AURCANA SILVER CORPORATION
(Formerly Aurcana Corporation)

Consolidated Financial Statements

December 31, 2020

Expressed in United States dollars unless otherwise stated

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Independent Auditor's Report

To the Shareholders of Aurcana Silver Corporation (formerly Aurcana Corporation):

Opinion

We have audited the consolidated financial statements of Aurcana Silver Corporation (formerly Aurcana Corporation) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ronald D. Miller.

MNP LLP

Vancouver, British Columbia

April 29, 2021

Chartered Professional Accountants

Aurcana Silver Corporation

Consolidated Statements of Financial Position

(Expressed in United States dollars)

	Notes	2020	2019
Assets			
Current assets			
Cash and cash equivalents	22	$ 29,678,781	$ 3,944,286
Trade and other receivables	4	25,865	58,979
Inventory	5	142,382	142,382
Prepaid expenses and advances		485,996	415,268
		30,333,024	**4,560,915**
Non Current assets			
Long term deposits		76,173	71,933
Non-current prepaid expenses		12,788	12,736
Property, plant and equipment	6	36,102,738	22,590,133
Mineral Properties	7	40,885,708	40,885,708
Right-of-use asset	8	120,907	236,382
Reclamation deposits	9	484,295	480,769
Total assets		**$ 108,015,633**	**$ 68,838,576**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	$ 3,162,893	$ 676,826
Paycheck Protection Program	11	421,000	-
Current portion of lease payable	8	132,202	114,688
		3,716,095	**791,514**
Non Current liabilities			
Lease payable	8	5,320	137,032
Provision for environmental rehabilitation	12	1,120,270	1,120,270
Borrowings	13	19,729,738	-
Derivative liability	14	10,734,760	-
Total liabilities		**35,306,183**	**2,048,816**
Equity			
Share capital	16	47,167,854	29,451,075
Contributed surplus		138,413,862	133,939,863
Accumulated other comprehensive income (loss)		176,172	(162,873)
Deficit		(113,059,603)	(96,449,470)
Total equity attributable to equity holders of the parent		72,698,285	66,778,595
Non-controlling interest		11,165	11,165
Total equity		**72,709,450**	**66,789,760**
		$ 108,015,633	**$ 68,838,576**

Nature of Operations (Note 1)
Subsequent Event (Note 28)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

"David Kaplan" — ***Director***

"Michael P. Gross" — ***Director***

(Expressed in United States dollars, unless otherwise stated)

	Notes	2020	2019
Expenses			
General and administrative costs	17	$ 5,083,857	$ 3,247,139
Financing expense and others	18	441,942	109,974
Maintenance costs	19	4,760,059	2,060,557
Depreciation and amortization property, plant and equipment	6	1,355,020	1,413,374
Change in derivatives fair value estimate	14	3,887,253	-
Stock-based compensation	16	463,352	-
Amortization of right-of-use asset	8	115,475	111,690
Foreign exchange loss		520,916	229,283
Impairment & write-down on property, plant and equipment		-	305,362
		16,627,874	7,477,379
Other income			
Management Fees		-	150,000
Royalties		1,121	44,915
Oil & Gas lease	20	-	66,747
Other		16,620	23,453
		17,741	285,115
Net loss for the year before other comprehensive items		**(16,610,133)**	**(7,192,264)**
Other comprehensive Income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustment		339,045	270,552
Total other comprehensive income for the year		339,045	270,552
Total comprehensive loss for the year		$ (16,271,088)	$ (6,921,712)
Weighted average number of shares basic and diluted		202,068,427	128,993,853
Loss per share			
Loss per share (basic & diluted)		$ (0.08)	$ (0.06)

See accompanying notes to these consolidated financial statements.

(Expressed in United States dollars, unless otherwise stated)

	Share Capital		Contributed	Accumulated Other Comprehensive		Shareholders of	Non-controlling	Total
	Number of shares	$	Surplus	Income (Loss)	Deficit	the Company	Interest	Equity
Balance, December 31, 2018	116,309,028	25,594,154	131,413,617	(433,425)	(89,257,206)	67,317,140	11,165	67,328,305
Net loss for the year	-	-	-	-	(7,192,264)	(7,192,264)	-	(7,192,264)
Shares issued for:								
Private placement (note 16)	35,739,195	4,412,543	2,356,244	-	-	6,768,787	-	6,768,787
Share Issue Costs (note 16)		(555,622)	170,002	-	-	(385,620)	-	(385,620)
Currency translation adjustment	-	-	-	270,552	-	270,552	-	270,552
Balance, December 31, 2019	152,048,223	29,451,075	133,939,863	(162,873)	(96,449,470)	66,778,595	11,165	66,789,760
Net loss for the year	-	-	-	-	(16,610,133)	(16,610,133)	-	(16,610,133)
Shares issued for:						-	-	-
Private placement (note 16)	60,580,275	10,353,092	5,145,528	-	-	15,498,620	-	15,498,620
Share Issue Costs (note 16)	-	(1,299,614)	415,245	-	-	(884,369)	-	(884,369)
Exercised warrants	25,381,507	8,663,301	(1,550,126)	-	-	7,113,175	-	7,113,175
Stock-based compensation	-	-	463,352	-	-	463,352	-	463,352
Currency translation adjustment	-	-		339,045	-	339,045	-	339,045
Balance, December 31, 2020	238,010,005	$ 47,167,854	$ 138,413,862	$ 176,172	$ (113,059,603)	$ 72,698,285	$ 11,165	$ 72,709,450

See accompanying notes to these consolidated financial statements.

(Expressed in United States dollars, unless otherwise stated)

	Notes	Twelve months ended December 31, 2020	2019
Cash flows from operating activities			
Net loss for the year		$ (16,610,133)	$ (7,192,264)
Items not involving cash:			
Depreciation and amortization property plant and equipment	6	1,355,020	1,413,374
Stock-based compensation	16	463,352	-
Amortization right to use asset	8	115,475	111,690
Write-off Accounts Receivable	4	29,802	140,000
Impairment & write-down on property, plant and equipment	6	-	305,362
Accretion of lease liability	8	27,918	40,962
Finance Cost	13	124,045	-
Change in derivatives fair value estimate	14	3,887,253	-
Unrealized foreign exchange loss		520,916	-
Operating cash flow before changes in working capital		(10,086,352)	(5,180,876)
Net changes to non-cash working capital balances			
Trade and other receivables		3,312	100,242
Prepaid expenses and advances		(70,780)	(13,712)
Accounts payable and accrued liabilities		1,045,092	(948,910)
Paycheck Protection Program		421,000	-
Term deposits		(4,240)	-
Cash used in operating activities		(8,691,968)	(6,043,256)
Cash flows from investing activities			
Proceeds from the sale of equipment		475	-
Mine development		(13,292,899)	(990,357)
Purchase of property, plant and equipment		(134,226)	(2,977)
Restricted assets		(3,526)	-
Cash used in investing activities		(13,430,176)	(993,334)
Cash flows from financing activities			
Lease payments	8	(142,076)	(137,079)
Mercuria financing	13	26,453,200	-
Share capital issued	16	22,611,795	6,768,787
Share Issue Costs	16	(884,369)	(385,620)
Cash provided by financing activities		48,038,550	6,246,088
(Decrease) / increase in cash and cash equivalents		25,916,406	(790,502)
Effect of exchange rate changes on cash		(181,911)	270,552
Cash and cash equivalents, beginning of the year		3,944,286	4,464,236
Cash and cash equivalents, end of the year		$ 29,678,781	$ 3,944,286

Supplemental Cash Flow information (Note 22)

See accompanying notes to these consolidated financial statements.

1. Nature of Operations

Aurcana Silver Corporation (the "Company") was originally incorporated in Canada under the laws of the Province of Ontario in 1917 and on September 14, 1998 was continued under the *Canada Business Corporations Act* ("CBCA"). On August 24, 2020 The Company changed its name to Aurcana Silver Corporation. With the change of name, the Company has continued under the Business Corporation Act of the Province of British Columbia. The Company's common shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at Suite 850-789 West Pender Street, Vancouver, B.C., V6C 1H2, Canada.

The Company is engaged in the exploration, development, and operation of natural resource properties. The Company's development property is the Revenue-Virginius Mine ("Ouray"), located in Colorado through the Company's 100% owned US subsidiary, Ouray Silver Mines ("OSM"). The Shafter silver property ("Shafter"), located in Presidio County, Texas through the Company's 100% owned US subsidiary, Aurcana US Hold 1 Co Ltd. and it is currently on care and maintenance.

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

These consolidated financial statements were approved by the Board of Directors on April 29, 2021.

3. Summary of Significant Accounting Policies

The Company's principal accounting policies are outlined below:

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and entities controlled by the Company (its "subsidiaries"). These include the accounts of: Aurcana Corporation and its subsidiaries, Aurcana US Hold 1 Co Ltd., a United States ("U.S.") corporation, and Perforadora Aurcana S. de R.L. de C.V., Minera Aurcana S.A. de C.V., and Real de Maconi S.A de C.V.- each Mexican corporations. All these companies with the exception of Real de Maconi S.A. de C.V. at 99.86%, are 100% owned intermediate holding companies, as per subsidiaries chart below.

All significant intra-group balances and transactions are eliminated in full on consolidation.

3. Summary of Significant Accounting Policies (continued)

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company had the following subsidiaries at December 31, 2020:

Name	Country of Incorporation	Nature of Business	Proportion of ordinary shares held by the Group	Proportion of ordinary shares held by non-controlling interest
Aurcana Silver Corporation	Canada	Holding Company	100%	-
→ Real de Maconi S.A. de C.V.	Mexico	Intermediate Holding Company	99.86%	0.14%
→ Perforadora Aurcana S. de R.L. de C.V.	Mexico	Exploration Company	100%	-
→ Minera Aurcana S.A. de C.V.	Mexico	Consulting Company	100%	-
→ Aurcana US Hold 1 Co Ltd	U.S.	Intermediate Holding Company	100%	-
→ Revenue Remediation Company	U.S.	Environmental Cleanup Company	100%	
→ Rio Grande Mining Company	U.S.	Mining Operations	100%	-
→ Shafter Properties Inc.	U.S.	Property Holding Company	100%	-
→ Aurcana US Hold 2 Co Ltd	U.S.	Intermediate Holding Company	100%	-
→ Ouray Silver Mines, Inc.	U.S.	Mining Company	100%	-

During the year ended December 2020, Cane Silver Inc., a wholly owned subsidiary of the Company, was dissolved.

Foreign Currency

(i) Functional and Presentation Currency

The functional currency of the Company, for each subsidiary, is the currency of the primary economic environment in which the entity operates. The Consolidated Financial Statements are presented in US Dollars.

Once the Company determines the functional currency of an entity, it is not changed unless there is a significant change in the relevant underlying transactions, events and circumstances. Any change in an entity’s functional currency is accounted for prospectively from the date of the change, and the consolidated statements of financial position are translated using the exchange rate at that date.

3. Summary of Significant Accounting Policies (continued)

At the end of each reporting period, the Company translates foreign operations on its consolidation based as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- Income and expenses for each statement of income are translated at average exchange rates;
- All resulting exchange differences are recognized as other comprehensive income (loss) as cumulative translation adjustments.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses are accumulated in comprehensive income (loss) related to the foreign operation. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive loss related to the subsidiary are reallocated between controlling and non-controlling interests.

(ii) Functional currency of the Subsidiaries

At the end of each reporting period, the Company translates foreign currency transactions on each subsidiary as follows:

- monetary items are translated at the closing rate in effect at the date of the statement of financial position;
- non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Items measured at fair value are translated at the exchange rate in effect at the date the fair value was measured;
- Income statement items are translated using the average exchange rate during the period (as this is considered a reasonable approximation to actual rates);
- All resulting foreign exchange gains or losses are recognized in statements of loss and comprehensive loss as foreign exchange gain and loss.

3. Summary of Significant Accounting Policies (continued)

Each of the subsidiaries functional currency is included on the below table:

Name	Country of Incorporation	Functional Currency
Aurcana Corporation	Canada	CAD
Real de Maconi S.A. de C.V.	Mexico	MXN
Perforadora Aurcana S. de R.L. de C.V.	Mexico	MXN
Minera Aurcana S.A. de C.V.	Mexico	MXN
Aurcana US Hold 1 Co Ltd	U.S.	USD
Revenue Remediation Company	U.S.	USD
Rio Grande Mining Company	U.S.	USD
Shafter Properties Inc.	U.S.	USD
Aurcana US Hold 2 Co Ltd	U.S.	USD
Ouray Silver Mines, Inc.	U.S.	USD

Stock-based Compensation

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The Company records compensation expense under the plan for all options issued. The fair value of all stock-based awards is estimated using the Black-Scholes option pricing model at the grant date. Volatility is calculated using the historical share price volatility observed over periods of regular market activity. The share-based compensation expense is recognized over the tranche's vesting period, in earnings or capitalized as appropriate, based on the number of options expected to vest. None of the Company's awards call for settlement in cash or other assets. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital.

Mineral Properties

Mineral properties are stated at cost on a property-by-property basis. The recorded cost of mineral properties is based on acquisition costs incurred to date, less recoveries and write-offs.

(i) Capitalization

All direct and indirect costs relating to the acquisition and exploration of mineral properties are capitalized on a basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold, or when management has determined that there is impairment in the carrying values of those mineral properties. The Company capitalizes costs if it has the legal right to the mineral claim or the right to explore the area. No amortization is recorded for capitalized costs, net of any recoveries, until commercial production is achieved.

3. Summary of Significant Accounting Policies (continued)

Mineral Properties (continued)

Costs associated with commissioning new assets, in the period before they are capable of operating in the manner intended by management, are capitalized. Costs incurred on borrowings related to construction or development projects are capitalized until the point when substantially all the activities that are necessary to make the asset ready for its intended use are complete.

(ii) Depreciation

Amortization of mineral properties is based on the units-of-production basis using total reserves and resources including proven and probable, measured and indicated, and inferred.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost capitalized is determined by the fair value of consideration given to acquire the asset at the time of acquisition or construction, the direct cost of bringing the asset to the condition necessary for operation, and the estimated future cost of dismantling and removing the asset.

(i) Depreciation

Mine development cost is depleted on a unit of production basis, based on estimated recoverable reserves.

Expenditures for other facilities, and new assets or expenditures that extend the useful lives of existing facilities are capitalized and depreciated using the straight-line method at rates sufficient to depreciate such costs over the shorter of estimated productive lives of such facilities, or the useful life of the individual assets. Depreciation for mining machinery, plant and property begins when technical feasibility and commercial viability of the mineral reserve are demonstrable. Depreciation for other property and equipment begins when they are put into use.

The Company uses the straight-line method of the assets and the useful life is determined as per the table below:

Building	39 years
Plant and equipment	7 years
Vehicles	7 years
Computer equipment	5 years
Other	5 years

The depreciation method, useful life and residual values are reviewed annually. The Company does not expect the assets to have any residual value once depreciated.

3. Summary of Significant Accounting Policies (continued)

Impairment

(i) Impairment for Mineral Properties

The Company is required to review the carrying value of its mineral properties at each reporting date for potential impairment. Impairment is indicated if the carrying value of the Company's mineral properties assets is not recoverable. If impairment is indicated, the amount by which the carrying value of mineral properties exceeds their estimated fair value is charged to the statements of comprehensive loss.

From time-to-time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to income.

(ii) Impairment of Property, Plant and Equipment

At each statement of financial position date, the Company assesses whether there is any indication that any property, plant and equipment are impaired. The Company monitors the recoverability of these assets based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the assets. An impairment is recognized if the recoverable amount, determined as the higher of an asset's fair value less cost of disposal and the discounted future cash flows generated from use and eventual disposal of an asset, is less than its carrying value. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount.

(iii) Reversal of Impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

Inventories

Consumables and supplies, which consist of spare parts and consumable goods used for general repairs and maintenance, are recorded at the lower of cost and net realizable value.

3. Summary of Significant Accounting Policies (continued)

<u>Provisions</u>

(i) General

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The expense relating to any provision is presented in profit or loss net of any reimbursement. Provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(ii) Environmental Rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mineral properties and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Such costs are discounted to their net present value and are provided for and capitalized to the asset, as soon as the obligation to incur such costs arises. These costs are charged against earnings over the life of the asset, through the depreciation of the asset and the unwinding of the discount on the provision.

<u>Financial Instruments</u>

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as fair value through profit or loss ("FVTPL"), directly attributable transaction costs. Financial instruments are recognized when the Company becomes a party to the contracts that give rise to them and are classified as: amortized cost; fair value through profit or loss; or, fair value through other comprehensive loss, as appropriate.

(i) Financial assets at amortized cost

A financial asset is measured at amortized cost if it is held by a business whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and is not designated as FVTPL. Financial assets classified as amortized cost are measured subsequent to initial recognition at amortized cost using the effective interest method. Trade and other receivables and reclamation deposits are classified as and measured at amortized cost.

3. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

(ii) Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and financial assets not designated upon initial recognition as amortized cost or Fair Value Through Other comprehensive loss ("FVTOCI"). A financial asset is classified in this category principally for the purpose of selling in the short term, or if so, designated by management. Transaction costs are expensed as incurred. On initial recognition, a financial asset that otherwise meets the requirements to be measured at amortized cost or FVTOCI may be irrevocably designated as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Company's cash and cash equivalents are measured at FVTPL with changes in fair value recognized in the statements of loss and comprehensive loss.

(iii) Financial assets at FVTOCI

On initial recognition of an equity investment that is not held for trading, an irrevocable election is available to measure the investment at fair value upon initial recognition plus directly attributable transaction costs and at each period end, changes in fair value are recognized in other comprehensive loss ("OCI") with no reclassification to the statements of loss and comprehensive loss. The election is available on an investment-by-investment basis. The Company has no assets in this category.

(iv) Derecognition of financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership. Gains and losses on derecognition are generally recognized in the statements of loss and comprehensive loss.

(v) *Impairment of financial assets*

Financial assets carried at amortized cost are assessed at each statement of financial position date on whether they are credit impaired. A financial asset is credit impaired when one or more events that have an impact on the estimated future cash flow of the financial assets have occurred that would result in expected credit losses.

The Company applies expected credit loss approach in determining provisions for financial assets carried at amortized cost, such as accounts receivable, and reclamation deposits. The Company has elected to measure loss allowances for the financial assets carried at amortized costs at an amount equal to lifetime of the expected credit loss ("ECL").

3. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers current economic conditions, historical information, significant financial difficulty of the counterparty, default or delinquency in interest or principal payments, or if it has become probable that the counterparty will enter bankruptcy or financial reorganization.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets and the impairment losses are presented separately in the statement of comprehensive loss.

(vi) *Financial Liabilities*

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using effective interest method. The Company’s derivative liabilities are measured at FVTPL with changes in fair value recognized in the statements of loss and comprehensive loss. The Company has measured loan and borrowings, accounts payable and accrued liabilities at amortized cost.

(vii) Derecognition of Financial Liabilities

The Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled, or they expire.

Derivatives

All derivative instruments are recorded on the consolidated statement of financial position at fair value with changes in fair value recorded in the statement of loss and comprehensive loss.

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a standalone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value on the consolidated statement of financial position at fair value with changes in fair value recorded in the statement of loss and comprehensive loss.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, term deposits and short term highly liquid investments with the original term to maturity of three months or less, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value.

3. Summary of Significant Accounting Policies (continued)

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted income (loss) per share is computed similar to basic income (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Warrants

Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value. The relative fair value of the share component is credited to capital stock and the relative fair value of the warrant component is credited to contributed surplus. Upon exercise of warrants, consideration paid by the warrant holder together with the amount previously recognized in contributed surplus is recorded as an increase to capital stock. Upon expiration of warrants, the amount applicable to warrants expired is recorded as an increase to capital stock.

Equity Instruments

The Company records proceeds from share issuances net of issue costs.

3. Summary of Significant Accounting Policies (continued)

Use of Estimates and Judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are as follows:

(i) Liquidity Assumption

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.

(ii) Environmental Rehabilitation Provision

The Company's estimate of reclamation costs could change as a result of contractual requirements, laws or regulation, the extent of environmental remediation required or completed, and the means of reclamation or changes in cost estimate. These changes are recorded directly to mineral properties with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in estimates.

(iii) Mineral Properties

Title to mineral properties, concessions, and shareholdings in Canada and U.S. involves certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyance history and unregistered prior agreements. Management has investigated the titles to all of its concessions and shareholdings, and, to the best of its knowledge, believes they are in good standing.

3. Summary of Significant Accounting Policies (continued)

<u>*Use of Estimates and Judgements*</u> *(continued)*

(iii) Mineral Properties (continued)

a) Capitalization

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefit either from future exploration or sale flow to the entity or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Management makes certain estimates and assumptions about future events or circumstances, in particular when an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written-down in profit or loss in the period when the new information becomes available.

b) Depreciation

Management's calculation of measured and indicated resources is based upon engineering and geological estimates and financial estimates including mineral prices and operating and development costs. The Company depreciates some of its assets over measured and indicated resources. Changes in geological interpretations of the Company's ore bodies and changes in mineral prices and operating costs may change the Company's estimate of proved and probable reserves. It is possible that the Company's estimate of proved and probable reserves could change in the near term and that could result in revised charges for depreciation and depletion in future periods.

c) Impairment

Evaluating for recoverability during the exploration and evaluation phase requires judgement in determining whether future economic benefits from future exploitation, sale or otherwise are likely. Evaluations may be more complex where activities have not reached a stage which permits a reasonable assessment of the existence of reserves or resources. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Company's financial ability to continue exploration and evaluation activities, contractual issues with joint venture partners, the impact of government legislation and political stability in the region, and the impact of current and expected future metal prices on potential reserves.

(iv) Determination of Functional Currency

In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, management has determined that the functional currency of Aurcana Corporation is the Canadian dollar and its subsidiaries are the United States dollar for American companies and Mexican pesos for the Mexican entities.

3. Summary of Significant Accounting Policies (continued)

<u>*Use of Estimates and Judgements*</u> *(continued)*

(v) Units of Production Depreciation and Useful Life

Estimated recoverable resources are used in determining the amortization of mineral properties and mine development. This results in an amortization charge proportional to the depletion of the anticipated remaining life of mine production.

Each asset's life is assessed annually, and considerations are made in regards to both its physical life limitations and present assessments of economically recoverable resources of the mine properties. Such calculations require the use of estimates and assumptions, including the amount of recoverable resources and estimates of future capital expenditure. Changes are accounted for prospectively. A preliminary economic assessment for Shafter silver project and feasibility study for Revenue – Virginius mine were completed in 2018.

Management estimates the useful lives of property, plant and equipment based on the period during which the assets are available for use. The amount and timing of depreciation for these amounts are affected by the useful lives. The estimates are reviewed annually and updated for changes in the expected useful life.

(vi) Impairment of Property, Plant and Equipment

The Company considers both internal and external sources of information in assessing its property, plant and equipment for impairment on an annual basis. The Company determines the recoverable amount, which is the greater of its value in use and fair value less costs to sell, using discounted cash flows expected to be derived from the property, plant and equipment and the appropriate discount rate.

(vii) Leases

Leases requires lessees to discount lease payments using the rate implicit in the lease if that is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recorded real estate leases as the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available. The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow over similar term the funds necessary to obtain an asset similar value to the right-of-use asset in a similar economic environment.

(viii) Fair Value of Derivative and Other Financial Instruments

Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value the Company uses market-observable data to the extent it is available. In certain cases where Level 1 inputs are not available the Company uses its judgement to select a variety of methods and make assumptions that are based on market conditions existing at the end of each reporting period. Information about the valuation techniques and inputs used in determining the fair value of financial instruments is disclosed in the notes 14.

3. Summary of Significant Accounting Policies (continued)

Use of Estimates and Judgements *(continued)*

(ix) Borrowings, derivatives and embedded derivatives

The identification of term loan components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the term loan at issuance and the subsequent recognition of interest on the liability component. Judgment is also applied in determining whether an embedded derivative is closely related to the host contract, in which case bifurcation and separate accounting are not necessary.

(x) Stock-based Compensation

Stock-based Compensation the Company grants stock options to buy common shares of the Company to directors, officers and employees. The Company records compensation expense under the plan for all options issued. The fair value of all stock-based awards is estimated using the Black-Scholes option pricing model at the grant date. The share-based compensation expense is recognized over the tranche’s vesting period, in earnings or capitalized as appropriate, based on the number of options expected to vest. None of the Company’s awards call for settlement in cash or other assets. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital.

(xi) Deferred income taxes

The measurement of the deferred tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of deferred taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company’s ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management’s assessment of the Company’s ability to utilize future tax deductions changes, the Company’s deferred tax assets and tax provisions could be affected.

3. Summary of Significant Accounting Policies (continued)

Government assistance

The Company received certain government assistance in the form of forgivable loans from the U.S. government in connection with the COVID-19 pandemic. The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is recognized at fair value on initial recognition as a financial liability. The benefit of the below-market rate of interest is measured as the difference between the carrying value of the loan and the proceeds received. The benefit is recognized on a systematic basis over periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Should an amount of the loan become forgivable or forgiveness is reasonably assured, the Company will recognise the government assistance that has not been forgiven in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

Leases

The Company recognizes a right-of-use asset and a lease liability based on the present value of the future lease payments at the commencement date. The commencement date is when the lessor makes the leased asset available for use by the Company, typically the possession date. The lease term is determined as the non-cancellable periods of a lease, together with periods covered by a renewal option if the Company is reasonably certain to exercise that option and a termination option if the Company is reasonably certain not to exercise that option.

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. Subsequent to initial measurement, the Company measures lease liabilities at amortized cost using the effective interest rate method. 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.

Right-of-use assets are measured at the initial amount of the lease liabilities, lease payments made at or before the commencement date less any lease incentives received, initial direct costs if any, and decommissioning costs to restore the site to the condition required by the terms and conditions of the lease. Subsequent to initial measurement, 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 for short-term leases with a term of 12 months or less and leases of low-value assets are treated as operating leases, with rent expense recognized on a straight-line or other systematic basis.

Recent accounting pronouncements

There are no recent accounting pronouncements that are applicable to the Company.

(Expressed in United States dollars, unless otherwise stated)

4. Trade and Other Receivables

	December 31 2020	December 31 2019
Trade receivables	**-**	29,802
GST receivable and others	**25,865**	29,177
	$ 25,865	$ 58,979

During the year ended December 31, 2020, the Company wrote off $29,802 (2019 - $140,000) of trade and other receivables. The write off is recorded as part of general and administrative costs (note 17).

5. Inventory

Company's inventory is all located in U.S. and they are all consumables and supplies, which consist of spare parts and consumable goods used for general repairs and maintenance. During the year ended December 31, 2020, inventories expensed and written down amounted to $nil (2019 - $nil).

(Expressed in United States dollars, unless otherwise stated)

6. Property, Plant and Equipment

	Buildings	Plant and Equipment (i)	Mine Development Cost (ii)	Vehicles	Computer Equipment	Other	Total
Cost							
Balance at December 31, 2018	$ 5,849,708	$ 14,351,898	$ 7,827,311	$ 170,989	$ 273,919	$ 525,589	$ 28,999,414
Additions	-	-	990,337	-	2,977	-	993,314
Write-down (iii)	-	(305,362)	-	-	-	-	(305,362)
Balance at December 31, 2019	5,849,708	14,046,536	8,817,648	170,989	276,896	525,589	29,687,366
Additions	-	-	14,733,874	133,751	-	-	14,867,625
Write-down and disposals	-	-	-	(2,358)	-	-	(2,358)
Balance at December 31, 2020	$ 5,849,708	$ 14,046,536	$ 23,551,522	$ 302,382	$ 276,896	$ 525,589	$ 44,552,633
Accumulated depreciation							
Balance at December 31, 2018	$ 558,023	$ 4,446,793	$ -	$ 83,701	$ 255,453	$ 339,889	$ 5,683,859
Charge for the period	118,844	1,196,855	-	25,413	10,217	62,045	1,413,374
Balance at December 31, 2019	676,867	5,643,648	-	109,114	265,670	401,934	7,097,233
Disposals	-	-	-	(2,358)	-	-	(2,358)
Charge for the period	121,931	1,196,856	-	32,867	2,898	468	1,355,020
Balance at December 31, 2020	$ 798,798	$ 6,840,504	$ -	$ 139,623	$ 268,568	$ 402,402	$ 8,449,895
Net book value							
Balance at December 31, 2019	$ 5,172,841	$ 8,402,888	$ 8,817,648	$ 61,875	$ 11,226	$ 123,655	$ 22,590,133
Balance at December 31, 2020	$ 5,050,910	$ 7,206,032	$ 23,551,522	$ 162,759	$ 8,328	$ 123,187	$ 36,102,738

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

(i) Mining machinery, plant and property for Shafter, which has not demonstrated technical feasibility and commercial viability, are not subject to depreciation.
(ii) Mining and plant equipment and assets under construction, which are not in production, are not subject to depreciation.
(iii) During the year ended December 31, 2019, the Company wrote-down a filter press that didn’t comply with the American Welding Standards in the amount of $305,362. The loss on disposal was recorded in the expense line item in the consolidated statement of loss and comprehensive loss.

(Expressed in United States dollars, unless otherwise stated)

7. Mineral Properties

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

On March 31, 2020, pursuant to a definitive agreement between OSM and Caldera Mineral Resources ("Caldera"), the Company closed the acquisition of the Blue Grass claim located on the Virginius Vein contiguous to the Revenue-Virginius Mine. In return, Caldera received certain non-core claims of the Revenue-Virginius Mine from OSM. The swap of mineral properties has been considered a non-monetary transaction for which the fair value of the asset received was not reliably measurable. As a result, the original carrying value of the properties given up by the Company has been allocated to the Blue Grass claim acquired from Caldera. Upon the completion of the swap, Blue Grass claim became a part of the Revenue-Virginius Mine.

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

8. Leases

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

The Vancouver lease is for three years with an option to renew expiring March 31, 2022. The Ouray lease is for three years with an option to renew expiring December 31, 2021.

8. Leases (continued)

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

Right-of-use asset		Canada		USA		Total
Balance as at December 31, 2019	$	39,048	$	197,334	$	236,382
Amortization		16,799		98,676		115,475
Balance as at December 31, 2020	$	22,249	$	98,658	$	120,907

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

As at December 31, 2020, future payments required under the Company's leases are as follow:

Lease liability		Canada		USA		Total
Balance as at December 31, 2019	$	41,008	$	210,712	$	251,720
Payments		(20,672)		(121,404)		(142,076)
Accretion expense		4,550		23,368		27,918
Balance as at December 31, 2020		24,886		112,676		137,562
Less current portion		19,526		112,676		132,202
Currency translation adjustment		(40)		-		(40)
Long-term	$	5,320	$	-	$	5,320

The following table shows the commitments lease as at December 31, 2020:

Commitments due by year (000's)		Total	2021	2022
		$	$	$
Head office lease CAD	$	60	48	12
OSM Warehouse lease	$	121	121	-

9. Reclamation Deposits

Reclamation deposits are amounts related to deposits made by the Company to the State of Colorado for the mine closure of the Revenue-Virginius Mine and this deposit is held until the mine effectively closes.

(Expressed in United States dollars, unless otherwise stated)

10. Accounts Payable and Accrued Liabilities

	December 31 2020	December 31 2019
Salaries, payroll deductions and employee benefits	**$ 334,634**	$ 106,948
Property taxes	**132,782**	219,369
Mine development	**378,286**	-
Mine supplies and construction vendors	**1,440,975**	-
Insurance	**269,483**	262,477
Accrued Interest	**265,550**	-
Other	**341,183**	88,032
	$ 3,162,893	$ 676,826

11. Paycheck Protection Program

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

12. Provision for Environmental Rehabilitation

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

The provision for environmental rehabilitation for the years ended December 31, 2020 and 2019 is as follows:

	December 31 2020	December 31 2019
Environmental rehabilitation, beginning of the year	**$ 1,120,270**	$ 1,120,270
Addition in estimates from Shafter	**-**	-
Addition in estimates from Revenue - Virginius mine	**-**	-
Accretion	**-**	-
Environmental rehabilitation, end of the period	**$ 1,120,270**	$ 1,120,270

(Expressed in United States dollars, unless otherwise stated)

12. Provision for Environmental Rehabilitation (continued)

The Company has recorded its best estimate of the cost to rehabilitate the known features on the mineral properties as a provision for environmental rehabilitation for the year-ended December 31, 2020. This amounted to $1,120,270. A long-term inflation rate of 2% was used in the analysis, which when off-set against a long-term risk-free discount rate of 2%, the impact of discounting was not significant. The future cash flows required to settle this obligation involve a degree of uncertainty as these are estimates at this time.

13. Borrowings

Key commercial terms

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

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

Term Loan

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

- Interest payments: The Term Loan bears a floating interest rate equal to the greater of US$ 3-month Libor rate and 0% per annum, plus a spread (the "Applicable Margin"), payable quarterly on the 7th of March, June, September, and December each year commencing on March 7, 2021. The Applicable Margin is (a) 10.5% per annum following the first day of the month following the month in which the Revenue Virginius mine production exceeds 400 wmt of lead concentrates for the preceding three months, and (b) 14% per annum until such time.

13. Borrowings (continued)

- Principal repayments: Commencing on the last business day of the quarter immediately following the end of the twelve-month grace period (the "Grace Period"), Aurcana shall make quarterly principal payments, each in the amount of $1,750,000, for sixteen consecutive quarters. Principal payments will begin in March 2022.
- Voluntary prepayment: subsequent to the Grace Period, Aurcana may prepay the principal amount of the Term Loan from time to time in whole or by part without any penalty. If Aurcana makes any voluntary prepayment at any time during the Grace Period which is the period from December 9, 2020 - December 8, 2021, interest shall be accrued on the full amount of the original principal of the Term Loan as if such original principal amount was outstanding for the full duration of the Grace Period.
- Structure fee: on the Closing Date, Aurcana paid the Lender a structuring fee of $560,000 (the "Structuring Fee"). Such fee was paid by a deduction from the amounts funded by the Lender to Aurcana on the Closing Date.
- Production fee: Aurcana shall also pay the Lender a fee of $75 per wet metric ton of lead concentrate sold by Aurcana during the term of the Term Loan. Such production fee (the "Production Fee") will be due and payable no later than 10 business days following the end of each fiscal quarter during the term of the Term Loan. If the Term Loan is prepaid, the Production fee will no longer be required from that point forward.

Debt host and embedded derivatives

The Term Loan is a hybrid instrument, containing a debt host component and a derivative – a prepayment option that require separation as derivatives. The prepayment option was recorded at fair value and all changes in fair value are recorded in profit or loss. The fair value of the prepayment option was $nil at inception and as at December 31, 2020.

The debt host component is measured at amortized cost using the effective interest rate method. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the loan.

(Expressed in United States dollars, unless otherwise stated)

13. Borrowings (continued)

The debt has been recognized at its amortized cost of $20,592,493, which represents the remaining fair value allocated from total net proceeds received of $27.44 million after $3,700,603 was allocated to silver swap(Note 14), $3,146,904 was allocated to silver options (Note 14), and net of structuring fee of $560,000. The remaining transaction costs and third party fees were paid after the Closing Date.

	Fair value at inception
Term Loan (including the Production Fee)	$20,592,493
Silver Swap (Note 14)	$3,700,603
Silver Options (Note 14)	$3,146,904
Total	$27,440,000

Valuation methodology

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

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

	December 8, 2020	December 31, 2020
USD instantaneous forward	0.0825% to 1.39018%	0.07763% to 1.402%
Interest rate implied volatility	0.592%	0.593%
Credit spread	31.74%	31.54%

Presentation

The Company paid certain transaction fees and costs in the amount of $1,803,050. The allocation was $1,546,800 to the loan, and $256,250 to the derivatives (note 14). The debt has been recognized at its amortized cost of $19,605,693, which represents the remaining fair value allocated from total proceeds received of $28,000,000 after $3,700,603 was allocated to silver swap(Note 14), $3,146,904 was allocated to silver options (Note 14), and net of transaction fees and cost of $1,546,800.

(Expressed in United States dollars, unless otherwise stated)

13. Borrowings (continued)

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

	2020	2019
Principal advanced	**$ 28,000,000**	$ -
Transaction cost	**1,546,800**	-
Derivative liability (note 14)	**6,847,507**	-
Fair value of the loan at inception	**19,605,693**	-
Accretion	**124,045**	-
Carrying value at December 31, 2020	**$ 19,729,738**	$ -
Accrued Interest (note 10)	**$ 265,550**	$ -

For the year ended December 31, 2020, the Company recorded accretion of $124,045 related to Mercuria loan as a finance cost. To calculate the accretion expense, the Company uses the contract life of 5 years and an effective interest rate of 34.33%.

Schedule of principal repayments is as follows:

	2020	2019
2022	**$ 7,000,000**	$ -
2023	**7,000,000**	-
2024	**7,000,000**	-
2025	**7,000,000**	-
	$ 28,000,000	$ -

(Expressed in United States dollars, unless otherwise stated)

14. Derivatives

The Silver Swaps and Silver Options are derivatives that are measured at fair value through the statement of loss and comprehensive loss.

Silver Swap

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

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

(Expressed in United States dollars, unless otherwise stated)

14. Derivatives (continued)

Silver Options

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

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

Valuation methodology

The silver swap was valued upon initial measurement and subsequent periods as the mark-to-market less the credit value adjustment, which is based on a formula driven by future discounted cash flow and the risky discounting method. The fair value of the silver was $ 3,700,603 at inception and $6,243,110 as at December 31, 2020.

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

	December 8, 2020	December 31, 2020
USD 3-month LIBOR	0.0825% to 1.39018%	0.07763% to 1.402%
USD at-the-money swaption volatility	35.49% to 68.04%	33.56% to 84%
COMEX silver spot price (oz)	$23.74	$26.505
COMEX silver future price (oz)	$24.684 to $25.889	$26.332 to $27.709
COMEX silver implied volatility (oz)	38.85% to 45.11%	43.31% to 48.75%
Credit spread	31.74%	31.54%

The silver option was valued upon initial measurement and subsequent periods as the mark-to-market less the credit value adjustment, which is based on Levy's two moment matching method and the risky discounting method. The fair value of the silver was $ 3,700,603 at inception and $4,491,650 as at December 31, 2020.

(Expressed in United States dollars, unless otherwise stated)

14. Derivatives (continued)

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

	December 8, 2020	December 31, 2020
USD 3-month LIBOR	0.0825% to 1.39018%	0.07763% to 1.402%
USD at-the-money swaption volatility	35.49% to 68.04%	33.56% to 84%
COMEX silver spot price (oz)	$23.74	$26.505
COMEX silver future price (oz)	$24.684 to $25.889	$26.332 to $27.709
COMEX silver implied volatility (oz)	38.85% to 45.11%	43.31% to 48.75%
Credit spread	31.74%	31.54%

Presentation

The carrying values of and movement of the derivative liabilities are as follows:

	2020	2019
Fair value of the Derivative at inception	$ 6,847,507	$ -
Change in derivatives fair value estimate	3,887,253	-
Carrying value at December 31, 2020	$ 10,734,760	$ -

15. Income Taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to loss before income taxes. A reconciliation of these differences is as follows:

	2020	2019
Loss before income taxes	$ (16,610,133)	$ (7,192,264)
Canadian federal and provincial income tax rates	24.66%	24.66%
Income tax recovery based on above rates	(4,096,059)	(1,773,612)
Increase (decrease) due to:		
Non-deductible (taxable) items and other	138,612	62,979
Change in unrecognized deferred tax assets	3,957,447	1,710,633
Income tax expense	$ -	$ -

The significant components of the Company’s deferred income tax assets (liabilities) are as follows:

	2020	2019
Deferred tax assets Non-capital losses	$ 5,973	$ 59,201
Deferred tax liabilities Right-of-use assets	(5,973)	(59,201)
	$ -	$ -

(Expressed in United States dollars, unless otherwise stated)

15. Income Taxes (continued)

The components of unrecognized temporary differences are as follows:

	2020	2019
Mineral property and other property, plant and equipment	$ **45,537,136**	$ 52,230,607
Other items	**6,466,110**	1,793,215
Unrecognized temporary differences	$ **52,003,246**	$ 54,023,822

Unrecognized tax losses:

As at December 31, 2020 the Company has tax losses for income tax purposes which may be used to reduce future taxable income. The income tax benefit, if any, of these losses have not been recorded in these consolidated financial statements because of the uncertainty of their recovery. The future expiration and potential tax benefit of the losses are as follows:

YEAR	Canada	United States	Mexico	Total
2020	-	-	-	-
2021	-	-	-	-
2022	-	14,334	-	14,334
2023	-	11,956	-	11,956
2024	-	193,820	-	193,820
2025	-	100,952	-	100,952
2026	-	164,165	15,335,393	15,499,558
2027	-	148,444	26,528	174,972
2028	-	168,559	374,659	543,218
2029	-	414,262	69	414,331
2030	-	247,948	2,083	250,031
2031	-	274,881	-	274,881
2032	-	316,214	-	316,214
2033	-	993,695	-	993,695
2034	-	7,678,870	-	7,678,870
2035	-	1,643,683	-	1,643,683
2036	-	11,225,424	-	11,225,424
2037	-	6,864,996	-	6,864,996
2039	1,807,696	-	-	1,807,696
2040	2,771,664	-	-	2,771,664
No Expiry	-	18,780,239	-	18,780,239
	$ 4,579,360	**$ 49,242,442**	**$ 15,738,732**	**$ 69,560,534**

15. Income Taxes (continued)

The Company has income tax loss carry-forwards of approximately $49.2 million (2019 - $43.3 million) for United States tax purposes. These unrecognized tax losses commenced expiring in 2020. Future use of these U.S. loss carry-forwards is subject to certain limitations under provisions of the Internal Revenue Code including limitations subject to Section 382, which relates to a 50% change in control over a three-year period, and are further dependent upon the Company attaining profitable operations. An ownership change under Section 382 occurred on July 15, 2008 when the Company acquired Shafter, thereby limiting losses incurred prior to that date under Section 382. An additional change in control may have occurred on December 27, 2018 when the Company realized a take over transaction, which could further limit the availability of losses prior to that date.

16. Equity

Authorized

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

Issued

During the year ended December 31, 2020, the Company:

- Closed a non-brokered private placement with two tranches by issuing 26,691,468 share units of the Company at CDN$0.22 per unit for gross proceeds of CDN$5,872,123. Each unit consists of one common share and one common share purchase warrant (the "Warrant"), with each Warrant entitling the holder thereof to purchase one common share of the Company at an exercise price at a price of CDN$0.375 for a period of 36 months following the closing of the Private Placement, subject to adjustment upon certain customary events.
- Closed a non-brokered private placement by issuing 9,337,407 share units of the Company at CDN$0.27 per unit for gross proceeds of CDN$2,521,100. Each unit consists of one common share and one common share purchase warrant, with each Warrant entitling the holder thereof to purchase one common share of the Company at an exercise price at a price of CDN$0.35 for a period of 36 months following the closing of the Private Placement, subject to adjustment upon certain customary events.
- Closed a non-brokered private placement with two tranches by issuing 24,551,400 share units of the Company at CDN$0.50 per unit for gross proceeds of CDN$ 12,275,700. Each unit consists of one common share and one common share purchase warrant (the "Warrant"), with each Warrant entitling the holder thereof to purchase one common share of the Company at an exercise price at a price of CDN$0.75 for a period of 36 months following the closing of the Private Placement, subject to adjustment upon certain customary events.

(Expressed in United States dollars, unless otherwise stated)

16. Equity (continued)

- Gross proceeds from the private placements of $10,353,092 were allocated to share capital and $5,145,228 to warrants using the relative fair value method The Company paid an aggregate of $884,369 in finder's fees and issued an aggregate of 2,755,746 agent's warrants with a fair value of $415,245. The agent's warrants are subject to a statutory hold period and bear the same terms and conditions as the Warrant issued for each private placement.
- 25,381,507 warrants were exercised, for proceeds of $7,113,175. The fair value of $1,550,126 related to the warrants exercised was reclassified from contributed surplus to share capital.

During the year ended December 31, 2019, the Company:

- Closed a non-brokered private placement with two tranches by issuing 35,739,195 share units of the Company at CDN$0.25 per unit for gross proceeds of CDN$8,934,799. Each unit consists of one common share and one common share purchase warrant, with each Warrant entitling the holder thereof to purchase one common share of the Company at an exercise price at a price of CDN$0.375 for a period of 36 months following the closing of the private placement, subject to adjustment upon certain customary events. Gross proceeds from this private placement of $4,412,543 were allocated to share capital and $2,356,244 to warrants using the relative fair value method. The Company paid an aggregate of $385,620 in finder's fees and issued an aggregate of 1,389,200 agent's warrants with a fair value of $170,002. The agent's warrants are subject to a statutory hold period and bear the same terms and conditions as the Warrant.

Escrow shares
In connection with the acquisition of OSM completed during the year ended December,31 2018, the Company entered into an Value Escrow Agreement dated 27, 2018, whereby 87,765,159 common shares were held in escrow and are scheduled for release in accordance with the terms of the Value Escrow Agreement. As at December 31, 2020, there were 26,329,548 common shares in escrow.

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

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

(Expressed in United States dollars, unless otherwise stated)

16. Equity (continued)

A summary of the Company's Option outstanding and exercisable as at December 31, 2020 and 2019 is presented below:

Stock options 2020

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

Stock options 2019

Outstanding	Vested		Exercise Price ($CDN)	Expiry Date
690,000	690,000	$	0.85	March 2, 2021
80,000	80,000	$	2.00	August 5, 2021
290,000	290,000	$	1.60	April 27, 2022
1,060,000	1,060,000	$	1.14	

The weighted average remaining contractual life of stock options outstanding is 3.91 years (2019: 1.52 years). The values post consolidation stock options utilized the Black Scholes option pricing model.

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

(Expressed in United States dollars, unless otherwise stated)

16. Equity (continued)

For the year ended December 31, 2020 the stock-based compensation expense was $ 463,352 (December 31, 2019 – Nil). Fair value of stock options granted as above is calculated using the following weighted average assumptions:

	2020	**2019**
Risk-free interest rate	**0.41%**	-
Expected stock price volatility	**99.48%**	-
Expected dividend yield	**Nil**	-
Exercise price	**$0.55**	
Price on date of issue	**$0.50**	
Forfeiture rate	**0%**	
Expected warrant life in years	**5**	-

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants	Exercise Price (CDN$)
Balance, December 31, 2018	11,577,306	1.520
Private placement (note 16)	37,121,395	0.375
Balance, December 31, 2019	48,698,701	0.650
Private placement (note 16)	63,336,021	0.523
Excercised	(25,381,507)	0.376
Expired	(2,447,746)	2.250
Balance, December 31, 2020	84,205,469	0.589

(Expressed in United States dollars, unless otherwise stated)

16. Equity (continued)

As of December 31, 2020, details of outstanding warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
2,837,560	$1.500	May 3, 2021
6,292,000	$1.250	December 27, 2021
12,629,124	$0.375	August 15, 2022
8,112,883	$0.375	September 3, 2022
11,198,075	$0.375	February 20, 2023
7,960,841	$0.375	March 2, 2023
9,634,546	$0.350	April 17, 2023
22,725,040	$0.750	July 20, 2023
2,815,400	$0.750	July 28, 2023
84,205,469	$0.589	

As of December 31, 2019, details of outstanding warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
2,447,746	$2.250	February 27, 2020
2,837,560	$1.500	May 3, 2021
6,292,000	$1.250	December 27, 2021
18,340,324	$0.375	August 15, 2022
18,788,071	$0.375	September 3, 2022
48,705,701	$0.648	

As at December 31, 2020, the weighted average remaining contractual life of warrants outstanding is 2.0 years (2019 -2.4 years).

(Expressed in United States dollars, unless otherwise stated)

16. Equity (continued)

The values of warrants determined during the year ended December 31, 2020 utilized the Black-Scholes option pricing model weighted the weight average input factors and assumptions as follows:

	2020	2019
Risk-free interest rate	**0.28% - 1.40%**	1% - 1.24%
Expected stock price volatility	**77.26% - 90.12%**	77.26% - 89.95%
Expected dividend yield	**Nil**	Nil
Expected warrant life in years	**3**	3
Share price CDN	**$0.23 - $0.50**	$0.28 - $0.36
Exercise price CDN	**$0.35 - $0.75**	$ 0.375

17. General and administrative costs

	2020	2019
Salaries and consulting fees	**$ 3,164,100**	$ 2,164,748
Transaction cost	**-**	85,049
Financing cost	**256,250**	-
Professional fees	**328,855**	237,883
Investor relations	**295,839**	113,585
Marketing and road shows	**292,359**	108,616
Listing and filing fees	**122,631**	40,563
Other	**623,823**	496,695
	$ 5,083,857	$ 3,247,139

Other break down:	**2020**	2019
Rent and overhead	**$ 26,259**	$ 24,583
Travel and accommodation	**67,018**	92,615
Office	**500,744**	238,717
Anclada project	**-**	780
Write-off Accounts Receivable	**29,802**	140,000
Total Other	**$ 623,823**	$ 496,695

(Expressed in United States dollars, unless otherwise stated)

18. Financing and Other Expense

	Notes		2020		2019
Accretion of lease liability	8	**$**	**27,918**	$	40,962
Accretion on borrowings	13		**124,045**		-
Interest accrued (note 13)			**265,550**		-
Interest Expense			**6,488**		6,503
Bank charges			**17,941**		62,509
		$	**441,942**	$	109,974

19. Maintenance costs

		2020		2019
Site surface cost	**$**	**3,822,059**	$	1,206,631
Insurance		**423,528**		364,192
Enviromental		**318,433**		270,386
Property taxes		**196,039**		219,348
	$	**4,760,059**	$	2,060,557

20. Oil and gas lease

On July 15, 2016, the Company entered into a term assignment agreement (the “Assignment”) with a privately-owned, Texas-based oil and gas firm (the “Assignee”). Under the Assignment, oil and gas leases (the “Leases”) had been assigned for a three-year term. The Company has retained a Net Revenue Interest Royalty in respect of the Leases that may provide up to 25% of the net revenue therefrom. In consideration of the Assignment, the Assignee made a cash payment of $374,469.41 to the Company. The Leases total 564 “mineral acres” and are located approximately 200 miles northeast of the Company’s Shafter project, in the Permian Basin of West Texas, near Midland.

(Expressed in United States dollars, unless otherwise stated)

21. Related Party Transactions

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

a) Trading transactions

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

	Note	**2020**	2019
General and administrative expenses - Consulting Fees	(i)	**$ 131,767**	$ 272,787

(i) To companies controlled by the corporate secretary, and the former CFO for services performed as officers.

b) Compensation of key management personnel

	2020	2019
Consulting fees (as above)	**$ 131,767**	$ 272,787
Stock-based compensation	**308,244**	-
Officer salaries	**680,713**	629,435
	$ 1,120,724	$ 902,222

At December 31, 2020, the Company balance in accounts payable for related parties is $nil.

(Expressed in United States dollars, unless otherwise stated)

22. 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:

	2020	2019
Cash	**$ 22,457,019**	$ 129,390
Short-term investments	**7,221,762**	3,814,896
	$ 29,678,781	$ 3,944,286

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

Supplemental disclosures of non-cash investing and financing activities:

	2020	2019
Increase in accounts payable related to construction in progress and equipment suppliers	**$ 1,440,975**	$ -

There were no amounts of cash paid for interest or income taxes for the years presented

(Expressed in United States dollars, unless otherwise stated)

23. Segmented Information

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

December 31, 2020	Ouray	Shafter	Corporate and other segments	Total
General and administrative cost	2,876,060	295,071	1,912,726	5,083,857
Maintenance costs	4,562,939	197,120	-	4,760,059
Depreciation and amortization	1,354,437	-	583	1,355,020
Change in derivatives fair value estimate	3,887,253	-	-	3,887,253
Foreign exchange loss	-	-	520,916	520,916
Stock-based compensation	213,142	-	250,210	463,352
Other expenses	522,511	(511)	17,676	539,676
Net loss for the year before other comprehensive items	(13,416,342)	(491,680)	(2,702,111)	(16,610,133)
Currency translation adjustment	-	-	339,045	339,045
Total comprehensive loss for the year	(13,416,342)	(491,680)	(2,363,066)	(16,271,088)
Property, plant and equipment *	25,991,578	10,108,764	2,396	36,102,738
Mineral properties	27,764,039	12,663,526	458,143	40,885,708
Total capital assets	53,755,617	22,772,290	460,539	76,988,446
Total assets	77,343,291	22,815,662	7,856,680	108,015,633
Total liabilities	34,393,784	644,229	268,170	35,306,183

* Includes OSM Mine Development cost for the year: $ 14,733,874

December 31, 2019	OSM	Shafter	Corporate and other segments	Total
General and administrative cost	1,208,171	404,306	1,634,662	3,247,139
Care & maintenance costs	1,773,045	287,512	-	2,060,557
Depreciation and amortization	1,413,374	-	-	1,413,374
Foreign exchange loss	-	-	229,283	229,283
Other (income) expenses	143,031	194,177	(95,297)	241,911
Net loss for the year before other comprehensive items	(4,537,621)	(885,995)	(1,768,648)	(7,192,264)
Currency translation adjustment	-	-	270,552	270,552
Total comprehensive loss for the year	(4,537,621)	(885,995)	(1,498,096)	(6,921,712)
Property, plant and equipment	12,478,392	10,108,764	2,977	22,590,133
Mineral properties	27,764,039	12,663,526	458,143	40,885,708
Total capital assets	40,242,431	22,772,290	461,120	63,475,841
Total assets	41,520,258	22,804,845	4,513,473	68,838,576
Total liabilities	1,078,591	759,286	210,939	2,048,816

24. Retirement Plan

The Company sponsors a 401(k) retirement plan (the "Plan") that covers all employees. The Plan is available to employees who complete one month of service. Employees may contribute amounts based on limits established by the IRS. The plan provides for discretionary employer matching contributions. Plan participants become 100% vested in employer contributions to the Plan after two years of employment. Matching contributions totaled $156,657 for the year ended December 31, 2020 (2019- $73,467)

25. Financial instruments

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

(a) Foreign exchange risk:

The Company reports its financial results in US Dollar but also undertakes transactions in other foreign currencies, mainly the Canadian dollars. The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates in currencies other than the functional currency of each entity. A significant change in the currency exchange rates between the local functional currency of each entity and the other currencies it employs could have an effect on the Company's results of operations, financial position or cash flows. The Company has cash and cash equivalents, trade and other receivables, accounts and payable and accrued liabilities, denominated in foreign currencies, which are subject to currency risk. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2020, the Company's Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in US Dollar:

		2020	2019
Cash and cash equivalents	USD$	**6,898,890**	45,782
Trade and other receivables		**-**	29,802
Accounts payable and accrued liabilities		**(31,000)**	(21,105)
	USD$	**6,867,890**	54,479
CAD$ Equivalent		**8,744,198**	**70,757**

Based on the above net exposures as at December 31, 2020, 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 $686,789 change to the Company's net income for the year.

25. Financial instruments (continued)

At December 31, 2020, the Company's Mexican operations (US Dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		2020	2019
Cash and cash equivalents	MXP$	**594**	47,354
USD$ Equivalent		**30**	**2,513**

Based on the above net exposures as at December 31, 2020, 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 $3 change to the Company's net income for the year.

(b) Credit risk:

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

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

The Company manages its credit risk on cash equivalents by only investing with counterparties that carry investment grade ratings as assessed by external rating agencies and spreading the investments across these counterparties. Under the Company's risk management policy, allowable counterparty exposure limits are determined by the level of the rating unless exceptional circumstances apply. A rating of "A-" grade or equivalent is the minimum allowable rating required as assessed by international credit rating agencies.

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, 2020 substantially all cash and short-term deposits are with counterparties with ratings "A-" or higher.

Other accounts receivable consists of amounts related to the GST receivables. The Company performs regular credit assessments on its customers and provides allowances for potentially uncollectable accounts receivables. During the year ended December 31, 2020, the Company wrote down $29,802 from trade and other receivable related to management fees as it was unable to collect the amount. During the year ended December 31, 2019, the Company wrote down $140,000 from trade and other receivables related to the sale of equipment as it was unable to collect the amount.

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.

25. Financial instruments (continued)

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Company-wide cash projections are managed centrally and regularly updated to reflect the dynamic nature of the business and fluctuations caused by commodity price and exchange rate movements.

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

The following table disclose the gross contractual obligations as at December 31, 2020:

	Commitments due by year (000's)					
	Total	2021	2022	2023	2024	2025
	$	$	$	$	$	$
Accounts payable and accrued liabilities	3,163	3,163	-	-	-	-
Lease liability	168	159	9			
Borrowings	28,000	-	7,000	7,000	7,000	7,000
	31,331	3,322	7,009	7,000	7,000	7,000

(d) Interest Rate Risk

Interest rate risk is the risk that the fair values and future cash flows of the Company's financial instruments will fluctuate due to changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's financial liabilities consist primarily of long-term variable rate debt, which consist of certain borrowings with a total principal value of $28.0 million at December 31, 2020 (2019: $nil). If the interest rate changed by 10 points would result in a approximately $3.0 million change to the Company's net income for the year.

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

(Expressed in United States dollars, unless otherwise stated)

25. Financial instruments (continued)

(e) Commodity pricing and mark-to-market risk

The fair values of the Company's financial instruments are significantly influenced by variability of future spot prices for silver. Period to period changes in silver future spot price could cause significant changes in the mark to market valuation ("MTM Valuation') of these contracts, if future spot prices increased by 10%, loss for the year would have been $780,604 higher, whereas if future spot prices decreased by 10%, loss for the year would have been $517,710 lower, primarily as a result of the change in fair value of the Company's derivative instrument.

(f) Fair Value:

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

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

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

The following table summarizes the fair value hierarchy, as of December 31, 2020:

	Fair Value Through Profit or Loss	Amortized Costs	Fair Value		
			Level 1	Level 2	Level 3
Asset (Liability)					
Cash and cash equivalents	29,678,781		29,678,781		
Accounts payable and accrued liabilities		(3,162,893)			
PPP Loan & Borrowings		(20,150,738)			
Derivatives	(10,734,760)				(10,734,760)

25. Financial instruments (continued)

The following table summarizes the fair value hierarchy, as of December 31, 2019:

	Fair Value Through Profit or Loss	Amortized Costs	Fair Value Level 1	Level 2	Level 3
Asset (Liability)					
Cash and cash equivalents	3,944,286		3,944,286		
Trade and other receivables		58,979			
Accounts payable and accrued liabilities		(676,826)			

The continuity and valuation techniques that are sued to determine the fair value of derivatives are described in Note 14. The carrying values of trade and other receivables and accounts payable and accrued liabilities, approximate their fair values due to the relatively short-term nature of these amounts.

26. Management of Capital

In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt and acquire or dispose of assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay dividends.

The Company's investment policy is to limit investments to guaranteed investment certificates, banker's acceptance notes, investment savings accounts or money market funds with high quality financial institutions in Canada and treasury bills, selected with regards to the expected timing of expenditures from operations.

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

27. COVID-19 (coronavirus)

The COVID-19 pandemic has a limited effect on Aurcana Silver Corporation and its operations located in the US. Mining is considered an "essential" function for the economy and is exempt from business closure restrictions or orders. The Company has implemented the recommended "social distancing", utilization of personal protective equipment (PPE), and extra diligence in sanitizing work spaces and equipment. The Company is able to continue executing the current operating plan and 2021 budget, which will advance the OSMI development project through the end of the year. When practical, administrative and technical teams are working remotely to provide the safest work environment possible. The Company does not foresee any significant business risks other than potential minor delays in equipment repairs/maintenance, which could be due to limited workforce availability. While the extent of any impact is unknown, we anticipate this outbreak may cause supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

28. Subsequent event

On February 1, 2021 the Company completed a private placement of 33,406,363 Units at a price of CDN$1.00 per unit, to raise total proceeds of CDN$33,406,363. Each unit consists of one common share of the Company and one full common share purchase warrant ("Warrant"), with each Warrant entitling the holder thereof to purchase one common share at a price of CDN$1.25 for a period of 36 months from the date of issuance. The Company paid an aggregate of CDN$895,200 in finder's fees and issued an aggregate of 886,530 agent's Units, as well as 1,612,770 agent's warrants, ("Agent's Warrants") with each Agent's Warrant entitling the holder thereof to purchase one Common Share at a price of CDN$1.25 for a period of 36 months from the date of issuance. The Private Placement Common Shares and the Warrants (and any Common Shares issued pursuant to the Warrants, as applicable) are subject to a statutory hold period expiring on May 28, 2021.