



## **Management Discussion and Analysis for the year Ended December 31, 2019**

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 unaudited condensed interim consolidated financial statements for the years ended December 31, 2019 and 2018,(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 29, 2020.

### ***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](http://www.sedar.com) and readers are urged to review these materials.

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## QUALIFIED PERSON

Director of the Company, Mr. Michael Gross, P. Geo. is a Qualified Person as defined by National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*. Mr. Gross 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](http://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 Condensed Interim Consolidated Financial Statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business. 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 \$4.6 million, consolidated working capital of \$3.8 million, a consolidated deficit of \$96.4 million, and net loss of \$7.2 million as at and for the year ended on December 31, 2019.

The Consolidated Financial Statements may be found under the Company's profile at [www.sedar.com](http://www.sedar.com) and on the Company's website [www.aurcana.com](http://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 production financing. See "Reverse Take-Over Transaction" below.

The Revenue-Virginus mine is a historic mining operation which mined over 25 million ounces of silver during 1885-1912. In approximately 1915, the stamp mill burned down, resulting in the closure of the mine. The mine was operated again 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 Silver Project**

The Shafter Silver Project is 375 miles 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 Powers Act of 1941. 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 CBCA (the “Arrangement”) with OSM, which holds the “Revenue-Virginius Mine” located in Colorado, pursuant to an arrangement agreement dated September 20, 2018 between the Company and LRC-FRSM LLC and LRC-FRSM II LLC (collectively, the “LRC Group”). Under the Arrangement, Aurcana acquired all of the issued and outstanding 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 USD \$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 of 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 OSM became a wholly-owned indirect subsidiary of Aurcana.

## Management's Discussion and Analysis

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

Concurrently with the completion of the Arrangement, the 5,621,800 subscription receipts issued by the Company at CDN\$1.00 on December 19, 2018 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, expiring on December 27, 2021.

Additionally, a further 670,200 Units were purchased by Orion for gross proceeds of USD \$500,000. As a result, an aggregate of 116,309,028 post-Share Consolidation Aurcana Shares are now issued and outstanding.

Accordingly, in these consolidated financial statements, Aurcana is deemed to be the 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.

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.

The fair value of the consideration, calculated as \$22,574,081, is determined based on the percentage of ownership of the merged entity that was transferred to the shareholders of Aurcana upon completion of the Arrangement. This value represents the fair value of the number of shares that OSM would have had to issue for the ratio of ownership interest in the combined entity to be the same as if the Arrangement had taken the form of OSM acquiring 100% of the shares of Aurcana. The percentage of ownership Aurcana shareholders has in the combined entity is 24% after the consolidation of its existing 26,776,669 issued and outstanding shares prior to the transaction with the 83,240,359 newly issued shares of Aurcana held by OSM as of December 27, 2018. The fair value of the Arrangement is based on the stock price at the transaction date of CDN\$1.15 (USD \$0.84) occurring in conjunction with the Arrangement to arms-length parties of Aurcana.

The acquisition has been recorded as an asset purchase of exploration and evaluation asset. Substantially all of the fair value of the assets acquired is related to a group of assets consisting of land and building, mining equipment and mineral interests at Aurcana's Shafter mineral project. The Shafter Project is currently in care and maintenance with no development or operations.

The purchase price was finalized and allocated to the assets acquired based on the fair value of the total consideration at the closing date of the acquisition. All financial assets were recorded at their relative fair values. The fair value of mineral properties has been calculated using the residual value method. The fair values of cash and cash equivalents and working capital amounts and equipment were subtracted from the acquisition cost to determine the residual value for the mineral properties.

Transactions costs associated with the asset acquisition totaled \$733,030 and were capitalized to the mining properties in addition to the purchase price allocation set out below.

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:

<b>Consideration given:</b>	
Shares issued	26,776,669
Value per share	<u>\$0.8430</u>
<b>Total consideration</b>	<u>\$22,574,081</u>
<b>Assets and liabilities acquired:</b>	
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	<u>(644,000)</u>
	<u>\$22,574,081</u>

## OUTLOOK

### *Near Term Outlook*

The company continues to source funding for the restart of the Revenue Virginius mine and is in discussions with a number of funding groups. Expectations are that we will be successful and hopefully will be in a position to make an announcement in the near future.

As announced on March 31, 2020, Aurcana closed the acquisition of the Blue Grass claim, which closes a gap in our ownership of the Virginius Vein. The Blue Grass claim is contiguous with the Monohagnela claim where our first production will be mined once we are in production. The Company is looking forward to exploring the Blue Grass patented claim to potentially add mineral resources within the current development plan. A drilling program of 10 holes of 7,000 feet is currently planned for the 3rd quarter of 2020.

During the third quarter of 2019 and the first quarter of 2020, Aurcana has cumulatively raised C\$14.8 million in equity in order to fund working capital and advance the Virginius North Project ("VN Project"). This was supplemented by an additional CAD\$2.5 million in equity raised in April 2020, to bring the aggregate total to CAD\$17.3 million (US\$12.3 million at 1.4 CAD/USD).

The VN Project entails initiating the horizontal and vertical development to access the 1500 and eventually 1200 levels on the Virginius vein in the Monagnahela area of the mine as planned in the 2018 Feasibility Study. Once the level access is completed, the Company will then be in a position to sample and assay along these levels in conjunction with the planned lateral development.

In preparation for the commencement of the vertical development and subsequent lateral development on the 1500L, a cross-cut is nearing completion on the 2000L. The cross-cut is necessary in order to correctly locate and orient the

vertical raise to the 1500L and to allow efficient removal of waste from the development process. The Number 1 Alimak raise climber is being refurbished and will be completed by mid-April along with a number of other important pieces of mining equipment needed to efficiently execute the VN development plan.

The goal of VN Project is two-fold:

1. The vertical development of the VN Project is required as part of the current mine plan based on the 2018 feasibility study (the "FS") prepared in accordance with National Instrument NI 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101") demonstrating an economic restart of the RV Mine. A copy of the 2018 FS is posted on the Company's website and is also available on the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). This development should reduce the time and capital to production which will further prepare the mine as we seek to secure financing for the re-start of operations.
2. Aurcana expects the sample and assay program included in the VN Project to provide information that may allow resources on the 1500 level and areas North of the current stopes on the 1800 level and 1200 level that are currently classified as inferred to be converted at a minimum, to a category of indicated, thereby also allowing conversion of these resources to reserves after a review of the economics of the FS mine plan. The FS mine plan directly passes by the potential stopes that have previously been excluded from the FS mine plan. Ultimately, the Company believes the resource conversion - if successful - has the potential to materially increase mine life with a commensurate uplift in net asset value.

In conjunction with the VN Project and to supplement the leadership at site as the Company progresses to a full restart, Mike Lee has been engaged as general manager at the Revenue Virginius Mine. Mr. Lee has over 40 years' experience in mining, including significant narrow vein and conventional mining experience while working at Coeur d'Alene Mines and ASARCO, (see press release March 26, 2020). Through his and Aurcana's COO Brian Briggs connections locally in Colorado and across the industry, the Company is also adding additional miners to accelerate the VN Project's progress. The Company is pleased to be attracting experienced managers and miners to join in this development campaign as the first step toward full restart.

With the hiring of Mike Lee and staffing up with additional mining crews the company is on schedule with the VN Project development plan and is targeting samples to be available for testing in the third quarter of this year.

### *Head Office Relocation to Ouray*

Relocating the head office from Vancouver, Canada to the town of Ouray, Colorado, USA is still the Company's intention, however, this has been delayed due to the COVID-19 crisis.

### *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 Mr. Huerta resigns (the "Resignation") within 90 days of a change of control, Aurcana must pay to 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. Mr. Huerta resigned as CFO and the Company has engaged him as a consultant for a period of one year to provide advisory services to the Company with the intended result that his expertise will remain

available to the Company. The amount involved was recorded at December 2018 as accounts payable to be paid in twelve equal monthly instalments commencing January 2019, which was completed.

### Revenue-Virginus Mine

#### Feasibility Study Highlights

Revenue-Virginus Estimated Mineral Resource <sup>1</sup>						
Classification	Short Tons	Ag (oz/st)	Au (oz/st)	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
<b>Total M + I</b>	<b>987,000</b>	<b>19.70</b>	<b>0.05</b>	<b>4.10</b>	<b>0.21</b>	<b>1.97</b>
Inferred	331,000	27.20	0.07	4.61	0.29	2.35

Revenue-Virginus Estimated Mineral Reserves - Proven + Probable <sup>1</sup>						
Vein	Short Tons	Ag (oz/st)	Au (oz/st)	Pb (%)	Zn (%)	NSR (\$/st)
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
<b>Virginus P+P</b>	<b>410,100</b>	<b>27.43</b>	<b>0.06</b>	<b>5.10</b>	<b>2.28</b>	<b>\$551</b>
Terrible Proven	0					
Terrible Probable	44,900	17.95	0.05	7.40	1.37	\$406
<b>Terrible P+P</b>	<b>44,900</b>	<b>17.95</b>	<b>0.05</b>	<b>7.40</b>	<b>1.37</b>	<b>\$406</b>
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
<b>Yellow Rose P+P</b>	<b>120,000</b>	<b>17.87</b>	<b>0.04</b>	<b>3.60</b>	<b>1.99</b>	<b>\$366</b>
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
<b>TOTAL P+P</b>	<b>575,100</b>	<b>24.70</b>	<b>0.06</b>	<b>4.97</b>	<b>2.15</b>	<b>\$501</b>

- 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 used 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.



<b>OPERATING METRICS</b>	
<b>1<sup>st</sup> 5 full years Average Annual Payable Production</b>	<b>3.1 Moz AgEq</b>
<b>1<sup>st</sup> 5 full years All-In Sustaining Cost of Production with by-product credits<sup>3</sup></b>	<b>US\$7.38/oz Ag</b>
<b>Life of mine total production cost with by-product credits<sup>3</sup></b>	<b>US\$8.00/oz Ag</b>
<b>Total Capital Requirement to Positive Cash Flow including capitalized operating cost, concentrate payment terms &amp; working capital</b>	<b>US\$36.8mm</b>
<b>AFTER-TAX ECONOMICS</b>	
<b>NPV<sub>5%</sub></b>	<b>US\$74.9mm</b>
<b>IRR</b>	<b>71%</b>
<b>Payback Period from First Production Month</b>	<b>16 months</b>
<b>First Production Month from Project Start</b>	<b>7<sup>th</sup> month</b>
<b>Commencement of Positive Cash Flow from Project Start<sup>3</sup></b>	<b>9<sup>th</sup> month</b>

[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](http://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

<b>Shafter Estimated Mineral Resource<sup>1</sup></b>				
<b>Classification</b>	<b>Cut-off Ag (oz/st)</b>	<b>Short Tons</b>	<b>Ag (oz/st)</b>	<b>Contained Ag oz</b>
Measured	4.00	100,000	8.73	888,000
Indicated	4.00	1,110,000	9.15	10,171,000
<b>Total M + I</b>	4.00	<b>1,210,000</b>	<b>9.14</b>	<b>11,059,000</b>
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.

<b>OPERATING METRICS</b>	
<b>LOM (4 years) Average Annual Production</b>	<b>1.6 Moz AgEq</b>
<b>LOM (4 years) All-In Sustaining Cost of Production<sup>3</sup></b>	<b>US\$11.01/oz Ag</b>
<b>Total Capital Requirement to Positive Cash Flow including capitalized operating cost, concentrate payment terms &amp; working capital</b>	<b>US\$20.6mm</b>
<b>ECONOMICS</b>	
<b>Pre-Tax NPV<sub>5%</sub></b>	<b>US\$21.6mm</b>
<b>Pre-Tax IRR</b>	<b>48%</b>
<b>After-Tax NPV<sub>5%</sub><sup>2</sup></b>	<b>US\$15.8mm</b>
<b>After-Tax IRR<sup>2</sup></b>	<b>37%</b>
<b>After-Tax Payback Period</b>	<b>1.8 years</b>

[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, 2019:*

- During the third quarter of the year the company completed a private placement in the amount of CDN\$8,934,799 as part of its equity funding for the restart of the Revenue Virginius mine.
- The Company provided 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 3 months during the year, ending on March 31, 2019.
- 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.
- The Company continued underground development along with care and maintenance activities at the Revenue-Virginius Mine. This included continued work around the main N-S Virginius intersection and repair and replacement of track and utilities in the Monongahela zone. The Company also completed more mining on the Rescue test stope to confirm earlier productivity and dilution projections.
- The Company also continued with regulatory compliance initiatives begun in 2018 including the Supplemental Environmental Project with Trout Unlimited and the Governor Basin cleanup with Uncompahgre Watershed Partnership. These two projects reinforce the Company's commitment to environmental stewardship and Social License.

## REVIEW OF FINANCIAL RESULTS

### *Other income*

	<b>2019</b>	<b>2018</b>
<b>Other income</b>		
Management Fees	\$ 150,000	\$ -
Royalties	44,915	-
Oil & Gas lease	66,747	-
Other	23,453	-
	<b>285,115</b>	<b>-</b>

During the year ended December 31, 2019, the Company generated other income from consulting services in connection with the operation of the La Negra mine, for a total of \$150,000. The consulting services ended on March 31, 2019, the Company generated revenues from Royalties \$44,915, and recognized \$66,747 from referred revenue as part of the oil & gas lease agreement ended on July 14, 2019.

**General and Administrative Costs**

	<u>2019</u>	<u>2018</u>
Salaries and consulting fees	\$ 2,164,748	\$ 1,267,345
Transaction cost	85,049	-
Professional fees	237,883	-
Investor relations	113,585	131,578
Marketing and road shows	108,616	-
Listing and filing fees	40,563	-
Other	496,695	456,866
	<u><b>\$ 3,247,139</b></u>	<u><b>\$ 1,855,789</b></u>
Other break down:	<u>2019</u>	<u>2018</u>
Rent and overhead	24,583	101,154
Travel and accommodation	92,615	11,732
Office	238,717	292,149
Anclada project	780	-
Loss on sale of assets	-	51,831
Write-off Accounts Receivable	140,000	-
Total Other	<u><b>\$ 496,695</b></u>	<u><b>\$ 456,866</b></u>

**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:

	<b>December 31 2019</b>	<b>September 30 2019</b>	<b>June 30 2019</b>	<b>March 31 2019</b>
	\$	\$	\$	\$
<b>Costs and expenses:</b>				
General and administrative costs	858,135	702,274	909,823	776,907
Financing expense and others	55,244	5,179	4,576	4,013
Care & maintenance costs	645,076	412,812	533,205	469,464
Depreciation and amortization property, plant and equipment	336,435	358,262	355,154	363,523
Amortization of right-of-use asset	111,690	-	-	-
Accretion of lease liability	40,962	-	-	-
Foreign exchange loss	83,677	51,030	48,368	46,208
Impairment & write-down on property, plant and equipment	305,362	-	-	-
Other	7,160	(3,252)	(1,932)	(1,976)
<b>Total costs and expenses</b>	<b>2,443,741</b>	<b>1,526,305</b>	<b>1,849,194</b>	<b>1,658,139</b>
<b>Other income</b>				
Other Income	26,248	4,792	73,269	180,806
<b>Net loss for the period before other comprehensive items</b>	<b>2,417,493</b>	<b>1,521,513</b>	<b>1,775,925</b>	<b>1,477,333</b>
Currency translation adjustment	138,471	(202)	41,329	90,954
<b>Comprehensive loss for the period</b>	<b>\$ 2,279,022</b>	<b>\$ 1,521,715</b>	<b>\$ 1,734,596</b>	<b>\$ 1,386,379</b>
<b>Loss per share</b>	<b>(0.02)</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.01)</b>

	December 31 2018	September 30 2018	June 30 2018	March 31 2018
	\$	\$	\$	\$
<b>Costs and expenses:</b>				
General and administrative costs	510,869	547,879	479,133	317,908
Financing expense and others	(31,695)	4,603	45,378	7,044
Care & maintenance costs	359,600	413,921	473,525	342,636
Depreciation and amortization property, plant and equipment	399,925	377,266	411,237	404,820
Amortization of right-of-use asset	-	-	-	-
Accretion of lease liability	-	-	-	-
Foreign exchange loss	-	-	-	-
Impairment & write-down on property, plant and equipment	490,110	-	-	-
Other	49,897	(300)	2,566	(5,640)
<b>Total costs and expenses</b>	<b>1,778,706</b>	<b>1,343,369</b>	<b>1,411,839</b>	<b>1,066,768</b>
<b>Other income</b>				
Other Income	-	-	-	-
<b>Net loss for the period before other comprehensive items</b>	<b>1,778,706</b>	<b>1,343,369</b>	<b>1,411,839</b>	<b>1,066,768</b>
Currency translation adjustment	(433,425)	-	-	-
<b>Comprehensive loss for the period</b>	<b>\$ 2,212,131</b>	<b>\$ 1,343,369</b>	<b>\$ 1,411,839</b>	<b>\$ 1,066,768</b>
<b>Loss per share</b>	<b>(0.03)</b>	<b>(0.03)</b>	<b>(0.02)</b>	<b>(0.01)</b>

*Significant fluctuations in quarterly activity is summarized as follows:*

*Total cost and expenses*

- During the period ending March 31, 2019, for \$1,386,379 (2018: \$1,066,768).
- During the period ending June 30, 2019, for \$1,734,596 (2018: \$1,411,839).
- During the period ending September 30, 2019 for \$1,521,715 (2018: \$1,343,369)
- During the period ending December 31, 2019 for \$2,279,022 (2018: \$2,212,131)

Main increased for each period compared to the previous year is due to the results of the "RTO" transaction closed on December 27, 2018, by incorporating Aurcana's head office and Shafter expenses including salaries, care and maintenance costs, and other corporate expenses.

### Selected Annual Information

Fiscal Year Ended	December 2019	December 2018	December 2017
	\$	\$	\$
General and administrative costs	3,247,139	1,855,789	3,409,034
Financing expense and others	69,012	25,330	14,492,011
Care & maintenance costs	2,060,557	1,589,682	1,680,698
Depreciation and amortization property, plant and equipment	1,413,374	1,593,248	1,642,970
Amortization of right-of-use asset	111,690	-	-
Accretion of lease liability	40,962	-	-
Foreign exchange loss	229,283	-	-
Impairment & write-down on property, plant and equipment	305,362	490,110	-
Other	-	46,523	32,856
Net loss for the year before comprehensive items	7,477,379	5,600,682	21,257,569
Other income	285,115	-	-
Comprehensive loss for the year	7,192,264	6,034,107	21,257,569
movements in working capital (\$ million)	(5.2)	(3.4)	(5.1)
Basic loss per share	(0.05)	(0.07)	(152.48)
Fully diluted loss per share	(0.05)	(0.07)	(152.48)
Total assets	68,838,576	70,348,982	42,581,152
Current assets	4,560,915	5,315,020	654,683
Property, Plant & Equipment	22,590,133	23,315,555	13,869,666
Mineral properties	40,885,708	41,160,594	27,501,967
Current liabilities	791,514	1,900,407	807,368
Total liabilities	2,048,816	3,020,677	81,025,497
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 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.

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. Several adverse conditions and material uncertainties, including lower metals prices, cast doubt upon the assumption that the Company will continue as a going concern.

**Working capital**

The Company had current assets of \$4.6 million, consolidated working capital of \$3.8 million, a consolidated deficit of \$96.4 million, and net loss of \$7.2 million for the year ended on December 31, 2019.

**Current assets**

As at December 31, 2019, the Company had current assets in the total amount of total \$4.6 million, which includes \$3.9 million as cash and cash equivalents.

**Mineral properties, plant and equipment (“PP&E”)**

PP&E, net of accumulated amortization, decreased from \$23.3 million as at December 31, 2018 to \$22.5 million as at December 31, 2019. This decrease of \$0.8 million is integrated as follows:

- Decrease of \$1.4 million related to the depreciation.
- Decrease of \$0.3 million due to filter press write-down in Shafter.
- Increase of \$0.9 million as expense recognition of the mineral development cost

Mineral properties decreased from \$41.2 million as at December 31, 2018, to \$40.9 million as at December 31, 2019. Due to an adjustment of \$0.3 million on the Capitalized transaction cost from Aurcana.

**OUTSTANDING SHARE CAPITAL**

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

As at April 29, 2020, the Company had the following issued and outstanding common shares and unexercised stock options and warrants:

	<b>Shares and Potential Shares</b>
Common shares outstanding	188,077,098
Warrants (average exercise price CAD\$0.48)	83,946,736
Stock options (average exercise price CAD\$1.20)	760,000
<b>Total common shares (fully diluted)</b>	<b>272,783,834</b>

The weight average exercise price is CDN\$0.49



## 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) Trading transactions

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

	Note	December 31 2019	December 31 2018
General and administrative expenses - Consulting Fees	(i)	\$ 272,787	\$ -

(i) To companies controlled by the Corporate Secretary, and the CFO for services performed as officers.

### b) Compensation of key management personnel

	Note	December 31 2019	December 31 2018
Consulting fees (as above)		\$ 272,787	\$ -
Officer salaries		629,435	441,138
		<u>\$ 902,222</u>	<u>\$ 441,138</u>

### c) Capital contributions received from a Related Party

	Note	December 31 2019	December 31 2018
Contribution received	(i)	\$ -	\$ 4,478,701

(i) Contributions from Lascaux Group to OSM for operational purposes made prior to the reverse takeover transaction.

## 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.

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:

<b>Lease liability</b>		<b>December 31, 2019</b>		
		Canada	USA	Total
Balance as at December 31, 2018	\$	-	\$	-
Adoption of IFRS 16		52,062	296,010	348,072
Payments		(15,675)	(121,404)	(137,079)
Accretion expense		4,856	36,106	40,962
		<u>41,243</u>	<u>210,712</u>	<u>251,955</u>
Less current portion		16,652	98,036	114,688
Currency translation adjustment		(235)	-	(235)
Long-term		<u>24,356</u>	<u>112,676</u>	<u>137,032</u>

<b>Right-of-use asset</b>		<b>December 31, 2019</b>		
		Canada	USA	Total
Balance as at December 31, 2018	\$	-	\$	-
Adoption of IFRS 16		52,062	296,010	348,072
Amortization		13,014	98,676	111,690
		<u>39,048</u>	<u>197,334</u>	<u>236,382</u>

## 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, 2019, the Company's Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in USD dollars:

		<u>December 31, 2019</u>
Cash and cash equivalents	USD\$	45,782
Trade and other receivables		29,802
Accounts payable and accrued liabilities		<u>(21,105)</u>
	USD\$	<u>54,479</u>
<b>CAD\$ Equivalent</b>		<b>70,757</b>

Based on the above net exposures as at December 31, 2019, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US Dollar against the CDN Dollar would result in a \$7,076 change to the Company's net income for the year.

At December 31, 2019, 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:

		<u>December 31, 2019</u>
Cash and cash equivalents	MXP\$	<u>47,354</u>
	MXP\$	<u>47,354</u>
<b>USD\$ Equivalent</b>		<b>2,513</b>

Based on the above net exposures as at December 31, 2019, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US Dollar against the Mexican Peso would result in a \$251 change to the Company's net income for the year.

## **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 (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, 2019, substantially all cash and short-term deposits are with counterparties with ratings "A-" or higher.

### ***Shareholder Dilution***

It is possible 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**

### *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

Aurcana Corporation

## Management's Discussion and Analysis

Annual Report– 2019

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

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](http://www.sedar.com) and on the Company's website at [www.aurcana.com](http://www.aurcana.com)