



**AURCANA SILVER CORPORATION**  
**(Formerly Aurcana Corporation)**

**Condensed Interim Consolidated Financial Statements**

**March 31, 2021**

(Unaudited)

Expressed in United States dollars unless otherwise stated

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

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*NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS*

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

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

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

*"Kevin Drover"*  
**President and CEO**

*"Charles R. Andrews"*  
**CFO**

**Aurcana Silver Corporation**  
**Condensed Interim Consolidated Statements of Financial Position**  
**(Expressed in United States dollars)**

	Notes	March 31 2021	December 31 2020
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	18	\$ 39,118,825	\$ 29,678,781
Trade and other receivables	4	46,396	25,865
Inventory	5	401,651	142,382
Prepaid expenses and advances		341,713	485,996
		<b>39,908,585</b>	<b>30,333,024</b>
<b>Non Current assets</b>			
Long term deposits		326,260	76,173
Non-current prepaid expenses		12,822	12,788
Property, plant and equipment	6	49,289,415	36,102,738
Mineral Properties	7	40,885,708	40,885,708
Right-of-use asset	8	91,788	120,907
Reclamation deposits	9	484,295	484,295
<b>Total assets</b>		<b>\$ 130,998,873</b>	<b>\$ 108,015,633</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	10	\$ 1,016,408	\$ 3,162,893
Paycheck Protection Program	11	421,000	421,000
Current portion of lease payable	8	106,428	132,202
		<b>1,543,836</b>	<b>3,716,095</b>
<b>Non Current liabilities</b>			
Lease payable	8	-	5,320
Provision for environmental rehabilitation	12	1,120,270	1,120,270
Borrowings	13	20,240,328	19,729,738
Derivative liability	14	7,601,793	10,734,760
<b>Total liabilities</b>		<b>30,506,227</b>	<b>35,306,183</b>
<b>Equity</b>			
Share capital	15	64,633,684	47,167,854
Contributed surplus		147,249,439	138,413,862
Accumulated other comprehensive income		1,529,673	176,172
Deficit		(112,931,315)	(113,059,603)
<b>Total equity attributable to equity holders of the parent</b>		<b>100,481,481</b>	<b>72,698,285</b>
Non-controlling interest		11,165	11,165
<b>Total equity</b>		<b>100,492,646</b>	<b>72,709,450</b>
		<b>\$ 130,998,873</b>	<b>\$ 108,015,633</b>

Nature of Operations (Note 1)

Commitments (Note 8)

See accompanying notes to these condensed interim consolidated financial statements.

Approved on behalf of the Board of Directors:

*“David Kaplan”*  
**Director**

*“Michael P. Gross”*  
**Director**

**Aurcana Silver Corporation**

**Condensed Interim Consolidated Statements of Loss and Comprehensive Income and (Loss)**  
**For the Periods Ended March 31, 2021 and 2020**  
**(Expressed in United States dollars, unless otherwise stated)**

	Notes	2021	2020
<b>Expenses</b>			
General and administrative costs	16	\$ 755,905	\$ 764,538
Financing expense and others	17	518,439	13,611
Maintenance costs	18	45,347	672,112
Depreciation and amortization property, plant and equipment	6	155	334,479
Stock-based compensation	15	110,077	-
Amortization of right-of-use asset	8	4,450	28,858
Foreign exchange (gain) loss		1,578,058	(572,900)
		<u>3,012,431</u>	<u>1,240,698</u>
<b>Gain (loss) of change in derivatives fair value estimate</b>	14	3,132,967	-
<b>Other income</b>		<u>7,752</u>	<u>5,442</u>
<b>Net income (loss) for the period before other comprehensive items</b>		128,288	(1,235,256)
<b>Total other comprehensive Income (loss) for the period</b>			
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustment		<u>1,353,501</u>	<u>(700,723)</u>
Total other comprehensive income for the year		<u>1,353,501</u>	<u>(700,723)</u>
<b>Total comprehensive income (loss) for the period</b>		<u>\$ 1,481,789</u>	<u>\$ (1,935,979)</u>
Weighted average number of shares basic and diluted		263,995,034	162,673,862
<b>Income (loss) per share</b>			
<b>Income (loss) per share (basic &amp; diluted)</b>		<u>\$ 0.00</u>	<u>\$ (0.01)</u>

*See accompanying notes to these consolidated financial statements.*

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

	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Shareholders of the Company	Non- controlling Interest	Total Equity
	Number of shares	\$						
<b>Balance, December 31, 2019</b>	152,048,223	29,451,075	133,939,863	(162,873)	(96,449,470)	66,778,595	11,165	66,789,760
Net loss for the period	-	-	-	-	(16,610,133)	(16,610,133)	-	(16,610,133)
Shares issued for:								
Private placement (note 15)	60,580,275	10,353,092	5,145,528	-	-	15,498,620	-	15,498,620
Share Issue Costs (note 15)	-	(1,299,614)	415,245	-	-	(884,369)	-	(884,369)
Exercised warrants	25,381,507	8,663,301	(1,550,126)	-	-	7,113,175	-	7,113,175
Stock-based compensation	-	-	463,352	-	-	463,352	-	463,352
Currency translation adjustment	-	-	-	339,045	-	339,045	-	339,045
<b>Balance, December 31, 2020</b>	238,010,005	47,167,854	138,413,862	176,172	(113,059,603)	72,698,285	11,165	72,709,450
Net income for the period	-	-	-	-	128,288	128,288	-	128,288
Shares issued for:								
Private placement (note 15)	33,406,363	17,920,795	8,466,538	-	-	26,387,333	-	26,387,333
Share Issue Costs (note 15)	-	(1,839,085)	499,534	-	-	(1,339,551)	-	(1,339,551)
Exercised warrants	3,578,852	1,384,120	(240,572)	-	-	1,143,548	-	1,143,548
Stock-based compensation	-	-	110,077	-	-	110,077	-	110,077
Currency translation adjustment	-	-	-	1,353,501	-	1,353,501	-	1,353,501
<b>Balance, March 31, 2021</b>	274,995,220	\$ 64,633,684	\$ 147,249,439	\$ 1,529,673	\$ (112,931,315)	\$100,481,481	\$ 11,165	\$ 100,492,646

See accompanying notes to these consolidated financial statements.

**Aurcana Silver Corporation**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**For the Period Ended March 31, 2021 and 2020**  
**(Expressed in United States dollars, unless otherwise stated)**

	Notes	2021	2020
<b>Cash flows from operating activities</b>			
Net income (loss) for the period		\$ 128,288	\$ (1,235,256)
Items not involving cash:			
Depreciation and amortization property plant and equipment	6	155	334,479
Stock-based compensation	15	110,077	-
Amortization right to use asset	8	4,450	28,858
Write-off Accounts Receivable	4	-	29,802
Impairment & write-down on property, plant and equipment	6	-	2,884
Accretion of lease liability	8	820	(3,896)
Finance Cost	13	510,590	-
Change in derivatives fair value estimate	14	(3,132,967)	-
Unrealized foreign exchange loss		1,578,058	(687,513)
<b>Operating cash flow before changes in working capital</b>		<u>(800,529)</u>	<u>(1,530,642)</u>
Net changes to non-cash working capital balances			
Trade and other receivables		(20,531)	14,149
Prepaid expenses and advances		144,249	144,111
Inventory		(259,269)	-
Accounts payable and accrued liabilities		(719,430)	(436,066)
Term deposits		(250,087)	-
<b>Cash used in operating activities</b>		<u>(1,905,597)</u>	<u>(1,808,448)</u>
<b>Cash flows from investing activities</b>			
Proceeds from the sale of equipment		4,100	475
Mine development		(14,437,042)	(323,158)
Purchase of property, plant and equipment		(152,641)	(2,833)
<b>Cash used in investing activities</b>		<u>(14,585,583)</u>	<u>(325,516)</u>
<b>Cash flows from financing activities</b>			
Lease payments	8	(35,827)	(26,428)
Share capital issued	15	27,530,881	4,482,536
Share Issue Costs	15	(1,339,551)	(314,154)
<b>Cash provided by financing activities</b>		<u>26,155,503</u>	<u>4,141,954</u>
Increase in cash and cash equivalents		9,664,323	2,007,990
Effect of exchange rate changes on cash		(224,279)	(13,210)
Cash and cash equivalents, beginning of the period		29,678,781	3,944,286
<b>Cash and cash equivalents, end of the period</b>		<u>\$ 39,118,825</u>	<u>\$ 5,939,066</u>

Supplemental Cash Flow information (Note 20)

*See accompanying notes to these consolidated financial statements.*

**Aurcana Silver Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in United States dollars, unless otherwise stated)**

**1. Nature of Operations**

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

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

**2. Basis of Preparation**

These condensed interim 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 included on the audited consolidated financial statements as at and for the year ended December 31, 2020. “Basis of Consolidation”, “Subsidiary” and “Functional Currency” notes (Under Note 3 per the audited consolidated financial statements as at and for the year ended December 31, 2020).

These condensed interim consolidated financial statements do not include all the information required for a complete set of IFRS statements. However, selected notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual audited consolidated financial statements as at and for the year ended December 31, 2020.

These consolidated financial statements were approved by the Board of Directors on May 26, 2021.

**3. Use of estimates and judgements.**

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses, consistent with those disclosed in the 2020 annual audited consolidated financial statements and described in these condensed interim consolidated financial statements. Actual results may differ from these estimates.

**Aurcana Silver Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in United States dollars, unless otherwise stated)**

**4. Trade and Other Receivables**

	March 31 2021	December 31 2020
	<u>          </u>	<u>          </u>
GST receivable	20,304	5,528
Others	<u>26,092</u>	<u>20,337</u>
	<u>\$ 46,396</u>	<u>\$ 25,865</u>

The main component of the GST balance as of March 31, 2021 is related to the private placement closed on February 1, 2021 (Note 15).

During the year ended December 31, 2020, the Company wrote off \$29,802 (2019 - \$140,000) of trade and other receivables. The write off is recorded as part of general and administrative costs (note 16).

**5. Inventory**

Company's inventory is all located in Ouray Silver Mines and they are all consumables and supplies, which consist of spare parts and consumable goods used for general repairs and maintenance.



**Aurcana Silver Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in United States dollars, unless otherwise stated)**

**6. Property, Plant and Equipment**

	<b>Buildings</b>	<b>Plant and Equipment (i)</b>	<b>Mine Development Cost (ii)</b>	<b>Vehicles</b>	<b>Computer Equipment</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>							
Balance at December 31, 2019	\$ 5,849,708	\$ 14,046,536	\$ 8,817,648	\$ 170,989	\$ 276,896	\$ 525,589	\$ 29,687,366
Additions	-	-	14,733,874	133,751	-	-	14,867,625
Write-down and disposals	-	-	-	(2,358)	-	-	(2,358)
Balance at December 31, 2020	5,849,708	14,046,536	23,551,522	302,382	276,896	525,589	44,552,633
Additions	-	-	13,038,291	148,541	-	-	13,186,832
Reclassifications	(30,483)	(299,213)	345,088	(15,392)	-	-	-
Write-down and disposals	-	-	-	(23,775)	-	-	(23,775)
Balance at March 31, 2021	\$ 5,819,225	\$ 13,747,323	\$ 36,934,901	\$ 411,756	\$ 276,896	\$ 525,589	\$ 57,715,690
<b>Accumulated depreciation</b>							
Balance at December 31, 2019	\$ 676,867	\$ 5,643,648	\$ -	\$ 109,114	\$ 265,670	\$ 401,934	\$ 7,097,233
Disposals	-	-	-	(2,358)	-	-	(2,358)
Charge for the period	121,931	1,196,856	-	32,867	2,898	468	1,355,020
Balance at December 31, 2020	798,798	6,840,504	-	139,623	268,568	402,402	8,449,895
Disposals	-	-	-	(23,775)	-	-	(23,775)
Charge for the period (iii)	-	-	-	-	155	-	155
Balance at March 31, 2021	\$ 798,798	\$ 6,840,504	\$ -	\$ 115,848	\$ 268,723	\$ 402,402	\$ 8,426,275
<b>Net book value</b>							
Balance at December 31, 2020	\$ 5,050,910	\$ 7,206,032	\$ 23,551,522	\$ 162,759	\$ 8,328	\$ 123,187	\$ 36,102,738
Balance at March 31, 2021	\$ 5,020,427	\$ 6,906,819	\$ 36,934,901	\$ 295,908	\$ 8,173	\$ 123,187	\$ 49,289,415

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

- (i) Mining machinery, plant and property for Shafter, which has not demonstrated technical feasibility and commercial viability, are not subject to depreciation.
- (ii) Mining and plant equipment and assets under construction, which are not in production, are not subject to depreciation.
- (iii) The first quarter depreciation for OSMI has been reclassified to mine development cost due to preproduction ramp-up.

**Aurcana Silver Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in United States dollars, unless otherwise stated)**

**7. Mineral Properties**

	Revenue-Virginus, Colorado, USA, In development	Shafter, Texas, USA, In Care & Maintenance	Total
Balance at December 31, 2019, December 31, 2020, and March 31, 2021	\$ 27,764,038	\$ 13,121,670	\$ 40,885,708
Net book value			
Balance at December 31, 2019, December 31, 2020, and March 31, 2021	\$ 27,764,038	\$ 13,121,670	\$ 40,885,708

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

**8. Leases**

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

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

**Aurcana Silver Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in United States dollars, unless otherwise stated)**

**8. Leases (continued)**

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

<b>Right-of-use asset</b>					
	Canada		USA		Total
Balance as at December 31, 2019	\$	39,048	\$	197,334	\$ 236,382
Amortization		16,799		98,676	115,475
Balance as at December 31, 2020		22,249		98,658	120,907
Capitalization (mine development)		-		24,669	24,669
Amortization *		4,450		-	4,450
Balance as at March 31, 2021	\$	17,799	\$	73,989	\$ 91,788

\* The amortization for OSMI has been reclassified to mine development cost due to pre-production ramp-up.

<b>Lease liability</b>					
	Canada		USA		Total
Balance as at December 31, 2019	\$	41,008	\$	210,712	\$ 251,720
Payments		(20,672)		(121,404)	(142,076)
Accretion expense		4,550		23,368	27,918
Currency translation adjustment		(40)		-	(40)
Balance as at December 31, 2020		24,846		112,676	137,522
Payments		(5,476)		(30,351)	(35,827)
Accretion capitalized		-		3,635	3,635
Accretion expense		820		-	820
Balance as at March 31, 2021		20,190		85,960	106,150
Less current portion		20,468		85,960	106,428
Currency translation adjustment		278		-	278
Long-term	\$	-	\$	-	\$ -

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

The following table shows the commitments lease as of March 31, 2021:

	Total	2021	2022
	\$	\$	\$
Head office lease CDN	\$ 48,384	36,288	12,096
OSM Warehouse lease	\$ 91,053	91,053	-

**Aurcana Silver Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in United States dollars, unless otherwise stated)**

**9. Reclamation Deposits**

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

**10. Accounts Payable and Accrued Liabilities**

	March 31 2021	December 31 2020
	<u>                    </u>	<u>                    </u>
Salaries, payroll deductions and employee benefits	\$ 8,749	\$ 334,634
Property taxes	87,890	132,782
Mine development	361,383	378,286
Mine supplies and construction vendors	13,920	1,440,975
Insurance	134,978	269,483
Accrued Interest	265,551	265,550
Other	143,937	341,183
	<u>\$ 1,016,408</u>	<u>\$ 3,162,893</u>

**11. Paycheck Protection Program**

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

**Aurcana Silver Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in United States dollars, unless otherwise stated)**

**12. Provision for Environmental Rehabilitation**

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

The provision for environmental rehabilitation is as follows:

	March 31 2021	December 31 2020
	<u>                    </u>	<u>                    </u>
Environmental rehabilitation, beginning of the year	\$ 1,120,270	\$ 1,120,270
Addition in estimates from Shafter	-	-
Addition in estimates from Revenue - Virginius mine	-	-
Accretion	-	-
Environmental rehabilitation, end of the period	<u>\$ 1,120,270</u>	<u>\$ 1,120,270</u>

The Company has recorded its best estimate of the cost to rehabilitate the known features on the mineral properties as a provision for environmental rehabilitation. For the period ended March 31, 2021 the provision is \$1,120,270, of which \$644,000 is attributed to RGMC, and \$476,270 is attributed to OSMI. A long-term inflation rate of 2% was used in the analysis, which when off-set against a long-term risk-free discount rate of 2%, the impact of discounting was not significant. The future cash flows required to settle this obligation involve a degree of uncertainty as these are estimates at this time.

**13. Borrowings**

**Key commercial terms**

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

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

**Aurcana Silver Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in United States dollars, unless otherwise stated)**

**13. Borrowings (continued)**

**Term Loan**

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

- Interest payments: The Term Loan bears a floating interest rate equal to the greater of US\$ 3-month Libor rate and 0% per annum, plus a spread (the “Applicable Margin”), payable quarterly on the 7th of March, June, September, and December each year commencing on March 7, 2021. The Applicable Margin is (a) 10.5% per annum following the first day of the month following the month in which the Revenue Virginius mine production exceeds 400 wmt of lead concentrates for the preceding three months, and (b) 14% per annum until such time.
- Principal repayments: Commencing on the last business day of the quarter immediately following the end of the twelve-month grace period (the “Grace Period”), Aurcana shall make quarterly principal payments, each in the amount of \$1,750,000, for sixteen consecutive quarters. Principal payments will begin in March 2022.
- Voluntary prepayment: subsequent to the Grace Period, Aurcana may prepay the principal amount of the Term Loan from time to time in whole or by part without any penalty. If Aurcana makes any voluntary prepayment at any time during the Grace Period which is the period from December 9, 2020 - December 8, 2021, interest shall be accrued on the full amount of the original principal of the Term Loan as if such original principal amount was outstanding for the full duration of the Grace Period.
- Structure fee: on the Closing Date, Aurcana paid the Lender a structuring fee of \$560,000 (the “Structuring Fee”). Such fee was paid by a deduction from the amounts funded by the Lender to Aurcana on the Closing Date.
- Production fee: Aurcana shall also pay the Lender a fee of \$75 per wet metric ton of lead concentrate sold by Aurcana during the term of the Term Loan. Such production fee (the “Production Fee”) will be due and payable no later than 10 business days following the end of each fiscal quarter during the term of the Term Loan. If the Term Loan is prepaid, the Production fee will no longer be required from that point forward.

**Debt host and embedded derivatives**

The Term Loan is a hybrid instrument, containing a debt host component and a derivative – a prepayment option that require separation as derivatives. The prepayment option was recorded at fair value and all changes in fair value are recorded in profit or loss. The fair value of the prepayment option was \$nil at inception and as of December 31, 2020 and March 31, 2021.

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

**Aurcana Silver Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in United States dollars, unless otherwise stated)**

**13. Borrowings (continued)**

The fair value of the debt was \$20,592,493 at inception, which represents the remaining fair value allocated from total net proceeds received of \$27,440,000 after \$3,700,603 was allocated to silver swap(Note 14), \$3,146,904 was allocated to silver options (Note 14), and net of structuring fee of \$560,000. The remaining transaction costs and third party fees were paid after the Closing Date.

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

**Valuation methodology**

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

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

	March 31, 2021	December 31, 2020	December 8, 2020
USD instantaneous forward	0.08063% to 2.199%	0.07763% to 1.402%	0.0825% to 1.39018%
Interest rate implied volatility	0.86%	0.593%	0.592%
Credit spread	30.39%	31.54%	31.74%

**Presentation**

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

**Aurcana Silver Corporation**  
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**13. Borrowings (continued)**

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

Principal advanced	\$ 28,000,000
Transaction cost	1,546,800
Derivative liability (note 14)	<u>6,847,507</u>
Fair value of the loan at inception	19,605,693
Accretion	<u>124,045</u>
Carrying value at December 31, 2020	19,729,738
Accretion	<u>510,590</u>
Carrying value at March 31, 2021	<u><u>\$ 20,240,328</u></u>
Accrued Interest (note 10)	\$ 265,551

For the period ended March 31, 2021, the Company recorded accretion of \$510,590 related to Mercuria loan as a finance cost. To calculate the accretion expense, the Company uses the contract life of 5 years and an effective interest rate of 34.33%.

Schedule of principal repayments is as follows:

2022	\$ 7,000,000
2023	7,000,000
2024	7,000,000
2025	<u>7,000,000</u>
	<u><u>\$ 28,000,000</u></u>



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**14. Derivatives**

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

**Silver Swap**

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

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

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**14. Derivatives (continued)**

**Silver Options**

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

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

**Valuation methodology**

The silver swap was valued upon initial measurement and subsequent periods as the mark-to-market less the credit value adjustment, which is based on a formula driven by future discounted cash flow and the risky discounting method. The fair value of the silver swap was \$ 3,700,603 at inception, \$6,243,110 as of December 31, 2020 and \$4,569,115 as of March 31, 2021.

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

	<b>March 31, 2021</b>	<b>December 31, 2020</b>	<b>December 8, 2020</b>
USD 3-month LIBOR	0.08063% to 2.199%	0.07763% to 1.402%	0.0825% to 1.39018%
USD at-the-money swaption volatility	36.79% to 42.57%	33.56% to 84%	35.49% to 68.04%
COMEX silver spot price (oz)	\$24.532	\$26.505	\$23.74
COMEX silver future price (oz)	\$24.6499 to \$27.5590	\$26.332 to \$27.709	\$24.684 to \$25.889
COMEX silver implied volatility (oz)	36.79% to 42.57%	43.31% to 48.75%	38.85% to 45.11%
Credit spread	30.39%	31.54%	31.74%

The silver option was valued upon initial measurement and subsequent periods as the mark-to-market less the credit value adjustment, which is based on Levy's two moment matching method and the risky discounting method. The fair value of the silver option was \$ 3,146,904 at inception, \$4,491,650 as of December 31, 2020 and \$3,032,678 as of March 31, 2021.

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**14. Derivatives (continued)**

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

	<b>March 31, 2021</b>	<b>December 31, 2020</b>	<b>December 8, 2020</b>
USD 3-month LIBOR	0.08063% to 2.199%	0.07763% to 1.402%	0.0825% to 1.39018%
USD at-the-money swaption volatility	36.79% to 42.57%	33.56% to 84%	35.49% to 68.04%
COMEX silver spot price (oz)	\$24.532	\$26.505	\$23.74
COMEX silver future price (oz)	\$24.6499 to \$27.5590	\$26.332 to \$27.709	\$24.684 to \$25.889
COMEX silver implied volatility (oz)	36.79% to 42.57%	43.31% to 48.75%	38.85% to 45.11%
Credit spread	30.39%	31.54%	31.74%

**Presentation**

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

Fair value of the Derivative at inception	\$ 6,847,507
Change in derivatives fair value estimate	<u>3,887,253</u>
Carrying value at December 31, 2020	\$ 10,734,760
Gain (loss) of change in derivatives fair value estimate	<u>3,132,967</u>
Carrying value at March 31, 2021	<u>\$ 7,601,793</u>

**15. Equity**

Authorized

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

Issued

During the period ended March 31, 2021, the Company:

- Closed a non-brokered private placement by issuing 33,406,363 share units of the Company at CDN\$1.00 per unit for gross proceeds of CDN\$33,406,363. Each unit consists of one common share and one common share purchase warrant, with each Warrant entitling the holder thereof to purchase one common share of the Company at an exercise price at a price of CDN\$1.25 for a period of 36 months following the closing of the private placement. Gross proceeds from the private placements of \$17,920,795 were allocated to share capital and \$8,466,538 to warrants using the relative fair value method. The Company paid an aggregate of \$1,339,551 in finder's and issued an aggregate of 2,499,300 agent's warrants with a fair value of \$499,534. The agent's warrants are subject to a statutory hold period and bear the same terms and conditions as the Warrant issued for each private placement.
- 3,578,852 warrants were exercised, for proceeds of \$1,143,548. The fair value of \$240,572 related to the warrants exercised was reclassified from contributed surplus to share capital.

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**15. Equity (continued)**

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

- Closed a non-brokered private placement with two tranches by issuing 26,691,468 share units of the Company at CDN\$0.22 per unit for gross proceeds of CDN\$5,872,123. Each unit consists of one common share and one common share purchase warrant (the "Warrant"), with each Warrant entitling the holder thereof to purchase one common share of the Company at an exercise price at a price of CDN\$0.375 for a period of 36 months following the closing of the Private Placement, subject to adjustment upon certain customary events.
- Closed a non-brokered private placement by issuing 9,337,407 share units of the Company at CDN\$0.27 per unit for gross proceeds of CDN\$2,521,100. Each unit consists of one common share and one common share purchase warrant, with each Warrant entitling the holder thereof to purchase one common share of the Company at an exercise price at a price of CDN\$0.35 for a period of 36 months following the closing of the Private Placement, subject to adjustment upon certain customary events.
- Closed a non-brokered private placement with two tranches by issuing 24,551,400 share units of the Company at CDN\$0.50 per unit for gross proceeds of CDN\$ 12,275,700. Each unit consists of one common share and one common share purchase warrant (the "Warrant"), with each Warrant entitling the holder thereof to purchase one common share of the Company at an exercise price at a price of CDN\$0.75 for a period of 36 months following the closing of the Private Placement, subject to adjustment upon certain customary events.
- Gross proceeds from the private placements of \$10,353,092 were allocated to share capital and \$5,145,228 to warrants using the relative fair value method The Company paid an aggregate of \$884,369 in finder's fees and issued an aggregate of 2,755,746 agent's warrants with a fair value of \$415,245. The agent's warrants are subject to a statutory hold period and bear the same terms and conditions as the Warrant issued for each private placement.
- 25,381,507 warrants were exercised, for proceeds of \$7,113,175. The fair value of \$1,550,126 related to the warrants exercised was reclassified from contributed surplus to share capital.

Escrow shares

In connection with the acquisition of OSM completed during the year ended December 31, 2018, the Company entered into a Value Escrow Agreement dated 27, 2018, whereby 87,765,159 common shares were held in escrow and are scheduled for release in accordance with the terms of the Value Escrow Agreement. As of March 31, 2021, there were 26,329,548 common shares in escrow.

Stock options

The Company is authorized to issue up to 11,514,593 options, of which 4,710,000 options are outstanding with a remaining balance of 6,804,593 options available to be issued.

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**15. Equity (continued)**

<u>Stock options</u>	Number of Common Share Purchase Option	Weighted Average Exercise Price per Share (\$CDN)
<b>Balance, December 31, 2019</b>	1,060,000	1.14
Forfeited	(500,000)	1.02
Granted	4,450,000	0.55
<b>Balance, December 31, 2020</b>	5,010,000	0.63
Expired	(300,000)	0.85
<b>Balance, March 31, 2021</b>	4,710,000	0.61

A summary of the Company's Option outstanding and exercisable as of March 31, 2021 and December 31, 2020 is presented below:

Stock option March  
31, 2021

Outstanding	Vested	Exercise Price (CDN\$)	Expiry Date
80,000	80,000	2.00	August 5, 2021
180,000	180,000	1.60	April 27, 2022
4,450,000	1,112,500	0.55	April 29, 2025
<u>4,710,000</u>	<u>1,372,500</u>		

Stock option  
December 31, 2020

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

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**15. Equity (continued)**

The weighted average remaining contractual life of stock options outstanding is 3.47 years (2020: 3.91 years). The values post consolidation stock options utilized the Black Scholes option pricing model.

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

For the three-month period ended March 31, 2021 the stock-based compensation expense was \$110,077 (March 31, 2020 \$nil). Fair value of stock options granted as above is calculated using the following weighted average assumptions:

	March 2021	March 2020
Risk-free interest rate	0.41%	-
Expected stock price volatility	99.48%	-
Expected dividend yield	Nil	-
Exercise price	0.55	
Price on date of issue	0.5	
Forfeiture rate	0	
Expected warrant life in years	4.08	-

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants	Exercise Price (CDN\$)
<b>Balance, December 31, 2019</b>	48,698,701	0.650
Private placement	63,336,021	0.523
Excercised	(25,381,507)	0.376
Expired	(2,447,746)	2.250
<b>Balance, December 31, 2020</b>	84,205,469	0.589
Private placement	35,905,663	1.250
Excercised	(3,578,852)	0.405
<b>Balance, March 31, 2021</b>	116,532,280	0.798

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**15. Equity (continued)**

As of March 31, 2021, details of outstanding warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
2,737,560	\$1.500	May 3, 2021
6,292,000	\$1.250	December 27, 2021
12,569,124	\$0.375	August 15, 2022
6,307,883	\$0.375	September 3, 2022
10,801,823	\$0.375	February 20, 2023
7,258,341	\$0.375	March 2, 2023
9,134,546	\$0.350	April 17, 2023
22,725,040	\$0.750	July 20, 2023
2,800,300	\$0.750	July 28, 2023
35,905,663	\$1.250	January 27, 2024
<u>116,532,280</u>	<u>\$0.798</u>	

As of March 31, 2021, the weighted average remaining contractual life of warrants outstanding is 2.10 years.

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

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

As of December 31, 2020, the weighted average remaining contractual life of warrants outstanding is 2.0 years.

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**15. Equity (continued)**

The values of warrants determined during the period ended March 31, 2021 utilized the Black-Scholes option pricing model weighted the weight average input factors and assumptions as follows:

	March 31 2021	December 31 2020
Risk-free interest rate	0.19%	0.28% - 1.40%
Expected stock price volatility	89.63%	77.26% - 90.12%
Expected dividend yield	Nil	Nil
Expected warrant life in years	3	3
Share price CDN	\$ 1.00	\$0.23 - \$0.50
Exercise price CDN	\$ 1.250	\$0.35 - \$0.75

**16. General and administrative costs**

	Three months ended March 31,	
	2021	2020
Salaries and consulting fees *	\$ 328,534	\$ 482,373
Financing cost *	60,919	-
Professional fees	114,426	31,449
Investor relations	23,859	22,500
Marketing and road shows	88,883	91,856
Listing and filing fees	99,276	13,434
Other	40,008	122,926
	<u>\$ 755,905</u>	<u>\$ 764,538</u>

	Three months ended March 31,	
	2021	2020
Other break down:		
Rent and overhead *	\$ 4,058	\$ 3,923
Travel and accommodation	3,063	18,500
Office	32,887	70,701
Write-off Accounts Receivable	-	29,802
Total Other	<u>\$ 40,008</u>	<u>\$ 122,926</u>

\* OSMI reclassified to mine development cost certain general and administrative costs related to pre-production development.



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**17. Financing and Other Expense**

	Notes	Three months ended March 31,	
		2021	2020
Accretion of lease liability	8	\$ 820	\$ 8,448
Accretion on borrowings	13	510,590	-
Interest Expense		-	2,162
Bank charges		7,029	3,001
		<u>\$ 518,439</u>	<u>\$ 13,611</u>

Certain OSMI financing costs related to pre-production development have been capitalized.

**18. Maintenance costs**

		Three months ended March 31,	
		2021	2020
Site surface cost		\$ 10,250	\$ 365,102
Insurance		11,097	96,041
Enviromental		-	50,170
Property taxes		24,000	160,799
		<u>\$ 45,347</u>	<u>\$ 672,112</u>

Certain OSMI maintenance costs related to pre-production development have been capitalized.

**19. Related Party Transactions**

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

**a) Trading transactions**

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

	Note	March 31 2021	March 31 2020
General and administrative expenses - Consulting Fees	(i)	\$ 52,637	\$ 23,153

(i) To companies controlled by the corporate secretary and directors for services performed.

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**19. Related Party Transactions (continued)**

**b) Compensation of key management personnel**

	March 31 2021	March 31 2020
Consulting fees (as above)	\$ 52,637	\$ 23,153
Stock-based compensation	86,949	-
Officer salaries	206,898	166,669
	<u>\$ 346,484</u>	<u>\$ 189,822</u>

As of March 31, 2021 and December 31, 2020, the Company balance in accounts payable and trade and other receivables for related parties is \$nil.

**20. Supplemental Cash Flow Information**

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

	March 31 2021	December 31 2020
Cash	\$ 6,440,050	\$ 22,457,019
Short-term investments	32,678,775	7,221,762
	<u>\$ 39,118,825</u>	<u>\$ 29,678,781</u>

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

**Supplemental disclosures of non-cash investing and financing activities:**

	March 31 2021	December 31 2020
Increase (decrease) in accounts payable related to construction in progress and equipment suppliers	\$ (1,427,055)	\$ 1,440,975

**Supplemental disclosures of other activities:**

	March 31 2021	December 31 2020
Cash interest paid	\$ 995,812	\$ -

There were no amounts of cash paid for income taxes for the periods presented.

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**21. 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.

<b>March 31, 2021</b>	<b>Ouray</b>	<b>Shafter</b>	<b>Corporate and other segments</b>	<b>Total</b>
General and administrative cost	61,309	341,971	352,625	755,905
Maintenance costs	-	45,347	-	45,347
Depreciation and amortization	-	-	155	155
Foreign exchange loss	-	-	1,578,058	1,578,058
Stock-based compensation	50,635	-	59,442	110,077
Other expenses	509,290	(130)	5,977	515,137
Gain (loss) of change in derivatives fair value estimate	3,132,967	-	-	3,132,967
Net income (loss) for the period before other comprehensive items	2,511,733	(387,188)	(1,996,257)	128,288
Currency translation adjustment	-	-	1,353,501	1,353,501
Total comprehensive income (loss) for the period	2,511,733	(387,188)	(642,756)	1,481,789
Property, plant and equipment *	39,178,410	10,108,764	2,241	49,289,415
Mineral properties	27,764,039	12,663,526	458,143	40,885,708
Total capital assets	66,942,449	22,772,290	460,384	90,175,123
Total assets	74,887,614	22,804,818	33,306,441	130,998,873
Total liabilities	29,669,448	668,499	168,280	30,506,227

\* Includes OSM Mine Development cost for the year: \$ 13,038,291

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**21. Segmented Information (continued)**

<b>March 31, 2020</b>	Ouray	Shafter	Corporate and other segments	Total
General and administrative cost	340,343	68,224	355,971	764,538
Care & maintenance costs	618,351	53,761	-	672,112
Depreciation and amortization	334,333	-	146	334,479
Foreign exchange loss	-	-	(572,900)	(572,900)
Other (income) expenses	34,841	99	2,087	37,027
Net loss for the period before other comprehensive items	(1,327,868)	(122,084)	214,696	(1,235,256)
Currency translation adjustment	-	-	(700,723)	(700,723)
Total comprehensive loss for the period	(1,327,868)	(122,084)	(486,027)	(1,935,979)

<b>December 31, 2020</b>	Ouray	Shafter	other segments	Total
Property, plant and equipment *	25,991,578	10,108,764	2,396	36,102,738
Mineral properties	27,764,039	12,663,526	458,143	40,885,708
Total capital assets	53,755,617	22,772,290	460,539	76,988,446
Total assets	77,343,291	22,815,662	7,856,680	108,015,633
Total liabilities	34,393,784	644,229	268,170	35,306,183

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

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**22. Retirement Plan**

The Company sponsors a 401(k)-retirement plan (the “Plan”) that covers all employees. The Plan is available to employees who complete one month of service. Employees may contribute amounts based on limits established by the IRS. The plan provides for discretionary employer matching contributions. Plan participants become 100% vested in employer contributions to the Plan after two years of employment. Matching contributions totaled \$124,435 for the period ended March 31, 2021 (same period 2020 \$23,974).

**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.

On March 31, 2021 and December 31, 2020, the Company’s Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in US Dollar:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	<b>32,483,075</b>	5,386,662
Trade and other receivables	-	-
Accounts payable and accrued liabilities	<b>(32,000)</b>	-
	<u><b>32,451,075</b></u>	<u>5,386,662</u>
<b>CDN\$ Equivalent</b>	<b>40,807,227</b>	<b>7,642,057</b>

Based on the above net exposures as of March 31, 2020, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US Dollar against the CDN Dollar would result in a CDN\$3,245,198 change to the Company’s net income for the period.

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**23. Financial instruments (continued)**

On March 31, 2021 and December 31, 2020, the Company's Mexican operations (US Dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		<u>2021</u>	<u>2020</u>
Cash and cash equivalents	MXP\$	-	47,354
<b>USD\$ Equivalent</b>		<b>-</b>	<b>2,014</b>

Based on the above net exposures as of March 31, 2021, 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 \$nil change to the Company's net income for the year.

(b) Credit risk:

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

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

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

Exceptions to the policy for dealing with relationship banks with ratings below "A-" are reported to, and approved by, the Audit Committee. As of March 31, 2021 substantially all cash and short-term deposits are with counterparties with ratings "A-" or higher.

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

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

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**23. Financial instruments (continued)**

(c) Liquidity risk:

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

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

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

The following table disclose the gross contractual obligations as of March 31, 2020:

	Total	2021	2022	2023	2024	2025
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,016,408	1,016,408	-	-	-	-
Lease liability	129,529	119,910	9,619	-	-	-
Borrowings	28,000,000	-	7,000,000	7,000,000	7,000,000	7,000,000
	<u>29,145,937</u>	<u>1,136,318</u>	<u>7,009,619</u>	<u>7,000,000</u>	<u>7,000,000</u>	<u>7,000,000</u>

(d) Interest Rate Risk

Interest rate risk is the risk that the fair values and future cash flows of the Company's financial instruments will fluctuate due to changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's financial liabilities consist primarily of long-term variable rate debt, which consist of certain borrowings with a total principal value of \$28.0 million on March 31, 2021 and December 31, 2020. If the interest rate changed by 10 points would result in a approximately \$3.0 million change to the Company's net income for the year.

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

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**23. Financial instruments (continued)**

(e) Fair Value:

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

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

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

The following table summarizes the fair value hierarchy, as of March 31, 2021:

	Fair Value Through Profit or Loss	Amortized Costs	Fair Value		
			Level 1	Level 2	Level 3
<b>Asset (Liability)</b>					
Cash and cash equivalents	39,118,825		39,118,825		
Trade and other receivables		46,396			
Accounts payable and accrued liabilities		(1,016,408)			
PPP Loan & Borrowings		(20,661,328)			
Derivatives	(7,601,793)				(7,601,793)

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

	Fair Value Through Profit or Loss	Amortized Costs	Fair Value		
			Level 1	Level 2	Level 3
<b>Asset (Liability)</b>					
Cash and cash equivalents	29,678,781		29,678,781		
Trade and other receivables		25,865			
Accounts payable and accrued liabilities		(3,162,893)			
PPP Loan & Borrowings		(20,150,738)			
Derivatives	(10,734,760)				(10,734,760)

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



**Aurcana Silver Corporation**  
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**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.

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

**25. COVID-19 (coronavirus)**

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

**26. Subsequent event**

No subsequent event after the end of the period.