# AURCANA SILVER CORPORATION
## (Formerly Aurcana Corporation)

## Condensed Interim Consolidated Financial Statements

## September 30, 2021

(Unaudited)

Expressed in United States dollars unless otherwise stated

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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"* | *"Charles R. Andrews"* |
| ***President and CEO*** | ***CFO*** |

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

| | Notes | September 30 2021 | December 31 2020 |
|---|---|---|---|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 20 | $ 6,062,361 | $ 29,678,781 |
| Trade and other receivables | 4 | 40,814 | 25,865 |
| Inventory | 5 | 2,196,435 | 142,382 |
| Prepaid expenses and advances | | 3,071,059 | 485,996 |
| | | **11,370,669** | **30,333,024** |
| Non Current assets | | | |
| Long term deposits | | 326,260 | 76,173 |
| Non-current prepaid expenses | | - | 12,788 |
| Property, plant and equipment | 6 | 86,052,124 | 36,102,738 |
| Mineral Properties | 7 | 40,885,708 | 40,885,708 |
| Right-of-use asset | 8 | 33,392 | 120,907 |
| Reclamation deposits | 9 | 525,245 | 484,295 |
| Total assets | | **$ 139,193,398** | **$ 108,015,633** |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 10 | $ 10,013,307 | $ 3,162,893 |
| Paycheck Protection Program | 11 | - | 421,000 |
| Current portion of lease payable | 8 | 40,108 | 132,202 |
| | | **10,053,415** | **3,716,095** |
| Non Current liabilities | | | |
| Lease payable | 8 | - | 5,320 |
| Provision for environmental rehabilitation | 12 | 1,120,270 | 1,120,270 |
| Borrowings | 13 | 21,300,769 | 19,729,738 |
| Derivative liability | 14 | 450,271 | 10,734,760 |
| Total liabilities | | **32,924,725** | **35,306,183** |
| Equity | | | |
| Share capital | 15 | 65,507,451 | 47,167,854 |
| Contributed surplus | | 148,936,464 | 138,413,862 |
| Accumulated other comprehensive income | | 87,010 | 176,172 |
| Deficit | | (108,273,417) | (113,059,603) |
| Total equity attributable to equity holders of the parent | | 106,257,508 | 72,698,285 |
| Non-controlling interest | | 11,165 | 11,165 |
| Total equity | | **106,268,673** | **72,709,450** |
| | | **$ 139,193,398** | **$ 108,015,633** |

Nature of Operations and Going Concern (Note 1)

*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***

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

| | Notes | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| General and administrative costs | 16 | $ 608,484 | $ 1,388,626 | $ 2,053,637 | $ 3,159,931 |
| Financing expense and others | 17 | 526,993 | 6,494 | 1,588,167 | 39,923 |
| Maintenance costs | 18 | 48,310 | 1,134,169 | 154,281 | 2,536,271 |
| Depreciation and amortization property, plant and equipment | 6 | 156 | 345,810 | 471 | 1,014,809 |
| Stock-based compensation | 15 | 532,939 | - | 1,972,113 | 880,782 |
| Amortization of right-of-use asset | 8 | 4,472 | 28,897 | 13,508 | 86,489 |
| Foreign exchange (gain) loss | | (882,772) | 2,604,210 | 130,728 | 3,262,436 |
| | | 838,582 | 5,508,206 | 5,912,905 | 10,980,641 |
| **Gain of change in derivatives fair value estimate** | 14 | 9,966,151 | - | 10,284,489 | - |
| **Other income** | | 2,681 | 1,332 | 414,602 | 8,173 |
| **Net income (loss) for the period before other comprehensive items** | | 9,130,250 | (5,506,874) | 4,786,186 | (10,972,468) |
| **Total other comprehensive income (loss) for the period** | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Currency translation adjustment | | (890,041) | 2,548,483 | (89,162) | 3,195,364 |
| Total other comprehensive income (loss) for the period | | (890,041) | 2,548,483 | (89,162) | 3,195,364 |
| **Total comprehensive income (loss) for the period** | | $ 8,240,209 | $ (2,958,391) | $ 4,697,024 | $ (7,777,104) |
| Weighted average number of shares basic | | 278,203,118 | 220,073,354 | 273,190,790 | 190,767,663 |
| Weighted average number of shares basic and diluted | | 304,863,381 | 220,073,354 | 281,839,240 | 190,767,663 |
| **Loss per share** | | | | | |
| **Income (loss) per share basic** | | $ 0.03 | $ (0.03) | $ 0.02 | $ (0.06) |
| **Income (loss) per share diluted** | | $ 0.03 | $ (0.03) | $ 0.02 | $ (0.06) |

*See accompanying notes to these consolidated financial statements.*

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

| | Share Capital | | Contributed | Accumulated Other Comprehensive | | Shareholders of | Non-controlling | Total |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | $ | Surplus | Income (Loss) | Deficit | the Company | Interest | Equity |
| **Balance, December 31, 2019** | 152,048,223 | 29,451,075 | 133,939,863 | (162,873) | (96,449,470) | 66,778,595 | 11,165 | 66,789,760 |
| Net loss for the 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 |
| **Balance, December 31, 2020** | 238,010,005 | 47,167,854 | 138,413,862 | 176,172 | (113,059,603) | 72,698,285 | 11,165 | 72,709,450 |
| Net income for the period | - | - | - | - | 4,786,186 | 4,786,186 | - | 4,786,186 |
| Shares issued for: | | | | | | | | |
| Private placement (note 15) | 34,292,893 | 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 | 5,957,611 | 2,257,887 | (415,583) | - | - | 1,842,304 | - | 1,842,304 |
| Stock-based compensation | - | - | 1,972,113 | - | - | 1,972,113 | - | 1,972,113 |
| Currency translation adjustment | - | - | - | (89,162) | - | (89,162) | - | (89,162) |
| **Balance, September 30, 2021** | 278,260,509 | $ 65,507,451 | $ 148,936,464 | $ 87,010 | $ (108,273,417) | $106,257,508 | $ 11,165 | $ 106,268,673 |

*See accompanying notes to these consolidated financial statements.*

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

| | Notes | Nine months ended September 30, 2021 | 2020 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income (loss) for the period | | $ 4,786,186 | $ (10,972,468) |
| Items not involving cash: | | | |
| Depreciation and amortization property plant and equipment | 6 | 471 | 1,014,809 |
| Stock-based compensation | 15 | 1,972,113 | 880,782 |
| Amortization right to use asset | 8 | 13,508 | 86,489 |
| Write-off Accounts Payable (PPP) | 11 | (421,000) | - |
| Write-off Accounts Receivable | 4 | - | 29,802 |
| Accretion of lease liability | 8 | 1,984 | 22,412 |
| Finance Cost | 13 | 1,571,031 | - |
| Change in derivatives fair value estimate | 14 | (10,284,489) | - |
| Unrealized foreign exchange loss | | 130,728 | 3,197,614 |
| **Operating cash flow before changes in working capital** | | (2,229,468) | (5,740,560) |
| Net changes to non-cash working capital balances | | | |
| Trade and other receivables | | (14,949) | 9,468 |
| Prepaid expenses and advances | | (2,572,275) | 134,492 |
| Inventory | | (2,054,053) | - |
| Accounts payable and accrued liabilities | | 6,134,411 | 856,514 |
| Term deposits | | (250,087) | (1,340) |
| **Cash used in operating activities** | | (986,421) | (4,741,426) |
| **Cash flows from investing activities** | | | |
| Proceeds from the sale of equipment | | 4,100 | 475 |
| Mine development | | (49,698,165) | (5,148,053) |
| Purchase of property, plant and equipment | | 542,251 | (268,502) |
| Restricted assets | | (40,950) | (3,526) |
| **Cash used in investing activities** | | (49,192,764) | (5,419,606) |
| **Cash flows from financing activities** | | | |
| Lease payments | 8 | (107,675) | (106,413) |
| Share capital issued | 15 | 28,229,637 | 20,687,618 |
| Share Issue Costs | 15 | (1,339,551) | (1,109,432) |
| **Cash provided by financing activities** | | 26,782,411 | 19,471,773 |
| (Decrease) / increase in cash and cash equivalents | | (23,396,774) | 9,310,741 |
| Effect of exchange rate changes on cash | | (219,646) | (3,506) |
| Cash and cash equivalents, beginning of the period | | 29,678,781 | 3,944,286 |
| **Cash and cash equivalents, end of the period** | | $ 6,062,361 | $ 13,251,521 |

Supplemental Cash Flow information (Note 20)

*See accompanying notes to these consolidated financial statements.*

## 1. Nature of Operations and Going Concern

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

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

These condensed Interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business including the process of dissolving the Mexican subsidiaries not in operations since January 2016. 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 metal prices, may cast significant doubt upon the Company's ability to continue as a going concern. As at September 30, 2021, the Company had working capital of $1.3 million, compared with $26.6 million as at December 31, 2020. The major components of working capital at September 30, 2021 included $6.1 million of cash and cash equivalents, and $10.0 million in accounts payable. Consolidated deficit of $108.3 million As at September 30, 2021, compared with $113.1 million at December 31, 2020.

## 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 November 24, 2021.

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 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.

## 4. Trade and Other Receivables

| | September 30 2021 | December 31 2020 |
|---|---|---|
| GST receivable | 4,385 | 5,528 |
| Others | 36,429 | 20,337 |
| | $ 40,814 | $ 25,865 |

During the year ended December 31, 2020, the Company wrote off $29,802 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 at Ouray Silver Mines consisting of spare parts and consumable goods used for operations, general repairs, and maintenance.

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 6. Property, Plant and Equipment

| | Buildings | Plant and Equipment (i) | Mine Development Cost (ii) | Vehicles | Computer Equipment | Other | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at December 31, 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 | - | - | 50,496,208 | 112,992 | - | - | 50,609,200 |
| Reclassifications | (91,449) | (897,590) | 345,088 | (15,392) | - | - | (659,343) |
| Write-down and disposals | - | - | - | (23,775) | - | - | (23,775) |
| Balance at September 30, 2021 | $ 5,758,259 | $ 13,148,946 | $ 74,392,818 | $ 376,207 | $ 276,896 | $ 525,589 | $ 94,478,715 |
| **Accumulated depreciation** | | | | | | | |
| 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) | - | - | - | - | 471 | - | 471 |
| Balance at September 30, 2021 | $ 798,798 | $ 6,840,504 | $ - | $ 115,848 | $ 269,039 | $ 402,402 | $ 8,426,591 |
| Net book value | | | | | | | |
| 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 September 30, 2021 | $ 4,959,461 | $ 6,308,442 | $ 74,392,818 | $ 260,359 | $ 7,857 | $ 123,187 | $ 86,052,124 |

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 nine months of the year depreciation for OSMI has been reclassified to mine development cost due to preproduction ramp-up.

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 7. Mineral Properties

| | Revenue-Virginius, Colorado, USA, In development | Shafter, Texas, USA, In Care & Maintenance | Total |
|---|---|---|---|
| Balance at December 31, 2019, December 31, 2020, and September 30, 2021 | $ 27,764,038 | $ 13,121,670 | $ 40,885,708 |
| Net book value | | | |
| Balance at December 31, 2019, December 31, 2020, and September 30, 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 Virginius Vein contiguous to the Revenue-Virginius Mine. In return, Caldera received certain non-core claims of the Revenue-Virginius Mine from OSM. The swap of mineral properties has been considered a non-monetary transaction for which the fair value of the asset received was not reliably measurable. As a result, the original carrying value of the properties given up by the Company has been allocated to the Blue Grass claim acquired from Caldera. Upon the completion of the swap, Blue Grass claim became a part of the Revenue-Virginius Mine.

## 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.

**(Unaudited and 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:

| **Right-of-use asset** | | Canada | | USA | | Total |
|---|---|---|---|---|---|---|
| Balance as at December 31, 2019 | $ | 39,048 | $ | 197,334 | $ | 236,382 |
| Amortization | | 16,799 | | 98,676 | | 115,475 |
| Balance as at December 31, 2020 | | 22,249 | | 98,658 | | 120,907 |
| Capitalization (mine development) | | - | | 74,007 | | 74,007 |
| Amortization * | | 13,508 | | - | | 13,508 |
| Balance as at September 30, 2021 | $ | 8,741 | $ | 24,651 | $ | 33,392 |

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

| **Lease liability** | | Canada | | USA | | Total |
|---|---|---|---|---|---|---|
| Balance as at December 31, 2019 | $ | 41,008 | $ | 210,712 | $ | 251,720 |
| Payments | | (20,672) | | (121,404) | | (142,076) |
| Accretion expense | | 4,550 | | 23,368 | | 27,918 |
| Currency translation adjustment | | (40) | | - | | (40) |
| Balance as at December 31, 2020 | | 24,846 | | 112,676 | | 137,522 |
| Payments | | (16,622) | | (91,053) | | (107,675) |
| Accretion capitalized | | - | | 8,033 | | 8,033 |
| Accretion expense | | 1,984 | | - | | 1,984 |
| Balance as at September 30, 2021 | | 10,208 | | 29,656 | | 39,864 |
| Less current portion | | 10,452 | | 29,656 | | 40,108 |
| Currency translation adjustment | | 244 | | - | | 244 |
| 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 September 30, 2021:

| | Total | 2021 | 2022 |
|---|---|---|---|
| | $ | $ | $ |
| Head office lease CDN | 24,192 | 12,096 | 12,096 |
| OSM Warehouse lease | 30,351 | 30,351 | - |

**(Unaudited and 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-Virginius Mine and this deposit is held until the mine effectively closes.

## 10. Accounts Payable and Accrued Liabilities

| | September 30 2021 | December 31 2020 |
|---|---|---|
| Salaries, payroll deductions and employee benefits | $ 853,671 | $ 334,634 |
| Property taxes | 181,817 | 132,782 |
| Mine development | 5,930,165 | 378,286 |
| Mine supplies | 2,156,978 | 1,440,975 |
| Insurance | 513,343 | 269,483 |
| Accrued Interest | 275,927 | 265,550 |
| Other | 101,406 | 341,183 |
| | $ 10,013,307 | $ 3,162,893 |

## 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.

**(Unaudited and 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:

| | September 30 2021 | December 31 2020 |
|---|---|---|
| Environmental rehabilitation, beginning of the year | $ 1,120,270 | $ 1,120,270 |
| Environmental rehabilitation, end of the period | $ 1,120,270 | $ 1,120,270 |

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 September 30, 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 | 1,546,800 |
| Net amount | 26,453,200 |
| Silver swap | 3,700,603 |
| Silver options | 3,146,904 |
| Fair value of the loan at inception | $ 19,605,693 |

## 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 September 30, 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.

**(Unaudited and 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 |
|---|---|
| **Term Loan (including the Production Fee)** | $20,592,493 |
| **Silver Swap (Note 14)** | $3,700,603 |
| **Silver Options (Note 14)** | $3,146,904 |
| **Total** | $27,440,000 |

### Valuation methodology

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

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

| | September 30, 2021 | December 31, 2020 | December 8, 2020 |
|---|---|---|---|
| USD instantaneous forward | 0.07338% to 1.7934% | 0.07763% to 1.402% | 0.0825% to 1.39018% |
| Interest rate implied volatility | 0.831% | 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.

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 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) | 6,847,507 |
| Fair value of the loan at inception | 19,605,693 |
| Accretion | 124,045 |
| **Carrying value at December 31, 2020** | 19,729,738 |
| Accretion | 1,571,031 |
| **Carrying value at September 30, 2021** | $ 21,300,769 |
| | |
| Accrued Interest (note 10) | $ 275,927 |

For the three months period ended September 30, 2021, the Company recorded accretion of $522,367 related to the 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 | 7,000,000 |
| | $ 28,000,000 |

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 14. Derivatives

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

### Silver Swap

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

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

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 14. Derivatives (continued)

### Silver Options

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

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

### Valuation methodology

The silver swap was valued upon initial measurement and subsequent periods as the mark-to-market less the credit value adjustment, which is based on a formula driven by future discounted cash flow and the risky discounting method. The fair value of the silver swap was $ 3,700,603 at inception, $6,243,110 as of December 31, 2020 and ($872,809) as of September 30, 2021.

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

| | September 30, 2021 | December 31, 2020 | December 8, 2020 |
|---|---|---|---|
| USD 3-month LIBOR | 0.07338% to 1.7934% | 0.07763% to 1.402% | 0.0825% to 1.39018% |
| USD at-the-money swaption volatility | 29.08% to 90.17% | 33.56% to 84% | 35.49% to 68.04% |
| COMEX silver spot price (oz) | $22.047 | $26.505 | $23.74 |
| COMEX silver future price (oz) | $22.0488to $23.03 | $26.332 to $27.709 | $24.684 to $25.889 |
| COMEX silver implied volatility (oz) | 34.27% to 51.87% | 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 $1,323,080 as of September 30, 2021.

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 14. Derivatives (continued)

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

| | September 30, 2021 | December 31, 2020 | December 8, 2020 |
|---|---|---|---|
| USD 3-month LIBOR | 0.07338% to 1.7934% | 0.07763% to 1.402% | 0.0825% to 1.39018% |
| USD at-the-money swaption volatility | 29.08% to 90.17% | 33.56% to 84% | 35.49% to 68.04% |
| COMEX silver spot price (oz) | $22.047 | $26.505 | $23.74 |
| COMEX silver future price (oz) | $22.0488to $23.03 | $26.332 to $27.709 | $24.684 to $25.889 |
| COMEX silver implied volatility (oz) | 34.27% to 51.87% | 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 | 3,887,253 |
| **Carrying value at December 31, 2020** | $ 10,734,760 |
| Gain (loss) of change in derivatives fair value estimate | 10,284,489 |
| **Carrying value at September 30, 2021** | $ 450,271 |

## 15. Equity

*Authorized*

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

*Issued*

During the three months period ended September 30, 2021, 60,000 warrants were exercised, for proceeds of $17,857. The fair value of $3,155 related to the warrants exercised was reclassified from contributed surplus to share capital.

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

- Closed a non-brokered private placement by issuing 34,292,893 share units of the Company at CDN$1.00 per unit for gross proceeds of CDN$34,292,893. 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 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.

**15. Equity (continued)**

- 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.

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 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 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 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, and released over time. As of September 30, 2021, common shares in escrow account are nil.

*Stock options*
The Company adopted a rolling 10% stock option plan at the AGM held on June 30, 2021, upon receiving shareholder approval. The total number of options that can be granted under the plan, based on the current issued and outstanding shares is 27,820,051. As of September 30th, there were 10,455,000 option outstanding, leaving a balance of 17,365,051 options available under the plan.

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

**15. Equity (continued)**

| *Stock options* | Number of Common Share Purchase Option | Weighted Average Exercise Price per Share (CDN$) |
|---|---|---|
| **Balance, December 31, 2019** | 1,060,000 | 1.14 |
| Forfeited | (500,000) | 1.02 |
| Granted | 4,450,000 | 0.55 |
| **Balance, December 31, 2020** | 5,010,000 | 0.63 |
| Forfeited | (375,000) | 0.55 |
| Granted | 6,120,000 | 1.10 |
| Expired | (380,000) | 0.85 |
| **Balance, September 30, 2021** | 10,375,000 | 0.89 |

A summary of the Company's Option outstanding and exercisable as of September 30, 2021 and December 31, 2020 is presented below:

*Stock option*
*September 30, 2021*

| Outstanding | Vested | Exercise Price (CDN$) | Expiry Date |
|---|---|---|---|
| 180,000 | 180,000 | 1.60 | April 27, 2022 |
| 4,075,000 | 2,037,500 | 0.55 | April 29, 2025 |
| 6,120,000 | 1,530,000 | 1.10 | May 26, 2026 |
| 10,375,000 | 3,747,500 | | |

*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 |
| 5,010,000 | 1,672,500 | | |

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

**15. Equity (continued)**

The weighted average remaining contractual life of stock options outstanding is 3.79 years (2020: 3.91 years). The values post consolidation stock options utilized the Black Scholes option pricing model.

On May 26, 2021, the Company granted 6,120,000 options with an estimated fair value of $1,329,097 to directors, officers, employees, and consultants at a price of CDN$1.10 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.

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 months period ended September 30, 2021 the stock-based compensation expense was $532,939 (September 30, 2020 $880,782). Fair value of stock options granted as above is calculated using the following weighted average assumptions:

| | September 2021 | December 2020 |
|---|---|---|
| Risk-free interest rate | 0.87% | 0.41% |
| Expected stock price volatility | 129.65% | 99.48% |
| Expected dividend yield | Nil | Nil |
| Exercise price | 1.10 | 0.55 |
| Price on date of issue | 1.01 | 0.40 |
| Forfeiture rate | 0 | 0 |
| Expected warrant life in years | 4.65 | 3.58 |

*Warrants*

| Common Share Purchase Warrants | Number of Common Share Warrants | Exercise Price (CDN$) |
|---|---|---|
| **Balance, December 31, 2019** | 48,698,701 | 0.650 |
| Private placement | 63,336,021 | 0.523 |
| Excercised | (25,381,507) | 0.376 |
| Expired | (2,447,746) | 2.250 |
| **Balance, December 31, 2020** | 84,205,469 | 0.589 |
| Private placement | 35,905,663 | 1.250 |
| Excercised | (5,957,611) | 0.388 |
| Expired | (2,737,560) | 1.500 |
| **Balance, September 30, 2021** | 111,415,961 | 0.790 |

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

**15. Equity (continued)**

As of September 30, 2021, details of outstanding warrants are as follows:

| Number of Common Share Purchase Warrants | Exercise Price (CDN$) | Expiry Date |
|---:|---:|---:|
| 6,292,000 | 1.250 | December 27, 2021 |
| 12,569,124 | 0.375 | August 15, 2022 |
| 6,120,942 | 0.375 | September 3, 2022 |
| 10,495,005 | 0.375 | February 20, 2023 |
| 7,123,341 | 0.375 | March 2, 2023 |
| 7,434,546 | 0.350 | April 17, 2023 |
| 22,675,040 | 0.750 | July 20, 2023 |
| 2,800,300 | 0.750 | July 28, 2023 |
| 35,905,663 | 1.250 | January 27, 2024 |
| 111,415,961 | 0.790 | |

As of September 30, 2021, the weighted average remaining contractual life of warrants outstanding is 1.65 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 |
| 84,205,469 | 0.589 | |

As of December 31, 2020, the weighted average remaining contractual life of warrants outstanding is 1.65 years.

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

### 15. Equity (continued)

The values of warrants determined during the period ended September 30, 2021 utilized the Black-Scholes option pricing model weighted the weight average input factors and assumptions as follows:

| | September 30 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 September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|
| Salaries and consulting fees * | $ 303,683 | $ 743,638 | $ 967,550 | $ 1,918,512 |
| Financing cost * | - | - | 59,440 | - |
| Professional fees | 101,014 | 115,564 | 373,835 | 175,971 |
| Investor relations | 64,797 | 183,001 | 141,176 | 265,044 |
| Marketing and road shows | 77,843 | 79,063 | 241,088 | 207,612 |
| Listing and filing fees | 15,953 | 92,565 | 152,480 | 178,215 |
| Other | 45,194 | 174,795 | 118,068 | 414,577 |
| | $ 608,484 | $ 1,388,626 | $ 2,053,637 | $ 3,159,931 |

| Other break down: | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|
| Rent and overhead * | $ 4,082 | $ 17,853 | $ 10,733 | $ 23,308 |
| Travel and accommodation | 2,831 | 138 | 9,658 | 31,463 |
| Office | 38,281 | 156,804 | 97,677 | 330,004 |
| Write-off Accounts Receivable | - | - | - | 29,802 |
| Total Other | $ 45,194 | $ 174,795 | $ 118,068 | $ 414,577 |

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

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 17. Financing and Other Expense

| | Notes | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|---|
| Accretion of lease liability | 8 | $ 486 | $ 6,511 | $ 1,984 | $ 22,412 |
| Accretion on borrowings | 13 | 522,367 | - | 1,571,031 | - |
| Interest Expense | | - | 88 | - | 4,412 |
| Bank charges | | 4,140 | 6,406 | 15,152 | 13,099 |
| | | $ 526,993 | $ 13,005 | $ 1,588,167 | $ 39,923 |

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

## 18. Maintenance costs

| | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|
| Site surface cost | $ 12,319 | $ 877,049 | $ 48,096 | $ 1,839,068 |
| Insurance | 11,991 | 94,434 | 34,185 | 286,047 |
| Enviromental | - | 107,234 | - | 246,771 |
| Property taxes | 24,000 | 55,452 | 72,000 | 164,385 |
| | $ 48,310 | $ 1,134,169 | $ 154,281 | $ 2,536,271 |

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 | September 30 2021 | September 30 2020 |
|---|---|---|---|
| General and administrative expenses - Consulting Fees | (i) | $ 157,142 | $ 90,660 |

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

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 19. Related Party Transactions (continued)

### b) Compensation of key management personnel

| | September 30 2021 | September 30 2020 |
|---|---|---|
| Consulting fees (as above) | $ 157,142 | $ 90,660 |
| Stock-based compensation | 87,970 | 880,782 |
| Officer salaries | 527,193 | 498,644 |
| | $ 772,305 | $ 1,470,086 |

As of September 30, 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:

| | September 30 2021 | December 31 2020 |
|---|---|---|
| Cash | $ 3,511,633 | $ 22,457,019 |
| Short-term investments | 2,550,728 | 7,221,762 |
| | $ 6,062,361 | $ 29,678,781 |

The short-term investments were made on an overnight basis and at rates from 0.01% to 0.35% per annum.

| **Supplemental disclosures of non-cash investing and financing activities:** | September 30 2021 | December 31 2020 |
|---|---|---|
| Increase (decrease) in accounts payable related to construction in progress and equipment suppliers | $ 716,003 | $ 1,440,975 |

| **Supplemental disclosures of other activities:** | September 30 2021 | December 31 2020 |
|---|---|---|
| Cash interest paid | $ 3,010,256 | $ - |

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

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 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.

| **September 30, 2021** | Ouray | Shafter | Corporate and other segments | Total |
|---|---|---|---|---|
| General and administrative cost | 125,100 | 391,913 | 1,536,624 | 2,053,637 |
| Maintenance costs | - | 154,281 | - | 154,281 |
| Depreciation and amortization | - | - | 471 | 471 |
| Foreign exchange loss | - | - | 130,728 | 130,728 |
| Stock-based compensation | 1,163,547 | - | 808,566 | 1,972,113 |
| Other expenses | 1,151,247 | (768) | 36,594 | 1,187,073 |
| Gain of change in derivatives fair value estimate | 10,284,489 | - | - | 10,284,489 |
| Net income (loss) for the period before other comprehensive items | 7,844,595 | (545,426) | (2,512,983) | 4,786,186 |
| Currency translation adjustment | - | - | (89,162) | (89,162) |
| Total comprehensive income (loss) for the period | 7,844,595 | (545,426) | (2,602,145) | 4,697,024 |
| Property, plant and equipment * | 75,941,436 | 10,108,764 | 1,924 | 86,052,124 |
| Mineral properties | 27,764,039 | 12,663,526 | 458,143 | 40,885,708 |
| Total capital assets | 103,705,475 | 22,772,290 | 460,067 | 126,937,832 |
| Total assets | 113,275,598 | 22,839,523 | 3,078,277 | 139,193,398 |
| Total liabilities | 32,096,574 | 733,053 | 95,098 | 32,924,725 |

* Includes OSM Mine Development cost for the period: $ 50,496,208

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 21. Segmented Information (continued)

| September 30, 2020 | Ouray | Shafter | Corporate and other segments | Total |
|---|---|---|---|---|
| General and administrative cost | 1,460,035 | 215,849 | 1,484,047 | 3,159,931 |
| Care & maintenance costs | 2,366,595 | 169,676 | - | 2,536,271 |
| Depreciation and amortization | 1,014,374 | - | 435 | 1,014,809 |
| Foreign exchange gain | - | - | 3,262,436 | 3,262,436 |
| Stock-based compensation | 431,583 | - | 449,199 | 880,782 |
| Other expenses | 99,747 | 452 | 18,040 | 118,239 |
| Net loss for the Period before other comprehensive items | (5,372,334) | (385,977) | (5,214,157) | (10,972,468) |
| Currency translation adjustment | - | - | 3,195,364 | 3,195,364 |
| Total comprehensive loss for the Period | (5,372,334) | (385,977) | (2,018,793) | (7,777,104) |

| December 31, 2020 | 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

## 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 $504,476, for the period ended September 30, 2021 (same period 2020 $127,905).

## 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 September 30, 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:

| | September 30 2021 | December 31, 2020 |
|---|---|---|
| Cash and cash equivalents | 2,413,878 | 5,386,662 |
| CDN$ Equivalent | 3,075,522 | 7,642,057 |

Based on the above net exposures as of September 30, 2021, 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$241,388 change to the Company's net income for the period.

On September 30, 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:

| | | September 30 2021 | December 31, 2020 |
|---|---|---|---|
| Cash and cash equivalents | MXP$ | - | 47,354 |
| USD$ Equivalent | | - | 2,014 |

Based on the above net exposures as of September 30, 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.

**23. Financial instruments (continued)**

(b) Credit risk:

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash and cash equivalents, 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 September 30, 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.

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 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. Several adverse conditions and material uncertainties, including metal prices, cast significant doubt upon the going concern assumption.

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

The Company's expected source of cash flow in the upcoming year will be from metal sales, 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 September 30, 2021:

| | Total | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 10,013,307 | 10,013,307 | - | - | - | - |
| Lease liability | 49,339 | 39,845 | 9,494 | - | - | - |
| Borrowings | 28,000,000 | - | 7,000,000 | 7,000,000 | 7,000,000 | 7,000,000 |
| | 38,062,646 | 10,053,152 | 7,009,494 | 7,000,000 | 7,000,000 | 7,000,000 |

(d) Interest Rate Risk

Interest rate risk is the risk that the fair values and future cash flows of the Company's financial instruments will fluctuate due to changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's financial liabilities consist primarily of long-term variable rate debt, which consist of certain borrowings with a total principal value of $28.0 million on September 30, 2021 and December 31, 2020. If the interest rate changed by 10 points it would result in an 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.

**(Unaudited and Expressed in United States dollars, unless otherwise stated)**

## 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 September 30, 2021:

| | Fair Value Through Profit or Loss | Amortized Costs | Fair Value | | |
|---|---|---|---|---|---|
| | | | Level 1 | Level 2 | Level 3 |
| **Asset (Liability)** | | | | | |
| Cash and cash equivalents | 6,062,361 | | 6,062,361 | | |
| Trade and other receivables | | 40,814 | | | |
| Accounts payable and accrued liabilities | | (10,013,307) | | | |
| Borrowings | | (21,300,769) | | | |
| Derivatives | (450,271) | | | | (450,271) |

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

| | Fair Value Through Profit or Loss | Amortized Costs | Fair Value | | |
|---|---|---|---|---|---|
| | | | Level 1 | Level 2 | Level 3 |
| **Asset (Liability)** | | | | | |
| Cash and cash equivalents | 29,678,781 | | 29,678,781 | | |
| 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 sued to determine the fair value of derivatives are described in Note 14. The carrying values of trade and other receivables and accounts payable and accrued liabilities, approximate their fair values due to the relatively short-term nature of these amounts.

## 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 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 Events

On October 22, 2021 the Company completed a private placement of 13,806,072 Units at a price of CDN$0.70 per unit, to raise total proceeds of CDN$9,664,250.40. Each unit consists of one common share of the Company and one full common share purchase warrant (“Warrant”), with each Warrant entitling the holder thereof to purchase one common share at a price of CDN$0.90 for a period of 36 months from the date of issuance. The Company paid an aggregate of CDN$518,515 in finder’s fees and issued an aggregate of 740,164 agent’s warrants, (“Agent’s Warrants”) with each Agent’s Warrant entitling the holder thereof to purchase one Common Share at a price of CDN$0.90 for a period of 36 months from the date of issuance. The Private Placement Common Shares and the Warrants (and any Common Shares issued pursuant to the Warrants, as applicable) are subject to a statutory hold period expiring on February 23, 2022.

On October 20, 2021, the Company announced a private placement of a secured convertible debenture in the sum of $5.5 Million through the Company’s wholly owned subsidiary, Rio Grande Mining Co. and it will close upon TSX.V approval.

On November 23, 2021, the Company advises shareholders and the general market of a rock movement event at the Company’s wholly owned Revenue Virginius mine. No fatalities or injuries occurred, but ongoing operations will be temporarily impacted. The rock movement which occurred in the #2 Alimak Raise, which provided access to/from the stoping level for both men/materials as well as ore handing, will create a temporary material productivity limitation to underground production. Following the incident, underground operations were temporarily suspended while the incident was investigated. Management has decided to use one of two raises solely as an ore/waste pass while using the other raise to provide access for people and materials. Operations have resumed, but this decision reduces the underground vertical transportation capacity by 50% until such time as the hoist in the #1 Raise, which is the long term primary conduit for men and materials, is fully operational. Due to this change and based on the current cash resources available to the Company, management has decided to temporarily halt ongoing development activities other than those relating to the completion of the #1 Raise hoist and focus on concentrate production from the existing available stopes. In addition, due to the temporary work curtailment, the Company has provided notice to employees in compliance with the WARN Act of 1988. The Company continues to operate but at a reduced capacity and is retaining personnel consistent with the current objectives. The Company’s plans to manage operations are continuing to evolve and the Company cannot forecast what production levels may be achieved given the change to underground vertical transportation capacity. The Company will provide an update as soon as possible.