# AURCANA CORPORATION

## Condensed Interim Consolidated Financial Statements

## September 30, 2015

(Unaudited)

Expressed in United States dollars unless otherwise stated

250 - 1090 West Georgia Street, Vancouver BC V6E 3V7 CANADA
PHONE: (604) 331-9333 FAX: (604) 633-9179
www.aurcana.com

NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2015 have been prepared by and are the responsibility of management in accordance with International Financial Reporting Standards applicable to unaudited condensed interim consolidated financial reporting.

The Company’s independent auditor has not audited or performed a review of these financial statements, in accordance with standards established by the Chartered Professional Accountants of Canada for a review of unaudited consolidated condensed interim financial statements by an entity’s auditor.

**Aurcana Corporation**

**Condensed Interim Consolidated Statements of Financial Position**

**(Unaudited and expressed in United States dollars)**

| | Notes | September 30 2015 | December 31 2014 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 13 | **$ 568,659** | $ 1,606,762 |
| Trade and other receivables | 3 | **2,103,051** | 4,691,317 |
| Inventories | 4 | **2,158,198** | 2,255,986 |
| Insurance proceeds receivable | 12 | **-** | 4,000,000 |
| Prepaid expenses and advances | | **749,212** | 514,180 |
| Prepaid income tax | | **58,266** | 1,230,803 |
| Assets held for sale | | **224,572** | 495,284 |
| | | **5,861,958** | 14,794,332 |
| **Non Current assets** | | | |
| Non-current prepaid expenses | | **343,971** | 598,554 |
| Property, plant and equipment | 5 | **59,093,854** | 62,087,730 |
| Mineral Properties | 6 | **17,130,912** | 17,329,176 |
| Deferred tax asset | | **2,400,932** | 2,779,702 |
| | | **$ 84,831,627** | $ 97,589,494 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 7 | **$ 13,255,965** | $ 12,873,431 |
| Settlement claim payable | 12 | **-** | 4,000,000 |
| Current portion of long-term debt | | **59,252** | 340,445 |
| Current portion of borrowings | 8 | **36,635,196** | 9,128,477 |
| | | **49,950,413** | 26,342,353 |
| **Non Current liabilities** | | | |
| Long-term debt | | **-** | 14,813 |
| Borrowings | 8 | **-** | 23,510,079 |
| Derivative liability | 9 | **2,542,323** | 2,690,031 |
| Deferred tax liability | | **4,649,851** | 6,818,737 |
| Provision for environmental rehabilitation | | **1,807,193** | 1,946,338 |
| | | **58,949,780** | 61,322,351 |
| **Equity** | 10 | | |
| Share capital | | **181,814,354** | 181,814,354 |
| Contributed surplus | | **34,260,229** | 34,256,203 |
| Accumulated other comprehensive income (loss) | | **1,562,971** | (471,711) |
| Deficit | | **(191,781,954)** | (179,368,164) |
| **Total equity attributable to equity holders of the parent** | | **25,855,600** | 36,230,682 |
| **Non-controlling interest** | | **26,247** | 36,461 |
| **Total equity** | | **25,881,847** | 36,267,143 |
| | | **$ 84,831,627** | $ 97,589,494 |

Nature of Operations and Going concern (Note 1)
Commitments and contingencies (Note 12)
Subsequent Events (Note 21)

*See accompanying notes to these condensed interim consolidated financial statements.*

Approved on behalf of the Board of Directors:

*"Jerry Blackwell"* — ***Director***

*"Adrian Aguirre"* — ***Director***

**(Expressed in United States dollars, unless otherwise stated)**

| | Notes | Three months ended September 30, 2015 | Three months ended September 30, 2014 | Nine months ended September 30, 2015 | Nine months ended September 30, 2014 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Mining operations | 15 | **$ 6,804,543** | $ 11,364,478 | **$ 22,202,354** | $ 33,651,414 |
| Cost of sales | | **6,492,184** | 9,836,081 | **20,060,357** | 28,027,431 |
| Depreciation, depletion and amortization | | **1,308,550** | 976,848 | **3,881,587** | 2,820,056 |
| **Costs of sales** | 16 | **7,800,734** | 10,812,929 | **23,941,944** | 30,847,487 |
| **(Loss) Earnings from mine operations** | | **(996,191)** | 551,549 | **(1,739,590)** | 2,803,927 |
| **Other items** | | | | | |
| General and administrative costs | 17 | **429,903** | 844,679 | **1,758,024** | 2,370,183 |
| Financing expense and others | 18 | **3,249,545** | 1,520,885 | **5,676,503** | 5,903,242 |
| Stock-based compensation | 10 | **-** | 43,447 | **4,026** | 263,458 |
| Impairment of plant and equipment and assets for sale | 19 | **1,453,516** | - | **1,453,516** | - |
| Shafter mine care & maintenance costs | | **442,604** | 578,799 | **934,972** | 1,611,699 |
| Foreign exchange loss | | **959,248** | 1,228,316 | **2,740,223** | 3,016,278 |
| Loan and offtake agreement restructure loss and related costs | 8, 9 | **12,763** | (3,033,507) | **32,883** | 2,558,892 |
| Change in fair value of derivatives | 9 | **(85,606)** | 3,368,219 | **(147,708)** | 2,418,498 |
| Severance payments | | **10,180** | 641,997 | **121,993** | 641,997 |
| Loss on sale of equipment | | **4,674** | - | **14,572** | - |
| Other expenses (income) | | **95,448** | (549,977) | **158,401** | (492,248) |
| | | **6,572,275** | 4,642,858 | **12,747,405** | 18,291,999 |
| **Loss before income taxes** | | **(7,568,466)** | (4,091,309) | **(14,486,995)** | (15,488,072) |
| Current Income tax expense | | **26,168** | 47,114 | **88,051** | 650,792 |
| Deferred income tax recovery | | **(1,046,520)** | (488,080) | **(2,151,042)** | (826,879) |
| **Net loss for the period** | | **$ (6,548,114)** | $ (3,650,343) | **$ (12,424,004)** | $ (15,311,985) |
| **Items of other comprehensive income** | | | | | |
| Items of other comprehensive income that may be reclassified subsequently to net income (loss): | | | | | |
| Currency translation adjustment | | **689,814** | 1,484,839 | **2,034,682** | 3,242,329 |
| **Comprehensive loss for the period** | | **$ (5,858,300)** | $ (2,165,504) | **$ (10,389,322)** | $ (12,069,656) |
| **Total net loss attributable to:** | | | | | |
| Non-controlling interest | | **(4,966)** | (2,294) | **(10,214)** | (2,951) |
| Equity holders of the Company | | **(6,543,148)** | (3,648,049) | **(12,413,790)** | (15,309,034) |
| | | **$ (6,548,114)** | $ (3,650,343) | **$ (12,424,004)** | $ (15,311,985) |
| **Total comprehensive loss attributable to:** | | | | | |
| Non-controlling interest | | **(4,966)** | (2,294) | **(10,214)** | (2,951) |
| Equity holders of the Company | | **(5,853,334)** | (2,163,210) | **(10,379,108)** | (12,066,705) |
| | | **$ (5,858,300)** | $ (2,165,504) | **$ (10,389,322)** | $ (12,069,656) |
| Weighted average number of shares – basic & diluted | | **84,644,973** | 85,167,772 | **84,644,973** | 71,486,370 |
| Net loss per share – basic & diluted | | **$ (0.08)** | $ (0.04) | **$ (0.15)** | $ (0.21) |

*See accompanying notes to these condensed interim consolidated financial statements.*

**(Expressed in United States dollars, unless otherwise stated)**

| | Share Capital # | Share Capital $ | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Deficit | Total Equity Attributable to Shareholders of the Company | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2013** | 58,412,564 | $ 168,678,333 | $ 32,329,060 | $ (1,295,529) | $ (158,354,262) | $ 41,357,602 | $ 45,484 | $ 41,403,086 |
| Currency translation adjustment | - | - | - | 3,242,329 | - | 3,242,329 | | 3,242,329 |
| Net loss for the Period | - | - | - | | (15,309,034) | (15,309,034) | (2,951) | (15,311,985) |
| Shares issued for: | | | | | | | - | |
| Debt Restructuring | 16,499,501 | 10,333,333 | - | - | - | 10,333,333 | - | 10,333,333 |
| Private Placement | 9,732,908 | 3,497,859 | 1,367,036 | - | - | 4,864,895 | - | 4,864,895 |
| Share Issue Costs | - | (336,290) | - | - | - | (336,290) | - | (336,290) |
| Stock-based compensation | - | - | 263,458 | - | - | 263,458 | - | 263,458 |
| **Balance, September 30, 2014** | 84,644,973 | 182,173,235 | 33,959,554 | 1,946,800 | (173,663,296) | 44,416,293 | 42,533 | 44,458,826 |
| Currency translation adjustment | - | - | - | (2,418,511) | - | (2,418,511) | - | (2,418,511) |
| Net loss for the Period | - | - | - | - | (5,704,868) | (5,704,868) | (6,072) | (5,710,940) |
| Shares issued for: | | | | | | | | |
| Debt Restructuring | - | - | - | - | - | - | - | - |
| Private Placement | - | 28,085 | 140,241 | - | - | 168,326 | - | 168,326 |
| Share Issue Costs | - | (386,966) | 324,145 | - | - | (62,821) | - | (62,821) |
| Stock-based compensation | - | - | (167,737) | - | - | (167,737) | - | (167,737) |
| **Balance, December 31, 2014** | 84,644,973 | 181,814,354 | 34,256,203 | (471,711) | (179,368,164) | 36,230,682 | 36,461 | 36,267,143 |
| Currency translation adjustment | - | - | - | 2,034,682 | - | 2,034,682 | - | 2,034,682 |
| Net loss for the Period | - | - | - | - | (12,413,790) | (12,413,790) | (10,214) | (12,424,004) |
| Stock-based compensation | - | - | 4,026 | - | - | 4,026 | - | 4,026 |
| **Balance, September 30, 2015** | 84,644,973 | $ 181,814,354 | $ 34,260,229 | $ 1,562,971 | $ (191,781,954) | $ 25,855,600 | $ 26,247 | $ 25,881,847 |

*See accompanying notes to these condensed interim consolidated financial statements.*

**(Expressed in United States dollars, unless otherwise stated)**

| | Nine months ended September 30, 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Net loss for the period** | **$ (12,424,004)** | $ (15,311,985) |
| Items not involving cash: | | |
| Depreciation, depletion and amortization | **3,881,587** | 2,820,057 |
| Financing expense and other | **5,535,909** | 5,903,242 |
| Loss on sale of equipment | **14,572** | - |
| Impairment of plant and equipment and assets for sale | **1,453,516** | - |
| Amortization of prepaid leasing costs | **212,414** | - |
| Stock-based compensation | **4,026** | 263,458 |
| Unrealized foreign exchange loss | **2,682,654** | 2,853,242 |
| Change in fair value of derivatives | **(147,708)** | 2,418,498 |
| Loan and offtake restructure loss and related costs | **-** | 2,558,892 |
| Deferred Income tax | **(2,151,042)** | (964,318) |
| **Operating cash flow before changes in working capital** | **(938,076)** | 541,086 |
| **Net changes to non-cash working capital balances** | | |
| Trade and other receivables | **2,588,266** | (2,800,845) |
| Inventories | **97,788** | 2,950,737 |
| Prepaid income tax | **1,172,537** | - |
| Prepaid expenses and advances | **(192,863)** | (320,941) |
| Accounts payable and accrued liabilities | **580,913** | (1,815,142) |
| **Cash provided by (used in) operating activities** | **3,308,565** | (1,445,105) |
| **Cash flows from investing activities** | | |
| Proceeds from the sale of equipment | **45,177** | 1,334,119 |
| Purchase of property, plant and equipment | **(2,712,169)** | (5,734,809) |
| **Cash used in investing activities** | **(2,666,992)** | (4,400,690) |
| **Cash flows from financing activities** | | |
| Share capital issued, net of share issue costs | **-** | 4,528,605 |
| Financing cost and interest | **(1,374,157)** | (2,540,048) |
| Payments on borrowings | **-** | (10,333,333) |
| Payments on capital equipment contracts | **(296,006)** | (4,344,528) |
| **Cash used in financing activities** | **(1,670,163)** | (12,689,304) |
| Decrease in cash and cash equivalents | **(1,028,590)** | (18,535,099) |
| Effect of exchange rate changes on cash | **(9,513)** | (46,220) |
| Cash and cash equivalents, beginning of the period | **1,606,762** | 20,277,510 |
| **Cash and cash equivalents, end of the period** | **$ 568,659** | $ 1,696,191 |

Supplemental Cash Flow information (Note 13)

*See accompanying notes to these condensed interim consolidated financial statements.*

## 1. Nature of Operations and going concern

Aurcana Corporation (the "Company" or "Aurcana") was originally incorporated in Canada under the laws of Ontario in 1917 and on September 14, 1998 was continued under the *Canada Business Corporations Act* ("CBCA"). The Company is currently engaged in the production and sale of silver, copper, lead and zinc concentrates and the exploration, development and operation of natural resource properties. The Company's principal operating unit is the La Negra mine, located in Queretaro State, Mexico and the Company's main development property is the Shafter silver property ("Shafter"), located in Presidio County, S.W. Texas.

The Company's shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at Suite 250-1090 West Georgia Street, Vancouver, B.C., V6E 3V7, Canada. These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business operations. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

These condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business. The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities. Several adverse conditions and material uncertainties, including low metal prices, cast significant doubt upon the going concern assumption. The Company had cash and cash equivalents of $0.6 million, a consolidated working capital deficit of $44.1 million, consolidated deficit of $191.8 million and losses of $12.4 million as at and for the nine months ended September 30, 2015.

The Company anticipates that silver and base metals prices will remain under pressure through 2015, which will continue to impact the Company's margins and liquidity. To improve its short-term liquidity, the Company's principal lender permitted the Company to make interest only payments on its senior secured credit facility and defer until August 2015, payments on the principal amount owed from January to July 2015. The Company was unable to meet its payment obligations to its principal lender for the months of August and September 2015, resulting in a breach of the terms of the debt facility agreement between the parties.

Subsequent to the quarter ended September 30, 2015, the Company entered into support agreement and an arrangement agreement to effect a restructuring transaction (the "Restructuring Transaction") under which all of the debt obligations due and in default under the debt facility will be extinguished in exchange for the Company's interests in its Mexican subsidiaries that own the La Negra mine. The Restructuring Transaction is expected to be implemented on or about December 16, 2015 (see Note 21 for further information).

If the Company fails to complete the Restructuring Transaction, secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through September 30, 2016, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations to be able to satisfy its ongoing obligations and future contractual commitments. As a result, the Company may not be able to continue as a going concern.

**(Expressed in United States dollars, unless otherwise stated)**

## 1. Nature of Operations and going concern (continued)

If for any reason, the Company is unable to secure the additional sources of financing and continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

## 2. Basis of Preparation

These interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These interim financial statements do not include all the information required for a complete set of IFRS statements. However, selected notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2014.

These financial statements were approved for issue by the Board of Directors on November 25, 2015.

### Use of Estimates and Judgments

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are included in Note 3 to the Company's December 31, 2014 consolidated annual financial statements. There were no significant changes to the significant accounting judgments and estimates from December 31, 2014.

## 3. Trade and Other Receivables

| | **September 30 2015** | December 31 2014 |
|---|---|---|
| Trade receivables | **$ 1,859,464** | $ 1,929,817 |
| Equipment sales receivable | **157,233** | 2,680,279 |
| Other receivables | **86,354** | 81,221 |
| | **$ 2,103,051** | $ 4,691,317 |

**(Expressed in United States dollars, unless otherwise stated)**

## 4. Inventories

| | **September 30 2015** | December 31 2014 |
|---|---|---|
| Supplies inventory | **$ 2,120,802** | $ 1,995,136 |
| Stockpile inventory | **34,919** | 76,345 |
| Concentrates and in-process inventory | **2,477** | 184,505 |
| | **$ 2,158,198** | $ 2,255,986 |

Cost of sales includes change in finished goods inventory for the nine months ended September 30, 2015 of $ 205,961 (Year ended December 31, 2014: $2,946,543).

Cost of inventories recognized as expense in cost of sales for the nine months ended September 30, 2015 totalled $ 23,941,944 (Year ended December 2014: $40,291,539).

**(Expressed in United States dollars, unless otherwise stated)**

## 5. Property, Plant and Equipment

| | Buildings | Plant and Equipment | Mine Development Cost | Vehicles | Computer Equipment | Other | Assets Under Construction | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2013 | 6,015,037 | 44,886,873 | 28,730,411 | 724,167 | 523,741 | 846,523 | 547,651 | 82,274,403 |
| Additions | - | 4,285,857 | 4,082,477 | 16,944 | 10,364 | - | 501,657 | 8,897,299 |
| Reclassification | (2,953,951) | 2,936,507 | - | 17,444 | - | - | - | - |
| Reclassification to assets held for sale | - | (5,200,000) | - | - | - | - | - | (5,200,000) |
| Disposals | - | (7,142,134) | - | (97,400) | - | - | - | (7,239,534) |
| Write-down of property, plant and equipment | - | (600,000) | - | - | - | (479,838) | - | (1,079,838) |
| Balance at December 31, 2014 | 3,061,086 | 39,167,103 | 32,812,888 | 661,155 | 534,105 | 366,685 | 1,049,308 | 77,652,330 |
| Additions | 15,604 | 478,611 | 1,271,772 | 8,950 | - | - | 161,224 | 1,936,161 |
| Reclassification | 535,003 | - | - | - | - | - | (535,003) | - |
| Reclassification from assets held for sale | - | 198,212 | - | - | - | - | - | 198,212 |
| Disposals | - | - | - | (42,591) | (2,586) | - | - | (45,177) |
| Write-down of property, plant and equipment | - | (1,399,914) | - | - | - | - | - | (1,399,914) |
| Balance at September 30, 2015 | $ 3,611,693 | $ 38,444,012 | $ 34,084,660 | $ 627,514 | $ 531,519 | $ 366,685 | $ 675,529 | $ 78,341,612 |
| | | | | | | | | |
| Accumulated depreciation | | | | | | | | |
| Balance at December 31, 2013 | 202,846 | 10,656,087 | 514,127 | 403,632 | 437,920 | 94,275 | - | 12,308,887 |
| Reclassification | (30,268) | 30,268 | - | - | - | - | - | - |
| Charge for the year | 132,981 | 3,209,591 | 134,242 | 110,072 | 51,611 | 34,670 | - | 3,673,167 |
| Disposals | - | (417,454) | - | - | - | - | - | (417,454) |
| Balance at December 31, 2014 | 305,559 | 13,478,492 | 648,369 | 513,704 | 489,531 | 128,945 | - | 15,564,600 |
| Charge for the period | 192,390 | 3,318,152 | 132,768 | 46,026 | 12,192 | 21,207 | - | 3,722,735 |
| Disposals | - | - | - | (36,991) | (2,586) | - | - | (39,577) |
| Balance at September 30, 2015 | $ 497,949 | $ 16,796,644 | $ 781,137 | $ 522,739 | $ 499,137 | $ 150,152 | $ - | $ 19,247,758 |
| | | | | | | | | |
| Net book value | | | | | | | | |
| Balance at December 31, 2013 | $ 5,812,191 | $ 34,230,786 | $ 28,216,284 | $ 320,535 | $ 85,821 | $ 752,248 | $ 547,651 | $ 69,965,516 |
| Balance at December 31, 2014 | $ 2,755,527 | $ 25,688,611 | $ 32,164,519 | $ 147,451 | $ 44,574 | $ 237,740 | $ 1,049,308 | $ 62,087,730 |
| Balance at September 30, 2015 | $ 3,113,744 | $ 21,647,368 | $ 33,303,523 | $ 104,775 | $ 32,382 | $ 216,533 | $ 675,529 | $ 59,093,854 |

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

**(Expressed in United States dollars, unless otherwise stated)**

## 6. Mineral Properties

| | La Negra, Mexico, Producing Mine | Shafter, Texas, USA, in Care & Maintenance | Total |
|---|---|---|---|
| **Balance at December 31, 2013** | $ 12,717,017 | $ 15,500,000 | $ 28,217,017 |
| Impairment of mining interests | | (1,500,000) | (1,500,000) |
| **Balance at December 31, 2014** | 12,717,017 | 14,000,000 | 26,717,017 |
| Expenditures | - | - | - |
| **Balance at September 30, 2015** | $ 12,717,017 | $ 14,000,000 | $ 26,717,017 |
| | | | |
| ***Accumulated depletion*** | | | |
| **Balance at December 31, 2013** | $ 9,166,476 | $ - | $ 9,166,476 |
| Charge for the year | 221,365 | - | 221,365 |
| **Balance at December 31, 2014** | 9,387,841 | - | 9,387,841 |
| Charge for the period | 198,264 | - | 198,264 |
| **Balance at September 30, 2015** | $ 9,586,105 | $ - | $ 9,586,105 |
| | | | |
| ***Net book value*** | | | |
| **Balance at December 31, 2013** | $ 3,550,541 | $ 15,500,000 | $ 19,050,541 |
| **Balance at December 31, 2014** | $ 3,329,176 | $ 14,000,000 | $ 17,329,176 |
| **Balance at September 30, 2015** | $ 3,130,912 | $ 14,000,000 | $ 17,130,912 |

Mineral properties subject to depreciation on the basis of unit of production method will not have depreciation when there is no production.

## 7. Accounts Payable and Accrued Liabilities

| | **September 30 2015** | December 31 2014 |
|---|---|---|
| Property taxes | $ 819,500 | $ 588,659 |
| Salaries, payroll deductions and employee benefits | 1,371,790 | 1,390,934 |
| Employees' statutory profit sharing | 26,898 | 39,096 |
| Mine suppliers - operating | 5,652,831 | 4,850,236 |
| Mine suppliers - capital | 511,910 | 1,292,079 |
| Other | 4,873,036 | 4,712,427 |
| | $ 13,255,965 | $ 12,873,431 |

**(Expressed in United States dollars, unless otherwise stated)**

## 8. Borrowings

Interest on the Company's debt facility agreement accrues at a rate equal to LIBOR (subject to a minimum of 1%) plus 5.5% per annum. The loan is to be repaid in equal monthly installments with the last payment due in April 2018. Early prepayment may occur at any time without charges.

Aurcana entered into offtake agreements with its principal lender in respect of 100% of the copper, zinc and lead concentrates produced at its La Negra mine for the period from January 1, 2017 to December 31, 2021 (concentrates also have silver content). The Company agreed to sell the concentrates at the prices selected by the principal lender as an average day spot price for any one of the 10 days following the delivery.

The Company's principal lender permitted the Company to make interest only payments and defer until August 2015, payments on the principal amount owed from January to July 2015 under the current debt facility agreement. The Company was unable to meet its payment obligations to its principal lender for the months of August and September 2015, resulting in a breach of the terms of the debt facility agreement between the parties.

Subsequent to the quarter ended September 30, 2015, the Company entered into a support agreement and an arrangement agreement in respect of the Restructuring Transaction under which all of the debt obligations due and in default under the debt facility will be extinguished in exchange for the Company's interests in its Mexican subsidiaries that own the La Negra mine. The Restructuring Transaction is expected to be implemented on or about December 16, 2015 (see Note 21 for further information).

| | **September 30 2015** | December 31 2014 |
|---|---|---|
| Fair value of amended loan | **$ 32,638,556** | $ 35,538,573 |
| Accretion | **3,602,960** | 1,484,763 |
| Accrued interest | **393,680** | - |
| Repayments | **-** | (4,384,780) |
| **Total Borrowings** | **$ 36,635,196** | $ 32,638,556 |

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

| | **Carrying amount** | | **Fair value** | |
|---|---|---|---|---|
| | **September 30, 2015** | December 31, 2014 | **September 30, 2015** | December 31, 2014 |
| Orion Loan | 36,635,196 | 32,638,556 | 36,635,196 | 31,836,912 |
| Derivatives (note 9) | 2,542,323 | 2,690,031 | 2,542,323 | 2,690,031 |
| **Total** | **39,177,519** | 35,328,587 | **39,177,519** | 34,526,943 |

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

**(Expressed in United States dollars, unless otherwise stated)**

## 9. Derivatives

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

### Valuation methodology

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

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

### Valuation assumptions

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

Sensitivity of the derivatives valuation to changes in the assumptions:

| | 5% decrease in credit spread | 5% increase in credit spread |
|---|---|---|
| Increase/(decrease) in fair value at September 30, 2015 | $33,917 | ($33,137) |

The fair value of the derivatives as at September 30, 2015 is as follows:

| | |
|---|---|
| Derivative liability under the Amended Loan and New Offtake agreement at April 30, 2014 | $3,944,891 |
| Change in fair value as a result of loan modification | 631,771 |
| Change in fair value | (1,886,631) |
| Derivative liability – December 31, 2014 | $2,690,031 |
| Change in fair value | (147,708) |
| Derivative liability – September 30, 2015 | $2,542,323 |

**(Expressed in United States dollars, unless otherwise stated)**

## 10. Equity

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

*Stock options*

On August 25, 2014 the TSX Venture Exchange approved an amendment to the Company's Stock Option Plan (the "Plan"), which is a fixed plan, to increase the maximum number of shares reserved for issuance to directors, officers, employees and consultants of the Company under the Plan to 8,379,852 common shares. The exercise price, term and vesting period of each option are determined by the board of directors within regulatory guidelines and the terms of the Plan. The maximum number of common shares reserved for issuance remains less than 10% of the total issued and outstanding common shares of the Company.

| *Stock options* | Number of Common Share Purchase Options | Weighted Average Exercise Price per Share ($CDN) |
|---|---|---|
| **Balance, December 31, 2013** | 3,459,374 | 5.89 |
| Expired | (754,687) | 7.29 |
| Forfeited | (23,438) | 8.16 |
| **Balance, September 30, 2014** | 2,681,249 | 5.82 |
| Expired | (259,374) | 4.91 |
| Forfeited | (6,250) | 6.32 |
| **Balance, December 31, 2014** | 2,415,625 | 6.23 |
| Expired | (1,031,250) | 6.22 |
| **Balance, September 30, 2015** | 1,384,375 | 6.24 |

As at September 30, 2015, details of outstanding common share purchase options are as follows:

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

*Stock based compensation*

For the period ended September 30, 2015, the stock-based compensation expense was $4,026 (2014: $263,458).

**(Expressed in United States dollars, unless otherwise stated)**

**10. Equity (continued)**

*Warrants*

| Common Share Purchase Warrants | Number of Common Share Warrants |
|---|---|
| **Balance, December 31, 2013** | 6,805,231 |
| Issued | 9,732,908 |
| Exercised | - |
| Expired | (1,000,000) |
| **Balance, September 30, 2014** | 15,538,139 |
| Issued | 532,908 |
| Exercised | - |
| Expired | (5,511,481) |
| **Balance, December 31, 2014** | 10,559,566 |
| Issued | - |
| Exercised | - |
| Expired | (293,750) |
| **Balance, September 30, 2015** | 10,265,816 |

As at September 30, 2015, details of outstanding common share purchase warrants are as follows:

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

**(Expressed in United States dollars, unless otherwise stated)**

## 11. Related Party Transactions

Except as noted elsewhere in these consolidated financial statements, the Company conducted the following related party transactions:

a) Trading transactions

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

| | Note | September 30 2015 | September 30 2014 |
|---|---|---|---|
| Technical and consulting fees | (i) | $ 28,953 | $ 73,981 |
| Management fees | (ii) | - | 210,553 |
| Consulting fees | | $ 28,953 | $ 284,534 |

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

b) Compensation of key management personnel

| | Note | September 30 2015 | September 30 2014 |
|---|---|---|---|
| Consulting fees (as above) | | $ 28,953 | $ 284,534 |
| Directors' fees | | 159,748 | 135,332 |
| Officer salaries | | 357,200 | 286,104 |
| Stock-based compensation | | 4,026 | 263,458 |
| | | $ 549,927 | $ 969,428 |

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

| | September 30 2015 | September 30 2014 |
|---|---|---|
| Repayment of loan principal | $ - | $ 5,833,333 |
| Payment of interest | 1,374,157 | 1,218,750 |
| Accrued interest | 393,680 | - |
| Loss on offtake agreement cancelation | - | 4,500,000 |
| | $ 1,767,837 | $ 11,552,083 |

## 12. Commitments and contingencies

**Supply agreements**

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

On April 29, 2014, Aurcana entered into new offtake agreements with its principal lender in respect of copper, zinc and lead concentrate produced at its La Negra mine for the period from January 1, 2017 to December 31, 2020. In order to improve Aurcana's liquidity in the short term, the principal lender agreed to waive principal and interest payments on the Amended Loan for July 31st, August 31st, and September 30th 2014, amounting to approximately $3.1 million. This amount was amortized over the remainder of the loan period commencing October 2014. In return, the Company extended the new offtake agreements by one year to 2021.

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

**Shafter equipment operating lease**

On December 1, 2013 the Company signed an operating lease agreement for mining equipment for Shafter in the amount of $1,227,024 with a term of 30 months and equal monthly payments of $44,467. During the quarter ended March 31, 2015, the Company signed an early lease termination agreement with the lessor. Under the terms of the agreement, the Company paid $100,000 to the lessor and will make 15 monthly payments of $10,000 each with the first payment due April 1, 2015. The outstanding balance as at September 30, 2015 was $90,000.

**La Negra equipment operating lease**

In December, 2014, the Company entered into an operating lease agreement with a third party for equipment to be used at the La Negra Mine with a total value of $2.5 million. The lease terms call for equal monthly payments over a 36-month term. Subject to the completion of the Restructuring Transaction, the lease will be assumed by the Company's principal lender.

**Property Taxes**

Included in accounts payable is $0.8 million in property taxes owed on the Shafter property for 2013, 2014 and 2015. During the quarter ended September 30, 2015, the Company and state officials agreed on a payment plan to settle the outstanding 2013 and 2014 balances through 24 equal monthly payments of $28,000 commencing July 30, 2015.

## 12. Commitments and contingencies (continued)

**Class action**

In February 2015, the Company entered into an agreement (the "Settlement Agreement") to settle the class action litigation commenced by Nunzio Cardillo and John Witiluk in the Ontario Superior Court of Justice (the "Action") against the Company and two former executives of the Company (the "Settlement"). The Settlement provides for the full and final settlement, release and dismissal of all claims brought under the Action. The Settlement was subject to a number of customary conditions, including the receipt of court approval of the Settlement, which approval was received on April 10, 2015.

Under the terms of the Settlement, the Company agreed to pay an aggregate of $4,000,000 (the "Settlement Amount"), which amount, net of legal fees and other costs, will be divided among members of the plaintiff class on a pro rata basis. The Settlement Amount was fully funded by insurance maintained by the Company.

The Company elected to enter into the Settlement in order to avoid the expense, burden and inconvenience associated with the continuance of the Action. The Settlement does not constitute an admission by the Company of any violation of law or other wrongdoing.

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

| | Total | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Operating leases | $1,627 | $181 | $723 | $723 | $ Nil | $ Nil |
| Rent | 297 | 54 | 108 | 108 | 27 | Nil |
| Total | $1,924 | $235 | $831 | $831 | $27 | $ Nil |

**Claims by the Company**

The Company commenced a claim against a third party with regards to previous royalty charges against the Company's mining operations. The Company asserts that it is not responsible for these amounts and has not made any related payments for 2013 and 2014. An amount payable of $3.2 million, not inclusive of interest, is included in accounts payable and accrued liabilities to reflect the amount owing for 2013 and 2014 should the Company not be successful in its claim. No amounts have been recognized or accrued for the nine months ended September 30, 2015.

**(Expressed in United States dollars, unless otherwise stated)**

## 13. Supplemental Cash Flow Information

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

| | **September 30 2015** | December 31 2014 |
|---|---|---|
| Cash | **$ 565,172** | $ 1,602,720 |
| Short-term investments | **3,487** | 4,042 |
| Cash and cash equivalents | **$ 568,659** | $ 1,606,762 |

Supplemental disclosures of cash flow information for the year ended:

| | **September 30 2015** | December 31 2014 |
|---|---|---|
| Cash interest paid | **$ 1,604,751** | $ 3,219,236 |
| Amounts receivable for equipment sold | **157,233** | 2,680,279 |

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

Non-cash investing and financing activities are as follows:

| | **September 30 2015** | December 31 2014 |
|---|---|---|
| Decrease in accounts payable related to construction in progress and equipment suppliers | **$ (780,169)** | $ (220,102) |

**(Expressed in United States dollars, unless otherwise stated)**

## 14. Segmented Information

The reportable operating segments have been identified as the La Negra mine, the Shafter Property and Corporate and other segments. The Company manages its business, including the allocation of resources and assessment of performance, on a project by project basis, except where the Company's projects are substantially connected and share resources and administrative functions.

| **September 30, 2015** | La Negra | Shafter | Corporate and other segments | Total |
|---|---|---|---|---|
| Sales to external customers | $ 22,202,354 | $ - | $ - | $ 22,202,354 |
| Mining operating expenses | 18,887,306 | - | - | 18,887,306 |
| Freight and delivery | 1,173,051 | - | - | 1,173,051 |
| Depreciation and amortization | 3,683,323 | - | | 3,683,323 |
| Depletion of mineral properties | 198,264 | - | - | 198,264 |
| Earnings (loss) from mine operations | (1,739,590) | - | - | (1,739,590) |
| Shafter mine Care & Maintenance cost | - | 934,972 | - | 934,972 |
| G&A expenses and other (income) expense | (164,949) | 171,635 | 10,352,231 | 10,358,917 |
| Intersegment charges (recovery) | 3,517,107 | - | (3,517,107) | - |
| Loss before income taxes | (5,091,748) | (2,560,123) | (6,835,124) | (14,486,995) |
| Income tax expense (recovery) | (2,151,042) | 3,342 | 84,709 | (2,062,991) |
| Net loss for the period | (2,940,706) | (2,563,465) | (6,919,833) | (12,424,004) |
| Property, plant and equipment | 48,834,214 | 10,229,807 | 29,833 | 59,093,854 |
| Mineral properties | 3,130,912 | 14,000,000 | - | 17,130,912 |
| Total capital assets | 51,965,126 | 24,229,807 | 29,833 | 76,224,766 |
| Total assets | 57,430,724 | 24,469,090 | 2,931,813 | 84,831,627 |
| Total liabilities | 18,438,789 | 1,516,101 | 38,994,890 | 58,949,780 |

| **September 30, 2014** | La Negra | Shafter | Corporate and other segments | Total |
|---|---|---|---|---|
| Sales to external customers | $ 33,651,414 | $ - | $ - | $ 33,651,414 |
| Mining operating expenses | 25,553,804 | - | - | 25,553,804 |
| Royalties | 883,101 | - | - | 883,101 |
| Freight and delivery | 1,590,526 | - | - | 1,590,526 |
| Depreciation and amortization | 2,739,176 | - | | 2,739,176 |
| Depletion of mineral properties | 80,880 | - | - | 80,880 |
| Gross income | 2,803,927 | - | - | 2,803,927 |
| Shafter production delay and other costs | - | 1,611,699 | - | 1,611,699 |
| General and administrative expenses | 1,643,931 | (439,966) | 15,476,335 | 16,680,300 |
| Intersegment charges (recovery) | 3,313,866 | - | (3,313,866) | - |
| Loss before income taxes | (2,153,870) | (1,171,733) | (12,162,469) | (15,488,072) |
| Income tax expense | (236,598) | - | 60,511 | (176,087) |
| Net loss for the period | (1,917,272) | (1,171,733) | (12,222,980) | (15,311,985) |
| Property, plant and equipment | 56,430,711 | 12,628,947 | 31,793 | 69,091,451 |
| Mineral properties | 3,469,660 | 15,500,000 | - | 18,969,660 |
| Total capital assets | 59,900,371 | 28,128,947 | 31,793 | 88,061,111 |
| Total assets | 68,298,131 | 32,746,246 | 7,318,542 | 108,362,919 |
| Total liabilities | 20,409,741 | 3,555,924 | 39,938,428 | 63,904,093 |

**(Expressed in United States dollars, unless otherwise stated)**

## 15. Revenue from mining operations

| **Revenues:** | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| **La Negra mine** | **2015** | 2014 | **2015** | 2014 |
| Gross revenues from mining operations | **$ 9,469,229** | $ 15,348,552 | **$ 30,417,846** | $ 44,894,561 |
| Treatment, refining and smelting charges | **2,664,686** | 3,984,074 | **8,215,492** | 11,243,147 |
| **Revenues from mining operations** | **$ 6,804,543** | $ 11,364,478 | **$ 22,202,354** | $ 33,651,414 |
| Net Revenues by customer: | | | | |
| Customer "A" | **$ 2,765,878** | $ - | **$ 10,776,391** | $ - |
| Customer "B" | **4,038,665** | 11,364,478 | **11,425,963** | 33,651,414 |
| **Revenues from mining operations** | **$ 6,804,543** | $ 11,364,478 | **$ 22,202,354** | $ 33,651,414 |

## 16. Cost of Sales

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Mine and mill supplies | $ 2,860,821 | $ 3,398,532 | **$ 8,443,415** | $ 9,558,749 |
| Power | 403,193 | 682,921 | **1,298,937** | 2,348,072 |
| Wages, salaries and benefits | 2,648,143 | 3,356,924 | **8,128,902** | 11,015,932 |
| Profit sharing employees | - | 64,188 | **-** | 230,441 |
| Royalties | - | 270,520 | **-** | 883,101 |
| Freight and delivery | 346,607 | 519,270 | **1,173,051** | 1,590,526 |
| Change in inventories | (24,586) | 1,543,726 | **205,961** | 2,400,610 |
| Operating lease | 258,006 | - | **810,091** | - |
| Depreciation and amortization | 1,234,013 | 934,623 | **3,683,323** | 2,739,176 |
| Depletion of mineral properties | 74,537 | 42,225 | **198,264** | 80,880 |
| Total cost of sales | $ 7,800,734 | $ 10,812,929 | **$ 23,941,944** | $ 30,847,487 |

**(Expressed in United States dollars, unless otherwise stated)**

## 17. General and administrative costs

| | Three months ended September 30, 2015 | Three months ended September 30, 2014 | Nine months ended September 30, 2015 | Nine months ended September 30, 2014 |
|---|---|---|---|---|
| Salaries and consulting fees | $ 244,971 | $ 432,993 | $ 993,666 | $ 1,135,113 |
| Professional fees | 63,776 | 208,755 | 241,345 | 436,553 |
| Investor relations | 17,954 | 20,234 | 73,922 | 105,143 |
| Marketing | 298 | 514 | 14,479 | 61,315 |
| Listing and filing fees | 2,307 | 9,284 | 36,620 | 105,146 |
| Other | 100,597 | 172,899 | 397,992 | 526,913 |
| | $ 429,903 | $ 844,679 | $ 1,758,024 | $ 2,370,183 |

## 18. Financing expense and other

| | Three months ended September 30, 2015 | Three months ended September 30, 2014 | Nine months ended September 30, 2015 | Nine months ended September 30, 2014 |
|---|---|---|---|---|
| Accretion of provision for environmental rehabilitation | $ 24,574 | $ 28,741 | $ 75,112 | $ 72,974 |
| Accretion of Orion loan (Note 8) | 2,590,901 | 738,641 | 3,602,960 | 3,347,703 |
| Financing expense and bank charges | 634,070 | 753,503 | 1,998,431 | 2,482,565 |
| | $ 3,249,545 | $ 1,520,885 | $ 5,676,503 | $ 5,903,242 |

## 19. Impairment

The Company reviews each asset or cash generating unit at each reporting date to determine whether there are any indicators of impairment. If any such indicators exist, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs of disposal and value in use.

The determination of fair value less cost of disposal and value in use requires management to make estimates and assumptions about expected production and sales volumes, metal prices, production and grades, operating costs, future capital expenditures and appropriate discount rates for future cash flows. The estimates and assumptions are subject to risk and uncertainty, and as such there is the possibility that changes in circumstances could alter these projections materially, which could impact the recoverable amount of the assets.

As at September 30, 2015, management of the Company determined that the decline in market capitalization of the Company and the decline in the price of silver and copper metals constituted impairment indicators for the La Negra mine.

**(Expressed in United States dollars, unless otherwise stated)**

## 19. Impairment (continued)

*Shafter property*

Plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. During the quarter ended September 30, 2015, the Company determined that the carrying value of its plant and equipment at the Shafter property exceeded its fair value by $1,399,914. An impairment loss in this amount has been recognized.

*La Negra mine*

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

*(i) Weighted average cost of capital*

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

*(ii) Pricing assumptions*

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

| | 2015 | 2016 | 2017 | 2018 | LT |
|---|---|---|---|---|---|
| **Precious Metals** | | | | | |
| Silver Price (US$/oz) | $16.17 | $16.35 | $17.45 | $18.27 | $18.24 |
| **Base & Other Metals** | | | | | |
| Copper Price (US$/lb) | $2.64 | $2.67 | $2.76 | $2.91 | $2.97 |
| Lead Price (US$/lb) | $0.84 | $0.88 | $0.92 | $0.93 | $0.94 |
| Zinc Price (US$/lb) | $0.95 | $1.03 | $1.10 | $1.16 | $1.04 |

*(iii) Life of mine (“LOM”)*

As a result of an updated LOM which included revised levels of mineralization, the projected LOM for La Negra was reduced to five years for the purposes of the impairment test.

## 19. Impairment (continued)

*(iv) Sensitivity*

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

The Company determined that a reduction in metal prices of 4.8% would cause the recoverable amount to equal the carrying value, although, this could be partially offset by the impact on prices of certain other inputs. An increase of 9.5% in production cost assumptions would also cause the recoverable amount to equal the carrying value.

## 20. Fair Value Measurements

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

The Company classifies the fair value of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are: Level 1, which are inputs that are unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, which are inputs other than Level 1 quoted prices that are observable for the asset or liability, either directly or indirectly; and Level 3, which are inputs for the asset or liability that are not based on observable market data.

**(Expressed in United States dollars, unless otherwise stated)**

## 20. Fair Value Measurements (continued)

The following table summarizes the fair value hierarchy, as of September 30, 2015:

| **Recurring measurements** | Fair Value Through Profit or Loss | Loans and Receivables | Other Financial Assets and Liabilities | Total | Fair Value Hierarchy |
|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | |
| Derivative liabilities | $ (2,542,323) | $ - | $ - | $ (2,542,323) | Level 3 |
| | **$ (2,542,323)** | **$ -** | **$ -** | **$ (2,542,323)** | |

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

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

The carrying value and fair value of trade and other receivable and accounts payable and accrued liabilities as of September 30, 2015 are approximately the same. The Company assesses its financial instruments and non-financial contracts on a regular basis to determine the existence of any embedded derivatives which would be required to be accounted for separately at fair value and to ensure that any embedded derivatives are accounted for in accordance with the Company's policy.

The valuation technique used in the determination of fair values within Level 3 of the hierarchy, and the key unobservable inputs used in the valuation model are disclosed in Note 9.

## 21. Subsequent Event

Subsequent to the quarter end, the Company announced that it entered into a Support Agreement (the "Support Agreement") with its primary lender to effect the Restructuring Transaction in connection with the debt obligations under the debt facility (the "Restructuring Transaction"). The Company also announced certain amendments to the current debt facility.

The Restructuring Transaction has the following key elements:

- All of the debt obligations due and in default under the debt facility will be extinguished in exchange for the Company's interests in its Mexican subsidiaries that own the La Negra mine, resulting in the elimination of approximately $38.7 million of principal amount of secured debt due and in default under the debt facility on completion of the Restructuring Transaction;
- reduction of annual interest costs by approximately US$2.3 million;
- purchase by a newly incorporated affiliate of the lender ("Newco") of certain equipment from Aurcana and certain of its subsidiaries for a total purchase price of $3.5 million;
- the Company will retain all of its other assets, including the Shafter mine; and
- payments by Newco of $40,000 per month to Aurcana for a total period of 12 months following the completion of the Restructuring Transaction, in connection with the provision of certain consulting services by specified officers of Aurcana to Newco.

The Company's trade creditors, as well as its obligations to employees, are unaffected by the Restructuring Transaction and will continue to be paid or satisfied in the ordinary course of business. The Restructuring Transaction will be implemented by way of a Plan of Arrangement that was approved by the Ontario Superior Court of Justice on November 13, 2015 under the Canada Business Corporations Act, and is subject to the receipt of all necessary regulatory and stock exchange approvals. The Restructuring Transaction is expected to be implemented on or about December 16, 2015.

<u>Debt Facility Amendment and Additional Advance</u>

The Company also entered into an amendment agreement to the current debt facility pursuant to which the Company stet received further advances of up to US$2.5 million (the "Additional Advance") from the lender under the debt facility. The Additional Advance will be subject to the existing terms of the debt facility, and it shall be used exclusively to support operations at the Company's La Negra mine in accordance with a specified budget and will mature and be repayable on December 31, 2015, unless exchanged upon implementation of the Restructuring Transaction. Upon implementation of the Restructuring Transaction, the Additional Advance will be exchanged, together with the other debt obligations under the Facility, for shares of the specified Mexican subsidiaries and the Additional Advance will no longer be an obligation of the Company.