



AURCANA SILVER CORPORATION
(Formerly Aurcana Corporation)

Condensed Interim Consolidated Financial Statements

September 30, 2020

(Unaudited)

Expressed in United States dollars unless otherwise stated

850-789 West Pender Street, Vancouver BC V6C 1H2 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	September 30 2020	December 31 2019
Assets			
Current assets			
Cash and cash equivalents	14	\$ 13,251,521	\$ 3,944,286
Trade and other receivables	3	19,709	58,979
Inventory	4	142,382	142,382
Prepaid expenses and advances	5	280,845	415,268
		13,694,457	4,560,915
Non Current assets			
Non-current prepaid expenses	5	12,667	12,736
Long term deposits		73,273	71,933
Property, plant and equipment	6	26,991,404	22,590,133
Mineral Properties	7	40,885,708	40,885,708
Right-of-use asset	8	149,893	236,382
Reclamation deposits	9	484,295	480,769
Total assets		\$ 82,291,697	\$ 68,838,576
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	\$ 1,533,340	\$ 676,826
Current portion of lease payable	8	126,823	114,688
		1,660,163	791,514
Non Current liabilities			
Lease payable	8	39,640	137,032
Provision for environmental rehabilitation	11	1,120,270	1,120,270
Total liabilities		2,820,073	2,048,816
Equity			
Share capital	12	44,906,073	29,451,075
Contributed surplus		138,943,833	133,939,863
Accumulated other comprehensive income (loss)		3,032,491	(162,873)
Deficit		(107,421,938)	(96,449,470)
Total equity attributable to equity holders of the parent		79,460,459	66,778,595
Non-controlling interest		11,165	11,165
Total equity		79,471,624	66,789,760
		\$ 82,291,697	\$ 68,838,576

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

See accompanying notes to these condensed interim consolidated financial statements.

Approved on behalf of the Board of Directors:

“David Kaplan”
Director

“Michael P. Gross”
Director

Aurcana Silver Corporation

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States dollars, unless otherwise stated)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Expenses					
General and administrative costs	16	\$ 1,388,626	\$ 702,274	\$ 3,159,931	\$ 2,389,004
Financing expense and others	17	6,494	5,179	17,511	13,768
Care & maintenance costs	18	1,134,169	412,812	2,536,271	1,415,481
Depreciation and amortization property, plant and equipment	19	345,810	358,262	1,014,809	1,076,939
Stock-based compensation	12	-	-	880,782	-
Amortization of right-of-use asset	8	28,897	-	86,489	-
Accretion of lease liability	8	6,511	-	22,412	-
Foreign exchange loss		2,604,210	51,030	3,262,436	145,606
		<u>5,514,717</u>	<u>1,529,557</u>	<u>10,980,641</u>	<u>5,040,798</u>
Other income					
Management Fees		\$ -	\$ -	\$ -	\$ 150,000
Royalties		-	-	-	44,915
Oil & Gas lease		-	4,792	-	66,747
Other		1,332	3,252	8,173	7,160
		<u>1,332</u>	<u>8,044</u>	<u>8,173</u>	<u>268,822</u>
Net loss for the Period before other comprehensive items		(5,513,385)	(1,521,513)	(10,972,468)	(4,771,976)
Other comprehensive Income					
Items that may be reclassified subsequently to profit or loss:					
Currency translation adjustment		2,548,483	(202)	3,195,364	132,081
Total other comprehensive income (loss) for the Period		<u>2,548,483</u>	<u>(202)</u>	<u>3,195,364</u>	<u>132,081</u>
Total comprehensive loss for the Period		\$ (2,964,902)	\$ (1,521,715)	\$ (7,777,104)	\$ (4,639,895)
Weighted average number of shares basic and diluted		220,073,354	134,567,095	190,767,663	122,461,930
Loss per share					
Loss per share (basic & diluted)		\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.04)

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, 2018	116,309,028	25,594,154	131,413,617	(433,425)	(89,257,206)	67,317,140	11,165	67,328,305
Net loss for the period	-	-	-	-	(4,771,976)	(4,771,976)	-	(4,771,976)
Shares issued for:								
Private placement	35,739,195	4,731,998	2,036,788	-	-	6,768,786	-	6,768,786
Share Issue Costs		(472,511)	114,056	-	-	(358,455)	-	(358,455)
Currency translation adjustment	-	-	-	132,081	-	132,081	-	132,081
Balance, September 30, 2019	152,048,223	29,853,641	133,564,461	(301,344)	(94,029,182)	69,087,576	11,165	69,098,741
Net loss for the period	-	-	-	-	(2,420,288)	(2,420,288)	-	(2,420,288)
Shares issued for:								
Private placement	-	(319,455)	319,455	-	-	-	-	-
Share Issue Costs	-	(83,111)	55,947	-	-	(27,164)	-	(27,164)
Currency translation adjustment	-	-	-	138,471	-	138,471	-	138,471
Balance, December 31, 2019	152,048,223	29,451,075	133,939,863	(162,873)	(96,449,470)	66,778,595	11,165	66,789,760
Net loss for the period	-	-	-	-	(10,972,468)	(10,972,468)	-	(10,972,468)
Shares issued for:								
Private placement (note 21)	60,580,275	10,647,985	5,075,699	-	-	15,723,684	-	15,723,684
Share Issue Costs (note 21)	-	(1,264,282)	154,850	-	-	(1,109,432)	-	(1,109,432)
Exercised warrants	18,006,185	6,071,295	(1,107,361)	-	-	4,963,934	-	4,963,934
Stock-based compensation	-	-	880,782	-	-	880,782	-	880,782
Currency translation adjustment	-	-	-	3,195,364	-	3,195,364	-	3,195,364
Balance, September 30, 2020	230,634,683	\$ 44,906,073	\$ 138,943,833	\$ 3,032,491	\$ (107,421,938)	\$ 79,460,459	\$ 11,165	\$ 79,471,624

See accompanying notes to these condensed interim consolidated financial statements.

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

	Nine months ended September 30,	
	2020	2019
Cash flows from operating activities		
Net loss for the Period	\$ (10,972,468)	\$ (4,774,771)
Items not involving cash:		
Depreciation and amortization property plant and equipment	1,014,809	1,076,939
Stock-based compensation	880,782	-
Amortization right to use asset	86,489	-
Deferred revenue (oil & gas)	-	(66,747)
Write-off Accounts Receivable	29,802	-
Accretion of lease liability	22,412	-
Unrealized foreign exchange (income) loss	3,197,614	132,081
Operating cash flow before changes in working capital	(5,740,560)	(3,632,498)
Net changes to non-cash working capital balances		
Trade and other receivables	9,468	118,711
Prepaid expenses and advances	134,492	(144,411)
Accounts payable and accrued liabilities	856,514	(519,648)
Long term deposits	(1,340)	-
Cash used in operating activities	(4,741,426)	(4,177,846)
Cash flows from investing activities		
Proceeds from the sale of equipment	475	-
Mine development	(5,148,053)	(631,128)
Purchase of property, plant and equipment	(268,502)	-
Restricted assets	(3,526)	-
Cash used in investing activities	(5,419,606)	(631,128)
Cash flows from financing activities		
Lease payments	(106,413)	-
Share capital issued	20,687,618	6,768,786
Share Issue Costs	(1,109,432)	(358,455)
Cash provided by financing activities	19,471,773	6,410,331
(Decrease) / increase in cash and cash equivalents	9,310,741	1,601,357
Effect of exchange rate changes on cash	(3,506)	-
Cash and cash equivalents, beginning of the year	3,944,286	4,464,236
Cash and cash equivalents, end of the Period	\$ 13,251,521	\$ 6,065,593

Supplemental Cash Flow information (Note 14)

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 was incorporated under the laws of the Province of Ontario on October 12, 1917 under the name “Cane Silver Mines Limited” and was continued under the Business Corporation Act in the Province of British Columbia on August 24, 2020 under the name “Aurcana Silver Corporation”. Aurcana is a reporting issuer in British Columbia, Alberta and Ontario. The Company is listed on the TSX Venture Exchange (“TSX-V”) under the symbol AUN and achieved Tier 1 status in October 2008.

Aurcana is currently engaged in the exploration, development and operation of natural resource properties. The Company’s development properties are: (i) the Revenue-Virginus mine (the “Revenue-Virginus mine” or “Ouray”), located in Ouray Colorado and held through the Company’s 100% owned US subsidiary, Ouray Silver Mines, Inc. (“OSMI”); and (ii) the Shafter silver property (the “Shafter Silver Project” or “Shafter”), located in Presidio County, Texas and held through the Company’s 100% owned US subsidiary, Rio Grande Mining Corporation (“RGMC”). Both OSM and RGMC are owned by the Company’s 100% owned US subsidiary Aurcana US Hold Co 1 Ltd.

Ouray Silver Mines is currently in development and Shafter is currently on care and maintenance.

The Company’s common 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.

A summary of the financial position is provided in the table below.

	Nine months ended September 30, 2020	Year ended December 31, 2019
comprehensive loss	\$7,777,104	\$6,921,712
accumulated deficit	\$107,421,938	\$96,449,470
working capital	\$12,034,294	\$3,769,401

Several adverse conditions and material uncertainties, including, without limitation, low metal prices, may cast significant doubt upon the Company’s ability to continue as a going concern.

AURCANA SILVER CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

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, 2019.

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 for the year ended December 31, 2019.

These condensed interim consolidated financial statements were approved by the Board of Directors on November 24, 2020.

3. Trade and Other Receivables

	September 30 2020	December 31 2019
Trade receivables	-	29,802
GST receivable and others	19,709	29,177
	<u>\$ 19,709</u>	<u>\$ 58,979</u>

During the first quarter of 2020, the Company wrote off \$29,802 from trade receivables, as it was unable to collect from Minera La Negra. During the year ended December 31, 2019, the Company wrote off \$140,000 of trade and other receivables.

4. Inventory

Company’s inventory is all located in the U.S. and the inventory is all consumables and supplies, which consist of spare parts and consumable goods used for operations, general repairs and maintenance.

5. Prepaid Expenses and Advances

	September 30 2020	December 31 2019
Prepaid expenses	\$ 280,466	\$ 414,515
Other	379	753
Current portion	280,845	415,268
Non-current portion	12,667	12,736
	<u>\$ 293,512</u>	<u>\$ 428,004</u>

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)
6. Property, Plant and Equipment

	Buildings	Plant and Equipment	Mine Development Cost	Vehicles	Computer Equipment	Other	Total
Cost							
Balance at December 31, 2018	\$ 5,849,708	\$ 14,351,898	\$ 7,827,311	\$ 170,989	\$ 273,919	\$ 525,589	\$ 28,999,414
Additions	-	-	990,337	-	2,977	-	993,314
Write-down	-	(305,362)	-	-	-	-	(305,362)
Balance at December 31, 2019	5,849,708	14,046,536	8,817,648	170,989	276,896	525,589	29,687,366
Additions	-	-	5,148,053	265,669	-	-	5,413,722
Write-down and disposals	-	-	-	-	-	-	-
Balance at September 30, 2020	\$ 5,849,708	\$ 14,046,536	\$ 13,965,701	\$ 436,658	\$ 276,896	\$ 525,589	\$ 35,101,088
Accumulated depreciation							
Balance at December 31, 2018	\$ 558,023	\$ 4,446,793	\$ -	\$ 83,701	\$ 255,453	\$ 339,889	\$ 5,683,859
Charge for the period	118,844	1,196,855	-	25,413	10,217	62,045	1,413,374
Balance at December 31, 2019	676,867	5,643,648	-	109,114	265,670	401,934	7,097,233
Disposals	-	-	-	(2,358)	-	-	(2,358)
Charge for the period	91,449	897,641	-	22,519	2,732	468	1,014,809
Balance at September 30, 2020	\$ 768,316	\$ 6,541,289	\$ -	\$ 129,275	\$ 268,402	\$ 402,402	\$ 8,109,684
Net book value							
Balance at December 31, 2019	\$ 5,172,841	\$ 8,402,888	\$ 8,817,648	\$ 61,875	\$ 11,226	\$ 123,655	\$ 22,590,133
Balance at September 30, 2020	\$ 5,081,392	\$ 7,505,247	\$ 13,965,701	\$ 307,383	\$ 8,494	\$ 123,187	\$ 26,991,404

The Revenue-Virginus Mines is in development, however there is no production activity. Therefore, Mine Development Cost is not subject to amortization. All property, plant and equipment assets are in the United States of America.

During the year ended December 31, 2019, the Company wrote-down a filter press that did not comply with the American Welding Standards. The loss on disposal was recorded in the other expense line item in the consolidated statement of comprehensive loss.

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

7. Mineral Properties

	Revenue-Virginus, Colorado, USA, In development	Shafter, Texas, USA, In Care & Maintenance	Total
Balance at December 31, 2018	\$ 27,764,038	\$ 13,396,556	\$41,160,594
Capitalized transaction cost from adjustment	-	(274,886)	(274,886)
Balance at December 31, 2019 and September 30, 2020	<u>\$ 27,764,038</u>	<u>\$ 13,121,670</u>	<u>\$ 40,885,708</u>
Net book value			
Balance at December 31, 2019 and September 30, 2020	<u>\$ 27,764,038</u>	<u>\$ 13,121,670</u>	<u>\$ 40,885,708</u>

During the year ended December 31, 2019, the Company was able to renegotiate the transaction cost of the mineral property in Shafter, Texas. The Company was able to lower the price by \$274,886.

8. Leases

IFRS 16 Leases sets out the principles for recognition, measurement, presentation, and disclosure of leases. It eliminates the classification of leases as either operating or finance leases required by IAS 17 and introduces a single lessee accounting model.

The Company adopted IFRS 16 using the modified retrospective approach effective January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard.

- Account for leases with a remaining term of less than 12 months as of December 31, 2019 as short-term leases;
- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Account for lease payments as an expense and not recognize a right-to-use asset if the underlying asset is of low dollar value (\$5,000 or lower); and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease for a further three years. Both leases of the Company were classified as operating leases and payments made were charged directly to profit or loss.

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

8. Leases (continued)

The Company leases its office space in Vancouver British Columbia Canada, and the office space and warehouse space in Ouray Colorado USA. On adoption of IFRS 16, the Company recognized lease liabilities. The term of the leases is for three years with an option to renew.

Leases are recognized as a right-to-use asset with a corresponding liability at the date at which the leased asset is available for use. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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%. The associated right-of-use asset was measured at the value of the lease liability plus the estimated cost of restoring the facility. As a result, on December 31, 2019, the Company recognized total lease liabilities of \$251,720 and right-of-use assets of \$236,382.

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

Lease liability		September 30, 2020		
		Canada	USA	Total
Balance as at December 31, 2019	\$	41,008	\$ 210,712	\$ 251,720
Payments		(15,360)	(91,053)	(106,413)
Accretion expense		3,592	18,820	22,412
		29,240	138,479	167,719
Less current portion		18,000	108,823	126,823
Currency translation adjustment		(1,256)	-	(1,256)
Long-term		9,984	29,656	39,640

Right-of-use asset		September 30, 2020		
		Canada	USA	Total
Balance as at December 31, 2019	\$	39,048	\$ 197,334	\$ 236,382
Amortization		12,482	74,007	86,489
		26,566	123,327	149,893

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

9. Reclamation Deposits

Reclamation deposits of \$484,295 are related to deposits with the State of Colorado for mine and project closure according to approved reclamation plans and will be returned to OSM at the completion of reclamation work and release by the State.

10. Accounts Payable and Accrued Liabilities

	September 30 2020	December 31 2019
Salaries, payroll deductions and employee benefits *	\$ 624,719	\$ 106,948
Property taxes	76,500	219,369
Value added tax	431	-
Insurance	220,545	262,477
Other	257,996	88,032
	<u>\$ 1,533,340</u>	<u>\$ 676,826</u>

Accounts payable and accrued liabilities include related party amounts. See note 13.

*On April 29, 2020 Ouray Silver Mines received a \$421,000 loan from the US Government as part of the Payroll Protection Program (PPP). These PPP loans are forgivable if funds are used for retention of employees over the program period, which is currently 24 weeks from the loan date. OSM has utilized the funds as required and will apply for loan forgiveness at the end of the period when final guidelines are released.

11. 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.

For the period ended September 30, 2020, the Company recorded the amount of \$1,120,270 (December 31, 2019 - \$1,120,270).

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 year-ended December 31, 2019. This amounted to \$1,120,270. 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.

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

12. Equity

Authorized

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

Share issuance details:

	Number of Common Shares	Amount
Balance, December 31, 2018	116,309,028	\$ 25,594,154
Private placement	35,739,195	4,412,543
Share Issue Costs	-	(555,622)
Balance, December 31, 2019	152,048,223	29,451,075
Private placement (note 21)	60,580,275	10,647,985
Share Issue Costs (note 21)	-	(1,264,282)
Exercised warrants	18,006,185	6,071,295
Balance, September 30, 2020	230,634,683	\$ 44,906,073

Stock options

The Company is authorized to issue up to 11,514,593 options, of which 5,010,000 options are outstanding with a remaining balance of 6,504,593 options available to be issued.

<u>Stock options</u>	Number of Common Share Purchase Options	Weighted Average Exercise Price per Share (\$CDN)
Balance, December 31, 2018	1,640,000	1.18
Forfeited	(200,000)	1.60
Expired	(380,000)	1.05
Balance, December 31, 2019	1,060,000	1.14
Forfeited	(500,000)	1.02
Granted	4,450,000	0.55
Balance, September 30, 2020	5,010,000	0.63

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

12. Equity (continued)

A summary of the Company's Option activity is presented below:

<u>Stock options</u>		Exercise Price	Expiry Date
Outstanding	Vested	(\$CDN)	
300,000	300,000	0.85	March 2, 2021
80,000	80,000	2.00	August 5, 2021
180,000	180,000	1.60	April 27, 2022
4,450,000	1,112,500	0.55	April 29, 2025
<u>5,010,000</u>	<u>1,672,500</u>		

The weighted average remaining contractual life of stock options outstanding is 3.3 years. The values post consolidation stock options utilized the Black Scholes option pricing model.

On April 29, 2020, the Company granted 4,450,000 options to directors, officers, employees, and consultants. The exercise price, term and vesting period of each option are determined by the board of directors within regulatory guidelines.

For the period ended September 30, 2020 the stock-based compensation expense was \$880,782 (September 30, 2019 – Nil). Fair value of stock options granted as above is calculated using the following weighted average assumptions:

	September 30 2020	December 31 2019
Risk-free interest rate	0.41%	-
Expected stock price volatility	134.48%	-
Expected dividend yield	Nil	-
Expected warrant life in years	5	-

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants	Exercise Price (CDN)
Balance, December 31, 2018	11,577,306	1.520
Private placement	37,121,395	0.375
Balance, December 31, 2019	48,698,701	0.650
Private placement (note 21)	63,336,021	0.523
Exercised	(18,006,185)	0.375
Expired	(2,447,746)	2.250
Balance, September 30, 2020	<u>91,580,791</u>	<u>0.572</u>

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

12. Equity (continued)

As of September 30, 2020, details of outstanding warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
2,837,560	\$1.500	May 3, 2021
6,292,000	\$1.250	December 27, 2021
14,129,124	\$0.375	August 15, 2022
8,980,021	\$0.375	September 3, 2022
13,959,867	\$0.375	February 20, 2023
9,887,228	\$0.375	March 2, 2023
9,847,751	\$0.350	April 17, 2023
22,771,840	\$0.750	July 20, 2023
2,875,400	\$0.750	July 28, 2023
<u>91,580,791</u>	<u>\$0.572</u>	

As at September 30, 2020, the weighted average remaining contractual life of warrants outstanding is 2.3 years.

The values of warrants determined during the period ended September 30, 2020 utilized the Black-Scholes option pricing model weighted the weight average input factors and assumptions as follows:

	September 30 2020	December 31 2019
Risk-free interest rate	0.28% - 1.40%	1% - 1.24%
Expected stock price volatility	77.26% - 86.89%	77.26% - 89.95%
Expected dividend yield	Nil	Nil
Expected warrant life in years	3	3
Share price CDN	\$0.23 - \$0.50	\$0.28 - \$0.36
Exercise price CDN	\$0.35 - \$0.75	\$ 0.375

During the period ended September 30, 2020, the 60,580,275 warrants were recorded at a value of \$5,230,549 (2019 - \$2,526,246).

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

13. 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 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	September 30 2020	September 30 2019
General and administrative expenses - Consulting Fees	(i)	\$ 90,660	\$ 181,688

(i) To companies controlled by the corporate secretary in 2020 and 2019, and the previous CFO in 2019 for services performed as officers.

b) Compensation of key management personnel

	Note	September 30 2020	September 30 2019
Consulting fees (as above)		\$ 90,660	\$ 181,688
Stock-based compensation		880,782	-
Officer salaries		498,644	438,814
		<u>\$ 1,470,086</u>	<u>\$ 620,502</u>

14. Supplemental Cash Flow Information

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

	September 30 2020	December 31 2019
Cash	\$ 748,566	\$ 129,390
Short-term investments	<u>12,502,954</u>	<u>3,814,896</u>
	<u>\$ 13,251,520</u>	<u>\$ 3,944,286</u>

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

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

15. 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.

September 30, 2020	Ouray	Shafter	Corporate and other segments	Total
General and administrative cost	1,460,035	215,849	1,484,047	3,159,931
Care & maintenance costs	2,366,595	169,676	-	2,536,271
Depreciation and amortization	1,014,374	-	435	1,014,809
Foreign exchange gain	-	-	3,262,436	3,262,436
Stock-based compensation	431,583	-	449,199	880,782
Other expenses	99,747	452	18,040	118,239
Net loss for the Period before other comprehensive items	(5,372,334)	(385,977)	(5,214,157)	(10,972,468)
Currency translation adjustment	-	-	3,195,364	3,195,364
Total comprehensive loss for the Per	(5,372,334)	(385,977)	(2,018,793)	(7,777,104)
Property, plant and equipment *	16,880,098	10,108,764	2,542	26,991,404
Mineral properties	27,764,039	12,663,526	458,143	40,885,708
Total capital assets	44,644,137	22,772,290	460,685	67,877,112
Total assets	46,283,622	22,822,615	13,185,460	82,291,697
Total liabilities	1,822,274	722,065	275,734	2,820,073

* Includes OSM Mine Development cost for the first nine months of 2020: \$ 5,148,053

September 30, 2019	OSM	Shafter *	Corporate and other segments	Total
Revenues	\$ -	\$ 111,662	\$ 150,000	\$ 261,662
General and administrative cost	1,003,955	329,475	1,055,574	2,389,004
Care & maintenance costs	1,196,115	219,366	-	1,415,481
Depreciation and amortization	1,076,940	-	(1)	1,076,939
Foreign exchange loss	-	-	145,606	145,606
Other (income) expenses	2,278,554	218,903	(2,490,849)	6,608
Net loss for the period before other	(5,555,564)	(656,082)	1,439,670	(4,771,976)
Currency translation adjustment	132,081	-	-	132,081
Total comprehensive loss for the per	(5,423,483)	(656,082)	1,439,670	(4,639,895)
Net loss for the period	(5,423,483)	-	-	(4,639,895)
Property, plant and equipment	12,455,616	10,414,128	-	22,869,744
Mineral properties	27,355,006	10,378,365	-	41,160,594
Total capital assets	39,810,622	20,792,493	-	64,030,338
Total assets	41,494,689	20,828,972	9,206,964	71,530,625
Total liabilities	834,331	704,996	894,955	2,434,282

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

16. General and administrative costs

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Salaries and consulting fees	\$ 743,638	\$ 528,655	\$ 1,918,512	\$ 1,648,323
Transaction cost	-	(6,353)	-	91,372
Professional fees	115,564	(16,315)	175,971	117,825
Investor relations	183,001	24,059	265,044	69,059
Marketing and road shows	79,063	29,211	207,612	64,176
Listing and filing fees	92,565	11,411	178,215	36,446
Other	174,795	131,606	414,577	361,803
	<u>\$ 1,388,626</u>	<u>\$ 702,274</u>	<u>\$ 3,159,931</u>	<u>\$ 2,389,004</u>

Other break down:	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Rent and overhead	17,853	39,508	\$ 23,308	\$ 117,573
Travel and accommodation	138	21,951	31,463	48,683
Office	156,804	69,368	330,004	194,768
Write-off Accounts Receivable	-	-	29,802	-
Total Other	<u>\$ 174,795</u>	<u>\$ 131,606</u>	<u>\$ 414,577</u>	<u>\$ 361,803</u>

17. Financing and Other Expense

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest Expense	88	-	\$ 4,412	\$ 4,341
Bank charges	6,406	5,179	13,099	9,427
	<u>\$ 6,494</u>	<u>\$ 5,179</u>	<u>\$ 17,511</u>	<u>\$ 13,768</u>

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

18. Care & maintenance costs

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Site maintenance	\$ 877,049	\$ 232,379	\$ 1,839,068	\$ 797,091
Insurance	94,434	83,366	286,047	270,280
Enviromental	107,234	43,468	246,771	186,274
Property taxes	55,452	53,599	164,385	161,836
	<u>\$ 1,134,169</u>	<u>\$ 412,812</u>	<u>\$ 2,536,271</u>	<u>\$ 1,415,481</u>

19. Depreciation and Amortization – Property, Plant and Equipment

	Nine months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Property, plant and equipment depreciation	\$ 345,810	\$ 358,262	\$ 1,014,809	\$ 1,076,939
	<u>\$ 345,810</u>	<u>\$ 358,262</u>	<u>\$ 1,014,809</u>	<u>\$ 1,076,939</u>

20. Impairment and write-down

In accordance with the Company's accounting policy management performed an assessment of the recoverable amount of property, plant and equipment on site at the Revenue-Virginus Mine included in the Ouray project. The Company engaged an independent valuations expert to assess the fair value of property, plant and equipment and determined that certain assets were carried at a value in excess of the recoverable amount.

During the year ended December 31, 2019, the Company wrote-down a filter press that didn't comply with the American Welding Standards in the amount of \$305,362, which was originally recorded as an equipment purchase in a prior year. The Company was unable to recover the cost of the equipment, and the write-down is reflected in the ending balance of \$8,402,888 as of December 31, 2019 for plant and equipment. During the period ended March 31, 2020, the Company disposed of two non-operational snowmobiles. (Note 6).

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

21. Private Placement

On February 20, 2020, the Company completed the first tranche of a non-brokered private placement offering (the "Private Placement") of 15,108,097 Units for gross proceeds of CDN\$3,323,781 at a price of CDN\$0.22 per Unit (the "Units"). Each Unit consisted of one common share of the Company (each, a "Common Share") and one full common share purchase warrant (each, a "Common Share Purchase Warrant"). Each Common Share Purchase Warrant will enable the holder to purchase one Common Share at a price of CDN\$0.375 for a period of 36 months following the closing of the Private Placement, subject to adjustment upon certain customary events.

For the First tranche, the Company paid an aggregate of \$139,330 in finder's fees and issued an aggregate of 633,315 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\$0.375 for a period of 36 months from the date of issuance.

The Common Shares and the Warrants (and any Common Shares issued pursuant to the Warrants, as applicable) issued in the first tranche are subject to a statutory hold period expiring on June 20, 2020.

On March 2, 2020, the Company completed the second tranche of the non-brokered private placement offering (the "Private Placement") for 11,583,371 Units for gross proceeds of CDN\$2,548,342 at a price of CDN\$0.22 per Unit (the "Units") Each Unit consists of one common share of the Company (each, a "Common Share") and one full common share purchase warrant (each, a "Common Share Purchase Warrant"). Each Common Share Purchase Warrant will enable the holder to purchase one Common Share at a price of CDN\$0.375 for a period of 36 months following the closing of the Private Placement subject to adjustment upon certain customary events.

For the second tranche, the Company paid an aggregate of CDN\$99,494 in finder's fees and issued an aggregate of 491,247 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\$0.375 for a period of 36 months from the date of issuance.

The Common Shares and the Warrants (and any Common Shares issued pursuant to the Warrants, as applicable) issued in the second tranche are subject to a statutory hold period expiring on July 3, 2020.

The net proceeds of both tranches of the Private Placement will be used to continue to execute the Company's corporate vision, previously announced on June 19, 2019 and recently updated on its website www.aurcana.com, which is primarily focused on advancing its wholly-owned Revenue-Virginus Silver Mine located in Ouray, Colorado, as well as for working capital and general and administrative expenses.

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

21. Private Placement (continued)

On April 17, 2020 the Company completed a private placement of 9,337,407 units at a price of CDN\$0.27 per unit, to raise total proceeds of CDN\$2,521,100. 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\$0.35 for a period of 36 months, subject to adjustment upon certain customary events. The net proceeds of the private placement will be used to continue to execute the Company’s corporate vision, previously announced on June 19, 2019 and posted on its website www.aurcana.com, which is primarily focused on advancing its wholly-owned Revenue-Virginus Silver Mine located in Ouray, Colorado, as well as for working capital and general and administrative expenses. The Company paid an aggregate of CDN\$144,543 in finder’s fees and issued an aggregate of 535,344 agent’s Warrants, with each agent’s warrant entitling the holder thereof to purchase one Common Share at a price of CDN\$0.35 for a period of 36 months. The 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 August 18, 2020.

On July 20, 2020, the Company completed the first tranche of a non-brokered private placement offering (the “Private Placement”) for 21,789,400 Units for gross proceeds of CDN\$10,894,700 at a price of CDN\$0.50 per Unit (the “Units”). Each Unit consists of one common share of the Company (each, a “Common Share”) and one full common share purchase warrant (each, a “Common Share Purchase Warrant”). Each Common Share Purchase Warrant will enable the holder to purchase one Common Share at a price of CDN\$0.75 for a period of 36 months following the closing of the Private Placement, subject to adjustment upon certain customary events.

For the First tranche, the Company paid an aggregate of \$485,520 in finder’s fees and issued an aggregate of 971,040 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\$0.50 for a period of 36 months from the date of issuance.

The Common Shares and the Warrants (and any Common Shares issued pursuant to the Warrants, as applicable) issued in the first tranche are subject to a statutory hold period expiring on November 21, 2020.

On July 28, 2020, the Company completed the second tranche of the non-brokered private placement offering (the “Private Placement”) for 2,762,000 Units for gross proceeds of CDN\$1,381,000 at a price of CDN\$0.50 per Unit (the “Units”) Each Unit consists of one common share of the Company (each, a “Common Share”) and one full common share purchase warrant (each, a “Common Share Purchase Warrant”). Each Common Share Purchase Warrant will enable the holder to purchase one Common Share at a price of CDN\$0.75 for a period of 36 months following the closing of the Private Placement subject to adjustment upon certain customary events.

For the second tranche, the Company paid an aggregate of CDN\$547,920 in finder’s fees and issued an aggregate of 1,095,840 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\$0.50 for a period of 36 months from the date of issuance.

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

21. Private Placement (continued)

The Common Shares and the Warrants (and any Common Shares issued pursuant to the Warrants, as applicable) issued in the second tranche are subject to a statutory hold period expiring on November 29, 2020.

The net proceeds of both tranches of the Private Placement will be used to continue to execute the Company's corporate vision, previously announced on June 19, 2019 and recently updated on its website www.aurcana.com, which is primarily focused on advancing its wholly-owned Revenue-Virginus Silver Mine located in Ouray, Colorado, as well as for working capital and general and administrative expenses.

22. Board of Directors updates

On April 7, 2020, Jose Manuel Borquez resigned as a member of the board of directors. On April 9, 2020, the Company appointed Peter Fairfield as a member of the board of directors.

23. Change of Name

On August 24, 2020 Aurcana Corporation changed its name to Aurcana Silver Corporation. With the change of name, Aurcana has continued under the Business Corporation Act of the Province of British Columbia. Aurcana's trading symbol is unchanged as AUN and the new CUSIP number is 051918803. The change in name and the continuation were both previously approved by shareholders of Aurcana pursuant to special resolutions passed at an annual general and special meeting of Aurcana held on June 27, 2017. Common share certificates bearing the previous company name "Aurcana Corporation" continue to be valid in the settlement of trades in common shares. There is no consolidation or change in the share capital of the Company. Shareholders are not required to transfer existing share certificates into the new name.

24. 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 2020 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.

AURCANA SILVER CORPORATION
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars, unless otherwise stated)

25. Subsequent Event

On October 22, 2020 the Company received credit approval for a US\$28 million dollar project financing facility to fund the restart of Aurcana’s wholly owned Revenue-Virginus mine (the “Revenue Mine”) located in Ouray, Colorado. The lender under the facility will be an indirect, wholly owned subsidiary of Mercuria Energy Group Limited (“Mercuria”). The financing will be in the form of a secured term loan (“Term Loan”). Mercuria will also provide the Revenue Mine with a hedging program against approximately 29% of its anticipated production profile over the first five years. Mercuria has completed technical due diligence and the parties have executed an approved term sheet for the Term Loan that is subject to final legal due diligence and completion of mutually acceptable documentation.

Kevin Drover, CEO of Aurcana, notes “Once funded, this financing will be the key piece to fully fund the restart of commercial production at the Revenue Mine. Achieving this milestone is the direct result of the hard work of our people, especially our technical team and the workforce on the ground preparing the Revenue Mine for production. We are fortunate to have found a partner in Mercuria who shares our vision of the value of the Revenue Mine and the products it will produce.”

Material terms of the Term Loan include:

- Senior security on the Revenue Mine with a corporate guarantee from Aurcana
- \$28 million financing disbursed as a lump sum at Closing
- 60 months term, with a 12 month grace period with equal quarterly amortization thereafter; repayable in full at any time with a minimum 12 month interest make whole.
- Interest rate USD 3M LIBOR + 10.5% after three (3) consecutive months of production in excess of 400 wet tons per month of lead concentrate (the target run rate under the 2018 feasibility study), and USD 3M LIBOR + 14% until then. Interest is payable quarterly in arrears.
- Customary representations, warranties, affirmative and negative covenants, events of default, and closing conditions The closing and funding of the Term Loan is expected in the fourth quarter of 2020. There is no guarantee the financing on the above terms and conditions will be completed. Roc Global acted as the exclusive financial advisor to Aurcana on this debt financing.

The Company forecasts 6 months to initial production for the Revenue Mine and 9 months to cash flow positive pursuant to the 2018 feasibility study (the “2018 FS”) prepared in accordance with National Instrument NI 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”) demonstrating an economic viability to restarting of the mine. A copy of the 2018 FS is posted on the Company’s website www.aurcana.com and is also available on the Company’s profile on SEDAR at www.sedar.com.