



AURCANA SILVER CORPORATION

Condensed Interim Consolidated Financial Statements

June 30, 2022

(Unaudited)

Expressed in United States dollars unless otherwise stated

2751 Graham Street, Victoria BC V8T 3Z1 Canada

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the Company's interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by, and are the responsibility of, the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of financial statements by an entity's auditor.

"Kevin Drover"
President and CEO

"Charles R. Andrews"
CFO

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

	Notes	June 30 2022	December 31 2021
Assets			
Current assets			
Cash and cash equivalents	24	\$ 46,135	\$ 1,535,841
Trade and other receivables	4	45,470	90,058
Inventory	5	1,751,788	2,075,734
Prepaid expenses and advances	6	2,478,745	3,475,922
		4,322,138	7,177,555
Non Current assets			
Long term deposits		326,260	326,260
Non-current prepaid expenses		-	4,240
Property, plant and equipment	7	70,874,637	70,478,429
Mineral Properties	8	40,885,708	40,885,708
Right-of-use asset	9	-	4,271
Reclamation deposits	10	7,839	525,245
Total assets		\$ 116,416,582	\$ 119,401,708
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	\$ 13,342,522	\$ 12,071,916
Private financing	14	4,291,128	3,525,436
Mercuria financing	16	310,000	-
Current portion of lease payable	9	-	5,343
Current portion of borrowings	16	28,000,000	5,992,676
		45,943,650	21,595,371
Non Current liabilities			
Long term accrued liabilities	13	3,344,948	3,344,948
Provision for environmental rehabilitation	15	1,120,270	1,120,270
Borrowings	16	-	15,943,614
Close-Out derivatives	17	18,283,950	-
Derivative liability	17	-	3,306,545
Total liabilities		68,692,818	45,310,748
Equity			
Share capital	18	71,873,613	69,249,146
Contributed surplus		154,962,997	152,428,438
Accumulated other comprehensive income		(1,811,270)	916,082
Deficit		(177,312,741)	(148,513,871)
Total equity attributable to equity holders of the parent		47,712,599	74,079,795
Non-controlling interest		11,165	11,165
Total equity		47,723,764	74,090,960
		\$ 116,416,582	\$ 119,401,708

Nature of Operations and Going Concern (Note 1)
Subsequent Events (Note 30)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

“Peter Fairfield”
Director

“Michael P. Gross”
Director

Aurcana Silver Corporation

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the Periods Ended June 30, 2022 and 2021
(Expressed in United States dollars, unless otherwise stated)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2022	2021	2022	2021
Expenses					
General and administrative costs	19	\$ 1,007,425	\$ 689,248	\$ 1,986,588	\$ 1,445,153
Financing expense and others	20	1,800,643	542,735	7,596,178	1,061,174
Maintenance costs	21	1,244,544	60,624	5,903,138	105,971
Depreciation and amortization property, plant and equipment	7	123,811	160	277,016	315
Amortization of right-of-use asset	9	-	4,586	4,271	9,036
Stock-based compensation	18	376,777	1,329,097	893,317	1,439,174
Foreign exchange (gain) loss		<u>(2,741,755)</u>	<u>(564,558)</u>	<u>(2,744,253)</u>	<u>1,013,500</u>
		1,811,445	2,061,892	13,916,255	5,074,323
Gain (loss) in derivatives fair value estimate	17	-	(2,814,629)	(14,977,405)	318,338
Other income		<u>(18,662)</u>	<u>404,169</u>	<u>94,790</u>	<u>411,921</u>
Net income (loss) for the period before other comprehensive items		(1,830,107)	(4,472,352)	(28,798,870)	(4,344,064)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Currency translation adjustment		<u>(2,625,729)</u>	<u>(552,622)</u>	<u>(2,727,352)</u>	<u>800,879</u>
Total other comprehensive income (loss) for the period		<u>(2,625,729)</u>	<u>(552,622)</u>	<u>(2,727,352)</u>	<u>800,879</u>
Total comprehensive income (loss) for the period		<u>\$ (4,455,836)</u>	<u>\$ (5,024,974)</u>	<u>\$ (31,526,222)</u>	<u>\$ (3,543,185)</u>
Weighted average number of shares basic and diluted		309,131,509	275,708,062	303,663,190	269,883,904
Loss per share					
Loss per share basic and diluted		\$ (0.01)	\$ (0.02)	\$ (0.09)	\$ (0.02)

See accompanying notes to these condensed interim consolidated financial statements.

Aurcana Silver Corporation
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in United States dollars, unless otherwise stated)

	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Shareholders of the Company	Non- controlling Interest	Total Equity
	Number of shares	\$						
Balance, December 31, 2020	238,010,005	47,167,854	138,413,862	176,172	(113,059,603)	72,698,285	11,165	72,709,450
Net income for the period	-	-	-	-	(4,344,064)	(4,344,064)	-	(4,344,064)
Shares issued for:								
Private placement (note 18)	34,292,893	17,920,795	8,466,538	-	-	26,387,333	-	26,387,333
Share Issue Costs (note 18)	-	(1,839,085)	499,534	-	-	(1,339,551)	-	(1,339,551)
Exercised warrants	5,897,611	2,236,875	(412,428)	-	-	1,824,447	-	1,824,447
Stock-based compensation	-	-	1,439,174	-	-	1,439,174	-	1,439,174
Currency translation adjustment	-	-	-	800,879	-	800,879	-	800,879
Balance, June 30, 2021	278,200,509	65,486,439	148,406,680	977,051	(117,403,667)	97,466,503	11,165	97,477,668
Net loss for the period	-	-	-	-	(31,110,204)	(31,110,204)	-	(31,110,204)
Shares issued for:								
Private placement (note 18)	12,275,542	4,767,088	2,394,263	-	-	7,161,351	-	7,161,351
Share Issue Costs (note 18)	1,530,530	(1,025,322)	573,169	-	-	(452,153)	-	(452,153)
Exercised warrants	60,000	20,941	(3,085)	-	-	17,856	-	17,856
Stock-based compensation expensed	-	-	56,922	-	-	56,922	-	56,922
Stock-based compensation capitalized	-	-	1,000,489	-	-	1,000,489	-	1,000,489
Currency translation adjustment	-	-	-	(60,969)	-	(60,969)	-	(60,969)
Balance, December 31, 2021	292,066,581	69,249,146	152,428,438	916,082	(148,513,871)	74,079,795	11,165	74,090,960
Net loss for the period	-	-	-	-	(28,798,870)	(28,798,870)	-	(28,798,870)
Shares issued for:								
Private placement (note 18)	16,592,928	3,239,147	1,501,111	-	-	4,740,258	-	4,740,258
Share Issue Costs (note 18)	472,000	(614,680)	140,131	-	-	(474,549)	-	(474,549)
Stock-based compensation expensed	-	-	893,317	-	-	893,317	-	893,317
Currency translation adjustment	-	-	-	(2,727,352)	-	(2,727,352)	-	(2,727,352)
Balance, June 30, 2022	309,131,509	\$ 71,873,613	\$ 154,962,997	\$ (1,811,270)	\$ (177,312,741)	\$ 47,712,599	\$ 11,165	\$ 47,723,764

See accompanying notes to these condensed interim consolidated financial statements.

Aurcana Silver Corporation
Condensed Interim Consolidated Statements of Cash Flows
For the Periods Ended June 30, 2022 and 2021
(Expressed in United States dollars, unless otherwise stated)

	Notes	Six months ended June 30,	
		2022	2021
Cash flows from operating activities			
Net income (loss) for the period		\$ (28,798,870)	\$ (4,344,064)
Items not involving cash:			
Depreciation and amortization property plant and equipment	7	277,016	315
Stock-based compensation	18	893,317	1,439,174
Amortization right to use asset	9	4,271	9,036
Write-off Accounts Payable (PPP)			(421,000)
Accretion of lease liability	9	126	1,498
Finance Cost	16	6,063,710	1,048,664
Change in derivatives fair value estimate	17	14,977,405	(318,338)
Write-down on property, plant and equipment	7	203,822	-
Unrealized foreign exchange loss		(2,744,253)	1,013,500
Operating cash flow before changes in working capital		<u>(9,123,456)</u>	<u>(1,571,215)</u>
Net changes to non-cash working capital balances			
Trade and other receivables		44,588	(31,681)
Prepaid expenses and advances		1,001,417	235,169
Inventory		323,946	(1,432,454)
Accounts payable and accrued liabilities		1,270,606	987,889
Term deposits		-	(250,087)
Cash used in operating activities		<u>(6,482,899)</u>	<u>(2,062,379)</u>
Cash flows from investing activities			
Mine development		-	(32,065,307)
Purchase of property, plant and equipment		(877,046)	194,831
Restricted assets		517,406	
Cash used in investing activities		<u>(359,640)</u>	<u>(31,866,376)</u>
Cash flows from financing activities			
Lease payments	9	(5,453)	(35,911)
Borrowings	16	310,000	-
Share capital issued	18	4,740,258	28,211,780
Share Issue Costs	18	(474,549)	(1,339,551)
Cash provided by financing activities		<u>4,570,256</u>	<u>26,836,318</u>
(Decrease) / increase in cash and cash equivalents		(2,272,283)	(7,092,437)
Effect of exchange rate changes on cash		782,577	(217,562)
Cash and cash equivalents, beginning of the year		1,535,841	29,678,781
Cash and cash equivalents, end of the period		<u>\$ 46,135</u>	<u>\$ 22,368,782</u>

Supplemental Cash Flow information (Note 23)

See accompanying notes to these condensed interim consolidated financial statements.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

1. Nature of Operations and Going Concern

Aurcana Silver Corporation (the “Company”) was originally incorporated in Canada under the laws of the Province of Ontario in 1917 and on September 14, 1998 was continued under the *Canada Business Corporations Act* (“CBCA”). On August 24, 2020 The Company changed its name to Aurcana Silver Corporation. With the change of name, the Company has continued under the Business Corporation Act of the Province of British Columbia. The Company’s common shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at 2751 Graham Street, Victoria BC V8T 3Z1 Canada.

The Company is engaged in the exploration, development, and operation of natural resource properties. The Company’s development property is the Revenue-Virginus Mine (“Ouray”), located in Colorado through the Company’s 100% owned US subsidiary, Ouray Silver Mines (“OSMI”). The Shafter silver property (“Shafter”), located in Presidio County, Texas through the Company’s 100% owned US subsidiary, Aurcana US Hold 1 Co Ltd. and it is currently on care and maintenance. After June 30, 2022, an event affected the property in Colorado, for additional information see subsequent event (note 30).

These condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business including the process of dissolving the Mexican subsidiaries not in operations since January 2016. The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities. Several adverse conditions and material uncertainties, including metal prices, may cast significant doubt upon the Company’s ability to continue as a going concern. As at June 30, 2022, the Company had a negative working capital of \$41.6 million, compared with negative \$14.4 million as at December 31, 2021. The major components of working capital at June 30, 2022 included \$28.0 of current portion of borrowings, \$4.3 of private financing, and \$13.3 million in accounts payable. Consolidated deficit of \$177.3 million as at June 30, 2022, compared with \$148.5 million at December 31, 2021.

2. Basis of Preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) 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 included on the audited consolidated financial statements as at and for the year ended December 31, 2021. “Basis of Consolidation”, “Subsidiary” and “Functional Currency” notes (Under Note 3 per the audited consolidated financial statements as at and for the year ended December 31, 2021).

These condensed interim consolidated financial statements do not include all the information required for a complete set of IFRS statements. However, selected notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual audited consolidated financial statements as at and for the year ended December 31, 2021.

These consolidated financial statements were approved by the Board of Directors on August 26, 2022.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

3. Use of estimates and judgements.

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses, consistent with those disclosed in the 2021 annual audited consolidated financial statements and described in these condensed interim consolidated financial statements. Actual results may differ from these estimates.

4. Trade and Other Receivables

	June 30 2022	December 31 2021
GST receivable	8,848	5,852
Others	36,622	84,206
	<u>\$ 45,470</u>	<u>\$ 90,058</u>

5. Inventory

The company's inventory is all located at Ouray Silver Mines, consisting as per the following breakdown:

	June 30 2022	December 31 2021
Maintenance	\$ 699,387	\$ 820,477
Mine consumables	686,680	805,570
Mill consumables	158,852	186,355
Spare parts	15,176	139,946
General consumables	191,693	123,386
	<u>\$ 1,751,788</u>	<u>\$ 2,075,734</u>

There is no provision for slow moving and obsolescence for the period ended June 30, 2022, and the year ended December 31, 2021.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

6. Prepaid expenses and advances

	June 30 2022	December 31 2021
	<u>2022</u>	<u>2021</u>
Prepaid expenses	\$ 2,464,257	\$ 3,463,122
Rent	14,488	12,800
Current portion	2,478,745	3,475,922
Non-current portion of rent	-	4,240
	<u>\$ 2,478,745</u>	<u>\$ 3,480,162</u>

	June 30 2022	December 31 2021
	<u>2022</u>	<u>2021</u>
Rent	\$ 14,488	\$ 17,040
Insurance	476,624	1,295,617
Mine	1,987,633	2,167,505
	<u>\$ 2,478,745</u>	<u>\$ 3,480,162</u>

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

7. Property, Plant and Equipment

	Buildings	Plant and Equipment (i)	Mine Development Cost (ii)	Vehicles	Computer Equipment	Other	Total
Cost							
Balance at December 31, 2020	5,849,708	14,046,536	23,551,522	302,382	276,896	525,589	44,552,633
Additions	-	-	66,256,164	281,864	-	-	66,538,028
Impairment on property, plant and equipment	-	-	(30,986,655)	-	-	-	(30,986,655)
Write-down and disposals	-	(5,146)	-	(23,775)	-	-	(28,921)
Balance at December 31, 2021	5,849,708	14,041,390	58,821,031	560,471	276,896	525,589	80,075,085
Additions	-	877,046	-	-	-	-	877,046
Write-down and disposals	-	(40,576)	-	(268,839)	-	-	(309,415)
Balance at June 30, 2022	\$ 5,849,708	\$ 14,877,860	\$ 58,821,031	\$ 291,632	\$ 276,896	\$ 525,589	\$ 80,642,716
Accumulated depreciation							
Balance at December 31, 2020	\$ 798,798	\$ 6,840,504	\$ -	\$ 139,623	\$ 268,568	\$ 402,402	\$ 8,449,895
Disposals	-	-	-	(23,775)	-	-	(23,775)
Charge for the year (iii)	121,931	979,728	-	68,250	627	-	1,170,536
Balance at December 31, 2021	920,729	7,820,232	-	184,098	269,195	402,402	9,596,656
Disposals	-	(12,688)	-	(92,905)	-	-	(105,593)
Charge for the period	60,966	191,290	-	24,451	309	-	277,016
Balance at June 30, 2022	\$ 981,695	\$ 7,998,834	\$ -	\$ 115,644	\$ 269,504	\$ 402,402	\$ 9,768,079
Net book value							
Balance at December 31, 2021	\$ 4,928,979	\$ 6,221,158	\$ 58,821,031	\$ 376,373	\$ 7,701	\$ 123,187	\$ 70,478,429
Balance at June 30, 2022	\$ 4,868,013	\$ 6,879,026	\$ 58,821,031	\$ 175,988	\$ 7,392	\$ 123,187	\$ 70,874,637

All property, plant and equipment assets are located in the United States of America.

- (i) Mining machinery, plant and property for Shafter, which has not demonstrated technical feasibility and commercial viability, are not subject to depreciation.
- (ii) Mining and plant equipment and assets under construction, which are not in production, are not subject to depreciation.
- (iii) During the year 2021, depreciation for OSMI has been reclassified to mine development cost due to preproduction ramp-up.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

On November 8, 2021, the Company identified the temporary material productivity limitation to underground production caused by the rock movement as an indication of impairment and performed an impairment assessment to determine the recoverable amount of the Ouray cost Generating Unit (“CGU”). The Ouray CGU comprises the operations of Ouray Silver Mines Inc. and the Revenue-Virginus project located in Ouray, Colorado. The recoverable amount of \$84,041,000 was determined by cash flow projection based on a life of mine plan with cash flows covering a period of 6 years. As the recoverable amount was lower than the carrying amount, an impairment charge of \$30,986,655 was recorded. As the recoverable amount of each individual asset of the CGU could not be determined, the impairment charge was recorded against property, plant and equipment, resulting in a carrying amount of \$84,041,000 for the Ouray CGU.

The recoverable amount of the CGU is the higher of its fair value less cost of disposal and its value in use. Fair value of the CGU is determined as the present value of the estimated future cash flows expected to arise from the continued operation of the mine, including any expansion, and its eventual disposal, using assumptions that an independent market participant may take into account, discounted by an appropriate discount rate to arrive at a net present value of the mine. Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued operation of the mine in its present form and its eventual disposal. The recoverable amount of the CGU was determined based on its fair value less costs of disposal and is categorized as a level 3 measurement.

Estimates of expected future cash flows reflect estimates of future revenues, cash costs of production and capital expenditures contained in the Company’s long-term life of mine (“LOM”) plans, which considers the optimal level of investment, overall production levels and sequence of extraction taking into account all relevant characteristics of the ore body, including waste to ore ratios, ore grades, haul distances, chemical and metallurgical properties impacting process recoveries, capacities of available extraction, haulage and processing equipment, and other factors. Projected future revenues reflect the Company’s estimates of future metals prices, which are determined based on current prices, forward prices and forecasts of future prices prepared by industry analysts. Cost estimates incorporate management experience and expertise, current operating costs, the nature and location of the operation, and the risks associated with the operation. Future capital expenditures are based on management’s best estimate of expected future capital requirements, with input from management’s experts where appropriate

The discount rate applied to present value the net future cash flows is based on market participant mining weighted average costs of capital adjusted for risks specific to the mine.

The following are the key assumptions used in impairment testing calculations for the year ended December 31, 2021:

	Commodity Price	Mine Production	Mill Production
Silver	\$21.00-\$24.23 \$/troy oz	14,645 koz	13,860 koz
Gold	\$1,712.88-\$1,866.56 \$/troy oz	33.90 koz	23.14 koz
Copper	\$3.30-\$4.39 \$/lbs	2,832 klb	2,532 klb
Lead	\$0.8-\$1.06 \$/lbs	56,838 klb	53,692 klb
Zinc	\$1.13- \$1.64/lbs	24,599 klb	22,950 klb
Discount rate	8%		

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

8. Mineral Properties

	Revenue-Virginus, Colorado, USA, In development	Shafter, Texas, USA, In Care & Maintenance	Total
Balance at December 31, 2020, December 31, 2021, and June 30, 2022	\$ 27,764,038	\$ 13,121,670	\$ 40,885,708

9. Leases

The Company leases its office space in Vancouver British Columbia Canada, and the office space and warehouse space in Ouray Colorado USA.

The Vancouver lease was for three years with an option to renew expired on March 31, 2022. The Ouray lease was for three years with an option to renew expired on December 31, 2021. After year end, OSMI paid rent for the warehouse in Ouray until a new lease is executed.

Company's right-of-use assets and lease liability for the facilities is as follows:

Right-of-use asset					
	Canada		USA		Total
Balance as at December 31, 2020	\$ 22,249	\$	98,658	\$	120,907
Capitalization (mine development)	-		73,989		73,989
Amortization *	17,978		24,669		42,647
Balance as at December 31, 2021	4,271		-		4,271
Amortization	4,271		-		4,271
Balance as at June 30, 2022	\$ -	\$	-	\$	-

* The 2021 amortization for OSMI has been reclassified to mine development cost due to pre-production ramp-up.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

9. Leases (continued)

The liability pertaining to the lease of the facilities was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 14%.

As at June 30, 2022, no future payments are required under the Company's leases are as follow:

Lease liability				
		Canada	USA	Total
Balance as at December 31, 2020	\$	24,846	\$ 112,676	\$ 137,522
Payments		(22,124)	(121,404)	(143,528)
Accretion capitalized		-	7,019	7,019
Accretion expense		2,291	1,709	4,000
Currency translation adjustment		330	-	330
Balance as at December 31, 2021		5,343	-	5,343
Payments		(5,453)	-	(5,453)
Accretion capitalized		-	-	-
Accretion expense		126	-	126
Currency translation adjustment		(16)	-	(16)
Balance as at June 30, 2022	\$	-	\$ -	\$ -

10. Reclamation Deposits

Reclamation deposits are amounts related to deposits made by the Company to the State of Colorado for the mine closure of the Revenue-Virginus Mine and this deposit is held until the mine effectively closes. On June 16, 2022, the Company received the refund of the cash bond in the amount of \$517,406. The cash bond was replaced on May 10, 2022 with a surety policy in the same amount.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

11. Accounts Payable and Accrued Liabilities

	June 30 2022	December 31 2021
Salaries, payroll deductions and employee benefits	\$ 127,346	\$ 230,817
Property taxes	228,506	204,781
PPE & Mine development	6,747,185	7,665,459
Mine supplies	3,858,683	1,351,241
Insurance	100,598	1,003,735
Accrued Interest	1,710,769	295,075
Interest and bank charges	2,532	269,219
Other	569,435	1,051,589
	<u>\$ 13,342,522</u>	<u>\$ 12,071,916</u>

12. Paycheck Protection Program

On April 29, 2020, the Company received a loan in the amount of \$ 421,000 pursuant to the United States Coronavirus Aid, Relief, and Economic Security Act's (the CARES Act), Paycheck Protection Program (PPP). The loan matures on April 29, 2022 (2-year term) and bears interest at a rate of 1%. The benefit of the below-market rate of interest is not material. The loan is forgivable in circumstances where the funds are used for payroll costs, interest on mortgages, rent and utilities and that at least 60% of the forgiven amount must have been used for payroll. No payments were made during the year. On April 1, 2021, the loan was approved for full forgiveness and included in other income on the consolidated statements of loss and comprehensive income (loss).

13. Contingencies

From time to time, the Company is named as a party to claims or involved in proceedings, including legal, regulatory and tax related, in the ordinary course of its business. While the outcome of these matters may not be estimable at the reporting date, the Company makes provisions, where possible, for the estimated outcome of such claims or proceedings. Should a loss result from the resolution of any claims or proceedings that differs from these estimates, the difference will be accounted for as a charge to profit or loss in that period.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

13. Contingencies (continued)

Brahma Group, Inc. v. OSMI

Brahma Group, Inc. (“Brahma”) alleges breach of a Professional Services Agreement dated August 19, 2020, between OSMI and Brahma (the “Construction Contract”), pursuant to which, OSMI engaged the services of Brahma as a project management and industrial construction company for the retrofit and refurbishment of certain processing facilities at the Revenue-Virginus Mine. Brahma also asserts claims for Quantum Meruit and Unjust Enrichment against OSMI and Foreclosure of Mechanic’s Lien against OSMI. Brahma is seeking to recover \$3,344,948 in costs from OSMI. This case is currently stayed pending the outcome of a related arbitration currently pending with the American Arbitration Association (the “Arbitration”). The Arbitration Hearing is currently set for January 2023. The Company has recorded a provision of \$3,344,948 for this matter as of December 31, 2021.

14. Private Financing

During the last quarter of 2021, the Company received cash advances of \$3,576,783 from three lenders through a private financing transaction. Interest shall accrue on funds deposited at 5.75% per annum. Accrued interest as at June 30, 2022 is not material. The term and conditions are under negotiation with the lenders.

15. Provision for Environmental Rehabilitation

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

The provision for environmental rehabilitation for the period ended June 30, 2022 and the year ended December 31, 2021 is as follows:

	June 30 2022	December 31 2021
Environmental rehabilitation, beginning of the year	\$ 1,120,270	\$ 1,120,270
Environmental rehabilitation, end of the period	<u>\$ 1,120,270</u>	<u>\$ 1,120,270</u>

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

15. Provision for Environmental Rehabilitation (continued)

The Company has recorded its best estimate of the cost to rehabilitate the known features on the mineral properties as a provision for environmental rehabilitation for the period ended June 30, 2022, the provision is \$1,120,270, of which \$644,000 is attributed to RGMC, and \$476,270 is attributed to OSMI. A long-term inflation rate of 2% was used in the analysis, which when off-set against a long-term risk-free discount rate of 2%, the impact of discounting was not significant. The future cash flows required to settle this obligation involve a degree of uncertainty as these are estimates at this time.

16. Borrowings

Original key commercial terms

On December 8, 2020 (the “Closing Date”), Aurcana Silver Corporation, through its subsidiary, Aurcana US Holdings Two Limited (collectively “Aurcana”), and Mercuria Investments US Inc. closed a \$28 million project financing facility (the “Financing Facility”) to fund the restart of Aurcana’s wholly owned Revenue-Virginus mine in the form of a secured term loan (the “Term Loan”) for a cash proceed of \$28 million. Along with the Term Loan on the same date, Aurcana also entered into a silver swap (the “Silver Swap”) and a series of silver Asian call options (the “Silver Options”) with Mercuria Investments US Inc.’s subsidiary, Mercuria Energy America (collectively “Mercuria” or the “Lender”) with no additional cash exchange.

Principal advanced	\$ 28,000,000
Transaction cost	<u>1,546,800</u>
Net amount	26,453,200
Silver swap	3,700,603
Silver options	<u>3,146,904</u>
Fair value of the loan at inception	<u>\$ 19,605,693</u>

Term Loan

The Term Loan will mature on December 8, 2025. On the Closing Date, Aurcana drew down all \$28 million subject to the structure fee as described below. The Term Loan also has the following features:

- Interest payments: The Term Loan bears a floating interest rate equal to the greater of US\$ 3-month Libor rate and 0% per annum, plus a spread (the “Applicable Margin”), payable quarterly on the 7th of March, June, September, and December each year commencing on March 7, 2021. The Applicable Margin is (a) 10.5% per annum following the first day of the month following the month in which the Revenue Virginus mine production exceeds 400 wmt of lead concentrates for the preceding three months, and (b) 14% per annum until such time.
- Principal repayments: Commencing on the last business day of the quarter immediately following the end of the twelve-month grace period (the “Grace Period”), Aurcana shall make quarterly principal payments, each in the amount of \$1,750,000, for sixteen consecutive quarters. Principal payments were original set to begin in March 2022.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

16. Borrowings (continued)

- Voluntary prepayment: subsequent to the Grace Period, Aurcana may prepay the principal amount of the Term Loan from time to time in whole or by part without any penalty. If Aurcana makes any voluntary prepayment at any time during the Grace Period which is the period from December 9, 2020 - December 8, 2021, interest shall be accrued on the full amount of the original principal of the Term Loan as if such original principal amount was outstanding for the full duration of the Grace Period.
- Structure fee: on the Closing Date, Aurcana paid the Lender a structuring fee of \$560,000 (the "Structuring Fee"). Such fee was paid by a deduction from the amounts funded by the Lender to Aurcana on the Closing Date.
- Production fee: Aurcana shall also pay the Lender a fee of \$75 per wet metric ton of lead concentrate sold by Aurcana during the term of the Term Loan. Such production fee (the "Production Fee") will be due and payable no later than 10 business days following the end of each fiscal quarter during the term of the Term Loan. If the Term Loan is prepaid, the Production fee will no longer be required from that point forward.

New key commercial terms subject to completion of the conditions precedent in the Restructuring Agreements

- On March 21, 2022, the Company announced a loan standstill and restructuring with Mercuria Energy Group ("Mercuria") in order to fund the restart of the Revenue-Virginus Mine. In recognition of the Company's previously announced efforts to reset operations, the Company and Mercuria have agreed to certain standstill and restructuring agreements (collectively, the "Restructuring Agreements") with effect as of March 8, 2022. The Restructuring Agreements demonstrate Mercuria's ongoing support for the Revenue-Virginus Mine and provide the Company several key benefits including:
 - A standstill for the Company to reset its operations at the Revenue-Virginus Mine towards full production; and
 - Elimination of the Company's current hedging obligations, allowing the Company to fully participate in any near-term silver price appreciation, but including a commitment to re-hedge at a mutually appropriate time following the completion of the #1 Alimak Hoist, with an ability to satisfy the Close-Out Amount (described below) under the new hedge package.
 - A waiver of all current events of default and a standstill agreement (a "Waiver and Standstill") under the facilities until May 31, 2022 to allow Aurcana time to achieve certain conditions precedent including Aurcana procuring (whether by way of issuance of additional equity or in a manner otherwise not restricted by the Facilities including, without limitation, a sale of assets, royalties or a stream agreement with respect to assets other than the Revenue-Virginus Mine) not less than US\$25 million in additional liquidity to bring the Revenue-Virginus Mine back into production (the "Conditions").
 - A deferral of the principal and interest payments that were previously due March 7, 2022 under the Term Loan (the "Deferred Payments") until September 7, 2022;

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

16. Borrowings (continued)

- Subject to all of the Conditions being satisfied by Aurcana on or before May 31, 2022, the March and June principal payments due under the original Term Loan will be rolled into the balance of the scheduled 4-year principal payments leaving the term of the loan unchanged;
- A Close-Out of the existing Hedge Package, with a mutual intention to re-establish hedging at a future date subject to conditions of completion of the #1 Hoist facility and establishment of an updated production schedule following such completion. The amount required to close out the existing Hedge Package is \$18,283,950 (“Close-Out Amount”) and accrues interest at 10.5% until such time as the hedging is re-established, and the Close-Out Amount combined with the interest will be repaid through discounts to market price and/or other derivative positions in the new hedge structure.
- The amount required to settle the February 2022 out-of-the-money hedges accrues interest at 10.5% until such time as the Conditions are met, at which time these amounts become payable; and
- Upon the Conditions being completed, Mercuria will receive \$1.5 million of Aurcana common shares as a restructuring fee, and Aurcana will immediately pay Mercuria the interest that was due on March 7, 2022 along with accrued interest on the Deferred Payments.

Debt host and embedded derivatives before restructuring with Mercuria

The Term Loan was a hybrid instrument, containing a debt host component and a derivative – a prepayment option that require separation as derivatives. The prepayment option was recorded at fair value and all changes in fair value are recorded in profit or loss. The fair value of the prepayment option was \$nil at inception and as at June 30, 2022 and December 31, 2021.

The debt host component was measured at amortized cost using the effective interest rate method. 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.

The debt has been recognized at its amortized cost of \$19,605,693, which represents the remaining fair value allocated from total net proceeds received of \$27.44 million (net of structuring fee of \$560,000) after \$3,700,603 was allocated to silver swap(Note 17), \$3,146,904 was allocated to silver options (Note 17), and net of transaction costs and third party fees of \$986,800.

	Fair value at inception
Term Loan (including the Production Fee)	\$20,592,493
Silver Swap (Note 17)	\$3,700,603
Silver Options (Note 17)	\$3,146,904
Total	\$27,440,000

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

16. Borrowings (continued)

Valuation methodology before restructuring with Mercuria

The prepayment option derivative was valued upon initial measurement and subsequent periods calculated as the difference between the fair value of the Term Loan including and excluding prepayment option. The Term loan including the embedded derivative is valued using a methodology, which is based on Hull-White model and a trinomial interest rate tree. The Mercuria loan excluding the embedded derivative is valued using the discounted cash flow method.

Fair value of prepayment option is calculated using the following assumptions:

	June 30, 2022	December 31, 2021	December 8, 2020
USD instantaneous forward	Nil%	0.06438% to 1.756%	0.0825% to 1.39018%
Interest rate implied volatility	Nil%	0.894%	0.592%
Credit spread	Nil%	30.11%	31.74%

Presentation

The Company paid certain transaction fees and costs in the amount of \$1,803,050. The allocation was \$1,546,800 to the loan, and \$256,250 to the derivatives (note 17). The debt has been recognized at its amortized cost of \$19,605,693, which represents the remaining fair value allocated from total proceeds received of \$28,000,000 after \$3,700,603 was allocated to silver swap(Note 17), \$3,146,904 was allocated to silver options (Note 17), and net of transaction fees and cost of \$1,546,800.

The movements of the amounts due under loan are as follows:

Carrying value at December 31, 2020	19,729,738
Accretion	<u>2,206,552</u>
Carrying value at December 31, 2021	21,936,290
Accretion	<u>6,063,710</u>
Carrying value at June 30, 2022	28,000,000
Additional funding	<u>310,000</u>
Total	<u><u>\$ 28,310,000</u></u>
Current portion	\$ 28,000,000
Long-term portion	-
Carrying value at June 30, 2022	<u><u>\$ 28,000,000</u></u>
Accrued interest for the loan	\$ 1,293,039
Accrued interest for the Close-Out	<u>122,655</u>
Accrued Interest for the period (note 11)	<u><u>\$ 1,415,694</u></u>

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

16. Borrowings (continued)

For the period ended June 30, 2022, the Company recorded accretion of \$6,063,710, and interest expense of \$1,293,039 related to the Mercuria loan to OSM. For the year ended December 31, 2021, the Company recorded accretion of \$1,870,632 and interest expense of \$3,450,209 related to Mercuria loan as a finance cost. To calculate the accretion expense, the Company uses the contract life of 5 years and an effective interest rate of 17.52% (2021: 34.33%). For additional information, see subsequent event (note 30).

The schedule of principal repayments as of June 30, 2022 was as follows:

2022	\$	3,750,000
2023		8,500,000
2024		9,250,000
2025		6,500,000
2022	\$	<u>28,000,000</u>

For additional information, see subsequent event (note 30).

17. Derivatives

The original Silver Swaps and Silver Options were derivatives that were measured at fair value through the statement of loss and comprehensive loss. The new key commercial terms are disclosed in note 16.

Silver Swap before restructuring with Mercuria

On the Closing Date, Aurcana and Mercuria entered into a silver swap where Aurcana will receive a fixed price of \$22.75 per troy ounce (“oz”) from Mercuria and Aurcana will pay Mercuria a floating price of the London silver price per oz published by the LMBA for predetermined quantities of silver over a period of five years. The predetermined quantities are defined below:

National Quantity (Troy Ounces)	Periods
75,000 oz for each calculation period	Each calendar month beginning with and including December 2021 and running to and including November 2022.
70,000 oz for each calculation period	Each calendar month beginning with and including December 2022 and running to and including November 2023.
65,000 oz for each calculation period	Each calendar month beginning with and including December 2023 and running to and including November 2024.
60,000 oz for each calculation period	Each calendar month beginning with and including December 2024 and running to and including November 2025.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

17. Derivatives (continued)

Silver Options before restructuring with Mercuria

On the Closing Date, Aurcana sold a series of silver Asian call options to Mercuria, where for each calculation period specified below, if the arithmetic average of the London silver price per oz published by the LMBA (the "Floating Price") exceed \$36.9 per oz (the "Strike Price"), Aurcana shall pay Mercuria an amount equal to the product of (a) the difference between the Floating Pricing and the Strike Price, and (b) the notional quantity for that particular calculation period as specified below.

National Quantity (Troy Ounces)	Calculation Periods
60,000 oz for each calculation period	Each calendar month beginning with and including December 2021 and running to and including November 2022
50,000 oz for each calculation period	Each calendar month beginning with and including December 2022 and running to and including November 2023
40,000 oz for each calculation period	Each calendar month beginning with and including December 2023 and running to and including November 2024
30,000 oz for each calculation period	Each calendar month beginning with and including December 2024 and running to and including November 2025

Valuation methodology

The silver swap was valued upon initial measurement and subsequent periods as the mark-to-market less the credit value adjustment, which is based on a formula driven by future discounted cash flow and the risky discounting method. The fair value of the silver was \$ 3,700,603 at inception, \$1,893,177 as at December 31, 2021, and \$Nil as at June 30, 2022.

Fair value of silver swap is calculated using the following assumptions:

	June 30, 2022	December 31, 2021	December 8, 2020
USD 3-month LIBOR	Nil%	0.06438% to 1.756%	0.0825% to 1.39018%
USD at-the-money swaption volatility	Nil%	31.22% to 94.07%	35.49% to 68.04%
COMEX silver spot price (oz)	\$Nil	\$22.488	\$23.74
COMEX silver future price (oz)	\$Nil	\$22.33 to \$24.44	\$24.684 to \$25.889
COMEX silver implied volatility (oz)	Nil%	34.29% to 49.73%	38.85% to 45.11%
Credit spread	Nil%	30.11%	31.74%

The silver option was valued upon initial measurement and subsequent periods as the mark-to-market less the credit value adjustment, which is based on Levy's two moment matching method and the risky discounting method. The fair value of the silver was \$ 3,700,603 at inception, \$1,413,368 as at December 31, 2021, and \$Nil as at June 30, 2022.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

17. Derivatives (continued)

Fair value of silver option is calculated using the following assumptions:

	June 30, 2022	December 31, 2021	December 8, 2020
USD 3-month LIBOR	Nil%	0.06438% to 1.756%	0.0825% to 1.39018%
USD at-the-money swaption volatility	Nil%	31.22% to 94.07%	35.49% to 68.04%
COMEX silver spot price (oz)	\$Nil	\$22.488	\$23.74
COMEX silver future price (oz)	\$Nil	\$22.33 to \$24.44	\$24.684 to \$25.889
COMEX silver implied volatility (oz)	Nil%	34.29% to 49.73%	38.85% to 45.11%
Credit spread	Nil%	30.11%	31.74%

Derivative Close Out and Presentation

As referenced in Note 17, the Restructuring Agreement included a Close-Out of the existing Hedge Package, with a mutual intention to re-establish hedging at a future date subject to conditions of completion of the #1 Hoist facility and establishment of an updated production schedule following such completion. The amount required to close out the existing Hedge Package is \$18,283,950 ("Close-Out Amount") and accrues interest at 10.5% until such time as the hedging is re-established, and the Close-Out Amount combined with the interest will be repaid through discounts to market price and/or other derivative positions in the new hedge structure.

The carrying values of and movement of the derivative liabilities after close-out are as follows:

Carrying value at December 31, 2020	10,734,760
Change in derivatives fair value estimate	<u>7,428,215</u>
Carrying value at December 31, 2021	3,306,545
Change in derivatives fair value estimate	<u>(3,306,545)</u>
Carrying value at June 30, 2022	<u>\$ -</u>
Changes on Close-Out derivatives	\$ 18,283,950
Changes Derivative liability	<u>(3,306,545)</u>
Loss in derivatives fair value estimate for the period	<u>\$ 14,977,405</u>

The Close-Out Amount of the derivatives is held as a long term liability and the loss is booked as a non-cash charge to income. Provided the Hedge Package is reinitiated by parties, the Close-Out Amount and accrued interest will be satisfied with a subsequent non-cash adjustment. Should the Hedge Package not be reinitiated by November 30, 2022 the Close-Out Amount and accrued interest will be due and payable to Mercuria.

For additional information, see subsequent event (note 30).

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

18. Equity

Authorized

The Company is authorized to issue an unlimited number of common shares with no par value.

Issued

During the period ended June 30, 2022, the Company:

- On February 28, 2022 the Company completed a private placement of 17,064,928 Units at a price of CDN\$0.35 per unit, to raise total proceeds of CDN\$5,972,724.80. Each unit consists of one common share of the Company and one full common share purchase warrant ("Warrant"), with each Warrant entitling the holder thereof to purchase one common share at a price of CDN\$0.525 for a period of 36 months from the date of issuance. The Company paid an aggregate of CDN\$243,558 in finder's fees and issued an aggregate of 689,880 agent's warrants, ("Agent's Warrants") with each Agent's Warrant entitling the holder thereof to purchase one Common Share at a price of CDN\$0.525 for a period of 36 months from the date of issuance. The Private Placement Common Shares and the Warrants (and any Common Shares issued pursuant to the Warrants, as applicable) are subject to a statutory hold period expiring on June 29, 2022.

During the year ended December 31, 2021, the Company:

- Closed a non-brokered private placement on October 26, 2021, by issuing 13,806,072, share units of the Company at CDN\$0.70 per unit for gross proceeds of CDN\$9,664,250. Each unit consists of one common share and one common share purchase warrant, with each Warrant entitling the holder thereof to purchase one common share of the Company at an exercise price of CDN\$0.90 for a period of 36 months following the closing of the private placement. Gross proceeds from the private placements of \$5,112,561 were allocated to share capital and \$2,557,479 to warrants using the relative fair value method. The Company paid an aggregate of \$955,108 (CDN\$1,203,437) in cash finder's fee, issued an aggregate of 740,164 agent's warrants with a fair value of \$191,005 (CDN\$240,666). The agent's warrants are subject to a statutory hold period and bear the same terms and conditions as the Warrant issued for each private placement.
- Closed a non-brokered private placement on February 1, 2021, by issuing 32,762,363, share units of the Company at CDN\$1.00 per unit for gross proceeds of CDN\$32,762,363. Each unit consists of one common share and one common share purchase warrant, with each Warrant entitling the holder thereof to purchase one common share of the Company at an exercise price of CDN\$1.25 for a period of 36 months following the closing of the private placement. Gross proceeds from the private placements of \$17,575,322 were allocated to share capital and \$8,303,322 to warrants using the relative fair value method. The Company paid an aggregate of \$830,862 (CDN\$1,051,872) in cash finder's fee, issued an aggregate of 1,612,770 agent's warrants with a fair value of \$499,534 (CDN\$632,411) and 1,530,530 agent's units with a fair value of \$1,208,949 (CDN\$ 1,530,530), \$821,051 of which here allocated to common share and \$387,899 to warrants using the relative fair value method. The agent's warrants are subject to a statutory hold period and bear the same terms and conditions as the Warrant issued for each private placement.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

18. Equity (continued)

- 5,957,611 warrants were exercised, for proceeds of \$ 2,257,789 (CDN\$2,837,908). The fair value of \$415,512 related to the warrants exercised was reclassified from contributed surplus to share capital.

Stock options

The Company adopted a rolling 10% stock option plan at the AGM held on June 30, 2021, upon receiving shareholder approval. The total number of options that can be granted under the plan, based on the current issued and outstanding shares is 30,913,151. As of June 30, 2022, there were 6,680,000 option outstanding, leaving a balance of 24,233,151 options available under the plan.

<u>Stock options</u>	Number of Common Share Purchase Option	Weighted Average Exercise Price per Share (CDN\$)
Balance, December 31, 2020	5,010,000	0.63
Expired	(300,000)	0.85
Balance, June 30, 2021	4,710,000	0.61
Forfeited	(375,000)	0.55
Granted	6,120,000	1.10
Expired	(80,000)	2.00
Balance, December 31, 2021	10,375,000	0.89
Forfeited	(3,515,000)	0.93
Expired	(180,000)	1.60
	6,680,000	\$ 0.86

A summary of the Company's Option outstanding and exercisable as at June 30, 2022 and December 31, 2021 is presented below:

<u>Stock option June 30, 2022</u>		Exercise Price (CDN\$)	Expiry Date
Outstanding	Vested		
2,970,000	1,485,000	0.55	April 29, 2025
3,710,000	927,500	1.10	May 26, 2026
6,680,000	2,412,500		

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

18. Equity (continued)

<u>Stock option</u>			
<u>December 31, 2021</u>			
Outstanding	Vested	Exercise Price (CDN\$)	Expiry Date
180,000	180,000	1.60	April 27, 2022
4,075,000	2,037,500	0.55	April 29, 2025
6,120,000	1,530,000	1.10	May 26, 2026
<u>10,375,000</u>	<u>3,747,500</u>		

The weighted average remaining contractual life of stock options outstanding is 3.38 years (December 31, 2021: 3.62 years). The values post consolidation stock options utilized the Black Scholes option pricing model.

On May 26, 2021, the Company granted 6,120,000 options with an estimated fair value of \$4,197,324 to directors, officers, employees, and consultants at a price of CDN\$1.10 and exercisable for a period of five years from the date of grant. The options vest 25% immediately and 25% annually over a three-year period from the date of grant.

On April 29, 2020, the Company granted 4,450,000 options with an estimated fair value of \$880,782 to directors, officers, employees, and consultants at a price of CDN\$0.55 and exercisable for a period of five years from the date of grant. The options vest 25% immediately and 25% annually over a three-year period from the date of grant.

For the period ended June 30, 2022 the stock-based compensation expense was \$893,317 (June 30, 2021 \$1,439,174). Fair value of stock options granted as above is calculated using the following weighted average assumptions:

	Six months ended June 30, 2022	Twelve months ended December 31, 2021
Risk-free interest rate	-	0.87%
Expected stock price volatility	-	129.65%
Expected dividend yield	-	Nil
Exercise price		1.1
Price on date of issue		1.01
Forfeiture rate		0
Expected life in years	-	5.0

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

18. Equity (continued)

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants	Exercise Price (CDN\$)
Balance, December 31, 2020	84,205,469	0.589
Private placement	35,905,663	1.250
Exercised	(3,578,852)	0.400
Balance, June 30, 2021	116,532,280	0.798
Private placement	14,546,236	0.900
Exercised	(2,378,759)	0.360
Expired	(9,029,560)	1.330
Balance, December 31, 2021	119,670,197	0.779
Private placement	17,754,808	0.530
Balance, June 30, 2022	137,425,005	0.747

As of June 30, 2022, details of outstanding warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN\$)	Expiry Date
12,569,124	0.375	August 15, 2022
6,120,942	0.375	September 3, 2022
10,495,005	0.375	February 20, 2023
7,123,341	0.375	March 2, 2023
7,434,546	0.350	April 17, 2023
22,675,040	0.750	July 20, 2023
2,800,300	0.750	July 28, 2023
35,905,663	1.250	January 27, 2024
14,546,236	0.900	October 22, 2024
17,754,808	0.525	February 28, 2025
137,425,005	0.747	

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

18. Equity (continued)

As of December 31, 2021, details of outstanding warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN\$)	Expiry Date
12,569,124	0.375	August 15, 2022
6,120,942	0.375	September 3, 2022
10,495,005	0.375	February 20, 2023
7,123,341	0.375	March 2, 2023
7,434,546	0.350	April 17, 2023
22,675,040	0.750	July 20, 2023
2,800,300	0.750	July 28, 2023
35,905,663	1.250	January 27, 2024
14,546,236	0.900	October 22, 2024
<u>119,670,197</u>	<u>0.780</u>	

As at June 30, 2022, the weighted average remaining contractual life of warrants outstanding is 1.34 years (December 31, 2021: 1.1 years).

The values of warrants determined during the period ended June 30, 2022 utilized the Black-Scholes option pricing model weighted the weight average input factors and assumptions as follows:

	June 30 2022	December 31 2021
Risk-free interest rate	1.43% - 1.52%	0.19% - 0.95%
Expected stock price volatility	89.25% - 90.12%	89.63% - 90.28%
Expected dividend yield	Nil	Nil
Expected warrant life in years	3	3
Share price CDN	\$0.29 - \$0.33	\$0.90 - \$1.00
Exercise price CDN	\$ 0.525	\$0.90 - \$1.25

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

19. General and administrative costs

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Salaries and consulting fees	\$ 413,295	\$ 335,333	\$ 936,147	\$ 663,867
Financing cost	-	(1,479)	-	59,440
Professional fees	404,005	158,395	600,401	272,821
Investor relations	537	52,520	39,994	76,379
Marketing and road shows	-	74,362	-	163,245
Listing and filing fees	30,082	37,251	74,000	136,527
Other	159,506	32,866	336,046	72,874
	<u>\$ 1,007,425</u>	<u>\$ 689,248</u>	<u>\$ 1,986,588</u>	<u>\$ 1,445,153</u>

Other break down:	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Rent and overhead	\$ 45,355	\$ 2,593	\$ 121,833	\$ 6,651
Travel and accommodation	-	3,764	3,681	6,827
Office	114,151	26,509	210,532	59,396
Total Other	<u>\$ 159,506</u>	<u>\$ 32,866</u>	<u>\$ 336,046</u>	<u>\$ 72,874</u>

20. Financing and Other Expense

	Notes	Three months ended June 30,		Six months ended June 30,	
		2022	2021	2022	2021
Accretion of lease liability	9	\$ -	\$ 678	\$ 126	\$ 1,498
Accretion on borrowings	16	1,460,697	538,074	6,063,710	1,048,664
Interest accrued loan	17	272,219	-	1,293,039	-
Interest accrued close-out	17	-	-	122,655	-
Interest Expense		63,186	-	76,955	-
Bank charges		4,541	3,983	10,857	11,012
Change on silver swap		-	-	28,836	-
		<u>\$ 1,800,643</u>	<u>\$ 542,735</u>	<u>\$ 7,596,178</u>	<u>\$ 1,061,174</u>

In 2021 finance charges were capitalized to mine development cost up until the impairment testing date.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

21. Maintenance costs

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Site surface cost	\$ 708,927	\$ 25,527	\$ 4,713,944	\$ 35,777
Insurance	331,892	11,097	665,501	22,194
Environmental	155,864	-	340,388	-
Property taxes	47,861	24,000	183,305	48,000
	<u>\$ 1,244,544</u>	<u>\$ 60,624</u>	<u>\$ 5,903,138</u>	<u>\$ 105,971</u>

In 2021 costs related to OSMI mine development are capitalized into mine development cost up until the impairment testing date.

22. Related Party Transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. The Company's related parties include key management personnel and Companies controlled by key management personnel. Key management personnel include executive officers and directors of the Company. Details of the transactions between the Company and its related parties are disclosed below:

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	Six months ended June 30,	
		2022	2021
General and administrative expenses - Consulting Fees	(i)	\$ 89,277	\$ 90,660

(i) To company controlled by the corporate secretary and Directors for services performed.

b) Compensation of key management personnel

	Six months ended June 30,	
	2022	2021
Consulting fees (as above)	\$ 89,277	\$ 90,660
Stock-based compensation expensed	326,901	880,782
Officer salaries	246,843	498,644
	<u>\$ 663,021</u>	<u>\$ 1,470,086</u>

At June 30, 2022, the Company balance in accounts payable for related parties is \$152,950.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

23. 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:

	June 30 2022	December 31 2021
Cash	\$ 48,367	\$ 576,846
Short-term investments	(2,232)	958,995
	\$ 46,135	\$ 1,535,841

The short-term investments were made on an overnight basis and at rates from 0.1% to 0.35% per annum.

Supplemental disclosures of non-cash investing and financing activities:

	June 30 2022	December 31 2021
Increase (decrease) in accounts payable related to construction in progress and equipment suppliers	\$ 1,589,168	\$ 7,197,439

Supplemental disclosures of other activities:

	June 30 2022	December 31 2021
Cash interest paid	\$ -	\$ 4,009,470

24. Revenue Virginius Mine Feasibility Study.

On March 21, 2022, the Company announced the completed an updated feasibility study for the Revenue Virginius (“RV”) Mine (the “Updated Feasibility Study”) prepared by SRK Consulting (US) (“SRK”) with an effective date of December 31, 2021 and in accordance with National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”). The Updated Feasibility Study re-affirms the substantial value of the Revenue-Virginius Mine with an after-tax net present value 5% (NPV) of US\$108.8 million. As part of preparation of the Updated Feasibility Study, SRK conducted site visits, reviewed the current status of the Revenue-Virginius Mine, and completed a detailed review of all geologic and operational data. The Updated Feasibility Study contemplates total production at the Revenue-Virginius Mine of approximately 17.7 million payable silver equivalent ounces (including approximately 13 million payable ounces of silver) over the approximately 6.25 year life for the current mineral reserve base at an “All In Sustaining Cost” (AISC) net of by-product credits equal to US\$12.55 per ounce over the life of mine. The Updated Feasibility Study assumes five months of operations to complete the #1 Hoist facility to be followed by finalization of development of four full mining faces, and then ramping up production thereafter. The Updated Feasibility Study contemplates total costs to cash flow positive of approximately US\$20 million, with the significant majority being pre-production operating costs associated with completing the underground development.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

25. Segmented Information

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

Six months ended June 30, 2022	Ouray	Shafter	Corporate and other segments	Total
General and administrative cost	889,174	117,587	979,827	1,986,588
Maintenance costs	5,815,532	87,606	-	5,903,138
Depreciation and amortization	276,707	-	309	277,016
Foreign exchange gain	-	-	(2,744,253)	(2,744,253)
Stock-based compensation	-	-	893,317	893,317
Other (income) expenses	7,552,156	(54,359)	7,862	7,505,659
loss of change in derivatives fair value estimate	14,977,405	-	-	14,977,405
Net income (loss) for the period before other comprehensive items	(29,510,974)	(150,834)	862,938	(28,798,870)
Currency translation adjustment	-	-	(2,727,352)	(2,727,352)
Total comprehensive loss for the period	(29,510,974)	(150,834)	(1,864,414)	(31,526,222)
Property, plant and equipment	59,840,517	10,036,851	997,269	70,874,637
Mineral properties	27,764,039	12,663,526	458,143	40,885,708
Total capital assets	87,604,556	22,700,377	1,455,412	111,760,345
Total assets	92,191,193	22,706,534	1,518,855	116,416,582
Total liabilities	63,103,431	738,993	4,850,394	68,692,818

Three months ended June 30, 2022	Ouray	Shafter	Corporate and other segments	Total
General and administrative cost	434,070	57,581	515,774	1,007,425
Maintenance costs	1,201,349	43,195	-	1,244,544
Depreciation and amortization	123,657	-	154	123,811
Foreign exchange gain	-	-	(2,741,755)	(2,741,755)
Stock-based compensation	-	-	376,777	376,777
Other (income) expenses	1,817,697	353	1,255	1,819,305
loss of change in derivatives fair value estimate	-	-	-	-
Net income (loss) for the period before other comprehensive items	(3,576,773)	(101,129)	1,847,795	(1,830,107)
Currency translation adjustment	-	-	(2,625,729)	-
Total comprehensive loss for the period	(3,576,773)	(101,129)	(777,934)	(1,830,107)

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

25. Segmented Information (continued)

Six months ended June 30, 2021	Ouray	Shafter	Corporate and other segments	Total
General and administrative cost	125,100	643,665	676,388	1,445,153
Maintenance costs	-	105,971	-	105,971
Depreciation and amortization	-	-	315	315
Foreign exchange loss	-	-	1,013,500	1,013,500
Stock-based compensation	849,113	-	590,061	1,439,174
Other expenses	627,783	32	30,474	658,289
Gain of change in derivatives fair value estimate	318,338	-	-	318,338
Net income (loss) for the period before other comprehensive items	(1,283,658)	(749,668)	(2,310,738)	(4,344,064)
Currency translation adjustment	-	-	800,879	800,879
Total comprehensive loss for the period	(1,283,658)	(749,668)	(1,509,859)	(3,543,185)
Property, plant and equipment *	56,866,494	10,108,764	2,081	66,977,339
Mineral properties	27,764,039	12,663,526	458,143	40,885,708
Total capital assets	84,630,533	22,772,290	460,224	107,863,047
Total assets	90,194,710	22,827,778	20,003,095	133,025,583
Total liabilities	34,745,397	693,317	109,201	35,547,915

* Includes OSM Mine Development cost for the period: \$ 31,073,847

Three months ended June 30, 2021	Ouray	Shafter	Corporate and other segments	Total
General and administrative cost	63,791	301,694	323,763	689,248
Maintenance costs	-	60,624	-	60,624
Depreciation and amortization	-	-	160	160
Foreign exchange loss	-	-	(564,558)	(564,558)
Stock-based compensation	798,478	-	530,619	1,329,097
Other (income) expenses	118,493	162	24,497	143,152
loss of change in derivatives fair value	2,814,629	-	-	2,814,629
Net loss for the period before other	(3,795,391)	(362,480)	(314,481)	(4,472,352)
Currency translation adjustment	-	-	(552,622)	(552,622)
Total comprehensive income (loss) for the pe	(3,795,391)	(362,480)	(867,103)	(5,024,974)

26. Retirement plan

The Company sponsors a 401(k) retirement plan (the "Plan") that covers all employees. The plan is available to employees who complete one month of service. Employees may contribute amounts based on limits established by the IRS. The plan provides for discretionary employer matching contributions. Plan participants become 100% vested in employer contributions to the plan after two years of employment. Matching contributions totalled \$165,096 for the period ended June 30, 2022 (same period 2021- \$310,259).

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

27. Financial instruments

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

(a) Foreign exchange risk:

The Company reports its financial results in US Dollar but also undertakes transactions in other foreign currencies, mainly the Canadian dollars. 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 cash and cash equivalents, trade and other receivables, accounts and payable and accrued liabilities, denominated in foreign currencies, which are subject to currency risk. The Company has not hedged its exposure to currency fluctuations.

At June 30, 2022, the Company's Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in US Dollar:

	June 30 2022	December 31 2021
Cash and cash equivalents	59,605	606,303
Accounts payable and accrued liabilities	(2,599)	-
	<u>57,006</u>	<u>606,303</u>
CDN\$ Equivalent	73,458	768,671

Based on the above net exposures as at June 30, 2022, 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 \$5,701 change to the Company's net income for the year.

(b) Credit risk:

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash and cash equivalents, and trade and other receivables.

The Company limits its credit exposure on cash held in bank accounts by holding its key transactional bank accounts with banks of investment grade.

The Company manages its credit risk on cash equivalents 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.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

27. Financial instruments (continued)

Exceptions to the policy for dealing with relationship banks with ratings below “A-” are reported to, and approved by, the Audit Committee. As at June 30, 2022, substantially all cash and short-term deposits are with counterparties with ratings “A-” or higher.

Other accounts receivable consists of receivables from customers and sale of equipment. The Company performs regular credit assessments on its customers and provides allowances for potentially uncollectable accounts receivables.

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.

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.

The Company’s expected source of cash flow in the upcoming year will be from production, equity financing, loans, lease financing and entering into joint venture agreements, or a combination thereof.

The following table disclose the gross contractual obligations as at June 30, 2022:

	Total	2022	2023	2024	2025
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	16,687,470	13,342,522	3,344,948	-	-
Private Financing	4,291,128	4,291,128	-	-	-
Mercuria financing	310,000	310,000	-	-	-
Borrowings	28,000,000	28,000,000	-	-	-
	<u>49,288,598</u>	<u>45,943,650</u>	<u>3,344,948</u>	<u>-</u>	<u>-</u>

(d) Interest Rate Risk

Interest rate risk is the risk that the fair values and future cash flows of the Company's financial instruments will fluctuate due to changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company’s financial liabilities consist primarily of long-term variable rate debt, which consist of certain borrowings with a total principal value of \$28.0 million at June 30, 2022 and December 31, 2021. If the interest rate changed by 10 points would result in a approximately \$3.0 million change to the Company’s net income for the year.

The Company has not entered into any derivative instruments to manage interest rate fluctuations; however, management monitors interest rate exposure closely.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

27. Financial instruments (continued)

(e) Fair Value:

The Company's financial instruments include cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, long term accrued liabilities, private financing, borrowings and derivative liabilities.

Financial instruments that are measured at fair value subsequent to initial recognition are grouped into a hierarchy based on the degree to which the fair value is observable as follows:

- Level 1 - Fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table summarizes the fair value hierarchy, as of June 30, 2022:

	Fair Value Through Profit or Loss	Amortized Costs	Fair Value		
			Level 1	Level 2	Level 3
Asset (Liability)					
Cash and cash equivalents	46,135		46,135		
Trade and other receivables		45,470			
Accounts payable and accrued liabilities		(13,342,522)			
Current portion of borrowings		(28,000,000)			
Long term accrued liabilities		(3,344,948)			
Private financing		(4,291,128)			
Borrowings		-			
Close-Out derivatives	(18,283,950)				(18,283,950)

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

27. Financial instruments (continued)

The following table summarizes the fair value hierarchy, as of December 31, 2021:

	Fair Value Through Profit or Loss	Amortized Costs	Fair Value		
			Level 1	Level 2	Level 3
Asset (Liability)					
Cash and cash equivalents	1,535,841		1,535,841		
Trade and other receivables		90,058			
Accounts payable and accrued liabilities		(12,071,916)			
Current portion of borrowings		(5,992,676)			
Long term accrued liabilities		(3,344,948)			
Private financing		(3,525,436)			
Borrowings		(15,943,614)			
Derivatives	(3,306,545)				(3,306,545)

The continuity and valuation techniques that are used to determine the fair value of derivatives are described in Note 17. The carrying values of trade and other receivables and accounts payable and accrued liabilities, approximate their fair values due to the relatively short-term nature of these amounts.

28. 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.

Management of capital objectives, policies and procedures are unchanged since the preceding year.

Aurcana Silver Corporation
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

29. COVID-19 (coronavirus)

The COVID-19 pandemic has a limited effect on Aurcana Silver Corporation and its operations located in the US. Mining is considered an "essential" function for the economy and is exempt from business closure restrictions or orders. The Company has implemented the recommended "social distancing", utilization of personal protective equipment (PPE), and extra diligence in sanitizing work spaces and equipment. The Company is able to continue executing the current operating plan and 2022 budget, which will advance the OSMI development project through the end of the year. When practical, administrative and technical teams are working remotely to provide the safest work environment possible. The Company does not foresee any significant business risks other than potential minor delays in equipment repairs/maintenance, which could be due to limited workforce availability. While the extent of any impact is unknown, we anticipate this outbreak may cause supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

30. Subsequent event

As first announced in the press release dated March 21, 2022, and further to the Company's press releases dated April 11, 2022 and May 19, 2022, May 31, 2022, June 3, 2022, June 20, 2022, June 24, 2022 and June 30, 2022, certain indirect, wholly owned subsidiaries of Mercuria Energy Group ("Mercuria") entered into certain standstill and restructuring agreements with Aurcana with effect as of March 8, 2022, which agreements included the grant to Aurcana of a waiver of all current events of default and a standstill agreement (a "Waiver and Standstill") under the Company's five-year, \$28 million term loan (and an associated hedging package) . The Revenue-Virginus Mine (the "RV Mine") owned and maintained by Ouray Silver Mine Inc., a subsidiary of the Company is subject to a mortgage and security agreement in favor of Mercuria to secure amounts due Mercuria with respect to the term loan noted above.

On July 7, 2022, the District Court for Ouray County, Colorado appointed Alliance Management, Inc. as Receiver for the RV Mine. The Receiver now has control and custody of the RV Mine and the appointment has stayed all civil legal proceedings against Ouray Silver Mine Inc. and the RV Mine, including all arbitration proceedings and foreclosure actions. As previously noted, the Company and Mercuria engaged in an extensive process to restructure the debt, including by way of financial and strategic alternative transactions, but was unable to do so.