



Management Discussion and Analysis for the Year Ended December 31, 2018

This Management Discussion and Analysis (“**MD&A**”) should be read in conjunction with Aurcana Corporation (referred to herein collectively with its subsidiaries as the “**Company**” or “**Aurcana**”)’s consolidated financial statements for the years ended December 31, 2018 and 2017 (the “**Consolidated Financial Statements**”), and the related notes thereto, which have been prepared in accordance with International Financing Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”). This MD&A contains “forward-looking statements” within the meaning of applicable Canadian securities laws, including, but not limited to, statements regarding the Company’s expectations, strategic plans, exploration budgets and mineral resource and mineral reserve estimates. The information in this MD&A is current to April 24, 2019.

Cautionary Statement Regarding Forward-Looking Information

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

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

All of the Company’s public disclosure filings, including its most recent management information circular, material change reports, press releases and other information, may be accessed via www.sedar.com and readers are urged to review these materials.

TABLE OF CONTENTS

Qualified Person	2
Nature of Business and Company Description	2
Overview and Overall Performance.....	3
Reverse Takeover Transaction	4
Outlook	6
Corporate Developments.....	10
Quarterly Financial Information.....	11
Significant fluctuations in quarterly expenses are summarized as follows:	12
Selected Annual Information	12
Liquidity and Financial Position.....	12
Outstanding Share Capital	14
Transactions With Related Parties.....	14
Commitments and Contingencies	15
Financial Instruments.....	16
Fair value measurements.....	16
Risks and Uncertainties.....	17
Management’s Report on Internal Controls	21
Non IFRS Measures.....	21
Additional Information	22

QUALIFIED PERSON

An officer of the Company, Mr. Kevin Francis, (Registered Member, SME) is a Qualified Person as defined by National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*. Mr. Francis has reviewed and approved the scientific and technical information contained herein. Disclosure documents, including technical reports filed by Aurcana, can be found under the Company’s profile on SEDAR at www.sedar.com.

NATURE OF BUSINESS AND COMPANY DESCRIPTION

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 *Canadian Business Corporations Act* on September 14, 1998 under the name “Aurcana 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. (“**OSM**”); 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, Aurcana US Hold Co 1 Ltd. Each of the Revenue-Virginus mine and Shafter are currently on “care and maintenance”, with certain limited development and technical evaluation activities presently underway at Ouray.

Basis of presentation and going concern

The accompanying Consolidated Financial Statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business. The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities. Several adverse conditions and material uncertainties, including, without limitation, low metal prices, may cast significant doubt upon the Company's ability to continue as a going concern. Several adverse conditions and material uncertainties, including low metal prices, may also cast significant doubt upon the going concern assumption. The Company had current assets of \$5.3 million, consolidated working capital of \$3.4 million, a consolidated deficit of \$89.2 million, and net loss of \$5.6 million as at and for the year ended on December 31, 2018.

The Consolidated Financial Statements may be found under the Company's profile at www.sedar.com and on the Company's website www.aurcana.com. The reader should be aware that historical results are not necessarily indicative of future performance. All financial amounts are expressed in United States dollars, unless otherwise stated.

OVERVIEW AND OVERALL PERFORMANCE

Aurcana owns 100% of the Revenue-Virginus mine and 100% of the Shafter silver project.

Revenue-Virginus Mine

The Revenue-Virginus mine is located in southwestern Colorado about 5.5 miles southwest of the town of Ouray. Access to the mine site is via County Road 361. Ouray is easily accessible from Montrose Airport (36 miles north) or 5.5 hours drive from Denver via I-70. Local infrastructure is excellent with access to power, water, transportation and housing from surrounding communities such as Ouray and Montrose.

Aurcana acquired the Revenue-Virginus mine (via its acquisition of OSM) in December 2018 with the intention of re-starting mining operations upon completion of a production financing. See "Reverse Take-Over Transaction" below.

The Revenue-Virginus mine is a historic mining operation which mined over 26 million ounces of silver during 1885-1912. The mine was operated for short periods of time during the 1920s and 1930s, but without an operating mill was unable to sustain production.

In the 1960s and 1980s, exploration and development along with some select production was conducted by Federal Resources and Ranchers Exploration/Hecla respectively. Rancher's exploration work was the most extensive and much of the drilling and development conducted in the 1980s by those companies formed the basis for developing interest by later operators. In 1994, Sunshine Mining began moderate development and exploration work. Star Resources later acquired the property and spent an estimated \$40-\$50 million advancing the project, including the construction of a new mill located underground.

In May 2014, Star Mines sold a portion of mine ownership to Fortune Revenue Silver Mines, Inc. ("**FRSM**"), a wholly owned subsidiary of Fortune Minerals Limited ("**FML**"), which operated the property for a short time under this structure. In October 2014, FRSM received senior secured financing, guaranteed by FML, from LRC-FRSM LLC ("**LRC-FRSM**"), and used that financing plus shares of FML to acquire the balance of 100% of the assets and finalize commissioning of the mine. After a default on the financing agreement, on July 17, 2015 Fortune Minerals and LRC-FRSM entered into a Master Restructuring Agreement ("**MRA**"). As part of the MRA, FML transferred 100% ownership

of FRSM to LRC-FRSM II LLC (an affiliate of LRC-FRSM) and on July 21, 2015, the name of the operating entity was changed from "Fortune Revenue Silver Mines, Inc." to "Ouray Silver Mines, Inc."

In June 2018, an updated feasibility study for the restart of Ouray was completed by SRK Consulting of Denver with portions related to mill upgrade and surface facilities by Barr Engineering. As part of the updated feasibility study, all new construction designs for the mill, surface facilities and underground development were taken to an "issued for construction" level and all capital items were fully bid. The Revenue Virginius mine is fully permitted.

Shafter

The Shafter silver project is 375 km southeast of El Paso, in Presidio County, southwest Texas, within a historic mining district, known as the Shafter Mining District. The site has excellent infrastructure, both in terms of year-round access via a paved highway, upgraded utility power and mine site facilities.

Silver from the Presidio Mine was mined from 1883 until 1942 when it was closed due to declining silver prices and the War Act. In the late 1970s Gold Fields discovered a previously unknown deep extension to the Presidio, which remains un-mined and is the primary objective of Aurcana's development plans.

In 2008 Aurcana acquired the Shafter silver project and in 2011 commenced re-development of underground access as well as construction of mill and mine facilities. In December 2013 the operation was put on care and maintenance.

In September 2018, an updated preliminary economic assessment was released. The Shafter silver project is fully permitted.

REVERSE TAKEOVER TRANSACTION

On December 27, 2018, Aurcana completed a reverse takeover transaction pursuant to a plan of arrangement under the *Canada Business Corporations Act* (the "**Arrangement**") with OSM pursuant to an arrangement agreement dated September 20, 2018 among Aurcana, LRC-FRSM and LRC-FRSM II (collectively, the "**LRC Group**"). Under the Arrangement, Aurcana acquired all the issued and outstanding of shares of common stock of OSM from the LRC Group on a debt free basis in exchange for newly issued common shares of Aurcana ("**Aurcana Shares**").

Pursuant to the terms of the Arrangement, the Company completed the following transactions:

- a) the purchase of certain equipment owned by an affiliate of Orion Mine Finance ("**Orion**") located at Aurcana's Shafter silver project in exchange for US\$500,000 and 23,894,545 pre-Share Consolidation (as defined below) Aurcana Shares;
- b) a consolidation (the "**Share Consolidation**") of the Aurcana Shares on a 5:1 basis; and
- c) the acquisition of all the issued and outstanding shares of common stock of OSM and a related amended and restated metal prepay agreement between OSM and the LRC Group in exchange for an aggregate of 83,240,359 post-Share Consolidation Aurcana Shares, as a result of which Ouray became a wholly-owned indirect subsidiary of Aurcana.

Concurrently with the completion of the Arrangement, the 5,621,800 subscription receipts issued by the Company on December 19, 2018 at CAD\$1.00 pursuant to a private placement financing transaction automatically converted into 5,621,800 units (each, a "**Unit**") of the Company, with each Unit consisting of: (i) one post-Share Consolidation Aurcana Share and (ii) a warrant to purchase one post-Share Consolidation Aurcana Share (a "**Warrant**"). Each Warrant entitles

the holder thereof to acquire, on payment of C\$1.25, one post-Share Consolidation Aurcana Share for a three-year period. Additionally, a further 670,200 Units were purchased by Orion for gross proceeds of US\$500,000. As a result of the Arrangement and the related financing transactions described above, an aggregate of 116,309,028 post-Share Consolidation Aurcana Shares are now issued and outstanding.

The Arrangement was approved by a resolution (the “**Arrangement Resolution**”) of the shareholders of Aurcana (the “**Aurcana Shareholders**”) at a special meeting (the “**Meeting**”) of shareholders of the Company on December 20, 2018. The Arrangement Resolution was approved by approximately: (i) 99.47% of the votes cast by the Aurcana Shareholders present in person or represented by proxy at the Meeting, and (ii) 98.92% of the votes cast by the Aurcana Shareholders present in person or represented by proxy at the Meeting, excluding votes cast by persons considered to be interested parties, related parties and joint actors of the Company.

Following receipt of the approval by the Aurcana Shareholders of the Arrangement Resolution, the Company obtained a final order of the Supreme Court of British Columbia approving the Arrangement on December 24, 2018, and the TSX-V permitted the recommencement of trading of the Aurcana Shares on December 31, 2018. As a result of the Arrangement, LRC-AUN, LP (successor entity of the LRC Group) holds an aggregate of 87,537,159 Aurcana Shares representing 75.26% of the issued and outstanding Aurcana Shares (on a non-fully diluted basis) and 4,296,800 Warrants which, if exercised, would result in LRC-AUN, LP holding an aggregate of 91,833,959 Aurcana Shares, representing 76.14% of the issued and outstanding Aurcana Shares (on a non-fully diluted basis).

For accounting purposes, the consolidated entity resultant from the Arrangement is considered to be a continuation of OSM, with the net identifiable assets of Aurcana deemed to have been acquired by OSM. Accordingly, in these consolidated financial statements, Aurcana is deemed to be acquired company and its assets and liabilities are brought forward at their fair values. OSM is deemed to be the acquiring company and its assets and liabilities, equity and historical operating results are included at their historical carrying values and the comparative figures in these consolidated financial statements are those of OSM.

A summary of the consideration deemed to be issued by Aurcana and the fair value of net identifiable assets acquired in the Arrangement are as follows:

Consideration given:	
Shares issued	26,776,669
Value per share	\$0.8430
Total consideration	<u>\$22,574,081</u>
Assets and liabilities acquired:	
	\$
Cash	\$855,464
Other assets	\$386,084
Property and equipment	\$10,647,250
Mineral property	\$12,663,526
Accounts payable	\$(1,334,243)
Asset retirement obligation	\$(644,000)
	<u>\$22,574,081</u>

OUTLOOK

Strategic Vision- Building value through production

With completion of the Arrangement having occurred in late 2018, the Company has identified the following matters as its key objectives for 2019 and moving forward:

- Secure funding to restart the Revenue-Virginus mine and generate free cash flow;
- Evaluate the optimal technical basis of Shafter internally with the expectation to advance the current preliminary economic assessment level of the project into a pre-feasibility study or feasibility study level study in future;
- Seek merger and acquisition (M&A) opportunities to utilize the collective team's underground evaluation and operating expertise; and
- Leverage the resources and expertise of Lascaux Resource Capital, long term investors focused exclusively on the mining sector and who are now the major shareholder of Aurcana as a result of the Arrangement.

Change of Control

Pursuant to the terms of an employment agreement dated February 1, 2011 between Aurcana and Salvador Huerta, the CFO of Aurcana, if the Mr. Huerta resigns (the "Resignation") within 90 days of a change of control, Aurcana must pay the Mr. Huerta a cash fee equal to twice the amount of his annual salary thereunder, in a lump sum payment, within 30 days of the date of the Resignation. Amount which it was recorded at December 2018 as accounts payable.

Revenue-Virginus Mine

Feasibility Study Highlights

Revenue-Virginus Estimated Mineral Resource¹						
Classification	Tons	Ag (opt)	Au (opt)	Pb (%)	Cu (%)	Zn (%)
Measured	315,000	23.10	0.06	4.86	0.26	1.92
Indicated	672,000	18.10	0.05	3.74	0.19	2.00
Total M + I	987,000	19.70	0.05	4.10	0.21	1.97
Inferred	331,000	27.20	0.07	4.61	0.29	2.35

Revenue-Virginus Estimated Mineral Reserves - Proven + Probable¹						
Vein	Tons	Ag (opt)	Au (opt)	Pb (%)	Zn (%)	NSR (\$/ton)
Virginus Proven	203,500	24.47	0.06	5.09	1.75	\$500
Virginus Probable	206,600	30.35	0.06	5.11	2.80	\$602
Virginus P+P	410,100	27.43	0.06	5.10	2.28	\$551
Terrible Proven	0					
Terrible Probable	44,900	17.95	0.05	7.40	1.37	\$406
Terrible P+P	44,900	17.95	0.05	7.40	1.37	\$406
Yellow Rose Proven	40,900	20.19	0.05	4.20	2.31	\$419
Yellow Rose Probable	79,200	16.68	0.04	3.29	1.83	\$338
Yellow Rose P+P	120,000	17.87	0.04	3.60	1.99	\$366
TOTAL Proven	244,400	23.75	0.06	4.94	1.84	\$486
TOTAL Probable	330,700	25.39	0.05	4.99	2.37	\$512
TOTAL P+P	575,100	24.70	0.06	4.97	2.15	\$501

- Mineral Resources are reported inclusive of the Mineral Reserves.
- Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves.
- Mineral Resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding.
- All Measured and Indicated estimates with the defined wireframes are considered to have potential for economic extraction as the entire level will be mined
- Inferred Mineral Resources are limited using a NSR cut-off US\$200/st.
- Metal price assumptions considered for the calculation of NSR are: Gold (US\$1,270/oz), Silver (US\$18.55/oz), Lead (US\$0.95/lb), Copper (US\$2.55/lb) and Zinc (US\$1.15/lb).
- Cut-off calculations assume average metallurgical recoveries equal to: Gold (65%), Silver (96%), Lead (96%), Copper (94%) and Zinc (89%).
- The resources were estimated by Benjamin Parsons, BSc, MSc Geology, MAusIMM (CP) #222568 of SRK, a Qualified Person; the ore reserves were estimated by OSMI. Joanna Poeck, (BS Mining, MMSA, SME-RM) a Qualified Person.

OPERATING METRICS	
1st 5 full years Average Annual Payable Production	3.1 Moz AgEq
1st 5 full years All-In Sustaining Cost of Production with by-product credits³	US\$7.38/oz Ag
Life of mine total production cost with by-product credits³	US\$8.00/oz Ag
Total Capital Requirement to Positive Cash Flow including capitalized operating cost, concentrate payment terms & working capital	US\$36.8mm
AFTER-TAX ECONOMICS	
NPV_{5%}	US\$74.9mm
IRR	71%
Payback Period from First Production Month	16 months
First Production Month from Project Start	7th month
Commencement of Positive Cash Flow from Project Start³	9th month

[1] Based on the NI 43-101 OSMI Feasibility Study issued by SRK Consulting (U.S.), Inc. effective June 15, 2018 (the "FS"); Metal equivalent basis is calculated using the FS price deck: Ag \$18.50/oz, Au \$1,300/oz, Pb \$1.00/lb, Zn \$1.20/lb. dated July 30, 2018 titled "Aurcana Announces Transformational Transaction" which is available on the Company's website and is filed on SEDAR www.sedar.com;

[2] Resources inclusive of Reserves;

[3] AISC or All in Sustaining Costs is a non-IFRS and Non-GAAP measure; AISC includes all production costs related to extraction and processing as well as costs associated with transportation, treatment, refining and other selling costs plus capital costs; and

[4] Includes concentrate payment terms.

Shafter-Presidio Mine

Preliminary Economic Assessment Highlights

Shafter Estimated Mineral Resource¹				
Classification	Cut-off Ag (opt)	Tons	Ag (opt)	Ag oz
Measured	4.00	100,000	8.73	888,000
Indicated	4.00	1,110,000	9.15	10,171,000
Total M + I	4.00	1,210,000	9.14	11,059,000
Inferred	4.00	870,000	7.47	6,511,000

- Mineral Resources that are not Reserves do not have demonstrated economic viability
- Mineral Resources are reported at a 4 oz Ag/ton cut-off grade in consideration of potential underground mining and conventional mill processing
- Rounding may result in apparent discrepancies between tons, grade, and contained metal

The preliminary economic assessment is preliminary in nature and includes inferred resources that are considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the economic results described in the preliminary economic assessment will be realized.

OPERATING METRICS	
LOM (4 years) Average Annual Production	1.6 Moz AgEq
LOM (4 years) All-In Sustaining Cost of Production³	US\$11.01/oz Ag
Total Capital Requirement to Positive Cash Flow including capitalized operating cost, concentrate payment terms & working capital	US\$20.6mm
ECONOMICS	
Pre-Tax NPV_{5%}	US\$21.6mm
Pre-Tax IRR	48%
After-Tax NPV_{5%}²	US\$15.8mm
After-Tax IRR²	37%
After-Tax Payback Period	1.8 years

[1] Based on the NI 43-101 Aurcana Preliminary Economic Assessment prepared by Mine Development Associates effective July 11, 2018 (the "PEA");

[2] The Shafter-Presidio Mine has previously incurred significant losses which may be available to offset U.S. Federal tax liability of the Shafter-Presidio Mine should sufficient taxable income be generated by Aurcana at the Shafter-Presidio Mine prior to their expiry. This potential tax loss carry forwards are not reflected in the results presented herein; and

[3] AISC or All in Sustaining Costs is a non-IFRS and Non-GAAP measure; AISC includes all production costs related to extraction and processing as well as costs associated with transportation, treatment, refining and other selling costs plus capital costs.

CORPORATE DEVELOPMENTS

During the Year ended December 31, 2018:

- As part of the a restructuring transaction implemented by way of a support agreement and arrangement agreement under which all of the Company's prior senior secured debt obligations were extinguished in exchange for the Company's interest in a Mexican subsidiary that owned the La Negra mine (implemented on January 7, 2016) (collectively, the "**Restructuring Transaction**"), the Company provides Orion certain consulting services by specified officers in connection with the operation of the La Negra mine in consideration for \$40,000 per month for a total period of 12 months starting February 2016, which has been extended on a month-to-month basis.
- The Company continued to meet its obligations to maintain its land holdings at Shafter, all necessary permits were maintained, and the Company succeeded in obtaining a new water discharge permit.
- In June 2018, the Company received net proceeds of \$582,651 from a mediated settlement of its eminent domain dispute against Trans-Pecos Pipeline, LLC ("**Trans Pecos**") at the Shafter Silver Project in Presidio County, Texas. Cash proceeds are net of all fees and expenses incurred. Trans Pecos constructed a pipeline to transport natural gas between the Permian Basin and Presidio, Texas for delivery to customers in Presidio and Chihuahua, Mexico. The route of the pipeline crossed the Shafter property, owned by Rio Grande Mining Company ("**RGMC**"), a wholly-owned subsidiary of the Company. The Company had been in discussions with representatives of Trans Pecos concerning safety, the near and long-term impacts of a pipeline on the Company and Shafter, and alternate routes for the pipeline easement. In March 2016, the Company was made aware that Trans Pecos filed a lawsuit against RGMC to acquire the proposed easement through exercise of its alleged power of eminent domain. The Company engaged counsel to challenge the public use of the pipeline project and, in the alternative, to ensure it received fair compensation for the impact of the proposed pipeline on the market value of the property and the Company's Shafter operations. In June 2018, the Company entered into a Permanent Easement Agreement granting the requested easement to Trans Pecos. The proposed settlement included the cash compensation for the land taken by Trans Pecos, industry-standard indemnity clauses against future damages, certain limitations on blasting parameters within a measured set-back from the pipeline right-of-way, and rights of access to the Company's roads at Shafter. The pipeline is now built and operational. The pipeline right-of-way does not impact on any proposed resumption of operations at Shafter and should be of long-term benefit to the economy of Presidio County and its citizens.
- On July 30, 2018 the Company announced that it had entered into an arrangement agreement to implement the Arrangement, which was ultimately completed on December 28, 2018. See "Reverse Take-Over Transaction" above.

Quarterly Financial Information

The Company's Consolidated Financial Statements are reported under IFRS. The following tables provide highlights from the Company's financial statements of quarterly results for the past eight quarters inclusive of discontinued operations:

	December 31 2018	September 30 2018	June 30 2018	March 31 2018
Revenue	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Costs and expenses:				
General and administrative expense	893,759	902,618	993,810	655,284
Provision for environmental matters and asset retirement obligation	5,686	4,150	4,150	4,150
Depreciation and amortization	396,984	380,207	411,237	404,820
Total costs and expenses	<u>1,296,429</u>	<u>1,286,975</u>	<u>1,409,197</u>	<u>1,064,254</u>
Operating loss	<u>(1,296,429)</u>	<u>(1,286,975)</u>	<u>(1,409,197)</u>	<u>(1,064,254)</u>
Other income (expenses):				
Other Income (expense)	10,000	(56,394)	(129)	-
Impairment on property, plant and equipment	(490,110)	-	-	-
Interest expense	(2,166)	-	(2,514)	(2,514)
Total other expenses, net	<u>(482,276)</u>	<u>(56,394)</u>	<u>(2,643)</u>	<u>(2,514)</u>
Net loss for the period before other comprehensive items	<u>(1,778,705)</u>	<u>(1,343,369)</u>	<u>(1,411,840)</u>	<u>(1,066,768)</u>
Total other comprehensive loss for the period	(433,425)	-	-	-
Comprehensive loss for the period	<u>\$ (2,212,130)</u>	<u>\$ (1,343,369)</u>	<u>\$ (1,411,840)</u>	<u>\$ (1,066,768)</u>
Earnings (loss) per share	(0.02)	(10.30)	(10.83)	(8.18)

	December 31 2017	September 30 2017	June 30 2017	March 31 2017
Revenue	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Costs and expenses:				
General and administrative expense	1,442,456	851,150	1,649,323	1,146,803
Provision for environmental matters and asset retirement obligation	4,150	4,150	4,150	4,150
Depreciation and amortization	414,403	416,790	409,035	402,742
Total costs and expenses	<u>1,861,009</u>	<u>1,272,090</u>	<u>2,062,508</u>	<u>1,553,695</u>
Operating loss	<u>(1,861,009)</u>	<u>(1,272,090)</u>	<u>(2,062,508)</u>	<u>(1,553,695)</u>
Other income (expenses):				
Other Income (expense)	25,000	(56,506)	(1,350)	-
Impairment on property, plant and equipment	-	-	-	-
Interest expense	(4,383,265)	(3,361,639)	(3,292,687)	(3,437,820)
Total other expenses, net	<u>(4,358,265)</u>	<u>(3,418,145)</u>	<u>(3,294,037)</u>	<u>(3,437,820)</u>
Comprehensive loss for the period	<u>\$ (6,219,274)</u>	<u>\$ (4,690,235)</u>	<u>\$ (5,356,545)</u>	<u>\$ (4,991,515)</u>
Earnings (loss) per share	(47.69)	(35.97)	(41.07)	(38.28)

Significant fluctuations in quarterly expenses are summarized as follows:

General and administrative expenses

- OSM staff was reduced from 21 people in 2017 to 16 in 2018.
- During the first, second, and fourth quarter of 2017 OSM consulting fees for a total of \$1,109,448 were principally related to completing the NI 43-101 compliant feasibility study on the RV Mine. Involving SRK Consulting; Barr Engineering, and FLSmidth.

Interest expense

In the first quarter of 2018, the Company executed an amendment to the Metal Prepay agreement forgiving past and future interest accruals due to the related party LRC-FRSM LLC which generated a one-time non-cash contribution to shareholder's equity. As result, the interest expense for 2017 decreased from \$14,475,411 to \$7,194 in 2018 primarily related to bank charges.

Selected Annual Information

Fiscal Year Ended	December 2018	December 2017	December 2016
	\$	\$	\$
Financing expense and others	25,330	14,492,011	10,968,017
Depreciation, depletion and amortization	1,593,248	1,642,970	1,614,142
Care & maintenance costs	3,445,471	5,089,732	5,284,277
Impairment on property, plant and equipment	490,110	-	-
Other loss	46,523	32,856	146,050
Net loss for the year before comprehensive items	5,600,682	21,257,569	18,012,486
Comprehensive loss for the year	6,034,107	21,257,569	18,012,486
Operating cash flow after taxes before movements in working capital (\$ million)	(3.4)	(5.1)	(5.3)
Basic loss per share	(0.07)	(152.48)	(129.21)
Fully diluted loss per share	(0.07)	(152.48)	(129.21)
Total assets	70,348,982	42,581,152	43,391,162
Current assets	5,315,020	654,683	943,035
Property, Plant & Equipment	23,315,555	13,869,666	14,389,431
Mineral properties	41,160,594	27,501,967	27,501,967
Current liabilities	1,900,407	807,368	832,574
Total liabilities	3,020,677	81,025,497	66,460,938
Cash dividends declared	Nil	Nil	Nil

LIQUIDITY AND FINANCIAL POSITION

The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities and in particular the price of silver. In the determination of the Company's ability to meet its ongoing

Management's Discussion and Analysis

Annual Report– 2018

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

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

Several adverse conditions and material uncertainties, including lower metals prices, cast doubt upon the assumption that the Company will continue as a going concern. The business of mining and exploration involves a high degree of risk and there can be no assurance that future exploration and development of the Revenue-Virginus mine and/or the Shafter silver project will result in profitable mining operations. The Company currently has finite sources of revenue, and will require cash to meet the necessary financing to acquire and complete the development of its mineral properties and for future corporate and administrative expenses. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

Working capital

The Company had current assets of \$5.3 million, consolidated working capital of \$3.4 million, a consolidated deficit of \$89.3 million, and net loss of \$5.6 million as at and for the year ended on December 31, 2018.

Current assets

As at December 31, 2018, the Company had current assets in the total amount of total \$5.3 million, which includes \$4.5 million as cash and cash equivalents.

Mineral properties, plant and equipment ("PP&E")

PP&E, net of accumulated amortization, increased to \$23.3 million at December 31, 2018 from \$13.9 million at December 31, 2017. This increase of \$9.4 million is integrated as follows:

- Increase of \$6.7 million related to fair value of Shafter project;
- Increase of \$3.9 million related to Orion fixed assets as part of the transaction;
- Increase of \$0.7 million (net) related to Revenue – Virginus mine equipment additions;
- Revenue – Virginus mine impairment \$0.5 million; and
- Amortization of \$1.5 million.

Mineral properties increased from \$27.5 million at December 31, 2017 to \$41.2 million at December 31, 2018 as a result of the reverse takeover transaction on December 27, 2018.

OUTSTANDING SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value.

As at April 24, 2019, the Company had the following issued and outstanding common shares and unexercised stock options and warrants:

	Shares and Potential Shares
Common shares outstanding	116,309,028
Warrants (average exercise price CAD\$0.84)	11,577,306
Stock options (average exercise price CAD\$1.18)	1,640,000
Total common shares (fully diluted)	129,526,334

The weight average exercise price is CAD\$1.52

TRANSACTIONS WITH RELATED PARTIES

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) Interest Paid to a Related Party

	Note	December 31 2018	December 31 2017
Interest expense	(i)	\$ -	\$ 14,475,411

(i) Interest paid to a related party is associated with the Metal Prepay Agreement with a subsidiary company and such Metal Prepay Agreement is an inter-company instrument.

Metal Prepay Agreement

On October 1, 2014, the Company entered into a Senior Secured Metal Prepay Agreement ("Metal Prepay") with LRC-FRSM with subsequent amendments occurred in 2014 and 2015. LRC-FRSM advanced the Company a total of \$51,000,000 payable in repayment units of physical metal of 3,165,156 of Silver Equivalent Repayment Units ("SERU") payable as defined by an agreed upon delivery schedule plus interest of 15% per year accrued monthly. If the Company fails to meet a payment per the schedule, a late fee of 1.25% will be assessed in units per month.

Additionally, the entity has an obligation of \$20,034,347 related to outstanding amounts. The accrual interest for the amounts owed is 9.25% per year accrued monthly and payable in SERU.

All payments can also be made in cash in satisfaction for delivery units and they are multiplied by the Silver price at the period end for interest accruals.

As at March 30, 2018 all amounts accrued, as well any future accruals, cash interests and other future payments were forgiven as part of the reverse takeover transaction (see Note 4).

b) Key Management Compensation

	Note	December 31 2018	December 31 2017
Share based compensation	(i)	\$ -	\$ -
Salaries		\$ 441,138	\$ 381,638

(i) As at December 31, 2018, Aurcana has 1,480,000 options issued to related parties with a weighted average exercise price of \$1.11.

c) Due to Related Parties

	December 31 2018	December 31 2017	January 1 2017
Accounts payable and accrued liabilities	\$ 372,785	\$ 5,635	\$ -

(i) Payables and accrued liabilities due to related parties are primarily for salary and consulting fees of the key management personnel.

d) Capital contributions received from a Related Party

	Note	December 31 2018	December 31 2017
Contribution received	(i)	\$ 4,478,701	\$ 5,883,000

(i) Pre-RTO contributions from Lascaux Group to OSM for operational purposes.

COMMITMENTS AND CONTINGENCIES

The Company has no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the financial performance or financial condition on the Company.

Head office lease

The head office lease has a monthly cost of CAD\$3,702, expiring March 31, 2019, and renewed for three more years. Effective April 1, 2019, the Company renewed the office lease agreement for a period of 36 months, expiring on March 31, 2022. The monthly lease cost is CAD\$4,032.

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

	Commitments due by year (000's)				
	Total	2019	2020	2021	2022
	\$	\$	\$	\$	\$
Head office lease CAD	\$ 155	47	48	48	12

FINANCIAL INSTRUMENTS

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

At December 31, 2018, the Company's Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in USD dollars:

		December 31, 2018
Cash and cash equivalents	USD\$	17,861
Trade and other receivables		283,564
Accounts payable and accrued liabilities		(20,246)
	USD\$	<u>281,179</u>
CAD\$ Equivalent		383,584

At December 31, 2018, the Company's Mexican operations (U.S. dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		December 31, 2018
Cash and cash equivalents	MXP\$	<u>47,354</u>
	MXP\$	<u>47,354</u>
USD\$ Equivalent		2,406

FAIR VALUE MEASUREMENTS

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

The Company classifies the fair value of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are: Level 1, which are inputs that are unadjusted quoted

prices in active markets for identical assets or liabilities; Level 2, which are inputs other than Level 1 quoted prices that are observable for the asset or liability, either directly or indirectly; and Level 3, which are inputs for the asset or liability that are not based on observable market data.

RISKS AND UNCERTAINTIES

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

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Several adverse conditions and material uncertainties, including low metal prices, cast significant doubt upon the going concern assumption. In 2016, the Company restructured its debts with Orion, its principal lender, pursuant to the Restructuring Transaction in order to address ongoing liquidity concerns, while continuing to be focused on minimizing uncommitted capital expenditures and preserving the Company's growth options (see Note 1 of the Consolidated Financial Statements - Nature of operations and going concern).

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

Following the completion of the Restructuring Transaction, the Company no longer holds any assets that are currently generating revenue and will therefore be solely reliant on debt or equity financing to meet its ongoing working capital needs.

Metals Price risk

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

Risks related to recommencing mining operations

Each of the Revenue-Virginus mine and the Shafter silver project are currently on care and maintenance, and both will require significant expenditures before production can be recommenced. The economic feasibility of the Revenue-Virginus mine and the Shafter silver project is based on many factors, including but not limited to: estimation of mineral reserves and mineral resources, anticipated metallurgical recoveries, environmental considerations and permitting, future metals prices, and anticipated capital and operating costs. Many of these factors have changed since the Revenue-Virginus mine and the Shafter silver project were last in production, and the prior operation of the Revenue-Virginus mine and the Shafter silver project does not guarantee that future operation of either will be economically viable. Consequently, it is possible that actual capital and operating costs and economic returns will differ significantly from prior operational results.

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

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

Risks related to global financial conditions.

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

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

Credit risk

The Company's credit risk is primarily attributable to cash and bank balances, short-term deposits and accounts receivable. The Company limits its credit exposure on cash held in bank accounts by holding its key transactional bank accounts with banks of investment grade.

The Company manages its credit risk on short-term deposits by only investing with counterparties that carry investment grade ratings as assessed by external rating agencies and spreading the investments across these counterparties. Under the Company's risk management policy, allowable counterparty exposure limits are determined by the level of

the rating unless exceptional circumstances apply. A rating of "A-" grade or equivalent is the minimum allowable rating required as assessed by international credit rating agencies.

Exceptions to the policy for dealing with relationship banks with ratings below "A-" are reported to, and approved by, the Audit Committee. As at December 31, 2018, substantially all cash and short-term deposits are with counterparties with ratings "A-" or higher.

Shareholder Dilution

It is likely that additional capital required by the Company will be raised through the issuance of additional equity securities, resulting in dilution to the Company's shareholders.

Mining risks and insurance

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

Uncertainty of mineral resources and reserves

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

Reclamation obligations

Reclamation requirements may change and do vary depending on the location and the government regulatory body, but they are similar in that they aim to minimize long term effects of exploration and mining disturbance by requiring the operating company to control possible deleterious effluents and to re-establish to some degree pre-disturbance land forms and vegetation. The Company calculates its estimates of the ultimate reclamation liability based on current laws and regulations and the expected future costs to be incurred in reclaiming, restoring and closing its operating mine sites. It is possible that the Company's estimate of its ultimate reclamation liability could change in the near term due to possible changes in laws and regulations and changes in cost estimates.

Exploration risks

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

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

Conflicting interests

Some of the directors and officers of Aurcana also serve as directors and/or officers of other companies involved in mineral resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by such directors and officers involving Aurcana will be made in accordance with their duties and obligations to deal fairly and in good faith to Aurcana and such other companies. In addition, such directors and officers are required, subject to applicable corporate laws, to declare and refrain from voting on any matter in which such directors and officers may have a conflict of interest.

Permitting and title

Major operating permits for the Revenues-Virginus and Shafter mines remain in place.

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

Market influences

The Company's common shares are listed for trading on the TSX-V. Shareholders of the Company may be unable to sell significant quantities of the Common Shares into the public trading markets without a significant reduction in the price of the shares. The market price of the Common Shares may be affected significantly by factors such as changes in the Company's operating results, the availability of financings, fluctuations in the price of metals, the interest of investors, traders and others mine public companies and general market conditions. In recent years the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly small capitalization mine companies similar to the Company, have experienced wide fluctuations, which have not necessarily been related to operating performance, underlying asset values or future prospects. There can be no assurance that future fluctuations in the price of the Company's shares will not occur.

MANAGEMENT'S REPORT ON INTERNAL CONTROLS

Controls and procedures

In connection with Exemption Orders issued in November 2007 and revised in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management Discussion and Analysis.

In contrast to the certificate under National Instrument 52-109 – *Certification of Disclosure in an Issuer's Annual and Interim Filings* ("NI 52-109"), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

Disclosure controls and procedures

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with IFRS.

TSX-V listed companies are not required to provide representations in the annual filings relating to the establishment and maintenance of DC&P and ICFR, as defined in NI 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the IFRS.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a TSX-V issuer to design and implement on a cost effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

NON IFRS MEASURES

The Company has identified certain measures that it believes will assist understanding of the financial performance of the business. As the measures are not defined under IFRS, they may not be directly comparable with other companies' similar measures. The non IFRS measures are not intended to be a substitute for, or superior to, any IFRS measures of performance but management has included them as these are considered to be important measures used within the business for assessing performance. In particular, this MD&A refers to "working capital", which is not a recognized measure under IFRS. This non IFRS liquidity measure does not have a standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to a similar measure presented by other issuers. "working capital" is defined by the Company as current assets less current liabilities. Management uses this measure internally to better assess

performance trends. Management understands that a number of investors and others who follow the Company's business assess performance in this way. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

ADDITIONAL INFORMATION

Additional information on the Company can be found on SEDAR at www.sedar.com and on the Company's website at www.aurcana.com