Consolidated Financial Statements

ESPERANZA SILVER CORPORATION

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

DeVISSER GRAY LLP
CHARTERED ACCOUNTANTS

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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
ASSETS		
Current		
Cash and cash equivalents	$ 5,584,553	$ 8,429,832
Receivables	255,987	1,089,455
Prepaid expenses	17,739	21,578
	5,858,279	9,540,865
Equipment (Note 4)	14,251	77,415
Mineral properties (Note 5)	13,398,091	11,632,343
	$ 19,270,621	$ 21,250,623
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 260,135	$ 189,308
SHAREHOLDERS' EQUITY		
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)
	19,010,486	21,061,315
	$ 19,270,621	$ 21,250,623

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
OPERATING EXPENSES			
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
LOSS BEFORE OTHER ITEMS	(2,749,119)	(3,265,610)	(3,491,823)
OTHER ITEMS			
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)	-
Net loss and comprehensive loss for the year	(2,608,913)	(5,129,245)	(2,839,379)
Deficit, beginning of year	(19,302,746)	(14,173,501)	(11,334,122)
Deficit, end of year	$ (21,911,659)	$ (19,302,746)	$ (14,173,501)
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
CASH FLOWS FROM (TO)			
Operations:			
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
	(1,287,876)	(2,408,992)	(720,945)
Investing:			
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)
	(1,765,919)	(5,058,177)	(3,974,597)
Financing:			
Shares issued for cash	208,516	325,800	17,102,643
Shares issue costs	-	-	(928,188)
	208,516	325,800	16,174,455
Change in cash and cash equivalents in the year	(2,845,279)	(7,141,369)	11,478,913
Cash and cash equivalents, beginning of year	8,429,832	15,571,201	4,092,288
Cash and cash equivalents, end of year	$ 5,584,553	$ 8,429,832	$ 15,571,201
Supplementary information:			
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.

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, Empressa 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

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.

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.

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

(Expressed in Canadian Dollars)

5. MINERAL PROPERTIES

The continuity of expenditures on mineral properties is as follows:

	Mexico		Bolivia	Peru					
	Cerro Jumil	AT Properties	Atocha	Utcucocha	Sante Fe	San Luis	Other	Total Peru	Total
Balance, December 31, 2007	$ 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
Exploration and Development									
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)
Balance, December 31, 2008	$ 10,241,374	$ -	$ -	$ 207,726	$24,093	$ 880,566	$ 278,584	$1,390,969	$ 11,632,343

(Expressed in Canadian Dollars)

	Mexico	Peru						
	Cerro Jumil	**Guadalupe**	**Utcucocha**	**Sante Fe**	**San Luis**	**Other**	**Total Peru**	**Total**
Balance, December 31, 2008	$ 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
Exploration and Development:								
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)
Balance, December 31, 2009	$ 11,593,557	$ 61,481	$ 240,395	$ 127,252	$ 947,580	$ 427,826	$ 1,804,534	$ 13,398,091

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.

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, Utcucocha 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, Empressa Minera Atocha.

(Expressed in Canadian Dollars)

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.

(Expressed in Canadian Dollars)

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	

(Expressed in Canadian Dollars)

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.

(Expressed in Canadian Dollars)

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

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.

(Expressed in Canadian Dollars)

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
2009					
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
2008					
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
2007					
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

(Expressed in Canadian Dollars)

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 $	December 31, 2008 $	December 31, 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)

		For the years ended December 31, 2009	2008	2007
f)	Loss per Share			
	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)

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.