



AURCANA CORPORATION

Condensed Interim Consolidated Financial Statements

March 31, 2016

Expressed in United States dollars unless otherwise stated

850-789 West Pender Street, Vancouver BC V6C 1H2 Canada

PHONE : (604) 331-9333 FAX : (604) 633-9179

www.aurcana.com

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the Company's interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by, and are the responsibility of, the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of financial statements by an entity's auditor.

"Kevin Drover"
President and CEO

"Salvador Huerta"
CFO

Aurcana Corporation
Condensed Interim Consolidated Statements of Financial Position
(Unaudited and expressed in United States dollars)

	Notes	March 31 2016	December 31 2015
Assets			
Current assets			
Cash and cash equivalents	14	\$ 586,715	\$ 236,301
Trade and other receivables	3	1,614,131	42,687
Prepaid expenses and advances	4	46,291	71,313
Prepaid income tax		39,482	39,929
Assets held for sale	5	95,500	60,074,062
		2,382,119	60,464,292
Non Current assets			
Non-current prepaid expenses	4	26,159	19,509
Property, plant and equipment	6	6,865,426	6,866,181
Mineral Properties	7	9,500,000	9,500,000
Deferred tax asset		404,785	404,785
		\$ 19,178,489	\$ 77,254,767
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	\$ 1,137,201	\$ 2,520,488
Current portion of borrowings	9, 18	-	40,223,056
Liabilities associated with assets held for sale	5	-	18,723,470
		1,137,201	61,467,014
Non Current liabilities			
Deferred tax liability		40,247	-
Provision for environmental rehabilitation	10	479,838	479,838
		1,657,286	61,946,852
Equity			
	11		
Share capital		181,814,354	181,814,354
Contributed surplus		34,613,616	34,260,229
Accumulated other comprehensive income (loss)		2,529,766	2,338,478
Deficit		(201,449,588)	(203,133,321)
		17,508,148	15,279,740
Total equity attributable to equity holders of the parent		17,508,148	15,279,740
Non-controlling interest		13,055	28,175
Total equity		17,521,203	15,307,915
		\$ 19,178,489	\$ 77,254,767

Nature of Operations and Going concern (Note 1)
 Commitments and contingencies (Note 13)
 Subsequent Events (Note 19)

See accompanying notes to these condensed interim consolidated financial statements.

Aurcana Corporation

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

	Notes	Three months ended March 31,	
		2016	2015
Continuing Operations			
Revenues			
Management Fees	\$	80,000	\$ -
Other items			
General and administrative costs	16	321,081	608,434
Financing expense and others	17	1,612	1,129,319
Stock-based compensation		353,387	4,026
Shafter mine care & maintenance costs		99,616	423,812
Foreign exchange (income) loss		(103,282)	1,675,611
Restructuring transaction cost		22,630	-
Change in fair value of derivatives		-	(14,770)
Severance payments		-	23,920
Loss on sale of equipment		-	9,898
Other expenses (income)		(693)	53,913
		694,351	3,914,163
Income (loss) before income taxes		(614,351)	(3,914,163)
Current Income tax expense		-	19,129
Deferred income tax expense		-	-
Net income (loss) from continuing operations		\$ (614,351)	\$ (3,933,292)
Discontinued Operations			
Income (loss) for the period from discontinued operation	18	2,282,964	(168,301)
Net income (loss) for the period before other comprehensive items		\$ 1,668,613	\$ (4,101,593)
Items of other comprehensive income			
Items of other comprehensive income that may be reclassified subsequently to net income (loss):			
Currency translation adjustment		191,288	1,326,070
Comprehensive income (loss) for the period		\$ 1,859,901	\$ (2,775,523)
Total net Income (loss) attributable to:			
Non-controlling interest		(15,120)	(2,945)
Equity holders of the Company		1,683,733	(4,098,648)
		\$ 1,668,613	\$ (4,101,593)
Total comprehensive income (loss) attributable to:			
Non-controlling interest		(15,120)	(2,945)
Equity holders of the Company		1,875,021	(2,772,578)
		\$ 1,859,901	\$ (2,775,523)
Weighted average number of shares – basic & diluted		84,644,973	84,644,973
Loss per share			
From continuing and discontinued operations - basic & diluted		\$ 0.02	\$ (0.05)
From continuing operations - basic & diluted		\$ (0.01)	\$ (0.05)

See accompanying notes to these condensed interim consolidated financial statements.

Aurcana Corporation
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in United States dollars, unless otherwise stated)

	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity Attributable to Shareholders of the Company	Non- controlling Interest	Total Equity
	#	\$						
Balance, December 31, 2014	84,644,973	181,814,354	34,256,203	(471,711)	(179,368,164)	36,230,682	36,461	36,267,143
Currency translation adjustment	-	-	-	1,326,070	-	1,326,070	-	1,326,070
Net loss for the period	-	-	-	-	(4,098,648)	(4,098,648)	(2,945)	(4,101,593)
Stock-based compensation	-	-	4,026	-	-	4,026	-	4,026
Balance, March 31, 2015	84,644,973	181,814,354	34,260,229	854,359	(183,466,812)	33,462,130	33,516	33,495,646
Currency translation adjustment	-	-	-	1,484,119	-	1,484,119	-	1,484,119
Net loss for the period	-	-	-	-	(19,666,509)	(19,666,509)	(5,341)	(19,671,850)
Stock-based compensation	-	-	-	-	-	-	-	-
Balance, December 31, 2015	169,289,946	181,814,354	34,260,229	2,338,478	(203,133,321)	15,279,740	28,175	15,307,915
Currency translation adjustment	-	-	-	191,288	-	191,288	-	191,288
Net income for the period	-	-	-	-	1,683,733	1,683,733	(15,120)	1,668,613
Stock-based compensation	-	-	353,387	-	-	353,387	-	353,387
Balance, March 31, 2016	169,289,946	\$ 181,814,354	\$ 34,613,616	\$ 2,529,766	\$ (201,449,588)	\$ 17,508,148	\$ 13,055	\$ 17,521,203

See accompanying notes to these condensed interim consolidated financial statements.

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

	Three months ended March 31,	
	2016	2015
Cash flows from operating activities		
Net income (loss) for the Period	\$ 1,668,613	\$ (4,101,593)
Items not involving cash:		
Income (loss) for the period from discontinued operation	(2,282,964)	-
Depreciation, depletion and amortization	755	1,310,587
Financing expense and other	-	1,111,354
Loss on sale of equipment	-	9,898
Amortization of prepaid leasing costs	-	73,755
Stock-based compensation	353,387	4,026
Unrealized foreign exchange loss	(87,840)	1,702,233
Change in fair value of derivatives	-	(14,770)
Deferred Income tax	40,247	-
Operating cash flow before changes in working capital	(307,802)	95,490
Net changes to non-cash working capital balances		
Trade and other receivables	(1,571,444)	1,197,216
Inventories	-	(58,300)
Prepaid expenses and advances	18,372	4,161
Accounts payable and accrued liabilities	(1,031,949)	(154,023)
Cash provided by (used in) operating activities	(2,892,823)	1,084,544
Cash flows from investing activities		
Proceeds from the sale of equipment	3,315,000	-
Purchase of property, plant and equipment	(71,248)	(1,061,968)
Cash provided by (used in) investing activities	3,243,752	(1,061,968)
Cash flows from financing activities		
Financing cost and interest	1,612	(588,925)
Payments on capital equipment contracts	-	(125,783)
Cash provided by (used in) financing activities	1,612	(714,708)
Decrease in cash and cash equivalents	352,541	(692,132)
Effect of exchange rate changes on cash	(2,127)	(43,154)
Cash and cash equivalents, beginning of the period	236,301	1,606,762
Cash and cash equivalents, end of the period	\$ 586,715	\$ 871,476

Supplemental Cash Flow information (Note 14)

See accompanying notes to these condensed interim consolidated financial statements.

AURCANA CORPORATION

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

1. Nature of Operations and going concern

Aurcana Corporation (the “Company” or “Aurcana”) was originally incorporated in Canada under the laws of Ontario in 1917 and on September 14, 1998 was continued under the *Canada Business Corporations Act* (“CBCA”). The Company is currently engaged in the exploration, development and operation of natural resource properties. The Company’s principal development property is the Shafter silver property (“Shafter”), located in Presidio County, southwest. Texas through the Company’s 100% owned US subsidiary, Silver Assets Inc, which is currently on “care and maintenance”. Prior to the Restructuring Agreement referenced below, the Company was also engaged in the production and sale of silver, copper, lead, and zinc concentrates at the La Negra Mine located in Queretaro State, Mexico

The Company’s shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at Suite 850-789 West Pender Street, Vancouver, B.C., V6C 1H2, Canada.

These condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments and realize its assets and discharge its liabilities in the normal course of business. Several adverse conditions and material uncertainties, including low metal prices, cast significant doubt upon the going concern assumption. The Company had cash and cash equivalents of \$0.6 million, a consolidated working capital of \$1.2 million, consolidated deficit of \$201.4 million and net income of \$1.7 million as at and for the three months ended March 31, 2016.

During the last quarter of 2015, the Company entered into a support agreement and an arrangement agreement to effect a restructuring transaction (the “Restructuring Transaction”) under which all of the debt obligations were extinguished in exchange for the Company’s interest in the Mexican subsidiary that owns the La Negra mine. The Restructuring Transaction was implemented on January 7, 2016.

AURCANA CORPORATION**Notes to the Condensed Interim Consolidated Financial Statements****(Expressed in United States dollars, unless otherwise stated)****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 financial statements were approved for issue by the Board of Directors on May 30, 2016.

3. Trade and Other Receivables

	March 31	December 31
	2016	2015
Equipment sales receivable	1,140,000	-
Other receivables	474,131	42,687
	\$ 1,614,131	\$ 42,687

4. Prepaid expenses and advances

	March 31	December 31
	2016	2015
Prepaid expenses	\$ 29,785	\$ 29,823
Other	16,506	41,490
Current portion	46,291	71,313
Non-current portion	26,159	19,509
	\$ 72,450	\$ 90,822

AURCANA CORPORATION**Notes to the Condensed Interim Consolidated Financial Statements****(Expressed in United States dollars, unless otherwise stated)****5. Assets held for sale**

	March 31 2016	December 31 2015
Assets held for sale Shafter	\$ 95,500	\$ 3,410,500
Assets held for sale La Negra	-	56,663,562
	\$ 95,500	\$ 60,074,062
Liabilities associated with assets held for sale	\$ -	\$ 18,723,470

	March 31 2016	December 31 2015
Underground support Equipment	\$ -	\$ 224,572
Plant Equipment	95,500	3,185,928
	\$ 95,500	\$ 3,410,500

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

	Buildings	Plant and Equipment	Mine Development Cost	Vehicles	Computer Equipment	Other	Assets Under Construction	Total
Balance at December 31, 2014	\$ 3,061,086	\$ 39,767,103	\$ 32,812,888	\$ 661,155	\$ 534,105	\$ 846,523	\$ 1,049,308	\$ 78,732,168
Additions	15,604	4,118,585	1,672,461	-	-	-	282,209	6,088,859
Reclassification	535,003	-	-	-	-	-	(535,003)	-
Reclassification to assets held for sale Shafter (Note 5)	-	(3,410,500)	-	-	-	-	-	(3,410,500)
Reclassification to assets held for sale La Negra (Note 5)	(2,736,693)	(38,012,539)	(30,985,349)	(601,630)	(441,357)	(308,104)	(796,514)	(73,882,186)
Disposals	-	-	-	(42,581)	(4,050)	-	-	(46,631)
Balance at December 31, 2015	875,000	2,462,649	3,500,000	16,944	88,698	538,419	-	7,481,710
Additions	-	-	-	-	-	-	-	-
Reclassification	-	21,235	-	-	-	(21,235)	-	-
Discontinued operations ⁽¹⁾	-	-	-	-	-	(479,838)	-	(479,838)
Balance at March 31, 2016	\$ 875,000	\$ 2,483,884	\$ 3,500,000	\$ 16,944	\$ 88,698	\$ 37,346	\$ -	\$ 7,001,872
Accumulated depreciation								
Balance at December 31, 2014	\$ 305,559	\$ 14,078,492	\$ 648,369	\$ 513,704	\$ 489,531	\$ 608,783	\$ -	\$ 16,644,438
Reclassification to assets held for sale La Negra (Note 5)	(561,419)	(20,521,454)	(1,611,595)	(514,789)	(412,302)	(125,908)	-	(23,747,467)
Charge for the year	255,860	4,989,446	168,386	55,020	14,055	27,012	-	5,509,779
Write-down of property, plant and equipment	-	1,453,516	794,840	-	-	-	-	2,248,356
Disposals	-	-	-	(36,991)	(2,586)	-	-	(39,577)
Balance at December 31, 2015	-	-	-	16,944	88,698	509,887	-	615,529
Charge for the period	-	-	-	-	-	755	-	755
Discontinued operations ⁽¹⁾	-	-	-	-	-	(479,838)	-	(479,838)
Balance at March 31, 2016	\$ -	\$ -	\$ -	\$ 16,944	\$ 88,698	\$ 30,804	\$ -	\$ 136,446
Net book value								
Balance at December 31, 2014	\$ 2,755,527	\$ 25,688,611	\$ 32,164,519	\$ 147,451	\$ 44,574	\$ 237,740	\$ 1,049,308	\$ 62,087,730
Balance at December 31, 2015	\$ 875,000	\$ 2,462,649	\$ 3,500,000	\$ -	\$ -	\$ 28,532	\$ -	\$ 6,866,181
Balance at March 31, 2016	\$ 875,000	\$ 2,483,884	\$ 3,500,000	\$ -	\$ -	\$ 6,542	\$ -	\$ 6,865,426

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

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

9. Borrowings

On September 19, 2013, the Company executed definitive agreements with MF2 Investment Holding Company (Cayman) Limited, an affiliate of Orion Mine Finance Group (hereinafter referred to together with its affiliates as "Orion"), for a loan in the principal amount of US\$50,000,000 ("Original Loan") and a related off-take agreement in respect of Shafter ("Original Off-take"), described further below. The Company paid certain transaction fees and costs in the amount of \$1,075,000 in establishing the loan facility, including \$825,000 paid to Orion and \$250,000 paid to third parties.

The loan was advanced on September 19, 2013 and the term of loan was 39 months, with no principal payable until January 31, 2014. Early repayment of the loan could occur at any time without penalty. Interest payable was set at 3 month LIBOR (subject to a 1% minimum) plus 5.5%.

The Company agreed to sell silver and gold produced from Shafter to Orion under the Original Off-take at the prices selected by Orion as either spot price at the delivery date or an average spot price during the first, second, or third week after the delivery date, for either a 6 year period, or until Aurcana has sold a minimum of 27 million Oz of silver, whichever was later, subject to an early buy-out provision.

On April 29, 2014, Aurcana entered into an agreement to amend the terms of its \$50,000,000 Original Loan pursuant to an amended and restated credit facility agreement (the "Amended Loan") between the Company and Orion. The principal amount under the Amended Loan was reduced to \$40,000,000. In an aggregate debt settlement of \$10,333,333, Aurcana issued 16,499,501 common shares of the Company to Orion at an issue price of \$0.62 or C\$0.69 per share, in consideration for reducing the principal amount outstanding under the Original Loan and terminating the Original Offtake agreement in respect of Shafter. The Amended Loan was to be repaid in 48 equal monthly installments commencing May 31, 2014. Early prepayment could occur at any time without charges. Interest on the Amended Loan continued to accrue at a rate equal to LIBOR (subject to a minimum of 1%) plus 5.5% per annum. The Amended Loan was guaranteed by Aurcana's subsidiaries and was also secured against the Company and its subsidiaries' assets.

Concurrent with the execution of the Amended Loan, Aurcana entered into offtake agreements ("New Offtakes") with Orion in respect of 100% of the copper, zinc, and lead concentrates produced at its La Negra mine for the period from January 1, 2017 to December 31, 2020 (concentrates also have silver content). The Company agreed to sell the concentrates to Orion under the New Offtakes at the prices selected by Orion as an average day spot price for any one of the 10 days following the delivery.

Loan Restructure

The amendment of the Original Loan agreement, termination of the Original Offtake agreement and the New Offtake agreements signed were accounted for as an extinguishment of the Original Loan, Original Offtake and related derivative liabilities. The Original Loan was a hybrid instrument, containing a debt host component and two embedded derivatives – prepayment and interest floor options that require separation as derivatives and that were recorded at fair value. The Original Offtake agreement contained a written price option derivative that was carried at fair value.

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

9. Borrowings (continued)

Immediately before the restructure of the Original Loan, the carrying value of the Original Loan debt host was \$35.3 million, and the fair value of the Original Offtake derivative and the Original Loan prepayment and interest rate floor derivatives was \$12.7 million. Fair value of the Amended Loan debt host as the date of the restructure was \$35.5 million and the fair value of the New Offtakes and Amended Loan derivative liabilities was \$3.9 million. The Company also issued shares with an aggregate fair value of \$10.3 million in consideration for the settlement of the Original Loan and termination of the Original Offtake agreement.

As a result of the 2014 loan restructure, the Company recognized the following costs:

Loss on loan restructure	\$	1,875,112
Legal fees		938,529
	\$	<u>2,813,641</u>

Loan Modification

In order to improve Aurcana's liquidity in the short term, in July 2014, Orion agreed to defer principal and interest payments on the Amended Loan for July 31st, August 31st, and September 30th, 2014 amounting to approximately \$3.1 million. This amount was amortized over the remainder of the loan period commencing October 2014. In return, the Company extended the New Offtakes by one year, to December 31, 2021. This amendment was accounted for as a modification of the Amended Loan with the resulting changes in the value of the expected cash flows applied to the carrying balance of the loan.

Debt host and embedded derivatives

The New Offtake derivative is a written option and is carried at fair value through profit and loss ("FVTPL"). The Amended Orion loan is a hybrid instrument, containing a debt host component and two embedded derivatives – a prepayment and interest floor options that require separation as derivatives. These features were recorded at fair value at origination.

The debt host component is classified as other financial liability and is measured at amortized cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. 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. Accretion of \$3.6 million has been recognized for the year ended December 31, 2015 (2014 - \$3.9 million).

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

9. Borrowings (continued)

Loan Extinguishment

Orion permitted the Company to make interest only payments and defer until August 2015, payments on the principal amount owed from January to July 2015 under the Amended Loan. The Company was unable to meet its payment obligations to Orion for the months of August and September 2015, resulting in a breach of the terms of the Amended Loan.

During the last quarter of 2015, the Company entered into a support agreement and an arrangement agreement with Orion to effect a restructuring transaction (the “Restructuring Transaction”) under which all of the debt obligations due and in default under the Amended Loan would be extinguished in exchange for the Company’s interest in its Mexican subsidiary that owns the La Negra mine. The Restructuring Transaction was implemented on January 7, 2016 (note 5).

10. Provision for Environmental Rehabilitation

The Company has accrued an estimated liability related to reclamation and closure costs at Shafter based on the anticipated total future remediation cost in the amount of \$479,838 (December 31, 2015 - \$479,838). Due to the uncertainty of when the reclamation will take place, the Company did not apply any discount rate or inflation rate (December 31, 2015 – nil %).

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 is as follows:

	March 31 2016	December 31 2015
	<u> </u>	<u> </u>
Environmental rehabilitation, beginning of the year	\$ 479,838	\$ 1,946,338
Change in estimates	-	(233,007)
Accretion	-	98,184
Transfer to Liabilities associated with assets held for sale (note 5)	-	(1,331,677)
Environmental rehabilitation, end of the period	<u>\$ 479,838</u>	<u>\$ 479,838</u>

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

11. Equity

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

Share issuance details:

	Number of Common Shares	Amount
Balance, December 31, 2013	58,412,564	\$ 168,678,333
Debt restructuring	16,499,501	10,333,333
Private placement	9,732,908	3,525,944
Share Issue Costs	-	(723,256)
Balance, December 31, 2014, 2015 and March 31, 2016	84,644,973	181,814,354

On June 20, 2014 the Company issued an aggregate of 9,200,000 units (each a "Unit") of the Company at a purchase price of Cdn\$0.55 per Unit for gross proceeds to the Company of Cdn\$5,060,000 (the "Offering"). Each Unit consists of one common share of the Company and one common share purchase warrant (each a "Warrant"). Each Warrant entitles the holder to purchase an additional common share of the Company at an exercise price of Cdn\$0.80 per Warrant for a period of 36 months from the closing of the Offering. The Company paid to the underwriter in respect of the Offering (the "Underwriter") a commission of 6% of the gross proceeds of the Offering, which was paid by the issuance of an aggregate of 532,908 Units. In addition, the Company issued to the Underwriter a compensation warrant which entitles the Underwriter to purchase up to 532,908 common shares of the Company (equal to 6% of the number of Units sold under the Offering), exercisable at an exercise price of C\$0.55 for a period of 24 months from the closing of the Offering. See below for fair value assumptions.

Stock options

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

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

11. Equity (continued)

<u>Stock options</u>	Number of Common Share Purchase Options	Weighted Average Exercise Price per Share (\$CDN)
Balance, December 31, 2014	2,415,625	6.23
Expired	(1,031,250)	6.22
Balance, December 31, 2015	1,384,375	6.24
Granted	4,950,000	0.17
Expired	(356,250)	6.22
Forfeited	(459,375)	5.97
Balance, March 31, 2016	<u>5,518,750</u>	<u>0.82</u>

Outstanding	Vested	Exercise Price (\$CDN)	Expiry Date
275,000	275,000	\$ 5.52	May 30, 2016
18,750	18,750	\$ 5.60	December 5, 2016
165,625	165,625	\$ 8.16	June 11, 2017
12,500	12,500	\$ 7.76	December 6, 2017
96,875	96,875	\$ 6.32	February 28, 2018
4,950,000	4,950,000	\$ 0.17	March 2, 2021
<u>5,518,750</u>	<u>5,518,750</u>	<u>\$ 0.82</u>	

Stock based compensation

For the period ended March 31, 2016 the stock-based compensation expense was \$353,387 (2015: \$4,026). Fair value of stock options granted as above is calculated using the following weighted average assumptions

	March 31 2016	December 31 2015
Risk-free interest rate	0.70%	-
Expected stock price volatility	91.73%	-
Expected dividend yield	n/a	-
Expected option life in years	4.9	-

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

11. Equity (continued)

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants
Balance, December 31, 2013	6,805,231
Issued	10,265,816
Expired	<u>(6,511,481)</u>
Balance, December 31, 2014	10,559,566
Expired	<u>(293,750)</u>
Balance, December 31, 2015 and March 31, 2016	<u><u>10,265,816</u></u>

As of March 31, 2016 details of outstanding common shares purchase warrants are as follows:

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

12. Related Party Transactions

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

a) Trading transactions

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

	Note	March 31 2016	March 31 2015
Technical and consulting fees	(i)	\$ 5,756	\$ 7,714

i) To a company controlled by a director of the Company.

AURCANA CORPORATION
Notes to Consolidated Financial Statements
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12. Related Party Transactions (continued)

b) Compensation of key management personnel

	March 31 2016	March 31 2015
Consulting fees (as above)	\$ 5,756	\$ 7,714
Directors' fees	22,224	56,196
Officer salaries	109,298	120,851
Stock-based compensation	353,387	4,026
	<u>\$ 490,665</u>	<u>\$ 188,787</u>

c) As a result of the 2014 Orion loan amendment, the Company issued shares to Orion resulting in it becoming a significant shareholder and related party to the Company. Transactions with Orion:

	March 31 2016	March 31 2015
Repayment of loan principal (Note 18)	\$ 40,223,056	\$ -
Additional advance for loan facility	-	-
Payment of interest	-	588,925
Accrued interest	-	-
	<u>\$ 40,223,056</u>	<u>\$ 588,925</u>

13. Commitments and contingencies

Head office lease

Effective May 1, 2014, the Company executed a lease agreement for new office space for a period of 48 months, expiring on April 30, 2018. The minimum monthly payment is \$9,178. Subsequent the year end, in April, 2016 the Company subleased such premises for \$7,489 per month and moved to a new location. The new head office has a monthly lease cost of \$3,571 for a period of 36 months, expiring March 31, 2019.

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13. Commitments and contingencies (continued)

Property Taxes

Included in accounts payable is \$0.7 million in property taxes owed on the Shafter property for 2013, 2014 and 2015. During the quarter ended September 30, 2015, the Company and state officials agreed on a payment plan to settle the outstanding 2013 and 2014 balances through 24 equal monthly payments of \$28,000 commencing July 30, 2015.

Class action

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

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

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

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

	Total	2016	2017	2018	2019
	\$	\$	\$	\$	\$
Rent	\$ 141	\$ 41	\$ 46	\$ 46	\$ 8

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13. Commitments and contingencies (continued)

Claims to the Company

A pipeline development has been proposed by Trans-Pecos Pipeline, LLC (“Trans Pecos”) that will transport natural gas between the Permian Basin and Presidio, Texas for delivery to customers in Chihuahua, Mexico. The proposed route of the pipeline passes through the Shafter property. As currently surveyed, the proposed route is not expected to materially impact upon any possible resumption of mining activities in the near-term, but its longer-term impact on mining and exploration is uncertain. The Company has been in discussions with representatives of Trans Pecos concerning safety, the near and long-term impacts of a pipeline on the Company and Shafter, and the route of the pipeline easement itself. On March 30 2016 the Company was made aware that Trans Pecos has launched a suit against RGMC in order to acquire the proposed right-of-way through eminent domain. The Company is surprised that Trans Pecos has chosen eminent domain instead of concluding the advanced negotiations between the parties, but intends to defend its rights to fair compensation and indemnification against any future cost or loss caused by the proximity of the proposed pipeline to the Company’s Shafter operations.

14. Supplemental Cash Flow Information

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

	March 31	December 31
	2016	2015
Cash	\$ 586,658	\$ 236,239
Short-term investments	<u>57</u>	<u>62</u>
	\$ 586,715	\$ 236,301
Cash and bank balances included in a disposal group held for sale	<u>-</u>	<u>53,579</u>
	\$ 586,715	\$ 289,880

Supplemental disclosures of cash flow information for the year ended:

	March 31	December 31
	2016	2014
Cash interest paid	\$ -	\$ 1,374,157
Amounts receivable from equipment sold	<u>1,140,000</u>	<u>-</u>

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14. Supplemental cash flow information (continued)

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

Non-cash investing and financing activities are as follows:

	<u>2016</u>	<u>2015</u>
Decrease in accounts payable related to construction in progress and equipment suppliers	\$ (71,248)	\$ (838,849)

15. Segmented Information

The reportable operating segments have been identified as the Shafter Project, Corporate and other segments and the discontinued operations of the La Negra mine. 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.

<u>March 31, 2016</u>	Shafter	Corporate and other segments	Total Continuing Operations	La Negra (Discontinued Operations)	Total
Sales & Consulting fees to external customers	\$ -	\$ 80,000	\$ 80,000	\$ -	\$ 80,000
Shafter mine Care & Maintenance cost	99,616	-	99,616	-	99,616
G&A expenses and other expense	519	594,216	594,735	-	594,735
Loss before income taxes	(100,135)	(514,216)	(614,351)	-	(614,351)
Income tax expense	-	-	-	-	-
Income for the period from discontinued operation	-	2,282,964	2,282,964	-	2,282,964
Net income (loss) for the period	(100,135)	1,768,748	1,668,613	-	1,668,613
Intersegment charges	-	-	-	-	-
Property, plant and equipment	6,858,884	6,542	6,865,426	-	6,865,426
Mineral properties	9,500,000	(9,500,000)	-	-	-
Total capital assets	16,358,884	(9,493,458)	6,865,426	-	6,865,426
Total assets	16,474,500	2,703,989	19,178,489	-	19,178,489
Total liabilities	951,351	705,935	1,657,286	-	1,657,286

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15. Segmented Information (continued)

March 31, 2015	Shafter	Corporate and other segments	Total Continuing Operations	La Negra (Discontinued Operations)	Total
Sales to external customers	\$ -	\$ -	\$ -	\$ 8,037,517	\$ 8,037,517
Mining operating expenses	-	-	-	6,224,127	6,224,127
Royalties	-	-	-	-	-
Freight and delivery	-	-	-	391,534	391,534
Depreciation and amortization	-	-	-	1,224,154	1,224,154
Depletion of mineral properties	-	-	-	86,433	86,433
Loss from mine operations	-	-	-	(168,301)	(168,301)
Impairment of PP&E and mining interests	-	-	-	-	-
Shafter mine Care & Maintenance cost	423,812	-	423,812	-	423,812
G&A expenses and other (income) expense	10,758	3,552,281	3,563,039	(72,688)	3,490,351
Loss before income taxes	(434,570)	(3,552,281)	(3,986,851)	(95,613)	(4,082,464)
Income tax expense	-	19,129	19,129	-	19,129
Net loss for the period	(434,570)	(3,571,410)	(4,005,980)	(95,613)	(4,101,593)
Intersegment charges (recovery)	-	(1,137,431)	(1,137,431)	1,137,431	-
Property, plant and equipment	11,442,509	31,049	11,473,558	49,980,950	61,454,508
Mineral properties	14,000,000	-	14,000,000	3,242,743	17,242,743
Total capital assets	25,442,509	31,049	25,473,558	53,223,693	78,697,251
Total assets	25,996,201	8,087,193	34,083,394	60,527,933	94,611,327
Total liabilities	1,385,539	40,799,284	42,184,823	18,930,858	61,115,681

16. General and administrative costs

	Three months ended March 31,	
	2016	2015
Salaries and consulting fees	\$ 220,382	\$ 350,175
Professional fees	16,518	84,139
Investor relations	7,094	25,355
Marketing	962	7,909
Listing and filing fees	121	9,028
Other	76,004	131,828
	<u>\$ 321,081</u>	<u>\$ 608,434</u>

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17. Financing expense and other

	Three months ended March 31,	
	2016	2015
	<u> </u>	<u> </u>
Accretion of provision for environmental rehabilitation	\$ -	\$ 24,734
Accretion of Orion loan	-	497,695
Financing expense and bank charges	<u>1,612</u>	<u>606,890</u>
	<u>\$ 1,612</u>	<u>\$ 1,129,319</u>

18. Restructuring transaction - discontinued operations

On January 7, 2016, the Company completed the Restructuring Transaction under which all of the Company’s debt obligations to Orion, as lender under the Amended Loan (Note 9), were extinguished pursuant to proceedings under the *Canada Business Corporations Act* (the “CBCA Proceedings”) commenced and announced by the Company on October 30, 2015.

The Restructuring Transaction had the following key elements:

- a) All of the debt obligations due and in default under the Facility were exchanged for the Company’s interests in the La Negra mine, resulting in the elimination of \$40.2 million of principal amount of secured debt (Note 9);
- b) A newly incorporated affiliate of the Lender (“Newco”) purchased certain non-core equipment from the Company’s Shafter property for a total purchase price of \$3.5 million; on December 2015, Orion advanced \$185,000, and on January 7, 2016 a second payment was received in the amount of \$2,175,000.
- c) Newco will pay the Company US\$40,000 per month for a total period of 12 months for certain consulting services to be provided to Newco by specified officers of the Company in connection with the operation of the La Negra mine; and

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18. Restructuring transaction - discontinued operations (continued)

The Company will retain all of its other assets, including the Shafter mine, with no dilution to shareholders.

	Three months ended March 31,	
	2016	2015
Discontinuing Operations		
Orion transaction		
Borrowings (Orion loan)	\$ 40,223,056	\$ -
Net value of Assests held for sale La Negra	37,940,092	-
Loss from mining operations	-	168,301
income from discontinued operations	\$ 2,282,964	\$ (168,301)
Assets held for sale La Negra sold	\$ 56,663,562	\$ -
Liabilities associated with assets held for sale	18,723,470	-
Net value of Assests held for sale La Negra	\$ 37,940,092	\$ -

19. Subsequent events

Aurcana Corporation has initiated a Preliminary Economic Assessment (“PEA”) of the Company’s 100% owned Shafter Silver Project, in Presidio County, Texas. The PEA will provide a base-case assessment for the development of the existing mineral resource utilizing current mining infrastructure, including the existing shaft and permitted mill and tailings facilities. The objective of this study is to determine the potential economic viability of the mineral resources at Shafter along with a level of cost indication sufficient to proceed to the next level of evaluation. Completion of the PEA is expected in Q3 2016.