AURCANA CORPORATION

Consolidated Financial Statements

December 31, 2015

Expressed in United States dollars unless otherwise stated

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INDEPENDENT AUDITOR'S 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, 2015, and the consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated statement of 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's 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 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, 2015, 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 the company incurred a net loss of $23,765,157 during the year ended December 31, 2015 has an accumulated deficit of $203,133,321. 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, 2014, were audited by another auditor who expressed an unmodified opinion on the consolidated financial statements on April 13, 2015.

Chartered Professional Accountants
April 29, 2016
Vancouver, Canada

Aurcana Corporation

Consolidated Statements of Financial Position

(Expressed in United States dollars)

	Notes	December 31 2015	December 31 2014
Assets			
Current assets			
Cash and cash equivalents	19	**$ 236,301**	$ 1,606,762
Trade and other receivables	4	**42,687**	4,691,317
Inventories	5	**-**	2,255,986
Insurance proceeds receivable		**-**	4,000,000
Prepaid expenses and advances	6	**71,313**	514,180
Prepaid income tax	11	**39,929**	1,230,803
Assets held for sale	7	**60,074,062**	495,284
		60,464,292	14,794,332
Non Current assets			
Non-current prepaid expenses	6	**19,509**	598,554
Property, plant and equipment	8	**6,866,181**	62,087,730
Mineral properties	9	**9,500,000**	17,329,176
Deferred tax asset	11	**404,785**	2,779,702
		$ 77,254,767	$ 97,589,494
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	**$ 2,520,488**	$ 12,873,431
Settlement claim payable	18	**-**	4,000,000
Current portion of long-term debt	12	**-**	340,445
Current portion of borrowings	13	**40,223,056**	9,128,477
Liabilities associated with assets held for sale	7	**18,723,470**	-
		61,467,014	26,342,353
Non Current liabilities			
Long-term debt	12	**-**	14,813
Borrowings	13	**-**	23,510,079
Derivative liability	14	**-**	2,690,031
Deferred tax liability	11	**-**	6,818,737
Provision for environmental rehabilitation	15	**479,838**	1,946,338
		61,946,852	61,322,351
Equity	16		
Share capital		**181,814,354**	181,814,354
Contributed surplus		**34,260,229**	34,256,203
Accumulated other comprehensive income (loss)		**2,338,478**	(471,711)
Deficit		**(203,133,321)**	(179,368,164)
Total equity attributable to equity holders of the parent		**15,279,740**	36,230,682
Non-controlling interest		**28,175**	36,461
Total equity		**15,307,915**	36,267,143
		$ 77,254,767	$ 97,589,494

Nature of Operations and Going concern (Note 1)
Commitments and contingencies (Note 18)
Subsequent Events (Note 27)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

"Jerry Blackwell" — ***Director***

"Adrian Aguirre" — ***Director***

	Notes		Twelve months ended December 31, 2015		2014
Continuing Operations					
Other items					
General and administrative costs	21		**2,252,115**		3,219,207
Financing expense and others	22		**6,128,166**		6,862,860
Stock-based compensation			**4,026**		95,721
Impairment of Mineral Properties, plant and equipment and assets for sale	23		**6,748,356**		2,966,838
Shafter mine care & maintenance costs			**818,494**		1,949,959
Foreign exchange loss			**4,199,153**		2,731,264
Loan and offtake agreement restructure loss and related costs	13		**-**		2,610,261
Change in fair value of derivatives	14		**(2,690,031)**		(146,521)
Severance payments			**-**		828,857
Loss on sale of equipment			**17,898**		439,716
Other expenses (income)			**106,596**		(442,303)
			17,584,773		21,115,859
Loss before income taxes			**(17,584,773)**		(21,115,859)
Current Income tax expense	11		**90,911**		176,135
Deferred income tax expense	11		**2,943,478**		1,552,397
Net loss for the year from continuing operations		**$**	**(20,619,162)**	$	(22,844,391)
Discontinued Operations					
Net (loss) income for the year from discontinued operation	24		**(3,154,281)**		1,821,466
Net loss for the year before other comprehensive items		**$**	**(23,773,443)**	$	(21,022,925)
Items of other comprehensive income					
Items of other comprehensive income that may be reclassified subsequently to net income (loss):					
Currency translation adjustment			**2,810,189**		823,818
Comprehensive loss for the year		**$**	**(20,963,254)**	$	(20,199,107)
Total net loss attributable to:					
Non-controlling interest			**(8,286)**		(9,023)
Equity holders of the Company			**(23,765,157)**		(21,013,902)
		$	**(23,773,443)**	$	(21,022,925)
Total comprehensive loss attributable to:					
Non-controlling interest			**(8,286)**		(9,023)
Equity holders of the Company			**(20,954,968)**		(20,190,084)
		$	**(20,963,254)**	$	(20,199,107)
Weighted average number of shares – basic & diluted			**84,644,973**		74,511,589
Loss per share					
From continuing and discontinued operations - basic & diluted		**$**	**(0.28)**	$	(0.28)
From continuing operations - basic & diluted		**$**	**(0.24)**	$	(0.31)

See accompanying notes to these consolidated financial statements.

	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, 2013	58,412,564	$ 168,678,333	$ 32,329,060	$ (1,295,529)	$ (158,354,262)	$ 41,357,602	$ 45,484	$ 41,403,086
Currency translation adjustment	-	-	-	823,818	-	823,818	-	823,818
Net loss for the year	-	-	-	-	(21,013,902)	(21,013,902)	(9,023)	(21,022,925)
Shares issued for:								
Debt Restructuring	16,499,501	10,333,333	-	-	-	10,333,333	-	10,333,333
Private Placement	9,732,908	3,525,944	1,507,277	-	-	5,033,221	-	5,033,221
Share Issue Costs	-	(723,256)	324,145	-	-	(399,111)	-	(399,111)
Stock-based compensation	-	-	95,721	-	-	95,721	-	95,721
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

See accompanying notes to these consolidated financial statements.

	Notes	Twelve months ended December 31, 2015	2014
Cash flows from operating activities			
Net loss for the year		$ (23,773,443)	$ (21,022,925)
Items not involving cash:			
Depreciation, depletion and amortization		5,763,434	3,866,329
Financing expense and other		6,915,669	7,169,093
Loss on sale of equipment		17,898	173,652
Impairment of property, plant and equipment assets and mining interests		6,748,356	2,966,838
Stock-based compensation		4,026	95,721
Unrealized foreign exchange loss		3,263,493	2,215,786
Loan and offtake agreement restructure loss and related costs		-	2,813,641
Change in fair value of derivatives		(2,690,031)	(146,521)
Deferred Income tax		323,516	1,511,024
Operating cash flow before changes in working capital		(3,427,082)	(357,362)
Net changes to non-cash working capital balances			
Trade and other receivables		3,447,305	119,113
Inventories		191,397	3,814,277
Prepaid income tax		1,190,874	-
Prepaid expenses and advances		888,083	(399,695)
Accounts payable and accrued liabilities		401,137	(4,241,179)
Cash provided by (used in) operating activities		2,691,714	(1,064,846)
Cash flows from investing activities			
Proceeds from the sale of equipment		46,631	8,437,255
Purchase of property, plant and equipment		(3,714,205)	(8,873,874)
Cash used in investing activities		(3,667,574)	(436,619)
Cash flows from financing activities			
Share capital issued, net of share issue costs		-	4,634,110
Financing cost and interest		(1,374,157)	(3,531,468)
Proceeds from borrowings		3,000,000	-
Payments on borrowings		-	(13,301,445)
Payments on capital equipment contracts		(1,941,177)	(4,885,146)
Cash used in financing activities		(315,334)	(17,083,949)
Decrease in cash and cash equivalents		(1,291,194)	(18,585,414)
Effect of exchange rate changes on cash		(25,688)	(85,334)
Cash and cash equivalents, beginning of the year		1,606,762	20,277,510
Cash and cash equivalents, end of the year	19	$ 289,880	$ 1,606,762

Supplemental Cash Flow information (Note 19)

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, southwest. 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 27, 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, 2015, the Company had working capital of $1.4 million after the effects of the Restructuring Agreement are taken into consideration compared with a deficiency of $11.5 million as at December 31, 2014. The major components of working capital at December 31, 2015 after the effects of the Restructuring Agreement are taken into consideration included $0.4 million of current assets, $3.5 million of assets held for sale as noted in note 27(b) and $2.5 million in accounts payable.

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 (Note 13) will be extinguished in exchange for the Company's interest in the Mexican subsidiary that owns the La Negra mine. The Restructuring Transaction was implemented on January 7, 2016 (see Note 27 for further information).

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 financial statements were approved for issue by the Board of Directors on April 29, 2016.

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. de R.L. de C.V. and Minera Aurcana 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 the Company's Shafter property and Shafter Properties Inc., a dormant subsidiary.

Real de Maconi S.A. de C.V. ("Maconi"), a Mexican corporation, is fully consolidated with the Company at 100% of profit or loss and assets and liabilities of Maconi, and recognizes a 0.14% non-controlling interest in the results of Maconi. Maconi substantively owns 100% of Minera La Negra S.A. de C.V. ("La Negra"), a Mexican Corporation that operates La Negra mine, subject to one nominal share held by a second shareholder in order to comply with Mexican Company Law. La Negra was disposed of on January 7, 2016, subsequent to year end (Note 27).

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, 2015

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%	-
Minera la Negra S.A. de C.V.	Mexico	Mining Operations	99.86%	0.14%
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	Canada	Intermediate Holding Company	100%	-

Subsequent to year end:

- A restructuring transaction was implemented January 7, 2016 resulting in the disposition of Minera la Negra S.A. de C.V. (see note 27).
- 2488683 Ontario Corporation was dissolved with effect March 10, 2016.

Foreign Currency

(i) Functional and Presentation Currency

The 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 statement of income 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, U.S.A., Mexico, and Barbados 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.

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. The Company classifies short-term investments as available-for-sale financial assets.

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).

(ii) Fair Value of Derivatives and Other Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

3. Summary of Significant Accounting Policies (continued)

The Company uses its judgement to select a variety of methods and make assumptions that are based on market conditions existing at the end of each reporting period. The Company has used the silver, lead, copper and zinc commodity prices (reduced by the Company's usual discount to spot price) and the related volatility of the metals' prices, the Company's credit rating and credit risk spread based on the credit rating, market interest rates, and the expected copper, lead and zinc concentrates life of mine delivery schedule from its La Negra mine for the valuation of the Orion loan agreement liability and embedded derivatives and the Orion offtake agreement derivative entered into in April, 2014. Management valued the Orion Offtake agreement derivative using the Company's current sales contracts with Glencore as a basis, or a standard contract, to compare with. Management valued the Orion loan prepayment option derivative and the Offtake agreement derivative separately and made the significant judgement that market participants would value these derivatives in a similar way, i.e. without taking into account potential interaction of these derivatives. Management also concluded that a market participant would value the offtake agreement derivative without giving weight to the early termination feature.

Two amendments to the Orion loan agreement during 2014 saw the offtake agreement in relation to the Shafter mine terminated and new offtake agreements signed in relation to the La Negra mine production for a period of 5 years (2017 – 2021). An updated mineral resource estimate was completed in December 2014, which further impacted the fair value of the offtake agreement due to the reduced life of the La Negra mine estimate. (Note 13)

The fair value of the derivatives embedded in the amended Orion loan agreement and the offtake agreement as at December 31, 2015 were $nil (2014 - $2.7 million).

(iii) 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.

(iv) 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 8, 9 and 23)

3. Summary of Significant Accounting Policies (continued)

(v) 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.

(vi) 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.

(vii) 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 9).

(viii) 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.

3. Summary of Significant Accounting Policies (continued)

(i) Orion Loan Restructure

Judgement is required to determine whether amendments or changes of the Orion loan agreements represent extinguishment of an original liability and recognition of a new liability. Management performed assessment of quantitative and qualitative factors to determine the accounting treatment for the amendments and changes to the Orion loan agreements. The amendment of the Original Loan agreement, termination of the Original Offtake agreement and the New Offtake agreements signed in April, 2014 were accounted for as an extinguishment of the Original Loan and related derivative liabilities (Note 13).

In addition, management applied judgement and determined that the loan agreement and offtake agreements with Orion represent a linked transaction for accounting purposes.

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, 2015.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, and have not been applied in preparing these consolidated financial statement. 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.

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 2015	December 31 2014
Trade receivables	**$ -**	$ 1,929,817
Equipment sales receivable	**-**	2,680,279
Other receivables	**42,687**	81,221
	$ 42,687	$ 4,691,317

5. Inventories

	December 31 2015	December 31 2014
Supplies inventory	**$ -**	$ 1,995,136
Stockpile inventory	**-**	76,345
Concentrates and in-process inventory	**-**	184,505
	$ -	$ 2,255,986

Changes in finished good inventory and cost of inventories recognized as expense for 2015 and 2014 are included in discontinued operations (Note 24). Cost of sales includes change in finished goods inventory for the twelve months ended December 31, 2015 of $ 35,309 (Year ended December 31, 2014: $2,946,543).

6. Prepaid expenses and advances

	December 31 2015	December 31 2014
Prepaid expenses	**$ 29,823**	$ 500,749
Other	**41,490**	13,431
Current portion	**71,313**	514,180
Non-current portion	**19,509**	598,554
	$ 90,822	$ 1,112,734

7. Assets held for sale

	December 31 2015	December 31 2014
Assets held for sale Shafter (i)	**$ 3,410,500**	$ 495,284
Assets held for sale La Negra (ii)	**56,663,562**	-
	$ 60,074,062	$ 495,284
Liabilities associated with assets held for sale (ii)	**$ 18,723,470**	$ -

(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 (see note 27 (b) subsequent events).

	December 31 2015	December 31 2014
Underground mobile equipment	**$ -**	$ 158,212
Underground support Equipment	**224,572**	337,072
Plant Equipment	**3,185,928**	-
	$ 3,410,500	$ 495,284

(ii) As part of the Restructuring Transaction (Note 27), the Company will exchange all debt obligations under its debt facility (Note 13) 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	December 31 2014
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 15)	**1,331,677**	-
Deferred tax liability (Note 11)	**5,097,844**	-
	$ 18,723,470	$ -
Net assets of La Negra classified as held for sale	**$ 37,940,092**	$ -

8. Property, Plant and Equipment

	Buildings	Plant and Equipment	Mine Development Cost	Vehicles	Computer Equipment	Other	Assets Under Construction	Total
Balance at December 31, 2013	6,015,037	44,886,873	28,730,411	724,167	523,741	846,523	547,651	82,274,403
Additions	-	4,285,857	4,082,477	16,944	10,364	-	501,657	8,897,299
Reclassification	(2,953,951)	2,936,507	-	17,444	-	-	-	-
Reclassification to assets held for sale	-	(5,200,000)	-	-	-	-	-	(5,200,000)
Disposals	-	(7,142,134)	-	(97,400)	-	-	-	(7,239,534)
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 7)	-	(3,410,500)	-	-	-	-	-	(3,410,500)
Reclassification to assets held for sale La Negra (Note 7)	(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
Accumulated depreciation								
Balance at December 31, 2013	202,846	10,656,087	514,127	403,632	437,920	94,275	-	12,308,887
Reclassification	(30,268)	30,268	-	-	-	-	-	-
Charge for the year	132,981	3,209,591	134,242	110,072	51,611	34,670	-	3,673,167
Write-down of property, plant and equipment		600,000				479,838	-	1,079,838
Disposals	-	(417,454)	-	-	-	-	-	(417,454)
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 7)	(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
Net book value								
Balance at December 31, 2013	$ 5,812,191	$ 34,230,786	$ 28,216,284	$ 320,535	$ 85,821	$ 752,248	$ 547,651	$ 69,965,516
Balance at December 31, 2014	$ 2,755,527	$ 25,688,611	$ 32,164,519	$ 147,451	$ 44,574	$ 237,740	$ 1,049,308	$ 62,087,730
Balance at December 31, 2015	$ 875,000	$ 2,462,649	$ 3,500,000	$ -	$ -	$ 28,532	$ -	$ 6,866,181

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

9. Mineral Properties

	La Negra, Mexico, Producing Mine	Shafter, Texas, USA, in Care & Maintenance	Total
Cost			
Balance at December 31, 2013	$ 12,717,017	$ 15,500,000	$ 28,217,017
Expenditures	-	-	-
Balance at December 31, 2014	12,717,017	15,500,000	28,217,017
Expenditures	-	-	-
Transfer to assets held for sale	(12,717,017)	-	(12,717,017)
Balance at December 31, 2015	$ -	$ 15,500,000	$ 15,500,000
Accumulated depletion			
Balance at December 31, 2013	$ 9,166,476	$ -	$ 9,166,476
Charge for the year	221,365	-	221,365
Impairment of mining interests	-	1,500,000	1,500,000
Balance at December 31, 2014	9,387,841	1,500,000	10,887,841
Charge for the year	253,655	-	253,655
Impairment of mining interests		4,500,000	4,500,000
Transfer to assets held for sale	(9,641,496)	-	(9,641,496)
Balance at December 31, 2015	$ -	$ 6,000,000	$ 6,000,000
Net book value			
Balance at December 31, 2013	$ 3,550,541	$ 15,500,000	$ 19,050,541
Balance at December 31, 2014	$ 3,329,176	$ 14,000,000	$ 17,329,176
Balance at December 31, 2015	$ -	$ 9,500,000	$ 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.

10. Accounts Payable and Accrued Liabilities

	December 31 2015	December 31 2014
Property taxes	$ 659,406	$ 588,659
Salaries, payroll deductions and employee benefits	31,509	1,390,934
Employees' statutory profit sharing	1,570	39,096
Mine suppliers - operating	19,625	4,850,236
Mine suppliers - capital	80,261	1,292,079
Restructuring Transaction	542,941	-
Other	1,185,176	4,712,427
	$ 2,520,488	$ 12,873,431

11. 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:

	2015	2014
Earnings before income taxes	**$ (17,584,773)**	$ (21,115,859)
Canadian federal and provincial income tax rates	**26.00%**	26.00%
Income tax recovery based on above rates	**(4,572,041)**	(5,490,123)
Increase (decrease) due to:		
Non-deductible (taxable) items and other	**43,964**	959,434
Foreign exchange	**1,034,720**	1,287,802
Losses and temporary differences for which no future income tax asset has been recognized	**3,886,931**	3,719,830
Change estimate of deferred tax assets	**3,256,203**	1,528,112
Amount under provided for in prior years	**-**	2,615
Withhholding tax	**87,449**	142,296
Difference between foreign and Canadian tax rates	**(702,837)**	(421,434)
Income tax expense	**$ 3,034,389**	$ 1,728,532

	2015	2014
The income tax expense is comprised of:		
Current income tax expense	**$ 90,911**	$ 176,135
Deferred income tax expense	**2,943,478**	1,552,397
Income tax expense	**$ 3,034,389**	$ 1,728,532

	2015	2014
Income tax expense (recovery) by country:		
Canada	**$ 2,921,023**	$ 2,335,121
United States	**3,462**	-
Mexico	**109,904**	(606,589)
Income tax expense	**$ 3,034,389**	$ 1,728,532

11. Income Taxes (continued)

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

		2015		2014
Non-capital losses	**$**	**(4,073,523)**	$	(4,021,894)
Capital losses		**(719,857)**		(1,261,145)
Mineral properties		**(532,899)**		(14,793)
Property, Plant and Equipment		**14,950,423**		10,871,687
Asset retirement obligations		**(469,416)**		(516,941)
Share issue costs		**-**		(99,347)
Accruals and other items		**(5,046,060)**		(3,134,794)
Unrealized foreign exchange gains and other		**584,391**		2,216,261
	$	**4,693,059**	$	4,039,034
Represented on the balance sheet as:				
Deferred income tax assets, non-current	**$**	**(404,785)**	$	(2,779,703)
Deferred income tax liabilities, non-current		**5,097,844**		6,818,737
		4,693,059		4,039,034
Amount allocated to liabilities of discontinued operations (Note 7)		**(5,097,844)**		-
	$	**(404,785)**	$	4,039,034

Discontinued operations includes an income tax recovery of $2,619,962 (2014 - $41,373).

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

		2015		2014
Non-capital losses	**$**	**7,257,493**	$	3,392,234
Capital losses		**347,331**		-
Property, Plant and Equipment		**189,002**		167,943
Mineral property		**34,850,979**		36,084,630
Other items		**709,873**		742,295
	$	**43,354,678**	$	40,387,102

11. Income Taxes (continued)

Unrecognized tax losses:

As at December 31, 2015 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	Total
2018	$ -	$ 541,863	$ -	$ 541,863
2019	-	222,039	7,151,731	7,373,770
2020	-	33,069	-	33,069
2021	-	-	1,006,543	1,006,543
2022	-	14,334	626,664	640,998
2023	-	11,956	299,555	311,511
2024	-	193,820	-	193,820
2025	-	100,952	-	100,952
2026	-	164,165	-	164,165
2027	-	148,444	-	148,444
2028	-	168,559	-	168,559
2029	-	414,262	-	414,262
2030	-	247,948	-	247,948
2031	-	274,881	-	274,881
2032	-	316,214	-	316,214
2033	3,780,926	993,695	-	4,774,621
2034	3,036,733	7,678,870	-	10,715,603
2035	1,692,207	836,392	-	2,528,599
	$ 8,509,866	**$ 12,361,463**	**$ 9,084,493**	**$ 29,955,822**

The Company has income tax loss carry-forwards of approximately $12.4 million (2014 - $5.5 million) for United States tax purposes. These unrecognized tax losses will expire from 2018 to 2035. 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, 2015, which could further limit the availability of losses prior to the date of such a future change in control.

12. Current and Long-term Debt

	December 31 2015	December 31 2014
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US$14,813 plus interest at 7.9% per annum, maturing January 2016 *	**$ -**	$ 192,568
Atlas Copco - Capital equipment contracts, repayable in monthly payments totalling US$27,115 plus interest at 8.8% per annum, maturing June 2015	**-**	162,690
Total	**$ -**	$ 355,258

* At December 31, 2015, the $14,813 outstanding on this debt is included in the net assets of La Negra to be disposed. (note 7 (ii))

13. 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.

13. Borrowings (continued)

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.

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 (Note 14). 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.

13. Borrowings (continued)

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).

	December 31 2015	December 31 2014
Principal advanced Original loan	**$ -**	$ 37,066,660
Transaction costs	**-**	-
Derivative liability	**-**	-
Fair value of Original loan	**-**	37,066,660
Accretion	**-**	2,369,056
Sub-total	**-**	39,435,716
Repayments	**-**	(4,166,665)
Sub-total	**-**	35,269,051
Extinguishment of Original loan	**-**	(35,269,051)
Balance	**$ -**	$ -
Carrying value of amended loan	**$ 32,638,556**	$ 35,538,573
Accretion	**3,602,960**	1,484,763
Accrued interest	**981,540**	-
Additional financing	**3,000,000**	-
Repayments	**-**	(4,384,780)
Total Borrowings	**$ 40,223,056**	$ 32,638,556

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 27 for further information).

13. Borrowings (continued)

Carrying amounts and fair value of the current and non-current borrowings are as follows:

	Carrying amount		Fair value	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Orion Loan	40,223,056	32,638,556	40,223,056	31,836,912
Derivatives (note 14)	-	2,690,031	-	2,690,031
Total	**40,223,056**	35,328,587	**40,223,056**	34,526,943

These financial instruments are classified under level 3 hierarchy, as they are not based on observable market data.

14. Derivatives

The Company's debt facility agreement includes offtake agreements with the lender that contain derivatives.

Valuation methodology

The floor option derivative was valued upon initial measurement and subsequent periods using the Bloomberg swap valuation template. The prepayment option derivative was valued upon initial measurement and subsequent periods using a methodology, which is based on Monte-Carlo simulation. The default intensities of the Company are generated using a square root diffusion process. Monte Carlo simulation is a technique that relies on random sampling and is often used when there is no analytic or exact solution to the valuation. Key inputs used by the Company in its valuation include: the USD discount curve and the USD 1-month forward curve.

The offtake agreement derivative was decomposed into the sum of cash flows which depends on silver, copper, zinc and lead prices. Future metals prices were estimated using consensus analyst forecasts of top tier financial institutions. Key inputs used by the Company include: the USD risk free rate, historical silver, copper, zinc and lead prices and the Company's standard discount to spot price.

Valuation assumptions

The Company's credit spread as of the inception date of the loan of September 19, 2013 was calibrated by setting the fair value of the credit facility and the silver agreement equal to total proceeds of the transaction, resulting in a credit spread of 31.33% as at the inception date ("the calibrated spread") of the loan and offtake. The spread as at April 30, 2014 and December 31, 2015 and 2014 is based on the market borrowing interest rate for the Company of 15.4%.

14. Derivatives (continued)

The fair value of the derivatives as at December 31, 2015 is as follows:

Derivative liability – December 31, 2013	$10,932,524
Change in fair value	1,740,110
Derivative liability under the Original Orion Loan and Original Offtake agreement at April 30, 2014 (Note 13)	12,672,634
Derivative liability under the Amended Loan and New Offtake agreement at April 30, 2014	$3,944,891
Change in fair value as a result of loan modification	631,771
Change in fair value	(1,886,631)
Derivative liability – December 31, 2014	$2,690,031
Change in fair value	(2,690,031)
Derivative liability – December 31, 2015	$nil

15. Provision for Environmental Rehabilitation

The Company has accrued an estimated liability related to reclamation and closure costs at the La Negra mine based on the anticipated total future remediation cost, discounted to December 31, 2015 using a 6.16% discount rate (December 31, 2014 – 6.16%) and a 5.38% inflation rate (December 31, 2014: 4.08%), in the amount of $1,331,677 (December 31, 2014 - $1,466,500).

The Company has accrued an estimated liability related to reclamation and closure costs at the Shafter mine based on the anticipated total future remediation cost in the amount of $479,838 (December 31, 2014 - $479,838). Due to the uncertainty of when the reclamation will take place, the Company did not apply any discount rate or inflation rate (December 31, 2014 – nil %).

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.

15. Provision for Environmental Rehabilitation (continued)

The provision for environmental rehabilitation for the years ended December 31, 2015 and 2014 is as follows:

	December 31 2015	December 31 2014
Environmental rehabilitation, beginning of the year	**$ 1,946,338**	$ 1,716,965
Change in estimates	**(233,007)**	138,811
Accretion	**98,184**	90,562
Transfer to Liabilities associated with assets held for sale (Note 7)	**(1,331,677)**	-
Environmental rehabilitation, end of the year	**$ 479,838**	$ 1,946,338

16. Equity

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

Share issuance details:

	Number of Common Shares	Amount
Balance, December 31, 2013	58,412,564	$ 168,678,333
Debt restructuring	16,499,501	10,333,333
Private placement	9,732,908	3,525,944
Share Issue Costs	-	(723,256)
Balance, December 31, 2014 and 2015	84,644,973	181,814,354

On June 20, 2014 the Company issued an aggregate of 9,200,000 units (each a "Unit") of the Company at a purchase price of Cdn$0.55 per Unit for gross proceeds to the Company of Cdn$5,060,000 (the “Offering”). Each Unit consists of one common share of the Company and one common share purchase warrant (each a "Warrant"). Each Warrant entitles the holder to purchase an additional common share of the Company at an exercise price of Cdn$0.80 per Warrant for a period of 36 months from the closing of the Offering. The Company paid to the underwriter in respect of the Offering a commission of 6% of the gross proceeds of the Offering, which was paid by the issuance of an aggregate of 532,908 Units. In addition, the Company issued to the Underwriter a compensation warrant which entitles the Underwriter to purchase up to 532,908 common shares of the Company (equal to 6% of the number of Units sold under the Offering), exercisable at an exercise price of C$0.55 for a period of 24 months from the closing of the Offering. See below for fair value assumptions.

16. 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, 2013	3,459,374	5.87
Expired	(1,014,061)	5.19
Forfeited	(29,688)	7.00
Balance, December 31, 2014	2,415,625	6.23
Expired	(1,031,250)	6.22
Balance, December 31, 2015	1,384,375	6.24

Outstanding	**Vested**		**Exercise Price ($CDN)**	**Expiry Date**	
43,750	43,750	$	4.88	January 14, 2016	*
415,625	415,625	$	6.08	February 22, 2016	*
9,375	9,375	$	6.08	May 4, 2016	
487,500	487,500	$	5.52	May 30, 2016	
18,750	18,750	$	5.60	December 5, 2016	
240,625	240,625	$	8.16	June 11, 2017	
12,500	12,500	$	7.76	December 6, 2017	
156,250	156,250	$	6.32	February 28, 2018	
1,384,375	1,384,375	$	6.24		

*Subsequent to year end these options expired unexercised.

Stock based compensation

For the year ended December 31, 2015 the stock-based compensation expense was $4,026 (2014: $95,721). No stock options were granted during the current year (2014: nil).

16. Equity (continued)

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants
Balance, December 31, 2013	6,805,231
Issued	10,265,816
Expired	(6,511,481)
Balance, December 31, 2014	10,559,566
Expired	(293,750)
Balance, December 31, 2015	10,265,816

As of December 31, 2015 details of outstanding common shares purchase warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
532,908	$0.55	June 20, 2016
9,732,908	$0.80	June 20, 2017
10,265,816		

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

	December 31, 2015	December 31, 2014
Risk-free interest rate	-	1.12%
Expected stock price volatility	-	80.20%
Expected dividend yield	-	n/a
Expected warrant life in years	-	2.9

17. 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 2015	December 31 2014
Technical and consulting fees	(i)	$ 41,318	$ 110,102
Management fees	(ii)	-	920,502
Consulting fees		$ 41,318	$ 1,030,604

i) To a company controlled by a director of the Company.
ii) To a company controlled by the former President and CEO for management services performed.

b) Compensation of key management personnel

	December 31 2015	December 31 2014
Consulting fees (as above)	$ 41,318	$ 1,030,604
Directors' fees	193,406	178,055
Officer salaries	469,300	407,387
Stock-based compensation	4,026	95,721
	$ 708,050	$ 1,711,767

c) As a result of the 2014 Orion loan amendment (Note 13), the Company issued shares to Orion resulting in it becoming a significant shareholder and related party to the Company. Transactions with Orion:

	December 31 2015	December 31 2014
Repayment of loan principal	$ -	$ 4,384,780
Additional advance under loan facility	$ (3,000,000)	$ -
Payment of interest	$ 1,374,157	$ 1,047,191
Accrued interest	$ 981,540	$ -

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.

18. Commitments and contingencies

Supply agreements
In March 2011, the Company signed a contract with Metagri S.A. de C.V. ("Metagri") (a subsidiary of Glencore) whereby Metagri agreed to purchase 100% of the lead concentrate to be produced at the La Negra mine until the end of 2013. During 2013, the agreement with Metagri was extended to the end of 2016 and amended to include all lead, copper and zinc concentrates.

On April 29, 2014, Aurcana entered into new offtake agreements with its principal lender in respect of copper, zinc and lead concentrate produced at its La Negra mine for the period from January 1, 2017 to December 31, 2020. In order to improve Aurcana's liquidity in the short term, the principal lender agreed to waive 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 offtake agreements by one year to 2021.

In January 2015, the Company signed a contract with Mercuria S.A. de C.V. whereby Mercuria agreed to purchase 100% of the copper concentrate to be produced at the La Negra mine during 2015. The Company was granted permission by Metragri to sell the copper concentrate to Mercuria during 2015.

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.

Shafter equipment operating lease
On December 1, 2013 the Company signed an operating lease agreement for mining equipment for Shafter in the amount of $1,227,024 with a term of 30 months and equal monthly payments of $44,467. During the quarter ended March 31, 2015, the Company signed an early lease termination agreement with the lessor. Under the terms of the settlement, the Company paid $100,000 to the lessor and will make 15 monthly payments of $10,000 each with the first payment due April 1, 2015. The outstanding balance as at December 31, 2015 was $70,000.

Property Taxes
Included in accounts payable is $0.7 million in property taxes owed on the Shafter property for 2013, 2014 and 2015. 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.

18. Commitments and contingencies (continued)

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):

	Total	2016	2017	2018	2019
	$	$	$	$	$
Total rent	$ 154	$ 54	$ 46	$ 46	$ 8

18. Commitments and contingencies (continued)

Claims by the Company

The Company had commenced a claim against a third party with regards to royalty payments made between 2007 and 2012. The Company asserts these payments were made in error and did not make any payments for 2013, 2014 and 2015. An amount payable of $4.5 million, inclusive of interest, is included in accounts payable and accrued liabilities as part of discontinue operations.

Claims to the Company

A pipeline development has been proposed by Trans-Pecos Pipeline, LLC ("Trans Pecos") that will transport natural gas between the Permian Basin and Presidio, Texas for delivery to customers in Chihuahua, Mexico. The proposed route of the pipeline passes through the Shafter property. As currently surveyed, the proposed route is not expected to materially impact upon any possible resumption of mining activities in the near-term, but its longer-term impact on mining and exploration is uncertain. The Company has 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 the route of the pipeline easement itself. On March 30 2016 the Company was made aware that Trans Pecos has launched a suit against Rio Grande Mining Company ("RGMC") in order to acquire the proposed right-of-way through eminent domain. The Company intends to defend its rights to compensation and/or indemnification against any future cost or loss caused by the proximity of the proposed pipeline to the Company's Shafter operations. Given the early stage of this dispute, management considers costs (if any) to be incurred related to this matter to be indeterminate at this time and as such, have not accrued any costs or expenses in these financial statements related to this dispute.

19. 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 2015	December 31 2014
Cash	**$ 236,239**	$ 1,602,720
Short-term investments	**62**	4,042
	$ 236,301	$ 1,606,762
Cash and bank balances included in a disposal group held for sale	**53,579**	-
	$ 289,880	$ 1,606,762

Supplemental disclosures of cash flow information for the year ended:

	December 31 2015	December 31 2014
Cash interest paid	**$ 1,374,157**	$ 3,219,236
Amounts receivable for equipment sold	**-**	2,680,279

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:

	December 31 2015	December 31 2014
Decrease in accounts payable related to construction in progress and equipment suppliers	$ (838,849)	$ (220,102)
Property and equipment acquired under finance lease	$ 2,374,654	$ -

20. 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 7). 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, 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
Royalties	-	-	-	569,495	569,495
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

* Includes $40.2 million related to Orion loan (See note 27)

December 31, 2014	Shafter	Corporate and other segments	Total Continuing Operations	La Negra (Discontinued Operations)	Total
Sales to external customers	$ -	$ -	$ -	$ 42,745,731	$ 42,745,731
Mining operating expenses	-	-	-	33,215,132	33,215,132
Royalties	-	-	-	1,147,963	1,147,963
Freight and delivery	-	-	-	2,062,116	2,062,116
Depreciation and amortization	-		-	3,644,963	3,644,963
Depletion of mineral properties	-	-	-	221,365	221,365
Earnings (loss) from mine operations	-	-	-	2,454,192	2,454,192
Impairment of PP&E and mining interests	2,966,838	-	2,966,838	-	2,966,838
Shafter mine Care & Maintenance cost	1,949,959	-	1,949,959	-	1,949,959
General and administrative expenses	18,566	16,180,496	16,199,062	674,099	16,873,161
Income (loss) before income taxes	(4,935,363)	(16,180,496)	(21,115,859)	1,780,093	(19,335,766)
Income tax expense	-	1,728,532	1,728,532	(41,373)	1,687,159
Net income (loss) for the year	(4,935,363)	(17,909,028)	(22,844,391)	1,821,466	(21,022,925)
Intersegment charges (recovery)	-	(6,283,850)	(6,283,850)	6,283,850	-
Property, plant and equipment	11,549,109	1,172,821	12,721,930	49,365,799	62,087,729
Mineral properties	14,000,000	-	14,000,000	3,329,176	17,329,176
Total capital assets	25,549,109	1,172,821	26,721,930	52,694,975	79,416,905
Total assets	26,110,875	19,460,589	45,571,464	52,018,030	97,589,494
Total liabilities	1,419,867	42,350,296	43,770,163	17,552,188	61,322,351

21. General and administrative costs

	Twelve months ended December 31, 2015	2014
Salaries and consulting fees	$ 1,312,335	$ 1,560,586
Professional fees	283,949	627,512
Investor relations	102,140	121,983
Marketing	14,479	74,799
Listing and filing fees	42,548	107,551
Other	496,664	726,776
	$ 2,252,115	$ 3,219,207

22. Financing expense and other

	Twelve months ended December 31, 2015	2014
Accretion of Orion loan (Note 13)	3,602,960	3,859,295
Financing expense and bank charges	2,525,206	3,003,565
	$ 6,128,166	$ 6,862,860

23. 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.

23. Impairment (continued)

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.

The 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	December 31 2014
Shafter:		
Impairment of assets held for sale and equipment	**$ 1,453,516**	$ 1,466,838
Impairment of mineral properties	**4,500,000**	$ 1,500,000
Other Mexican subsidiaries		
Impairment of property	**794,840**	-
Total impairment	**$ 6,748,356**	$ 2,966,838

23. Impairment (continued)

La Negra mine

The recoverable amount of the La Negra mine is based on its future after-tax cash flows expected to be derived from its mineral resources. The projected cash flows used in impairment testing are significantly affected by changes in assumptions for metal prices, future capital expenditures, changes in the amount of recoverable reserves, resources, and exploration potential, production costs estimates, discount rates, inflation and exchange rates. The Company's testing resulted in no impairment losses for the La Negra mine and incorporated the following assumptions:

i) Weighted average cost of capital

Projected cash flows were discounted using an after-tax discount rate of 9% which represented the Company's weighted average cost of capital and which included estimates for risk-free interest rates, market value of the Company's equity, market return on equity, share volatility and debt-to-equity financing ratio.

ii) Pricing assumptions

Metal pricing included in the cash flow projections for the next five years is based on consensus analyst pricing. The metal prices assumptions used in the Company's impairment assessment were as follows:

	2016	2017	2018	2019	2020 - 2022
Precious Metals					
Silver Price (US$/oz)	$15.94	$16.78	$17.11	$17.79	$17.33
Base & Other Metals					
Copper Price (US$/lb)	$2.37	$2.51	$2.69	$2.76	$2.86
Zinc Price (US$/lb)	$0.91	$1.01	$1.07	$1.15	$1.01

iii) Life of mine ("LOM")

The projected LOM for La Negra was estimated at seven years for the purposes of the impairment test.

iv) Sensitivity

The Company undertook a sensitivity analysis to identify the impact of changes in long-term metal pricing and production costs relative to current assumptions that would cause La Negra's carrying amount to exceed its recoverable amount.

The Company determined that a reduction in metal prices of 2.2% would cause the recoverable amount to equal the carrying value, although, this could be partially offset by the impact on prices of certain other inputs. An increase of 4.2% in production cost assumptions would also cause the recoverable amount to equal the carrying value.

24. Discontinued operations

During the fourth quarter, 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:

	Twelve months ended December 31, 2015	2014
Discontinuing Operations		
Revenues		
Mining operations	**$ 27,422,723**	$ 42,745,731
Cost of sales	**26,351,269**	36,425,211
Depreciation, depletion and amortization	**5,761,013**	3,866,328
Costs of sales	**32,112,282**	40,291,539
(Loss) Earnings from mine operations	**(4,689,559)**	2,454,192
Other items		
Financing expense and others	**787,503**	306,233
Foreign exchange loss (gain)	**(913,563)**	(541,266)
Loan and offtake agreement restructure loss and related costs	**583,178**	203,380
Severance payments	**143,425**	731,459
(Gain) loss on sale of equipment	**-**	(266,064)
Other expenses (income)	**409,203**	240,357
	1,009,746	674,099
Loss before income taxes	**(5,699,305)**	1,780,093
Current Income tax expense	**74,938**	-
Deferred income tax recovery	**(2,619,962)**	(41,373)
Net income for the year from discontinuing operations (attributable to owners of the Company)	**$ (3,154,281)**	$ 1,821,466

24. Discontinued operations (Continued)

	Twelve months ended December 31, 2015	2014
Cash flow from discontinued operations		
Net cash inflows from operating activities	**$ 8,807,717**	$ (3,778,107)
Net cash (outflows) from investing activities	**(3,714,205)**	7,101,996
Net cash (outflows) from Financing activities	**(1,941,177)**	(5,253,136)
Net cash inflows/(outflows)	**$ 3,152,335**	$ (1,929,247)

25. 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, 2015, 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, 2015
Cash and cash equivalents	USD$	84,889
Accounts payable		(112,553)
Loan payable		(40,223,056)
	USD$	(40,250,720)
CAD$ Equivalent		**(55,706,997)**

Based on the above net exposures as at December 31, 2015, 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 $5,570,700 change to the Company's net income for the year.

25. Financial instruments (Continued)

At December 31, 2015, 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, 2015
Cash and cash equivalents	MXP$	1,883,923
Other receivable		-
Accounts payable		(8,137,829)
	MXP$	(6,253,906)
USD$ Equivalent		**(363,462)**

Based on the above net exposures as at December 31, 2015, 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 $3,635 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, 2015 substantially all cash and short-term deposits are with counterparties with ratings "A-" or higher.

25. 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.

25. Financial instruments (Continued)

The following table summarizes the Company's undiscounted financial liabilities:

	Payments due by year (000's)					
	Total	< 1 year	1-2 years	2-3 years	3-4 years	Thereafter
	$	$	$	$	$	$
Accounts payable	$2,520	$2,520	$ Nil	$ Nil	$ Nil	$ Nil
Long Term-debt (current portion)	Nil	Nil	Nil	Nil	Nil	Nil
Borrowings	40,223	40,223	Nil	Nil	Nil	Nil
Derivative liability	Nil	Nil	Nil	Nil	Nil	Nil
Total	$42,743	$42,743	$ Nil	$ Nil	$ Nil	$ Nil

Borrowings refer to Orion loan extinguished on January 7, 2016 (see note 27)

(d) Price risk

Aurcana Corporation
Price Risk Sensitivity at Discontinued Operations
Calculated on the actual revenues in $ USD

				10% variance on:				**Sensitivity effect on**	
Metal content	**2015 Average sales price**	**Price as at December 31, 2015**	**Unit**	**Average sales price**	**Price as at December 31, 2015**	**Volume on Sales of 2015**	**Unit**	**Average sales price**	**Price as at December 31, 2015**
Silver	$ 15.41	$ 13.82	oz	$ 1.54	$ 1.38	1,004,136	oz	$ 1,547,374	$ 1,387,716
Copper	2.48	2.13	lb	0.25	0.21	2,158	tn	1,179,879	1,013,364
Zinc	0.83	0.73	lb	0.08	0.07	4,608	tn	843,189	741,600
Lead	0.80	0.82	lb	0.08	0.08	1,311	tn	231,221	237,001
								3,801,663	3,379,681
				T.C. refining and smelting charges				1,059,390	941,798
				Revenues before royalties				2,742,273	2,437,883
				Royalties on Revenues				76,784	68,261
				Net revenues				$ 2,665,489	$ 2,369,622

The impact of a 10% variance on 2015 average price represents an increase or decrease of $2,742,273 in revenues from mining operations before royalties.

The impact of a 10% variance on price at December 31, 2015, represents an increase or decrease of $2,437,883 in revenues from mining operations before royalties.

25. Financial instruments (Continued)

The Company is subject to revenue price risk from fluctuations in the market prices of copper, silver, lead and zinc. The Company is also exposed to commodity price risk on diesel fuel through its mining operations. The Company's risk management policy does not currently provide for the management of these exposures through the use of derivative financial instruments. Commodity price risk is also the risk that metal prices will move adversely during the time period between shipment of the concentrate and final payment for the concentrate. The Company's commodity price risk related to financial instruments primarily relates to changes in fair value of embedded derivatives in accounts receivable reflecting commodity sales provisionally priced based on the forward price curve at the end of each quarter.

Based on the gross revenues generated from sales of copper, silver, lead and zinc for the year ended December 31, 2015, and assuming that all other variables remain constant, a 10% depreciation or appreciation in the prices of these commodities would result in a $2.7 million decrease or increase, respectively, to the Company's reported in earnings or loss for the year.

(e) Fair value estimation

The Company's financial instruments include cash and cash equivalents, trade and other receivables, short-term investments, 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 following table summarizes the fair value hierarchy, as of December 31, 2015:

Recurring measurements	Fair Value Through Profit or Loss	Loans and Receivables	Other Financial Assets and Liabilities	Total	Fair Value Hierarchy
Financial Liabilities					
Derivative liabilities	$ -	$ -	$ -	$ -	
	$ -	**$ -**	**$ -**	**$ -**	

25. Financial instruments (Continued)

The following table summarizes the fair value hierarchy, as of December 31, 2014:

Recurring measurements	Fair Value Through Profit or Loss	Loans and Receivables	Other Financial Assets and Liabilities	Total	Fair Value Hierarchy
Financial Liabilities					
Derivative liabilities	$ (2,690,031)	$ -	$ -	$ (2,690,031)	Level 3
	$ (2,690,031)	**$ -**	**$ -**	**$ (2,690,031)**	

The carrying value and fair value of trade and other receivable and accounts payable and accrued liabilities as of December 31, 2015 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.

The valuation technique used in the determination of fair values within Level 3 of the hierarchy, and the key unobservable inputs used in the valuation model are disclosed in Note 14.

26. 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.

27. Subsequent events

On January 7, 2016, the Company completed the Restructuring Transaction under which all of the Company's debt obligations to Orion Mine Finance (Master) Fund I L.P. (the "Lender"), as lender under the Company's amended and restated senior secured credit facility dated April 29, 2014 (the "Facility") (Note 13), were extinguished pursuant to proceedings under the *Canada Business Corporations Act* (the "CBCA Proceedings") commenced and announced by the Company on October 30, 2015.

The Restructuring Transaction has the following key elements:

a) All of the debt obligations due and in default under the Facility will be exchanged for the Company's interests in its Mexican subsidiaries that own the La Negra mine, resulting in the elimination of US$40.2 million of principal amount of secured debt due and in default under the Facility on completion of the Restructuring Transaction (Note 13);

b) A newly incorporated affiliate of the Lender ("Newco") will purchase certain non-core equipment from the Company's Shafter property for a total purchase price of US$3.5 million;

c) Newco will pay the Company US$40,000 per month for a total period of 12 months for certain consulting services to be provided to Newco by specified officers of the Company in connection with the operation of the La Negra mine; and

d) The Company will retain all of its other assets, including the Shafter mine, with no dilution to shareholders.