SUPPLEMENT TO

MANAGEMENT INFORMATION CIRCULAR

FOR SPECIAL MEETING OF SHAREHOLDERS

OF AURCANA CORPORATION

THE POSTPONED SPECIAL MEETING WILL BE HELD ON

DECEMBER 20, 2018

December 3, 2018

These materials are important and require your immediate attention. They require shareholders of Aurcana Corporation to make important decisions. If you are in doubt as to how to make such decisions, please contact your financial, legal or other professional advisors. If you have any questions or require more information with regard to voting your shares, please contact Aurcana Corporation.

December 3, 2018

Dear Shareholders of Aurcana Corporation:

You are invited to attend the postponed special meeting (the "**Meeting**") of shareholders of Aurcana Corporation ("**Aurcana**" or the "**Company**"). As a result of the matters described herein, the Meeting will now be held on Thursday, December 20, 2018, at 9:30 a.m. (Vancouver Time) at Suite 910 – 800 West Pender Street, Vancouver, British Columbia. **If you cannot attend the Meeting please complete the applicable form of proxy or voting instruction form provided with the Information Circular and submit it as soon as possible.**

Aurcana is sending the accompanying supplement ("**Supplement**") to its management information circular dated November 7, 2018 (the "**Information Circular**") in order to provide you with additional information in connection with the finalization of the Offering (as defined below) that has occurred subsequent to the mailing of the Information Circular. In addition, this Supplement also provides you with revised versions of the unaudited financial statements of Ouray Silver Mines, Inc. ("**Ouray**") for the three and six months ended June 30, 2018, the Management's Discussion and Analysis of Ouray for the fiscal years ending December 31, 2017 and December 31, 2016, the Management's Discussion and Analysis of Ouray for the three and six months ending June 30, 2018 and the *pro forma* condensed consolidated financial statements of the Combined Company (as defined below) as at June 30, 2018 after giving effect to the Arrangement (as defined below) that have been prepared subsequent to the mailing of the Information Circular.

As more fully described in the Information Circular, at the postponed Meeting you are being asked to consider and vote upon a resolution (the "**Arrangement Resolution**") approving a plan of arrangement (the "**Arrangement**") under Section 192 of the *Canada Business Corporations Act*, pursuant to which, among other things:

- Aurcana will purchase all equipment currently owned by an affiliate of Orion Mine Finance (Master) Fund I LP ("**Orion**"), an approximate 15% shareholder of Aurcana, located at the Company's Shafter-Presidio Mine located in Shafter, Texas, in exchange for US$500,000 and 23,894,545 pre-Consolidation common shares of Aurcana (the "**Aurcana Shares**");

- The Aurcana Shares will be consolidated on a 5:1 basis (the "**Consolidation**");

- Aurcana US Ltd. ("**Aurcana US**"), a wholly-owned, indirect subsidiary of Aurcana, will acquire all of the issued and outstanding common shares of Ouray. Ouray owns the Revenue-Virginius mine located in the San Juan Mountains near Ouray, Colorado. Aurcana US will also become a party to a metal prepay agreement providing a security package over all the common shares and assets of Ouray. As consideration therefor, Aurcana will issue 83,240,359 common shares of Aurcana (post-Consolidation) to the existing shareholder of Ouray and the owner of the metal prepay agreement; and

- Aurcana will complete a subscription receipt offering for gross proceeds of approximately C$6,292,000 (as described more fully below in this Supplement). Each subscription receipt will be issued at a price of C$1.00, and, upon the completion of the Arrangement, will convert into a Post-Consolidation Aurcana Share and a post-Consolidation Aurcana Warrant (an "**Underlying Warrant**"),

  all as more fully set forth in Information Circular and this Supplement.

The accompanying Supplement contains an updated description of the Offering that supplements the information contained in the Information Circular and sets forth the actions to be taken by you at the Meeting. You should carefully consider all of the information in the Notice of Special Meeting, the accompanying Supplement and Information Circular and consult your financial, legal or other professional advisors if you require assistance.

Your vote is very important regardless of the number of Aurcana Shares you own. The Aurcana Board recommends that shareholders of Aurcana vote in favour of the Arrangement Resolution approving the Arrangement.

If you are an Aurcana registered shareholder (i.e., your name appears on the register of Aurcana Shares maintained by or on behalf of Aurcana) and you are unable to attend the meeting in person, please date, sign and return the enclosed form of proxy. Proxies to be used at the Meeting must be deposited with TSX Trust Company by mail or hand delivery to 301 – 100 Adelaide Street West, Toronto ON M5H 4H1. In order to be valid and acted upon at the Meeting, the duly-completed form of proxy must be received prior to 9:30 a.m. (Vancouver time) on Tuesday, December 18, 2018 or 48 hours (excluding Saturdays, Sundays and holidays) prior to the commencement or any adjournment or postponement of the Meeting. The deadline for the deposit of proxies may be waived or extended by the Chair of the Meeting at his discretion, without notice.

If you hold your Aurcana Shares through a broker, custodian, nominee or other intermediary, you should follow the instructions provided by your intermediary to ensure your vote is counted at the Meeting and should arrange for your intermediary to complete the necessary steps.

We thank Aurcana Shareholders for their continued support of the Arrangement and look forward to seeing you at the Meeting.

Yours truly,

(signed) Kevin Drover

Kevin Drover
President and Chief Executive Officer

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AURCANA CORPORATION

SUPPLEMENT TO MANAGEMENT INFORMATION CIRCULAR

December 3, 2018

INTRODUCTION

This supplement ("**Supplement**") to the management information circular of the Company dated November 7, 2018 (the "**Information Circular**") is furnished in connection with the solicitation of proxies by the management of Aurcana Corporation ("**Aurcana**" or the "**Company**") for use at a postponed special meeting (the "**Meeting**") of holders of common shares ("**Shares**") of the Company (the "**Shareholders**") to be held on Thursday, December 20, 2018, at 9:30 a.m. (Vancouver Time) at Suite 910 – 800 West Pender Street, Vancouver, British Columbia for the purposes set forth in the Notice of Special Meeting of Shareholders appended to the Information Circular (the "**Notice of Special Meeting**").

INFORMATION CONTAINED IN THIS SUPPLEMENT

No Person has been authorized to give any information or make any representations in connection with the Arrangement other than those contained in this Supplement and, if given or made, any such information or representations should be considered not to have been authorized by Aurcana. This Supplement does not constitute the solicitation of a proxy by any Person in any jurisdiction in which such solicitation is not authorized or in which the Person making such solicitation is not qualified to do so or to any Person to whom it is unlawful to make such solicitation.

All information relating to Ouray or any of its affiliates contained in this Supplement has been provided to Aurcana by those parties. The Aurcana Board has relied upon this information without having made independent inquiries as to its accuracy or completeness; however, the Aurcana Board has no reason to believe that the information is misleading or inaccurate. The Aurcana Board and Aurcana assume no responsibility for the inaccuracy or incompleteness of any information provided by Ouray or any of its Affiliates, or for any failure of any of them to disclose events that may have occurred or that may affect the significance or accuracy of any such information or for any failure of any of them to update or amend such information, whether as a result of new information, future events or otherwise.

Except as otherwise indicated, the information provided herein is as of December 3, 2018.

See "Glossary of Terms" in the Information Circular for certain of the defined terms used in this Supplement.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING INFORMATION

This Supplement contains "forward-looking information" (as defined in applicable Canadian Securities Laws) (forward-looking information and forward-looking statements being collectively hereinafter referred to as "**forward-looking information**") that are based on expectations, estimates and projections as of the date of this Supplement relating to the Arrangement. Often, but not always, such forward-looking information can be identified by the use of forward-looking words such as "plans", "expects", "is expected", "budgets", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "believes", or variations or the negatives of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved or not be taken, occur or be achieved. These forward-looking statements include but are not limited to statements and information concerning: the Arrangement; intentions, plans and future actions of Aurcana and Ouray; the timing for the implementation of the Arrangement and the potential benefits of the Arrangement; the likelihood of the Arrangement being completed; principal steps of the Arrangement; statements made in, and based upon, the Fairness Opinion; statements relating to the business and future activities of and developments related to Aurcana and Ouray after the date of this Supplement; approval of the Arrangement; market position, ability to compete and future financial or operating performance of Aurcana and Ouray; anticipated developments in operations; the future price of metals; the estimation of current and future mineral reserves and resources and the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production and capital expenditures; mine life of the RV Mine, the Shafter Project and other mineral projects, the timing and amount of estimated capital expenditure; costs and timing of exploration and development and capital expenditures related thereto; operating expenditures; success of exploration activities, estimated exploration budgets; currency fluctuations; requirements for additional capital; government regulation of mining operations; environmental risks; unanticipated reclamation expenses; title disputes or claims; limitations on insurance coverage; the timing and possible outcome of regulatory and permitted matters; goals; strategies; future growth; planned exploration activities and planned future acquisitions; the adequacy of financial resources; and other events or conditions that may occur in the future.

Forward-looking statements are subject to a variety of risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation: those described under the sections entitled "Risk Factors" in the Information Circular and in Schedule F – *"Information Concerning Ouray and the Combined Company"* of the Information Circular; the Arrangement Agreement may be terminated in certain circumstances; possible variations in mineral resources, and other estimates contained in the most recent Feasibility Study; risks and uncertainties associated with exploration and mining operations; general business, economic, competitive, political, regulatory and social uncertainties; precious and base metals price volatility; risks related to the ability to finance the continued development and exploration of mineral properties; risks related to dependence on key personnel; uncertainty related to mineral exploration properties; risks related to factors beyond the control of Ouray or Aurcana; limited business history of Ouray; risks related to the ability to obtain adequate financing for planned development activities; risks associated with the use of leverage; interest rate risk; liquidity risk; lack of infrastructure at mineral exploration properties; risks and uncertainties relating to the interpretation of drill results and the geology, grade and continuity of mineral deposits; uncertainties related to title to mineral properties and the acquisition of surface rights; risks related to governmental regulations, including environmental laws and regulations and liability and obtaining permits and licences; future changes to environmental laws and regulations; future changes to the General Mining Law; future changes to health and safety laws and regulations; unknown environmental risks for past activities; commodity price fluctuations; share price fluctuations; risks related to reclamation activities on mineral properties; risks related to political instability and unexpected regulatory change; currency fluctuations and risks associated with a fixed exchange ratio; conflicts of interest; insurance risks; risks related to the involvement of some of the directors and officers of Ouray and Aurcana with other natural resource companies; enforcement of U.S. judgments and laws in Canada; enforceability of claims; the ability to maintain adequate control over financial reporting; risks related to the New Aurcana Shares, including price volatility due to events that may or may not be within such parties' control; disruptions or changes in the credit or security markets; risks related to international operations; risks related to joint venture operations; actual results of current exploration activities; reserve and resource estimate risk; actual results of current reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; changes in labour costs or other costs of production; variations in capital costs, cash operating costs, production and economic returns, other economic returns; increased costs associated with new or additional royalties or taxes; ore reserves, grade or recovery rates; labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; the ability to renew existing licenses or permits or obtain required licenses and permits; increased infrastructure and/or operating costs; risks of not meeting production and cost targets; discrepancies between actual and estimated production; mineral reserves and resources and metallurgical recoveries; mining operational and development risk; litigation risks; risks of sovereign investment and operating in foreign countries; foreign countries' regulatory requirements; speculative nature of gold or silver exploration; risks related to directors and officers of Aurcana possibly having interests in the Arrangement that are different from other Aurcana Shareholders; risks relating to the possibility that more than 5% of Aurcana Shareholders may exercise their dissent rights; risks that other conditions to the consummation of the Arrangement are not satisfied; global economic climate; dilution; ability to complete acquisitions; risks related to the ability of Ouray and Aurcana to find appropriate joint venture partners; environmental risks; community and non-governmental actions and regulatory risks; risks related to reliance on a limited number of properties; and risks related to the possibility that Ouray and Aurcana may not integrate successfully.

Such forward-looking information is based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions in connection with the Arrangement, the timely completion of the steps required to be taken for the Arrangement by Aurcana and Ouray to become effective under the terms of the Arrangement Agreement, the approvals required to be obtained by Aurcana from Aurcana Shareholders and the Court, and business and economic conditions generally.

While Aurcana anticipates that subsequent events and developments may cause its views to change, Aurcana specifically will not update this forward-looking information, except as required by law. This forward-looking information should not be relied upon as representing Aurcana' views as of any date subsequent to the date of this Supplement. Aurcana has attempted to identify important factors that could cause actual actions, events or results to differ materially from those current expectations described in forward-looking information. However, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended and that could cause actual actions, events or results to differ materially from current expectations. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. These factors are not intended to represent a complete list of the factors that could affect Aurcana or the Arrangement. Additional factors are noted elsewhere in the Information Circular. See, for example, the section entitled "Risk Factors" in this Information Circular.

NOTE TO UNITED STATES SECURITYHOLDERS

THE SECURITIES ISSUABLE IN CONNECTION WITH THE ARRANGEMENT HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES REGULATORY AUTHORITIES OF ANY STATE, NOR HAS THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES REGULATORY AUTHORITIES OF ANY STATE PASSED UPON THE ADEQUACY OR ACCURACY OF THIS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The New Aurcana Common Shares to be issued to the Aurcana Shareholders pursuant to the Arrangement have not been and will not be registered under the U.S. Securities Act or any applicable Securities Laws of any state of the United States, other than California where a qualification under applicable California securities laws has been filed, and will be issued to Aurcana Shareholders in reliance on the Section 3(a)(10) Exemption and corresponding exemptions under the securities laws of each state of the United States in which U.S. Aurcana Shareholders are domiciled, except in California where a qualification under applicable California securities laws has been filed. The Section 3(a)(10) Exemption exempts from the registration requirements of the U.S. Securities Act the offer and issuance of any securities issued in exchange for one or more bona fide outstanding securities or other property where, among other things, the fairness of the terms and conditions of the issuance and exchange of such securities have been approved by a court or governmental authority of competent jurisdiction that is expressly authorized by law to grant such approval, after a hearing upon the fairness of the terms and conditions of such issuance and exchange at which all persons to whom it is proposed to issue the securities in such exchange have the right to appear and receive timely notice thereof. The Court is authorized to conduct a hearing at which the fairness of the terms and conditions of the Arrangement will be considered. All Aurcana Shareholders are entitled to appear and be heard at this hearing. The Final Order will constitute a basis for the Section 3(a)(10) exemption with respect to the New Aurcana Common Shares to be issued to the Aurcana Shareholders pursuant to the Arrangement, except for those New Aurcana Common

Shares to be issued to holders of Aurcana Shares that will receive them upon deemed exercise of securities purchased in the Offering. Prior to the hearing on the Final Order, the Court will be informed of this effect of the Final Order. See "Particulars of the Arrangement – Shareholders and Court Approvals – Court Approval" in the Information Circular.

The New Aurcana Common Shares to be issued to the Aurcana Shareholders under the Arrangement will be freely transferable under U.S. federal Securities Laws, except those New Aurcana Common Shares issued to (a) U.S. Persons who are "affiliates" of Aurcana at the time the Plan of Arrangement is submitted for vote or consent by the Aurcana Shareholders or U.S. Persons who are "affiliates" of Aurcana at the time of their proposed transfer or within 90 days prior to their proposed transfer, or (b) holders of Subscription Receipts purchased in the Offering which pursuant to the Arrangement will be converted into Aurcana Shares and then will be exchanged for New Aurcana Common Shares. Persons who may be deemed to be "affiliates'" of an issuer include individuals or entities that control, are controlled by, or are under common control with, the issuer, whether through the ownership of voting securities, by contract, or otherwise, and generally include executive officers and directors of the issuer as well as principal shareholders of the issuer. Any resale of such New Aurcana Common Shares by such an affiliate (or, if applicable, former affiliate) may be subject to the registration requirements of the U.S. Securities Act, absent an exemption therefrom. See *"Securities Law Matters – U.S. Securities Laws"* in the Information Circular.

The New Aurcana Common Shares to be issued to holders of Subscription Receipts following completion of the Arrangement will be "restricted securities" as defined in Rule 144(a)(3) of the U.S. Securities Act and may not be transferred or sold, except pursuant to applicable exemptions under the U.S. Securities Act and any applicable securities laws of any state of the United States, including Rule 904 of Regulation S and Rule 144 under the U.S. Securities Act.

Prior to the issuance of New Aurcana Common Shares pursuant to any exercise of Aurcana Options or Aurcana Warrants by or on behalf of persons in the United States or U.S. Persons, Aurcana may require the delivery of an opinion of counsel or other evidence reasonably satisfactory to Aurcana to the effect that the issuance of such New Aurcana Common Shares does not require registration under the U.S. Securities Act or applicable Securities Laws of any state of the United States.

The solicitation of proxies involves securities of Aurcana, a "foreign private issuer" within the meaning of Rule 405 under the U.S. Securities Act and Rule 3b-4 under the U.S. Exchange Act and is not subject to the proxy requirements of Section 14(a) of the U.S. Exchange Act. Accordingly, this Supplement has been prepared in accordance with disclosure requirements applicable in Canadian Securities Laws, and the solicitations and transactions contemplated in this Supplement are made in the United States for securities of a Canadian issuer in accordance with Canadian corporate and Securities Laws. Aurcana Shareholders in the United States should be aware that such requirements are different from those of the United States applicable to proxy statements under the U.S. Exchange Act.

Aurcana securityholders should be aware that the acquisition of the New Aurcana Common Shares pursuant to the Arrangement described herein may have tax consequences both in the United States and in Canada. See "Certain Canadian Federal Income Tax Considerations". This Supplement does not contain any discussion as to the application of the United States federal income tax, or the tax law of any state, local, foreign or other jurisdiction in the United States, in relation to the acquisition, holding, exercise or disposition, as applicable, of the New Aurcana Common Shares issuable pursuant to the Arrangement. In particular, and without liming the generality of the foregoing, no determination has been made whether either Ouray or Aurcana is a "passive foreign investment company" within the meaning of Section 1297 of the United States Internal Revenue Code of 1986, as amended. Accordingly, holders of New Aurcana Common Shares that are resident in, or citizens of, the United States should consult their own tax advisors for advice with respect to the application of U.S. federal, state, local, foreign or other tax law to the acquisition, holding or disposition, as applicable, of the New Aurcana Common Shares issuable pursuant to the Arrangement. **Aurcana Shareholders that are resident in, or citizens of, the United States are advised to consult their own tax advisors regarding the United States tax consequences to them of the transactions to be effected in connection with the Arrangement, in light of their particular situation, as well as any tax consequences that may arise under the laws of any other relevant foreign, state, local or other taxing jurisdiction.**

Certain of the financial information referred to in this Supplement or the financial statements of Aurcana available on Aurcana's profile on SEDAR (www.sedar.com) have been prepared in U.S. dollars, and in accordance with IFRS, and are subject to Canadian auditing and auditor independence standards, which may differ in material ways from U.S. GAAP and United States auditing and auditor independence standards in certain material respects and thus may not be comparable to financial information of United States corporations. The financial statements and Management's Discussion and Analysis of Ouray that are included herein in as Appendix "A", "B" and "C" have been prepared in U.S. dollars and accordance with U.S. GAAP.

Information regarding mineral reserve and resource estimates in the Information Circular and this Supplement concerning the properties, operations and royalty interests of Aurcana and Ouray has been prepared in accordance with the requirements of Canadian Securities Laws, which may differ in material respects from the requirements of U.S. Securities Laws applicable to United States corporations. Aurcana and Ouray are required to describe mineral reserves associated with the properties owned by or in which Aurcana and Ouray hold interests (including royalty interests) utilizing **CIM** definitions of "proven mineral reserve" or "probable mineral reserve", which categories of reserves are recognized by NI 43-101, but which differ from those definitions in the disclosure requirements promulgated by the SEC and contained in Industry Guide 7. Under Industry Guide 7 standards, a "final" or "bankable" feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, under NI 43-101, Aurcana and Ouray are required to describe mineral resources associated with their respective properties utilizing CIM definitions of "measured mineral resource", "indicated mineral resource" or "inferred mineral resource", which categories of resources are recognized by Canadian regulations but are not defined terms under Industry Guide 7 and are generally not permitted to be used in reports and registration statements of U.S. companies filed with the SEC. Accordingly, information contained in this Supplement regarding the mineral properties of Aurcana and Ouray may not be comparable to similar information disclosed by U.S. companies in reports filed with the SEC. U.S. investors are cautioned not to assume that all or any part of measured mineral resources or indicated mineral resources will ever be converted into Industry Guide 7 mineral reserves. "Inferred mineral resources" have an even greater amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by Industry Guide 7 standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in this Supplement contain descriptions of mineral deposits that may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder, including Industry Guide 7.

The enforcement by investors of civil liabilities under the U.S. Securities Laws may be affected adversely by the fact that Aurcana is organized under the laws of a jurisdiction other than the United States, that some of Aurcana's officers and directors are residents of countries other than the United States, that some or all of the experts named in this Supplement may be residents of countries other than the United States, and that some of the assets of Aurcana and such Persons are located outside the United States. As a result, it may be difficult or impossible for Aurcana securityholders resident in the United States to effect service of process within the United States upon Aurcana, its officers and directors or the experts named in this Supplement, or to realize, against them, upon judgments of courts in the United States predicated upon civil liabilities under the Securities Laws of the United States. In addition, Aurcana securityholders resident in the United States should not assume that Canadian courts: (a) would enforce judgments of United States courts obtained in actions against such Persons predicated upon civil liabilities under the Securities Laws of the United States or the state-specific "blue sky" Securities Laws of any state within the United States; or (b) would enforce, in original actions, liabilities against such Persons predicated upon civil liabilities under the Securities Laws of the United States or "blue sky" laws of any state within the United States.

No broker, dealer, salesperson or other Person has been authorized to give any information or make any representation other than those contained in this Supplement and, if given or made, such information or representation must not be relied upon as having been authorized by Aurcana or Ouray.

NOTICE TO NON-CANADIAN AURCANA SHAREHOLDERS

It is strongly recommended that all Aurcana Shareholders who are not Resident Holders consult their own legal and tax advisors with respect to the income tax consequences and any associated filing requirements applicable in their place of residency in connection with the Arrangement.

TAX CONSEQUENCES FOR AURCANA SHAREHOLDERS

Aurcana Shareholders should be aware that the transactions contemplated in the Information Circular and this Supplement may have tax consequences in Canada and any other jurisdiction in which an Aurcana Shareholder is subject to taxation. Certain information concerning the Canadian federal income tax consequences of the Arrangement for Aurcana Shareholders is set out under the heading "Certain Canadian Federal Income Tax Considerations" in the Information Circular. The summary in the Information Circular under the heading "Certain Canadian Federal Income Tax Considerations" is not exhaustive of all possible Canadian federal income tax consequences of the transactions described in the Information Circular and this Supplement for Aurcana Shareholders. Aurcana Shareholders are urged to consult with their own tax advisors with respect to the tax consequences of the transactions described in the Information Circular and this Supplement under any applicable Canadian and United States federal, state, provincial, territorial, local or foreign tax laws based on their particular circumstances.

CURRENCY AND ACCOUNTING PRINCIPLES

Reporting Currencies and Accounting Principles

Unless otherwise indicated, all references to "C$" in this Supplement refer to Canadian dollars. All references to "US$" in this Supplement refer to U.S. dollars. Ouray's financial statements and Management's Discussion and Analysis that are included herein in Appendix "A", "B" and "C" are reported in U.S. Dollars and are prepared in accordance with U.S. GAAP. The financials statements of Aurcana available on SEDAR at www.sedar.com are reported in U.S. dollars and are prepared in accordance with IFRS. The *pro forma* statements that are included in Appendix "D" to this Supplement are reported in U.S. dollars.

Exchange Rate Data

The following table sets forth the high and low exchange rates for one U.S. dollar expressed in Canadian dollars for each period indicated, the average of the exchange rates for each period indicated and the exchange rate at the end of each such period, based upon the noon buying rates provided by the Bank of Canada:

	Year Ended December 31		**Six months ended June 30**
	2017	**2016**	**2018**
	(C$)	(C$)	(C$)
High	1.3743	1.4589	1.331
Low	1.2128	1.2544	1.213
Rate at end of period	1.2986	1.3248	1.317
Average rate for period	1.2545	1.3247	1.270

On December 3, 2018, the daily exchange rate for one U.S. dollar expressed in Canadian dollars as reported by the Bank of Canada, was $1.3191.

APPOINTMENT AND REVOCATION OF PROXIES

Appointment of Proxy

An Aurcana Shareholder who is unable to attend the Meeting in person is requested to complete and sign the enclosed form of proxy and to deliver it to TSX Trust Company by mail or hand delivery to 301 – 100 Adelaide Street West, Toronto ON M5H 4H1. In order to be valid and acted upon at the Meeting, the form of proxy must be received no later than 9:30 a.m. (Vancouver time) on Tuesday, December 18, 2018 or 48 hours (excluding Saturdays, Sundays and holidays) prior to the commencement or any adjournment or postponement of the Meeting. The deadline for the deposit of proxies may be waived or extended by the Chair of the Meeting at his discretion, without notice.

If you are a non-registered holder of Aurcana Shares and have received these materials through your broker, custodian, nominee or other intermediary, please complete and return the form of proxy or voting instruction form provided to you by your broker, custodian, nominee or other intermediary in accordance with the instructions provided therein.

The document appointing a proxy must be in writing and executed by the Aurcana Shareholders or his attorney authorized in writing or, if the Aurcana Shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized.

An Aurcana Shareholder submitting a form of proxy has the right to appoint a Person (who need not be an Aurcana Shareholder) to represent him or her at the Meeting other than the persons designated in the form of proxy furnished by Aurcana. To exercise that right, the name of the Aurcana Shareholder's appointee should be legibly printed in the blank space provided. In addition, the Aurcana Shareholder should notify the appointee of the appointment, obtain his or her consent to act as appointee and instruct the appointee on how the Aurcana Shareholder's Aurcana Shares are to be voted.

Aurcana Shareholders who are not registered shareholders should refer to "Notice to Beneficial Holders of Aurcana Shares" below.

Revocation of Proxy

An Aurcana Shareholder who has submitted a form of proxy as directed hereunder may revoke it at any time prior to the exercise thereof. In addition to the revocation in any other manner permitted by law, a proxy may be revoked by instrument or act in writing executed or signed by the Aurcana Shareholder or his personal representative and deposited with TSX Trust Company by mail or hand delivery to 301 – 100 Adelaide Street West, Toronto ON M5H 4H1 or deposited with the Secretary of Aurcana before the commencement of the Meeting, or any adjournment thereof, and upon either of those deposits, the proxy will be revoked.

Notice to Beneficial Holders of Aurcana Shares

The information set out in this section is of importance to many Aurcana Shareholders, as a substantial number of Aurcana Shareholders do not hold Aurcana Shares in their own name. Aurcana Shareholders who do not hold their Aurcana Shares in their own name (referred to herein as "**Beneficial Shareholders**") should note that only proxies deposited by Aurcana Shareholders whose names appear on the records of Aurcana as the registered holders of shares can be recognized and acted upon at the Meeting or any adjournment(s) thereof. If Aurcana Shares are listed in an account statement provided to an Aurcana Shareholder by a broker, then in almost all cases those Aurcana Shares will not be registered in the Aurcana Shareholder's name in the records of Aurcana. Those Aurcana Shares will most likely be registered under the name of the Aurcana Shareholder's broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co. (the registration name for CDS Clearing and Depository Services Inc., which acts as nominee for many Canadian brokerage firms). Aurcana Shares held by brokers or their nominees can be voted (for or against resolutions or withheld from voting) only upon the instructions of the Beneficial Shareholder. Without specific instructions, the broker/nominees are prohibited from voting shares for their clients. Subject to the following discussion in relation to NOBOs (as defined herein), Aurcana does not know for whose benefit the Aurcana Shares registered in the name of CDS & Co., a broker or another nominee, are held.

There are two categories of Beneficial Shareholders under applicable securities regulations for purposes of dissemination to Beneficial Shareholders of proxy-related materials and other security holder materials and requests for voting instructions from such Beneficial Shareholders. Non-objecting beneficial owners ("**NOBOs**") are Beneficial Shareholders who have advised their intermediary (such as brokers or other nominees) that they do not object to their intermediary disclosing ownership information to Aurcana, consisting of their name, address, e-mail address, securities holdings and preferred language of communication. Canadian Securities Laws restrict the use of that information to matters strictly relating to the affairs of Aurcana. Objecting beneficial owners ("**OBOs**") are Beneficial Shareholders who have advised their intermediary that they object to their intermediary disclosing such ownership information to Aurcana.

In accordance with the requirements of NI 54-101, Aurcana is sending the Meeting Materials, indirectly through intermediaries to both NOBOs and OBOs. NI 54-101 allows Aurcana, in its discretion, to obtain a list of its NOBOs from intermediaries and to use such NOBO list for the purpose of distributing the Meeting Materials directly to, and seeking voting instructions directly from, such NOBOs. As a result, Aurcana is entitled to deliver Meeting Materials to Beneficial Shareholders in two manners: (a) directly to NOBOs and indirectly through intermediaries to OBOs; or (b) indirectly to all Beneficial Shareholders through intermediaries. The cost of the delivery of the Meeting Materials by intermediaries to OBOs will not be borne by Aurcana and OBOs will not receive the Meeting Materials unless their intermediary assumes the cost of the delivery. Aurcana has used a NOBO list to send the Meeting Materials directly to NOBOs whose names appear on that list.

These Meeting Materials are being sent to both registered and non-registered owners of the securities. If you are a non-registered owner, and Aurcana or its transfer agent has sent these materials directly to you, your name and address and information about your holdings of securities, have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding on your behalf.

By choosing to send these Meeting Materials to you directly, Aurcana (and not the intermediary holding on your behalf) has assumed responsibility for (i) delivering the Meeting Materials to you; and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.

Applicable securities regulations require intermediaries, on receipt of Meeting Materials that seek voting instructions from Beneficial Shareholders indirectly, to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings on Form 54-101F7. Every intermediary/broker has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Shareholders in order to ensure that their Aurcana Shares are voted at the Meeting or any adjournment(s) thereof. Often, the form of proxy supplied to a Beneficial Shareholder by its broker is identical to the form of proxy provided to registered shareholders; however, its purpose is limited to instructing the registered shareholder how to vote on behalf of the Beneficial Shareholder. Beneficial Shareholders who wish to appear in person and vote at the Meeting should be appointed as their own representatives at the Meeting in accordance with the directions of their intermediaries and Form 54-101F7. Beneficial Shareholders can also write the name of someone else whom they wish to appoint to attend the Meeting and vote on their behalf. Unless prohibited by law, the person whose name is written in the space provided in Form 54-101F7 will have full authority to present matters to the Meeting and vote on all matters that are presented at the Meeting, even if those matters are not set out in Form 54-101F7 or this Supplement. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge. Broadridge typically mails a voting instruction form in lieu of a form of proxy. Beneficial Shareholders are requested to complete and return the voting instruction form to Broadridge by mail or facsimile. Alternatively, Beneficial Shareholders can call a toll-free telephone number to vote the shares held by them or access Broadridge's dedicated voting website to deliver their voting instructions. Broadridge will then provide aggregate voting instructions to Aurcana's transfer agent and registrar, which will tabulate the results and provide appropriate instructions respecting the voting of Aurcana Shares to be represented at the Meeting or any adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

Aurcana Shares represented by properly-executed proxies in favour of the persons designated in the enclosed form of proxy, in the absence of any direction to the contrary, will be voted FOR the Arrangement Resolution, as stated under the heading "Particulars of the Arrangement – Shareholders and Court Approvals" in the Information Circular. Instructions with respect to voting will be respected by the persons designated in the enclosed form of proxy. With respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting, such Aurcana Shares will be voted by the persons so designated in their discretion. At the time of printing this Supplement, management of Aurcana knows of no such amendments, variations or other matters.

UPDATED SUMMARY OF THE PROPOSED OFFERING

Updated Summary of the Proposed Offering

This section contains a summary description of the updated terms of the proposed private placement (the "**Offering**") to be completed by Aurcana of subscription receipts (the "**Subscription Receipts**") immediately prior to completion of the Arrangement.

As originally described in the Information Circular, the Arrangement Agreement contemplated that the Offering would raise aggregate gross proceeds to the Company of a minimum of C$9,000,000, or such other amount as may be agreed to by Aurcana and the LRC Group. However, in light of ongoing challenging market conditions in global precious metals markets, Aurcana and the LRC Group have agreed to a reduced size of the Offering that would raise aggregate gross proceeds to Aurcana of approximately C$6,292,000. As a result of the reduced size of the Offering, the Combined Company is expected to be listed as a Tier 2 Issuer on the TSXV upon completion of the Arrangement. See also "Ouray Escrowed Securities".

The other material features of the Offering remain unchanged from the summary contained in the Information Circular. Each Subscription Receipt will have a purchase price of C$1.00 (the "**Subscription Price**") (equivalent to a C$0.20 per Subscription Receipt prior to the Consolidation) and will entitle the holder thereof to receive upon the fulfillment of the Escrow Release Conditions (as defined below), without payment of additional consideration, one unit of the Aurcana (an "**Underlying Unit**"). Each Underlying Unit shall be comprised of: (i) one Post-Consolidation Aurcana Share and (ii) an Underlying Warrant. Each Underlying Warrant entitles the holder thereof to acquire, on payment of C$1.25 (equivalent to C$0.25 prior to the Consolidation), one Post-Consolidation Aurcana Share. An Underlying Warrant may be exercised at any time during the three year period starting on the date the Underlying Units are issued.

Available Funds

The following table summarizes the funds that are anticipated as being available to the Combined Company after giving effect to the Arrangement and the proposed reduced Offering, which funds will be used to carry out the business objectives of the Combined Company as set out below under the heading "*Description of the Business — Business Objectives and Operations*" during the 12 month period following completion of the Arrangement.

	12 months	
Available Funds	**Amount (USD)**	**Amount (CAD)**
Cash on Hand @ Closing	$1,500,000	$1,950,000
Revenue	$600,000	$780,000
Offering	$4,840,000	$6,292,000
Total Sources	**$6,940,000**	**$9,022,000**

Principal Purposes The following table summarizes expenditures anticipated by the Combined Company based on current plans required to achieve its business objectives during the 12 month period following completion of the Arrangement.

	12 months	
Principal Purpose	**Amount (USD)**	**Amount (CAD)**
Transaction Fees & Expenses	$2,000,000	$2,600,000
Ouray Care & Maintenance and Project Related Costs	$1,980,000	$2,574,000
Corporate G&A	$1,080,000	$1,404,000
Shafter Care & Maintenance and Project Related Costs	$780,000	$1,014,000
Shafter Work Program	$1,000,000	$1,300,000
Unallocated Working Capital	$100,000	$130,000
Total Uses	**$6,940,000**	**$9,022,000**

Based on initial working capital available and the expenditures assumed (as listed above), the Combined Company expects to have funding for at least the next 12 months. See also "*Risk Factors —Additional Capital*" in the Information Circular. **While management of the Combined Company currently intends to spend the funds available to it as stated in the table above, there may be circumstances where the New Aurcana Board determines that a reallocation of funds is necessary or advisable in order for the Combined Company to meet its business objectives. If, due to unexpected additional capital requirements, Ouray does not have sufficient funds to satisfy its capital obligations, it may be required to seek additional sources of capital. See "*Risk Factors — Additional Capital*" and "*Risk Factors — Lack of Funding to Satisfy Contractual Obligations*" in the Information Circular.**

Business Objectives Following the closing of the transaction, the primary focus of the Combined Company will be pursuing a restart of the RV Mine subject to full financing. The Combined Company will seek project financing to facilitate the restart of RV Mine within the six month period following completion of the Arrangement. The Combined Company's newly merged management team will seek to align the execution plans and capital requirements as a first step. In addition, the Combined Company's management team will continue discussions regarding project finance availability to provide a non-dilutive portion of the capital for the restart. There are opportunities for resource and reserve expansion at the RV Mine as well as consolidation opportunities for nearby properties in the Sneffels District and further out in the San Juans Mountain region that will be investigated by the Combined Company.

In addition, the Combined Company will focus on exploration activities as well as additional work on the technical studies for the SP Mine. The medium term goal is to target a sequential start-up of the SP Mine following a successful start-up of the RV Mine.

The last leg of the strategy for the Combined Company will be to seek additional M&A opportunities in the sector, both producing mines and development opportunities, to leverage the Combined Company's management team and board's experience to profitably grow the business.

Ultimately, the Combined Company's management team targets creating a free cash flow generating mid-tier mining company.

ADDITIONAL DISCLOSURE IN CONNECTION WITH MI 61-101

In connection with the Company's disclosure obligations under Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**"), Aurcana advices as follows:

Special Committee's Oversight

In connection with the Arrangement, the Aurcana Board formed the Special Committee, consisting of members of the Aurcana Board who are independent of management, and who have no direct or indirect interest in any of the transactions contemplated by the Arrangement. The Special Committee met on numerous occasions and oversaw the negotiations in respect of the Arrangement, including the Shafter Equipment Purchase. The Special Committee took active oversight of the negotiations of the Shafter Equipment Purchase and the acquisition of Ouray by receiving periodic reports from Kevin Drover, the Chief Executive Officer of Aurcana, and providing Mr. Drover with directions and reviewing multiple updated drafts of the Letter of Intent, the Arrangement Agreement and the agreement for the Shafter Equipment Purchase. Moreover, Dundee provided the Special Committee with a presentation in connection with the Fairness Opinion, which included consideration of the fairness, from a financial point of view, of the consideration to be paid by Aurcana to Orion in connection with the Shafter Equipment Purchase. The Special Committee utilized this opportunity to ask Dundee questions regarding the Fairness Opinion, including its research methods, data, and its opinion on Aurcana's potential strategic alternatives to the Arrangement.

Shafter Equipment Purchase

The mining equipment (the "Mining Equipment") that is the subject of the Shafter Equipment Purchase was formerly owned by the Company and was sold to Orion, for the purchase price of US$3,500,000 million, in connection with a court-approved restructuring that was completed in 2016. Orion has not taken possession of the Mining Equipment and it is still located at the Shafter Project. Aurcana intended to repurchase the Mining Equipment from Orion prior to the initial discussions with the LRC Group in 2017, and the Arrangement presents the most optimal opportunity to do so. Pursuant to the terms of the Shafter Equipment Purchase, Aurcana will pay to Orion an aggregate of US$4,500,000, of which US$500,000 (the "**Cash Proceeds**") will be paid in cash and the remainder of which will be paid by the issuance of 23,894,535 Aurcana Shares, which will be issued to Orion pursuant to the Plan of Arrangement. Orion has agreed to use the aggregate amount of the Cash Proceeds to subscribe for Subscription Receipts in the Offering. The Shafter Equipment Purchase is anticipated to reduce the overall capital cost of placing the Shafter Project into production, and the net present value of Aurcana in the Arrangement contemplates the additional value added to the Company from the Shafter Equipment Purchase.

Offering

The Company is completing the Offering to primarily ensure that it has enough capital for the following purposes: (i) transaction fees in connection with the Arrangement, (ii) the care, maintenance and project related expenses of the RV Mine and Shafter Project, (iii) corporate general and administrative expenses, and (iv) the Shafter Work Program. The Special Committee and the Aurcana Board considered the dilution to the interest of the existing Aurcana Shareholders that will result from the completion of the Offering and determined that the benefits of obtaining the proceeds of the Offering for the foregoing purposes outweighs the dilutive effects of the Offering. The Company anticipates that Kevin Drover, the Chief Executive Officer of Aurcana, and Orion will participate in the Offering.

Interested Parties and Business Combination

In addition to the possibility of Orion receiving a collateral benefit under MI 61-101 pursuant to the Shafter Equipment Purchase, a transaction such as the Arrangement may be considered a "business combination" under MI 61-101, if "interested parties" participate in any connected transactions to the Arrangement. Pursuant to MI 61-1010, the Offering is considered a connected transaction to the Arrangement. Kevin Drover and Orion will be subscribing for Subscription Receipts in the Offering, which results in Mr. Drover and Orion meeting the definition of an "interested party" under MI 61-101.

In the case of a business combination, MI 61-101 requires that the Arrangement Resolution be approved by a majority of the minority of Aurcana Shareholders present or represented by proxy and entitled to vote at the Meeting. Accordingly, in addition to the Arrangement Resolution being approved by not less than 66⅔% of the votes cast by the Aurcana Shareholders present in person or represented by proxy at the Meeting, the Arrangement Resolution must also be approved by a simple majority of the votes cast by Aurcana Shareholders present in person or represented by proxy at the Meeting, excluding votes cast by the Persons considered to be interested parties, related parties and joint actors. Accordingly, Aurcana will exclude the votes attaching to the Aurcana Shares beneficially owned or controlled by Orion and Kevin Drover, for the purposes of determining whether minority approval of the Arrangement has been obtained. To the knowledge of Aurcana, as at the date hereof, Orion and Kevin Drover hold, directly or indirectly, or exercise control over an aggregate of 16,499,501 Aurcana Shares and 525,033 Aurcana Shares, respectively, which will be excluded from the "minority approval" vote conducted pursuant to MI 61-101. The Company does not expect that other "interested parties" will be participating in the Offering but that, in the event of the participation of any other "interested parties", the votes attaching to the common shares held by such "interested parties" will be excluded for the purposes of determining whether minority approval for the purposes of MI 61-101 has been obtained.

Prior Offers

To the knowledge of the directors and executive officers of Aurcana, after reasonable inquiry, there have been no *bona fide* prior offer (as contemplated in MI 61-101) that relates to the transactions contemplated by the Arrangement has been received by Aurcana during the 24-month period preceding execution of the Arrangement Agreement.

OURAY ESCROWED SECURITIES

Currently Escrowed Securities

As of the date of this Supplement, no securities of Ouray are held in escrow.

Value Security Escrow Agreement

To the knowledge of Aurcana and Ouray, assuming completion of the Arrangement, the following securities of the Combined Company anticipated to be held by principals of the Combined Company following the completion of the Arrangement will be held in escrow:

	Prior to giving effect to the Arrangement	**After giving effect to the Arrangement**	
Name	**Number of Securities held in TSXV Escrow**	**Number of Securities held in TSXV Escrow**	**Percentage of class (Non-diluted/Fully diluted)[1]**
FRSM	Nil	54,310,047 New Aurcana Common Shares	(49.37%/46.44%)
FRSM II	Nil	28,930,312 New Aurcana Common Shares	(26.30%/24.74%)

[1]Note: These figures are based on the Combined Company's share capital upon completion of the Arrangement (including the Consolidation) and before giving effect to the Offering.

In accordance with Policy 5.4 – *Escrow, Vendor Consideration and Resale Restrictions* of the TSXV's Corporate Finance Manual, upon completion of the Arrangement, all of the 83,240,359 New Aurcana Common Shares which will be issued to LRC Group will be considered to be "Value Securities", and accordingly, all of the principals' securities will be escrowed under the Value Security Escrow Agreement.

This Value Security Escrow Agreement will be entered into between LRC Group, the Combined Company and the Value Securities Escrow Agent. As a result of the reduced size of the Offering described herein, the Combined Company is now expected to be listed as a Tier 2 Issuer on the TSXV upon completion of the Business Combination, and accoridngly, the New Aurcana Common Shares issued to LRC Group will be subject to an 36 month escrow period and be released from escrow as follows:

Percentage of Value Securities	Released from Escrow Release Date
10%	Date of Final TSXV Bulletin
15%	6 months from Final TSXV Bulletin
15%	12 months from Final TSXV Bulletin
15%	18 months from Final TSXV Bulletin
15%	24 months from Final TSXV Bulletin
15%	30 months from Final TSXV Bulletin
15%	36 months from Final TSXV Bulletin

The New Aurcana Common Shares held pursuant to the Value Security Escrow Agreement may not be sold, assigned, transferred, redeemed, surrendered or otherwise dealt with in any manner except as provided by the Value Security Escrow Agreement. The New Aurcana Common Shares may be transferred within escrow to an individual who is a director or senior officer of the Combined Company or a material operating subsidiary of the Combined Company, provided that certain requirements of the TSXV are met, including that the new proposed transferee agrees to be bound by the terms of the Value Security Escrow Agreement. In the event of the bankruptcy of a holder of New Aurcana Common Shares, the New Aurcana Common Shares held by such holder may be transferred within escrow to the trustee in bankruptcy or other person legally entitled to such New Aurcana Common Shares provided that certain prescribed TSXV requirements are met.

OURAY REVISED INTERIM FINANCIAL INFORMATION

Included as Appendix “A” to this Supplement is a copy of revised unaudited financial statements of Ouray for the three and six months ended June 30, 2018, and notes to such statements. Management of Ouray have informed Aurcana of the revisions to the financial statements and Aurcana has determined these revisions are not material with respect to the Proposed Transaction.

OURAY REVISED MANAGEMENT’S DISCUSSION AND ANALYSIS

Included as Appendix “B” to this Supplement is a copy of revised Management’s Discussion and Analysis of Ouray for the fiscal years ending December 31, 2017 and December 31, 2016. Included as Appendix “C” to this Supplement is a copy of revised Management’s Discussion and Analysis of Ouray for the three and six months ending June 30, 2018. These appendices include financial information from, and should be read in conjunction with, the audited and unaudited financial statements of Ouray and the notes thereto, which are attached as Appendix I to Schedule F of the Information Circular and Appendix “A” to this Supplement, respectively, as well as the disclosure contained throughout the Information Circular and this Supplement. Management of Ouray have informed Aurcana of the revisions to the financial statements and Aurcana has determined these revisions are not material with respect to the Proposed Transaction.

REVISED COMBINED COMPANY PRO FORMA FINANCIAL STATEMENTS

As a result of the revisions to the unaudited financial statements of Ouray for the three and six months ended June 30, 2018, the Company has prepared revised unaudited *pro forma* condensed consolidated financial statements of the Combined Company as at June 30, 2018 after giving effect to the Arrangement, which are included as Appendix “D” to this Supplement. Management of the Company and LRC group do not consider the revisions to such *pro forma* financial statements to be material in nature.

The following table sets forth the selected *pro forma* unaudited consolidated capitalization of the Combined Company as at June 30, 2018 (which remains unchanged from the information contained in the Information Circular):

ASSETS	**Amount (USD)**
Current Assets	$2,925,094
Non-Current Assets	$86,891,537
Total Assets	**$89,816,631**
LIABILITIES AND SHAREHOLDER EQUITY	
Current Liabilities	$569,180
Non-Current Liabilities	$509,993
Total Liabilities	**$1,079,173**
Total Equity	**$88,737,458**
Total Liabilities and Shareholder Equity	**$89,816,631**

PRINCIPAL LEGAL MATTERS

Stock Exchange Listing and Status as a Reporting Issuer

Prior to and after the completion of the transactions under the Plan of Arrangement, Aurcana will continue to be subject to ongoing disclosure and other obligations as a reporting issuer under applicable Canadian Securities Laws. As a result of the reduced size of the Offering, it is anticipated that Aurcana will become a Tier 2 issuer on the TSXV after the completion of the transactions under the Plan of Arrangement.

RISK FACTORS

Aurcana Shareholders should carefully consider the following risk factors, as well as the other information contained in the Information Circular and the Supplement, in evaluating whether to approve the Arrangement. See “Cautionary Statement with Respect to Forward-Looking Information”.

The following risk factors, which relate to the Arrangement, should be considered by Aurcana Shareholders in evaluating whether to approve the Arrangement Resolution. These risk factors should be considered in conjunction with the risks concerning Ouray and the Combined Company described in Schedule F – “Information Concerning Ouray and the Combined Company” of the Information Circular.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Other than as disclosed elsewhere in this Supplement and in the Information Circular, the management of the Company is not aware of any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, of any director, executive officer, proposed nominee for election as director, or any associate or affiliate of any of the foregoing persons, in any matter to be acted upon at the Meeting.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Combined Company are expected to be MNP LLP, Chartered Professional Accountants. The auditors of Ouray are EisnerAmper LLP.

The registrar and transfer agent of the Combined Company is expected to be TSX Trust Company at its principal office in the city of Toronto, Ontario.

INTERESTS OF EXPERTS AND LEGAL MATTERS

EisnerAmper LLP, Ouray's auditors, has confirmed that it is independent of Ouray within the meaning of the Rules of the American Institute of Certified Public Accountants' Code of Professional Conduct and its interpretations and rulings.

Certain Canadian legal matters in connection with the Arrangement and the transactions contemplated by the Arrangement Agreement will be passed upon by Maxis Law Corporation on behalf of Aurcana and Stikeman Elliott LLP on behalf of Ouray. Certain U.S. legal matters in connection with the Arrangement and the transactions contemplated by the Arrangement Agreement will be passed upon by Dorsey & Whitney on behalf of Aurcana and Mayer Brown LLP on behalf of Ouray.

Other than as described above, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of Ouray or of any associate or affiliate of Ouray.

OTHER INFORMATION AND MATTERS

As at the date of this Supplement, management of the Company is not aware of any other matters which may come before the Meeting other than as set forth in the Notice of Special Meeting that accompanies the Information Circular. If any other matter properly comes before the either of the Meeting, it is the intention of the persons named in the form of proxy to vote Shares, as applicable, represented thereby in accordance with their best judgment on such matter.

Additional information relating to Aurcana, including its comparative audited financial statements for the financial year ended December 31, 2017, together with the report of the auditors thereon, and Management's Discussion and Analysis of Aurcana's financial condition and results of operations for fiscal 2017, which provide financial information concerning Aurcana, can be found on SEDAR under Aurcana's profile at www.sedar.com. Copies of those documents as well as any additional copies of this Supplement may be obtained on request by contacting the Secretary of Aurcana at its head office, 850-789 West Pender Street, Vancouver, British Columbia, V6C 1H2. Aurcana may require the payment of a reasonable charge if the request is made by a Person who is not an Aurcana Shareholder.

DIRECTORS' APPROVAL

The Board of Directors has approved the contents of this Supplement and its sending to the Shareholders.

DATED this 3rd day of December, 2018.

BY ORDER OF THE BOARD OF DIRECTORS

(signed) Kevin Drover

Kevin Drover
President and Chief Executive Officer

APPENDIX "A"

REVISED UNAUDITED FINANCIAL STATEMENTS OF OURAY SILVER MINES, INC. FOR THE THREE AND SIX MONTHS ENDING JUNE 30, 2018

OURAY SILVER MINES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018

UNAUDITED

Contents

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INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors and Shareholders of
Ouray Silver Mines, Inc.

Report on the Financial Statements

We have reviewed the accompanying financial statements of Ouray Silver Mines, Inc. (the "Company"), which comprise the balance sheet as of June 30, 2018, the related statements of operations for the three-month period ended June 30, 2018, and the related statements of operations, changes in shareholders' deficiency and cash flows for the six-month periods ended June 30, 2018 and 2017.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with the applicable financial reporting framework.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information, as promulgated by the Auditing Standards Board, the senior committee of the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Note B of Ouray Silver Mines, Inc.'s audited financial statements as of December 31, 2017, and for the year ended, discloses that the Company has incurred a net loss and utilized cash in operating activities. Our auditors' report on those financial statements includes an emphasis of matter paragraph referring to the matters in Note B and indicating that those matters raised substantial doubt about the Company's ability to continue as a going concern. As indicated in Note B of the Company's unaudited interim financial statements as of June 30, 2018 and for the six-month period then ended, the Company still incurred a net loss and utilized cash in operating activities. The accompanying interim financial statements do not include any adjustments that might result from the outcome of the uncertainty.

EISNERAMPER

Report on Balance Sheet as of December 31, 2017

We have previously audited, in accordance with the auditing standards generally accepted in the United States of America, the balance sheet of Ouray Silver Mines, Inc. as of December 31, 2017, and the related statements of operations, changes in shareholders' deficiency and cash flows for the year then ended (not presented herewith); and in our report dated, June 28, 2018, we expressed an unmodified audit opinion on those audited financial statements. Our report includes an explanatory paragraph about the existence of substantial doubt concerning Ouray Silver Mines, Inc.'s ability to continue as a going concern. In our opinion, the accompanying balance sheet of Ouray Silver Mines, Inc. as of December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
November 27, 2018

OURAY SILVER MINES, INC.

Balance Sheets

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash	$ 149,792	$ 151,466
Prepaid expenses	114,230	325,333
Due from related party	35,500	35,500
	299,522	512,299
Non-current assets:		
Property, plant, equipment and mineral interests, net	41,008,714	41,367,054
Restricted assets	480,769	482,903
Other assets	218,894	218,894
TOTAL ASSETS	$ 42,007,899	$ 42,581,150
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable and accrued expenses	$ 315,385	$ 807,368
	315,385	807,368
Non-current liabilities:		
Asset retirement obligations	204,363	196,063
Metal prepay and working capital facilities – related party	50,837,881	50,783,841
Interest payable in commodities	-	29,238,224
Total liabilities	51,357,629	81,025,496
Shareholders' deficiency:		
Preferred stock, no par value, 1,000,000 shares authorized, none issued and outstanding		
Common stock, no par value, 2,000,000 shares authorized, 130,409 shares issued and outstanding		
Additional paid-in capital	79,114,810	45,212,179
Accumulated deficit	(88,464,540)	(83,656,525)
Total shareholders' deficiency	(9,349,730)	(38,444,346)
TOTAL LIABILITIES & SHAREHOLDERS' DEFICIENCY	$ 42,007,899	$ 42,581,150

See notes to the financial statements

OURAY SILVER MINES, INC.

Statements of Operations
(Unaudited)

	For the three months ended June 30, 2018	For the six months ended June 30, 2018	For the six months ended June 30, 2017
Revenue	$ -	$ -	$ -
Costs and expenses:			
General and administrative expense	1,062,628	1,649,094	2,796,126
Provision for environmental matters and asset retirement obligation	4,150	8,300	8,300
Loss on sale of fixed assets	2,904	2,904	1,350
Depreciation and amortization	411,845	816,057	811,777
Total costs and expenses	1,481,527	2,476,355	3,617,553
Operating loss	(1,481,527)	(2,476,355)	(3,617,553)
Other income (expenses):			
Other income	-	2,775	-
Interest expense	(2,514)	(2,334,435)	(6,730,507)
Total other expenses, net	(2,514)	(2,331,660)	(6,730,507)
Net loss	$ (1,484,041)	$ (4,808,015)	$ (10,348,060)

See notes to the financial statements

OURAY SILVER MINES, INC.

Statements of Changes in Shareholder's Deficiency
(Unaudited)

	Common Shares				
	Shares	**Amount**	**Additional Paid in Capital**	**Accumulated Deficit**	**Shareholders' Deficiency**
Balance - December 31, 2017	**130,409**	**$ -**	**$ 45,212,179**	**$ (83,656,525)**	**$ (38,444,346)**
Capital contributions	-	-	2,335,000	-	2,335,000
Non-cash capital contribution for forgiveness of interest payable in commodities			31,567,631		31,567,631
Net loss	-	-	-	(4,808,015)	(4,808,015)
Balance – June 30, 2018	**130,409**	**-**	**$ 79,114,810**	**$ (88,464,540)**	**$ (9,349,730)**

See notes to the financial statements

OURAY SILVER MINES, INC.

Statements of Cash Flows
(Unaudited)

	For the six months ended June 30 2018	June 30 2017
Cash flows from operating activities:		
Net loss	$ (4,808,015)	$ (10,348,060)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	816,057	811,777
Accretion of assets retirement obligation	8,300	8,300
Loss on sale of fixed assets	2,904	1,350
Non-cash Interest payable in commodities	2,329,407	6,723,278
Changes in operating assets:		
Prepaid expenses and other assets	211,103	471,723
Accounts payable and accrued expenses	(491,983)	(575,193)
Net cash used in operating activities	(1,932,227)	(2,906,825)
Cash flows from investing activities:		
Investment in restricted assets	2,134	1,894
Proceeds from sale of fixed assets	1,000	111,728
Purchase of fixed assets	(407,581)	(613,536)
Net cash used in investing activities	(404,447)	(499,914)
Cash flows from financing activities:		
Repayment of capital leases	-	(22,116)
Capital contributions	2,335,000	3,585,002
Net cash provided by financing activities	2,335,000	3,562,886
Net decrease in cash	(1,674)	156,147
Cash at beginning of period	151,466	164,269
Cash at end of period	$ 149,792	$ 320,416
Non-cash activities:		
Non-cash capital contribution on the forgiveness of interest payable in commodities	$ 31,567,631	$ -

See notes to the financial statements

NOTE A - THE COMPANY

Ouray Silver Mines, Inc. (the "Company") was organized under the laws of the State of Colorado on April 19, 2014. The Company owns a mine and mill operation located in the San Juan Mountains near Ouray, Colorado (the "Mine"). The primary product of the Mine is a metal concentrate comprised of silver, gold, lead, and zinc.

In 2014, the Company was established by Fortune Minerals Limited ("Fortune") and acquired the Mine assets from an unrelated party. The Company received financing from LRC-FRSM, LLC ("LRC-FRSM") to acquire the assets and develop the mine. Fortune Minerals was the guarantor on the financing agreement. The Company and Fortune defaulted on the terms of the financing agreement, and on July 17, 2015, Fortune and LRC-FRSM entered into a master restructuring agreement ("MRA"). As part of the MRA, Fortune transferred ownership of the Company to LRC-FRSM II, LLC, an affiliate of LRC-FRSM. After the closing of the MRA, on July 22, 2015, the Company changed its name from Fortune Revenue Silver Mine, Inc. to Ouray Silver Mines Inc. These financial statements are prepared on a historical cost basis and do not reflect the accounting effects of the change in ownership that occurred during 2015.

In August 2015, the Company transitioned from operating the Mine to care and maintenance of the Mine. This transition suspended mine and mill operations and included a major reduction in workforce. During care and maintenance, management engaged technical consulting companies to evaluate and assess the mine in order to obtain a technical understanding of the mine's resources and potential. In 2017, the Company completed its Feasibility Study demonstrating an economic restart of production at the Mine is possible and is currently seeking financing sources to restart production. While seeking this financing the Company continues care and maintenance to keep the Mine, including all permits, on a production ready status.

NOTE B - LIQUIDITY AND BASIS OF PRESENTATION

The Company has incurred recurring losses from operations and used cash in operating activities while in the process of developing the mine. For the six-month period ended June 30, 2018 and 2017, the Company had an operating loss of $2,476,355. and $3,617,553. Cash used in operating activities was $1,932,227 and $2,906,825 for the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018, the Company has shareholders' deficiency of $9,349,730. See also Note F for discussion of Company's debt obligations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Based on the Company's current cash usage expectation for 2018, it believes it will have sufficient liquidity to fund its operations for at least the next twelve months only if it successfully raises additional financing from LRC-FRSM II, LLC or another third party. However, the Company can provide no assurances that these initiatives will succeed. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities as a result of this uncertainty.

In the first six months of 2018, LRC-FRSM II, LLC has contributed additional capital of $2,335,000.

See also Note I- SUBSEQUENT EVENTS.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Use of estimates:

The Company's financial statements have been prepared in accordance with United States generally accepted accounting principles. The preparation of the Company's financial statements requires it to make estimates and assumptions that affect the reported amounts of assets and liabilities and the related disclosure of contingent assets

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[1] Use of estimates: (continued)

and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

The more significant areas requiring the use of management estimates and assumptions relate to impairment of long-lived assets and metal prices as they relate to long-term liabilities.

The Company bases its estimates on technical guidance from outside consultants and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results could differ from the amounts estimated in these financial statements.

[2] Revenue recognition:

Revenue is recognized, net of direct selling costs, when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, no obligations remain, and collection is probable. The Company had no revenue in the six months ended June 30, 2018 or 2017.

[3] Cash and cash equivalents:

Cash and cash equivalents include all highly-liquid investments with an original maturity of three months or less. The Company minimizes its credit risk by investing its cash and cash equivalents with major U.S. banks and financial institutions located principally in the United States. The Company's management believes that no concentration of credit risk exists with respect to the investment of its cash and cash equivalents.

[4] Account receivables and other receivables:

Trade receivables and other receivable balances are reported at outstanding principal amounts, net of an allowance for doubtful accounts, if deemed necessary. Management evaluates the collectability of receivable account balances to determine the allowance, if any. Management considers the other party's credit risk and financial condition, as well as current and projected economic and market conditions, in determining the amount of the allowance. Receivable balances are written off when management determines that the balance is uncollectible.

As of June 30, 2018, and 2017, there are no trade receivable and no allowance for doubtful accounts.

[5] Inventories:

Inventories include operating materials and supplies. All inventories are stated at the lower of cost or market, with cost being determined using first in, first out method. The Company currently has no mineral inventory.

[6] Property, plant and equipment:

Expenditures for new facilities, assets acquired pursuant to capital leases and new assets or expenditures that extend the useful lives of existing facilities are capitalized and depreciated using the straight-line method at rates sufficient to depreciate such costs over the shorter of estimated productive lives of such facilities, lease term, or the useful life of the individual assets. Productive lives are thirty-nine years for buildings and improvements and three to seven years for machinery and equipment, but do not exceed the useful life of the individual asset.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Mineral interests:

Costs are capitalized when it has been determined an ore body can be economically developed. The development stage begins when the decision is made to bring a mine into commercial production and ends when the production stage or exploitation of reserves begins. Expenditures incurred during the development and production stages for new assets, new facilities, alterations to existing facilities that extend the useful lives of those facilities, and major mine development expenditures are capitalized, including primary development costs such as costs of building access ways, shaft sinking, lateral development, drift development, ramps and infrastructure developments. Costs to improve, alter, or rehabilitate primary development assets, which appreciably extend the life, increase capacity, or improve the efficiency of such assets, are also capitalized. During the six months ended June 30, 2018 and 2017 the Company capitalized $407,581 and $535,716, respectively, in developmental costs, included in property, plant, equipment and mineral interests.

Costs for exploration, pre-development, secondary development at operating mines, and maintenance and repairs on capitalized property, plant and equipment are charged to operations as incurred. Exploration costs include those relating to activities carried out (a) in search of previously unidentified mineral deposits, and (b) where a determination remains pending as to whether new target deposits outside of the existing reserve areas can be economically developed. Pre-development activities involve costs incurred prior to the development stage that may ultimately benefit production, such as underground ramp development, which are expensed due to the lack of evidence of economic development, which is necessary to demonstrate future recoverability of these expenses. The Company did not have any expenses in pre-development, reclamation or other costs during the six months ended June 30, 2018 or the six months ended June 30, 2017.

[8] Depreciation, depletion and amortization:

Capitalized costs are depreciated or depleted using the straight-line method or unit-of-production method at rates sufficient to depreciate such costs over the shorter of estimated productive lives of such facilities or the useful life of the individual assets. Determination of expected useful lives for amortization calculations are made on a property-by-property or asset-by-asset basis at least annually. Our estimates for reserves, mineralized material, and other resources are a key component in determining our units of production depletion rates. Our estimates of proven and probable ore reserves, mineralized material, and other resources may change, possibly in the near term, resulting in changes to depreciation, depletion and amortization rates in future reporting periods. The Company is currently not depleting its mineral interests as production has not recommenced.

[9] Impairment of long-lived assets:

Management reviews and evaluates the net carrying value of all facilities, including idle facilities, for impairment upon the occurrence of other events or changes in circumstances that indicate that the related carrying amounts may not be recoverable. We estimate the net realizable value of each property is based on the estimated undiscounted future cash flows that will be generated from operations at each property, the estimated salvage value of the surface plant and equipment, and the value associated with property interests.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Impairment of long-lived assets: (continued)

Although management makes a reasonable estimate of factors based on current conditions and information, assumptions underlying future cash flows are subject to significant risks and uncertainties. Estimates of undiscounted future cash flows are dependent upon estimates of metals to be recovered from proven and probable ore reserves and identified mineralization and other resources beyond proven and probable reserves, future production and capital costs and estimated metals prices (considering current and historical prices, forward pricing curves and related factors) over the estimated remaining mine life.

It is reasonably possible that changes could occur in the near term that could adversely affect our estimate of future cash flows to be generated from our operating properties. If undiscounted cash flows are less than the carrying value of a property, an impairment loss is recognized. There is no impairment at June 30, 2018 or December 31, 2017.

[10] Restricted assets:

The Company, under the terms of its bonding agreements with certain regulatory agencies, is required to collateralize certain portions of its obligations. The Company has collateralized these obligations by assigning bonds and certificates of deposit that have maturity dates ranging from two months to twelve months at June, 2018, to the respective agencies. At June 30, 2018 and December 31, 2017 the Company held bonds and certificates of deposit under these agreements of $480,769 and $482,903, respectively. The ultimate timing of the release of the collateralized amounts is dependent on the timing and closure of each mine lease. In order to release the collateral, the Company must seek approval from government agencies responsible for monitoring the mine closure status. Collateral could also be released to the extent the Company is able to secure alternative financial assurance satisfactory to the regulatory agencies. The Company expects that the collateral will remain in place beyond a twelve-month period and has therefore classified these investments as long-term.

[11] Reclamation and environmental matters:

The Company recognizes obligations for the expected future retirement of tangible long-lived assets and other associated asset retirement costs. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. An accretion cost, representing the increase over time in the present value of the liability, is recorded each period in pre-development, reclamation, and other costs on the accompanying statements of operations. As reclamation work is performed or liabilities are otherwise settled, the recorded amount of the liability is reduced. Future remediation costs for inactive mines are accrued based on management's best estimate at the end of each period of the discounted costs expected to be incurred at the site. Such cost estimates include, where applicable, ongoing care and maintenance and monitoring costs. Changes in estimates are reflected prospectively in the period an estimate is revised. At June 30, 2018 and December 31, 2017, the Company has recorded an estimate for its future asset retirement obligations in the amount of $204,363 and $196,063, respectively. See Note E – Asset Retirement Obligations.

Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures resulting from the remediation of existing conditions caused by past operations that do not contribute to future revenue generation are expensed. Liabilities are recognized when environmental assessments indicate that remediation efforts are probable, and the costs can be reasonably estimated.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] Reclamation and environmental matters: (continued)

Estimates of such liabilities are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors and include estimates of associated legal costs. These amounts also reflect prior experience in remediating contaminated sites, other companies' clean-up experience, and data released by The Environmental Protection Agency or other organizations.

Such estimates are, by their nature, imprecise and can be expected to be revised over time because of changes in government regulations, operations, technology and inflation. Recoveries are evaluated separately from the liability and, when recovery is assured, the Company records and reports an asset separately from the associated liability.

Based upon management's current assessment of its environmental responsibilities, it does not believe that any environmental reclamation or remediation liability exists at June 30, 2018.

[12] Income taxes:

The Company uses an asset and liability approach, which results in the recognition of deferred tax liabilities and assets for the expected future tax consequences or benefits of temporary differences between the financial reporting basis and the tax basis of assets and liabilities, as well as operating loss and tax credit carryforwards, using enacted tax rates in effect in the years in which the differences are expected to reverse.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. A full valuation allowance has been provided for the Company's net deferred tax assets as it is more likely than not that they will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. There are no uncertain tax positions at June 30, 2018 or December 31, 2017. Interest and penalties related to uncertain tax positions if any are recorded as part of the income tax provision.

[13] Loss contingencies:

Estimated losses from loss contingencies are accrued by a charge to operations when information available prior to issuance of the financial statements indicates that it is probable that a liability could be incurred, and the amount of the loss can be reasonably estimated. Legal expenses associated with the contingency are expensed as incurred. If a loss contingency is not probable or reasonably estimable, disclosure of the loss contingency is made in the financial statements when it is at least reasonably possible that a material loss could be incurred.

[14] Recent accounting pronouncements:

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019 with early adoption permitted. Under ASU 2016-02, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee's obligation to make lease payments arising from a lease measured on a discounted basis, and a right-to-use asset, which is an asset that represents the lessee's right to use or control the use of a specified asset for the lease

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[14] Recent accounting pronouncements: (continued)

term. The Company is currently evaluating the effect that the new guidance will have on its financial statements and related disclosures.

NOTE D - PROPERTY, PLANT, EQUIPMENT AND MINERAL INTERESTS

The details of property and equipment and related accumulated depreciation are set forth below:

	June 30 2018	December 31 2017
Mineral interests	$31,322,055	$30,914,474
Facilities and equipment	14,164,616	14,164,616
Furniture and fixtures	402,402	402,402
Vehicles	141,126	153,268
	46,030,199	45,634,760
Less accumulated depreciation	5,021,485	4,267,706
Total	$41,008,714	$41,367,054

Depreciation expense for the six-months ended June 30, 2018 and 2017 was $753,779 and $757,737, respectively.

For the six-months ended June 30, 2018, the Company had sales of fixed assets of $1,000.

Mineral interests as of June 30, 2018 consist of the following:

Mining development	$ 3,967,049
Mineral interests	27,355,006
Total	$ 31,322,055

The Company's mineral interests consist of the mine, acquired by the Company in 2014, under which the Company owns all production and reserves. There was no depletion expense during the six months ended June 30, 2018 or 2017 due to the lack of production.

NOTE E - ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are based principally on legal and regulatory requirements. Management estimates costs associated with reclamation of mining properties. The Company uses assumptions about future costs, mineral prices, mineral processing recovery rates, production levels, capital costs, and reclamation costs. On an ongoing basis, management evaluates its estimates and assumptions, and future expenditures could differ from current estimates.

NOTE E - ASSET RETIREMENT OBLIGATIONS (CONTINUED)

Changes to the Company's asset retirement obligations for operating sites are as follows:

Asset retirement obligation at December 31, 2017	**196,063**
Accretion	**8,300**
Asset retirement obligation at June 30, 2018	**$ 204,363**

NOTE F - METAL PREPAY AND WORKING CAPITAL FACILITIES - RELATED PARTY

On October 1, 2014, the Company entered into a Senior Secured Metal Prepay Agreement ("Metal Prepay") with LRC-FRSM which has been modified by the Amended and Restated Senior Secured Metal Prepay Agreement dated March 25, 2015 ("Amended Metal Prepay") in the amount detailed below and payable in repayment units of physical metal as defined by an agreed upon delivery schedule plus interest on advances outstanding at a rate of 9.25% per annum.

The Company's current obligations as of December 31, 2017 under the Amended Metal Prepay are deliveries of repayment units of the Metal Prepay as follows:

Gold (oz)	Silver (oz)	Lead (ton)
3,400	636,000	2,550

The First Amendment to the Amended Metal Prepay (the "First Amendment", executed August 31, 2015) provided for the accrual and deferral of (a) any and all Shortfall Payments pursuant to the Amended Metal Prepay, (b) Cash Interest pursuant the Amended Metal Prepay, and (c) all other payments pursuant to the Amended Metal Prepay until such time as elected by the Seller. Through March 30, 2018 (see below), the Company continued to accrue the above stated delivery obligations under the Amended Metal Prepay.

Under the Working Capital Facility, the Company is obligated to deliver 3,115,894 SERU. Through March 30, 2018, interest of 15% per annum was accrued on outstanding SERU payable in additional SERU.

The Second Amendment to the Amended Metal Prepay (the "Second Amendment", executed March 30, 2018) eliminated past and future accrued interest on the Metal Prepay obligations. Therefore, $2,329,407 of interest was accrued in the period ended June 30, 2018 and the Company recognized a non-cash capital contribution on the forgiveness of interest payable in commodities of $31,567,631.

The details of loan payable are set forth follows:

	June 30, 2018	**December 31, 2017**
Metal prepay and working capital facilities-related party	**$ 51,000,000**	**$ 51,000,000**
Less debt issuance cost (net of amortization)	**(162,119)**	**(216,159)**
Metal prepay and working capital facilities-related party	**$ 50,837,881**	**$ 50,783,841**

NOTE F - METAL PREPAY AND WORKING CAPITAL FACILITIES - RELATED PARTY (CONTINUED)

As of June 30, 2018, and December 31, 2017, the estimated fair value of the facilities excluding interest payable in commodities in both periods was approximately $67,512,496 and $71,585,866, respectively.

NOTE G - DEFERRED INCOME TAXES AND VALUATION ALLOWANCE

As of June 30, 2018, the Company has a net operating loss ("NOL") of approximately $14,500,000. The NOL expires in the tax year 2037. Additionally, the Company has temporary tax differences resulting in a deferred tax asset. The total deferred tax asset at June 30, 2018 is approximately $13,152,000.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative losses incurred. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth.

On the basis of this evaluation, as of June 30, 2018, a full valuation allowance of $13,152,000 has been recorded resulting in no deferred tax asset on the balance sheet. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are increased or if objective evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

The Tax Cuts and Jobs Act (the “Tax Act”) enacted on December 22, 2017, reduces the U.S. corporate rate from 34% to 21% beginning in 2018. The Company remeasured its deferred tax assets based on the rates at which they are expected to reverse in the future, which is 21%. As a result, the Company decreased its deferred tax assets by approximately $6,482,000 with a corresponding decrease to the valuation allowance for the year ended December 31, 2017.

The Company’s effective income tax rate differs from the U.S. statutory federal income tax rate primarily due to the change in valuation allowance and the effect of re-measuring the deferred tax balances due to the change in U.S federal rate from 34% to 21% as a result of the Tax Act.
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NOTE H - COMMITMENTS AND CONTINGENCIES

[1] Operating lease:

The Company maintains an office in Ouray, Colorado. A two-year lease agreement was entered into on January 1, 2017. Total annual payment for 2018 are $101,155. The lease expires on December 31, 2018.

Rent expense for the six-month period ended June 30, 2018 and 2017 was $49,830 respectively.

NOTE I – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 27, 2018, the date these financial statements were available to be issued and during that period noted the following:

NOTE I – SUBSEQUENT EVENTS (CONTINUED)

The Company has entered into a letter of intent dated July 27, 2018 (the "LOI") with Aurcana Corporation ("Aurcana") pursuant to which the Company will effect a business combination and reverse takeover transaction that will result in, among other things, Aurcana acquiring all of the issued and outstanding shares of common stock of the Company on a debt free basis in exchange for newly issued common shares of Aurcana (collectively, the "Proposed Transaction"). The Company will become a wholly-owned subsidiary of Aurcana.

The Proposed Transaction is subject to certain conditions, terms and approvals and, as such, there can be no assurances that the Proposed Transaction will be completed. The parties target closing the Proposed Transaction by the end of 2018.

APPENDIX “B”

**REVISED MANAGEMENT’S DISCUSSION AND ANALYSIS OF OURAY SILVER MINES, INC.
FOR THE FISCAL YEARS ENDING DECEMBER 31, 2017 AND DECEMBER 31, 2016**

OURAY SILVER MINES

Management Discussion and Analysis for the Year ended December 31, 2017

This Management Discussion and Analysis ("MD&A") should be read in conjunction with Ouray Silver Mines, Inc.'s (the "Company" or "Ouray") December 31, 2017 audited financial statements and the related notes thereto, which have been prepared in accordance with generally accepted accounting principles in the United States ("US GAAP"). This MD&A contains "forward-looking statements", including, but not limited to, statements regarding the Company's expectations, strategic plans, exploration budgets and mineral resource estimates. The information in this MD&A is current to June 28, 2018.

Cautionary Statement Regarding Forward-Looking Information

This document contains certain forward-looking statements, including statements regarding, metals grades, potential mineralization, exploration results, and any future plans and objectives of Ouray Silver Mines, Inc. These statements are forward-looking statements that involve various risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to potential mineral grades or tonnages at the Revenue-Virginius Mine ("RV Mine"), mining and processing of mineralized material, achieving projected recovery rates, anticipated production rates and mine life, operating efficiencies, costs and expenditures, changes in mineral resources, and other information that is based on forecasts of future operational or financial results, estimates of amounts not yet determinable and assumptions of management. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected" or "is not expected", "anticipates" or "does not anticipate", "plans" or "does not plan", "estimates", "intends" or "does not intend" or stating that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or "not be achieved") are not statements of historical fact and may be "forward-looking statements". Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to materially differ from those reflected in the forward-looking statements.

Actual results may differ materially from results contemplated by the forward-looking statements. Important factors that could differ materially from the Company's expectations include, among others, risks related to unsuccessful further exploration results, metals prices, fluctuations in currency prices, lack of achieving intended operational or project development related results, conclusions of economic evaluations and changes in project parameters as plans continue to be refined as well as changes in the availability of funding for mineral exploration and development, unanticipated changes in key management personnel and general economic conditions. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and should not place undue reliance on such forward-looking statements. The Company does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf, except as required by applicable law. Accordingly, readers should not place undue reliance on forward-looking statements.

This document includes disclosure of scientific and technical information, as well as information in relation to the estimation of resources, with respect to the RV Mine. Ouray's disclosure of mineral resource information is governed by National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101") under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Mineral Reserves, adopted by the CIM Council, as may be amended from time to time by the CIM.

Certain information in this presentation is derived from a report titled "NI 43-101 Technical Report Feasibility Study Revenue-Virginius Mine, Ouray, Colorado", dated June 15, 2017 ("2017 FS"). The 2017 FS was completed independently by SRK Consulting (U.S.), Inc., Denver CO ("SRK") with an effective date of March 1, 2017.
The scientific and technical information contained in this document has been approved by Jeff Osborn of SRK, who is a qualified person as defined by NI 43-101 and independent of Ouray.

Cautionary Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Resources: Disclosure herein use the terms "Measured", "Indicated" and "Inferred" Resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the United States Securities and Exchange Commission does not recognize them. "Inferred Mineral Resources" are considered too speculative geologically to have economic considerations applied to them. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies except in limited circumstances. United States investors are cautioned not to assume that all or any part of Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. United States investors are also cautioned not to assume that all or any part of a Mineral Resource is economically or legally mineable.

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QUALIFIED PERSON

Jeff Osborn of SRK, who is a qualified person as defined by NI 43-101 and independent of Ouray has reviewed and approved the technical information contained herein.

NATURE OF BUSINESS AND COMPANY DESCRIPTION

Ouray Silver Mines, Inc. was organized under the laws of the State of Colorado on April 19, 2014. The Company owns the Revenue-Virginius Mine located in the San Juan Mountains near Ouray, Colorado. The primary products of the Mine are metal concentrates comprised of silver, gold, lead, and zinc.

In 2014, the Company was established by Fortune Minerals Limited ("Fortune") and acquired the RV Mine assets from an unrelated party. The Company received financing from LRC-FRSM, LLC ("LRC-FRSM") to acquire the assets and develop the mine. Fortune was the guarantor on the financing agreement. The Company and Fortune defaulted on the terms of the financing agreement, and on July 17, 2015, Fortune and LRC-FRSM entered into a master restructuring agreement ("MRA"). As part of the MRA, Fortune transferred ownership of the Company to LRC-FRSM II, LLC, ("LRC-FRSM II" and together with LRC-FRSM, the "LRC Group") an affiliate of LRC-FRSM. After the closing of the MRA on July 22, 2015, the Company changed its name from Fortune Revenue Silver Mine, Inc. to Ouray Silver Mines, Inc.

In August 2015, the Company transitioned from operating the RV Mine to care and maintenance of the RV Mine. This transition suspended mine and mill operations and included a major reduction in workforce. During care and maintenance, the LRC Group brought in new senior management and the Company engaged technical consulting companies to evaluate and assess the mine in order to obtain a technical understanding of the mine's resources and potential. On June 15, 2017, the Company completed the 2017 FS demonstrating an economic restart of production at the RV Mine is possible and warranted. The Company continues care and maintenance and core technical activities to keep the RV Mine, including all permits, on a production ready status.

Basis of presentation and going concern

The accompanying Financial Statements have been prepared on the basis that the Company will continue as a going concern. The Company has incurred recurring losses from operations and used cash in operating activities while in the process of developing the Mine. For the years ended December 31, 2017 and 2016, the Company's net loss was $21,257,570 and $18,012,486, respectively, and cash used in operating activities was $4,798,516 and $5,613,334, respectively. At December 31, 2017, the Company has a shareholders' deficiency of $38,444,346. See also Transactions with Related Parties for discussion of Company's debt obligations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company relies on capital contributions from LRC-FRSM II, the sole shareholder of the Company, to fund working capital. Based on the Company's current cash usage expectation for 2018, it believes it will have sufficient liquidity to fund its operations for at least the next twelve months only if it receives planned additional capital contributions from LRC-FRSM II or raises finances from a third party. However, the Company can provide no assurances that these initiatives will succeed. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities as a result of this uncertainty.

As at December 31, 2017, LRC-FRSM II has contributed additional capital of $5,883,000 for the fiscal year 2017. Since December 31, 2017, LRC-FRSM II has contributed additional capital of $2,335,000 as of June 28, 2018.

(All figures reported in US Dollars, unless otherwise noted)

OUTLOOK

Based solely on the continued reliance of financial support from LRC-FRSM II, which cannot be assured, the Company has sufficient working capital to meet its near-term obligations and continue with the RV Mine as its principal asset. The Company is working towards a production decision to restart the RV Mine having completed a NI 43-101 compliant feasibility study in June 2017, and continues the care and maintenance activities to keep the RV Mine on a production ready status. The feasibility study demonstrates a strong economic restart of the RV Mine, and the Company has been in discussion with third parties for restart capital.

CORPORATE DEVELOPMENTS

During the period ended December 31, 2017:

- The Company continued care and maintenance activities to keep the RV Mine, including all permits, on a production ready basis.
- In June 2017, SRK Consulting (U.S.), Inc. ("SRK") completed a NI 43-101 compliant feasibility study confirming economic viability of the RV Mine. The study provides a Base Case[1] Pre-Tax Net Present Value using an 8% discount rate ("NPV8") of $76.5 million and a Pre-Tax Internal Rate of Return ("IRR") of 79%. Additional details of the study can be referred to in a subsequent section titled Revenue-Virginius Mine, Colorado USA.

REVIEW OF FINANCIAL RESULTS

Revenue

During the year ended December 31, 2017, the Company did not generate any revenue from operations (December 31, 2016: $0).

General and Administrative Costs

	For the year ended December 31,	
	2017	**2016**
Salaries	$1,666,132	$2,491,617
Admin & Overhead	$1,358,364	$1,341,067
Consulting Fees	$1,109,448	$56,843
Permits & Environmental Compliance	$116,388	$39,174
General Care & Maintenance	$608,458	$1,008,701
Utilities	$218,460	$255,332
Travel & Accommodation	$12,482	$91,543
	$5,089,732	**$5,284,277**

Quarterly Financial Information

[1] The Base Case uses a price deck of $18.55 Ag, $1,270 Au, $0.95 Pb and $1.15 Zn. Current ownership structure and legacy pre-pay obligations provide certain tax advantages, and it is believed that pre-tax economics are the most relevant metrics.

(All figures reported in US Dollars, unless otherwise noted)

The Company did not prepare quarterly financial statements prior to December 31, 2017.

Selected Annual Information

	For the year ended	
	2017	**2016**
Revenue	$0	$0
Operating (Loss)	$(6,807,159)	$(7,059,664)
Net (Loss)	$(21,257,570)	$(18,012,486)

- During the twelve months ending December 31, 2017:
    - The Company earned no revenue.
    - RV Mine care & maintenance costs during the year ended December 31, 2017 were $5,089,732. Salaries of $1,666,132, and Admin & Overhead of $1,358,364, comprised the majority of care & maintenance costs for the year.
    - The consulting fees of $1,109,448 were principally related to completing the NI 43-101 compliant feasibility study on the RV Mine.
    - Depreciation and amortization of $1,642,971 and interest expense of $14,475,411 predominately accrued interest based on the Amended Metal Prepay (defined later herein) to a related party, LRC-FRSM, contributed to the net loss of $21,257,570.

- During the twelve months ending December 31, 2016:
    - The Company earned no revenue.
    - RV Mine care & maintenance costs during the year ended December 31, 2016 were $5,284,277. Salaries of $2,491,617 and Admin & Overhead of $1,341,067 comprised the majority of care & maintenance costs for the year.
    - Depreciation and amortization of $1,614,142 and interest expense of $10,952,822 predominately accrued interest based on the Amended Metal Prepay (defined later herein) to a related party, LRC-FRSM, contributed to the net loss of $18,012,486.

(All figures reported in US Dollars, unless otherwise noted)

REVENUE-VIRGINIUS MINE, COLORADO USA

The Company owns 100% interest in the the RV Mine. The Company continues care and maintenance of the RV Mine. On June 15, 2017 the Company completed a NI 43-101 feasibility study. The mineral reserve and resource estimate in the 2017 FS are as follows:

Mineral Reserves

Area	Description	Tons (kst)	Ag (oz/st)	Au (oz/st)	Pb (%)	Zn (%)	Contained Ag (koz)	Contained Au (koz)	Contained Pb (klb)	Contained Zn (klb)	NSR (US$/st)
Virginius	Proven	203.5	24.47	0.06	5.09	1.75	4,980	12.6	20,720	7,124	500
	Probable	206.6	30.35	0.06	5.11	2.80	6,270	13.1	21,133	11,571	602
	P+P	410.1	27.43	0.06	5.10	2.28	11,251	25.7	41,853	18,694	551
Terrible	Proven	0	0	0	0	0	-	-	-	-	0
	Probable	44.9	17.95	0.05	7.40	1.37	806	2.2	6,642	1,229	406
	P+P	44.9	17.95	0.05	7.40	1.37	806	2.2	6,642	1,229	406
Yellow Rose	Proven	40.9	20.19	0.05	4.20	2.31	825	2.1	3,433	1,887	419
	Probable	79.2	16.68	0.04	3.29	1.83	1,321	2.8	5,209	2,896	338
	P+P	120.0	17.87	0.04	3.60	1.99	2,145	4.9	8,642	4,784	366
All Areas Total	Proven	244.4	23.75	0.06	4.94	1.84	5,805	14.7	24,153	9,011	486
	Probable	330.7	25.39	0.05	4.99	2.37	8,397	18.1	32,985	15,696	512
	P+P	575.1	24.70	0.06	4.97	2.15	14,202	32.8	57,138	24,707	501

Notes:

- All figures are rounded to reflect the relative accuracy of the estimates. Totals may not sum due to rounding. NSR listed here may be somewhat different than values calculated in the final economic model due to updated information at time of economic modeling.
- Ore reserves are reported at NSR CoGs based on metal price assumptions*, metallurgical recovery assumptions**, mining costs, processing costs, general and administrative (G&A) costs, and treatment and refining charges. Mining costs, processing costs, and G&A costs total US$240.62/st.
  * Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,270.00), Silver (US$/oz 18.55), Lead (US$/lb 0.95) and Zinc (US$/lb 1.15)
  **Metallurgical recoveries for payable items in the Pb concentrate are: Gold (60%), Silver (95%), and Lead (95%). Metallurgical recoveries for payable items in the Zn concentrate are: Zinc (54%).
- Ore reserves have been stated on the basis of a mine design, mine plan, and cash-flow model. Full mining recovery of designed areas is assumed. Mining dilution is applied at zero grade and ranges from 5.9%-26.8%.
- The ore reserves were estimated by OSMI. Joanna Poeck, (BS Mining, MMSA, SME-RM) a Qualified Person, reviewed and audited the reserve calculations.

(All figures reported in US Dollars, unless otherwise noted)

Mineral Resources

Classification	Vein	Tons (kst)	Tonnage Factor	Ag (oz/st)	Au (oz/st)	Pb (%)	Cu (%)	Zn (%)	Ag (koz)	Au (koz)	Pb (klb)	Cu (klb)	Zn (klb)
Measured	Virginius Main	218	11.0	22.6	0.07	5.15	0.24	1.89	4,918	15	22,433	1,058	8,262
	Virginius FW	58	11.0	25.8	0.03	4.05	0.36	1.61	1,495	2	4,695	416	1,865
	Terrible	-	-	-	-	-	-	-	-	-	-	-	-
	Yellow Rose	39	11.0	22.1	0.05	4.51	0.17	2.53	860	2	3,506	135	1,966
	Total Measured	**315**	**11.0**	**23.1**	**0.06**	**4.86**	**0.26**	**1.92**	**7,273**	**19**	**30,634**	**1,609**	**12,093**
Indicated	Virginius Main	311	11.0	24.2	0.06	4.38	0.26	2.56	7,516	19	27,262	1,587	15,921
	Virginius FW	103	11.0	12.6	0.03	2.67	0.21	1.20	1,298	3	5,501	431	2,472
	Terrible	49	11.0	17.6	0.06	7.44	0.14	1.46	861	3	7,287	137	1,435
	Yellow Rose	209	11.0	11.8	0.03	2.44	0.10	1.69	2,460	7	10,180	401	7,051
	Total Indicated	**672**	**11.0**	**18.1**	**0.05**	**3.74**	**0.19**	**2.00**	**12,135**	**32**	**50,230**	**2,556**	**26,879**
M + I	Virginius Main	529	11.0	23.50	0.06	4.70	0.25	2.29	12,434	34	49,695	2,645	24,183
	Virginius FW	161	11.0	17.35	0.03	3.17	0.26	1.35	2,793	5	10,196	847	4,337
	Terrible	49	11.0	17.57	0.06	7.44	0.14	1.46	861	3	7,287	137	1,435
	Yellow Rose	247	11.0	11.77	0.03	2.44	0.10	1.69	3,320	9	13,686	536	9,017
	Total M + I	**987**	**11.0**	**19.7**	**0.05**	**4.10**	**0.21**	**1.97**	**19,408**	**51**	**80,864**	**4,165**	**38,972**
Inferred	Virginius Main	170	11.0	30.7	0.07	5.96	0.42	3.07	5,220	12	20,268	1,444	10,440
	Virginius FW	1	11.0	19.0	0.00	2.20	0.20	0.95	19	0	44	4	19
	Terrible	52	11.0	28.8	0.12	7.04	0.11	1.31	1,499	6	7,323	115	1,359
	Yellow Rose	108	11.0	20.9	0.04	1.34	0.15	1.72	2,258	4	2,894	325	3,724
	Total Inferred	**331**	**11.0**	**27.2**	**0.07**	**4.61**	**0.29**	**2.35**	**8,996**	**22**	**30,529**	**1,888**	**15,542**

Notes:

- Mineral Resources are inclusive of Mineral Reserves
- Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves.
- Mineral Resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding.
- All Measured and Indicated estimates with the defined wireframes are considered to have potential for economic extraction as entire level will be mined
- Inferred Mineral Resources is limited using a NSR cut-off US$200/st.
- Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,270.00), Silver (US$/oz 18.55), Lead (US$/lb 0.95), Copper (US$/lb 2.55) and Zinc (US$/lb 1.15);
- Cut-off calculations assume average metallurgical recoveries equal to: Gold (65%), Silver (96%), Lead (96%), Copper (94%) and Zinc (89%); and
- The resources were estimated by Benjamin Parsons, BSc, MSc Geology, MAusIMM (CP) #222568 of SRK, a Qualified Person, reviewed and audited the resource calculations.

Highlights of the FS include:

- Base Case* pre-tax NPV (8% discount rate) of $76.5 million, internal rate of return ("IRR") of 79%.
- Mine life of over 6 years based only on P&P reserves.
- First 5-year average annual production of 3.1 million silver equivalent ounces*.
- All-in sustaining cost of production of $10.84/oz AgEq*.
- Initial capital costs required of approximately $36.5 million, including $2.1 million contingency and $3.2 million operating costs during ramp up.
- 9 months from production decision to positive cash flow with under 2 years of capital payback.
- First 5-year average annual pre-tax cash flow of $26.5 million.

*Base Case and silver equivalent ounces use $18.55/oz silver, $1,270/oz gold, $0.95/lb lead and $1.15/lb Zinc.

Current ownership structure and legacy pre-pay obligations provide certain tax advantages, and it is believed that pre-tax economics are the most relevant metrics.

The 2017 FS outlines a restart plan for the RV Mine that requires approximately $36.5 million of initial capital (including working capital, contingency and concentrate payment terms). First production is scheduled in month 7 from the project start date, and positive cash flow in month 9. The project is break even in 1.9 years after the commencement of production and will produce roughly 18 million payable silver equivalent ounces at an all-in sustaining cost of $10.84/oz AgEq over the current 6.4 year mine life based on the currently defined mineral reserves. The defined mineral reserve has 575,000 short tons at a silver equivalent grade of 36.4 ounces/short ton (1,247 grams/metric ton). The restart plan initially focuses on higher grade and accordingly the production is front loaded, with the first 5 years of production producing 15.4 million payable silver equivalent ounces (3.1 million/year).

The 2017 FS, with an effective date of March 1, 2017, was completed independently by SRK Consulting (U.S.), Inc. Denver CO. The report titled "NI 43-101 Technical Report Feasibility Study Revenue-Virginius Mine Ouray, Colorado", effective March 1, 2017 and issued June 15, 2017 was prepared by Ben Parsons (MSc, MAusIMM (CP)), Eric J. Olin (MSc Metallurgy, MBA, SME-RM, MAusIMM), John Tinucci (PhD, PE), Jeff Osborn (BEng Mining, MMSAQP), Joanna Poeck (BEng Mining, SME-RM, MMSAQP), Dave Mickelson (PE), Terry Braun (MSc, PE), John Pfahl (ME), Bart Stryhas (PhD, CPG), and all are Qualified Persons as defined under National Instrument 43-101.

LIQUIDITY AND FINANCIAL POSITION

The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities and in particular the price of silver. In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments, management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions, including metals prices.

Several adverse conditions and material uncertainties, including lower metals prices, could cast doubt upon the assumption that the Company will continue as a going concern. The business of mining and exploration involves a high degree of risk and there can be no assurance that future exploration and development of the RV Mine will result in profitable mining operations. The Company currently has no source of revenue and will require cash to meet the necessary financing requirements to complete the development of the RV Mine and for future corporate and administrative expenses. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

The Company has incurred recurring losses from administrative costs and care and maintenance activities to prepare the mine for a production decision. As at December 31, 2017 and 2016, the Company had an operating loss of $6,807,159 and $7,059,664. Cash used in operating activities was $4,798,516 and $5,613,334 for the year ended December, 2017 and 2016, respectively. At December 31, 2017 the Company has shareholders' deficit of $38,444,346. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company relies on capital contributions from its related party, LRC-FRSM II, to fund its working capital. Based on the Company's current cash usage expectation for 2018, it believes it will have sufficient liquidity to fund its operations for at least the next twelve months only if it receives planned additional capital contributions from LRC-FRSM II or raises finances from a third party. However, the Company can provide no assurances that these initiatives will succeed.

(All figures reported in US Dollars, unless otherwise noted)

As at December 31, 2017, LRC-FRSM II has contributed additional capital of $5,883,000 for the fiscal year 2017. Since December 31, 2017, LRC-FRSM II has contributed additional capital of $1,935,000 through June 28, 2018.

Working capital

The Company had current assets of $0.5 million, working capital of -$0.3 million, shareholders' deficit of $38.4 million and net income of -$21.3 million for the year ended December 31, 2017. Accrued interest expense related to the Metal Prepay, defined below, contributed $14.5 million of the 21.3 million net loss for the year. The accrued interest expense is a non-cash event and had no impact on the working capital position.

Current assets

As at December 31, 2017, the Company had current assets in the total amount of $0.5 million which includes $0.15 million of cash.

Mineral properties, plant and equipment

Plant and equipment, net of accumulated depreciation, decreased to $10.5 million at December 31, 2017, from $11.9 million at December 31, 2016.
Mineral properties increased to $31.0 million at December 31, 2017 from $30.0 million at December 31, 2016 due to the development activities.

OUTSTANDING SHARE CAPITAL

As at December 31, 2017, the Company has 130,409 shares outstanding. The Company has no warrants or stock options outstanding.

TRANSACTIONS WITH RELATED PARTIES

On October 1, 2014 the Company entered into a Senior Secured Metal Prepay Agreement ("Metal Prepay") with LRC-FRSM which has been modified by the Amended and Restated Senior Secured Metal Prepay Agreement dated March 25, 2015 ("Amended Metal Prepay") in the amount detailed below and payable in repayment units of physical metal as defined by an agreed upon delivery schedule plus interest on advances outstanding at a rate of 9.25% per annum.

The Company's current obligations as of December 31, 2017 under the Amended Metal Prepay are deliveries of repayment units of the Metal Prepay as follows:

Gold (oz)	Silver (oz)	Lead (ton)
3,400	636,000	2,550

The First Amendment to the Amended Metal Prepay (the "First Amendment", executed August 31, 2015) provided for the accrual and deferral of (a) any and all Shortfall Payments pursuant to the Amended Metal Prepay, (b) Cash Interest pursuant the Amended Metal Prepay, and (c) all other payments pursuant the Amended Metal Prepay until such time as elected by the Seller. Through December 31, 2017, the Company continued to accrue the above stated delivery obligations under the Amended Metal Prepay.

Through the end of 2017 (i) a late fee of 1.25% was assessed in units per month for any deliveries that were not made, and (ii) interest was charged on the Metal Prepay at 9.25% per annum.

(All figures reported in US Dollars, unless otherwise noted)

Under the Working Capital Facility, the Company is obligated to deliver 3,115,894 SERU. Through the end of 2017, interest of 15% per annum was accrued on outstanding SERU payable in additional SERU.

The details of the loan payable are set forth as follows:

	December 31, 2017	December 31, 2016
Metal prepay and working capital facilities-related party	$ 51,000,000	$ 51,000,000
Less debt issuance cost (net of amortization)	(216,159)	(324,237)
Metal prepay and working capital facilities-related party	$ 50,783,841	$ 50,675,763
Interest Payable in commodities	$ 29,238,224	$ 14,773,136

As of December 31, 2017 and 2016, the estimated fair value of the facilities including interest payable in commodities in both periods was $100,804,547 and $79,880,826 respectively.

Interest expense for the years ended December 31, 2017 and 2016 associated with the facilities was $14,465,086 and $10,938,843 respectively.

Through December 31, 2017, the Company continued to accrue interest and penalty interest obligations under the Amended Metal Prepay. As a subsequent event, on March 25, 2018 the Second Amendment to the Metal Prepay (the "Second Amendment") was entered into by the Company and LRC-FRSM. The Second Amendment eliminates past and future accruals of (a) any and all Shortfall Payments pursuant to the Amended Metal Prepay, (b) Cash Interest pursuant to the Amended Metal Prepay, and (c) all other payments pursuant to the Amended Metal Prepay.

COMMITMENTS AND CONTINGENCIES:

Head office lease

The Company maintains an office in Ouray, Colorado. A two year lease agreement was entered into on January 1, 2017 for $101,155 per annum that expires on December 31, 2018. Rent expense for each of the years ended December 31, 2016 and December 31, 2017 was $99,660.

FINANCIAL INSTRUMENTS

The Company is not exposed to any fluctuation in foreign exchange rates.

RISKS AND UNCERTAINTIES

The operations of Ouray are speculative due to the high risk nature of its business which is the exploration and development of mining properties. The following is a brief discussion of the distinctive or special characteristics of Ouray's operations and industry which may have a material impact on, or constitute risk factors in respect of, Ouray's financial performance. The risks below are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. The order in which the following risk factors appear does not necessarily reflect management's opinion of their order of priority.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Several adverse conditions and material uncertainties, including low metal prices, cast significant doubt upon the going concern assumption.

Following the MRA entered into on July 15, 2015, the Company put the RV Mine into care and maintenance and no longer holds any assets that are currently generating revenue and will therefore be solely reliant on additional capital contribution from LRC-FRSM II and debt or equity financing to meet its ongoing working capital needs.

Metals Price risk

Market prices of commodities can be affected by numerous factors beyond the Company's control, including levels of supply and demand, economic growth rates of various international economies, expectations with respect to the rate of inflation, the relative strength of various currencies, interest rates, speculative activities, global or regional political or economic circumstances and sales or purchases of silver by holders in response to such factors. Silver and other metal prices have been highly volatile over the past several years, and further lower prices and could negatively impact the value of the Company. Prolonged decreases in the price of silver or other metals could adversely impact the ability of the Company to recommence operations at the RV Mine. The Company may also curtail or suspend some or all of its exploration activities on the RV Mine in response to lower silver and other metal prices.

Risks related to recommencing mining operations

The RV Mine is currently on care and maintenance and will require significant expenditures before production can recommence. The economic feasibility of the RV Mine is based on many factors such as the estimation of mineral reserves, anticipated metallurgical recoveries, environmental considerations and permitting, future metals prices, and anticipated capital and operating costs. Thus, it is possible that actual capital and operating costs and economic returns will differ significantly from the feasibility study results.

Any of the following events, among others, could affect the profitability or economic feasibility of the RV Mine: unanticipated changes in grade and tons of mineralized material to be mined and processed, unanticipated adverse geological conditions, unanticipated metallurgical recovery problems, incorrect data on which engineering assumptions are made, availability and costs of labor, costs of processing and refining facilities, availability of economic sources of power, adequacy of water supply, unanticipated transportation costs, government regulations (including regulations with respect to prices, royalties, duties, taxes, permitting, restrictions on production, quotas on exportation of minerals, environmental), fluctuations in metals prices, and accidents, labor actions, the availability and delivery of critical equipment, successful re-start of operations, including the achievement of designed mill recover rates and force-majeure events.

It is not unusual in newly restarted mining operations to experience unexpected problems during the start-up phase, and delays can often occur at the start of production.

Risks related to global financial conditions.

Current global financial conditions for mining companies have been affected by a prolonged decline in commodities prices. Access to public financing has been negatively impacted by the prolonged decline in commodities prices, and the resulting decrease in the values of the securities of many mining and mineral exploration and development companies. These factors may impact the ability of the Company to obtain equity or debt financing in the future on terms favourable to the Company, or at all.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such decreased levels of commodity prices continue, the Company's operations could be adversely impacted and the value of the Company may be adversely affected.

Credit risk

The Company's credit risk is primarily attributable to cash. The Company limits its credit exposure on cash held in bank accounts by holding its key transactional bank accounts with credible banks with a long history of operations.

Mining risks and insurance

The business of mining is subject to certain types of risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected changes to rock formations, changes in the regulatory environment, cave-ins and flooding. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Any payments made with regards to such liabilities may have a material adverse effect on Ouray's financial performance and results of operations. The Company carries insurance to protect itself against certain risks of mining and processing to the extent that is economically feasible, but which may not provide adequate coverage in all circumstances.

Uncertainty of mineral resources and reserves

Mineral reserves and mineral resources are estimates of the size and grade of deposits based on limited sampling and on certain assumptions and parameters. No assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery of payable metals will be realized. The grade of mineralized material actually recovered by the Company may differ from the estimated grades of the mineral reserves and mineral resources. Prolonged declines in the market price of silver, gold, lead or zinc may render mineral resources containing relatively lower grades of mineralization uneconomic to exploit and could materially reduce the Company's reserves. Should such reductions occur, the Company could be required to take a material write-down of its investment in mining properties or delay or discontinue the development of new projects, resulting in increased net losses and reduced cash flow. Market price fluctuations, as well as increased production costs or reduced recovery rates, may render mineral resources containing relatively lower grades of mineralization uneconomical to recover and may ultimately result in a restatement of mineral resources. Short-term factors relating to mineral resources, such as the need for orderly development of a mineralized deposit or the processing of new or different grades, may impair the profitability of a mine in any period. Mineral resources are not revised in response to short-term cyclical price variations in metal markets.

Reclamation obligations

The Company calculates its estimates of the ultimate reclamation liability based on current laws and regulations and the expected future costs to be incurred in reclaiming, restoring and closing its operating mine sites. It is possible that the Company's estimate of its ultimate reclamation liability could change in the near term due to possible changes in laws and regulations and changes in cost estimates. The current environmental liabilities include reclamation and closure of the existing surface infrastructure, waste rock stockpiles, and the revenue pond tailings storage facility. The estimated cost for reclamation and closure is $482,903 and the Company maintains a reclamation bond for this amount.

Exploration risks

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site.

Whether any mineral deposit is commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices which are highly cyclical and government regulations, including mineral development and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Ouray not receiving an adequate return on invested capital.

Permitting and title

All operating permits for the RV Mine remain in place.

Ouray's property may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. If a title defect or defects do exist, it is possible that Ouray may lose all, or a portion, of its interest in the affected mineral claims. Ouray has no present knowledge of any defect in the title of any of the properties in which the Company has an interest.

Management services

The success of Ouray depends to a large extent on the ability and judgment of the senior management of Ouray and upon Ouray's ability to retain the services of senior management. The loss of their services may have a material adverse effect on Ouray.

MANAGEMENT'S REPORT ON INTERNAL CONTROLS

Ouray is a private company, therefore not subject to any stock exchange reporting requirements. The Company, however, maintains disclosure controls and procedures with respect to providing audited annual financial statements to its shareholders, which consists solely of LRC-FRSM II at this time. In designing and evaluating the Company's disclosure controls and procedures, it recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

APPENDIX "C"

REVISED MANAGEMENT'S DISCUSSION AND ANALYSIS OF OURAY SILVER MINES, INC.
FOR THE THREE AND SIX MONTHS ENDING JUNE 30, 2018

Management Discussion and Analysis for the Quarter ended June 30, 2018

This Management Discussion and Analysis ("MD&A") should be read in conjunction with Ouray Silver Mines, Inc.'s (the "Company" or "Ouray") June 30 2018 unaudited interim financial statements and the related notes thereto, which have been prepared in accordance with generally accepted accounting principles in the United States ("US GAAP"). This MD&A contains "forward-looking statements", including, but not limited to, statements regarding the Company's expectations, strategic plans, exploration budgets and mineral resource estimates. The information in this MD&A is current to November 28, 2018.

Cautionary Statement Regarding Forward-Looking Information

This document contains certain forward-looking statements, including statements regarding, metals grades, potential mineralization, exploration results, and any future plans and objectives of Ouray Silver Mines, Inc. These statements are forward-looking statements that involve various risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to potential mineral grades or tonnages at the Revenue-Virginius Mine ("RV Mine"), mining and processing of mineralized material, achieving projected recovery rates, anticipated production rates and mine life, operating efficiencies, costs and expenditures, changes in mineral resources, and other information that is based on forecasts of future operational or financial results, estimates of amounts not yet determinable and assumptions of management. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected" or "is not expected", "anticipates" or "does not anticipate", "plans" or "does not plan", "estimates", "intends" or "does not intend" or stating that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or "not be achieved") are not statements of historical fact and may be "forward-looking statements". Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to materially differ from those reflected in the forward-looking statements.

Actual results may differ materially from results contemplated by the forward-looking statements. Important factors that could differ materially from the Company's expectations include, among others, risks related to unsuccessful further exploration results, metals prices, fluctuations in currency prices, lack of achieving intended operational or project development related results, conclusions of economic evaluations and changes in project parameters as plans continue to be refined as well as changes in the availability of funding for mineral exploration and development, unanticipated changes in key management personnel and general economic conditions. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and should not place undue reliance on such forward-looking statements. The Company does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf, except as required by applicable law. Accordingly, readers should not place undue reliance on forward-looking statements.

This document includes disclosure of scientific and technical information, as well as information in relation to the estimation of resources, with respect to the RV Mine. Ouray's disclosure of mineral resource information is governed by National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101") under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Mineral Reserves, adopted by the CIM Council, as may be amended from time to time by the CIM.

Certain information in this presentation is derived from a report titled "NI 43-101 Technical Report Feasibility Study Revenue-Virginius Mine, Ouray, Colorado", dated July 5, 2018 ("2018 FS"). The 2018 FS was completed independently by SRK Consulting (U.S.), Inc., Denver CO ("SRK".), with an effective date of June 15, 2018.

The scientific and technical information contained in this document has been approved by Jeff Osborn of SRK, who is a qualified person as defined by NI 43-101 and independent of Ouray.

Cautionary Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Resources: Disclosure herein uses the terms "Measured", "Indicated" and "Inferred" Resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the United States Securities and Exchange Commission does not recognize them. "Inferred Mineral Resources" are considered too speculative geologically to have economic considerations applied to them. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies except in limited circumstances. United States investors are cautioned not to assume that all or any part of Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. United States investors are also cautioned not to assume that all or any part of a Mineral Resource is economically or legally mineable.

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QUALIFIED PERSON

Jeff Osborn of SRK, who is a qualified person as defined by NI 43-101 and independent of Ouray, has reviewed and approved the technical information contained herein.

NATURE OF BUSINESS AND COMPANY DESCRIPTION

Ouray Silver Mines, Inc. was organized under the laws of the State of Colorado on April 19, 2014. The Company owns the Revenue-Virginius Mine located in the San Juan Mountains near Ouray, Colorado. The primary products of the Mine are metal concentrates comprised of silver, gold, lead, and zinc.

In 2014, the Company was established by Fortune Minerals Limited ("Fortune") and acquired the RV Mine assets from an unrelated party. The Company received financing from LRC-FRSM, LLC ("LRC-FRSM") to acquire the assets and develop the mine. Fortune was the guarantor on the financing agreement. The Company and Fortune defaulted on the terms of the financing agreement, and on July 17, 2015, Fortune and LRC-FRSM entered into a master restructuring agreement ("MRA"). As part of the MRA, Fortune transferred ownership of the Company to LRC-FRSM II, LLC, ("LRC-FRSM II" and together with LRC-FRSM, the "LRC Group") an affiliate of LRC-FRSM. After the closing of the MRA on July 22, 2015, the Company changed its name from Fortune Revenue Silver Mine, Inc. to Ouray Silver Mines, Inc.

In August 2015, the Company transitioned from operating the RV Mine to care and maintenance of the RV Mine. This transition suspended mine and mill operations and included a major reduction in workforce. During care and maintenance, the LRC Group brought in new senior management and the Company engaged technical consulting companies to evaluate and assess the mine in order to obtain a technical understanding of the mine's resources and potential. In 2017, the Company completed a feasibility study ("2017 FS") demonstrating an economic restart of production at the RV Mine is possible and warranted, and updated that feasibility study again in 2018 to update capital and operating cost estimates to current market prices. The Company continues care and maintenance and core technical activities to keep the RV Mine, including all permits, on a production ready status.

Basis of presentation and going concern

The accompanying Financial Statements have been prepared on the basis that the Company will continue as a going concern. The Company has incurred recurring losses from operations and used cash in operating activities while in the process of developing the Mine. For the six months ended June 30, 2018 the Company's net loss was $4,808,015 and cash used in operating activities was $1,932,227. At June 30, 2018 the Company has a shareholders' deficiency of $9,349,730. See also Transactions with Related Parties for discussion of Company's debt obligations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company relies on capital contributions from LRC-FRSM II, the sole shareholder of the Company, to fund working capital. Based on the Company's current cash usage expectation for 2018, it believes it will have sufficient liquidity to fund its operations for at least the next twelve months only if it receives planned additional capital contributions from LRC-FRSM II or raises finances from a third party. However, the Company can provide no assurances that these initiatives will succeed. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities as a result of this uncertainty.

In the first six months of 2018, LRC-FRSM II has contributed additional capital of $33,902,630, which consists of $2,335,000 cash contributions and $31,567,630 non-cash contributions through the forgiveness of interest payable in commodities. Since June 30, 2018, LRC-FRSM II has contributed additional capital of $1,665,000 for a total of $35,567,630 which consists of $4,000,000 cash contributions and $31,567,630 non-cash contributions through the forgiveness of interest payable in commodities as of November 28, 2018.

OUTLOOK

Based solely on the continued reliance of financial support from LRC-FRSM II, which cannot be assured, the Company has sufficient working capital to meet its near-term obligations and continue with the RV Mine as its principal asset. In addition, on July 30, 2018 Aurcana (defined later herein) publicly announced a material transaction with the Company as follows:

Material Acquisition and Reverse Take Over: The Company has entered into a letter of intent dated July 27, 2018 (the "LOI") with Aurcana Corporation ("Aurcana") pursuant to which the Company will effect a business combination and reverse takeover transaction that will result in, among other things, Aurcana acquiring all of the issued and outstanding shares of common stock of the Company on a debt free basis in exchange for newly issued common shares of Aurcana (collectively, the "Proposed Transaction"). The Company will become a wholly-owned subsidiary of Aurcana.

As a condition to the Proposed Transaction, Aurcana is required to complete an offering of subscription receipts to raise gross proceeds of not less than CDN$9 million (the "Offering") to close concurrently with the Proposed Transaction. The Proposed Transaction has the support of the Board of Directors of Aurcana, as well as Orion Mine Finance ("Orion"), the largest (15%) shareholder of Aurcana, and Orion and each of the directors and senior officers of Aurcana have executed support agreements in favor of the Proposed Transaction. The Proposed Transaction is contemplated to be completed by a Plan of Arrangement pursuant to the Business Corporations Act (British Columbia) (the "Plan"). The parties target closing the Proposed Transaction by the end of 2018 and one of the planned use of proceeds of the Proposed Transaction will be to fund working capital requirements at the RV Mine.

There can be no guarantees that the Proposed Transaction will be is completed.

CORPORATE DEVELOPMENTS

During the period ended June 30, 2018:

- The Company continued care and maintenance activities to keep the RV Mine, including all permits, on a production ready basis.
- In June 2018, SRK issued the 2018 FS, an updated NI 43-101 compliant feasibility study based on the 2017 FS confirming economic viability of the RV Mine. The study provides a Base Case[1] After-Tax Net Present Value using a 5% discount rate ("NPV5") of $74.9 million and an After-Tax Internal Rate of Return ("IRR") of 71.2%. Additional details of the study can be referred to in a subsequent section titled Revenue-Virginius Mine, Colorado USA.
- On July 30, 2018 the Company announced a significant transaction as outlined above, in the Outlook section.

[1] The Base Case uses a price deck of $18.50 Ag, $1,300 Au, $1.00 Pb and $1.20 Zn

(All figures reported in US Dollars, unless otherwise noted)

REVIEW OF FINANCIAL RESULTS

Revenue

During the quarter ended June 30, 2018, the Company did not generate any revenue from operations (June 30, 2017: $0).

General and Administrative Costs

	For the three months ended June 30,	For the six months ended June 30,	
	2018	**2018**	**2017**
Salaries	$354,723	$623,149	$951,947
Admin & Overhead	$457,246	$617,089	$674,002
Consulting Fees	$84,655	$118,654	$821,244
Permits & Environmental Compliance	$68,400	$68,993	$11,925
General Care & Maintenance	$43,817	$122,269	$238,547
Utilities	$40,273	$78,574	$96,651
Travel & Accommodation	$13,514	$20,367	$1,810
	$1,062,628	**$1,649,094**	**$2,796,126**

Quarterly Financial Information

The Company's financial statements are reported under US GAAP. The following tables provide highlights from the Company's financial statements of quarterly results for the two quarters, which are the only quarters that the Company has prepared quarterly statements, as well as year-end 2017 and 2016.

	For the quarter ended		For the year ended December 31,	
	June 30, 2018	**March 31, 2018**	**2017**	**2016**
Revenue	$-	$-	$-	$-
Operating (Loss)	$(1,481,527)	$(994,828)	$(6,807,159)	$(7,059,664)
Net (Loss)[2]	$(1,484,041)	$(3,323,974)	$(21,257,570)	$(18,012,486)

- During the three months ending June 30, 2018:
  - The Company earned no revenue.

[2] During the quarter ended March 31, 2018 the Company executed an amendment to the Amended Metal Prepay (defined later herein) forgiving past and future interest accruals. The majority of the net loss in prior quarters, over and above operating losses, were generated from this historical accrual of interest.

  - RV Mine care & maintenance costs during the second quarter of 2018 were $1,062,628. Salaries of $354,723 and Admin & Overhead of $457,246 comprised the majority of care and maintenance costs for the quarter.
  - Depreciation and amortization of $411,845 contributed to the net loss of $1,484,041

- During the three months ending March 31, 2018:
  - The Company earned no revenue.
  - RV Mine care & maintenance costs during the first quarter of 2018 were $655,284. Salaries of $253,943 and Admin & Overhead of $229,887 comprised the majority of care & maintenance costs for the quarter.
  - Depreciation and amortization of $404,212 and interest expense of $2,334,435 predominately accrued interest based on the Amended Metal Prepay (defined later herein) to a related party, LRC-FRSM, contributed to the net loss of $3,323,974.
  - The Company executed an amendment to the Amended Metal Prepay (defined later herein) forgiving past and future interest accruals due to the related party LRC-FRSM. This forgiveness of interest of $31,567,630 generated the one-time non-cash contribution to shareholder's equity in the first quarter of 2018.

- During the twelve months ending December 31, 2017:
  - The Company earned no revenue.
  - RV Mine care & maintenance costs during the year ended December 31, 2017 were $5,089,732. Salaries of $1,666,132 and Admin & Overhead of $1,358,364 comprised the majority of care & maintenance costs for the year.
  - The consulting fees of $1,109,448 were principally related to completing the NI 43-101 compliant feasibility study on the RV Mine.
  - Depreciation and amortization of $1,642,971 and interest expense of $14,475,411 predominately accrued interest based on the Amended Metal Prepay (defined later herein) to a related party, LRC-FRSM, contributed to the net loss of $21,257,570.

- During the twelve months ending December 31, 2016:
  - The Company earned no revenue.
  - RV Mine care & maintenance costs during the year ended December 31, 2016 were $5,284,277. Salaries of $2,491,617 and Admin & Overhead of $1,341,067 comprised the majority of care & maintenance costs for the year.
  - Depreciation and amortization of $1,614,142 and interest expense of $10,952,822, predominately accrued interest based on the Amended Metal Prepay (defined later herein) to a related party, LRC-FRSM, contributed to the net loss of $18,012,486.

REVENUE-VIRGINIUS MINE, COLORADO USA

The Company owns 100% interest in the RV Mine. The Company continues care and maintenance of the RV Mine. On July 5, 2018 the Company completed an updated NI 43-101 feasibility study. The mineral reserve and resource estimate in the 2018 FS are as follows:

Mineral Reserves

(All figures reported in US Dollars, unless otherwise noted)

Classification	Tons (kst)	Ag (oz/st)	Au (oz/st)	Pb (%)	Zn (%)	Ag (koz)	Au (koz)	Pb (klb)	Zn (klb)	Ag Equiv (koz)	Ag Equiv (oz/st)
Proven	244	23.75	0.06	4.94	1.84	5,805	15	24,153	9,011	8,729	35.7
Probable	331	25.39	0.05	4.99	2.37	8,397	18	32,985	15,696	12,472	37.7
Total P+P	575	24.70	0.06	4.97	2.15	14,202	33	57,138	24,707	21,201	36.9

Mineral Resources

Classification	Tons (kst)	Ag (oz/st)	Au (oz/st)	Pb (%)	Zn (%)	Ag (koz)	Au (koz)	Pb (klb)	Zn (klb)	Ag Equiv (koz)	Ag Equiv (oz/st)
Measured	315	23.1	0.06	4.86	1.92	7,273	19	30,634	12,093	11,048	35.1
Indicated	672	18.1	0.05	3.74	2.00	12,135	32	50,230	26,879	18,842	28.0
Total M&I	987	19.7	0.05	4.10	1.97	19,408	51	80,864	38,972	29,891	30.3
Inferred	331	27.2	0.07	4.61	2.35	8,996	22	30,529	15,542	13,200	39.9

Notes:

- Based on the RV Mine 2018 FS prepared by SRK and Ouray analysis. The effective date of the mineral reserve and resource estimates in the RV Mine 2018 FS is June 15, 2018.
- Notes for mineral resources: (i) mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the mineral resources estimated will be converted into mineral reserves. Mineral resources inclusive of mineral reserves; (ii) mineral resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding; (iii) all measured and indicated mineral resource estimates with the defined wireframes are considered to have potential for economic extraction as entire level will be mined; (iv) inferred mineral resources are limited using a net smelter return ("NSR") cut-off US$200/st; (v) metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,300), Silver (US$/oz 18.50), Lead (US$/lb 1.00) and Zinc (US$/lb 1.20). Metal equivalent calculation excludes copper; (vi) cut-off calculations assume average metallurgical recoveries equal to: Gold (65%), Silver (96%), Lead (96%), Copper (94%) and Zinc (89%); and (vii) the mineral resources were estimated by Benjamin Parsons, BSc, MSc Geology, MAusIMM (CP) #222568 of SRK, a qualified person within the meaning of NI 43-101.
- Notes for mineral reserves: (i) all figures are rounded to reflect the relative accuracy of the estimates. Totals may not sum due to rounding; (ii) mineral reserves are reported at NSR CoGs based on metal price assumptions, metallurgical recovery assumptions, mining costs, processing costs, general and administrative (G&A) costs, and treatment and refining charges. Mining costs, processing costs, and G&A costs total US$240.62/st. Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,300), Silver (US$/oz 18.50), Lead (US$/lb 1.00) and Zinc (US$/lb 1.20); Metallurgical recoveries for payable items in the Pb concentrate are: Gold (60%), Silver (95%), and Lead (95%). Metallurgical recoveries for payable items in the Zn concentrate are: Zinc (54%); (iii) mineral reserves have been stated on the basis of

a mine design, mine plan, and cash-flow model. Full mining recovery of designed areas is assumed. Mining dilution is applied at zero grade and ranges from 5.9%-26.8%. 4) The mineral reserves were estimated by Ouray. Joanna Poeck, (BS Mining, MMSA, SME-RM) of SRK, a qualified person within the meaning of NI 43-101, reviewed and audited the mineral reserve estimates.

- There are no known legal, political, environmental, or other risks that could materially affect the potential development of the mineral resources or mineral reserves described in the RV Mine 2018 FS. For additional information on legal, political, environmental and other factors considered in respect of the RV Mine 2018 FS, readers are encouraged to refer to the full text of the RV Mine 2018 FS which will be filed in connection with the Proposed Transaction.

Highlights of the 2018 FS include:

- Base Case* after-tax NPV (5% discount rate) of $74.9 million, internal rate of return ("IRR") of 71.2%.
- Mine life of over 6 years based only on P&P reserves.
- First 5-year average annual production of 3.1 million silver equivalent ounces ("Ag Equivalent" or "Ag Equiv.").
- All-in sustaining cost of production of $11.01/oz Ag Equivalent.
- Initial capital costs required of approximately $36.8 million, including $2.1 million contingency and $2.8 million operating costs during ramp up.
- 9 months from production decision to positive cash flow with under 2 years of capital payback.
- First 5-year average annual after-tax cash flow of $23.8 million.
  *Base Case uses $18.50/oz silver, $1,300/oz gold, $1.00/lb lead and $1.20/lb Zinc.

The 2018 FS outlines a restart plan for the RV Mine that requires approximately $36.8 million of initial capital (including working capital, contingency and concentrate payment terms). First production is scheduled in month 7 from the project start date, and positive cash flow in month 9. The project is break even in month 16 after the commencement of production (23 months from the project start date) and will produce roughly 18 million payable Ag Equivalent ounces at an all-in sustaining cost of $11.01 per Ag Equivalent ounce over the current 6.4 year mine life based on the currently defined mineral reserves ($10.71 per Ag Equivalent ounce over the first 5 years). The defined mineral reserve has 575,000 short tons at an Ag Equivalent grade of 39.9 ounces/short ton (1,264 grams/metric ton). The restart plan initially focuses on higher grade and accordingly the production is front loaded, with the first 5 years of production producing 15.5 million payable Ag Equivalent ounces (3.1 million/year).

The 2018 FS, with an effective date of June 15, 2018, was completed independently by SRK Consulting (U.S.), Inc. Denver CO. The report titled "NI 43-101 Technical Report Feasibility Study Revenue-Virginius Mine Ouray, Colorado", effective June 15, 2018 and issued July 5, 2018 was prepared by Ben Parsons (MSc, MAusIMM (CP)), Eric J. Olin (MSc Metallurgy, MBA, SME-RM, MAusIMM), John Tinucci (PhD, PE), Jeff Osborn (BEng Mining, MMSAQP), Brian Prosser (PE), Joanna Poeck (BEng Mining, SME-RM, MMSAQP), Dave Mickelson (PE), Terry Braun (MSc, PE), John Pfahl (ME), and all are Qualified Persons as defined under National Instrument 43-101.

LIQUIDITY AND FINANCIAL POSITION

The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities and in particular the price of silver. In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments, management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions, including metals prices.

Several adverse conditions and material uncertainties, including lower metals prices, could cast doubt upon the assumption that the Company will continue as a going concern. The business of mining and exploration involves a high degree of risk and there can be no assurance that future exploration and development of the RV Mine will result in profitable mining operations. The Company currently has no source of revenue and will require cash to meet the necessary financing requirements to complete the development of the RV Mine and for future corporate and administrative expenses. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

The Company has incurred recurring losses from administrative costs and care and maintenance activities to prepare the mine for a production decision. For the six-month period ended June 30, 2018 and 2017, the Company had an operating loss of $2,476,355 and $3,617,553. Cash used in operating activities was $1,932,227 and $2,906,825 for the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018 the Company has shareholders' deficit of $9,349,730. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company relies on capital contributions from its related party, LRC-FRSM II, to fund its working capital. Based on the Company's current cash usage expectation for 2018, it believes it will have sufficient liquidity to fund its operations for at least the next twelve months only if it receives planned additional capital contributions from LRC-FRSM II, or raises finances from a third party. In addition, if the Proposed Transaction closes, one of the planned uses of proceeds of the Proposed Transaction will be to fund working capital requirements at the RV Mine. However, the Company can provide no assurances that these initiatives will succeed.

In the first six months of 2018, LRC-FRSM II has contributed additional capital of $33,902,630, which consists of $2,335,000 cash contributions and $31,567,630 non-cash contributions through the forgiveness of interest payable in commodities. Since June 30, 2018, LRC-FRSM II has contributed additional capital of $490,000 for a total of $34,392,630 contributed as of August 21, 2018.

Working capital

The Company had current assets of $0.3 million, working capital of $0.02 million, shareholders' deficit of $9.3 million and net loss of $4.8 million as of and for the six months ended June 30, 2018.

Current assets

As at June 30, 2018, the Company had current assets in the total amount of $0.3 million which includes $0.2 million of cash.

Mineral properties, plant and equipment

Plant and equipment, net of accumulated depreciation, decreased to $9.7 million at June 30, 2018, from $10.5 million at December 31, 2017.
Mineral properties increased to $31.3 million at June 30, 2018 from $31.0 million at December 31, 2017 due to the development activities.

OUTSTANDING SHARE CAPITAL

(All figures reported in US Dollars, unless otherwise noted)

As at June 30, 2018 the Company has 130,409 shares outstanding. The Company has no warrants or stock options outstanding.

TRANSACTIONS WITH RELATED PARTIES

On October 1, 2014 the Company entered into a Senior Secured Metal Prepay Agreement ("Metal Prepay") with LRC-FRSM which has been modified by the Amended and Restated Senior Secured Metal Prepay Agreement dated March 25, 2015 ("Amended Metal Prepay") in the amount detailed below and payable in repayment units of physical metal as defined by an agreed upon delivery schedule plus interest on advances outstanding at a rate of 9.25% per annum.

The Company's current obligations as of June 30, 2018 under the Amended Metal Prepay are deliveries of repayment units of the Metal Prepay as follows:

Gold (oz)	Silver (oz)	Lead (ton)
3,400	636,000	2,550

The First Amendment to the Amended Metal Prepay (the "First Amendment", executed August 31, 2015) provided for the accrual and deferral of (a) any and all Shortfall Payments pursuant to the Amended Metal Prepay, (b) Cash Interest pursuant the Amended Metal Prepay, and (c) all other payments pursuant the Amended Metal Prepay until such time as elected by the Seller. Through June 30, 2018, the Company continued to accrue the above stated delivery obligations under the Amended Metal Prepay.

Under the Working Capital Facility, the Company is obligated to deliver 3,115,894 SERU. Through March 30, 2018, interest of 15% per annum was accrued on outstanding SERU payable in additional SERU.

The Second Amendment to the Amended Metal Prepay (the "Second Amendment" executed March 30, 2018) eliminated past and future accrued interest on the Metal Prepay obligations. Therefore, no interest was accrued in the three-month period ended June 30, 2018 and the company recognized a non cash capital contribution on the forgiveness of interest payable in commodities of $31,567,630.

The details of the loan payable are set forth as follows:

	June 30, 2018	December 31, 2017
Metal prepay and working capital facilities-related party	$ 51,000,000	$ 51,000,000
Less debt issuance cost (net of amortization)	(162,119)	(216,159)
Metal prepay and working capital facilities-related party	$ 50,837,881	$ 50,783,841

As of March 30, 2018 and December 31, 2017, the estimated fair value of the facilities excluding interest payable in commodities in both periods was $44,729,167 and $71,566,323 respectively.

COMMITMENTS AND CONTINGENCIES:

Head office lease

The Company maintains an office in Ouray, Colorado. A two year lease agreement was entered into on January 1, 2017. Total annual payments for 2018 are $101,155. The lease expires on December 31, 2018. Rent expense was $49,830 for both the six-month periods ended June 30, 2017 and June 30, 2018.

FINANCIAL INSTRUMENTS

The Company is not exposed to any fluctuation in foreign exchange rates.

RISKS AND UNCERTAINTIES

The operations of Ouray are speculative due to the high-risk nature of its business which is the exploration and development of mining properties. The following is a brief discussion of the distinctive or special characteristics of Ouray's operations and industry which may have a material impact on, or constitute risk factors in respect of, Ouray's financial performance. The risks below are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. The order in which the following risk factors appear does not necessarily reflect management's opinion of their order of priority.

There can be no guarantees that the Proposed Transaction will be completed.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Several adverse conditions and material uncertainties, including low metal prices, cast significant doubt upon the going concern assumption.

Following the MRA entered into on July 15, 2015, the Company put the RV Mine into care and maintenance and no longer holds any assets that are currently generating revenue and will therefore be solely reliant on additional capital contribution from LRC-FRSM II and debt or equity financing to meet its ongoing working capital needs.

Metals Price risk

Market prices of commodities can be affected by numerous factors beyond the Company's control, including levels of supply and demand, economic growth rates of various international economies, expectations with respect to the rate of inflation, the relative strength of various currencies, interest rates, speculative activities, global or regional political or economic circumstances and sales or purchases of silver by holders in response to such factors. Silver and other metal prices have been highly volatile over the past several years, and further lower prices and could negatively impact the value of the Company. Prolonged decreases in the price of silver or other metals could adversely impact the ability of the Company to recommence operations at the RV Mine. The Company may also curtail or suspend some or all of its exploration activities on the RV Mine in response to lower silver and other metal prices.

Risks related to recommencing mining operations

The RV Mine is currently on care and maintenance and will require significant expenditures before production can recommence. The economic feasibility of the RV Mine is based on many factors such as the estimation of mineral reserves, anticipated metallurgical recoveries, environmental considerations and permitting, future metals prices, and anticipated capital and operating costs. Thus, it is possible that actual capital and operating costs and economic returns will differ significantly from the feasibility study results.

Any of the following events, among others, could affect the profitability or economic feasibility of the RV Mine: unanticipated changes in grade and tons of mineralized material to be mined and processed, unanticipated adverse geological conditions, unanticipated metallurgical recovery problems, incorrect data on which engineering assumptions are made, availability and costs of labor, costs of processing and refining facilities, availability of economic sources of power, adequacy of water supply, unanticipated transportation costs, government regulations (including regulations with respect to prices, royalties, duties, taxes, permitting, restrictions on production, quotas on exportation of minerals, environmental), fluctuations in metals prices, and accidents, labor actions, the availability and delivery of critical equipment, successful re-start of operations, including the achievement of designed mill recover rates and force-majeure events.

It is not unusual in newly restarted mining operations to experience unexpected problems during the start-up phase, and delays can often occur at the start of production.

Risks related to global financial conditions.

Current global financial conditions for mining companies have been affected by a prolonged decline in commodities prices. Access to public financing has been negatively impacted by the prolonged decline in commodities prices, and the resulting decrease in the values of the securities of many mining and mineral exploration and development companies. These factors may impact the ability of the Company to obtain equity or debt financing in the future on terms favourable to the Company, or at all.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such decreased levels of commodity prices continue, the Company's operations could be adversely impacted and the value of the Company may be adversely affected.

Credit risk

The Company's credit risk is primarily attributable to cash. The Company limits its credit exposure on cash held in bank accounts by holding its key transactional bank accounts with credible banks with a long history of operations.

Mining risks and insurance

The business of mining is subject to certain types of risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected changes to rock formations, changes in the regulatory environment, cave-ins and flooding. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Any payments made with regards to such liabilities may have a material adverse effect on Ouray's financial performance and results of operations. The Company carries insurance to protect itself against certain risks of mining and processing to the extent that is economically feasible, but which may not provide adequate coverage in all circumstances.

Uncertainty of mineral resources and reserves

Mineral reserves and mineral resources are estimates of the size and grade of deposits based on limited sampling and on certain assumptions and parameters. No assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery of payable metals will be realized. The grade of mineralized material actually recovered by the Company may differ from the estimated grades of the mineral reserves and mineral resources. Prolonged declines in the market price of silver, gold, lead or zinc may render mineral resources containing relatively lower grades of mineralization uneconomic to exploit and could materially reduce the Company's reserves. Should such reductions occur, the Company could be required to take a material write-down of its investment in mining properties or delay or discontinue the development of new projects, resulting in increased net losses and reduced cash flow. Market price fluctuations, as well as increased production costs or reduced recovery rates, may render mineral resources containing relatively lower grades of mineralization uneconomical to recover and may ultimately result in a restatement of mineral resources. Short-term factors relating to mineral resources, such as the need for orderly development of a mineralized deposit or the processing of new or different grades, may impair the profitability of a mine in any period. Mineral resources are not revised in response to short-term cyclical price variations in metal markets.

Reclamation obligations

The Company calculates its estimates of the ultimate reclamation liability based on current laws and regulations and the expected future costs to be incurred in reclaiming, restoring and closing its operating mine sites. It is possible that the Company's estimate of its ultimate reclamation liability could change in the near term due to possible changes in laws and regulations and changes in cost estimates. The current environmental liabilities include reclamation and closure of the existing surface infrastructure, waste rock stockpiles, and the revenue pond tailings storage facility. The estimated cost for reclamation and closure is $482,903 and the reclamation liability is collateralized by a one year automatically renewing certificate of deposit held at Alpine Bank.

Exploration risks

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site.

Whether any mineral deposit is commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices which are highly cyclical and government regulations, including mineral development and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Ouray not receiving an adequate return on invested capital.

Permitting and title

All operating permits for the RV Mine remain in place.

Ouray's property may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. If a title defect or defects do exist, it is possible that Ouray may lose all, or a portion, of its interest in the affected mineral claims. Ouray has no present knowledge of any defect in the title of any of the properties in which the Company has an interest.

Management services

The success of Ouray depends to a large extent on the ability and judgment of the senior management of Ouray and upon Ouray's ability to retain the services of senior management. The loss of their services may have a material adverse effect on Ouray.

MANAGEMENT'S REPORT ON INTERNAL CONTROLS

Ouray is a private company, therefore not subject to any stock exchange reporting requirements. The Company, however, maintains disclosure controls and procedures with respect to providing unaudited interim and audited annual financial statements to its shareholders, which consists solely of LRC-FRSM II at this time. In designing and evaluating the Company's disclosure controls and procedures, it recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. There have been no changes in the Company's internal control over financial reporting during the six months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

APPENDIX "D"

REVISED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMBINED COMPANY AS AT JUNE 30, 2018 AFTER GIVING EFFECT TO THE ARRANGEMENT

1. Basis of Presentation

Management has prepared the accompanying unaudited pro forma consolidated balance sheet and income statement (the "**Pro Forma Financial Statements**") of Aurcana Corporation ("**Aurcana**") in accordance with International Financial Reporting Standards.

These Pro Forma Financial Statements have been derived from the unaudited financial statements of Aurcana as at June 30, 2018 and the unaudited financial statements of Ouray Silver Mines, Inc. ("**Ouray**") as at June 30, 2018, together with other information accessible to the corporation. The accounting policies used in the preparation of the Pro Forma Financial Statements are those disclosed in Aurcana's December 31, 2017 audited financial statements.

These Pro Forma Financial Statements may not necessarily be indicative of Aurcana's future financial position or of the financial position that would have been obtained if the proposed transaction had taken effect on the date indicated. These Pro Forma Financial Statements should be read in conjunction with Aurcana's audited statements as of December 31, 2017 and unaudited statements as of June 30, 2018 and Ouray's audited statements as of December 31, 2017 and unaudited balance sheet as of June 30, 2018.

Capitalized terms used herein have the meaning ascribed thereto in the management information circular of Aurcana dated November 7, 2018 and the supplement thereto dated December 3, 2018 (collectively, the "**Circular**"), to which these Pro Forma Financial Statements are attached as a schedule.

2. Pro Forma Assumptions and Adjustments

Aurcana and Aurcana US Ltd. ("**Aurcana US**") have entered into a definitive arrangement agreement with LRC-FRSM ("**FRSM**") and LRC-FRSM II ("**FRSM II**", and together with FRSM, the "**LRC Group**") dated September 20, 2018 pursuant to which, among other things, Aurcana will effect a business combination and reverse takeover transaction that will result in, among other things, Aurcana acquiring all of the issued and outstanding shares of common stock of Ouray on a debt free basis in exchange for newly issued common shares of Aurcana ("**Aurcana Shares**"), all pursuant to a plan of arrangement under the *Business Corporations Act* (British Columbia) (the "**Arrangement**").

These Pro Forma Financial Statements give effect to the Arrangement and certain other transactions contemplated in connection with the Arrangement, as described in greater detail below and in the Circular, as if they had occurred on the respective balance sheet dates, and based on the following assumptions:

a) 6,292,000 post-Consolidation Aurcana Shares issued pursuant to the Offering at C$1.00 for gross proceeds of C$6,292,000 (US$4,790,985 based on the exchange rate in 2f below).

b) US$500,000 paid in cash and 4,778,909 post-Consolidation Aurcana Shares issued pursuant to the Shafter Equipment Purchase. The value attributable to the post-Consolidation Aurcana shares issued assumes a post-Consolidation share price of C$1.10 (effected for the 5:1 share consolidation of Aurcana) and exchange rate in 2f below.

c) FRSM's transfer of the Amended and Restated Metal Prepay Agreement dated March 25, 2015, as amended thereafter, between Ouray and FRSM, including a security package over all of the shares of common stock and assets of Ouray relating to such agreement ("**PFA**") to Aurcana US in exchange for 54,310,047 post-Consolidation Aurcana Shares. Aurcana US is a wholly owned subsidiary of Aurcana and following the Arrangement the PFA is eliminated on consolidation.

   Interest related to the Metal Prepay Agreement was eliminated for the six months ended on June 30, 2018, and year ended December 31, 2017.

d) FRSM II's transfer of all of the issued and outstanding common shares of Ouray to Aurcana US in exchange for 28,930,312 post-Consolidation Aurcana Common Shares. Following the Arrangement, Ouray will be a wholly owned subsidiary of Aurcana.

e) The Arrangement is treated as a reverse take-over whereby Aurcana is considered the accounting acquire and Ouray is the accounting acquirer. The transaction is based on the following assumption:

   - The Aurcana Shares are issued to the LRC Group at a pre-Consolidation value of C$0.22 (C$1.10 post-Consolidation after giving effect of the 5:1 Consolidation as detailed in the Circular) based on the volume weighted average trading price on June 29, 2018 (the last trading day before June 30, 2018).

f) Exchange rate of US$1.00 = C$1.3133 based on the closing value as of June 29, 2018.

g) Transaction costs are estimated at US$2,000,000 inclusive of the US$500,000 paid in cash pursuant to the Shafter Equipment Purchase as noted in 2b above.

h) Proforma basic and diluted net loss per share was calculated using the proforma net loss divided by the weighted average number post consolidation Aurcana shares outstanding after giving effect to the Arrangement as if occur on January 1, 2017.

Actual values may differ from the above assumptions for market based inputs such as share price, exchange rate, and market value of PFA and Ouray's assets as well as total number of Aurcana Shares issued pursuant to the Offering.

AURCANA CORPORATION ACQUISITION OF OSM
Pro Forma Financial Statements - 6-Month Period ending June 30, 2018, Income Statement 12-Month Period ending December 31, 2017

	AURCANA	OSM	Offering	Shafter Equipment Purchase	Acquisition of PFA	Elimination of Inter-Company Borrowings	Balance of RTO	Balance of Transaction Costs	Weighted average common shares	PROFORMA AURCANA POST TRANSACTION
			Note 2a	Note 2b	Note 2c, 2e, 2f	Note 2c	Note 2d, 2e, 2f	Note 2g	Note 2h	
BALANCE SHEET as of *30/06/2018*								.		
ASSETS										
Cash and cash equivalents	2,334,997	149,792	4,790,985	(500,000)	-	-	-	(1,500,000)	-	5,275,774
Trade and other receivables	161,378	35,500	-	-	-	-	-	-	-	196,878
Prepaid expenses and advances	72,539	114,230	-	-	-	-	-	-	-	186,769
Prepaid income taxes	56,658	-	-	-	-	-	-	-	-	56,658
Current assets	2,625,572	299,522	4,790,985	(500,000)	-	-	-	(1,500,000)	-	5,716,079
Mineral Properties	10,035,202	31,322,055	-	-	-	-	-	-	-	41,357,257
Property, plant and equipment	6,957,709	9,686,659	-	4,502,741	-	-	-	-	-	21,147,109
Restricted assets	-	480,769	-	-	-	-	-	-	-	480,769
Metal Prepay and working capital facilities	-		-	-	50,837,881	(50,837,881)	-	-	-	-
Other assets	5,295	218,894	-	-	-	-	-	-	-	224,189
Goodwill	-	-	-	-	-	-	5,178,399	-	-	5,178,399
Non-Current assets	16,998,206	41,708,377	-	4,502,741	50,837,881	(50,837,881)	5,178,399	-	-	68,387,723
Total assets	19,623,778	42,007,899	4,790,985	4,002,741	50,837,881	(50,837,881)	5,178,399	(1,500,000)	-	74,103,802
LIABILITIES AND SHAREHOLDER EQUITY										
Accounts payable and accrued liabilities	128,858	315,385	-	-	-	-	-	-	-	444,243
Deferred revenue	124,937	-	-	-	-	-	-	-	-	124,937
Current liabilities	253,795	315,385	-	-	-	-	-	-	-	569,180
Provision for environmental rehabilitation	300,838	204,363	-	-	-	-	-	-	-	505,201
Deferred revenue	4,792	-	-	-	-	-	-	-	-	4,792
Metal prepay and working capital facilities	-	50,837,881	-	-	-	(50,837,881)	-	-	-	-
Interest payable in commodities	-	-	-	-	-	-	-	-	-	-
Non-Current liabilities	305,630	51,042,244	-	-	-	(50,837,881)	-	-	-	509,993
Total liabilities	559,425	51,357,629	-	-	-	(50,837,881)	-	-	-	1,079,173
Share capital	184,385,381	-	4,790,985	4,002,741	50,837,881	-	(81,038,984)	-	-	162,978,004
Contributed surplus	37,238,756	79,114,810	-	-		-	(116,353,566)		-	-
Accumulated other comprehensive income	3,078,591	-	-	-	-	-	(3,078,591)	-	-	-
Deficit	(205,649,540)	(88,464,540)	-	-	-	-	205,649,540	(1,500,000)	-	(89,964,540)
Equity	19,053,188	(9,349,730)	4,790,985	4,002,741	50,837,881	-	5,178,399	(1,500,000)	-	73,013,464
Non-controlling interest	11,165									11,165
Total equity	19,064,353	(9,349,730)	4,790,985	4,002,741	50,837,881	-	5,178,399	(1,500,000)	-	73,024,629
Total liabilities and shareholder equity	19,623,778	42,007,899	4,790,985	4,002,741	50,837,881	(50,837,881)	5,178,399	(1,500,000)	-	74,103,802
INCOME STATEMENT 6-mo ended *30/06/2018*										
Other Revenue	-	2,775	-	-	-	-	-	-	-	2,775
Management fees	240,000	-	-	-	-	-	-	-	-	240,000
Oil & Gas lease	61,955	-	-	-	-	-	-	-	-	61,955
Total Revenues	301,955	2,775	-	-	-	-	-	-	-	304,730
General and administrative costs	719,381	1,649,094	-	-	-	-	-	-	-	2,368,475
Provision for environmental matters and asset retirement obligation	-	8,300	-	-	-	-	-	-	-	8,300
Depreciation and amortization	-	816,057	-	-	-	-	-	-	-	816,057
Loss on sale of fixed assets	-	2,904	-	-	-	-	-	-	-	2,904
Financing expense, Interest expense, and others	1,866	2,334,435	-	-	-	(2,334,435)	-	-	-	1,866
Stock-based compensation	-	-	-	-	-	-	-	-	-	-
Transaction Costs	-	-	-	-	-	-	-	1,500,000	-	1,500,000
Foreign exchange loss	72,628	-	-	-	-	-	-	-	-	72,628
Expenses and Costs	793,875	4,810,790	-	-	-	(2,334,435)	-	1,500,000	-	4,770,230
Net gain (loss) for the period before other comprehensive items	(491,920)	(4,808,015)	-	-	-	2,334,435	-	(1,500,000)	-	(4,465,500)
Currency translation adjustment	41,693	-	-	-	-	-	-	-	-	41,693
Items of other comprehensive income	41,693	-	-	-	-	-	-	-	-	41,693
Comprehensive gain (loss) for the period	(450,227)	(4,808,015)	-	-	-	2,334,435	-	(1,500,000)	-	(4,423,807)
Weighted average number of shares (basic & diluted)	20,148,950								89,868,195	110,017,145
Earnings (loss) per share	-									-
INCOME STATEMENT 12-mo ended *31/12/2017*										
Other Revenue	-	-	-	-	-	-	-	-	-	-
Management fees	480,000	-	-	-	-	-	-	-	-	480,000
Oil & Gas lease	124,937	-	-	-	-	-	-	-	-	124,937
Total Revenues	604,937	-	-	-	-	-	-	-	-	604,937
General and administrative costs	1,779,684	5,064,732	-	-	-	-	-	-	-	6,844,416
Provision for environmental matters and asset retirement obligation	-	16,600	-	-	-	-	-	-	-	16,600
Depreciation and amortization	-	1,642,971	-	-	-	-	-	-	-	1,642,971
Loss on sale of fixed assets	-	57,856	-	-	-	-	-	-	-	57,856
Financing expense, Interest expense, and others	5,508	14,475,411	-	-	-	(14,465,088)	-	-	-	15,831
Stock-based compensation	504,373	-	-	-	-	-	-	-	-	504,373
Transaction Costs	-	-	-	-	-	-	-	1,500,000	-	1,500,000
Foreign exchange loss	377,318	-	-	-	-	-	-	-	-	377,318
Expenses and Costs	2,666,883	21,257,570	-	-	-	(14,465,088)	-	1,500,000	-	10,959,365
Net gain (loss) for the period before other comprehensive items	(2,061,946)	(21,257,570)	-	-	-	14,465,088	-	(1,500,000)	-	(10,354,428)
Currency translation adjustment	354,738	-	-	-	-	-	-	-	-	354,738
Items of other comprehensive income	354,738	-	-	-	-	-	-	-	-	354,738
Comprehensive gain (loss) for the period	(1,707,208)	(21,257,570)	-	-	-	14,465,088	-	(1,500,000)	-	(9,999,690)

APPENDIX "E"

AUDITED FINANCIAL STATEMENTS OF AURCANA CORPORATION FOR THE FISCAL YEARS ENDING DECEMBER 31, 2017 AND DECEMBER 31, 2016

AURCANA CORPORATION

Consolidated Financial Statements

December 31, 2017

Expressed in United States dollars unless otherwise stated

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PHONE : (604) 331-9333 FAX : (604) 633-9179
www.aurcana.com

MNP LLP

Independent Auditors' Report

To the Shareholders of Aurcana Corporation:

We have audited the accompanying consolidated financial statements of Aurcana Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of operations, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits are sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aurcana Corporation as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the company incurred a loss of $2,061,946 during the year ended December 31, 2017 and has an accumulated deficit of $205,157,620. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, British Columbia
April 26, 2018

MNP LLP
Chartered Professional Accountants

Aurcana Corporation
Consolidated Statements of Financial Position
(Expressed in United States dollars)

	Notes	December 31 2017	December 31 2016
Assets			
Current assets			
Cash and cash equivalents	14	$ 721,324	$ 663,566
Trade and other receivables	4	256,598	198,962
Prepaid expenses and advances	5	123,912	71,962
Prepaid income tax		57,025	36,011
Assets held for sale		-	95,500
		1,158,859	1,066,001
Non Current assets			
Non-current prepaid expenses	5	5,558	19,445
Property, plant and equipment	6	6,958,512	6,864,610
Mineral Properties	7	10,035,202	9,500,000
		$ 18,158,131	$ 17,450,056
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	$ 163,939	$ 563,804
Deferred revenue	16	124,937	124,937
		288,876	688,741
Non Current liabilities			
Deferred revenue	16	66,747	191,684
Provision for environmental rehabilitation	10	300,838	300,838
		656,461	1,181,263
Equity	11		
Share capital		183,084,542	181,833,880
Contributed surplus		36,526,685	34,837,262
Accumulated other comprehensive income		3,036,898	2,682,160
Deficit		(205,157,620)	(203,096,130)
Total equity attributable to equity holders of the parent		17,490,505	16,257,172
Non-controlling interest		11,165	11,621
Total equity		17,501,670	16,268,793
		$ 18,158,131	$ 17,450,056

Nature of Operations and Going Concern (Note 1)
Commitments and Contingencies (Note 13)
Subsequent Events (Note 22)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

"Jerry Blackwell" — ***Director***

"Adrian Aguirre" — ***Director***

(Expressed in United States dollars, unless otherwise stated)

	Notes	Years Ended December 31, 2017	2016
Continuing Operations			
Revenues			
Management Fees		**$ 480,000**	$ 440,000
Oil & Gas lease	16	**124,937**	57,848
		604,937	497,848
Other items			
General and administrative costs	17	**1,287,031**	1,222,084
Financing expense and others	18	**5,508**	7,600
Stock-based compensation		**504,373**	584,172
Shafter mine care & maintenance costs		**515,304**	749,874
Foreign exchange loss		**377,318**	(18,019)
Restructuring transaction cost		**-**	22,630
Loss on sale of equipment		**-**	1,700
Change on reclamation provision		**-**	(179,000)
Settlement of debt (income) loss		**-**	(1,878,179)
Other (income) loss		**(22,651)**	(35,651)
		2,666,883	477,211
Net income (loss) for the year before other comprehensive items		**$ (2,061,946)**	$ 20,637
Items of other comprehensive income			
Currency translation adjustment		**354,738**	343,682
Comprehensiveincome income (loss) for the Year		**$ (1,707,208)**	$ 364,319
Total net Income (loss) attributable to:			
Non-controlling interest		**(456)**	(16,554)
Equity holders of the Company		**(2,061,490)**	37,191
		$ (2,061,946)	$ 20,637
Total comprehensive income (loss) attributable to:			
Non-controlling interest		**(456)**	(16,554)
Equity holders of the Company		**(1,706,752)**	380,873
		$ (1,707,208)	$ 364,319
Weighted average number of shares – basic		**94,473,565**	84,684,210
Adjustment for:			
Share options		**-**	2,980,892
Weighted average number of shares diluted		**94,473,565**	87,665,102
Earnings (loss) per share			
From continuing and discontinued operations - basic & diluted		**$ (0.02)**	$ -
From continuing operations - basic & diluted		**$ (0.02)**	$ 0.02

See accompanying notes to these consolidated financial statements.

(Expressed in United States dollars, unless otherwise stated)

	Share Capital #	Share Capital $	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity Attributable to Shareholders of the Company	Non-controlling Interest	Total Equity
Balance, December 31, 2015	84,644,973	$ 181,814,354	$ 34,260,229	$ 2,338,478	$ (203,133,321)	$ 15,279,740	$ 28,175	$ 15,307,915
Currency translation adjustment	-	-	-	343,682	-	343,682	-	343,682
Net income (loss) for the year	-	-	-	-	37,191	37,191	(16,554)	20,637
Shares issued for:								
Exercise of options	100,000	19,526	(7,139)	-	-	12,387	-	12,387
Stock-based compensation	-	-	584,172	-	-	584,172	-	584,172
Balance, December 31, 2016	84,744,973	181,833,880	34,837,262	2,682,160	(203,096,130)	16,257,172	11,621	16,268,793
Currency translation adjustment	-	-	-	354,738	-	354,738	-	354,738
Net loss for the year	-	-	-	-	(2,061,490)	(2,061,490)	(456)	(2,061,946)
Shares issued for:								
Private Placement	11,529,013	1,570,076	1,042,633	-	-	2,612,709	-	2,612,709
Share Issue Costs	-	(319,414)	142,417	-	-	(176,997)	-	(176,997)
Stock-based compensation	-	-	504,373	-	-	504,373	-	504,373
Balance, December 31, 2017	96,273,986	$ 183,084,542	$ 36,526,685	$ 3,036,898	$ (205,157,620)	$ 17,490,505	$ 11,165	$ 17,501,670

See accompanying notes to these consolidated financial statements.

(Expressed in United States dollars, unless otherwise stated)

	Years Ended December 31, 2017	2016
Cash flows from operating activities		
Net income (loss) for the year	**$ (2,061,946)**	$ 20,637
Items not involving cash:		
Gain on settlement of debt	**-**	(1,878,179)
Depreciation, depletion and amortization	**1,598**	1,571
Stock-based compensation	**504,373**	584,172
Unrealized foreign exchange (income) loss	**329,649**	(12,236)
Change in estimate of reclamation provision	**-**	(179,000)
Deferred revenue	**(124,937)**	316,621
Operating cash flow before changes in working capital	**(1,351,263)**	(1,146,414)
Net changes to non-cash working capital balances		
Trade and other receivables	**(57,636)**	(156,275)
Prepaid expenses and advances	**(38,063)**	(585)
Accounts payable and accrued liabilities	**(399,865)**	(1,577,593)
Cash used in operating activities	**(1,846,827)**	(2,880,867)
Cash flows from investing activities		
Expenditures on Mineral Properties	**(535,202)**	-
Proceeds from the sale of equipment	**-**	3,315,000
Purchase of property, plant and equipment	**-**	(80,261)
Cash provided by (used in) investing activities	**(535,202)**	3,234,739
Cash flows from financing activities		
Share capital issued	**2,612,709**	12,387
Share Issue Costs	**(176,997)**	-
Financing cost and bank charges	**-**	7,600
Cash provided by (used in) financing activities	**2,435,712**	19,987
Increase in cash and cash equivalents	**53,683**	373,859
Effect of exchange rate changes on cash	**4,075**	(173)
Cash and cash equivalents, beginning of the year	**663,566**	289,880
Cash and cash equivalents, end of the year	**$ 721,324**	$ 663,566

Supplemental Cash Flow information (Note 14)

See accompanying notes to these consolidated financial statements.

1. Nature of Operations and Going Concern

Aurcana Corporation (the "Company" or "Aurcana") was originally incorporated in Canada under the laws of Ontario in 1917 and on September 14, 1998 was continued under the *Canada Business Corporations Act* ("CBCA"). The Company is currently engaged in the exploration, development and operation of natural resource properties. The Company's principal development property is the Shafter silver property ("Shafter"), located in Presidio County, Texas through the Company's 100% owned US subsidiary, Silver Assets Inc, which is currently on "care and maintenance".

The Company's shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at Suite 850-789 West Pender Street, Vancouver, B.C., V6C 1H2, Canada.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business. The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities. Several adverse conditions and material uncertainties, including low metal prices, may cast significant doubt upon the Company's ability to continue as a going concern. As at December 31, 2017, the Company had working capital of $0.9 million, compared with $0.4 million as at December 31, 2016. The major components of working capital at December 31, 2017 included $1.2 million of current assets, and $0.2 million in accounts payable. In February 2017, the Company completed a private placement for 11,529,013 units with gross proceeds of CDN$3,458,704.

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

These consolidated financial statements were approved by the Board of Directors on April 26, 2018.

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies

The Company's principal accounting policies are outlined below:

Basis of Consolidation

The consolidated financial statements include the accounts of Aurcana Corporation and entities controlled by the Company ("its subsidiaries"). These include the accounts of: Aurcana Corporation and its wholly-owned subsidiaries, Silver Assets Inc., a U.S. corporation, Cane Silver Inc., a Barbados corporation, Perforadora Aurcana S.A. de R.L. de C.V. and Minera Aurcana S.A. de C.V., Real de Maconi S.A de C.V., Mexican corporations, – all these companies are 100% owned intermediate holding companies. The Company also 100% owns Rio Grande Mining Company which owns Shafter Properties Inc., an in care & maintenance subsidiary.

All significant intra-group balances and transactions are eliminated in full on consolidation.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company had the following subsidiaries at December 31, 2017:

Name	Country of Incorporation	Nature of Busines	Proportion of ordinary shares held by the Group	Proportion of ordinary shares held by non-controlling interest
Aurcana Corporation	Canada	Holding Company	100%	-
Cane Silver Inc.	Barbados	Intermediate Holding Company	100%	-
Real de Maconi S.A. de C.V.	Mexico	Intermediate Holding Company	99.86%	0.14%
Minera Aurcana S.A. de C.V.	Mexico	Consulting (La Negra's management)	100%	-
Perforadora Aurcana S. de R.L. de C.V.	Mexico	Exploration Company	100%	-
Silver Assets Inc.	USA	Intermediate Holding Company	100%	-
Rio Grande Mining Company	USA	Mining Operations	100%	-
Shafter Properties Inc.	USA	Dormant	100%	-

3. Summary of Significant Accounting Policies (continued)

Foreign Currency

(i) Functional and Presentation Currency

The consolidated financial statements of each entity in the Company group are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in United States dollars.

The functional currency of Aurcana Corporation is the Canadian dollar, the functional currency of Silver Assets Inc. is the United States dollar and the functional currency of the Company's Mexican subsidiaries is the United States dollar.

The financial statements of the parent company are translated into the U.S. dollar presentation currency as follows:

- Assets and liabilities – at the closing rate at the date of the statement of financial position.
- Income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates).
- All resulting foreign exchange gains or losses are recognized in other comprehensive income as cumulative translation adjustments.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of an entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

3. Summary of Significant Accounting Policies (continued)

(iii) Translation of subsidiary results into the presentation currency

The results and statements of financial position of all the Company's subsidiaries with functional currencies different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- Income and expenses for each statement of income are translated at average exchange rates, unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions; and
- All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognized in a separate component of equity. When a foreign operation is sold, such exchange differences are recognized in the consolidated statement of comprehensive loss as part of the gain or loss on sale.

Stock-based Compensation

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The Company records compensation expense under the plan for all options issued. The fair value of all stock-based awards is estimated using the Black-Scholes option pricing model at the grant date. Volatility is calculated using the historical share price volatility observed over periods of regular market activity. The share-based compensation expense is recognized over the tranche's vesting period, in earnings or capitalized as appropriate, based on the number of options expected to vest. None of the Company's awards call for settlement in cash or other assets. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital.

Mineral Properties

Mineral properties are stated at cost on a property-by-property basis. The recorded cost of mineral properties is based on acquisition costs incurred to date, less recoveries and write-offs. Title to mineral properties, concessions, and shareholdings in Canada and U.S.A. involves certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyance history and unregistered prior agreements. Management has investigated the titles to all of its concessions and shareholdings, and, to the best of its knowledge, believes they are in good standing.

3. Summary of Significant Accounting Policies (continued)

(i) Capitalization

All direct and indirect costs relating to the acquisition and exploration of mineral properties are capitalized on a basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold, or when management has determined that there is impairment in the carrying values of those mineral properties. The Company capitalizes costs if it has the legal right to the mineral claim or the right to explore the area. No amortization is recorded for capitalized costs, net of any recoveries, until commercial production is achieved.

Costs associated with commissioning new assets, in the period before they are capable of operating in the manner intended by management, are capitalized. Costs incurred on borrowings related to construction or development projects are capitalized until the point when substantially all the activities that are necessary to make the asset ready for its intended use are complete.

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefit either from future exploration or sale flow to the entity or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Management makes certain estimates and assumptions about future events or circumstances, in particular when an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

(ii) Depreciation

Amortization of mineral properties is based on the units-of-production basis using total reserves and resources including proven and probable, measured and indicated, and inferred. Properties are abandoned either when the lease expires or when management determines that no further work will be performed on the property since it has no value to the Company. When properties in an area of interest are abandoned, the costs related thereto are charged to income on a pro-rata basis to the total costs to date included in the area, in the year of abandonment.

3. Summary of Significant Accounting Policies (continued)

Management's calculation of measured and indicated resources is based upon engineering and geological estimates and financial estimates including mineral prices and operating and development costs. The Company depreciates some of its assets over measured and indicated resources. Changes in geological interpretations of the Company's ore bodies and changes in mineral prices and operating costs may change the Company's estimate of proven and probable reserves. It is possible that the Company's estimate of proven and probable reserves could change in the near term and that could result in revised charges for depreciation and depletion in future periods.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. The cost capitalized is determined by the fair value of consideration given to acquire the asset at the time of acquisition or construction, the direct cost of bringing the asset to the condition necessary for operation, and the estimated future cost of dismantling and removing the asset.

(i) Depreciation

Mining machinery, plant and property are depleted on a unit of production basis, based on estimated recoverable resources. Estimated recoverable resources include proven and probable resources and the portion of mineralized zones expected to be classified as resources.

Other equipment is depreciated on a straight-line basis over their estimated useful lives. Depreciation begins when plant and equipment are put into use. The rates of depreciation used are as follows:

Plant and equipment	20%
Vehicles	25%
Computer Equipment	30%
Other	10-12%

The depreciation method, useful life and residual values are reviewed annually.

3. Summary of Significant Accounting Policies (continued)

Impairment

(i) Impairment for Mineral Properties

The carrying values of mineral properties are reviewed by management for impairment annually, on a property-by-property basis, or when circumstances occur that may give rise to impairment indicators. If indication of impairment exists, the asset's recoverable amount is estimated at value-in-use.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit on a pro-rata basis or based upon specific asset valuations, as appropriate. Impairment losses are recognized in profit and loss in the period it is identified.

From time-to-time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to income.

(ii) Impairment for Exploration and Evaluation Assets

Management reviews the carrying amount of exploration and evaluation assets on an annual basis, or when circumstances occur that may give rise to impairment indicators, and recognizes impairment based on current exploitation results, and management's assessment of the probability of profitable exploitation at each property or realizable value from disposal of such property. If a project does not prove to be viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off in the year.

Management's assessment of each property's estimated fair value is based on review of other mineral property transactions that have occurred in the same geographic area as that of the properties under review.

(iii) Reversal of Impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

3. Summary of Significant Accounting Policies (continued)

Borrowing Costs

The Company capitalizes any borrowing costs which are directly attributable to the acquisition, construction, or production of an asset which takes a substantial period of time to get ready for its intended use. Capitalization of costs begins when costs are incurred and activities are undertaken to prepare the asset for its intended use, and ceases when the asset is substantially complete or commissioned for use. Borrowing costs are amortized over the useful life of the related asset.

Inventories

Mine stores and finished concentrates are valued at the lower of average cost and net realizable value. Cost of finished concentrates inventory includes direct mining and production costs, direct mine overhead costs, amortization and depletion. Cost of sales includes costs of finished concentrates plus shipping costs less amortization and depletion, which is disclosed separately in the statement of operations.

Consumables and supplies, which consist of spare parts and consumable goods used for general repairs and maintenance, are recorded at the lower of cost and net realizable value.

Provisions

(i) General

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The expense relating to any provision is presented in profit or loss net of any reimbursement. Provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(ii) Environmental Rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Such costs are discounted to their net present value and are provided for and capitalized at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged against profits over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision.

3. Summary of Significant Accounting Policies (continued)

Revenue

(i) Revenue Recognition

Revenue is recognized upon delivery when significant risks and rewards of ownership of metal or metal-bearing concentrate passes to the buyer, it is probable that the economic benefits will flow to the Company, revenue can be reliably measured, and collection is reasonably assured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, royalties and sales taxes or duty. Management fees are recognized on a monthly basis as services are provided. Oil and Gas lease revenues are recognized over the life of the lease as the benefit is being received by the lessee.

Financial Assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, available-for-sale financial assets, and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as FVTPL when the financial asset is held for trading or is designated as FVTPL.

A financial asset is classified as held for trading when it is purchased and incurred with the intention of generating profits in the near term, part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. Transaction costs are expensed in the year in which the costs are incurred. The Company does not have any assets classified as FVTPL investments.

(ii) Available-for-sale Financial Assets

Financial assets classified as available-for-sale are carried at fair value (where determinable based on market prices of actively traded securities) with changes in fair value recorded in other comprehensive income. Available-for-sale securities are written down to fair value through earnings when there is objective evidence that a financial asset is impaired.

3. Summary of Significant Accounting Policies (continued)

(iii) Loans and Receivables

Loans and receivables are measured at amortized cost using the effective interest rate method. The Company has cash and cash equivalents, trade and other receivables classified as loans and receivables.

(iv) Derecognition of Financial Assets

A financial asset is derecognized when the contractual right to the asset's cash flows expire or if the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

(v) Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Evidence of impairment may include indicators that the issuer or counterparty is experiencing significant financial difficulty, default or delinquency in interest or principal payments, or it has become probable that the borrower will enter bankruptcy or other financial reorganization.

Impairment for financial assets carried at amortized cost, is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate of the financial asset.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. Uncollectible amounts in trade receivables are written off against the allowance account.

Available-for-sale financial assets are impaired if the cost (net of any principal payment and amortizations) is greater than the current fair value, less any impairment previously recognized in profit or loss and the decline in the fair value below cost is significant or prolonged. The impairment amount is transferred from equity to the income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

For all other financial assets carried at amortized cost in which impairment was previously recognized, if subsequent measurement indicates that the recorded impairment has decreased, and the decrease can be related objectively to an event occurring after the impairment was recognized, then the reversal of the impairment is recognized in the income statement. On the date of the impairment reversal, the carrying value of the financial asset cannot exceed its amortized cost had impairment not been recognized.

3. Summary of Significant Accounting Policies (continued)

Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss ("FVTPL") or other financial liabilities. The Company has identified derivative financial liabilities which we have carried at FVTPL.

(i) Financial liabilities at fair value through profit or loss ("FVTPL")

Financial liabilities at fair value through profit or loss ("FVTPL") are measured at fair value with changes in fair value during the reporting year being recognised in the profit or loss.

(ii) Other Financial Liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost, with any resulting premium or discount from the face value being amortized to income or expense using the effective interest rate method.

The Company has classified short-term notes, long-term debt, and accounts payable and accrued liabilities as other financial liabilities.

(iii) Derecognition of Financial Liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or they expire.

Derivatives

All derivative instruments are recorded on the balance sheet at fair value with changes in fair value recorded in the Statement of Operations.

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value on the balance sheet with subsequent changes in fair value recognized in profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, term deposits and short term highly liquid investments with the original term to maturity of three months or less, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value.

3. Summary of Significant Accounting Policies (continued)

Short-Term Investments

Short-term investments are classified as "available for sale", and consist of highly liquid equity securities. These equity securities are initially recorded at fair value. Changes in the market value of these equity securities are recorded as changes to other comprehensive income or loss.

Leases

Leases which transfer substantially all of the benefits and risks incidental to the ownership of property are accounted for as finance leases. Assets under finance lease are originally capitalized at the lower of the fair market value of the leased property and the net present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted income (loss) per share is computed similar to basic income (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed conversion of debt and exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

3. Summary of Significant Accounting Policies (continued)

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Equity Instruments

The Company records proceeds from share issuances net of issue costs.

Use of Estimates and Judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are as follows:

(i) Liquidity and Going Concern Assumption

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments, management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions.

Changes in these inputs may alter the Company's ability to meet its ongoing obligations and future contractual commitments and could result in adjustments to the amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern (Note 1).

3. Summary of Significant Accounting Policies (continued)

(ii) Environmental Rehabilitation Provision

The Company's estimate of reclamation costs could change as a result of contractual requirements, laws or regulation, the extent of environmental remediation required or completed, and the means of reclamation or changes in cost estimate. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in estimates.

(iii) Review of Carrying Value of Assets and Impairment Charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs to sell or the value in use) in the case of non-financial assets and objective evidence indicating impairment in the case of financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognized in profit or loss and the resulting carrying amounts of assets. (Notes 6, 7 and 19).

(iv) Exploration and Evaluation Assets

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is recognized in loss in the period that the new information becomes available.

(v) Determination of Functional Currency

In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, management has determined that the functional currency of Aurcana Corporation is the Canadian dollar and its subsidiaries are the United States dollar.

(vi) Units of Production Depreciation and Useful Life

Estimated recoverable resources are used in determining the amortization of mine specific assets. This results in an amortization charge proportional to the depletion of the anticipated remaining life of mine production.

Each asset's life is assessed annually and considerations are made in regards to both its physical life limitations and present assessments of economically recoverable resources of the mine properties. Such calculations require the use of estimates and assumptions, including the amount of recoverable resources and estimates of future capital expenditure. Changes are accounted for prospectively. An updated mineral resource estimate was completed in December 2014, resulting in a reduced life of mine estimate that will impact the amortization of mine specific assets (Note 7).

3. Summary of Significant Accounting Policies (continued)

(vii) Recovery of Deferred Tax Assets

Judgement is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

<u>Adoption of new and revised IFRS and IFRS not yet effective</u>

The accounting policies adopted in the preparation of these consolidated financial statements have been prepared on the basis of all IFRS and interpretations effective as at December 31, 2017.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company has assessed the impact of IFRS 9 on its consolidated financial statements and they expect any impact to be immaterial.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Company has assessed the impact of IFRS 15 on its consolidated financial statements and they expect any impact to be immaterial.

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

IFRS 16, Leases ("IFRS 16") which supersedes IAS 17 –Leases. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, has also been applied. Management is assessing the impact of IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. Trade and Other Receivables

	December 31 2017	December 31 2016
Equipment sales receivable	**140,000**	140,000
Other receivables	**116,598**	58,962
	$ 256,598	$ 198,962

Equipment sales receivable were amounts held in escrow at December 31, 2017.

5. Prepaid expenses and advances

	December 31 2017	December 31 2016
Prepaid expenses	**$ 114,047**	$ 70,521
Other	**9,866**	1,441
Current portion	**123,912**	71,962
Non-current portion	**5,558**	19,445
	$ 129,470	$ 91,407

(Expressed in United States dollars, unless otherwise stated)

6. Property, Plant and Equipment

	Buildings	Plant and Equipment	Mine Development Cost	Vehicles	Computer Equipment	Other	Total
Cost							
Balance at December 31, 2015	875,000	2,462,649	3,500,000	16,944	88,698	538,419	7,481,710
Reclassification	-	21,235	-	-	-	(21,235)	-
Discontinued operations	-	-	-	-	-	(479,838)	(479,838)
Balance at December 31, 2016	875,000	2,483,884	3,500,000	16,944	88,698	37,346	7,001,872
Reclassification from AHFS	-	95,500	-	-	-	-	95,500
Balance at December 31, 2017	$ 875,000	$ 2,579,384	$ 3,500,000	$ 16,944	$ 88,698	$ 37,346	$ 7,097,372
Accumulated depreciation							
Balance at December 31, 2015	-	-	-	16,944	88,698	509,887	615,529
Charge for the year	-	-	-	-	-	1,571	1,571
Discontinued operations	-	-	-	-	-	(479,838)	(479,838)
Balance at December 31, 2016	-	-	-	16,944	88,698	31,620	137,262
Charge for the year	-	-	-	-	-	1,598	1,598
Balance at December 31, 2017	$ -	$ -	$ -	$ 16,944	$ 88,698	$ 33,218	$ 138,860
Net book value							
Balance at December 31, 2015	$ 875,000	$ 2,462,649	$ 3,500,000	$ -	$ -	$ 28,532	$ 6,866,181
Balance at December 31, 2016	$ 875,000	$ 2,579,384	$ 3,500,000	$ -	$ -	$ 5,726	$ 6,864,610
Balance at December 31, 2017	$ 875,000	$ 2,579,384	$ 3,500,000	$ -	$ -	$ 4,128	$ 6,958,512

Note: Mining and plant equipment and assets under construction, which are not in production, are not subject to amortization.

(Expressed in United States dollars, unless otherwise stated)

7. Mineral Properties

		Shafter, Texas, USA, in Care & Maintenance
Cost		
Balance at December 31, 2015 & 2016	$	15,500,000
Expenditures		535,202
Balance at December 31, 2017	$	16,035,202
Accumulated depletion		
Balance at December 31, 2015 & 2016	$	6,000,000
Charge for the year		-
Balance at December 31, 2017	$	6,000,000
Balance at December 31, 2015 & 2016	$	9,500,000
Balance at December 31, 2017	$	10,035,202

Mineral properties subject to depreciation on the basis of unit of production method will not have depreciation when there is no production.

8. Accounts Payable and Accrued Liabilities

		December 31 2017		December 31 2016
Salaries, payroll deductions and employee benefits	$	16,676	$	-
Property taxes		-		204,329
Surface Exploration		14,232		-
Value added tax		-		279,077
Prepaid insurance		77,942		42,296
Other		55,089		38,102
	$	163,939	$	563,804

(Expressed in United States dollars, unless otherwise stated)

9. Income Taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. A reconciliation of these differences is as follows:

	December 31 2017	December 31 2016
Earnings (loss) before income taxes	$ (2,061,946)	$ 20,637
Canadian federal and provincial income tax rates	26.00%	26.00%
Income tax recovery based on above rates	(536,106)	5,366
Increase (decrease) due to:		
Non-deductible (taxable) items and other	181,886	152,050
Foreign exchange	797	(669)
Losses and temporary differences for which no income tax benefit has been recognized (Previously recognized)	327,118	(104,386)
Difference between foreign and Canadian tax rates	26,305	(52,361)
Income tax expense	$ -	$ -

The components of unrecognized deferred tax assets are as follows:

	December 31 2017	December 31 2016
Non-capital losses	$ 11,546,441	$ 13,451,431
Capital losses	792,690	713,189
Property, Plant and Equipment	21,959	18,768
Mineral property	21,000,865	33,892,994
Other items	781,167	1,168,172
	$ 34,143,122	$ 49,244,554

(Expressed in United States dollars, unless otherwise stated)

9. Income Taxes (continued)

Unrecognized tax losses:

As at December 31, 2017 the Company has tax losses for income tax purposes which may be used to reduce future taxable income. The income tax benefit, if any, of these losses have not been recorded in these consolidated financial statements because of the uncertainty of their recovery. The future expiration and potential tax benefit of the losses are as follows:

YEAR	Canada	United States	Barbados	Mexico	Total
2018	$ -	$ 541,863	$ -	$ -	$ 541,863
2019	-	222,039	7,125,405	-	7,347,444
2020	-	33,069	-	-	33,069
2021	-	-	1,006,544	-	1,006,544
2022	-	14,334	599,119	794	614,247
2023	-	11,956	299,555	17	311,528
2024	-	193,820	27,545	11,987	233,352
2025	-	100,952	24,276	-	125,228
2026	-	164,165	-	13,055,555	13,219,720
2027	34,100	148,444	-	9,463	192,007
2028	197,118	168,559	-	-	365,677
2029	918,348	414,262	-	-	1,332,610
2030	-	247,948	-	-	247,948
2031	-	274,881	-	-	274,881
2032	5,620,422	316,214	-	-	5,936,636
2033	3,350,210	993,695	-	-	4,343,905
2034	-	7,678,870	-	-	7,678,870
2035	2,170,976	1,043,268	-	-	3,214,244
2036	-	4,449,451	-	-	4,449,451
2037	1,288,128	662,178	-	-	1,950,306
	$ 13,579,302	**$ 17,679,968**	**$ 9,082,444**	**$ 13,077,816**	**$ 53,419,530**

The Company has income tax loss carry-forwards of approximately $17.7 million (2016 - $17.4 million) for United States tax purposes. These unrecognized tax losses will expire from 2018 to 2036. Future use of these U.S. loss carry-forwards is subject to certain limitations under provisions of the Internal Revenue Code including limitations subject to Section 382, which relates to a 50% change in control over a three-year period, and are further dependent upon the Company attaining profitable operations. An ownership change under Section 382 occurred on July 15, 2008 when the Company acquired Shafter, thereby limiting losses incurred prior to that date under Section 382. An additional change in control may have occurred on December 7, 2010 when the Company issued 193,548,387 shares pursuant to an equity offering, which could further limit the availability of losses prior to that date.

(Expressed in United States dollars, unless otherwise stated)

10. Provision for Environmental Rehabilitation

In the prior year, the Company has discontinued the reclamation cost to its estimated fair value using a 10% discount rate over the estimated 8 year life of mine. In the current year, the Company has not discounted the value due to uncertainty of when the reclamation will take place. The discounted liability has been recorded at $300,838 for both years.

The environmental remediation liability is subject to revision based on future mine resource realization, and other factors which affect the costs incurred at future dates such as inflation and discount rates.

The provision for environmental rehabilitation for the years ended December 31, 2017 and 2016 is as follows:

	December 31 2017	December 31 2016
Environmental rehabilitation, beginning of the year	**$ 300,838**	$ 479,838
Change in estimates	**-**	(179,000)
Environmental rehabilitation, end of the year	**$ 300,838**	$ 300,838

11. Equity

Authorized - An unlimited number of common shares with no par value.

Share issuance details:

	Number of Common Shares	Amount
Balance, December 31, 2015	84,644,973	$ 181,814,354
Exercised options	100,000	19,526
Balance, December 31, 2016	84,744,973	$ 181,833,880
Private placement	11,529,014	1,570,076
Share Issue Costs	-	(319,414)
Balance, December 31, 2017	96,273,987	$ 183,084,542

In February 2017, the Company completed a private placement for 11,529,013 units with gross proceeds of CDN$3,458,704. Each Unit consists of one common share and one transferable common share purchase ("Warrant") of Aurcana.

(Expressed in United States dollars, unless otherwise stated)

11. Equity (continued)

Stock options
On August 25, 2014 the TSX Venture Exchange approved an amendment to the Company's Stock Option Plan (the "Plan"), which is a fixed plan, to increase the maximum number of shares reserved for issuance to directors, officers, employees and consultants of the Company under the Plan to 8,379,852 common shares. The exercise price, term and vesting period of each option are determined by the board of directors within regulatory guidelines and the terms of the Plan. The maximum number of common shares reserved for issuance remains less than 10% of the total issued and outstanding common shares of the Company.

Stock options	Number of Common Share Purchase Options	Weighted Average Exercise Price per Share ($CDN)
Balance, December 31, 2015	1,384,375	6.24
Granted	5,350,000	0.19
Exercised	(100,000)	0.17
Expired	(493,750)	6.55
Forfeited	(734,375)	5.80
Balance, December 31, 2016	5,406,250	0.39
Granted	2,950,000	0.32
Expired	(87,500)	8.16
Balance, December 31, 2017	8,268,750	0.29

Outstanding	**Vested**		**Exercise Price ($CDN)**	**Expiry Date**	
68,750	68,750	$	6.32	February 28, 2018	*
4,850,000	4,850,000	$	0.17	March 2, 2021	
400,000	400,000	$	0.40	August 5, 2021	
2,950,000	2,950,000	$	0.32	April 27, 2022	
8,268,750	8,268,750	$	0.29		

* On February 28, 2018, 68,750 options expired unexercised

(Expressed in United States dollars, unless otherwise stated)

11. Equity (continued)

Stock based compensation

For the year ended December 31, 2017 the stock-based compensation expense was $504,373 (2016: $584,172). Fair value of stock options granted as above is calculated using the following weighted average assumptions.

	December 31 2017	December 31 2016
Risk-free interest rate	0.70%	0.70%
Expected stock price volatility	95.35%	92.35%
Expected dividend yield	n/a	n/a
Expected option life in years	5	4

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants
Balance, December 31, 2015	10,265,816
Expired	(532,908)
Balance, December 31, 2016	9,732,908
Private placement	11,529,013
Agents' warrants	709,760
Expired	(9,732,908)
Balance, December 31, 2017	12,238,773

As of December 31, 2017, details of outstanding common shares purchase warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
12,238,773	$0.45	February 27, 2020

(Expressed in United States dollars, unless otherwise stated)

The fair value of common share purchase warrants issued during the year is calculated using the following weighted average assumptions:

	December 31 2017	December 31 2016
Risk-free interest rate	0.73%	-
Expected stock price volatility	114.70%	-
Expected dividend yield	n/a	-
Expected warrant life in years	3.0	-

12. Related Party Transactions

Except as noted elsewhere in these consolidated financial statements, the Company conducted the following related party transactions:

a) Trading transactions

The Company's related parties consist of companies owned by executive officers and directors and payments to these parties are as follows:

	Note	**December 31 2017**	December 31 2016
Technical and consulting fees	(i)	$ 78,147	$ 52,039
General and administrative expenses	(ii)	23,102	22,650
Consulting fees		$ 101,249	$ 74,689

i) To a company controlled by a director of the Company.
ii) To a company controlled by the corporate secretary for management services performed as an officer.

b) Compensation of key management personnel

	December 31 2017	December 31 2016
Consulting fees (as above)	$ 101,249	$ 74,689
Directors' fees	-	22,224
Officer salaries	601,924	453,001
Stock-based compensation	418,886	584,172
	$ 1,122,059	$ 1,134,086

12. Related Party Transactions (continued)

c) Accounts payables to related parties

	December 31 2017	December 31 2016
Accounts Payable	$ 19,562	$ -

13. Commitments and contingencies

Head office lease

Effective May 1, 2014, the Company executed a lease agreement for new office space for a period of 48 months, expiring on April 30, 2018. The minimum monthly payment is $9,178. In April 2016 the Company subleased such premises for $7,489 per month and moved to a new location. The new head office has a monthly lease cost of $3,571 for a period of 36 months, expiring March 31, 2019.

A schedule of commitments due by period is as follows ($000s):

	Commitments due by year (000's)		
	Total	2018	2019
	$	$	$
Rent	$ 91	$ 80	$ 11

Claims to the Company

Trans-Pecos Pipeline, LLC (“Trans Pecos”) constructed a pipeline that transports natural gas between the Permian Basin and Presidio, Texas for delivery to customers in Chihuahua, Mexico. The route of the pipeline crosses the Shafter property and may impact upon some aspects of mining-related activities if and when they resume. In March of 2016, the Company was made aware that Trans Pecos filed a lawsuit against RGMC to acquire the proposed easement through exercise of its alleged power of eminent domain. The Company engaged counsel to challenge the public use of the pipeline project and, in the event the acquisition is permitted, to secure fair compensation for the impact of the proposed pipeline on the market value of the property and the Company’s Shafter operations. Through the administrative phase of the legal proceedings, Trans Pecos obtained a statutory right of possession so as to move forward with construction of its project. As of the date hereof the pipeline is operational.

This administrative determination is not binding on the Company’s right to contest Trans Pecos’s project or the amount of compensation owed, and litigation of these issues continues. Subsequent to December 31, 2017 the Company met with representatives of Trans Pecos and a court-appointed mediator in order to seek resolution to the dispute. An agreement in principle was reached; however, this agreement has not been finalized.

The Company intends to continue to defend its rights.

(Expressed in United States dollars, unless otherwise stated)

14. Supplemental Cash Flow Information

Cash and cash equivalents of the Company are comprised of bank balances and short-term investments, which are convertible to cash, with an initial term of 90 days or less as follows:

	December 31 2017	December 31 2016
Cash	**$ 721,324**	$ 663,566

Supplemental disclosures of cash flow information for the year ended:

	December 31 2017	December 31 2016
AR from equipment sold held in escrow	**$ 140,000**	$ 140,000

The short-term investments were made on an overnight basis and at rates from 0.2% to 1.1% per annum.

Non-cash investing and financing activities are as follows:

	2017	2016
Decrease in accounts payable related to construction in progress and equipment suppliers	$ -	$ (80,261)

(Expressed in United States dollars, unless otherwise stated)

15. Segmented Information

The reportable operating segments have been identified as the Shafter Project, Corporate and other segments. The Company manages its business, including the allocation of resources and assessment of performance, on a project by project basis, except where the Company's projects are substantially connected and share resources and administrative functions.

December 31, 2017	Shafter	Corporate and other segments	Total
Sales & Consulting fees to external customers	$ 124,937	$ 480,000	$ 604,937
Shafter mine Care & Maintenance cost	515,304	-	515,304
G&A expenses and other expense	1,136	2,150,443	2,151,579
Loss before income taxes	(391,503)	(1,670,443)	(2,061,946)
Net income (loss) for the year	(391,503)	(1,670,443)	(2,061,946)
Property, plant and equipment	6,954,384	4,128	6,958,512
Mineral properties	10,035,202	-	10,035,202
Total capital assets	16,989,586	4,128	16,993,714
Total assets	17,101,984	1,056,147	18,158,131
Total liabilities	530,239	126,222	656,461

December 31, 2016	Shafter	Corporate and other segments	Total
Sales & Consulting fees to external customers	$ 57,848	$ 440,000	$ 497,848
Shafter mine Care & Maintenance cost	749,874	-	749,874
G&A expenses and other expense	(175,270)	1,780,786	1,605,516
Loss before income taxes	(516,756)	(1,340,786)	(1,857,542)
gain from settlement of debt	-	1,878,179	1,878,179
Net income (loss) for the year	(516,756)	537,393	20,637
Property, plant and equipment	6,858,884	5,726	6,864,610
Mineral properties	9,500,000	-	9,500,000
Total capital assets	16,358,884	5,726	16,364,610
Total assets	16,502,890	947,166	17,450,056
Total liabilities	837,195	344,068	1,181,263

(Expressed in United States dollars, unless otherwise stated)

16. Oil and Gas lease

On July 15, 2016 Silver Assets, Inc. ("SAI"), has entered into a term assignment agreement (the "Assignment") with a privately-owned, Texas-based oil and gas firm (the "Assignee"). Under the Assignment, three contiguous oil and gas leases (the "Leases") have been assigned by SAI to the Assignee for a three-year term, plus any further period during which oil or gas production takes place on the Leases. SAI has retained a Net Revenue Interest Royalty in respect of the Leases that may provide up to 25% of the net revenues therefrom. In consideration of the Assignment, the Assignee made a cash payment of US$374,469.41 to SAI. The Leases total 564 "mineral acres" and are located approximately 200 miles northeast of the Company's Shafter project, in the Permian Basin of West Texas, near Midland. The lease proceeds were allocated as follows:

	December 31 2017	December 31 2016
Deferred Revenue Short term	**$ 124,937**	$ 124,937
Deferred Revenue Long term	**66,747**	191,684
	191,684	316,621

	Years Ended December 31, 2017	**2016**
Revenue	**124,937**	**57,848**

17. General and administrative costs

	Years Ended December 31, 2017	2016
Salaries and consulting fees	**$ 585,353**	$ 648,242
Professional fees	**153,198**	124,793
Investor relations	**109,953**	65,096
Marketing and road shows	**190,020**	129,615
Listing and filing fees	**17,142**	10,680
Other	**231,365**	243,658
	$ 1,287,031	$ 1,222,084

18. Financing expense and other

	Years Ended December 31, **2017**	2016
Financing expense and bank charges	**$ 5,508**	$ 7,600
	$ 5,508	$ 7,600

19. Impairment

The Company reviews each asset or cash generating unit at each reporting date to determine whether there are any indicators of impairment. If any such indicators exist, a formal estimate of recoverable amount is performed, and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs of disposal and value in use.

The determination of fair value less cost of disposal and value in use requires management to make estimates and assumptions about expected production and sales volumes, metal prices, production and grades, operating costs, future capital expenditures and appropriate discount rates for future cash flows. The estimates and assumptions are subject to risk and uncertainty, and as such there is the possibility that changes in circumstances could alter these projections materially, which could impact the recoverable amount of the assets.

Shafter mineral property

The external independent valuation company used the appraised value method (cost approach) and comparable transaction analysis (market approach) for the valuation of the Shafter mineral property. The appraised value method was based on the assumption that the value of a property is enhanced or diminished by an exploration program and that funds spent on a property, and those to be spent in the immediate future, will produce value in today's dollars, proportionate to the expenditures. Comparable transaction analysis was used for the market approach. It is based on the principle of substitution, which says that the economic value of an item tends to be determined by the cost of acquiring an equally desirable substitute. An equally desirable substitute is not an identical asset.

For the property plant and equipment valuation, the appraiser assessed the market prices assuming a liquidation value as the most appropriate approach. Certain of plant and equipment items and assets classified as held for sale were impaired because they were found to be no longer available for use or sale.

20. Financial instruments

The Company's is exposed to certain financial risks, including foreign exchange risk and price risk.

(a) Foreign exchange risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates in currencies other than the functional currency of each entity. A significant change in the currency exchange rates between the local functional currency of each entity and the other currencies it employs could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2017, the Company's Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in USD dollars:

		December 31, 2017
Cash and cash equivalents	USD$	575,330
Accounts payable		(9,081)
	USD$	566,249
CAD$ Equivalent		**710,359**

Based on the above net exposures as at December 31, 2017, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US Dollar against the CDN Dollar would result in a $71,036 change to the Company's net income for the year.

20. Financial instruments (Continued)

At December 31, 2017, the Company's Mexican operations (U.S. dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		December 31, 2017
Cash and cash equivalents	MXP$	46,120
Other receivable		-
Accounts payable		1,125,415
	MXP$	1,171,535
USD$ Equivalent		**59,362**

Based on the above net exposures as at December 31, 2017, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the USD Dollar against the Mexican Peso would result in a $5,936 change to the Company's net income for the year.

(b) Credit risk:

The Company's credit risk is primarily attributable to cash and bank balances, short-term deposits, accounts receivable and amounts receivable.

The Company limits its credit exposure on cash held in bank accounts by holding its key transactional bank accounts with banks of investment grade. As the Company has its operations in developing countries, it is unavoidable that some cash is held with regional banks in areas where the banking system does not operate as efficiently as in major financial centers. In these circumstances, the Company attempts to keep only minimal balances with such banks.

The Company manages its credit risk on short-term deposits by only investing with counterparties that carry investment grade ratings as assessed by external rating agencies and spreading the investments across these counterparties. Under the Company's risk management policy, allowable counterparty exposure limits are determined by the level of the rating unless exceptional circumstances apply. A rating of "A-" grade or equivalent is the minimum allowable rating required as assessed by international credit rating agencies. Likewise, it is the Company's policy to deal with banking counterparties for derivatives who are rated "A-" grade or above by international credit rating agencies and graduated counterparty limits are applied depending upon the rating.

Exceptions to the policy for dealing with relationship banks with ratings below "A-" are reported to, and approved by, the Audit Committee. As at December 31, 2017 substantially all cash and short-term deposits are with counterparties with ratings "A-" or higher.

20. Financial instruments (Continued)

The Company's credit risk associated with trade accounts receivable is managed through establishing long-term contractual relationships with international trading companies using industry-standard contract terms. 100% of the Company's product sales and trade accounts receivable are generated from one customer representing 100% of the total sales for the year. Other accounts receivable consist of amounts owing from the sale of mining equipment and government authorities in relation to the refund of value-added taxes applying to inputs for the production process and property, plant and equipment expenditures.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Several adverse conditions and material uncertainties, including low metal prices, cast significant doubt upon the going concern assumption. The Company is engaged in negotiations with its principal lender to restructure its current debt in order to address ongoing liquidity concerns, while continuing to be focused on minimizing uncommitted capital expenditures and preserving the Company's growth options (see Note 1 - Nature of operations and going concern).

The Company manages liquidity risk by maintaining cash and cash equivalent balances and available credit facilities to ensure that it is able to meet its short-term and long-term obligations as and when they fall due. Company-wide cash projections are managed centrally and regularly updated to reflect the dynamic nature of the business and fluctuations caused by commodity price and exchange rate movements.

Accounts payable and accrued liabilities are due within the current operating period.

The Company's expected source of cash flow in the upcoming year will be from equity financing; loans, lease financing and entering into joint venture agreements, or a combination thereof. See Note 1 for additional discussion of Liquidity.

20. Financial instruments (Continued)

(e) Fair value estimation

The Company's financial instruments include cash and cash equivalents, trade and other receivables, amounts receivable, accounts payable and accrued liabilities, borrowings, embedded derivative liability and long-term debt. The carrying values of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities, approximate their fair values due to the relatively short-term nature of these amounts.

The Company classifies the fair value of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are: Level 1, which are inputs that are unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, which are inputs other than Level 1 quoted prices that are observable for the asset or liability, either directly or indirectly; and Level 3, which are inputs for the asset or liability that are not based on observable market data.

The carrying value and fair value of trade and other receivable and accounts payable and accrued liabilities as of December 31, 2017 are approximately the same. The Company assesses its financial instruments and non-financial contracts on a regular basis to determine the existence of any embedded derivatives which would be required to be accounted for separately at fair value and to ensure that any embedded derivatives are accounted for in accordance with the Company's policy.

21. Management of Capital

In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt and acquire or dispose of assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay dividends.

The Company's investment policy is to limit investments to guaranteed investment certificates, banker's acceptance notes, investment savings accounts or money market funds with high quality financial institutions in Canada and treasury bills, selected with regards to the expected timing of expenditures from operations.

22. Subsequent events

On April 26, 2018, the Company announced that it will undertake a non-brokered private placement of up to 15,000,000 units at a price of CDN$0.20 per Unit, for gross proceeds to the Company of up to CDN$3,000,000. Each Unit will consist of one common share in the capital of the Company and one transferable common share purchase warrant. Each Warrant will entitle the holder thereof to purchase one additional Share at an exercise price of CDN$0.30 for a term of three years from the closing date of the offering. The Company may pay finders' fees or commissions in connection with the offering in accordance with the rules and policies of the TSX Venture Exchange (the "TSX-V"). The Company intends to use the net proceeds of the offering for the exploration and development of the Shafter Silver Project in Texas and for general working capital purposes. The closing of the offering is subject to receipt of all necessary regulatory approval, including the approval of the TSX-V. The offering will be completed pursuant to exemptions from prospectus requirements of applicable securities laws, and all securities issued in connection with the offering will be subject to a four month hold period in accordance with applicable Canadian securities laws, commencing on the Closing Date.

AURCANA CORPORATION

Consolidated Financial Statements

December 31, 2016

Expressed in United States dollars unless otherwise stated

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MNP LLP

Independent Auditors' Report

To the Shareholders of Aurcana Corporation:

We have audited the accompanying consolidated financial statements of Aurcana Corporation, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aurcana Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Aurcana Corporation incurred a net profit of $20,637 during the year ended December 31, 2016 has an accumulated deficit of $203,096,130. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter
The consolidated financial statements of Aurcana Corporation for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on the consolidated financial statements on April 29, 2016.

Vancouver, British Columbia
April 20, 2017

MNP LLP
Chartered Professional Accountants

Aurcana Corporation
Consolidated Statements of Financial Position
(Expressed in United States dollars)

	Notes	December 31 2016	December 31 2015
Assets			
Current assets			
Cash and cash equivalents	16	$ **663,566**	$ 236,301
Trade and other receivables	4	**198,962**	42,687
Prepaid expenses and advances	5	**71,962**	71,313
Prepaid income tax		**36,011**	39,929
Assets held for sale	6	**95,500**	60,074,062
		1,066,001	60,464,292
Non Current assets			
Non-current prepaid expenses	5	**19,445**	19,509
Property, plant and equipment	7	**6,864,610**	6,866,181
Mineral Properties	8, 20	**9,500,000**	9,500,000
Deferred tax asset	10	**-**	404,785
		$ **17,450,056**	$ 77,254,767
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	$ **563,804**	$ 2,520,488
Deferred revenue	18	**124,937**	-
Current portion of borrowings	11, 22	**-**	40,223,056
Liabilities associated with assets held for sale	6	**-**	18,723,470
		688,741	61,467,014
Non Current liabilities			
Deferred revenue	18	**191,684**	-
Provision for environmental rehabilitation	12	**300,838**	479,838
		1,181,263	61,946,852
Equity	13		
Share capital		**181,833,880**	181,814,354
Contributed surplus		**34,837,262**	34,260,229
Accumulated other comprehensive income		**2,682,160**	2,338,478
Deficit		**(203,096,130)**	(203,133,321)
Total equity attributable to equity holders of the parent		**16,257,172**	15,279,740
Non-controlling interest		**11,621**	28,175
Total equity		**16,268,793**	15,307,915
		$ **17,450,056**	$ 77,254,767

Nature of Operations and Going Concern (Note 1)
Commitments and Contingencies (Note 15)
Subsequent Events (Note 25)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

"Jerry Blackwell" — ***Director***

"Adrian Aguirre" — ***Director***

(Expressed in United States dollars, unless otherwise stated)

	Notes	Years Ended December 31, 2016	2015
Continuing Operations			
Revenues			
Management Fees		$ **440,000**	$ -
Oil & Gas lease	18	**57,848**	-
		497,848	-
Other items			
General and administrative costs	19	**1,222,084**	2,252,115
Financing expense and others	20	**7,600**	6,128,166
Stock-based compensation		**584,172**	4,026
Impairment of Mineral Properties, plant and equipment and assets for sale	21	-	6,748,356
Shafter mine care & maintenance costs		**749,874**	818,494
Foreign exchange (income) loss		**(18,019)**	4,199,153
Restructuring transaction cost		**22,630**	-
Change in fair value of derivatives		-	(2,690,031)
Loss on sale of equipment		**1,700**	17,898
Change on reclamation provision		**(179,000)**	-
Gain on settlement of debt		**(1,878,179)**	-
Other expenses (income)		**(35,651)**	106,596
		477,211	17,584,773
Earnings (loss) before income taxes		**20,637**	(17,584,773)
Current Income tax expense	10	-	90,911
Deferred income tax expense	10	-	2,943,478
Net Loss from continuing operations		$ **20,637**	$ (20,619,162)
Discontinued Operations			
Income for the year from discontinued operation	22	-	(3,154,281)
Net income (loss) for the year before other comprehensive items		$ **20,637**	$ (23,773,443)
Items of other comprehensive income			
Currency translation adjustment		**343,682**	2,810,189
Comprehensiveincome income (loss) for the year		$ **364,319**	$ (20,963,254)
Total net Income (loss) attributable to:			
Non-controlling interest		**(16,554)**	(8,286)
Equity holders of the Company		**37,191**	(23,765,157)
		$ **20,637**	$ (23,773,443)
Total comprehensive income (loss) attributable to:			
Non-controlling interest		**(16,554)**	(8,286)
Equity holders of the Company		**380,873**	(20,954,968)
		$ **364,319**	$ (20,963,254)
Weighted average number of shares – basic		**84,684,210**	84,644,973
Adjustment for:			
Share options		**2,980,892**	-
Weighted average number of shares diluted		**87,665,102**	84,644,973
Loss per share			
From continuing and discontinued operations - basic & diluted		$ -	$ (0.28)
From continuing operations - basic & diluted		$ **0.02**	$ (0.28)

See accompanying notes to these consolidated financial statements.

(Expressed in United States dollars, unless otherwise stated)

	Share Capital #	Share Capital $	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity Attributable to Shareholders of the Company	Non-controlling Interest	Total Equity
Balance, December 31, 2014	84,644,973	$ 181,814,354	$ 34,256,203	$ (471,711)	$ (179,368,164)	$ 36,230,682	$ 36,461	$ 36,267,143
Currency translation adjustment	-	-	-	2,810,189	-	2,810,189	-	2,810,189
Net loss for the year	-	-	-	-	(23,765,157)	(23,765,157)	(8,286)	(23,773,443)
Stock-based compensation	-	-	4,026	-	-	4,026	-	4,026
Balance, December 31, 2015	84,644,973	181,814,354	34,260,229	2,338,478	(203,133,321)	15,279,740	28,175	15,307,915
Currency translation adjustment	-	-	-	343,682	-	343,682	-	343,682
Net income for the year	-	-	-	-	37,191	37,191	(16,554)	20,637
Shares issued for:								
Exercise of options	100,000	19,526	(7,139)	-	-	12,387	-	12,387
Stock-based compensation	-	-	584,172	-	-	584,172	-	584,172
Balance, December 31, 2016	84,744,973	$ 181,833,880	$ 34,837,262	$ 2,682,160	$ (203,096,130)	$ 16,257,172	$ 11,621	$ 16,268,793

See accompanying notes to these consolidated financial statements.

(Expressed in United States dollars, unless otherwise stated)

	Years Ended December 31, 2016	2015
Cash flows from operating activities		
Net income (loss) for the year	**$ 20,637**	**$ (23,773,443)**
Items not involving cash:		
Gain on settlement of debt	**(1,878,179)**	**-**
Depreciation, depletion and amortization	**1,571**	**5,763,434**
Financing expense and other	**-**	**6,915,669**
Loss on sale of equipment	**-**	**17,898**
Impairment of property, plant and equipment assets and mining interests	**-**	**6,748,356**
Amortization of prepaid leasing costs	**-**	**-**
Stock-based compensation	**584,172**	**4,026**
Unrealized foreign exchange (income) loss	**(12,236)**	**3,263,493**
Change in estimate of reclamation provision	**(179,000)**	**-**
Change in fair value of derivatives	**-**	**(2,690,031)**
Deferred revenue	**316,621**	**-**
Deferred income tax	**-**	**323,516**
Operating cash flow before changes in working capital	**(1,146,414)**	**(3,427,082)**
Net changes to non-cash working capital balances		
Trade and other receivables	**(156,275)**	**3,447,305**
Inventories	**-**	**191,397**
Prepaid income tax	**-**	**1,190,874**
Prepaid expenses and advances	**(585)**	**888,083**
Accounts payable and accrued liabilities	**(1,577,593)**	**401,137**
Cash provided by (used in) operating activities	**(2,880,867)**	**2,691,714**
Cash flows from investing activities		
Proceeds from the sale of equipment	**3,315,000**	**46,631**
Purchase of property, plant and equipment	**(80,261)**	**(3,714,205)**
Cashprovided by (used in) investing activities	**3,234,739**	**(3,667,574)**
Cash flows from financing activities		
Share capital issued, net of share issue costs	**12,387**	**-**
Financing cost and bank charges	**7,600**	**(1,374,157)**
Proceeds from borrowings	**-**	**3,000,000**
Payments on capital equipment contracts	**-**	**(1,941,177)**
Cash provided by (used in) financing activities	**19,987**	**(315,334)**
Increase (decrease) in cash and cash equivalents	**373,859**	**(1,291,194)**
Effect of exchange rate changes on cash	**(173)**	**(25,688)**
Cash and cash equivalents, beginning of the year	**289,880**	**1,606,762**
Cash and cash equivalents, end of the year	**$ 663,566**	**$ 289,880**

Supplemental Cash Flow information (Note 16)

See accompanying notes to these consolidated financial statements.

1. Nature of Operations and Going Concern

Aurcana Corporation (the "Company" or "Aurcana") was originally incorporated in Canada under the laws of Ontario in 1917 and on September 14, 1998 was continued under the *Canada Business Corporations Act* ("CBCA"). The Company is currently engaged in the exploration, development and operation of natural resource properties. The Company's principal development property is the Shafter silver property ("Shafter"), located in Presidio County, Texas through the Company's 100% owned US subsidiary, Silver Assets Inc, which is currently on "care and maintenance". Prior to the Restructuring Agreement referenced below and in Note 22, the Company was also engaged in the production and sale of silver, copper, lead, and zinc concentrates at the La Negra Mine located in Queretaro State, Mexico

The Company's shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at Suite 850-789 West Pender Street, Vancouver, B.C., V6C 1H2, Canada.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business. The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities. Several adverse conditions and material uncertainties, including low metal prices, may cast significant doubt upon the Company's ability to continue as a going concern. As at December 31, 2016, the Company had working capital of $0.4 million, compared with $1.4 million as at December 31, 2015, after the effects of the Restructuring Agreement (Note 22). The major components of working capital at December 31, 2016 included $1.1 million of current assets, and $0.6 million in accounts payable (Note 25). Subsequent to the year end, the Company completed a private placement for 11,529,013 units with gross proceeds of $3,458,704.

The Restructuring Transaction was implemented on January 7, 2016 (see Note 22 for further information). (the "Restructuring Transaction") under which all of the debt obligations due and in default under the debt facility (Note 22) will be extinguished in exchange for the Company's interest in the Mexican subsidiary that owns the La Negra mine.

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

These consolidated financial statements were approved for issue by the Board of Directors on April 20, 2017.

3. Summary of Significant Accounting Policies

The Company's principal accounting policies are outlined below:

Basis of Consolidation

The consolidated financial statements include the accounts of Aurcana Corporation and entities controlled by the Company ("its subsidiaries"). These include the accounts of: Aurcana Corporation and its wholly-owned subsidiaries, Silver Assets Inc., a U.S. corporation, Cane Silver Inc., a Barbados corporation, Perforadora Aurcana S.A. de R.L. de C.V. and Minera Aurcana S.A. de C.V., Real de Maconi S.A de C.V.,Mexican corporations, – all these companies are 100% owned intermediate holding companies. The Company also 100% owns Rio Grande Mining Company which owns Shafter Properties Inc., an in care & maintenance subsidiary. Minera La Negra was disposed of on January 7, 2016 (Note 22).

All significant intra-group balances and transactions are eliminated in full on consolidation.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

3. Summary of Significant Accounting Policies (continued)

The Company had the following subsidiaries at December 31, 2016:

Name	Country of Incorporation	Nature of Busines	Proportion of ordinary shares held by the Group	Proportion of ordinary shares held by non-controlling interest
Aurcana Corporation	Canada	Holding Company	100%	-
Cane Silver Inc.	Barbados	Intermediate Holding Company	100%	-
Real de Maconi S.A. de C.V.	Mexico	Intermediate Holding Company	99.86%	0.14%
Minera Aurcana S.A. de C.V.	Mexico	Consulting (La Negra's management)	100%	-
Perforadora Aurcana S. de R.L. de C.V.	Mexico	Exploration Company	100%	-
Silver Assets Inc.	USA	Intermediate Holding Company	100%	-
Rio Grande Mining Company	USA	Mining Operations	100%	-
Shafter Properties Inc.	USA	Dormant	100%	-

2488683 Ontario Corporation was dissolved with effect March 10, 2016.

Foreign Currency

(i) Functional and Presentation Currency

The consolidated financial statements of each entity in the Company group are measured using the currency of the primary economic environment in which each entity operates (the “functional currency”). The consolidated financial statements are presented in United States dollars.

The functional currency of Aurcana Corporation is the Canadian dollar, the functional currency of Silver Assets Inc. is the United States dollar and the functional currency of the Company’s Mexican subsidiaries is the United States dollar.

The financial statements of the parent company are translated into the U.S. dollar presentation currency as follows:

- Assets and liabilities – at the closing rate at the date of the statement of financial position.
- Income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates).
- All resulting foreign exchange gains or losses are recognized in other comprehensive income as cumulative translation adjustments.

3. Summary of Significant Accounting Policies (continued)

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of an entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

(iii) Translation of subsidiary results into the presentation currency

The results and statements of financial position of all the Company's subsidiaries with functional currencies different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- Income and expenses for each statement of income are translated at average exchange rates, unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions; and
- All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognized in a separate component of equity. When a foreign operation is sold, such exchange differences are recognized in the consolidated statement of comprehensive loss as part of the gain or loss on sale.

Stock-based Compensation

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The Company records compensation expense under the plan for all options issued. The fair value of all stock-based awards is estimated using the Black-Scholes option pricing model at the grant date. Volatility is calculated using the historical share price volatility observed over periods of regular market activity. The share-based compensation expense is recognized over the tranche's vesting period, in earnings or capitalized as appropriate, based on the number of options expected to vest. None of the Company's awards call for settlement in cash or other assets. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital.

3. Summary of Significant Accounting Policies (continued)

Mineral Properties

Mineral properties are stated at cost on a property-by-property basis. The recorded cost of mineral properties is based on acquisition costs incurred to date, less recoveries and write-offs. Title to mineral properties, concessions, and shareholdings in Canada and U.S.A. involves certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyance history and unregistered prior agreements. Management has investigated the titles to all of its concessions and shareholdings, and, to the best of its knowledge, believes they are in good standing.

(i) Capitalization

All direct and indirect costs relating to the acquisition and exploration of mineral properties are capitalized on a basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold, or when management has determined that there is impairment in the carrying values of those mineral properties. The Company capitalizes costs if it has the legal right to the mineral claim or the right to explore the area. No amortization is recorded for capitalized costs, net of any recoveries, until commercial production is achieved.

Costs associated with commissioning new assets, in the period before they are capable of operating in the manner intended by management, are capitalized. Costs incurred on borrowings related to construction or development projects are capitalized until the point when substantially all the activities that are necessary to make the asset ready for its intended use are complete.

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefit either from future exploration or sale flow to the entity or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Management makes certain estimates and assumptions about future events or circumstances, in particular when an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

(ii) Depreciation

Amortization of mineral properties is based on the units-of-production basis using total reserves and resources including proven and probable, measured and indicated, and inferred. Properties are abandoned either when the lease expires or when management determines that no further work will be performed on the property since it has no value to the Company. When properties in an area of interest are abandoned, the costs related thereto are charged to income on a pro-rata basis to the total costs to date included in the area, in the year of abandonment.

3. Summary of Significant Accounting Policies (continued)

Management's calculation of measured and indicated resources is based upon engineering and geological estimates and financial estimates including mineral prices and operating and development costs. The Company depreciates some of its assets over measured and indicated resources. Changes in geological interpretations of the Company's ore bodies and changes in mineral prices and operating costs may change the Company's estimate of proven and probable reserves. It is possible that the Company's estimate of proven and probable reserves could change in the near term and that could result in revised charges for depreciation and depletion in future periods.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. The cost capitalized is determined by the fair value of consideration given to acquire the asset at the time of acquisition or construction, the direct cost of bringing the asset to the condition necessary for operation, and the estimated future cost of dismantling and removing the asset.

(i) Depreciation

Mining machinery, plant and property are depleted on a unit of production basis, based on estimated recoverable resources. Estimated recoverable resources include proven and probable resources and the portion of mineralized zones expected to be classified as resources.

Other equipment is amortized on a straight-line basis over their estimated useful lives. Amortization begins when plant and equipment are put into use. The rates of amortization used are as follows:

Plant and equipment	20%
Vehicles	25%
Computer Equipment	30%
Other	10-12%

The depreciation method, useful life and residual values are reviewed annually.

3. Summary of Significant Accounting Policies (continued)

Impairment

(i) Impairment for Mineral Properties

The carrying values of mineral properties are reviewed by management for impairment annually, on a property-by-property basis, or when circumstances occur that may give rise to impairment indicators. If indication of impairment exists, the asset's recoverable amount is estimated at value-in-use.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit on a pro-rata basis or based upon specific asset valuations, as appropriate. Impairment losses are recognized in profit and loss in the period it is identified.

From time-to-time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to income.

(ii) Impairment for Exploration and Evaluation Assets

Management reviews the carrying amount of exploration and evaluation assets on an annual basis, or when circumstances occur that may give rise to impairment indicators, and recognizes impairment based on current exploitation results, and management's assessment of the probability of profitable exploitation at each property or realizable value from disposal of such property. If a project does not prove to be viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off in the year.

Management's assessment of each property's estimated fair value is based on review of other mineral property transactions that have occurred in the same geographic area as that of the properties under review.

(iii) Reversal of Impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

3. Summary of Significant Accounting Policies (continued)

Borrowing Costs

The Company capitalizes any borrowing costs which are directly attributable to the acquisition, construction, or production of an asset which takes a substantial period of time to get ready for its intended use. Capitalization of costs begins when costs are incurred and activities are undertaken to prepare the asset for its intended use, and ceases when the asset is substantially complete or commissioned for use. Borrowing costs are amortized over the useful life of the related asset.

Inventories

Mine stores and finished concentrates are valued at the lower of average cost and net realizable value. Cost of finished concentrates inventory includes direct mining and production costs, direct mine overhead costs, amortization and depletion. Cost of sales includes costs of finished concentrates plus shipping costs less amortization and depletion, which is disclosed separately in the statement of operations.

Consumables and supplies, which consist of spare parts and consumable goods used for general repairs and maintenance, are recorded at the lower of cost and net realizable value.

Provisions

(i) General

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The expense relating to any provision is presented in profit or loss net of any reimbursement. Provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(ii) Environmental Rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Such costs are discounted to their net present value and are provided for and capitalized at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged against profits over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision.

3. Summary of Significant Accounting Policies (continued)

Revenue

(i) Revenue Recognition

Revenue is recognized upon delivery when significant risks and rewards of ownership of metal or metal-bearing concentrate passes to the buyer, it is probable that the economic benefits will flow to the Company, revenue can be reliably measured, and collection is reasonably assured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, royalties and sales taxes or duty. Management fees are recognized on a monthly basis as services are provided. Oil and Gas lease revenues are recognized over the life of the lease as the benefit is being received by the lessee.

Financial Assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, available-for-sale financial assets, and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as FVTPL when the financial asset is held for trading or is designated as FVTPL.

A financial asset is classified as held for trading when it is purchased and incurred with the intention of generating profits in the near term, part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. Transaction costs are expensed in the year in which the costs are incurred. The Company does not have any assets classified as FVTPL investments.

(ii) Available-for-sale Financial Assets

Financial assets classified as available-for-sale are carried at fair value (where determinable based on market prices of actively traded securities) with changes in fair value recorded in other comprehensive income. Available-for-sale securities are written down to fair value through earnings when there is objective evidence that a financial asset is impaired.

3. Summary of Significant Accounting Policies (continued)

(iii) Loans and Receivables

Loans and receivables are measured at amortized cost using the effective interest rate method. The Company has cash and cash equivalents, trade and other receivables classified as loans and receivables.

(iv) Derecognition of Financial Assets

A financial asset is derecognized when the contractual right to the asset's cash flows expire or if the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

(v) Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Evidence of impairment may include indicators that the issuer or counterparty is experiencing significant financial difficulty, default or delinquency in interest or principal payments, or it has become probable that the borrower will enter bankruptcy or other financial reorganization.

Impairment for financial assets carried at amortized cost, is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate of the financial asset.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. Uncollectible amounts in trade receivables are written off against the allowance account.

Available-for-sale financial assets are impaired if the cost (net of any principal payment and amortizations) is greater than the current fair value, less any impairment previously recognized in profit or loss and the decline in the fair value below cost is significant or prolonged. The impairment amount is transferred from equity to the income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

For all other financial assets carried at amortized cost in which impairment was previously recognized, if subsequent measurement indicates that the recorded impairment has decreased, and the decrease can be related objectively to an event occurring after the impairment was recognized, then the reversal of the impairment is recognized in the income statement. On the date of the impairment reversal, the carrying value of the financial asset cannot exceed its amortized cost had impairment not been recognized.

3. Summary of Significant Accounting Policies (continued)

Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss ("FVTPL") or other financial liabilities. The Company has identified derivative financial liabilities which we have carried at FVTPL.

(i) Financial liabilities at fair value through profit or loss ("FVTPL")

Financial liabilities at fair value through profit or loss ("FVTPL") are measured at fair value with changes in fair value during the reporting year being recognised in the profit or loss.

(ii) Other Financial Liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost, with any resulting premium or discount from the face value being amortized to income or expense using the effective interest rate method.

The Company has classified short-term notes, long-term debt, and accounts payable and accrued liabilities as other financial liabilities.

(iii) Derecognition of Financial Liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or they expire.

Derivatives

All derivative instruments are recorded on the balance sheet at fair value with changes in fair value recorded in the Statement of Operations.

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value on the balance sheet with subsequent changes in fair value recognized in profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, term deposits and short term highly liquid investments with the original term to maturity of three months or less, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value.

3. Summary of Significant Accounting Policies (continued)

Short-Term Investments

Short-term investments are classified as “available for sale”, and consist of highly liquid equity securities. These equity securities are initially recorded at fair value. Changes in the market value of these equity securities are recorded as changes to other comprehensive income or loss.

Leases

Leases which transfer substantially all of the benefits and risks incidental to the ownership of property are accounted for as finance leases. Assets under finance lease are originally capitalized at the lower of the fair market value of the leased property and the net present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset’s useful life and the lease term.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted income (loss) per share is computed similar to basic income (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed conversion of debt and exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

3. Summary of Significant Accounting Policies (continued)

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Equity Instruments

The Company records proceeds from share issuances net of issue costs.

Use of Estimates and Judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are as follows:

(i) Liquidity and Going Concern Assumption

In the determination of the Company’s ability to meet its ongoing obligations and future contractual commitments, management relies on the Company’s planning, budgeting and forecasting process to help determine the funds required to support the Company’s normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions.

Changes in these inputs may alter the Company’s ability to meet its ongoing obligations and future contractual commitments and could result in adjustments to the amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern (Note 1).

3. Summary of Significant Accounting Policies (continued)

(ii) Environmental Rehabilitation Provision

The Company's estimate of reclamation costs could change as a result of contractual requirements, laws or regulation, the extent of environmental remediation required or completed, and the means of reclamation or changes in cost estimate. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in estimates.

(iii) Review of Carrying Value of Assets and Impairment Charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs to sell or the value in use) in the case of non-financial assets and objective evidence indicating impairment in the case of financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognized in profit or loss and the resulting carrying amounts of assets. (Notes 7, 8 and 21).

(iv) Exploration and Evaluation Assets

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is recognized in loss in the period that the new information becomes available.

(v) Determination of Functional Currency

In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, management has determined that the functional currency of Aurcana Corporation is the Canadian dollar and its subsidiaries are the United States dollar.

(vi) Units of Production Depreciation and Useful Life

Estimated recoverable resources are used in determining the amortization of mine specific assets. This results in an amortization charge proportional to the depletion of the anticipated remaining life of mine production.

Each asset's life is assessed annually and considerations are made in regards to both its physical life limitations and present assessments of economically recoverable resources of the mine properties. Such calculations require the use of estimates and assumptions, including the amount of recoverable resources and estimates of future capital expenditure. Changes are accounted for prospectively. An updated mineral resource estimate was completed in December 2014, resulting in a reduced life of mine estimate that will impact the amortization of mine specific assets (Note 8).

3. Summary of Significant Accounting Policies (continued)

(vii) Recovery of Deferred Tax Assets

Judgement is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Adoption of new and revised IFRS and IFRS not yet effective

The accounting policies adopted in the preparation of these consolidated financial statements have been prepared on the basis of all IFRS and interpretations effective as at December 31, 2016.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. Management is assessing the impact of IFRS 15.

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

IFRS 16, Leases ("IFRS 16") which supersedes IAS 17 –Leases. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, has also been applied. Management is assessing the impact the impact of IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. Trade and Other Receivables

	December 31 2016	December 31 2015
Equipment sales receivable	**140,000**	-
Other receivables	**58,962**	42,687
	$ 198,962	$ 42,687

Equipment sales receivable were amounts held in escrow at December 31, 2016.

5. Prepaid expenses and advances

	December 31 2016	December 31 2015
Prepaid expenses	**$ 70,521**	$ 29,823
Other	**1,441**	41,490
Current portion	**71,962**	71,313
Non-current portion	**19,445**	19,509
	$ 91,407	$ 90,822

6. Assets held for sale

	December 31 2015
Assets held for sale Shafter (i)	$ 3,410,500
Assets held for sale La Negra (ii)	56,663,562
	$ 60,074,062
Liabilities associated with assets held for sale (ii)	$ 18,723,470

(Expressed in United States dollars, unless otherwise stated)

6. Assets held for sale (continued)

(i) Shafter mine underground mobile equipment, underground support equipment and plant equipment have been presented as held for sale following the approval of Aurcana management to sell this equipment.

	December 31 2015
Underground support equipment	$ 224,572
Plant equipment	3,185,928
	$ 3,410,500

(ii) As part of the Restructuring Transaction (Note 22), the Company exchanged all debt obligations under its debt facility (Note 11) for its interests in Minera La Negra, S.A. de C.V. ("La Negra"). The net assets of La Negra to be disposed of as at December 31, 2015 are as follows:

	December 31 2015
Cash and cash equivalents	$ 53,579
Other receivables	1,201,325
Inventories	2,064,589
Prepaid expenses and advances	133,829
Property, plant and equipment	50,134,719
Mineral Properties	3,075,521
	$ 56,663,562
Accounts payable and accrued liabilities	$ 11,104,174
Current portion of long-term debt	1,189,775
Provision for environmental rehabilitation (Note 12)	1,331,677
	$ 13,625,626
Net assets of La Negra classified as held for sale	$ 43,037,936

(Expressed in United States dollars, unless otherwise stated)

7. Property, Plant and Equipment

	Buildings	Plant and Equipment	Mine Development Cost	Vehicles	Computer Equipment	Other	Assets Under Construction	Total
Balance at December 31, 2014	$ 3,061,086	$ 39,767,103	$ 32,812,888	$ 661,155	$ 534,105	$ 846,523	$ 1,049,308	$ 78,732,168
Additions	15,604	4,118,585	1,672,461	-	-	-	282,209	6,088,859
Reclassification	535,003	-	-	-	-	-	(535,003)	-
Reclassification to assets held for sale Shafter (Note 6)	-	(3,410,500)	-	-	-	-	-	(3,410,500)
Reclassification to assets held for sale La Negra (Note 6)	(2,736,693)	(38,012,539)	(30,985,349)	(601,630)	(441,357)	(308,104)	(796,514)	(73,882,186)
Disposals	-	-	-	(42,581)	(4,050)	-	-	(46,631)
Balance at December 31, 2015	875,000	2,462,649	3,500,000	16,944	88,698	538,419	-	7,481,710
Reclassification	-	21,235	-	-	-	(21,235)	-	-
Discontinued operations [1]	-	-	-	-	-	(479,838)	-	(479,838)
Balance at December 31, 2016	$ 875,000	$ 2,483,884	$ 3,500,000	$ 16,944	$ 88,698	$ 37,346	$ -	$ 7,001,872
Accumulated depreciation								
Balance at December 31, 2014	$ 305,559	$ 14,078,492	$ 648,369	$ 513,704	$ 489,531	$ 608,783	$ -	$ 16,644,438
Reclassification to assets held for sale La Negra (Note 6)	(561,419)	(20,521,454)	(1,611,595)	(514,789)	(412,302)	(125,908)	-	(23,747,467)
Charge for the year	255,860	4,989,446	168,386	55,020	14,055	27,012	-	5,509,779
Write-down of property, plant and equipment	-	1,453,516	794,840	-	-	-	-	2,248,356
Disposals	-	-	-	(36,991)	(2,586)	-	-	(39,577)
Balance at December 31, 2015	-	-	-	16,944	88,698	509,887	-	615,529
Charge for the year	-	-	-	-	-	1,571	-	1,571
Discontinued operations	-	-	-	-	-	(479,838)	-	(479,838)
Balance at December 31, 2016	$ -	$ -	$ -	$ 16,944	$ 88,698	$ 31,620	$ -	$ 137,262
Net book value								
Balance at December 31, 2015	$ 875,000	$ 2,462,649	$ 3,500,000	$ -	$ -	$ 28,532	$ -	$ 6,866,181
Balance at December 31, 2016	$ 875,000	$ 2,483,884	$ 3,500,000	$ -	$ -	$ 5,726	$ -	$ 6,864,610

Note: Mining and plant equipment and assets under construction, which are not in production, are not subject to amortization.

(Expressed in United States dollars, unless otherwise stated)

8. Mineral Properties

	Shafter, Texas, USA, in Care & Maintenance
Cost	
Balance at December 31, 2015	$ 15,500,000
Expenditures	-
Balance at December 31, 2016	$ 15,500,000
Accumulated depletion	
Balance at December 31, 2015	$ 6,000,000
Charge for the period	-
Balance at December 31, 2016	$ 6,000,000
Balance at December 31, 2015	$ 9,500,000
Balance at December 31, 2016	$ 9,500,000

Mineral properties subject to depreciation on the basis of unit of production method will not have depreciation when there is no production.

9. Accounts Payable and Accrued Liabilities

	December 31 2016	December 31 2015
Property taxes	$ 204,329	$ 659,406
Salaries, payroll deductions and employee benefits	-	31,509
Employees' statutory profit sharing	-	1,570
Mine suppliers - operating	2,248	19,625
Mine suppliers - capital	-	80,261
Value added tax	279,077	-
Restructuring Transaction	-	542,941
Other	78,150	1,185,176
	$ 563,804	$ 2,520,488

(Expressed in United States dollars, unless otherwise stated)

10. Income Taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. A reconciliation of these differences is as follows:

		2016		2015
Earnings (loss) before income taxes	**$**	**20,637**	$	(17,584,773)
Canadian federal and provincial income tax rates		**26.00%**		26.00%
Income tax recovery based on above rates		**5,366**		(4,572,041)
Increase (decrease) due to:				
Non-deductible (taxable) items and other		**152,050**		43,964
Foreign exchange		**(669)**		549,002
Losses and temporary differences for which no income tax benefit has been recognized (Previously recognized)		**(104,386)**		3,886,931
Change estimate of deferred tax assets		**-**		3,256,203
Amount under (over) provided for in prior years		**-**		485,718
Withhholding tax		**-**		87,449
Difference between foreign and Canadian tax rates		**(52,361)**		(702,837)
Income tax expense	**$**	**-**	$	3,034,389

The income tax expense is comprised of:				
Current income tax expense	**$**	**-**	$	90,911
Deferred income tax expense		**-**		2,943,478
Income tax expense	**$**	**-**	$	3,034,389

Income tax expense (recovery) by country:				
Canada	**$**	**-**	$	2,921,023
United States		**-**		3,462
Mexico		**-**		109,904
Income tax expense	**$**	**-**	$	3,034,389

(Expressed in United States dollars, unless otherwise stated)

10. Income Taxes (continued)

The components of recognized deferred income tax liabilities (assets) are as follows:

		2016		2015
Non-capital losses	**$**	**-**	$	(4,073,523)
Capital (losses)		**-**		(719,857)
Mineral properties		**-**		(532,899)
Asset retirement obligations		**-**		(469,416)
Share issue costs		**-**		-
Accruals and other items		**-**		(5,046,060)
Unrealized foreign exchange gains		**-**		584,391
Assets held for sale		**-**		-
Property, Plant and Equipment		**-**		14,950,423
Deferred income tax liabilities, net	**$**	**-**	$	4,693,059

The components of unrecognized deferred income tax assets are as follows:

		2016		2015
Non-capital losses	**$**	**13,451,431**	$	7,257,493
Capital losses		**713,189**		347,331
Property, Plant and Equipment		**18,768**		189,002
Mineral property		**33,892,994**		34,850,979
Other items		**1,168,172**		709,873
	$	**49,244,554**	$	43,354,678

(Expressed in United States dollars, unless otherwise stated)

10. Income Taxes (continued)

Unrecognized tax losses:

As at December 31, 2016 the Company has tax losses for income tax purposes which may be used to reduce future taxable income. The income tax benefit, if any, of these losses have not been recorded in these consolidated financial statements because of the uncertainty of their recovery. The future expiration and potential tax benefit of the losses are as follows:

YEAR	Canada	United States	Barbados	Mexico	Total
2018	$ -	$ 541,863	$ -	$ -	$ 541,863
2019	-	222,039	7,151,730	-	7,373,769
2020	-	33,069	-	-	33,069
2021	-	-	1,006,544	-	1,006,544
2022	-	14,334	626,664	758	641,756
2023	-	11,956	299,555	16	311,527
2024	-	193,820	-	11,448	205,268
2025	-	100,952	-	-	100,952
2026	-	164,165	-	12,768,356	12,932,521
2027	-	148,444	-	-	148,444
2028	184,170	168,559	-	-	352,729
2029	858,023	414,262	-	-	1,272,285
2030	-	247,948	-	-	247,948
2031	-	274,881	-	-	274,881
2032	5,251,225	316,214	-	-	5,567,439
2033	3,130,140	993,695	-	-	4,123,835
2034	2,028,368	7,678,870	-	-	9,707,238
2035	-	1,043,268	-	-	1,043,268
2036	1,234,878	4,836,164	-	-	6,071,042
	$ 12,686,804	**$ 17,404,503**	**$ 9,084,493**	**$ 12,780,578**	**$ 51,956,378**

The Company has income tax loss carry-forwards of approximately $17.4 million (2015 - $12.4 million) for United States tax purposes. These unrecognized tax losses will expire from 2018 to 2036. Future use of these U.S. loss carry-forwards is subject to certain limitations under provisions of the Internal Revenue Code including limitations subject to Section 382, which relates to a 50% change in control over a three-year period, and are further dependent upon the Company attaining profitable operations. An ownership change under Section 382 occurred on July 15, 2008 when the Company acquired Shafter, thereby limiting losses incurred prior to that date under Section 382. An additional change in control may have occurred on December 7, 2010 when the Company issued 193,548,387 shares pursuant to an equity offering, which could further limit the availability of losses prior to that date. Future changes in control may occur after December 31, 2016, which could further limit the availability of losses prior to the date of such a future change in control.

11. Borrowings

On September 19, 2013, the Company executed definitive agreements with MF2 Investment Holding Company (Cayman) Limited, an affiliate of Orion Mine Finance Group (hereinafter referred to together with its affiliates as "Orion"), for a loan in the principal amount of US$50,000,000 ("Original Loan") and a related off-take agreement in respect of the Shafter Mine ("Original Off-take"), described further below. The Company paid certain transaction fees and costs in the amount of $1,075,000 in establishing the loan facility, including $825,000 paid to Orion and $250,000 paid to third parties.

The loan was advanced on September 19, 2013 and the term of loan was 39 months, with no principal payable until January 31, 2014. Early repayment of the loan could occur at any time without penalty. Interest payable was set at 3 month LIBOR (subject to a 1% minimum) plus 5.5%.

The Company agreed to sell silver and gold produced from the Shafter mine to Orion under the Original Off-take at the prices selected by Orion as either spot price at the delivery date or an average spot price during the first, second, or third week after the delivery date, for either a 6 year period, or until Aurcana has sold a minimum of 27 million Oz of silver, whichever was later, subject to an early buy-out provision.

On April 29, 2014, Aurcana entered into an agreement to amend the terms of its $50,000,000 Original Loan Pursuant to an amended and restated credit facility agreement (the "Amended Loan") between the Company and Orion. The principal amount under the Loan was reduced to $40,000,000. In consideration for an aggregate debt settlement of $10,333,333, Aurcana issued 16,499,501 common shares of the Company to Orion at an issue price of $0.62 or C$0.69 per share, in consideration for reducing the principal amount outstanding under the Original Loan and terminating the Original Offtake agreement in respect of the Shafter Mine. The Amended Loan was to be repaid in 48 equal monthly installments commencing May 31, 2014. Early prepayment could occur at any time without charges. Interest on the Amended Loan continued to accrue at a rate equal to LIBOR (subject to a minimum of 1%) plus 5.5% per annum. The Amended Loan was guaranteed by Aurcana's subsidiaries and was also secured against the Company and its subsidiaries' assets.

Concurrent with the execution of the Amended Loan, Aurcana entered into offtake agreements ("New Offtakes") with Orion in respect of 100% of the copper, zinc, and lead concentrates produced at its La Negra mine for the period from January 1, 2017 to December 31, 2020 (concentrates also have silver content). The Company agreed to sell the concentrates to Orion under the New Offtakes at the prices selected by Orion as an average day spot price for any one of the 10 days following the delivery.

Loan Restructure

The amendment of the Original Loan agreement, termination of the Original Offtake agreement and the New Offtake agreements signed were accounted for as an extinguishment of the Original Loan, Original Offtake and related derivative liabilities. The Original Loan was a hybrid instrument, containing a debt host component and two embedded derivatives – prepayment and interest floor options that require separation as derivatives and that were recorded at fair value. The Original Offtake agreement contained a written price option derivative that was carried at fair value.

(Expressed in United States dollars, unless otherwise stated)

11. Borrowings (continued)

Immediately before the restructure of the Original Loan, the carrying value of the Original Loan debt host was $35.3 million, and the fair value of the Original Offtake derivative and the Original Loan prepayment and interest rate floor derivatives was $12.7 million. Fair value of the Amended Loan debt host as the date of the restructure was $35.5 million and the fair value of the New Offtakes and Amended Loan derivative liabilities was $3.9 million. The Company also issued shares with an aggregate fair value of $10.3 million in consideration for the settlement of the Original Loan and termination of the Original Offtake agreement.

As a result of the 2014 loan restructure, the Company recognized the following costs:

Loss on loan restructure	$	1,875,112
Legal fees		938,529
	$	2,813,641

Loan Modification

In order to improve Aurcana's liquidity in the short term, in July 2014, Orion agreed to defer principal and interest payments on the Amended Loan for July 31st, August 31st, and September 30th, 2014 amounting to approximately $3.1 million. This amount was amortized over the remainder of the loan period commencing October 2014. In return, the Company extended the New Offtakes by one year, to December 31, 2021. This amendment was accounted for as a modification of the Amended Loan with the resulting changes in the value of the expected cash flows applied to the carrying balance of the loan.

Debt host and embedded derivatives

The New Offtake derivative is a written option and is carried at fair value through profit and loss ("FVTPL"). The Amended Orion loan is a hybrid instrument, containing a debt host component and two embedded derivatives – a prepayment and interest floor options that require separation as derivatives. These features were recorded at fair value at origination.

The debt host component is classified as other financial liability and is measured at amortized cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the loan. Accretion of $3.6 million has been recognized for the year ended December 31, 2015 (2014 - $3.9 million).

11. Borrowings (continued)

Loan Extinguishment

The Company's principal lender permitted the Company to make interest only payments and defer until August 2015, payments on the principal amount owed from January to July 2015 under the current debt facility agreement. The Company was unable to meet its payment obligations to its principal lender for the months of August and September 2015, resulting in a breach of the terms of the debt facility agreement between the parties.

During the last quarter of 2015, the Company entered into a support agreement and an arrangement agreement to effect a restructuring transaction (the "Restructuring Transaction") under which all of the debt obligations due and in default under the debt facility would be extinguished in exchange for the Company's interest in its Mexican subsidiary that owns the La Negra mine. The Restructuring Transaction was implemented in January, 2016 (see Note 22 for further information).

12. Provision for Environmental Rehabilitation

The Company obtained an updated reclamation plan during the year ended December 31, 2016 with total estimated cost of reclamation of $646,000 (2014 - $479,838). Additionally, the Company updated its Preliminary Economic Assessment of Shafter with an estimated mine life of 8 years.

In the prior year, the reclamation liability was not discounted due to uncertainty of when the reclamation will take place. In the current year, the Company has discounted the reclamation cost to its estimated fair value using a 10% discount rate over the estimated 8 year life of mine. The discounted liability has been recorded at $300,838 (December 31, 2015 - $479,838).

The environmental remediation liability is subject to revision based on future mine resource realization, and other factors which affect the costs incurred at future dates such as inflation and discount rates.

(Expressed in United States dollars, unless otherwise stated)

12. Provision for Environmental Rehabilitation (continued)

The provision for environmental rehabilitation for the years ended December 31, 2016 and 2015 is as follows:

	December 31 2016	December 31 2015
Environmental rehabilitation, beginning of the year	**$ 479,838**	$ 1,946,338
Change in estimates	**(179,000)**	(233,007)
Accretion	**-**	98,184
Transfer to Liabilities associated with assets held for sale (note 6)	**-**	(1,331,677)
Environmental rehabilitation, end of year	**$ 300,838**	$ 479,838

13. Equity

Authorized - An unlimited number of common shares with no par value.

Share issuance details:

	Number of Common Shares	Amount
Balance, December 31, 2014 and 2015	84,644,973	181,814,354
Exercised options	100,000	19,526
Balance, December 31, 2016	84,744,973	181,833,880

(Expressed in United States dollars, unless otherwise stated)

13. Equity (continued)

Stock options

On August 25, 2014 the TSX Venture Exchange approved an amendment to the Company's Stock Option Plan (the "Plan"), which is a fixed plan, to increase the maximum number of shares reserved for issuance to directors, officers, employees and consultants of the Company under the Plan to 8,379,852 common shares. The exercise price, term and vesting period of each option are determined by the board of directors within regulatory guidelines and the terms of the Plan. The maximum number of common shares reserved for issuance remains less than 10% of the total issued and outstanding common shares of the Company.

Stock options	Number of Common Share Purchase Options	Weighted Average Exercise Price per Share ($CDN)
Balance, December 31, 2014	2,415,625	6.23
Expired	(1,031,250)	6.22
Balance, December 31, 2015	1,384,375	6.24
Granted	5,350,000	0.19
Exercised	(100,000)	0.17
Expired	(493,750)	6.55
Forfeited	(734,375)	5.80
Balance, December 31, 2016	5,406,250	0.39

Outstanding	**Vested**		**Exercise Price ($CDN)**	**Expiry Date**
87,500	87,500	$	8.16	June 11, 2017
68,750	68,750	$	6.32	February 28, 2018
4,850,000	4,850,000	$	0.17	March 2, 2021
400,000	400,000	$	0.40	March 2, 2021
5,406,250	5,406,250	$	0.39	

On august 10th, 100,000 options were exercised.

(Expressed in United States dollars, unless otherwise stated)

13. Equity (continued)

Stock based compensation

For the year ended December 31, 2016 the stock-based compensation expense was $584,172 (2015: $4,026). Fair value of stock options granted as above is calculated using the following weighted average assumptions.

	December 31 2016	December 31 2015
Risk-free interest rate	0.70%	-
Expected stock price volatility	92.35%	-
Expected dividend yield	n/a	-
Expected option life in years	5	-

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants
Balance, December 31, 2014	10,559,566
Expired	(293,750)
Balance, December 31, 2015	10,265,816
Expired	(532,908)
Balance, December 31, 2016	9,732,908

As of December 31, 2016 details of outstanding common shares purchase warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
9,732,908	$0.80	June 20, 2017

No warrants were issued during the current year (2015: nil).

(Expressed in United States dollars, unless otherwise stated)

14. Related Party Transactions

Except as noted elsewhere in these consolidated financial statements, the Company conducted the following related party transactions:

a) Trading transactions

The Company's related parties consist of companies owned by executive officers and directors and payments to these parties are as follows:

	Note	**December 31 2016**	December 31 2015
Technical and consulting fees	(i)	$ 52,039	$ 41,318

i) To a company controlled by a director of the Company.

b) Compensation of key management personnel

	December 31 2016	December 31 2015
Consulting fees (as above)	$ 52,039	$ 41,318
Directors' fees	22,224	193,406
Officer salaries	453,001	469,300
Stock-based compensation	584,172	4,026
	$ 1,111,436	$ 708,050

c) As a result of the 2014 Orion loan amendment (Note 11), the Company issued shares to Orion resulting in it becoming a significant shareholder and related party to the Company. Transactions with Orion:

	December 31 2016	December 31 2015
Repayment of loan principal	$ 40,223,056	$ -
Additional advance for loan facility	-	(3,000,000)
Payment of interest	-	1,374,157
Accrued interest	-	981,540
	$ 40,223,056	$ (644,303)

The loan with Orion is secured against the assets of the Company.

During 2015, Orion advanced $185,000 with respect to the sale of Shafter mobile equipment. The total consideration for Shafter mobile equipment to be sold is $3,500,000.

15. Commitments and contingencies

Head office lease

Effective May 1, 2014, the Company executed a lease agreement for new office space for a period of 48 months, expiring on April 30, 2018. The minimum monthly payment is $9,178. Subsequent the year end, in April, 2016 the Company subleased such premises for $7,489 per month and moved to a new location. The new head office has a monthly lease cost of $3,571 for a period of 36 months, expiring March 31, 2019.

Property Taxes

Included in accounts payable is $0.2 million related to property taxes owed on the Shafter property for 2013, 2014. During the quarter ended September 30, 2015, the Company and state officials agreed on a payment plan to settle the outstanding 2013 and 2014 balances through 24 equal monthly payments of $28,000 commencing July 30, 2015.

Class action

In February 2015, the Company entered into an agreement (the “Settlement Agreement”) to settle the class action litigation commenced by Nunzio Cardillo and John Witiluk in the Ontario Superior Court of Justice (the “Action”) against the Company and two former executives of the Company (the “Settlement”). The Settlement provides for the full and final settlement, release and dismissal of all claims brought under the Action. The Settlement was subject to a number of customary conditions, including the receipt of court approval of the Settlement, which approval was received on April 10, 2015.

Under the terms of the Settlement, the Company agreed to pay an aggregate of CDN$4,000,000 (the “Settlement Amount”), which amount, net of legal fees and other costs, will be divided among members of the plaintiff class on a pro rata basis. The Settlement Amount was fully funded by insurance maintained by the Company.

The Company elected to enter into the Settlement in order to avoid the expense, burden and inconvenience associated with the continuance of the Action. The Settlement does not constitute an admission by the Company of any violation of law or other wrongdoing.

A schedule of commitments due by period is as follows ($000s):

	Commitments due by year (000's)			
	Total	2017	2018	2019
	$	$	$	$
Rent	$ 100	$ 46	$ 46	$ 8

15. Commitments and contingencies (continued)

Claims to the Company

Trans-Pecos Pipeline, LLC ("Trans Pecos") is constructing a pipeline that will transport natural gas between the Permian Basin and Presidio, Texas for delivery to customers in Chihuahua, Mexico. The route of the pipeline crosses the Shafter property and may impact upon some aspects of mining-related activities if and when they resume. The pipeline project may have an additional impact on longer-term exploration and development. The Company had been in discussions with representatives of Trans Pecos concerning safety, the near and long-term impacts of a pipeline on the Company and Shafter, and alternate routes for the pipeline easement. In March 2016 the Company was made aware that Trans Pecos filed a lawsuit against RGMC to acquire the proposed easement through exercise of its alleged power of eminent domain. The Company has engaged counsel to challenge the public use of the pipeline project and to ensure it receives fair compensation for the impact of the proposed pipeline on the market value of the property and the Company's Shafter operations.

(Expressed in United States dollars, unless otherwise stated)

16. Supplemental Cash Flow Information

Cash and cash equivalents of the Company are comprised of bank balances and short-term investments, which are convertible to cash, with an initial term of 90 days or less as follows:

	December 31 2016	December 31 2015
Cash	**$ 663,566**	$ 236,239
Short-term investments	**-**	62
	$ 663,566	$ 236,301
Cash and bank balances included in a disposal group held for sale	**-**	53,579
	$ 663,566	$ 289,880

Supplemental disclosures of cash flow information for the year ended:

	December 31 2016	December 31 2015
Cash interest paid	**$ -**	$ 1,374,157
AR from equipment sold held in escrow	**140,000**	-

The short-term investments were made on an overnight basis and at rates from 0.2% to 1.1% per annum.

Non-cash investing and financing activities are as follows:

	2016	2015
Decrease in accounts payable related to construction in progress and equipment suppliers	$ (80,261)	$ (838,849)
Property and equipment acquired under finance lease	$ -	$ 2,374,654

(Expressed in United States dollars, unless otherwise stated)

17. Segmented Information

The reportable operating segments have been identified as the Shafter Project, Corporate and other segments and the discontinued operations of the La Negra mine (Note 6). The Company manages its business, including the allocation of resources and assessment of performance, on a project by project basis, except where the Company's projects are substantially connected and share resources and administrative functions.

December 31, 2016	Shafter	Corporate and other segments	Total Continuing Operations	La Negra (Discontinued Operations)	Total
Sales & Consulting fees to external customers	$ 57,848	$ 440,000	$ 497,848	$ -	$ 497,848
Shafter mine Care & Maintenance cost	749,874	-	749,874	-	749,874
G&A expenses and other expense	(175,270)	1,780,786	1,605,516	-	1,605,516
Loss before income taxes	(516,756)	(1,340,786)	(1,857,542)	-	(1,857,542)
gain from settlement of debt	-	1,878,179	1,878,179	-	1,878,179
Net income (loss) for the period	(516,756)	537,393	20,637	-	20,637
Property, plant and equipment	6,858,884	5,726	6,864,610	-	6,864,610
Mineral properties	9,500,000	-	9,500,000	-	9,500,000
Total capital assets	16,358,884	5,726	16,364,610	-	16,364,610
Total assets	16,502,890	947,166	17,450,056	-	17,450,056
Total liabilities	837,195	344,068	1,181,263	-	1,181,263

December 31, 2015	Shafter	Corporate and other segments	Total Continuing Operations	La Negra (Discontinued Operations)	Total
Sales to external customers	$ -	$ -	$ -	$ 27,422,723	$ 27,422,723
Mining operating expenses	-	-	-	24,335,869	24,335,869
Freight and delivery	-	-	-	1,445,905	1,445,905
Depreciation and amortization	-		-	5,507,358	5,507,358
Depletion of mineral properties	-	-	-	253,655	253,655
Loss from mine operations	-	-	-	(4,689,559)	(4,689,559)
Impairment of PP&E and mining interests	5,953,516	794,840	6,748,356	-	6,748,356
Shafter mine Care & Maintenance cost	818,494	-	818,494	-	818,494
G&A expenses and other expense	172,796	9,845,127	10,017,923	1,009,746	11,027,669
Loss before income taxes	(6,944,806)	(10,639,967)	(17,584,773)	(5,699,305)	(23,284,078)
Income tax expense (recovery)	3,462	3,030,927	3,034,389	(2,545,024)	489,365
Net income (loss) for the year	(6,948,268)	(13,670,894)	(20,619,162)	(3,154,281)	(23,773,443)
Intersegment charges (recovery)	-	(5,168,912)	(5,168,912)	5,168,912	-
Property, plant and equipment	6,858,884	7,297	6,866,181	50,134,719	57,000,900
Mineral properties	9,500,000	-	9,500,000	3,075,521	12,575,521
Total capital assets	16,358,884	7,297	16,366,181	53,210,240	69,576,421
Total assets	19,796,357	794,848	20,591,205	56,663,562	77,254,767
Total liabilities	1,358,519	41,864,863	43,223,382	18,723,470	61,946,852

(Expressed in United States dollars, unless otherwise stated)

18. Oil and Gas lease

On July 15, 2016 Silver Assets, Inc. ("SAI"), has entered into a term assignment agreement (the "Assignment") with a privately-owned, Texas-based oil and gas firm (the "Assignee"). Under the Assignment, three contiguous oil and gas leases (the "Leases") have been assigned by SAI to the Assignee for a three-year term, plus any further period during which oil or gas production takes place on the Leases. SAI has retained a Net Revenue Interest Royalty in respect of the Leases that may provide up to 25% of the net revenues therefrom. In consideration of the Assignment, the Assignee made a cash payment of US$374,469.41 to SAI. The Leases total 564 "mineral acres" and are located approximately 200 miles northeast of the Company's Shafter project, in the Permian Basin of West Texas, near Midland. The lease proceeds were allocated as follows:

	Years Ended December 31, 2016	2015
Deferred Revenue Short term	**$ 124,937**	$ -
Deferred Revenue Long term	**191,684**	-
	316,621	-
Revenue	**57,848**	-
	$ 374,469	$ -

19. General and administrative costs

	Years Ended December 31, 2016	2015
Salaries and consulting fees	**$ 648,242**	$ 1,312,335
Professional fees	**124,793**	283,949
Investor relations	**65,096**	102,140
Marketing and road shows	**129,615**	14,479
Listing and filing fees	**10,680**	42,548
Other	**243,658**	496,664
	$ 1,222,084	$ 2,252,115

(Expressed in United States dollars, unless otherwise stated)

20. Financing expense and other

	Years Ended December 31, 2016	2015
Accretion of Orion loan	-	3,602,960
Financing expense and bank charges	**7,600**	2,525,206
	$ 7,600	$ 6,128,166

21. Impairment

The Company reviews each asset or cash generating unit at each reporting date to determine whether there are any indicators of impairment. If any such indicators exist, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs of disposal and value in use.

The determination of fair value less cost of disposal and value in use requires management to make estimates and assumptions about expected production and sales volumes, metal prices, production and grades, operating costs, future capital expenditures and appropriate discount rates for future cash flows. The estimates and assumptions are subject to risk and uncertainty, and as such there is the possibility that changes in circumstances could alter these projections materially, which could impact the recoverable amount of the assets.

As at December 31, 2015, management of the Company determined that the decline in market capitalization of the Company and the decline in the price of silver and copper metals constituted impairment indicators for both the Shafter and La Negra mines. The Company involved an external independent valuation company in order to prepare a fair value less cost to sell assessment for Shafter mine property.

Shafter mineral property

The external independent valuation company used the appraised value method (cost approach) and comparable transaction analysis (market approach) for the valuation of the Shafter mineral property. The appraised value method was based on the assumption that the value of a property is enhanced or diminished by an exploration program and that funds spent on a property, and those to be spent in the immediate future, will produce value in today’s dollars, proportionate to the expenditures. Comparable transaction analysis was used for the market approach. It is based on the principle of substitution, which says that the economic value of an item tends to be determined by the cost of acquiring an equally desirable substitute. An equally desirable substitute is not an identical asset.

21. Impairment (continued)

For the property plant and equipment valuation, the appraiser assessed the market prices assuming a liquidation value as the most appropriate approach. Certain of plant and equipment items and assets classified as held for sale were impaired because they were found to be no longer available for use or sale.

The impairment or reverse impairment charges for assets held for sale, plant and equipment, and mining interests recorded for Shafter as of December 31, were as follows:

	December 31 2015
Shafter:	
Impairment for available for sale and property plant & equipment	$ 1,453,516
Impairment (reverse impairment) for Mineral Properties	$ 4,500,000
Other Mexican subsidiaries	
Impairment for property plant & equipment	794,840
Total Impairment	$ 6,748,356

(Expressed in United States dollars, unless otherwise stated)

22. Discontinued operations

During the fourth quarter of 2015, the Company announced a restructuring transaction with the Company's principal lender (Orion) to extinguish all debt obligations due and in default to the lender in exchange for the Company's interest in Minera La Negra S.A de C.V the owner and operator of the La Negra mine. The restructuring transaction was implemented pursuant to a plan of arrangement on January 7, 2016.

Losses and cash flows from discontinued operations are presented separately for comparative periods. As the operations and cash flows can be clearly distinguished from the rest of the Company, the components of net loss and cash flows have been presented separately as discontinued operations as follows:

	Years Ended December 31, 2016	2015
Discontinuing Operations		
Revenues		
Mining operations	$ -	$ 27,422,723
Cost of sales	-	26,351,269
Depreciation, depletion and amortization	-	5,761,013
Costs of sales	-	32,112,282
(Loss) Earnings from mine operations	-	(4,689,559)
Other items		
Financing expense and others	-	787,503
Impairment of Mineral Properties, plant and equipment and assets for sale	-	-
Foreign exchange loss (gain)	-	(913,563)
Loan and offtake agreement restructure loss and related costs	-	583,178
Severance payments	-	143,425
(Gain) loss on sale of equipment	-	-
Other expenses (income)	-	409,203
	-	1,009,746
Loss before income taxes	-	(5,699,305)
Current Income tax expense	-	74,938
Deferred income tax recovery	-	(2,619,962)
Net income for the year from discontinuing operations (attributable to owners of the Company)	$ -	$ (3,154,281)

22. Discontinued operations (Continued)

	Years Ended December 31, 2016	2015
Cash flow from discontinued operations		
Net cash inflows from operating activities	$ -	$ 8,807,717
Net cash (outflows) from investing activities	-	(3,714,205)
Net cash (outflows) from Financing activities	-	(1,941,177)
Net cash inflows/(outflows)	$ -	$ 3,152,335

23. Financial instruments

The Company's is exposed to certain financial risks, including foreign exchange risk and price risk.

(a) Foreign exchange risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates in currencies other than the functional currency of each entity. A significant change in the currency exchange rates between the local functional currency of each entity and the other currencies it employs could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2016, the Company's Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in USD dollars:

		December 31, 2016
Cash and cash equivalents	USD$	308,695
Accounts payable		-
	USD$	308,695
CAD$ Equivalent		**414,485**

Based on the above net exposures as at December 31, 2016, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US Dollar against the CDN Dollar would result in a $30,870 change to the Company's net income for the year.

23. Financial instruments (Continued)

At December 31, 2016, the Company's Mexican operations (U.S. dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		December 31, 2016
Cash and cash equivalents	MXP$	5,770,636
Other receivable		-
Accounts payable		(4,641,425)
	MXP$	1,129,211
USD$ Equivalent		**54,646**

Based on the above net exposures as at December 31, 2016, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the USD Dollar against the Mexican Peso would result in a $5,465 change to the Company's net income for the year.

(b) Credit risk:

The Company's credit risk is primarily attributable to cash and bank balances, short-term deposits, accounts receivable and amounts receivable.

The Company limits its credit exposure on cash held in bank accounts by holding its key transactional bank accounts with banks of investment grade. As the Company has its operations in developing countries, it is unavoidable that some cash is held with regional banks in areas where the banking system does not operate as efficiently as in major financial centers. In these circumstances, the Company attempts to keep only minimal balances with such banks.

The Company manages its credit risk on short-term deposits by only investing with counterparties that carry investment grade ratings as assessed by external rating agencies and spreading the investments across these counterparties. Under the Company's risk management policy, allowable counterparty exposure limits are determined by the level of the rating unless exceptional circumstances apply. A rating of "A-" grade or equivalent is the minimum allowable rating required as assessed by international credit rating agencies. Likewise, it is the Company's policy to deal with banking counterparties for derivatives who are rated "A-" grade or above by international credit rating agencies and graduated counterparty limits are applied depending upon the rating.

Exceptions to the policy for dealing with relationship banks with ratings below "A-" are reported to, and approved by, the Audit Committee. As at December 31, 2016 substantially all cash and short-term deposits are with counterparties with ratings "A-" or higher.

23. Financial instruments (Continued)

The Company's credit risk associated with trade accounts receivable is managed through establishing long-term contractual relationships with international trading companies using industry-standard contract terms. 100% of the Company's product sales and trade accounts receivable are generated from one customer representing 100% of the total sales for the year. Other accounts receivable consist of amounts owing from the sale of mining equipment and government authorities in relation to the refund of value-added taxes applying to inputs for the production process and property, plant and equipment expenditures.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Several adverse conditions and material uncertainties, including low metal prices, cast significant doubt upon the going concern assumption. The Company is engaged in negotiations with its principal lender to restructure its current debt in order to address ongoing liquidity concerns, while continuing to be focused on minimizing uncommitted capital expenditures and preserving the Company's growth options (see Note 1 - Nature of operations and going concern).

The Company manages liquidity risk by maintaining cash and cash equivalent balances and available credit facilities to ensure that it is able to meet its short-term and long-term obligations as and when they fall due. Company-wide cash projections are managed centrally and regularly updated to reflect the dynamic nature of the business and fluctuations caused by commodity price and exchange rate movements.

Accounts payable and accrued liabilities are due within the current operating period.

The Company's expected source of cash flow in the upcoming year will be from equity financing; loans, lease financing and entering into joint venture agreements, or a combination thereof. See Note 1 for additional discussion of Liquidity.

23. Financial instruments (Continued)

(e) Fair value estimation

The Company's financial instruments include cash and cash equivalents, trade and other receivables, amounts receivable, accounts payable and accrued liabilities, borrowings, embedded derivative liability and long-term debt. The carrying values of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities, approximate their fair values due to the relatively short-term nature of these amounts.

The Company classifies the fair value of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are: Level 1, which are inputs that are unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, which are inputs other than Level 1 quoted prices that are observable for the asset or liability, either directly or indirectly; and Level 3, which are inputs for the asset or liability that are not based on observable market data.

The carrying value and fair value of trade and other receivable and accounts payable and accrued liabilities as of December 31, 2016 are approximately the same. The Company assesses its financial instruments and non-financial contracts on a regular basis to determine the existence of any embedded derivatives which would be required to be accounted for separately at fair value and to ensure that any embedded derivatives are accounted for in accordance with the Company's policy.

24. Management of Capital

In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt and acquire or dispose of assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay dividends.

The Company's investment policy is to limit investments to guaranteed investment certificates, banker's acceptance notes, investment savings accounts or money market funds with high quality financial institutions in Canada and treasury bills, selected with regards to the expected timing of expenditures from operations.

25. Subsequent events

- On February 13, 2017, the Company announced non-brokered private placement. On February 14, 2017, issued an aggregate of 11,529,013 units (each a "Unit") at a purchase price of $0.30 per Unit, raising gross proceeds of $3,458,704. Each Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "Warrant") of Aurcana. Each Warrant will be exercisable to acquire one additional Common Share at an exercise price of $0.45 until February 27, 2020. Aurcana paid cash finder's fees to arm's length parties totaling $186,528, and issued an aggregate of 709,760 non-transferable common share purchase warrants to finders, having the same terms as the Warrants issued in the Offering. All securities issued in the Offering are subject to a hold period of four months, expiring June 28, 2017. The net proceeds of the Offering will be used for the exploration and development of the Shafter Project, and for general working capital purposes.

APPENDIX "F"

UNAUDITED FINANCIAL STATEMENTS OF AURCANA CORPORATION FOR THE THREE AND SIX MONTHS ENDING JUNE 30, 2018

AURCANA CORPORATION

Condensed Interim Consolidated Financial Statements

June 30, 2018

(Unaudited)

Expressed in United States dollars unless otherwise stated

850-789 West Pender Street, Vancouver BC V6C 1H2 Canada
PHONE : (604) 331-9333 FAX : (604) 633-9179
www.aurcana.com

(Unaudited and expressed in United States dollars)

	Notes	June 30 2018	December 31 2017
Assets			
Current assets			
Cash and cash equivalents	12	$ 2,334,997	$ 721,324
Trade and other receivables	3	161,378	256,598
Prepaid expenses and advances	4	72,539	123,912
Prepaid income tax		56,658	57,025
		2,625,572	1,158,859
Non Current assets			
Non-current prepaid expenses	4	5,295	5,558
Property, plant and equipment	5	6,957,709	6,958,512
Mineral Properties	6	10,035,202	10,035,202
		$ 19,623,778	$ 18,158,131
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	$ 128,858	$ 163,939
Deferred revenue	14	124,937	124,937
		253,795	288,876
Non Current liabilities			
Deferred revenue	14	4,792	66,747
Provision for environmental rehabilitation	8	300,838	300,838
		559,425	656,461
Equity	9		
Share capital		184,385,381	183,084,542
Contributed surplus		37,238,756	36,526,685
Accumulated other comprehensive income		3,078,591	3,036,898
Deficit		(205,649,540)	(205,157,620)
Total equity attributable to equity holders of the parent		19,053,188	17,490,505
Non-controlling interest		11,165	11,165
Total equity		19,064,353	17,501,670
		$ 19,623,778	$ 18,158,131

Nature of Operations and Going Concern (Note 1)
Commitments and Contingencies (Note11)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

"Jerry Blackwell"
Director

"Adrian Aguirre"
Director

Aurcana Corporation

Condensed Interim Consolidated Statements of Comprehensive Income

(Un audited and expressed in United States dollars, unless otherwise stated)

	Notes	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Continuing Operations					
Revenues					
Management Fees		**$ 120,000**	$ 120,000	**$ 240,000**	$ 240,000
Oil & Gas lease	14	**31,149**	31,149	**61,955**	61,955
		151,149	151,149	**301,955**	301,955
Other items					
General and administrative costs	15	**462,950**	328,278	**750,954**	655,329
Financing expense and others		**1,101**	944	**1,866**	2,129
Stock-based compensation		**-**	504,373	**-**	504,373
Shafter mine care & maintenance costs		**177,274**	182,444	**331,547**	361,366
Shafter mine geology and exploration		**76,255**	97,758	**138,614**	97,758
Project Development		**60,085**	-	**80,144**	-
Foreign exchange loss		**32,403**	107,796	**72,628**	174,046
Other (income) loss	16	**(581,878)**	(32)	**(581,878)**	(410)
		228,190	1,221,561	**793,875**	1,794,591
Net loss for the period before other comprehensive items		**$ (77,041)**	$ (1,070,412)	**$ (491,920)**	$ (1,492,636)
Items of other comprehensive income					
Currency translation adjustment		**14,742**	71,636	**41,693**	121,970
Comprehensive loss for the period		**$ (62,299)**	$ (998,776)	**$ (450,227)**	$ (1,370,666)
Total net loss attributable to:					
Non-controlling interest		**-**	(994)	**-**	(1,587)
Equity holders of the Company		**(77,041)**	(1,069,418)	**(491,920)**	(1,491,049)
		$ (77,041)	$ (1,070,412)	**$ (491,920)**	$ (1,492,636)
Total comprehensive loss attributable to:					
Non-controlling interest		**-**	(994)	**-**	(1,587)
Equity holders of the Company		**(62,299)**	(997,782)	**(450,227)**	(1,369,079)
		$ (62,299)	$ (998,776)	**$ (450,227)**	$ (1,370,666)
Weighted average number of shares – basic		**105,166,388**	96,273,987	**100,744,752**	92,643,303
Adjustment for:					
Weighted average number of shares diluted		**105,166,388**	96,273,987	**100,744,752**	92,643,303
Earnings (loss) per share					
From continuing and discontinued operations - basic & diluted		**$ -**	$ (0.01)	**$ -**	$ (0.02)
From continuing operations - basic & diluted		**$ -**	$ (0.01)	**$ -**	$ (0.02)

See accompanying notes to these consolidated financial statements.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited and expressed in United States dollars, unless otherwise stated)

	Share Capital		Contributed	Accumulated Other Comprehensive		Total Equity Attributable to Shareholders of	Non-controlling	Total
	#	$	Surplus	Income (Loss)	Deficit	the Company	Interest	Equity
Balance, December 31, 2016	84,744,973	181,833,880	34,837,262	2,682,160	(203,096,130)	16,257,172	11,621	16,268,793
Currency translation adjustment	-	-	-	121,970	-	121,970	-	121,970
Net loss for the period	-	-	-	-	(1,491,049)	(1,491,049)	(1,587)	(1,492,636)
Shares issued for:								
Private Placement	11,529,013	1,570,076	1,042,633	-	-	2,612,709	-	2,612,709
Share Issue Costs	-	(319,414)	142,417	-	-	(176,997)	-	(176,997)
Balance, June 30, 2017	96,273,986	183,084,542	36,526,685	2,804,130	(204,587,179)	17,828,178	10,034	17,838,212
Currency translation adjustment	-	-	-	232,768	-	232,768	-	232,768
Net loss for the period	-	-	-	-	(570,441)	(570,441)	1,131	(569,310)
Shares issued for:								
Stock-based compensation	-	-	-	-	-	-	-	-
Balance, December 31, 2017	96,273,986	183,084,542	36,526,685	3,036,898	(205,157,620)	17,490,505	11,165	17,501,670
Currency translation adjustment	-	-	-	41,693	-	41,693	-	41,693
Net loss for the period	-	-	-	-	(491,920)	(491,920)	-	(491,920)
Shares issued for:								
Private Placement	13,715,400	1,411,995	671,146	-	-	2,083,141	-	2,083,141
Share Issue Costs	-	(111,156)	40,925	-	-	(70,231)	-	(70,231)
Balance, June 30, 2018	109,989,386	$ 184,385,381	$ 37,238,756	$ 3,078,591	$ (205,649,540)	$ 19,053,188	$ 11,165	$ 19,064,353

See accompanying notes to these consolidated financial statements.

(Unaudited and expressed in United States dollars, unless otherwise stated)

	Six months ended June 30, 2018	2017
Cash flows from operating activities		
Net income (loss) for the period	**$ (491,920)**	$ (1,492,636)
Items not involving cash:		
Depreciation, depletion and amortization	**803**	1,554
Stock-based compensation	**-**	504,373
Unrealized foreign exchange (income) loss	**64,661**	138,460
Deferred revenue	**(61,955)**	(61,955)
Operating cash flow before changes in working capital	**(488,411)**	(910,204)
Net changes to non-cash working capital balances		
Trade and other receivables	**95,220**	(82,476)
Prepaid expenses and advances	**51,636**	4,619
Accounts payable and accrued liabilities	**(35,081)**	(94,959)
Cash used in operating activities	**(376,636)**	(1,083,020)
Cash flows from financing activities		
Share capital issued	**2,124,066**	2,612,710
Share Issue Costs	**(111,156)**	(176,998)
Cash provided by (used in) financing activities	**2,012,910**	2,435,712
Increase in cash and cash equivalents	**1,636,274**	1,352,692
Effect of exchange rate changes on cash	**(22,601)**	**(4,795)**
Cash and cash equivalents, beginning of the period	**721,324**	663,566
Cash and cash equivalents, end of the period	**$ 2,334,997**	$ 2,011,463

Supplemental Cash Flow information (Note 12)

See accompanying notes to these consolidated financial statements.

1. Nature of Operations and Going Concern

Aurcana Corporation (the "Company" or "Aurcana") was originally incorporated in Canada under the laws of Ontario in 1917 and on September 14, 1998 was continued under the *Canada Business Corporations Act* ("CBCA"). The Company is currently engaged in the exploration, development and operation of natural resource properties. The Company's principal development property is the Shafter silver property ("Shafter"), located in Presidio County, Texas through the Company's 100% owned US subsidiary, Silver Assets Inc, which is currently on "care and maintenance".

The Company's shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at Suite 850-789 West Pender Street, Vancouver, B.C., V6C 1H2, Canada.

These condensed Interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business including the review of dissolving the Mexican subsidiaries not in operations since January 2016. The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities. Several adverse conditions and material uncertainties, including low metal prices, may cast significant doubt upon the Company's ability to continue as a going concern. As at June 30, 2018, the Company had working capital of $2.5 million, compared with $0.9 million as at December 31, 2017. The major components of working capital at June 30, 2018 included $2.6 million of current assets, and $0.1 million in accounts payable.

2. Basis of Preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These interim financial statements do not include all the information required for a complete set of IFRS statements. However, selected notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2017.

These consolidated financial statements were approved for issue by the Board of Directors on August 21, 2018.

(Unaudited and expressed in United States dollars, unless otherwise stated)

3. Trade and Other Receivables

	June 30 2018	December 31 2017
Equipment sales receivable	**140,000**	140,000
Other receivables	**21,378**	116,598
	$ 161,378	$ 256,598

Equipment sales receivable were amounts held in escrow at June 30, 2018.

4. Prepaid expenses and advances

	June 30 2018	December 31 2017
Prepaid expenses	**$ 71,521**	$ 114,047
Other	**1,018**	9,865
Current portion	**72,539**	123,912
Non-current portion	**5,295**	5,558
	$ 77,834	$ 129,470

(Unaudited and expressed in United States dollars, unless otherwise stated)

5. Property, Plant and Equipment

	Buildings	Plant and Equipment	Mine Development Cost	Vehicles	Computer Equipment	Other	Total
Cost							
Balance at December 31, 2016	875,000	2,483,884	3,500,000	16,944	88,698	37,346	7,001,872
Reclassification from AHFS	-	95,500	-	-	-	-	95,500
Balance at December 31, 2017 & June 30, 2018	$ 875,000	$ 2,579,384	$ 3,500,000	$ 16,944	$ 88,698	$ 37,346	$ 7,097,372
Accumulated depreciation							
Balance at December 31, 2016	-	-	-	16,944	88,698	31,620	137,262
Charge for the year	-	-	-	-	-	1,598	1,598
Balance at December 31, 2017	-	-	-	16,944	88,698	33,218	138,860
Charge for the period						803	803
Balance at June 30, 2018	$ -	$ -	$ -	$ 16,944	$ 88,698	$ 34,021	$ 139,663
Net book value							
Balance at December 31, 2016	$ 875,000	$ 2,483,884	$ 3,500,000	$ -	$ -	$ 5,726	$ 6,864,610
Balance at December 31, 2017	$ 875,000	$ 2,579,384	$ 3,500,000	$ -	$ -	$ 4,128	$ 6,958,512
Balance at June 30, 2018	$ 875,000	$ 2,579,384	$ 3,500,000	$ -	$ -	$ 3,325	$ 6,957,709

Note: Mining and plant equipment and assets under construction, which are not in production, are not subject to amortization.

(Expressed in United States dollars, unless otherwise stated)

6. Mineral Properties

	Shafter, Texas, USA, in Care & Maintenance
Balance at December 31, 2016	$ 15,500,000
Expenditures	535,202
Balance at December 31, 2017 & June 30, 2018	$ 16,035,202
Accumulated depletion	
Balance at December 31, 2016	$ 6,000,000
Charge for the year	-
Balance at December 31, 2017 & June 30, 2018	$ 6,000,000
Net book value	
Balance at December 31, 2016	$ 9,500,000
Balance at December 31, 2017 & June 30, 2018	$ 10,035,202

Mineral properties subject to depreciation on the basis of unit of production method will not have depreciation when there is no production.

7. Accounts Payable and Accrued Liabilities

	June 30 2018	December 31 2017
Salaries, payroll deductions and employee benefits	$ -	$ 16,676
Property taxes	42,000	-
Surface Exploration	16,217	14,232
Prepaid insurance	20,182	77,942
Other	50,459	55,089
	$ 128,858	$ 163,939

(Expressed in United States dollars, unless otherwise stated)

8. Provision for Environmental Rehabilitation

In the current Period, the Company has not discounted the value due to uncertainty of when the reclamation will take place. The discounted liability has been recorded at $300,838 Since December 31st, 2016.

The environmental remediation liability is subject to revision based on future mine resource realization, and other factors which affect the costs incurred at future dates such as inflation and discount rates.

The provision for environmental rehabilitation for the period ended June 30, 2018 and the year ended December 31, 2017 is as follows:

	June 30 2018	December 31 2017
Environmental rehabilitation, beginning of the year	**$ 300,838**	$ 300,838
Change in estimates	**-**	-
Environmental rehabilitation, end of the year	**$ 300,838**	$ 300,838

9. Equity

Authorized - An unlimited number of common shares with no par value.

Share issuance details:

	Number of Common Shares	Amount
Balance, December 31, 2016	84,744,973	181,833,880
Private placement	11,529,013	1,570,076
Share Issue Costs	-	(319,414)
Balance, June 30, 2017 & December 31, 2017	96,273,986	183,084,542
Private placement	13,715,400	1,411,995
Share Issue Costs	-	(111,156)
Balance, June 30, 2018	109,989,386	184,385,381

On February 14, 2017, the Company issued an aggregate of 11,529,014 units (each a "Unit") at a purchase price of $CDN 0.30 per Unit, raising gross proceeds of $CDN 3,458,704. Each Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "Warrant") of Aurcana. Each Warrant will be exercisable to acquire one additional Common Share at an exercise price of $CDN 0.45 until February 27, 2020.

(Expressed in United States dollars, unless otherwise stated)

9. Equity (continued)

On April 27, 2018, the Company issued an aggregate of 13,715,400 units (each a "Unit") at a purchase price of $CDN 0.20 per Unit, raising gross proceeds of $CDN 2,743,080. Each Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "Warrant") of Aurcana. Each Warrant will be exercisable to acquire one additional Common Share at an exercise price of $CDN 0.30 until May 3, 2021.

Stock options

On June 27, 2017, the shareholders of the Company approved an amendment to the Company's fixed Stock Option Plan (the "Plan") to increase the number of options authorized to be issued from 8,379,852 to 14,441,098.

Stock options	Number of Common Share Purchase Options	Weighted Average Exercise Price per Share ($CDN)
Balance, December 31, 2016	5,406,250	0.39
Granted	2,950,000	0.32
Expired	(87,500)	8.16
Balance, June 30, 2017 & December 31, 2017	8,268,750	0.29
Expired	(68,750)	6.32
Balance, June 30, 2018	8,200,000	0.24

9. Equity (continued)

Stock options

Outstanding	**Vested**		**Exercise Price ($CDN)**	**Expiry Date**
4,850,000	4,850,000	$	0.17	March 2, 2021
400,000	400,000	$	0.40	August 5, 2021
2,950,000	2,950,000	$	0.32	April 27, 2022
8,200,000	8,200,000	$	0.24	

(Expressed in United States dollars, unless otherwise stated)

9. Equity (continued)

Stock based compensation

For the period ended June 30, 2018 the stock-based compensation expense was $nil (2017: $504,373). Fair value of stock options granted as above is calculated using the following weighted average assumptions.

	June 30 2018	December 31 2017
Risk-free interest rate	-	0.70%
Expected stock price volatility	-	95.35%
Expected dividend yield	-	n/a
Expected option life in years	-	4

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants
Balance, December 31, 2016	9,732,908
Private placement	11,529,013
Agents' warrants	709,760
Expired	(9,732,908)
Balance, June 30, 2017 & December 31, 2017	12,238,773
Private placement	14,187,800
Balance, June 30, 2018	26,426,573

As of June 30, 2018, details of outstanding common shares purchase warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
12,238,773	$0.45	February 27, 2020
14,187,800	$0.30	May 3, 2021
26,426,573	$0.37	

(Expressed in United States dollars, unless otherwise stated)

10. Related Party Transactions

Except as noted elsewhere in these consolidated financial statements, the Company conducted the following related party transactions:

a) Trading transactions

The Company's related parties consist of companies owned by executive officers and directors and payments to these parties are as follows:

	Note	**June 30 2018**	June 30 2017
Technical and consulting fees	(i)	$ 44,412	$ 43,693
General and administrative expenses	(ii)	11,736	11,242
Consulting fees		$ 56,149	$ 54,935

i) To a company controlled by a director of the Company.
ii) To a company controlled by the corporate secretary for management services performed as an officer.

b) Compensation of key management personnel

	June 30 2018	June 30 2017
Consulting fees (as above)	$ 56,149	$ 54,935
Officer salaries	322,223	277,225
Stock-based compensation	-	504,373
	$ 378,372	$ 836,533

11. Commitments and contingencies

Head office lease
The head office has a monthly lease cost of $3,571 for a period of 36 months, expiring March 31, 2019.

A schedule of commitments due by period is as follows ($000s):

	Commitments due by year (000's)		
	Total	2018	2019
	$	$	$
Rent	$ 32	$ 21	$ 11

12. Supplemental Cash Flow Information

Cash and cash equivalents of the Company are comprised of bank balances as follows:

	June 30 2018	December 31 2017
Cash	**$ 2,334,997**	$ 721,324

Supplemental disclosures of cash flow information for the year ended:

	June 30 2018	December 31 2017
AR from equipment sold held in escrow	**$ 140,000**	$ 140,000

(Expressed in United States dollars, unless otherwise stated)

13. Segmented Information

The reportable operating segments have been identified as the Shafter Project, Corporate and other segments. The Company manages its business, including the allocation of resources and assessment of performance, on a project by project basis, except where the Company's projects are substantially connected and share resources and administrative functions.

June 30, 2018	Shafter	Corporate and other segments	Total
Sales & Consulting fees to external customers	$ 61,955	$ 240,000	$ 301,955
Shafter mine Care & Maintenance cost	331,547	-	331,547
G&A expenses and other expense (income)	(443,784)	906,112	462,328
Loss before income taxes	174,192	(666,112)	(491,920)
Net income (loss) for the year	174,192	(666,112)	(491,920)
Property, plant and equipment	6,954,384	3,325	6,957,709
Mineral properties	10,035,202	-	10,035,202
Total capital assets	16,989,586	3,325	16,992,911
Total assets	17,635,616	1,988,162	19,623,778
Total liabilities	500,240	59,185	559,425

June 30, 2017	Shafter	Corporate and other segments	Total
Sales & Consulting fees to external customers	$ 61,955	$ 240,000	$ 301,955
Shafter mine Care & Maintenance cost	361,366	-	361,366
G&A expenses and other expense	98,511	1,334,714	1,433,225
Loss before income taxes	(397,922)	(1,094,714)	(1,492,636)
Net income (loss) for the year	(397,922)	(1,094,714)	(1,492,636)
Property, plant and equipment	6,858,884	4,172	6,863,056
Mineral properties	9,500,000	-	9,500,000
Total capital assets	16,358,884	4,172	16,363,056
Total assets	16,553,842	2,308,719	18,862,561
Total liabilities	676,414	347,935	1,024,349

(Expressed in United States dollars, unless otherwise stated)

14. Oil and Gas lease

On July 15, 2016 Silver Assets, Inc. ("SAI"), has entered into a term assignment agreement (the "Assignment") with a privately-owned, Texas-based oil and gas firm (the "Assignee"). Under the Assignment, three contiguous oil and gas leases (the "Leases") have been assigned by SAI to the Assignee for a three-year term, plus any further period during which oil or gas production takes place on the Leases. SAI has retained a Net Revenue Interest Royalty in respect of the Leases that may provide up to 25% of the net revenues therefrom. In consideration of the Assignment, the Assignee made a cash payment of US$374,469.41 to SAI. The Leases total 564 "mineral acres" and are located approximately 200 miles northeast of the Company's Shafter project, in the Permian Basin of West Texas, near Midland. The lease proceeds were allocated as follows:

	June 30 2018	December 31 2017
Deferred Revenue Short term	**$ 124,937**	$ 124,937
Deferred Revenue Long term	**4,792**	66,747
	129,729	191,684

	Six months ended June 30, 2018	**2017**
Revenue	**61,955**	**61,955**

15. General and administrative costs

	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Salaries and consulting fees	**$ 178,497**	$ 143,141	**$ 336,174**	$ 302,713
Professional fees	**36,064**	46,229	**61,081**	98,693
Investor relations	**43,838**	31,153	**66,338**	61,153
Marketing and road shows	**101,852**	51,199	**120,519**	80,226
Listing and filing fees	**42,491**	5,882	**57,127**	8,989
Other	**60,208**	50,674	**109,715**	103,555
	$ 462,950	$ 328,278	**$ 750,954**	$ 655,329

16. Other (income) loss

In June 2018 the Company received net proceeds of $582,651 from a mediated settlement of its eminent domain dispute against Trans-Pecos Pipeline, LLC ("Trans Pecos") at the Shafter Silver Project in Presidio County, Texas. Cash proceeds are net of all fees and expenses incurred.

Trans Pecos constructed a pipeline to transport natural gas between the Permian Basin and Presidio, Texas for delivery to customers in Presidio and Chihuahua, Mexico. The route of the pipeline crossed the Shafter property, owned by Rio Grande Mining Company ("RGMC"), a wholly-owned subsidiary of Aurcana. The Company had been in discussions with representatives of Trans Pecos concerning safety, the near and long-term impacts of a pipeline on the Company and Shafter, and alternate routes for the pipeline easement.

In March 2016 the Company was made aware that Trans Pecos filed a lawsuit against RGMC to acquire the proposed easement through exercise of its alleged power of eminent domain. The Company engaged counsel to challenge the public use of the pipeline project and, in the alternative, to ensure it received fair compensation for the impact of the proposed pipeline on the market value of the property and the Company's Shafter operations. In June 2018 the Company entered into a Permanent Easement Agreement granting the requested easement to Trans Pecos. The proposed settlement included the cash compensation for the land taken by Trans Pecos, industry-standard indemnity clauses against future damages, certain limitations on blasting parameters within a measured set-back from the pipeline right-of-way, and rights of access to the Company's roads at Shafter.

The pipeline is now built and operational. The pipeline right-of-way does not impact on any proposed resumption of operations at Shafter and should be of long-term benefit to the economy of Presidio County and its citizens.

17. Subsequent events

On July 30, 2018 the Company announced Transformational Transaction as follows:

1) **Material Acquisition and Reverse Take Over:** Subsequent to June 30, 2018 the Company entered into an agreement ("LOI") with Lascaux Resource Capital Fund I LP and certain wholly-owned investment vehicles (collectively, the "**LRC Group**") pursuant to which the Company intends to effect a business combination that will result in the Company acquiring all of the issued and outstanding shares of common stock of Ouray Silver Mines, Inc. a corporation incorporated under the laws of Colorado ("**Ouray**") and together with the LRC Group, the "**OSM Group**") on a debt free basis in exchange for newly issued common shares of the Company (collectively, the "**Proposed Transaction**"). Ouray is a private company wholly owned by the LRC Group. The OSM Group owns 100% of the Revenue-Virginius Mine ("**RV Mine**") in Ouray, Colorado which is a fully permitted past producing (last production 2015) polymetallic deposit that derived the majority of its revenue from silver. In June 2018, SRK Consulting (U.S.), Inc. completed a feasibility study of the RV Mine in compliance with National Instrument 43-101 – Standards of Disclosure for Mineral Projects

2) In connection with the Proposed Transaction, The Company also intends to complete an offering of subscription receipts to raise gross proceeds of not less than CDN$10 million (the "**Offering**") to close concurrent with the Proposed Transaction. Terms and the ultimate size of the Offering will be announced when finalized. The Proposed Transaction is contemplated to be completed by a Plan of Arrangement pursuant to the Business Corporations Act (British Columbia) (the "**Plan**"). The Parties target closing the Proposed Transaction in early November.

3) **Equipment Purchase Agreement:** The Company has entered into a purchase agreement (the "Equipment Purchase Agreement") with entities controlled by Orion Mine Finance to purchase equipment owned by the Orion and that are located at the Company's wholly-owned Shafter Mine (the "**SP Mine**") in Texas. The consideration paid under the Equipment Purchase Agreement will total $4.5 million, of which $500,000 will be paid in cash and the remainder of which will be paid by the issuance of 23,894,535 pre-Share Consolidation shares of the Company, which will be issued to Orion under the Plan of Arrangement.

4) **Updated PEA for the SP Mine:** The Company received results of an updated PEA for the SP Mine with an effective date of July 11, 2018 based on the Company's current mineral resource estimate dated December 11, 2015 (the "Resource Estimate"). The Resource Estimate was combined with an updated capital cost (in part based on the Equipment Purchase Agreement), updated operating cost, and an optimized mine plan. The updated PEA demonstrates a reasonably robust project that is highly leveraged to the price of silver bullion. The PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the economic results described in the PEA will be realized. See the Company's news release of July 30, 2018 for further information. The updated PEA technical report will be available on SEDAR within 45 days of July 30, 2018

Additional information may be found in disclosure documents filed under the Company's profile at www.sedar.com as well as at www.aurcana.com/_resources/news/nr-20180730.pdf