AURCANA CORPORATION

Consolidated Financial Statements

December 31, 2018

Expressed in United States dollars unless otherwise stated

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Independent Auditor's Report

MNP LLP

To the Shareholders of Aurcana Corporation:

Opinion

We have audited the consolidated financial statements of Aurcana Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018,December 31, 2017 and January 1, 2017, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2018 and 2017, 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 Company as at December 31, 2018, December 31, 2017 and January 1, 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 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 Company 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $5,600,681 during the year ended December 31, 2018 and, as of that date, had an accumulated deficit of $89,257,206. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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 Company 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 Joseph J. Chirkoff.

Vancouver, British Columbia

April 30, 2019

MNP LLP

Chartered Professional Accountants

Aurcana Corporation

Consolidated Statements of Financial Position

(Expressed in United States dollars)

	Notes	December 31 2018	December 31 2017	January 1 2017
Assets				
Current assets				
Cash and cash equivalents	18	$ 4,464,236	$ 151,468	$ 164,270
Trade and other receivables	5	299,221	35,500	20,134
Inventories	6	142,382	142,382	142,382
Prepaid expenses and advances	7	409,181	325,333	616,249
		5,315,020	**654,683**	**943,035**
Non Current assets				
Non-current prepaid expenses	7	5,111	-	-
Long term deposits		71,933	71,933	71,933
Property, plant and equipment	8	23,315,555	13,869,666	14,389,431
Mineral Properties	9	41,160,594	27,501,967	27,501,967
Reclamation deposits	10	480,769	482,903	484,796
		$ 70,348,982	**$ 42,581,152**	**$ 43,391,162**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	11	$ 1,833,660	$ 807,368	$ 803,934
Capital lease obligation		-	-	28,640
Deferred revenue	12	66,747	-	-
		1,900,407	**807,368**	**832,574**
Non Current liabilities				
Provision for environmental rehabilitation	14	1,120,270	196,063	179,463
Metal prepay agreement	16	-	50,783,842	50,675,763
Interest payable in commodities	16	-	29,238,224	14,773,138
		3,020,677	**81,025,497**	**66,460,938**
Equity	15			
Share capital		25,594,154	-	-
Contributed surplus		131,413,617	45,212,179	39,329,179
Acumulated other comprehensive loss		(433,425)	-	-
Deficit		(89,257,206)	(83,656,524)	(62,398,955)
Total equity attributable to equity holders of the parent		67,317,140	(38,444,345)	(23,069,776)
Non-controlling interest		11,165	-	-
Total equity		**67,328,305**	**(38,444,345)**	**(23,069,776)**
		$ 70,348,982	**$ 42,581,152**	**$ 43,391,162**

Nature of Operations and Going Concern (Note 1)
Commitments and Contingencies (Note 17)
First-time adoption of IFRS (Note 25)
Subsequent Events (Note 26)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

"Jose Manuel Borquez"	*"Michael P. Gross"*
Director	***Director***

(Expressed in United States dollars, unless otherwise stated)

	Notes	Twelve months ended December 31, 2018	2017
Expenses			
Financing expense and others	20	**$ 25,330**	$ 14,492,011
Depreciation and amortization	22	**1,593,248**	1,642,970
Care & maintenance costs		**3,445,471**	5,089,732
Other items			
Impairment on property, plant and equipment	21	**490,110**	-
Other loss		**46,523**	32,856
Net loss for the year before other comprehensive items		**(5,600,682)**	**(21,257,569)**
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Current translation adjustment		**(433,425)**	**-**
Total other comprehensive loss for the year		**(433,425)**	**-**
Total comprehensive loss for the year		**$ (6,034,107)**	**$ (21,257,569)**
Weighted average number of shares diluted		**83,602,757**	139,409
Loss per share (basic & diluted)		**$ (0.07)**	$ (152)

See accompanying notes to these consolidated financial statements.

(Expressed in United States dollars, unless otherwise stated)

	Share Capital #	Share Capital $	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Shareholders of the Company	Non-controlling Interest	Total Equity
Balance, December 31, 2016	83,240,359	$ -	$ 39,329,179	$ -	$ (62,398,955)	$ (23,069,776)	$ -	$ (23,069,776)
Net loss for the year	-	-	-	-	(21,257,569)	(21,257,569)	-	(21,257,569)
Additional paid in capital	-	-	5,883,000	-	-	5,883,000	-	5,883,000
Balance, December 31, 2017	83,240,359	-	45,212,179	-	(83,656,524)	(38,444,345)	-	(38,444,345)
Net loss for the year	-	-	-	-	(5,600,682)	(5,600,682)	-	(5,600,682)
Additional paid in capital (note 4 and 16d)	-	-	4,478,701	-	-	4,478,701	-	4,478,701
Common shares post consolidation (note 4)	26,776,669	22,574,081	-	-	-	22,574,081	11,165	22,585,246
Private placement (note 15)	6,292,000	3,020,073	1,592,592	-	-	4,612,665	-	4,612,665
Metal prepaid agreement cancelation (note 16)	-	-	80,130,145	-	-	80,130,145	-	80,130,145
Currency translation adjustment	-	-	-	(433,425)	-	(433,425)	-	(433,425)
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

See accompanying notes to these consolidated financial statements.

(Expressed in United States dollars, unless otherwise stated)

	Twelve months ended December 31, 2018	2017
Cash flows from operating activities		
Net loss for the year	**$ (5,600,682)**	$ (21,257,569)
Items not involving cash:		
Depreciation and amortization	**1,593,248**	1,642,970
Accretion of assets retirement obligation	**18,136**	16,600
Loss on sale of property, plant and equipment	**49,298**	55,412
Impairment of property, plant and equipment	**490,110**	-
Non-cash interest payable in commodities	**-**	14,465,088
Operating cash flow before changes in working capital	**(3,449,890)**	(5,077,499)
Net changes to non-cash working capital balances		
Trade and other receivables	**35,500**	(15,366)
Prepaid expenses and advances	**(165,600)**	290,916
Deferred revenue	**66,747**	-
Accounts payable and accrued liabilities	**(1,299,737)**	3,433
Cash used in operating activities	**(4,812,980)**	(4,798,516)
Cash flows from investing activities		
Reclamation deposits	**2,134**	1,893
Proceeds from the sale of equipment	**1,000**	142,617
Purchase of property, plant and equipment	**(1,324,216)**	(1,213,156)
Cash used in investing activities	**(1,321,082)**	(1,068,646)
Cash flows from financing activities		
Acquisition of Aurcana cash as part of the transaction (note 4)	**855,464**	-
Repayment of long term debt	**-**	(28,639)
Proceeds from Lascaux before transaction (note 16d)	**4,478,701**	5,883,000
Private placement (note 4)	**5,112,665**	-
Cash provided by financing activities	**10,446,830**	5,854,361
Increase in cash and cash equivalents	**4,312,768**	(12,801)
Cash and cash equivalents, beginning of the year	**151,468**	164,269
Cash and cash equivalents, end of the year	**$ 4,464,236**	$ 151,468

Supplemental Cash Flow information (Note 18)

See accompanying notes to these consolidated financial statements.

1. Nature of Operations and Going Concern

On December 27, 2018, Aurcana Corporation (referred to herein collectively with its subsidiaries as the "Company" or "Aurcana") completed a reverse takeover transaction with Ouray Silver Mines, Inc. ("OSM") - see Note 4. 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"). The Company is currently engaged in the exploration, development and operation of natural resource properties. The Company's development properties are the Revenue-Virginius Mine ("Ouray"), located in Colorado through the Company's 100% owned US subsidiary, OSM, and the Shafter silver property ("Shafter"), located in Presidio County, Texas through the Company's 100% owned US subsidiary, Aurcana US Hold 1 Co Ltd. Both Ouray and Shafter are currently on "care and maintenance".

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.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business. The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities. Several adverse conditions and material uncertainties, including, without limitation, low metal prices, may cast significant doubt upon the Company's ability to continue as a going concern. As at December 31, 2018, the Company had working capital of $3,414,613, compared with negative $152,685 as at December 31, 2017.

The company incurred a net loss of $5,600,681 for the year ended December 31, 2018 (Year ended December 31, 2017 - $21,257,569) and has accumulated a deficit of $89,257,206 since the inception of the company. The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital to continue the development of the Revenue-Virginius Mine and Shafter.

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 30, 2019.

(Expressed in United States dollars, unless otherwise stated)

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, Cane Silver Inc., a Barbados corporation, and Perforadora Aurcana S.A. 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.

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, 2018:

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 Corporation	Canada	Holding Company	100%	-
→ Cane Silver Inc.	Barbados	Intermediate 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	USA	Intermediate Holding Company	100%	-
→ Rio Grande Mining Company	USA	Mining Operations	100%	-
→ Shafter Properties Inc.	USA	Property Holding Company	100%	-
→ Aurcana US Hold 2 Co Ltd	USA	Intermediate Holding Company	100%	-
→ Aurcana US Ltd	USA	Intermediate Holding Company	100%	-
→ Ouray Silver Mines, Inc.	USA	Mining Company	100%	-

3. Summary of Significant Accounting Policies (continued)

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 it entity operates. The Consolidated Financial Statements are presented in US Dollar.

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 balance sheets are translated using the exchange rate at that date.

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

- monetary items are translated at the closing rate in effect at the consolidated balance sheet date;
- 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);

3. Summary of Significant Accounting Policies (continued)

- All resulting foreign exchange gains or losses are recognized in statements of loss and comprehensive loss as foreign exchange translation adjustments.

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

Name	Country of Incorporation	Functional Currency
Aurcana Corporation	Canada	CAD
Cane Silver Inc.	Barbados	USD
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
Rio Grande Mining Company	U.S.	USD
Shafter Properties Inc.	U.S.	USD
Aurcana US Hold 2 Co Ltd	U.S.	USD
Aurcana US 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.

3. Summary of Significant Accounting Policies (continued)

(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.

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. Properties are abandoned either when the lease expires or when management determines that no further work will be performed on the property since it has no value to the Company. When properties in an area of interest are abandoned, the costs related thereto are charged to income on a pro-rata basis to the total costs to date included in the area, in the year of abandonment.

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

Expenditures for new facilities, assets acquired pursuant to capital leases 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, lease term, or the useful life of the individual assets.

3. Summary of Significant Accounting Policies (continued)

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

Intangible Assets and Software	4 years
Computer	5 years
Furniture and Fixtures	5 years
Equipment and Vehicles	7 years
Surface Facilities	39 years

The depreciation method, useful life and residual values are reviewed annually.

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 exploration and evaluation assets 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.

3. Summary of Significant Accounting Policies (continued)

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.

Provisions

(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 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 at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged against earnings over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision.

Financial Instruments

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.

3. Summary of Significant Accounting Policies (continued)

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 an other receivables and reclamation deposits are classified as and measured at amortized cost.

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.

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.

3. Summary of Significant Accounting Policies (continued)

Financial liabilities
Financial liabilities, including accounts payable and accrued liabilities are recognized initially at fair value, net of transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statements of loss and comprehensive loss when the liabilities are derecognized. Accounts payable and accrued liabilities are classified as and measured at amortized cost.

Derecognition of financial assets and liabilities
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. The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expelled. The financial liability derecognized, and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of loss and comprehensive loss.

Fair values
The fair value of quoted investments is determined by reference to market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis; and, pricing models.

Impairment of financial assets

Financial assets carried at amortized cost are assessed at each financial statement 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, long term deposits 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").

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.

3. Summary of Significant Accounting Policies (continued)

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.

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.

Leases

Leases which transfer substantially all of the benefits and risks incidental to the ownership of property are accounted for as finance leases. Assets under finance lease are originally capitalized at the lower of the fair market value of the leased property and the net present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

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 assumed conversion of debt and 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.

3. Summary of Significant Accounting Policies (continued)

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.

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.

3. Summary of Significant Accounting Policies (continued)

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 and Going Concern 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.

Changes in these inputs may alter the Company’s ability to meet its ongoing obligations and future contractual commitments and could result in adjustments to the amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern (Note 1).

(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 mining assets 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.

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 off in profit or loss in the period when the new information becomes available.

3. Summary of Significant Accounting Policies (continued)

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 proven and probable reserves. It is possible that the Company's estimate of proven 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.

(v) Units of Production Depreciation and Useful Life

Estimated recoverable resources are used in determining the amortization of mine specific assets. 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.

3. Summary of Significant Accounting Policies (continued)

Adoption of new and revised IFRS policies

The following standards have been adopted by the Company as of January 1, 2018:

Amendment to IFRS 3, Definition of a Business Combination (Amendments), was issued by the International Accounting Standards Board (IASB) on October 22, 2018, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in December 2018. The amendments clarify the definition of a business, permitting a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Earlier application is permitted. The Company has made an early adoption of the amendment in accounting for the reversal takeover transaction.

IFRS 9, Financial instruments ("IFRS 9"), addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement. The standard is effective for accounting periods beginning on January 1, 2018. The adoption of the IFRS 9 had no impact on the Company's consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on January 1, 2018. The adoption of the IFRS 15 had no impact on the Company's consolidated financial statements

New and revised IFRS and IFRS not yet effective

Certain pronouncements were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after December 31, 2018. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the discussion below.

3. Summary of Significant Accounting Policies (continued)

IFRS 16, Leases ("IFRS 16") which supersedes IAS 17 –Leases. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, has also been applied. Management is assessing the impact of IFRS 16.

4. Reverse Takeover Transaction

On December 27, 2018, Aurcana completed a reverse takeover transaction pursuant to a plan of arrangement under the CBCA (the "Arrangement") with OSM, which holds the "Revenue-Virginius Mine" located in Colorado, pursuant to an arrangement agreement dated September 20, 2018 between the Company and LRC-FRSM LLC and LRC-FRSM II LLC (collectively, the "LRC Group"). Under the Arrangement, Aurcana acquired all of the issued and outstanding shares of common stock of OSM from the LRC Group on a debt free basis in exchange for newly issued common shares of Aurcana ("Aurcana Shares").

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

a) the purchase of certain equipment owned by an affiliate of Orion Mine Finance ("Orion") located at Aurcana's Shafter project in exchange for USD $500,000 and 23,894,545 pre-Share Consolidation (as defined below) Aurcana Shares;

b) a consolidation (the "Share Consolidation") of the Aurcana Shares on a 5:1 basis; and

c) the acquisition of all of the issued and outstanding shares of common stock of OSM and a related amended and restated metal prepay agreement between OSM and the LRC Group in exchange for an aggregate of 83,240,359 post-Share Consolidation Aurcana Shares, as a result of which OSM became a wholly-owned indirect subsidiary of Aurcana.

Concurrently with the completion of the Arrangement, the 5,621,800 subscription receipts issued by the Company at CAD$1.00 on December 19, 2018 automatically converted into 5,621,800 units (each, a "Unit") of the Company, with each Unit consisting of: (i) one post-Share Consolidation Aurcana Share and (ii) a warrant to purchase one post-Share Consolidation Aurcana Share (a "Warrant"). Each Warrant entitles the holder thereof to acquire, on payment of C$1.25, one post-Share Consolidation Aurcana Share for a three-year period, expiring on December 27, 2021.

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

4. Reverse Takeover Transaction (continued)

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

The fair value of the consideration, calculated as $22,574,081, is determined based on the percentage of ownership of the merged entity that was transferred to the shareholders of Aurcana upon completion of the Arrangement. This value represents the fair value of the number of shares that OSM would have had to issue for the ratio of ownership interest in the combined entity to be the same as if the Arrangement had taken the form of OSM acquiring 100% of the shares of Aurcana. The percentage of ownership Aurcana shareholders has in the combined entity is 24% after the consolidation of its existing 26,776,786 issued and outstanding shares prior to the transaction with the 83,240,359 newly issued shares of Aurcana held by OSM as of December 27, 2018. The fair value of the Arrangement is based on the stock price at the transaction date of CAD$1.15 (USD $0.84) occurring in conjunction with the Arrangement to arms length parties of Aurcana.

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

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

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

(Expressed in United States dollars, unless otherwise stated)

4. Reverse Takeover Transaction (continued)

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

Consideration given:	
Shares issued	26,776,669
Value per share	$0.8430
Total consideration	$22,574,081

Assets and liabilities acquired:	$
Cash	$855,464
Other assets	$386,084
Property and equipment	$10,647,250
Mineral property	$12,663,526
Accounts payable	$(1,334,243)
Asset retirement obligation	$(644,000)
	$22,574,081

5. Trade and Other Receivables

	December 31 2018	December 31 2017	January 1 2017
Equipment sales receivable	**140,000**	-	-
Other receivables	**159,221**	35,500	20,134
	$ 299,221	$ 35,500	$ 20,134

6. Inventory

Company's inventory are all located in U.S. and they are all consumable and supplies, which consist of spare parts and consumable goods used for general repairs and maintenance.

7. Prepaid expenses and advances

	December 31 2018	December 31 2017	January 1 2017
Prepaid expenses	**$ 408,681**	$ 315,468	$ 608,016
Other	**500**	9,865	8,233
Current portion	**409,181**	325,333	616,249
Non-current portion	**5,111**	-	-
	$ 414,292	$ 325,333	$ 616,249

(Expressed in United States dollars, unless otherwise stated)

8. Property, Plant and Equipment

	Buildings	Plant and Equipment	Mine Development Cost	Vehicles	Computer Equipment	Other	Total
Cost							
Balance at December 31, 2016	5,219,341	8,624,267	2,627,048	145,708	231,619	399,961	17,247,944
Additions	8,475	147,375	932,420	44,735	80,151	2,442	1,215,598
Disposals	-	(288,996)	-	(37,175)	-	-	(326,171)
Balance at December 31, 2017	5,227,816	8,482,646	3,559,468	153,268	311,770	402,403	18,137,371
Additions		10,000	824,215	-	-	-	834,215
Disposals	-	(117,170)	-	(12,142)	-	-	(129,312)
OSM balance before transaction	5,227,816	8,375,476	4,383,683	141,126	311,770	402,403	18,842,274
Property and Equipment (Note 4)	1,066,685	2,033,514	3,443,628	29,863	7,466	123,187	6,704,343
Equipment from Orion due to transaction	-	3,942,907	-	-	-	-	3,942,907
Balance at December 31, 2018	6,294,501	14,351,897	7,827,311	170,989	319,236	525,590	29,489,524
Accumulated depreciation							
Balance at December 31, 2016	289,380	2,193,513	-	51,490	145,202	178,928	2,858,513
Change for the year	133,817	1,107,117	-	11,271	76,507	80,480	1,409,192
Balance at December 31, 2017	423,197	3,300,630	-	62,761	221,709	259,408	4,267,705
Additions	134,826	1,206,941	-	29,178	33,744	80,481	1,485,170
Disposals	-	(60,778)	-	(8,238)	-	-	(69,016)
OSM balance before transaction	558,023	4,446,793	-	83,701	255,453	339,889	5,683,859
Impairment	444,793	-	-	-	45,317	-	490,110
Balance at December 31, 2018	1,002,816	4,446,793	-	83,701	300,770	339,889	6,173,969
Net book value							
Balance at December 31, 2016	4,929,961	6,430,754	2,627,048	94,218	86,417	221,033	14,389,431
Balance at December 31, 2017	4,804,619	5,182,016	3,559,468	90,507	90,061	142,995	13,869,666
Balance at December 31, 2018	5,291,685	9,905,104	7,827,311	87,288	18,466	185,701	23,315,555

Shafter and Revenue-Virginius Mines are in care and maintenance and there is no production activity. Therefore, Mine Development Cost is not subject to amortization. All property, plant and equipment assets are located in the United States of America.

During the year ended December 31, 2018 the Company disposed of Plant and Equipment and Vehicles with a carrying value of $129,312 (2017 - $326,171). The loss on disposal was recorded in the other loss line item in the consolidated statement of comprehensive loss.

(Expressed in United States dollars, unless otherwise stated)

9. Mineral Properties

	Revenue-Virginius, Colorado, USA, In care & Maintenance	Shafter, Texas, USA, In Care & Maintenance	Total
Balance at December 31, 2016 and 2017	27,501,967	-	27,501,967
Mineral properties from Aurcana due to transaction (Note 4)	-	12,663,526	12,663,526
Capitalized transaction cost	-	733,030	733,030
Provision from environmental rehabilitation (note 14)	262,071	-	262,071
Balance at December 31, 2018	$ 27,764,038	$ 13,396,556	$ 41,160,594
Net book value			
Balance at December 31, 2016 and 2017	27,501,967	-	27,501,967
Balance at December 31, 2018	27,764,038	13,396,556	41,160,594

10. 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.

11. Accounts Payable and Accrued Liabilities

	December 31 2018	December 31 2017	January 1 2017
Salaries, payroll deductions and employee benefits	$ 466,931	$ 101,693	$ 191,321
Property taxes	120,942	146,652	139,321
Surface Exploration	58,682	14,232	-
Insurance	260,111	218,463	361,314
Transaction cost related to RTO	759,949	-	-
Other	167,045	326,328	111,978
	$ 1,833,660	$ 807,368	$ 803,934

Accounts payable and accrued liabilities include related party amounts. See note 14.

(Expressed in United States dollars, unless otherwise stated)

12. Deferred revenue

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, three contiguous oil and gas leases (the "Leases") have been assigned by SAI to the Assignee for a three-year term, plus any further period during which oil or gas production takes place on the Leases. SAI has retained a Net Revenue Interest Royalty in respect of the Leases that may provide up to 25% of the net revenues therefrom. In consideration of the Assignment, the Assignee made a cash payment of USD $374,469.41 to SAI. 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. The deferred revenue was consolidated as part of the reverse takeover transaction (see note 4). As at December 31, 2018, the balance of deferred revenue was $66,747 (2017-Nil).

13. 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:

	December 31 2018	December 31 2017
Net loss before income taxes	**$ (6,034,107)**	$ (21,257,569)
Canadian federal and provincial income tax rates	**24.66%**	37.06%
Income tax recovery based on above rates	**(1,488,011)**	(7,878,055)
Increase (decrease) due to:		
Non-deductible (taxable) items and other	**636**	-
Change in unrecognized deferred tax assets	**1,380,492**	1,515,093
Change in income tax rate	**-**	6,362,962
Income tax expense	**$ (106,883)**	$ -

The components of unrecognized deferred tax assets are as follows:

	December 31 2018	December 31 2017
Interest payable	**-**	29,238,224
Mineral property and other property, plant and equipment	**9,947,957**	8,680,228
Other items	**859,774**	196,063
	$ 10,807,731	$ 38,114,515

(Expressed in United States dollars, unless otherwise stated)

13. Income Taxes (continued)

Unrecognized tax losses:

As at December 31, 2018 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	United States	Barbados	Mexico	Total
2019	222,039	7,125,405	-	7,347,444
2020	33,069	-	-	33,069
2021	-	1,006,544	-	1,006,544
2022	14,334	626,664	796	641,794
2023	11,956	299,555	17	311,527
2024	193,820	27,545	12,019	233,384
2025	100,952	-	-	100,952
2026	164,165	-	13,090,378	13,254,543
2027	148,444	-	9,488	157,932
2028	168,559	-	-	168,559
2029	414,262	-	-	414,262
2030	247,948	-	-	247,948
2031	274,881	-	-	274,881
2032	316,214	-	-	316,214
2033	993,695	-	-	993,695
2034	7,678,870	-	-	7,678,870
2035	1,297,851	-	-	1,297,851
2036	11,225,424	-	-	11,225,424
2037	6,846,196	-	-	6,846,196
No Expiry	4,702,669	-	-	4,702,669
	$ 35,055,348	**$ 9,085,713**	**$ 13,112,698**	**$ 57,253,758**

The Company has income tax loss carry-forwards of approximately $35.0 million (2017 - $30.3 million) for United States tax purposes. These unrecognized tax losses will expire from 2019 to 2038. 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 (Note 4), which could further limit the availability of losses prior to that date.

(Expressed in United States dollars, unless otherwise stated)

14. 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, 2018 and 2017 is as follows:

	December 31 2018	December 31 2017	January 1 2017
Environmental rehabilitation, beginning of the year	**$ 196,063**	$ 179,463	$164,268
Addition in estimates from Shafter due to transaction (Note 4)	**644,000**		
Addition in estimates from Revenue - Virginius mine	**262,071**	-	-
Accretion	**18,136**	16,600	15,195
Environmental rehabilitation, end of the year	**$ 1,120,270**	$ 196,063	$179,463

The Company has recorded its best estimate of the cost to rehabilitate the know features on the mineral properties as a provision for environmental for rehabilitation for the year-ended December 31, 2018. This amounted to $1,120,270. A long term inflation rate of 2% was used in the analysis, which equated to a long-term risk-free discount rate of 2%, meaning the impact of discounting was not significant. The future cash flows required to settle this obligation involve a degree of uncertainty as there are estimates at this time.

15. Equity

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

Share issuance details:

	Number of Common Shares	Amount
Balance, December 31, 2016 and 2017	83,240,359	$ -
Reverse take over (note 4)	26,776,669	22,574,081
Private placement	6,292,000	3,020,073
Balance, December 31, 2018	116,309,028	$ 25,594,154

On December 27, 2018, the Company completed the Arrangement, which included a consolidation share on a 5:1 basis (Note 4); the number of shares have been updated to reflect this consolidation. The Company completed a non-brokered private placement of 6,292,000 subscription receipts for CAD$1.00 on December 27, 2018 which automatically converted into 6,292,000 units on closing of the Arrangement. Each unit was comprised of one post-consolidated common share and one warrant. Each warrant entitles the holder to purchase one post-consolidated common share of the Company at an exercise price of CAD$1.25 per share for a period of 36 months from the closing of the private placement.

(Expressed in United States dollars, unless otherwise stated)

15. Equity (continued)

Stock options
The Company has authorized to issue up to 2,888,219 options, of which 1,640,000 options are outstanding with a remaining balance of 1,248,219 options.

Stock options	Number of Common Share Purchase Options	Weighted Average Exercise Price per Share ($CDN)
Balance, December 31, 2016 And 2017	-	-
Aurcana stock options post consolidation	1,653,750	1.45
Expired	(13,750)	6.32
Balance, December 31, 2018	1,640,000	1.18

A summary of the Company's Option activity is presented below:

Stock options

Outstanding	**Vested**		**Exercise Price ($CDN)**	**Expiry Date**
970,000	970,000	$	0.85	March 2, 2021
80,000	80,000	$	2.00	August 5, 2021
590,000	590,000	$	1.60	April 27, 2022
1,640,000	1,640,000	$	1.18	

The weighted average remaining contractual life of stock options outstanding is 2.6 years. The values post consolidation stock options utilized the Black Scholes option pricing model. On December 27, 2018, the Company completed the Arrangement, which included a consolidation share on a 5:1 basis (Note 4).

(Expressed in United States dollars, unless otherwise stated)

15. Equity (continued)

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants	Exercise Price (CDN)
Balance, December 31, 2016 and 2017	-	
Aurcana warrants post consolidation contribution	5,285,306	$1.85
Private placement (Note 4)	5,621,800	$1.25
Orion (Note 4)	670,200	$1.25
Balance, December 31, 2018	11,577,306	$1.52

As of December 31, 2018, details of outstanding warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
2,447,746	$2.25	February 27, 2020
2,837,560	$1.50	May 3, 2021
6,292,000	$1.25	December 27, 2021
11,577,306	$1.52	

On December 27, 2018, the Company completed the Arrangement, which included a consolidation share on a 5:1 basis (Note 4). As at December 31, 2018, the weighted average remaining contractual life of warrants outstanding is 2.44 years.

(Expressed in United States dollars, unless otherwise stated)

15. Equity (continued)

The values of warrants determined during the year ended December 31, 2018 utilized the Black-Scholes option pricing model with the weight average input factors and assumptions as follows:

		December 31 2018
Risk-free interest rate		1.94%
Expected stock price volatility		88.82%
Expected dividend yield		Nil
Expected warrant life in years		3
Share price	$	1.15
Exercise price	$	1.33

16. 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 directors of the Company. Details of the transactions between the Company and its related parties are disclosed below:

a) Interest Accrued to a Related Party

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

<u>Metal Prepay Agreement</u>

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

Additionally, the entity has an obligation of $20,034,347 related to outstanding amounts. The accrual interest for the amounts owed is 9.25% per year accrued monthly and payable in SERU. All payments can also be made in cash in satisfaction for delivery units and they are multiplied by the Silver price at the period end for interest accruals.

(Expressed in United States dollars, unless otherwise stated)

16. Related Party Transactions (continued)

During the year ended December 31, 2017 the Company accrued interest of $14,475,411 related to this obligation. As at March 30, 2018 all amounts accrued, as well any future accruals, cash interests and other future payments were forgiven prior to the reverse takeover transaction (see Note 4).

b) Key Management Compensation

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

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

c) Due to Related Parties

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

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

d) Capital contributions received from a Related Party

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

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

17. Commitments and contingencies

Head office lease

The head office lease has a monthly cost of CAD$3,702, expiring March 31, 2019, and renewed for three more years with monthly cost of $4,032. See note 22. Below is a schedule of commitments due by period:

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

18. 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:

	December 31 2018	December 31 2017
Cash	**$ 4,097,343**	$ 151,468
Short-term investments	**366,893**	-
	$ 4,464,236	$ 151,468

Supplemental disclosures of cash flow information for the years ended:

	December 31 2018	December 31 2017
Equipment sale receivable	**$ 140,000**	$ -

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

(Expressed in United States dollars, unless otherwise stated)

19. 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, 2018	OSM	Shafter	Corporate and other segments	Total
Financing expense and others	$ 25,330	$ -	$ -	$ 25,330
Depreciation, depletion and amortization	1,593,248	-	-	1,593,248
Care & maintenance costs	3,445,470	-	-	3,445,470
Impairment on Property Plany and Equipment	490,110	-	-	490,110
Loss before income taxes	(5,600,681)	-	-	(5,600,681)
Net loss for the year	(5,600,681)	-	-	(5,600,681)
Property, plant and equipment	12,668,305	10,647,250	-	23,315,555
Mineral properties	27,764,038	13,396,556	-	41,160,594
Total capital assets	40,432,343	24,043,806	-	64,476,149
Total assets	41,545,422	28,743,393	60,167	70,348,982
Total liabilities	981,604	1,997,091	41,982	3,020,677

December 31, 2017	OSM	Shafter	Corporate and other segments	Total
Financing expense and others	$ 14,492,011	$ -	$ -	$ 14,492,011
Depreciation, depletion and amortization	1,642,970	-	-	1,642,970
Care & maintenance costs	5,089,732	-	-	5,089,732
Loss before income taxes	(21,257,569)	-	-	(21,257,569)
Net loss for the year	(21,257,569)	-	-	(21,257,569)
Property, plant and equipment	13,869,666	-	-	13,869,666
Mineral properties	27,501,967	-	-	27,501,967
Total capital assets	41,371,633	-	-	41,371,633
Total assets	42,581,150	-	-	42,581,150
Total liabilities	81,025,496	-	-	81,025,496

January 1, 2017	OSM	Shafter	Corporate and other segments	Total
Property, plant and equipment	$ 14,389,431	$ -	$ -	$ 14,389,431
Mineral properties	27,501,967	-	-	27,501,967
Total capital assets	41,891,398	-	-	41,891,398
Total assets	29,238,224	-	-	29,238,224
Total liabilities	66,460,937	-	-	66,460,937

(Expressed in United States dollars, unless otherwise stated)

20. Financing and Other Expense

	December 31 2018	December 31 2017	January 1 2017
Accretion of provision for environmental rehabilitation (note 14)	**$ 18,136**	$ 16,600	$ 15,195
Financing expense and bank charges	**7,194**	14,475,411	10,952,822
	$ 25,330	$ 14,492,011	$ 10,968,017

The financing expense and bank charges as of December 31, 2017 includes interest accrued for metal prepay and working capital facilities. in March 2018, the interest charge was cancelled. See Note 4.

21. Impairment

In accordance with the Company's accounting policy management performed an assessment of the recoverable amount of the equipment on site at the Revenue-Virginius Mine included in the OSM segment. The Company engaged an independent valuations expert to assess the fair value of the equipment and determined that certain assets were carried at a value in excess of the recoverable amount. The estimated recoverable amount of the equipment as at December 31, 2018 was determined using the fair value less costs of disposal. The Company recorded an impairment that totals $490,110.

22. Depreciation and amortization

	2018	**2017**
Property, Plant and Equipment		
Depreciation	1,485,170	1,409,192
Amortization on borrowing costs	108,078	233,778
Total and Depreciation Amortization	**1,593,248**	**1,642,970**

23. 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, 2018, the Company's Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in US Dollar:

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

Based on the above net exposures as at December 31, 2018, 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 $38,358 change to the Company's net income for the year.

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

		December 31, 2018
Cash and cash equivalents	MXP$	47,354
	MXP$	47,354
USD$ Equivalent		**2,406**

Based on the above net exposures as at December 31, 2018, 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 $241 change to the Company's net income for the year.

23. Financial instruments (Continued)

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

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

Other accounts receivable consists of amounts owing from the sale of mining equipment and management fees.

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.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Several adverse conditions and material uncertainties, including low metal prices, cast significant doubt upon the going concern assumption.

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.

Accounts payable and accrued liabilities are due within the current operating period.

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. See Note 1 for additional discussion of Liquidity.

23. Financial instruments (Continued)

(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 because of changes in market interest rates. The Company is exposed to interest rate risk on its bank deposits, which is insignificant due to their short-term nature.

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

(e) Fair Value:

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

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).

24. 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.

25. First-Time Adoption of IFRS

The Company's Financial Statement were prepared based in accordance with accounting principals generally accepted in United States of America. The Company adopted IFRS on January 1, 2017 as part of the Reverse Takeover transaction (Note 4). IFRS 1, First-Time Adoption of International Financial Reporting Standards, provides guidance for the initial adoption of IFRS. IFRS 1 requires retrospective application of the standards in the transition statement of financial position, with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied.

As part of the transition to IFRS 1, the Company has evaluated the impact on the Financial Statements and no material differences resulted as part of the transition and adoption of the IFRS 1. Additionally, the company has not applied exemptions permitted under IFRS 1.

26. Subsequent events

Effective April 1, 2019, the Company renewed the office lease agreement in Vancouver for a period of 36 months, expiring on March 31, 2022. The monthly lease cost is CAD$4,032. The total commitment has been included in note 17.