861,500	1.40	861,500	8-Feb-13
27-Feb-08	200,000	1.40	200,000	27-Feb-13
20-Aug-08	10,000	0.73	10,000	20-Aug-13
6-Oct-08	100,000	0.69	100,000	6-Oct-13
22-May-09	772,300	0.69	772,300	22-May-14
10-Jun-09	187,500	0.70	187,500	10-Jun-14
Balance, December 31, 2009	3,446,800	1.14	3,446,800	

**ESPERANZA SILVER CORPORATION**

Notes to the Consolidated Financial Statements

*(Expressed in Canadian Dollars)*

Years ended December 31, 2009, 2008 and 2007

**6. SHARE CAPITAL (continued)**

## (d) Warrants

During the years ended December 31, 2009, 2008 and 2007 the change in warrants outstanding was as follows:

	Number of Shares	Weighted Average Exercise Price
Balance as of December 31, 2007 and 2008	2,055,000	4.35
Expired	(2,055,000)	4.35
Balance as of December 31, 2009	nil	nil

On February 8, 2009, 2,055,000 share purchase warrants with an exercise price of \$4.35 expired unexercised. There are currently no outstanding share purchase warrants.

## (e) Stock-based compensation and contributed surplus

During the year ended December 31, 2009, the Company granted 997,500 stock options to directors, officers and consultants with a weighted-average exercise price of \$0.69 and expiry dates of May 22, 2014 and June 10, 2014. All of these options vested on the grant date. During the year ended December 31, 2008, the Company granted 1,210,500 stock options to directors, officers and consultants with a weighted-average exercise price of \$1.34 and expiry dates ranging from February 8, 2013 to October 6, 2013. Of these options, 1,110,500 vested immediately and 100,000 vested six months after the grant date. In 2007, the Company granted 1,307,500 stock options to directors, officers and consultants with a weighted-average exercise price of \$3.21 and expiry dates ranging from January 8 to September 12, 2012. Of these options, 519,167 vested immediately and 394,167 vested one year after the grant date and 394,166 vested two years after the grant date. The options have been measured on a fair value basis using the Black-Scholes option pricing model, with the following weighted-average assumptions:

	2009	2008	2007
Expected dividend yield	0%	0%	0%
Expected stock price volatility	71%	71%	71%
Risk-free interest rate	1.02%	3.03%	4.08%
Expected life of options in years	3.0	3.0	2.9
Weighted average grant date fair value	\$0.69	\$0.62	\$1.50

Based on these inputs, under the fair value based method of accounting for stock-based compensation, the Company recorded stock-based compensation expense of \$349,658 (2008 - \$1,066,015; 2007 - \$1,336,658) with the offsetting amount credited to contributed surplus. Of the total stock based compensation expense of \$349,568 for 2009, \$325,752 was for options granted in the year with the balance of \$23,906 for options granted in prior years.

**ESPERANZA SILVER CORPORATION**

Notes to the Consolidated Financial Statements

*(Expressed in Canadian Dollars)*

Years ended December 31, 2009, 2008 and 2007

**7. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2009 the Company paid \$190,800 (2008 - \$Nil) to Seabord Services Corp. ("Seabord"), a management company with two officers in common, for office space and administrative services. At December 31, 2009, the Company was indebted to Seabord in the amount \$Nil (2008 - \$Nil). At December 31, 2009, Esperanza had deposits for future services with Seabord amounting to \$10,000 which were included in prepaid expenses. These transactions were in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties. All balances due to related parties are included in accounts payable and accrued liabilities

**8. COMMITMENTS AND CONTINGENCIES**

At December 31, 2009 the Company had a commitment on an office lease in Denver which expires June 30, 2012. The estimated total rent payable on the remaining portion of this lease is US\$179,700. Of this total, US\$68,600 is due in 2010; US\$70,400 in 2011 and US\$40,700 in 2012.

**9. INCOME TAXES**

A reconciliation of income tax recovery at statutory rates compared to reported income tax recovery is as follows:

	2009	2008	2007
Statutory tax rate	30.00%	31.00%	34.12%
Loss for the year	\$ (2,608,912)	\$ (5,129,245)	\$ (2,839,379)
Expected income tax recovery	(782,700)	(1,590,100)	(968,200)
Non-deductible expenses and other	310,200	(1,052,400)	(584,700)
Effect of foreign tax rate differences	6,900	241,500	212,000
Valuation allowance	465,600	2,401,000	1,340,900
Total income tax recovery	\$ -	\$ -	\$ -

The significant components of the Company's future income tax assets and liabilities are as follows:

	2009	2008	2007
Future income tax assets:			
Non-capital loss carry forwards	5,206,800	5,170,500	\$ 3,298,500
Capital loss carry forwards	2,550,100	1,744,200	-
Resource and capital asset expenditures	(567,900)	(427,500)	(657,500)
Share issuance costs	98,700	160,700	318,300
Future income tax assets	7,287,700	6,647,900	2,959,300
Valuation allowance	(7,287,700)	(6,647,900)	(2,959,300)
Net future income tax assets	\$ -	\$ -	\$ -

As at December 31, 2009, the Company has non-capital losses from operations of approximately \$19.0 million available for deduction against future taxable income. Non-capital losses, if not utilized, will expire through 2029. The realization

**ESPERANZA SILVER CORPORATION**

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**9. INCOME TAXES (Continued)**

of future tax benefits which may arise as a result of these non-capital losses and other income tax pools cannot be viewed as more likely than not. Accordingly, no future income tax assets have been recognized in these financial statements and have been offset by a valuation allowance.

**10. MANAGEMENT OF CAPITAL**

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. Esperanza relies mainly on equity issuances to raise new capital and on entering joint venture agreements on certain properties which enables it to conserve capital and to reduce risk. In the management of capital, the Company includes the components of shareholders' equity as well as cash. The Company prepares annual estimates of exploration expenditures and monitors actual expenditures compared to the estimates to ensure that there is sufficient capital on hand to meet ongoing obligations. The Company's investment policy is to invest its cash in highly liquid short-term deposits with terms of one year or less and which can be liquidated after thirty days without interest penalty. The Company currently has sufficient capital to fund its exploration programs and to cover its administrative costs for the next twelve months.

**11. MANAGEMENT OF FINANCIAL RISK**

The Company's financial instruments are exposed to certain financial risks, which include currency risk, credit risk, liquidity risk and interest rate risk.

**(a) Currency Risk**

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, the United States, Mexico and Peru. The Company funds cash calls to its subsidiary companies outside of Canada in US dollars and a portion of its expenditures are also in the local currencies. The greatest risk is the exchange rate of the Canadian dollar relative to the US dollar, the Mexican peso and the Peruvian sole and a significant change in these rates 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. As at December 31, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Mexican pesos and Peruvian soles:

	US\$	Mexican Pesos	Peruvian Soles
Cash and cash equivalents	16,700	106,000	101,500
Receivables	6,500	2,639,200	282,700
Accounts payable and accrued liabilities	154,900	38,000	523,400
Net exposure	(131,700)	2,707,200	(139,200)

Based on the above net exposures as at December 31, 2009 and assuming that all other variables remain constant, a 10% change in the value of the Canadian dollar against the above foreign currencies would result in an increase / decrease of approximately \$2,500 in the loss from operations. At December 31, 2009, one US dollar equaled \$1.0494 Canadian dollars, one Mexican peso equaled \$0.0806 Canadian dollars, and one Peruvian sole equaled \$0.3944 Canadian dollars.

**ESPERANZA SILVER CORPORATION**

Notes to the Consolidated Financial Statements

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**11. MANAGEMENT OF FINANCIAL RISK (Continued)****(b) Credit Risk**

The Company's cash and cash equivalents are mainly held through large Canadian or US financial institutions and at December 31, 2009 are mainly cash in savings accounts and accordingly credit risk is minimized. The Company's receivables are mainly VAT receivable from the Mexican government.

**(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 resources as outlined in note 10.

**(d) 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 the market interest rates. The Company's cash is held mainly in interest bearing accounts and therefore there is currently minimal interest rate risk.

**12. SEGMENTED INFORMATION**

The Company operates in a single reportable operating segment, being exploration and development of mineral properties.

Summarized financial information for the geographic segments the Company operates in are as follows:

	North America	Mexico	Bolivia	Peru	Total
<b>2009</b>					
Revenue	140,417	\$ 42,951	\$ -	\$ -	\$ 183,368
Loss for the year	(2,091,897)	(103,220)	(5,760)	(408,036)	(2,608,913)
Assets	5,489,492	10,524,554	-	3,256,575	19,270,621
Cash capital expenditures	-	1,341,510	-	424,409	1,765,919
<b>2008</b>					
Revenue	372,596	88	-	-	372,684
Loss for the year	(2,691,685)	(1,695,768)	(7,942)	(733,850)	(5,129,245)
Assets	8,485,856	11,170,677	14,681	1,579,409	21,250,623
Cash capital expenditures	6,819	4,597,078	-	454,280	5,058,177
<b>2007</b>					
Revenue	644,148	2,133	-	-	646,281
Loss for the year	(2,224,170)	(187,397)	(29,550)	(398,262)	(2,839,379)
Assets	15,502,824	8,752,970	27,141	1,535,022	25,817,957
Cash capital expenditures	45,271	3,369,531	-	583,335	3,998,137

**13. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)****Mineral Exploration Costs**

Under Canadian GAAP applicable to junior mining exploration companies (Note 2), mineral exploration expenditures may be deferred on prospective properties until such time as it is determined that further exploration is not warranted, at which time the property costs are written-off. Under US GAAP, in accordance with Emerging Issues Task Force (EITF No. 04-02 -- Whether Mineral Rights are Tangible or Intangible Assets), the Company has capitalized mineral property acquisition costs for United States GAAP for the periods beginning after April 30, 2004 while all exploration costs are expensed until an independent feasibility study has determined that the property is capable of economic commercial

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**13. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

(continued)

production. The following items (a) to (f) provide a summary of the impact on these financial statements that would result from the application of U.S. accounting principles to deferred property costs.

	December 31,		
	2009	2008	2007
	\$	\$	\$
a) Assets			
Deferred Property Costs			
Deferred property costs under Canadian GAAP	13,398,091	11,632,343	9,566,594
Deferred property costs expensed under U.S. GAAP	(11,650,066)	(9,900,966)	(7,649,068)
Deferred property costs under U.S. GAAP	1,748,025	1,731,377	1,917,526
b) Operations			
Loss for the year following Canadian GAAP	(2,608,913)	(5,129,245)	(2,839,379)
Deferred property costs expensed under U.S. GAAP	(1,749,100)	(2,251,898)	(4,547,088)
Loss for the year under U.S. GAAP	(4,358,013)	(7,381,143)	(7,386,467)
c) Deficit			
Closing deficit under Canadian GAAP	(21,911,659)	(19,302,746)	(14,173,501)
Adjustment to deficit for deferred costs expensed under U.S. GAAP	(11,650,066)	(9,900,966)	(7,649,068)
Closing deficit under U.S. GAAP	(33,561,725)	(29,203,712)	(21,822,569)
d) Cash Flows – Operating Activities			
Cash applied to operations under Canadian GAAP	(1,287,876)	(2,408,992)	(720,945)
Cash property costs expensed under U.S. GAAP	(1,749,271)	(5,009,227)	(3,772,772)
Cash applied to operations under U.S. GAAP	(3,037,147)	(7,418,219)	(4,493,717)
e) Cash Flows – Investing Activities			
Cash applied under Canadian GAAP	(1,765,919)	(5,058,177)	(3,974,597)
Add cash property costs expensed under U.S. GAAP	1,749,271	5,009,227	3,772,772
Cash received (applied to) investing activities under U.S. GAAP	(16,648)	(48,950)	(201,825)
f) Loss per Share	For the years ended December 31,		
	2009	2008	2007
Numerator: Loss for the year under U.S. GAAP	\$ (4,401,175)	\$ (7,194,994)	\$ (7,386,467)
Denominator: Weighted-average number of shares outstanding	47,652,523	47,299,635	44,550,285
Basic and diluted loss per share under U.S. GAAP	(0.09)	(0.15)	(0.17)

**ESPERANZA SILVER CORPORATION**

Notes to the Consolidated Financial Statements

*(Expressed in Canadian Dollars)*Years ended December 31, 2009, 2008 and 2007

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**14. SUBSEQUENT EVENTS**

On February 16, 2010, the Company announced that it had completed a private placement of 4,000,000 units at a price of \$1.25 per unit for gross proceeds of \$5,000,000. Each unit consists of one common share ("Share") and one non-transferable common share purchase warrant ("Warrant") to purchase another share for \$1.75 which expires on February 16, 2012. If, after the expiry of all Canadian resale restrictions, the closing price of Esperanza's common shares on the TSX Venture Exchange is \$2.20 or greater for a period of 20 consecutive days, the Company may accelerate the expiry of the Warrants, to 21 trading days after giving notice thereof. All Shares, Warrants and any Shares issued upon exercise of the Warrants, are subject to a regulatory hold period expiring on June 17, 2010. Finder's fees were payable in cash to Haywood Securities Inc. (\$22,981), Global Resource Investments Inc. (\$193,750) and Lincoln Peck Financial Inc. (\$6,250) in consideration of their efforts in locating investors. On March 4, 2010, the Company completed a second private placement of 500,000 units with the same terms as the first private placement, for total proceeds of \$625,000. The 500,000 non-transferable common share purchase warrants issued as part of this private placement expire on March 4, 2012.

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*Senior Vice-President*

PAUL J. BARTOS  
*Vice President and Chief Geologist*

WILLIAM BOND  
*VP Exploration*

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*Chief Financial Officer*

KIM C. CASSWELL  
*Corporate Secretary*

**AUDITOR**

DEVISSER GRAY  
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**SHARE CAPITALIZATION**

May 5, 2010: 52,772,021

**SHARES LISTED**

TSX Venture Exchange  
Symbol: EPZ

Website: [www.esperanzasilver.com](http://www.esperanzasilver.com)