AURCANA CORPORATION

Consolidated Financial Statements

December 31, 2017

Expressed in United States dollars unless otherwise stated

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MNP LLP

Independent Auditors' Report

To the Shareholders of Aurcana Corporation:

We have audited the accompanying consolidated financial statements of Aurcana Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of operations, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits are sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aurcana Corporation as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the company incurred a loss of $2,061,946 during the year ended December 31, 2017 and has an accumulated deficit of $205,157,620. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

MNP LLP
Chartered Professional Accountants

Vancouver, British Columbia
April 26, 2018

Aurcana Corporation

Consolidated Statements of Financial Position

(Expressed in United States dollars)

	Notes	December 31 2017	December 31 2016
Assets			
Current assets			
Cash and cash equivalents	14	$ 721,324	$ 663,566
Trade and other receivables	4	256,598	198,962
Prepaid expenses and advances	5	123,912	71,962
Prepaid income tax		57,025	36,011
Assets held for sale		-	95,500
		1,158,859	1,066,001
Non Current assets			
Non-current prepaid expenses	5	5,558	19,445
Property, plant and equipment	6	6,958,512	6,864,610
Mineral Properties	7	10,035,202	9,500,000
		$ 18,158,131	$ 17,450,056
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	$ 163,939	$ 563,804
Deferred revenue	16	124,937	124,937
		288,876	688,741
Non Current liabilities			
Deferred revenue	16	66,747	191,684
Provision for environmental rehabilitation	10	300,838	300,838
		656,461	1,181,263
Equity	11		
Share capital		183,084,542	181,833,880
Contributed surplus		36,526,685	34,837,262
Accumulated other comprehensive income		3,036,898	2,682,160
Deficit		(205,157,620)	(203,096,130)
Total equity attributable to equity holders of the parent		17,490,505	16,257,172
Non-controlling interest		11,165	11,621
Total equity		17,501,670	16,268,793
		$ 18,158,131	$ 17,450,056

Nature of Operations and Going Concern (Note 1)
Commitments and Contingencies (Note 13)
Subsequent Events (Note 22)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

"Jerry Blackwell" — ***Director***

"Adrian Aguirre" — ***Director***

Aurcana Corporation
Consolidated Statements of Comprehensive Income
(Expressed in United States dollars, unless otherwise stated)

	Notes		Years Ended December 31, 2017		2016
Continuing Operations					
Revenues					
Management Fees		**$**	**480,000**	$	440,000
Oil & Gas lease	16		**124,937**		57,848
			604,937		497,848
Other items					
General and administrative costs	17		**1,287,031**		1,222,084
Financing expense and others	18		**5,508**		7,600
Stock-based compensation			**504,373**		584,172
Shafter mine care & maintenance costs			**515,304**		749,874
Foreign exchange loss			**377,318**		(18,019)
Restructuring transaction cost			**-**		22,630
Loss on sale of equipment			**-**		1,700
Change on reclamation provision			**-**		(179,000)
Settlement of debt (income) loss			**-**		(1,878,179)
Other (income) loss			**(22,651)**		(35,651)
			2,666,883		477,211
Net income (loss) for the year before other comprehensive items		**$**	**(2,061,946)**	$	20,637
Items of other comprehensive income					
Currency translation adjustment			**354,738**		343,682
Comprehensiveincome income (loss) for the Year		**$**	**(1,707,208)**	$	364,319
Total net Income (loss) attributable to:					
Non-controlling interest			**(456)**		(16,554)
Equity holders of the Company			**(2,061,490)**		37,191
		$	**(2,061,946)**	$	20,637
Total comprehensive income (loss) attributable to:					
Non-controlling interest			**(456)**		(16,554)
Equity holders of the Company			**(1,706,752)**		380,873
		$	**(1,707,208)**	$	364,319
Weighted average number of shares – basic			**94,473,565**		84,684,210
Adjustment for:					
Share options			**-**		2,980,892
Weighted average number of shares diluted			**94,473,565**		87,665,102
Earnings (loss) per share					
From continuing and discontinued operations - basic & diluted		**$**	**(0.02)**	$	-
From continuing operations - basic & diluted		**$**	**(0.02)**	$	0.02

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	Total Equity Attributable to Shareholders of the Company	Non-controlling Interest	Total Equity
Balance, December 31, 2015	84,644,973	$ 181,814,354	$ 34,260,229	$ 2,338,478	$ (203,133,321)	$ 15,279,740	$ 28,175	$ 15,307,915
Currency translation adjustment	-	-	-	343,682	-	343,682	-	343,682
Net income (loss) for the year	-	-	-	-	37,191	37,191	(16,554)	20,637
Shares issued for:								
Exercise of options	100,000	19,526	(7,139)	-	-	12,387	-	12,387
Stock-based compensation	-	-	584,172	-	-	584,172	-	584,172
Balance, December 31, 2016	84,744,973	181,833,880	34,837,262	2,682,160	(203,096,130)	16,257,172	11,621	16,268,793
Currency translation adjustment	-	-	-	354,738	-	354,738	-	354,738
Net loss for the year	-	-	-	-	(2,061,490)	(2,061,490)	(456)	(2,061,946)
Shares issued for:								
Private Placement	11,529,013	1,570,076	1,042,633	-	-	2,612,709	-	2,612,709
Share Issue Costs	-	(319,414)	142,417	-	-	(176,997)	-	(176,997)
Stock-based compensation	-	-	504,373	-	-	504,373	-	504,373
Balance, December 31, 2017	96,273,986	$ 183,084,542	$ 36,526,685	$ 3,036,898	$ (205,157,620)	$ 17,490,505	$ 11,165	$ 17,501,670

See accompanying notes to these consolidated financial statements.

(Expressed in United States dollars, unless otherwise stated)

	Years Ended December 31, 2017	2016
Cash flows from operating activities		
Net income (loss) for the year	**$ (2,061,946)**	$ 20,637
Items not involving cash:		
Gain on settlement of debt	**-**	(1,878,179)
Depreciation, depletion and amortization	**1,598**	1,571
Stock-based compensation	**504,373**	584,172
Unrealized foreign exchange (income) loss	**329,649**	(12,236)
Change in estimate of reclamation provision	**-**	(179,000)
Deferred revenue	**(124,937)**	316,621
Operating cash flow before changes in working capital	**(1,351,263)**	(1,146,414)
Net changes to non-cash working capital balances		
Trade and other receivables	**(57,636)**	(156,275)
Prepaid expenses and advances	**(38,063)**	(585)
Accounts payable and accrued liabilities	**(399,865)**	(1,577,593)
Cash used in operating activities	**(1,846,827)**	(2,880,867)
Cash flows from investing activities		
Expenditures on Mineral Properties	**(535,202)**	-
Proceeds from the sale of equipment	**-**	3,315,000
Purchase of property, plant and equipment	**-**	(80,261)
Cash provided by (used in) investing activities	**(535,202)**	3,234,739
Cash flows from financing activities		
Share capital issued	**2,612,709**	12,387
Share Issue Costs	**(176,997)**	-
Financing cost and bank charges	**-**	7,600
Cash provided by (used in) financing activities	**2,435,712**	19,987
Increase in cash and cash equivalents	**53,683**	373,859
Effect of exchange rate changes on cash	**4,075**	(173)
Cash and cash equivalents, beginning of the year	**663,566**	289,880
Cash and cash equivalents, end of the year	**$ 721,324**	$ 663,566

Supplemental Cash Flow information (Note 14)

See accompanying notes to these consolidated financial statements.

1. Nature of Operations and Going Concern

Aurcana Corporation (the "Company" or "Aurcana") was originally incorporated in Canada under the laws of Ontario in 1917 and on September 14, 1998 was continued under the *Canada Business Corporations Act* ("CBCA"). The Company is currently engaged in the exploration, development and operation of natural resource properties. The Company's principal development property is the Shafter silver property ("Shafter"), located in Presidio County, Texas through the Company's 100% owned US subsidiary, Silver Assets Inc, which is currently on "care and maintenance".

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 consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business. The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities. Several adverse conditions and material uncertainties, including low metal prices, may cast significant doubt upon the Company's ability to continue as a going concern. As at December 31, 2017, the Company had working capital of $0.9 million, compared with $0.4 million as at December 31, 2016. The major components of working capital at December 31, 2017 included $1.2 million of current assets, and $0.2 million in accounts payable. In February 2017, the Company completed a private placement for 11,529,013 units with gross proceeds of CDN$3,458,704.

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 26, 2018.

(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 Aurcana Corporation and entities controlled by the Company ("its subsidiaries"). These include the accounts of: Aurcana Corporation and its wholly-owned subsidiaries, Silver Assets Inc., a U.S. corporation, Cane Silver Inc., a Barbados corporation, Perforadora Aurcana S.A. de R.L. de C.V. and Minera Aurcana S.A. de C.V., Real de Maconi S.A de C.V., Mexican corporations, – all these companies are 100% owned intermediate holding companies. The Company also 100% owns Rio Grande Mining Company which owns Shafter Properties Inc., an in care & maintenance subsidiary.

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, 2017:

Name	Country of Incorporation	Nature of Busines	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%
Minera Aurcana S.A. de C.V.	Mexico	Consulting (La Negra's management)	100%	-
Perforadora Aurcana S. de R.L. de C.V.	Mexico	Exploration Company	100%	-
Silver Assets Inc.	USA	Intermediate Holding Company	100%	-
Rio Grande Mining Company	USA	Mining Operations	100%	-
Shafter Properties Inc.	USA	Dormant	100%	-

3. Summary of Significant Accounting Policies (continued)

Foreign Currency

(i) Functional and Presentation Currency

The consolidated financial statements of each entity in the Company group are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in United States dollars.

The functional currency of Aurcana Corporation is the Canadian dollar, the functional currency of Silver Assets Inc. is the United States dollar and the functional currency of the Company's Mexican subsidiaries is the United States dollar.

The financial statements of the parent company are translated into the U.S. dollar presentation currency as follows:

- Assets and liabilities – at the closing rate at the date of the statement of financial position.
- Income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates).
- All resulting foreign exchange gains or losses are recognized in other comprehensive income 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 accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. 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 income related to the subsidiary are reallocated between controlling and non-controlling interests.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of an entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

3. Summary of Significant Accounting Policies (continued)

(iii) Translation of subsidiary results into the presentation currency

The results and statements of financial position of all the Company's subsidiaries with functional currencies different from the presentation currency are translated into the presentation currency 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, unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions; and
- All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognized in a separate component of equity. When a foreign operation is sold, such exchange differences are recognized in the consolidated statement of comprehensive loss as part of the gain or loss on sale.

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

3. Summary of Significant Accounting Policies (continued)

(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.

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.

(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.

3. Summary of Significant Accounting Policies (continued)

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.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization 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

Mining machinery, plant and property are depleted on a unit of production basis, based on estimated recoverable resources. Estimated recoverable resources include proven and probable resources and the portion of mineralized zones expected to be classified as resources.

Other equipment is depreciated on a straight-line basis over their estimated useful lives. Depreciation begins when plant and equipment are put into use. The rates of depreciation used are as follows:

Plant and equipment	20%
Vehicles	25%
Computer Equipment	30%
Other	10-12%

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

3. Summary of Significant Accounting Policies (continued)

__*Impairment*__

(i) Impairment for Mineral Properties

The carrying values of mineral properties are reviewed by management for impairment annually, on a property-by-property basis, or when circumstances occur that may give rise to impairment indicators. If indication of impairment exists, the asset's recoverable amount is estimated at value-in-use.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit on a pro-rata basis or based upon specific asset valuations, as appropriate. Impairment losses are recognized in profit and loss in the period it is identified.

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 for Exploration and Evaluation Assets

Management reviews the carrying amount of exploration and evaluation assets on an annual basis, or when circumstances occur that may give rise to impairment indicators, and recognizes impairment based on current exploitation results, and management's assessment of the probability of profitable exploitation at each property or realizable value from disposal of such property. If a project does not prove to be viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off in the year.

Management's assessment of each property's estimated fair value is based on review of other mineral property transactions that have occurred in the same geographic area as that of the properties under review.

(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)

Borrowing Costs

The Company capitalizes any borrowing costs which are directly attributable to the acquisition, construction, or production of an asset which takes a substantial period of time to get ready for its intended use. Capitalization of costs begins when costs are incurred and activities are undertaken to prepare the asset for its intended use, and ceases when the asset is substantially complete or commissioned for use. Borrowing costs are amortized over the useful life of the related asset.

Inventories

Mine stores and finished concentrates are valued at the lower of average cost and net realizable value. Cost of finished concentrates inventory includes direct mining and production costs, direct mine overhead costs, amortization and depletion. Cost of sales includes costs of finished concentrates plus shipping costs less amortization and depletion, which is disclosed separately in the statement of operations.

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 profits over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision.

3. Summary of Significant Accounting Policies (continued)

Revenue

(i) Revenue Recognition

Revenue is recognized upon delivery when significant risks and rewards of ownership of metal or metal-bearing concentrate passes to the buyer, it is probable that the economic benefits will flow to the Company, revenue can be reliably measured, and collection is reasonably assured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, royalties and sales taxes or duty. Management fees are recognized on a monthly basis as services are provided. Oil and Gas lease revenues are recognized over the life of the lease as the benefit is being received by the lessee.

Financial Assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, available-for-sale financial assets, and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as FVTPL when the financial asset is held for trading or is designated as FVTPL.

A financial asset is classified as held for trading when it is purchased and incurred with the intention of generating profits in the near term, part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. Transaction costs are expensed in the year in which the costs are incurred. The Company does not have any assets classified as FVTPL investments.

(ii) Available-for-sale Financial Assets

Financial assets classified as available-for-sale are carried at fair value (where determinable based on market prices of actively traded securities) with changes in fair value recorded in other comprehensive income. Available-for-sale securities are written down to fair value through earnings when there is objective evidence that a financial asset is impaired.

3. Summary of Significant Accounting Policies (continued)

(iii) Loans and Receivables

Loans and receivables are measured at amortized cost using the effective interest rate method. The Company has cash and cash equivalents, trade and other receivables classified as loans and receivables.

(iv) Derecognition of Financial Assets

A financial asset is derecognized when the contractual right to the asset's cash flows expire or if the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

(v) Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Evidence of impairment may include indicators that the issuer or counterparty is experiencing significant financial difficulty, default or delinquency in interest or principal payments, or it has become probable that the borrower will enter bankruptcy or other financial reorganization.

Impairment for financial assets carried at amortized cost, is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate of the financial asset.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. Uncollectible amounts in trade receivables are written off against the allowance account.

Available-for-sale financial assets are impaired if the cost (net of any principal payment and amortizations) is greater than the current fair value, less any impairment previously recognized in profit or loss and the decline in the fair value below cost is significant or prolonged. The impairment amount is transferred from equity to the income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

For all other financial assets carried at amortized cost in which impairment was previously recognized, if subsequent measurement indicates that the recorded impairment has decreased, and the decrease can be related objectively to an event occurring after the impairment was recognized, then the reversal of the impairment is recognized in the income statement. On the date of the impairment reversal, the carrying value of the financial asset cannot exceed its amortized cost had impairment not been recognized.

3. Summary of Significant Accounting Policies (continued)

Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss ("FVTPL") or other financial liabilities. The Company has identified derivative financial liabilities which we have carried at FVTPL.

(i) Financial liabilities at fair value through profit or loss ("FVTPL")

Financial liabilities at fair value through profit or loss ("FVTPL") are measured at fair value with changes in fair value during the reporting year being recognised in the profit or loss.

(ii) Other Financial Liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost, with any resulting premium or discount from the face value being amortized to income or expense using the effective interest rate method.

The Company has classified short-term notes, long-term debt, and accounts payable and accrued liabilities as other financial liabilities.

(iii) Derecognition of Financial Liabilities

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

Derivatives

All derivative instruments are recorded on the balance sheet at fair value with changes in fair value recorded in the Statement of Operations.

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value on the balance sheet with subsequent changes in fair value recognized in profit or loss.

Cash and Cash Equivalents

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

3. Summary of Significant Accounting Policies (continued)

Short-Term Investments

Short-term investments are classified as "available for sale", and consist of highly liquid equity securities. These equity securities are initially recorded at fair value. Changes in the market value of these equity securities are recorded as changes to other comprehensive income or loss.

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.

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 income.

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.

3. Summary of Significant Accounting Policies (continued)

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.

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.

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).

3. Summary of Significant Accounting Policies (continued)

(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) Review of Carrying Value of Assets and Impairment Charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs to sell or the value in use) in the case of non-financial assets and objective evidence indicating impairment in the case of financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognized in profit or loss and the resulting carrying amounts of assets. (Notes 6, 7 and 19).

(iv) Exploration and Evaluation Assets

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. 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 recognized in loss in the period that the new information becomes available.

(v) 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.

(vi) 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. An updated mineral resource estimate was completed in December 2014, resulting in a reduced life of mine estimate that will impact the amortization of mine specific assets (Note 7).

3. Summary of Significant Accounting Policies (continued)

(vii) Recovery of Deferred Tax Assets

Judgement is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Adoption of new and revised IFRS and IFRS not yet effective

The accounting policies adopted in the preparation of these consolidated financial statements have been prepared on the basis of all IFRS and interpretations effective as at December 31, 2017.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', 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 except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company has assessed the impact of IFRS 9 on its consolidated financial statements and they expect any impact to be immaterial.

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 or after January 1, 2017 and earlier application is permitted. The Company has assessed the impact of IFRS 15 on its consolidated financial statements and they expect any impact to be immaterial.

(Expressed in United States dollars, unless otherwise stated)

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.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. Trade and Other Receivables

	December 31 2017	December 31 2016
Equipment sales receivable	**140,000**	140,000
Other receivables	**116,598**	58,962
	$ 256,598	$ 198,962

Equipment sales receivable were amounts held in escrow at December 31, 2017.

5. Prepaid expenses and advances

	December 31 2017	December 31 2016
Prepaid expenses	**$ 114,047**	$ 70,521
Other	**9,866**	1,441
Current portion	**123,912**	71,962
Non-current portion	**5,558**	19,445
	$ 129,470	$ 91,407

AURCANA CORPORATION
Notes to 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	Total
Cost							
Balance at December 31, 2015	875,000	2,462,649	3,500,000	16,944	88,698	538,419	7,481,710
Reclassification	-	21,235	-	-	-	(21,235)	-
Discontinued operations	-	-	-	-	-	(479,838)	(479,838)
Balance at December 31, 2016	875,000	2,483,884	3,500,000	16,944	88,698	37,346	7,001,872
Reclassification from AHFS	-	95,500	-	-	-	-	95,500
Balance at December 31, 2017	$ 875,000	$ 2,579,384	$ 3,500,000	$ 16,944	$ 88,698	$ 37,346	$ 7,097,372
Accumulated depreciation							
Balance at December 31, 2015	-	-	-	16,944	88,698	509,887	615,529
Charge for the year	-	-	-	-	-	1,571	1,571
Discontinued operations	-	-	-	-	-	(479,838)	(479,838)
Balance at December 31, 2016	-	-	-	16,944	88,698	31,620	137,262
Charge for the year	-	-	-	-	-	1,598	1,598
Balance at December 31, 2017	$ -	$ -	$ -	$ 16,944	$ 88,698	$ 33,218	$ 138,860
Net book value							
Balance at December 31, 2015	$ 875,000	$ 2,462,649	$ 3,500,000	$ -	$ -	$ 28,532	$ 6,866,181
Balance at December 31, 2016	$ 875,000	$ 2,579,384	$ 3,500,000	$ -	$ -	$ 5,726	$ 6,864,610
Balance at December 31, 2017	$ 875,000	$ 2,579,384	$ 3,500,000	$ -	$ -	$ 4,128	$ 6,958,512

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

(Expressed in United States dollars, unless otherwise stated)

7. Mineral Properties

	Shafter, Texas, USA, in Care & Maintenance
Cost	
Balance at December 31, 2015 & 2016	$ 15,500,000
Expenditures	535,202
Balance at December 31, 2017	$ 16,035,202
Accumulated depletion	
Balance at December 31, 2015 & 2016	$ 6,000,000
Charge for the year	-
Balance at December 31, 2017	$ 6,000,000
Balance at December 31, 2015 & 2016	$ 9,500,000
Balance at December 31, 2017	$ 10,035,202

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

8. Accounts Payable and Accrued Liabilities

	December 31 2017	December 31 2016
Salaries, payroll deductions and employee benefits	$ 16,676	$ -
Property taxes	-	204,329
Surface Exploration	14,232	-
Value added tax	-	279,077
Prepaid insurance	77,942	42,296
Other	55,089	38,102
	$ 163,939	$ 563,804

(Expressed in United States dollars, unless otherwise stated)

9. Income Taxes

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

	December 31 2017	December 31 2016
Earnings (loss) before income taxes	$ (2,061,946)	$ 20,637
Canadian federal and provincial income tax rates	26.00%	26.00%
Income tax recovery based on above rates	(536,106)	5,366
Increase (decrease) due to:		
Non-deductible (taxable) items and other	181,886	152,050
Foreign exchange	797	(669)
Losses and temporary differences for which no income tax benefit has been recognized (Previously recognized)	327,118	(104,386)
Difference between foreign and Canadian tax rates	26,305	(52,361)
Income tax expense	$ -	$ -

The components of unrecognized deferred tax assets are as follows:

	December 31 2017	December 31 2016
Non-capital losses	$ 11,546,441	$ 13,451,431
Capital losses	792,690	713,189
Property, Plant and Equipment	21,959	18,768
Mineral property	21,000,865	33,892,994
Other items	781,167	1,168,172
	$ 34,143,122	$ 49,244,554

(Expressed in United States dollars, unless otherwise stated)

9. Income Taxes (continued)

Unrecognized tax losses:

As at December 31, 2017 the Company has tax losses for income tax purposes which may be used to reduce future taxable income. The income tax benefit, if any, of these losses have not been recorded in these consolidated financial statements because of the uncertainty of their recovery. The future expiration and potential tax benefit of the losses are as follows:

YEAR	Canada	United States	Barbados	Mexico	Total
2018	$ -	$ 541,863	$ -	$ -	$ 541,863
2019	-	222,039	7,125,405	-	7,347,444
2020	-	33,069	-	-	33,069
2021	-	-	1,006,544	-	1,006,544
2022	-	14,334	599,119	794	614,247
2023	-	11,956	299,555	17	311,528
2024	-	193,820	27,545	11,987	233,352
2025	-	100,952	24,276	-	125,228
2026	-	164,165	-	13,055,555	13,219,720
2027	34,100	148,444	-	9,463	192,007
2028	197,118	168,559	-	-	365,677
2029	918,348	414,262	-	-	1,332,610
2030	-	247,948	-	-	247,948
2031	-	274,881	-	-	274,881
2032	5,620,422	316,214	-	-	5,936,636
2033	3,350,210	993,695	-	-	4,343,905
2034	-	7,678,870	-	-	7,678,870
2035	2,170,976	1,043,268	-	-	3,214,244
2036	-	4,449,451	-	-	4,449,451
2037	1,288,128	662,178	-	-	1,950,306
	$ 13,579,302	**$ 17,679,968**	**$ 9,082,444**	**$ 13,077,816**	**$ 53,419,530**

The Company has income tax loss carry-forwards of approximately $17.7 million (2016 - $17.4 million) for United States tax purposes. These unrecognized tax losses will expire from 2018 to 2036. 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 7, 2010 when the Company issued 193,548,387 shares pursuant to an equity offering, which could further limit the availability of losses prior to that date.

(Expressed in United States dollars, unless otherwise stated)

10. Provision for Environmental Rehabilitation

In the prior year, the Company has discontinued the reclamation cost to its estimated fair value using a 10% discount rate over the estimated 8 year life of mine. In the current year, the Company has not discounted the value due to uncertainty of when the reclamation will take place. The discounted liability has been recorded at $300,838 for both years.

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, 2017 and 2016 is as follows:

	December 31 2017	December 31 2016
Environmental rehabilitation, beginning of the year	**$ 300,838**	$ 479,838
Change in estimates	**-**	(179,000)
Environmental rehabilitation, end of the year	**$ 300,838**	$ 300,838

11. Equity

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

Share issuance details:

	Number of Common Shares	Amount
Balance, December 31, 2015	84,644,973	$ 181,814,354
Exercised options	100,000	19,526
Balance, December 31, 2016	84,744,973	$ 181,833,880
Private placement	11,529,014	1,570,076
Share Issue Costs	-	(319,414)
Balance, December 31, 2017	96,273,987	$ 183,084,542

In February 2017, the Company completed a private placement for 11,529,013 units with gross proceeds of CDN$3,458,704. Each Unit consists of one common share and one transferable common share purchase ("Warrant") of Aurcana.

(Expressed in United States dollars, unless otherwise stated)

11. Equity (continued)

Stock options

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

Stock options	Number of Common Share Purchase Options	Weighted Average Exercise Price per Share ($CDN)
Balance, December 31, 2015	1,384,375	6.24
Granted	5,350,000	0.19
Exercised	(100,000)	0.17
Expired	(493,750)	6.55
Forfeited	(734,375)	5.80
Balance, December 31, 2016	5,406,250	0.39
Granted	2,950,000	0.32
Expired	(87,500)	8.16
Balance, December 31, 2017	8,268,750	0.29

Outstanding	**Vested**	**Exercise Price ($CDN)**	**Expiry Date**
68,750	68,750	$ 6.32	February 28, 2018 *
4,850,000	4,850,000	$ 0.17	March 2, 2021
400,000	400,000	$ 0.40	August 5, 2021
2,950,000	2,950,000	$ 0.32	April 27, 2022
8,268,750	8,268,750	$ 0.29	

* On February 28, 2018, 68,750 options expired unexercised

(Expressed in United States dollars, unless otherwise stated)

11. Equity (continued)

Stock based compensation

For the year ended December 31, 2017 the stock-based compensation expense was $504,373 (2016: $584,172). Fair value of stock options granted as above is calculated using the following weighted average assumptions.

	December 31 2017	December 31 2016
Risk-free interest rate	0.70%	0.70%
Expected stock price volatility	95.35%	92.35%
Expected dividend yield	n/a	n/a
Expected option life in years	5	4

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants
Balance, December 31, 2015	10,265,816
Expired	(532,908)
Balance, December 31, 2016	9,732,908
Private placement	11,529,013
Agents' warrants	709,760
Expired	(9,732,908)
Balance, December 31, 2017	12,238,773

As of December 31, 2017, details of outstanding common shares purchase warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
12,238,773	$0.45	February 27, 2020

(Expressed in United States dollars, unless otherwise stated)

The fair value of common share purchase warrants issued during the year is calculated using the following weighted average assumptions:

	December 31 2017
Risk-free interest rate	0.73%
Expected stock price volatility	114.70%
Expected dividend yield	n/a
Expected warrant life in years	3.0

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	**December 31 2017**	December 31 2016
Technical and consulting fees	(i)	$ 78,147	$ 52,039
General and administrative expenses	(ii)	23,102	22,650
Consulting fees		$ 101,249	$ 74,689

i) To a company controlled by a director of the Company.
ii) To a company controlled by the corporate secretary for management services performed as an officer.

b) Compensation of key management personnel

	December 31 2017	December 31 2016
Consulting fees (as above)	$ 101,249	$ 74,689
Directors' fees	-	22,224
Officer salaries	601,924	453,001
Stock-based compensation	418,886	584,172
	$ 1,122,059	$ 1,134,086

12. Related Party Transactions (continued)

c) Accounts payables to related parties

	December 31 2017	December 31 2016
Accounts Payable	$ 19,562	$ -

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. 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.

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

	Commitments due by year (000's)		
	Total	2018	2019
	$	$	$
Rent	$ 91	$ 80	$ 11

Claims to the Company

Trans-Pecos Pipeline, LLC ("Trans Pecos") constructed a pipeline that transports natural gas between the Permian Basin and Presidio, Texas for delivery to customers in Chihuahua, Mexico. The route of the pipeline crosses the Shafter property and may impact upon some aspects of mining-related activities if and when they resume. In March of 2016, the Company was made aware that Trans Pecos filed a lawsuit against RGMC to acquire the proposed easement through exercise of its alleged power of eminent domain. The Company engaged counsel to challenge the public use of the pipeline project and, in the event the acquisition is permitted, to secure fair compensation for the impact of the proposed pipeline on the market value of the property and the Company's Shafter operations. Through the administrative phase of the legal proceedings, Trans Pecos obtained a statutory right of possession so as to move forward with construction of its project. As of the date hereof the pipeline is operational.

This administrative determination is not binding on the Company's right to contest Trans Pecos's project or the amount of compensation owed, and litigation of these issues continues. Subsequent to December 31, 2017 the Company met with representatives of Trans Pecos and a court-appointed mediator in order to seek resolution to the dispute. An agreement in principle was reached; however, this agreement has not been finalized.

The Company intends to continue to defend its rights.

(Expressed in United States dollars, unless otherwise stated)

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:

	December 31 2017	December 31 2016
Cash	**$ 721,324**	$ 663,566

Supplemental disclosures of cash flow information for the year ended:

	December 31 2017	December 31 2016
AR from equipment sold held in escrow	**$ 140,000**	$ 140,000

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:

	2017	2016
Decrease in accounts payable related to construction in progress and equipment suppliers	$ -	$ (80,261)

(Expressed in United States dollars, unless otherwise stated)

15. Segmented Information

The reportable operating segments have been identified as the Shafter Project, 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.

December 31, 2017	Shafter	Corporate and other segments	Total
Sales & Consulting fees to external customers	$ 124,937	$ 480,000	$ 604,937
Shafter mine Care & Maintenance cost	515,304	-	515,304
G&A expenses and other expense	1,136	2,150,443	2,151,579
Loss before income taxes	(391,503)	(1,670,443)	(2,061,946)
Net income (loss) for the year	(391,503)	(1,670,443)	(2,061,946)
Property, plant and equipment	6,954,384	4,128	6,958,512
Mineral properties	10,035,202	-	10,035,202
Total capital assets	16,989,586	4,128	16,993,714
Total assets	17,101,984	1,056,147	18,158,131
Total liabilities	530,239	126,222	656,461

December 31, 2016	Shafter	Corporate and other segments	Total
Sales & Consulting fees to external customers	$ 57,848	$ 440,000	$ 497,848
Shafter mine Care & Maintenance cost	749,874	-	749,874
G&A expenses and other expense	(175,270)	1,780,786	1,605,516
Loss before income taxes	(516,756)	(1,340,786)	(1,857,542)
gain from settlement of debt	-	1,878,179	1,878,179
Net income (loss) for the year	(516,756)	537,393	20,637
Property, plant and equipment	6,858,884	5,726	6,864,610
Mineral properties	9,500,000	-	9,500,000
Total capital assets	16,358,884	5,726	16,364,610
Total assets	16,502,890	947,166	17,450,056
Total liabilities	837,195	344,068	1,181,263

(Expressed in United States dollars, unless otherwise stated)

16. Oil and Gas lease

On July 15, 2016 Silver Assets, Inc. ("SAI"), has 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 US$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 lease proceeds were allocated as follows:

	December 31 2017	December 31 2016
Deferred Revenue Short term	**$ 124,937**	$ 124,937
Deferred Revenue Long term	**66,747**	191,684
	191,684	316,621

	Years Ended December 31, 2017	**2016**
Revenue	**124,937**	**57,848**

17. General and administrative costs

	Years Ended December 31, 2017	2016
Salaries and consulting fees	**$ 585,353**	$ 648,242
Professional fees	**153,198**	124,793
Investor relations	**109,953**	65,096
Marketing and road shows	**190,020**	129,615
Listing and filing fees	**17,142**	10,680
Other	**231,365**	243,658
	$ 1,287,031	$ 1,222,084

18. Financing expense and other

	Years Ended December 31, **2017**	2016
Financing expense and bank charges	**$ 5,508**	$ 7,600
	$ 5,508	$ 7,600

19. Impairment

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

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

Shafter mineral property

The external independent valuation company used the appraised value method (cost approach) and comparable transaction analysis (market approach) for the valuation of the Shafter mineral property. The appraised value method was based on the assumption that the value of a property is enhanced or diminished by an exploration program and that funds spent on a property, and those to be spent in the immediate future, will produce value in today's dollars, proportionate to the expenditures. Comparable transaction analysis was used for the market approach. It is based on the principle of substitution, which says that the economic value of an item tends to be determined by the cost of acquiring an equally desirable substitute. An equally desirable substitute is not an identical asset.

For the property plant and equipment valuation, the appraiser assessed the market prices assuming a liquidation value as the most appropriate approach. Certain of plant and equipment items and assets classified as held for sale were impaired because they were found to be no longer available for use or sale.

20. Financial instruments

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

(a) Foreign exchange risk:

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 not hedged its exposure to currency fluctuations.

At December 31, 2017, the Company's Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in USD dollars:

		December 31, 2017
Cash and cash equivalents	USD$	575,330
Accounts payable		(9,081)
	USD$	566,249
CAD$ Equivalent		**710,359**

Based on the above net exposures as at December 31, 2017, 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 $71,036 change to the Company's net income for the year.

20. Financial instruments (Continued)

At December 31, 2017, the Company's Mexican operations (U.S. dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		December 31, 2017
Cash and cash equivalents	MXP$	46,120
Other receivable		-
Accounts payable		1,125,415
	MXP$	1,171,535
USD$ Equivalent		**59,362**

Based on the above net exposures as at December 31, 2017, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the USD Dollar against the Mexican Peso would result in a $5,936 change to the Company's net income for the year.

(b) Credit risk:

The Company's credit risk is primarily attributable to cash and bank balances, short-term deposits, accounts receivable and amounts receivable.

The Company limits its credit exposure on cash held in bank accounts by holding its key transactional bank accounts with banks of investment grade. As the Company has its operations in developing countries, it is unavoidable that some cash is held with regional banks in areas where the banking system does not operate as efficiently as in major financial centers. In these circumstances, the Company attempts to keep only minimal balances with such banks.

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. Likewise, it is the Company's policy to deal with banking counterparties for derivatives who are rated "A-" grade or above by international credit rating agencies and graduated counterparty limits are applied depending upon the rating.

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, 2017 substantially all cash and short-term deposits are with counterparties with ratings "A-" or higher.

20. Financial instruments (Continued)

The Company's credit risk associated with trade accounts receivable is managed through establishing long-term contractual relationships with international trading companies using industry-standard contract terms. 100% of the Company's product sales and trade accounts receivable are generated from one customer representing 100% of the total sales for the year. Other accounts receivable consist of amounts owing from the sale of mining equipment and government authorities in relation to the refund of value-added taxes applying to inputs for the production process and property, plant and equipment expenditures.

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. The Company is engaged in negotiations with its principal lender to restructure its current debt in order to address ongoing liquidity concerns, while continuing to be focused on minimizing uncommitted capital expenditures and preserving the Company's growth options (see Note 1 - Nature of operations and going concern).

The Company manages liquidity risk by maintaining cash and cash equivalent balances and available credit facilities to ensure that it is able to meet its short-term and long-term obligations as and when they fall due. Company-wide cash projections are managed centrally and regularly updated to reflect the dynamic nature of the business and fluctuations caused by commodity price and exchange rate movements.

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.

20. Financial instruments (Continued)

(e) Fair value estimation

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

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

The carrying value and fair value of trade and other receivable and accounts payable and accrued liabilities as of December 31, 2017 are approximately the same. The Company assesses its financial instruments and non-financial contracts on a regular basis to determine the existence of any embedded derivatives which would be required to be accounted for separately at fair value and to ensure that any embedded derivatives are accounted for in accordance with the Company's policy.

21. 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.

22. Subsequent events

On April 26, 2018, the Company announced that it will undertake a non-brokered private placement of up to 15,000,000 units at a price of CDN$0.20 per Unit, for gross proceeds to the Company of up to CDN$3,000,000. Each Unit will consist of one common share in the capital of the Company and one transferable common share purchase warrant. Each Warrant will entitle the holder thereof to purchase one additional Share at an exercise price of CDN$0.30 for a term of three years from the closing date of the offering. The Company may pay finders' fees or commissions in connection with the offering in accordance with the rules and policies of the TSX Venture Exchange (the "TSX-V"). The Company intends to use the net proceeds of the offering for the exploration and development of the Shafter Silver Project in Texas and for general working capital purposes. The closing of the offering is subject to receipt of all necessary regulatory approval, including the approval of the TSX-V. The offering will be completed pursuant to exemptions from prospectus requirements of applicable securities laws, and all securities issued in connection with the offering will be subject to a four month hold period in accordance with applicable Canadian securities laws, commencing on the Closing Date.