



AURCANA CORPORATION

Consolidated Financial Statements

December 31, 2014

Expressed in United States dollars unless otherwise stated

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April 13, 2015

Independent Auditor's Report

To the Shareholders of Aurcana Corporation

We have audited the accompanying consolidated financial statements of Aurcana Corporation, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of financial position, comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aurcana Corporation as at December 31, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

Aurcana Corporation
Consolidated Statements of Financial Position
(Expressed in United States dollars)

	Notes	December 31 2014	December 31 2013
Assets			
Current assets			
Cash and cash equivalents	19	\$ 1,606,762	\$ 20,277,510
Trade and other receivables	4	4,691,317	2,130,151
Inventories	5	2,255,986	6,070,263
Insurance proceeds receivable	18	4,000,000	-
Prepaid expenses and advances	6	514,180	713,039
Prepaid income tax	11	1,230,803	1,504,539
Assets held for sale	7	495,284	-
		14,794,332	30,695,502
Non Current assets			
Non-current prepaid expenses	6	598,554	-
Property, plant and equipment	8	62,087,730	69,965,516
Mineral Properties	9	17,329,176	19,050,541
Deferred tax asset	11	2,779,702	5,632,765
Long term deposits		-	227,902
		\$ 97,589,494	\$ 125,572,226
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	\$ 12,873,431	\$ 16,837,597
Settlement claim payable	18	4,000,000	-
Current portion of long-term debt	12	340,445	2,782,667
Current portion of borrowings	13	9,128,477	14,817,219
		26,342,353	34,437,483
Non Current liabilities			
Long-term debt	12	14,813	2,457,737
Borrowings	13	23,510,079	26,999,441
Derivative liability	14	2,690,031	10,932,524
Deferred tax liability	11	6,818,737	7,624,990
Provision for environmental rehabilitation	15	1,946,338	1,716,965
		61,322,351	84,169,140
Equity			
Share capital	16	181,814,354	168,678,333
Contributed surplus		34,256,203	32,329,060
Accumulated other comprehensive loss		(471,711)	(1,295,529)
Deficit		(179,368,164)	(158,354,262)
Total equity attributable to equity holders of the parent		36,230,682	41,357,602
Non-controlling interest		36,461	45,484
Total equity		36,267,143	41,403,086
		\$ 97,589,494	\$ 125,572,226

Nature of Operations and Going concern (Note 1)

Commitments and contingencies (Note 18)

Subsequent events (Note 28)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

"Robert J. Tweedy"

Director

"Adrian Aguirre"

Director

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

	Notes	Year ended December 31,	
		2014	2013
Revenues			
Mining operations	21	\$ 42,745,731	\$ 44,972,176
Cost of sales (operation)		36,425,211	30,521,818
Depreciation, depletion and amortization (DDA)		3,866,328	2,971,089
Costs of sales	22	40,291,539	33,492,907
Earnings from mine operations		2,454,192	11,479,269
Other items			
General and administrative costs	23	3,219,207	4,973,520
Financing expense and others	24	7,169,093	4,443,368
Stock-based compensation	16	95,721	2,682,612
Impairment of property, plant and equipment assets and mining interests	25	2,966,838	114,127,359
Shafter mine care & maintenance costs		1,949,959	-
Shafter production delay and other costs		-	12,311,827
Shafter restructuring costs		-	3,594,990
Loss on sale of short-term Investments		-	420,968
Foreign exchange (income) loss		2,189,998	2,547,364
Loan and offtake agreement restructure loss and related costs	13	2,813,641	-
Change in fair value of derivatives	14	(146,521)	(2,927,373)
Severance payments		1,560,316	-
Loss on sale of equipment		173,652	-
Other expenses (income)		(201,946)	506,008
		21,789,958	142,680,643
(Loss) before income taxes		(19,335,766)	(131,201,374)
Current Income tax expense		176,135	930,616
Deferred income tax expense (benefit)		1,511,024	2,710,520
Net (loss) for the year		\$ (21,022,925)	\$ (134,842,510)
Items of other comprehensive income			
Items of other comprehensive income that may be reclassified subsequently to net income (loss):			
Currency translation adjustment		823,818	1,214,669
Reversal of unrealized loss on sale of Short-term investments		-	145,471
Comprehensive (loss) for the year		\$ (20,199,107)	\$ (133,482,370)
Total net income (loss) attributable to:			
Non-controlling interest		(9,023)	1,336
Equity holders of the Company		(21,013,902)	(134,843,846)
		\$ (21,022,925)	\$ (134,842,510)
Total comprehensive income (loss) attributable to:			
Non-controlling interest		(9,023)	1,336
Equity holders of the Company		(20,190,084)	(133,483,706)
		\$ (20,199,107)	\$ (133,482,370)
Weighted average number of shares – basic	27	74,511,589	58,404,714
Weighted average number of shares – diluted	27	74,511,589	58,404,714
Net (loss) per share – basic & diluted			
Basic	27	\$ (0.28)	\$ (2.31)
Diluted	27	\$ (0.28)	\$ (2.31)

See accompanying notes to these consolidated financial statements.

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

	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity Attributable to Shareholders of the Company	Non- controlling Interest	Total Equity
	#	\$						
Balance, December 31, 2012	58,378,465	\$ 168,524,625	\$ 28,882,425	\$ (2,655,669)	\$ (23,510,416)	\$ 171,240,965	\$ 44,148	\$ 171,285,113
Currency translation adjustment	-	-	-	1,214,669	-	1,214,669	-	1,214,669
Reversal of unrealized loss on sale of Short-term investments	-	-	-	145,471	-	145,471	-	145,471
Unrealized gain (loss) on available for sale investments	-	-	-	-	-	-	-	-
Net income (loss) for the year	-	-	-	-	(134,843,846)	(134,843,846)	1,336	(134,842,510)
Shares issued for:								
Exercise of warrants	34,099	153,708	(30,912)	-	-	122,796	-	122,796
Issuance of warrants	-	-	692,356	-	-	692,356	-	692,356
Stock-based compensation	-	-	2,785,191	-	-	2,785,191	-	2,785,191
Balance, December 31, 2013	58,412,564	168,678,333	32,329,060	(1,295,529)	(158,354,262)	41,357,602	45,484	41,403,086
Currency translation adjustment	-	-	-	823,818	-	823,818	-	823,818
Net (loss) for the year	-	-	-	-	(21,013,902)	(21,013,902)	(9,023)	(21,022,925)
Shares issued for:								
Debt Restructuring	16,499,501	10,333,333	-	-	-	10,333,333	-	10,333,333
Private Placement	9,732,908	3,525,944	1,507,277	-	-	5,033,221	-	5,033,221
Share Issue Costs	-	(723,256)	324,145	-	-	(399,111)	-	(399,111)
Stock-based compensation	-	-	95,721	-	-	95,721	-	95,721
Balance, December 31, 2014	84,644,973	\$ 181,814,354	\$ 34,256,203	\$ (471,711)	\$ (179,368,164)	\$ 36,230,682	\$ 36,461	\$ 36,267,143

See accompanying notes to these consolidated financial statements.

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

	Year ended December 31, 2014	2013
Cash flows from operating activities		
Net (loss) for the year	\$ (21,022,925)	\$ (134,842,510)
Items not involving cash:		
Depreciation, depletion and amortization	3,866,329	2,971,089
Accretion of amounts receivable	-	(1,415)
Financing expense and others	7,169,093	4,443,368
Loss on sale of equipment	173,652	-
Loss on sale of Short-term investments	-	420,968
Impairment of property, plant and equipment assets and mining interests	2,966,838	114,127,359
Other expenses	-	-
Restructuring cost	-	3,594,989
Stock-based compensation	95,721	2,682,612
Unrealized foreign exchange loss	2,215,786	1,809,755
Loan and offtake agreement restructure loss and related costs	2,813,641	-
Change in fair value of derivatives	(146,521)	(2,927,373)
Deferred Income Tax expense	1,511,024	2,710,520
Operating Cash Flow before movements in working capital items	(357,362)	(5,010,638)
Net change to non-cash working capital balances		
Trade and other receivables	119,113	1,687,750
Inventories	3,814,277	(2,330,881)
Amounts Receivable	-	600,940
Income Taxes Payable	-	(457,397)
Prepaid expenses and advances	(399,695)	30,447
Accounts payable and accrued liabilities	(4,241,179)	4,849,720
Cash provided by operating activities	<u>(1,064,846)</u>	<u>(630,059)</u>
Cash flows from investing activities		
Proceeds from the sale of equipment	8,437,255	-
Purchase of property, plant and equipment	(8,873,874)	(37,888,981)
Expenditures on mineral properties	-	(1,877,607)
Proceeds from sale of short-term investments	-	440,283
Long term deposits	-	151,872
Cash used in investing activities	<u>(436,619)</u>	<u>(39,174,433)</u>
Cash flows from financing activities		
Share capital issued (private placement), net of share issue costs	4,634,110	153,708
Financing cost and interest	(3,531,468)	(2,755,333)
Proceeds from borrowings	-	73,000,000
Payments on borrowings	(13,301,445)	(18,250,000)
Payments on capital equipment contracts	(4,885,146)	(1,841,888)
Cash provided by financing activities	<u>(17,083,949)</u>	<u>50,306,487</u>
Increase (decrease) in cash and cash equivalents	(18,585,414)	10,501,995
Effect of exchange rate changes on cash	(85,334)	(252,107)
Cash and cash equivalents, beginning of the year	20,277,510	10,027,622
Cash and cash equivalents, end of the year	<u>\$ 1,606,762</u>	<u>\$ 20,277,510</u>

Supplemental Cash Flow information (Note 19)

See accompanying notes to these consolidated financial statements.

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

1. Nature of Operations and going concern

Aurcana Corporation (the “Company” or “Aurcana”) was originally incorporated in Canada under the laws of Ontario in 1917 and on September 14, 1998 was continued under the *Canada Business Corporations Act* (“CBCA”). The Company is currently engaged in the production and sale of silver, copper, lead and zinc concentrates and the exploration, development and operation of natural resource properties. The Company’s principal operating unit is the La Negra mine, located in Queretaro State, Mexico and the Company’s main development property is the Shafter silver property (“Shafter”), located in Presidio County, S.W. Texas.

The Company’s shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at Suite 1750-1188 West Georgia Street, Vancouver, B.C., V6E 4A2, Canada. These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business operations. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

These consolidated annual financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business. The Company operates in a cyclical industry where levels of cash flow have historically been correlated to market prices for commodities. Several adverse conditions and material uncertainties, including low metal prices, cast significant doubt upon the going concern assumption. The Company had cash and cash equivalents of \$1.6 million, a consolidated working capital deficit of \$11.5 million, consolidated deficit of \$179 million and losses of \$21.0 million as at and for the year ended December 31, 2014.

The Company anticipates that silver and base metal prices will remain under pressure through the beginning of 2015, which will continue to impact the Company’s margins and liquidity. To improve cash flows, the Company’s principal lender permitted management to make interest only payments and defer payments on the principal amounts owed from January to March 2015 under the current debt facility agreement. The Company is engaged in negotiations with its principal lender to restructure its current debt. In order to address ongoing liquidity concerns, while continuing to be focused on minimizing uncommitted capital expenditures and preserving the Company’s growth options. If it does not do so, or if it fails to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2015, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations to be able to satisfy its ongoing obligations and future contractual commitments. As a result, the Company may not be able to continue as a going concern.

If for any reason, the Company is unable to secure the additional sources of financing and continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in the Company’s consolidated financial statements and such adjustments could be material.

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

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") under the historical cost convention, as modified by revaluation of certain financial instruments.

These financial statements were approved for issue by the Board of Directors on April 13, 2015.

3. Summary of Significant Accounting Policies

The Company's principal accounting policies are outlined below:

Basis of Consolidation

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

Real de Maconi S.A. de C.V. ("Maconi"), a Mexican corporation, is fully consolidated with the Company at 100% of profit or loss and assets and liabilities of Maconi, and recognizes a 0.14% non-controlling interest in the results of Maconi. Maconi substantively owns 100% of Minera La Negra S.A. de C.V. ("La Negra"), a Mexican Corporation that operates La Negra mine, subject to one nominal share held by a second shareholder in order to comply with Mexican Company Law.

All significant intra-group balances and transactions are eliminated in full on consolidation.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

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

3. Summary of Significant Accounting Policies (continued)

The Company had the following subsidiaries at December 31, 2014

Name	Country of Incorporation	Nature of Business	Proportion of ordinary shares held by the Group	Proportion of ordinary shares held by non-controlling interest
Aurcana Corporation	Canada	Holding Company	100%	-
Cane Silver Inc.	Barbados	Intermediate Holding Company	100%	-
Real de Maconi S.A. de C.V.	Mexico	Intermediate Holding Company	99.86%	0.14%
Minera Aurcana S.A. de C.V.	Mexico	Consulting	100%	-
Perforadora Aurcana S. de R.L. de C.V.	Mexico	Exploration Company	100%	-
Minera la Negra S.A. de C.V.	Mexico	Mining Operations	99.86%	0.14%
Silver Assets Inc.	USA	Intermediate Holding Company	100%	-
Rio Grande Mining Company	USA	Mining Operations	100%	-
Shafter Properties Inc.	USA	Dormant	100%	-

Foreign Currency

(i) Functional and Presentation Currency

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

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

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

- Assets and liabilities – at the closing rate at the date of the statement of financial position.
- Income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates).
- All resulting foreign exchange gains or losses are recognized in other comprehensive income as cumulative translation adjustments.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(ii) Transactions and balances

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

(iii) Translation of subsidiary results into the presentation currency

The results and statements of financial position of all the Company's subsidiaries with functional currencies different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- Income and expenses for each statement of income are translated at average exchange rates, unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions; and
- All resulting exchange differences are recognized as a separate component of equity.

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

Stock-based Compensation

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The Company records compensation expense under the plan for all options issued. The fair value of all stock-based awards is estimated using the Black-Scholes option pricing model at the grant date. Volatility is calculated using the historical share price volatility observed over periods of regular market activity. The share-based compensation expense is recognized over the tranche's vesting period, in earnings or capitalized as appropriate, based on the number of options expected to vest. None of the Company's awards call for settlement in cash or other assets. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital.

Mineral Properties

Mineral properties are stated at cost on a property-by-property basis. The recorded cost of mineral properties is based on acquisition costs incurred to date, less recoveries and write-offs. Title to mineral properties, concessions, and shareholdings in Canada, U.S.A., Mexico, and Barbados involves certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyance history and unregistered prior agreements. Management has investigated the titles to all of its concessions and shareholdings, and, to the best of its knowledge, believes they are in good standing.

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(i) Capitalization

All direct and indirect costs relating to the acquisition and exploration of mineral properties are capitalized on a basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold, or when management has determined that there is impairment in the carrying values of those mineral properties. The Company capitalizes costs if it has the legal right to the mineral claim or the right to explore the area. No amortization is recorded for capitalized costs, net of any recoveries, until commercial production is achieved.

Costs associated with commissioning new assets, in the period before they are capable of operating in the manner intended by management, are capitalized. Costs incurred on borrowings related to construction or development projects are capitalized until the point when substantially all the activities that are necessary to make the asset ready for its intended use are complete.

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefit either from future exploration or sale flow to the entity or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Management makes certain estimates and assumptions about future events or circumstances, in particular when an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

(ii) Depreciation

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

Management's calculation of measured and indicated resources is based upon engineering and geological estimates and financial estimates including mineral prices and operating and development costs. The Company depreciates some of its assets over measured and indicated resources. Changes in geological interpretations of the Company's ore bodies and changes in mineral prices and operating costs may change the Company's estimate of proven and probable reserves. It is possible that the Company's estimate of proven and probable reserves could change in the near term and that could result in revised charges for depreciation and depletion in future periods.

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

3. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. The cost capitalized is determined by the fair value of consideration given to acquire the asset at the time of acquisition or construction, the direct cost of bringing the asset to the condition necessary for operation, and the estimated future cost of dismantling and removing the asset.

(i) Depreciation

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

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

Plant and equipment	Based on amortization over 5 years
Vehicles	25%
Computer Equipment	30%
Other	10-12%

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

Impairment

(i) Impairment for Mineral Properties

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

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

From time-to-time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to income.

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

3. Summary of Significant Accounting Policies (continued)

(ii) Impairment for Exploration and Evaluation Assets

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

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

(iii) Reversal of Impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

Borrowing Costs

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

Inventories

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

Consumables and supplies, which consist of spare parts and consumable goods used for general repairs and maintenance, are recorded at the lower of cost and net realizable value.

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

3. Summary of Significant Accounting Policies (continued)

Provisions

(i) General

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The expense relating to any provision is presented in profit or loss net of any reimbursement. Provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(ii) Environmental Rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Such costs are discounted to their net present value and are provided for and capitalized at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged against profits over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision.

Revenue

(i) Revenue Recognition

Revenue is recognized upon delivery when significant risks and rewards of ownership of metal or metal-bearing concentrate passes to the buyer, it is probable that the economic benefits will flow to the Company, revenue can be reliably measured, and collection is reasonably assured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, royalties and sales taxes or duty.

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

3. Summary of Significant Accounting Policies (continued)

Financial Assets

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

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

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

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

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

(ii) Available-for-sale Financial Assets

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

(iii) Loans and Receivables

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

(iv) Derecognition of Financial Assets

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

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(v) Impairment of Financial Assets

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

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

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

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

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

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

Financial Liabilities

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

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

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

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(ii) Other Financial Liabilities

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

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

(iii) Derecognition of Financial Liabilities

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

Derivatives

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

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

Cash and Cash Equivalents

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

Short-Term Investments

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

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Leases

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

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

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted income (loss) per share is computed similar to basic income (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed conversion of debt and exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Equity Instruments

The Company records proceeds from share issuances net of issue costs.

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Use of Estimates and Judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are as follows:

(i) Liquidity and Going Concern Assumption

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments, management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions.

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

(ii) Fair Value of Derivatives and Other Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

The Company uses its judgement to select a variety of methods and make assumptions that are based on market conditions existing at the end of each reporting period. The Company has used the silver, lead, copper and zinc commodity prices (reduced by the Company's usual discount to spot price) and the related volatility of the metals' prices, the Company's credit rating and credit risk spread based on the credit rating, market interest rates, and the expected copper, lead and zinc concentrates life of mine delivery schedule from its La Negra mine for the valuation of the Orion loan agreement liability and embedded derivatives and the Orion offtake agreement derivative entered into in April, 2014. Management valued the Orion Offtake agreement derivative using the Company's current sales contracts with Glencore as a basis, or a standard contract, to compare with. Management valued the Orion loan prepayment option derivative and the Offtake agreement derivative separately and made the significant judgment that market participants would value these derivatives in a similar way, i.e. without taking into account potential interaction of these derivatives. Management also concluded that a market participant would value the offtake agreement derivative without giving weight to the early termination feature.

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Two amendments to the Orion loan agreement during 2014 saw the offtake agreement in relation to the Shafter mine terminated and new offtake agreements signed in relation to the La Negra mine production for a period of 5 years (2017 – 2021). An updated mineral resource estimate was completed in December 2014, which further impacted the fair value of the offtake agreement due to the reduced life of the La Negra mine estimate (Note 13).

The fair value of the derivatives embedded in the amended Orion loan agreement and the offtake agreement as at December 31, 2014 were \$2.7 million (2013 - \$10.9 million). The fair value of the derivatives would be an estimated \$0.1 million lower or \$0.1 million higher were the credit spread used in the valuation of the derivative liabilities 5% higher or lower from management's estimates, respectively.

(iii) Environmental Rehabilitation Provision

The Company's estimate of reclamation costs could change as a result of contractual requirements, laws or regulation, the extent of environmental remediation required or completed, and the means of reclamation or changes in cost estimate. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in estimates.

(iv) Review of Carrying Value of Assets and Impairment Charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs to sell or the value in use) in the case of non-financial assets and objective evidence indicating impairment in the case of financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognized in profit or loss and the resulting carrying amounts of assets. (Note 8 and 25)

(v) Exploration and Evaluation Assets

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is recognized in loss in the period that the new information becomes available.

(vi) Determination of Functional Currency

In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, management has determined that the functional currency of Aurcana Corporation is the Canadian dollar and its subsidiaries are the United States dollar.

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(vii) Units of Production Depreciation and Useful Life

Estimated recoverable resources are used in determining the amortization of mine specific assets. This results in an amortization charge proportional to the depletion of the anticipated remaining life of mine production.

Each asset's life is assessed annually and considerations are made in regards to both its physical life limitations and present assessments of economically recoverable resources of the mine properties. Such calculations require the use of estimates and assumptions, including the amount of recoverable resources and estimates of future capital expenditure. Changes are accounted for prospectively. An updated mineral resource estimate was completed in December 2014, resulting in a reduced life of mine estimate that will impact the amortization of mine specific assets (Note 9).

(viii) Recovery of Deferred Tax Assets

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

(i) Orion Loan Restructure

Judgment is required to determine whether amendments or changes of the Orion loan agreements represent extinguishment of an original liability and recognition of a new liability. Management performed assessment of quantitative and qualitative factors to determine the accounting treatment for the amendments and changes to the Orion loan agreements. The amendment of the Original Loan agreement, termination of the Original Offtake agreement and the New Offtake agreements signed in April, 2014 were accounted for as an extinguishment of the Original Loan and related derivative liabilities (Note 13).

In addition, management applied judgment and determined that the loan agreement and offtake agreements with Orion represent a linked transaction for the accounting purposes.

Adoption of new and revised standards and interpretations

The Company has adopted the new and revised standards and interpretations issued by the IASB listed below effective January 1, 2014. These changes were made in accordance with the transitional provisions outlined in the respective standards and interpretations.

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Amendment to IAS 32, 'Financial instruments: Presentation', on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

Annual Improvements 2010-2012 Cycle. In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Company.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

AURCANA CORPORATION**Notes to Consolidated Financial Statements****(Expressed in United States dollars, unless otherwise stated)****3. Summary of Significant Accounting Policies (continued)**

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. Management is assessing the impact of IFRS 15.

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

4. Trade and Other Receivables

	December 31 2014	December 31 2013
Trade receivables	\$ 1,929,817	\$ 1,490,116
Equipment sales receivable	2,680,279	-
Other receivables	81,221	640,035
	\$ 4,691,317	\$ 2,130,151

5. Inventories

	December 31 2014	December 31 2013
Supplies inventory	\$ 1,995,136	\$ 2,780,146
Stockpile inventory	76,345	1,225,096
Concentrates and in-process inventory	184,505	2,065,021
	\$ 2,255,986	\$ 6,070,263

Cost of sales includes change in finished goods inventory for the year of \$2,946,543 (2013: \$(1,573,598)).

Cost of inventories recognized as expense in cost of sales for the year ended December 31, 2014 totalled \$40,291,538 (2013 - \$33,492,907).

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

6. Prepaid expenses and advances

	December 31 2014	December 31 2013
Prepaid expenses	\$ 500,749	\$ 574,609
Other	13,431	138,430
	\$ 514,180	\$ 713,039

At December 31, 2014, an amount of \$897,831 was recorded in prepaid expenses resulting from lease payments made in advance for mining equipment. This amount will be amortized over the life of the lease totalling 36 months. Due to the term of the lease, \$299,277 is including in current prepaid expenses above with the remaining \$598,554 recorded in non-current prepaid expenses.

As a result of placing its Shafter mine on care and maintenance, the Company recognised \$748,957 impairment of the prepaid expenses balance related to the deposit with the power supply vendor for the year ended December 31, 2013.

7. Assets held for sale

Shafter mine underground mobile equipment and underground support equipment have been presented as held for sale following the approval of Aurcana management to sell this equipment. The equipment is expected to be sold within a year.

The following group of assets in Shafter are held for sale:

	December 31 2014	December 31 2013
Underground mobile equipment	\$ 158,212	\$ -
Underground support Equipment	337,072	-
	\$ 495,284	\$ -

During the year, the Company completed the sale of a significant number of mobile equipment items located at the Shafter property in Texas, USA, for \$4.7 million. This resulted in the Company recognizing a loss of \$0.4 million on the transactions. This amount is included in the statement of loss under Other Expenses (Income).

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

8. Property, Plant and Equipment

	Buildings	Plant and Equipment	Mine Development Cost	Vehicles	Computer Equipment	Other	Assets Under Construction	Total
Balance at December 31, 2012	\$ 1,968,013	\$ 37,924,027	\$ 16,918,361	\$ 879,309	\$ 540,025	\$ 348,289	\$ 74,557,177	\$ 133,135,201
Additions	586,302	2,527,569	8,312,050	41,230	8,570	18,396	25,254,284	36,748,401
Reclassification	5,381,812	35,895,215	3,500,000	103,958	348,426	1,526,448	(46,755,859)	-
Change in ARO estimated	-	-	-	-	-	(1,046,610)	-	(1,046,610)
Disposals	-	-	-	(22,251)	-	-	-	(22,251)
Impairment of property, plant and equipment	(1,921,090)	(31,459,938)	-	(278,079)	(373,280)	-	(52,507,951)	(86,540,338)
Balance at December 31, 2013	6,015,037	44,886,873	28,730,411	724,167	523,741	846,523	547,651	82,274,403
Additions	-	4,285,857	4,082,477	16,944	10,364	-	501,657	8,897,299
Reclassification	(2,953,951)	2,936,507	-	17,444	-	-	-	-
Reclassification to assets held for sale	-	(5,200,000)	-	-	-	-	-	(5,200,000)
Disposals	-	(7,142,134)	-	(97,400)	-	-	-	(7,239,534)
Write-down of property, plant and equipment	-	(600,000)	-	-	-	(479,838)	-	(1,079,838)
Balance at December 31, 2014	\$ 3,061,086	\$ 39,167,103	\$ 32,812,888	\$ 661,155	\$ 534,105	\$ 366,685	\$ 1,049,308	\$ 77,652,330
<i>Accumulated depreciation</i>								
Balance at December 31, 2012	\$ 112,203	\$ 8,125,886	\$ 432,028	\$ 336,591	\$ 369,252	\$ 58,203	\$ -	\$ 9,434,163
Charge for the year	90,643	2,530,201	82,099	82,643	68,668	36,072	-	2,890,326
Disposals	-	-	-	(15,602)	-	-	-	(15,602)
Balance at December 31, 2013	202,846	10,656,087	514,127	403,632	437,920	94,275	-	12,308,887
Reclassification	(30,268)	30,268	-	-	-	-	-	-
Charge for the year	132,981	3,209,591	134,242	110,072	51,611	34,670	-	3,673,167
Disposals	-	(417,454)	-	-	-	-	-	(417,454)
Balance at December 31, 2014	\$ 305,559	\$ 13,478,492	\$ 648,369	\$ 513,704	\$ 489,531	\$ 128,945	\$ -	\$ 15,564,600
<i>Net book value</i>								
Balance at December 31, 2012	\$ 1,855,810	\$ 29,798,141	\$ 16,486,333	\$ 542,718	\$ 170,773	\$ 290,086	\$ 74,557,177	\$ 123,701,038
Balance at December 31, 2013	\$ 5,812,191	\$ 34,230,786	\$ 28,216,284	\$ 320,535	\$ 85,821	\$ 752,248	\$ 547,651	\$ 69,965,516
Balance at December 31, 2014	\$ 2,755,527	\$ 25,688,611	\$ 32,164,519	\$ 147,451	\$ 44,574	\$ 237,740	\$ 1,049,308	\$ 62,087,730

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

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

9. Mineral Properties

	La Negra, Mexico, Producing Mine	Shafter, Texas, USA, In Construction	Shafter, Exploration	Total
Balance at December 31, 2012	\$ 12,717,017	\$ 37,964,850	\$ 4,136,498	\$ 54,818,365
Expenditures	-	-	985,673	985,673
Impairment of mining interests	-	(22,464,850)	(5,122,171)	(27,587,021)
Balance at December 31, 2013	12,717,017	15,500,000	-	28,217,017
Expenditures	-	-	-	-
Impairment of mining interests	-	(1,500,000)	-	(1,500,000)
Balance at December 31, 2014	\$ 12,717,017	\$ 14,000,000	\$ -	\$ 26,717,017
Accumulated depletion				
Balance at December 31, 2012	\$ 9,059,134	\$ -	\$ -	\$ 9,059,134
Charge for the year	107,342	-	-	107,342
Balance at December 31, 2013	9,166,476	-	-	9,166,476
Charge for the year	221,365	-	-	221,365
Balance at December 31, 2014	\$ 9,387,841	\$ -	\$ -	\$ 9,387,841
Net book value				
Balance at December 31, 2012	\$ 3,657,883	\$ 37,964,850	\$ 4,136,498	\$ 45,759,231
Balance at December 31, 2013	\$ 3,550,541	\$ 15,500,000	\$ -	\$ 19,050,541
Balance at December 31, 2014	\$ 3,329,176	\$ 14,000,000	\$ -	\$ 17,329,176

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

AURCANA CORPORATION**Notes to Consolidated Financial Statements****(Expressed in United States dollars, unless otherwise stated)****10. Accounts Payable and Accrued Liabilities**

	December 31	December 31
	2014	2013
Property taxes	\$ 588,659	\$ 2,322,352
Salaries, payroll deductions and employee benefits	1,390,934	2,044,526
Employees' statutory profit sharing	39,096	332,629
Mine suppliers - operating	4,850,236	6,699,907
Mine suppliers - capital	1,292,079	1,512,181
Other	4,712,427	3,926,002
	<u>\$ 12,873,431</u>	<u>\$ 16,837,597</u>

AURCANA CORPORATION**Notes to Consolidated Financial Statements****(Expressed in United States dollars, unless otherwise stated)****11. Income Taxes**

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

	2014	2013
Earnings before income taxes	\$ (19,335,766)	\$ (131,201,374)
Canadian federal and provincial income tax rates	26.00%	25.75%
Income tax recovery based on above rates	(5,027,299)	(33,784,354)
Increase (decrease) due to:		
Non-deductible (taxable) items and other	959,434	1,312,009
Foreign exchange	2,077,016	1,447,964
Losses and temporary differences for which no future income tax asset has been recognized	2,691,493	43,355,619
Change estimate of deferred tax assets	1,528,112	(171,757)
Deferred taxes related to Mexican mining duty	(193,870)	2,393,376
Amount under provided for in prior years	2,615	134,715
Withholding tax	142,296	38,786
Difference between foreign and Canadian tax rates	(492,638)	(11,085,221)
Income tax expense	\$ 1,687,159	\$ 3,641,137

The income tax expense is comprised of:

Current income tax expense	\$ 176,135	\$ 930,616
Deferred income tax expense	1,511,024	2,710,520
Income tax expense	\$ 1,687,159	\$ 3,641,136

Income tax expense (recovery) by country:

Canada	\$ 2,335,121	\$ (2,093,052)
United States	-	1,154,120
Mexico	(647,962)	4,580,068
Income tax expense	\$ 1,687,159	\$ 3,641,136

Due to the uncertainty with regards to the recoverability of the tax loss carry-forwards, the Company recognized a write-down of \$2.8 million related to its deferred income tax asset.

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

11. Income Taxes (continued)

The components of recognized deferred income tax liabilities (assets) are as follows:

	2014	2013
Non-capital losses	\$ (4,021,894)	\$ (3,477,661)
Capital (losses)	(1,261,145)	(967,726)
Mineral properties	(14,793)	(2,053,848)
Asset retirement obligations	(516,941)	(381,978)
Share issue costs	(99,347)	(427,435)
Accruals and other items	(3,134,793)	(2,071,455)
Unrealized foreign exchange gains	2,216,261	1,063,484
Property, Plant and Equipment	10,871,686	10,308,845
	\$ 4,039,034	\$ 1,992,226

The components of unrecognized deferred income tax assets are as follows:

	2014	2013
Non-capital losses	\$ 3,392,234	\$ 4,712,308
Capital losses	-	296,479
Property, Plant and Equipment	167,943	167,784
Mineral property	36,084,630	30,216,617
Other items	742,295	742,295
	\$ 40,387,102	\$ 36,135,483

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

11. Income Taxes (continued)

Unrecognized tax losses:

As at December 31, 2014 the Company has tax losses for income tax purposes which may be used to reduce future taxable income. The income tax benefit, if any, of these losses have not been recorded in these consolidated financial statements because of the uncertainty of their recovery. The future expiration and potential tax benefit of the losses are as follows:

YEAR	Canada	United States	Barbados	Total
2018		\$ 541,863		\$ 541,863
2019		222,039	7,187,669	7,409,708
2020		33,069		33,069
2021			1,011,602	1,011,602
2022		14,334	602,128	616,462
2023		11,956	301,060	313,016
2024		193,820		193,820
2025		100,952		100,952
2026		164,165		164,165
2027		148,444		148,444
2028	1,844,584	168,559		2,013,143
2029	826,622	414,262		1,240,884
2030	993,076	247,948		1,241,024
2031		274,881		274,881
2032		316,214		316,214
2033	1,165,700	993,695		2,159,395
2034		1,608,477		1,608,477
	\$ 4,829,982	\$ 5,454,678	\$ 9,102,459	\$ 19,387,119

The Company has income tax loss carry-forwards of approximately \$5.5 million (2013 - \$12.8 million) for United States tax purposes. These unrecognized tax losses will expire from 2018 to 2033. Future use of these U.S. loss carry-forwards is subject to certain limitations under provisions of the Internal Revenue Code including limitations subject to Section 382, which relates to a 50% change in control over a three-year period, and are further dependent upon the Company attaining profitable operations. An ownership change under Section 382 occurred on July 15, 2008 when the Company acquired Shafter, thereby limiting losses incurred prior to that date under Section 382. An additional change in control may have occurred on December 7, 2010 when the Company issued 193,548,387 shares pursuant to an equity offering, which could further limit the availability of losses prior to that date. Future changes in control may occur after December 31, 2014, which could further limit the availability of losses prior to the date of such a future change in control.

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

11. Income Taxes (continued)

	December 31, 2014	December 31, 2013
Current Income tax	\$ (176,135)	\$ (930,616)
Overpayment from previous years	1,406,938	-
Tax installments paid	-	2,435,155
Income tax receivable (payable)	<u>\$ 1,230,803</u>	<u>\$ 1,504,539</u>

In December 2013, Mexico enacted tax reform legislation that increased the effective tax rate applicable to the Company's Mexican operations effective January 1, 2014. The law increased the future corporate income tax rate to 30% from 28%, created a 10% withholding tax on dividends paid to non-resident shareholders (subject to any reduction by an Income Tax Treaty) and implemented a new 7.5% Special Mining Duty ("SMD") generally applicable to earnings before income tax, depreciation, depletion, amortization, and interest. The SMD is deductible for income tax purposes. The Company recognized a non-cash charge of \$32,086 related to the deferred tax effect of the above tax changes. For purposes of calculating the deferred tax effect of the SMD as at December 31, 2014, the net book value of the Company's Mexican mineral properties, plant and equipment net of their reclamation liability were deemed to have no tax basis and the resulting SMD liability was then offset by the associated future income tax benefit.

In addition to the above Mexican tax law changes; Mexico also enacted a 0.5% Extraordinary Mining Duty ("EMD") on gross revenues from precious metals effective January 1, 2014.

AURCANA CORPORATION**Notes to Consolidated Financial Statements****(Expressed in United States dollars, unless otherwise stated)****12. Current and Long-term Debt**

	December 31 2014	December 31 2013
Sandvik - Capital equipment contracts, repayable in monthly payments totalling US\$14,813 plus interest at 7.9% per annum, maturing January 2016	\$ 192,568	\$ 370,324
Republic Bank - Capital equipment contracts, repayable in monthly payments totalling US\$34,714 including interest at 8.1% per annum, maturing August 2015 (i)	-	647,619
TAB Bank - Capital equipment contracts, repayable in monthly payments totaling US\$158,474 including interest at 6.9% per annum, maturing December 2015 (ii)	-	3,544,957
Macquarie Equipment Finance- Capital equipment contracts, repayable in monthly payments totalling US\$16,065 including interest at 3.25% per annum, maturing December 2014	-	189,434
Atlas Copco - Capital equipment contracts, repayable in monthly payments totalling US\$27,115 plus interest at 8.8% per annum, maturing June 2015	162,690	488,070
Total	<u>\$ 355,258</u>	<u>\$ 5,240,404</u>

(i) The remaining balance was fully paid in in the fourth quarter of 2014.

(ii) During the first quarter of the 2014, the Company made payments of \$1.2 million to TAB Bank including the regular monthly payments. The remaining balance was fully paid in May 2014.

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

12. Current and Long-term Debt (continued)

	December 31	December 31
	2014	2013
Current portion	\$ 340,445	\$ 2,782,667
Long-term debt	14,813	2,457,737
	<u>\$ 355,258</u>	<u>\$ 5,240,404</u>

Schedule of principal repayments is as follows:	December 31	December 31
	2014	2013
2014	\$ -	\$ 2,782,667
2015	340,445	2,442,923
2016	14,813	14,814
	<u>\$ 355,258</u>	<u>\$ 5,240,404</u>

13. Borrowings

(a) Orion

Key Commercial Terms

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

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

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

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

13. Borrowings (continued)

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

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

Loan Restructure

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

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

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

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

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

13. Borrowings (continued)

Loan Modification

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

Debt host and embedded derivatives

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

The debt host component is classified as other financial liability and is measured at amortized cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the loan. Accretion of \$3.9 million has been recognized for the year ended December 31, 2014.

Valuation methodology

The floor option derivative was valued upon initial measurement and subsequent periods using the Bloomberg swap valuation template. The prepayment option derivative was valued upon initial measurement and subsequent periods using a methodology, which is based on Monte-Carlo simulation. The default intensities of the Company are generated using a square root diffusion process. Monte Carlo simulation is a technique that relies on random sampling and is often used when there is no analytic or exact solution to the valuation. Key inputs used by the Company in its valuation include: the USD discount curve and the USD 1 month forward curve.

The offtake agreement derivative was decomposed into the sum of cash flows which depends on silver, copper, zinc and lead prices. Future metals prices were estimated using consensus analyst forecasts of top tier financial institutions. Key inputs used by the Company include: the USD risk free rate, historical silver, copper, zinc and lead prices and the Company's standard discount to spot price.

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

13. Borrowings (continued)

Valuation assumptions

The Company's credit spread as of the inception date of the Original Loan of September 19, 2013 was calibrated by setting the fair value of the credit facility and the silver agreement equal to total proceeds of transaction, resulting in a credit spread of 31.33% as at the inception date ("the calibrated spread") of the Original Loan and Original Offtake. The spread as at April 30, 2014 and December 31, 2014 is based on the market borrowing interest rate for the Company of 15.4%.

Sensitivity of the derivatives valuation to changes in the assumptions

	5% decrease in credit spread	5% increase in credit spread
Increase/(decrease) in fair value at December 31, 2014	\$50,287	(\$48,859)

Presentation

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

	December 31 2014	December 31 2013
Glencore		
Opening balance	\$ 4,750,000	\$ -
Principal advanced	-	18,000,000
Repayments	(4,750,000)	(13,250,000)
Balance	<u>\$ -</u>	<u>\$ 4,750,000</u>

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

13. Borrowings (continued)

	December 31 2014	December 31 2013
Orion		
Principal advanced Original loan	\$ 37,066,660	\$ 50,000,000
Transaction costs	-	1,075,000
Derivative liability	-	13,859,897
Fair value of Original loan	<u>37,066,660</u>	<u>35,065,103</u>
Accretion	<u>2,369,056</u>	<u>2,001,557</u>
Sub-total	<u>39,435,716</u>	<u>37,066,660</u>
Repayments	<u>(4,166,665)</u>	<u>-</u>
Sub-total	<u>35,269,051</u>	<u>37,066,660</u>
Extinguishment of Original loan	<u>(35,269,051)</u>	<u>-</u>
Balance	<u>\$ -</u>	<u>\$ 37,066,660</u>
 Fair value of amended loan	 \$ 35,538,573	 \$ -
Accretion	1,484,763	-
Repayments	<u>(4,384,780)</u>	<u>-</u>
Balance	<u><u>\$ 32,638,556</u></u>	<u><u>\$ -</u></u>
 Total Borrowings	 <u><u>\$ 32,638,556</u></u>	 <u><u>\$ 41,816,660</u></u>

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

13. Borrowings (continued)

(b) Scheduled repayments

Schedule of principal repayments is as follows:

	December 31 2014
2015	10,872,456
2016	10,872,456
2017	10,872,456
2018	3,624,148
	\$ 36,241,516

(c) Carrying amounts and fair value of the current and non-current borrowings are as follows:

	Carrying amount		Fair value	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Glencore Loan	-	4,750,000	-	4,750,000
Orion Loan	32,638,556	37,066,660	31,836,912	36,331,611
Derivatives (note 14)	2,690,031	10,932,524	2,690,031	10,932,524
Total	35,328,587	52,749,184	34,526,943	52,014,135

*These financial instruments are classified under level 3 hierarchy, as they are not based on observable market data.

14. Derivatives

As discussed in Note 13, the Company entered into the Amended Loan agreement and the New Offtake agreement with Orion. These agreements contain derivatives. The fair value of the derivatives as at December 31, 2014, was \$2.7 million.

Details are as follows:

Derivative liability – at inception	\$13,859,897
Change in fair value	(2,927,373)
Derivative liability – December 31, 2013	10,932,524
Change in fair value	1,740,110
Derivative liability under the Original Orion Loan and Original Offtake agreement at April 30, 2014	12,672,634
Derivative liability under the Amended Orion Loan and New Offtake agreement at April 30, 2014	3,944,891
Change in fair value as a result of loan modification	631,771
Change in fair value	(1,886,631)
Derivative liability – December 31, 2014	\$2,690,031

AURCANA CORPORATION**Notes to Consolidated Financial Statements****(Expressed in United States dollars, unless otherwise stated)****15. Provision for Environmental Rehabilitation**

The Company has accrued an estimated liability related to reclamation and closure costs at the La Negra mine based on the anticipated total future remediation cost, discounted to December 31, 2014 using a 6.16% discount rate (December 31, 2013 - 5.9%) and a 4.08% inflation rate (December 31, 2013: 3.39%), in the amount of \$1,466,500 (December 31, 2013 - \$1,237,127). The undiscounted value of the reclamation and closure costs at the La Negra mine total \$1,791,094

The Company has accrued an estimated liability related to reclamation and closure costs at the Shafter mine based on the anticipated total future remediation cost in the amount of \$479,838 (December 31, 2013 - \$479,838). Due to the uncertainty of when the reclamation will take place, the Company didn't apply as of December 31, 2014 any discount rate (December 31, 2013 – nil %) or inflation rate (December 31, 2013 – nil %).

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

The provision for environmental rehabilitation for the year ended December 2014 and 2013 is as follows:

	December 31 2014	December 31 2013
Environmental rehabilitation, beginning of the year	\$ 1,716,965	\$ 2,662,433
Change in estimates	138,811	(1,014,590)
Accretion	90,562	69,122
Environmental rehabilitation, end of the year	<u>\$ 1,946,338</u>	<u>\$ 1,716,965</u>

16. Equity

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

Share issuance details:

	Number of Common Shares	Amount
Balance, December 31, 2012	58,378,465	\$ 168,524,625
Exercised warrants	34,099	153,708
Balance, December 31, 2013	58,412,564	168,678,333
Debt restructuring	16,499,501	10,333,333
Private placement	9,732,908	2,802,688
Balance, December 31, 2014	<u>84,644,973</u>	<u>\$ 181,814,354</u>

AURCANA CORPORATION**Notes to Consolidated Financial Statements****(Expressed in United States dollars, unless otherwise stated)****16. Equity (continued)**

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

Stock options

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

<u>Stock options</u>	Number of Common Share Purchase Options	Weighted Average Exercise Price per Share (\$CDN)
Balance, December 31, 2012	3,514,844	5.89
Granted	525,000	6.32
Expired	(453,500)	6.04
Forfeited	(126,970)	7.78
Balance, December 31, 2013	3,459,374	5.87
Expired	(1,014,061)	5.19
Forfeited	(29,688)	7.00
Balance, December 31, 2014	2,415,625	6.23

AURCANA CORPORATION
Notes to Consolidated Financial Statements
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16. Equity (continued)

Outstanding	Vested	Exercise Price (\$CDN)	Expiry Date
9,375	9,375	\$ 2.20	February 12, 2015 *
43,750	43,750	\$ 4.88	January 14, 2016
712,500	712,500	\$ 6.08	February 22, 2016
9,375	9,375	\$ 6.08	May 4, 2016
887,500	887,500	\$ 5.52	May 30, 2016
18,750	18,750	\$ 5.60	December 5, 2016
415,625	415,625	\$ 8.16	June 11, 2017
12,500	12,500	\$ 7.76	December 6, 2017
306,250	298,438	\$ 6.32	February 28, 2018
2,415,625	2,407,813	\$ 6.23	

*Subsequent to year end these options expired unexercised.

Stock based compensation

For the year ended December 31, 2014 the stock-based compensation expense was \$95,721 (2013: \$2,785,191). The fair value of stock options granted during the period is calculated using the following weighted average assumptions:

	December 31, 2014	December 31, 2013
Risk-free interest rate	-	1.24%
Expected stock price volatility	-	79.98%
Expected dividend yield	-	n/a
Expected option life in years	-	4.9

Warrants

Common Share Purchase Warrants	Number of Common Share Warrants
Balance, December 31, 2012	9,142,762
Issued	1,000,000
Exercised	(34,099)
Expired	(3,303,432)
Balance, December 31, 2013	6,805,231
Issued	10,265,816
Exercised	-
Expired	(6,511,481)
Balance, December 31, 2014	10,559,566

AURCANA CORPORATION
Notes to Consolidated Financial Statements
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16. Equity (continued)

As of December 31, 2014 details of outstanding common shares purchase warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
293,750	\$2.49	June 30, 2015
9,200,000	\$0.80	June 20, 2017
532,908	\$0.80	June 20, 2017
532,908	\$0.55	June 20, 2016
<u>10,559,566</u>		

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

	December 31, 2014	December 31, 2013
Risk-free interest rate	1.12%	1.21%
Expected stock price volatility	80.20%	101.42%
Expected dividend yield	n/a	n/a
Expected warrant life in years	2.9	1.0

17. Related Party Transactions

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

a) Trading transactions

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

	Note	December 31 2014	December 31 2013
Technical and consulting fees	(i)	\$ 110,102	\$ 519,448
Management fees	(ii)	920,502	513,162
Consulting fees		<u>\$ 1,030,604</u>	<u>\$ 1,032,610</u>

- i) To companies controlled by officers or directors.
- ii) To a company controlled by the former President & CEO for management services performed and \$828,857 in severance payments.

AURCANA CORPORATION**Notes to Consolidated Financial Statements****(Expressed in United States dollars, unless otherwise stated)****17. Related Party Transactions (continued)**

On September 11, 2013, the Company was advanced a \$5 million bridge loan ("Bridge Loan") by First Access Financial Group, Inc. ("First Access"), a company controlled by the President and Chief Executive Officer of the Company. The Bridge Loan was intended to provide additional liquidity to the Company until the closing of the Original Loan with Orion. The terms of the Bridge Loan provided interest at a rate of 1.25% per month, with the first 90 days of interest being prepaid in advance and an origination fee of US\$125,000 and the issuance of 1,000,000 common share purchase warrants. The warrants expired [unexercised] on September 26, 2014, had an exercise price of \$2.31 per share, and were ascribed an aggregate fair value of \$688,931 using the Black-Scholes model. The fair value of the warrants was recorded as a financing expense for the year 2013. Assumptions used in the Black-Scholes model are: risk free interest rate: 1.22%, expected life: 1 year, expected volatility: 101.42%, expected dividend per share: \$nil.

Upon the closing of the Original Loan with Orion, the Bridge Loan was fully repaid to First Access and, in consideration of the short time the Bridge Loan was outstanding, First Access agreed to amend the terms of the Bridge Loan such that the origination fee and all pre-paid interest were refunded to the Company, and interest was only paid on the period from the date of advancement of the Bridge Loan until its repayment in the amount of \$56,667.

b) Compensation of key management personnel

	December 31 2014	December 31 2013
Consulting fees	\$ 1,030,604	\$ 1,032,610
Directors' fees	178,055	257,142
Officer salaries	407,387	302,971
Stock-based compensation	95,721	2,785,191
	<u>\$ 1,711,767</u>	<u>\$ 4,377,914</u>

c) As a result of the Orion loan amendment, the Company issued shares to Orion (Note 14) resulting in it becoming a significant shareholder and related party to the Company. Transactions with Orion:

	December 31 2014	December 31 2013
Repayment of loan principal	\$ 4,384,780	\$ -
Payment of interest	1,047,191	-
	<u>\$ 5,431,971</u>	<u>\$ -</u>

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

18. Commitments and contingencies

Supply agreements

In March 2011, La Negra signed a sales contract with Glencore, whereby Glencore's Mexican subsidiary (Metagri), agreed to purchase 100% of the lead concentrate to be produced at the La Negra mine until the end of 2013. During July 2013, the agreement with Glencore was extended to 2016 and amended to include lead, copper and zinc concentrates. Prices set in the agreement are based on the average of the month in which the shipment is made or the third month after delivery as per the published prices in the Metal Bulletin in London in US dollars.

On April 29, 2014, Aurcana entered into the New Offtake agreements with Orion in respect of copper, zinc and lead concentrate produced at its La Negra mine for the period from January 1, 2017 to December 31, 2020. In order to improve Aurcana's liquidity in the short term, Orion agreed to defer principal and interest payments on the Amended Loan for July 31st, August 31st, and September 30th amounting to approximately \$ 3.1 million. This amount will be amortized over the remainder of the loan period commencing October 2014. In return, the Company has extended the New Offtake Agreements by one year to 2021 (note 13).

Office Lease

Effective May 1, 2010, the Company leased office space, which lease expires on April 30, 2015. The Company is committed under the lease for payments totaling \$54,944. Subsequent to the year end the Company signed a new lease agreement for office space on a three year term. See note 28 for additional information.

Shafter equipment operating lease

On December 1, 2013 the Company signed an operating lease agreement for mining equipment for Shafter in the amount of \$1,227,024 with a term of 30 months and \$44,467 equal payments. As at December 31, 2014, the outstanding balance owing was \$755,939.

La Negra equipment operating lease.

In December, 2014, the Company entered into an operating lease agreement with a third party for equipment to be used at the La Negra Mine with a total value of \$2.5 million. The lease terms call for equal monthly payments over a 36 month term.

Class action

A class action had been filed in the Ontario Superior Court of Justice naming the Company and two former officers of the Company as defendants. The plaintiffs asserted that certain of the Company's news releases misrepresented the production level at the Shafter Property. The plaintiffs also asserted that the Company had reasonable grounds to believe, and therefore ought to have disclosed, that the resource estimates in respect of Shafter published by the Company between June 2012 and October 2013 were incorrect. The plaintiff sought to certify a class action on behalf of a class that purchased the Company's publicly traded securities between June 11, 2012 to December 19, 2013, and sought damages on behalf of that class in the sum of \$150 million or such other sum as the court finds appropriate.

AURCANA CORPORATION**Notes to Consolidated Financial Statements****(Expressed in United States dollars, unless otherwise stated)****18. Commitments and contingencies (continued)**

Subsequent to the year ended December 31, 2014, the parties reached a settlement of the action, without admission of liability, which is subject to a number of customary conditions. The settlement is a compromise of disputed claims. The defendants have denied and continue to deny all allegations of wrongdoing, fault, liability or damage in respect of the claims alleged in the class action. See note 28 for additional details.

Claims by the Company

The Company has commenced a claim against a third party with regards to royalty payments made between 2007 and 2012. The Company believes these payments were made in error and is seeking full recovery. The Company did not make any payments for 2013 and 2014 but has recognized an amount payable of \$3.2 million in accounts payable and accrued liabilities to reflect the amount owing should the Company not be successful in its claim.

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

	Total	2015	2016	2017	2018	2019
	\$	\$	\$	\$	\$	\$
Operating leases	\$3,306	\$1,369	\$1,102	\$835	\$ Nil	\$ Nil
Rent	377	125	108	108	36	Nil
Total	\$3,683	\$1,494	\$1,210	\$943	\$36	\$ Nil

AURCANA CORPORATION
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19. Supplemental Cash Flow Information

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

	December 31 2014	December 31 2013
Cash	\$ 1,602,720	\$ 20,239,721
Short-term investments	4,042	37,789
Cash and cash equivalents	<u>\$ 1,606,762</u>	<u>\$ 20,277,510</u>

Supplemental disclosures of cash flow information for the year ended:

	December 31 2014	December 31 2013
Cash interest paid	\$ 3,219,236	\$ 2,755,333
Amounts receivable for equipment sold	2,680,279	-
Tax installments paid	<u>-</u>	<u>2,434,972</u>

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

On April 29, 2014, Aurcana entered into the Amended Loan agreement with Orion. The principal amount formerly outstanding under the Original Loan was reduced to US\$40,000,000. In consideration for an aggregate debt settlement of US\$10,333,333, Aurcana issued 16,499,501 common shares of the Company to Orion at an issue price of \$0.62 or C\$0.69, in consideration for reducing the principal amount outstanding under the Original Loan and terminating the Original Offtake Agreement in respect of the Shafter Mine. No cash with involved in this transaction.

Non-cash investing and financing activities are as follows:

	December 31 2014	December 31 2013
Increase (decrease) in accounts payable related to construction in progress and equipment suppliers	\$ (220,102)	\$ (2,192,645)

AURCANA CORPORATION
Notes to Consolidated Financial Statements
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20. Segmented Information

The reportable operating segments have been identified as the La Negra mine, the Shafter Property 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.

December 31, 2014	La Negra	Shafter	Corporate and other segments	Total
Sales to external customers	\$ 42,745,731	\$ -	\$ -	\$ 42,745,731
Mining operating expenses	33,215,132	-	-	33,215,132
Royalties	1,147,963	-	-	1,147,963
Freight and delivery	2,062,116	-	-	2,062,116
Depreciation and amortization	3,644,963	-	-	3,644,963
Depletion of mineral properties	221,365	-	-	221,365
Gross income	2,454,192	-	-	2,454,192
Impairment of PP&E and mining interests		2,966,838		2,966,838
Shafter mine Care & Maintenance cost	-	1,949,959	-	1,949,959
G&A expenses and other	886,029	18,566	15,968,566	16,873,161
Intersegment charges (recovery)	4,482,770	-	(4,482,770)	-
Income (loss) before income taxes	(2,914,607)	(4,935,363)	(11,485,796)	(19,335,766)
Income tax expense	16,751	-	1,670,408	1,687,159
Net income (loss) for the year	(2,931,358)	(4,935,363)	(13,156,204)	(21,022,925)
Property, plant and equipment	50,506,367	11,549,109	32,254	62,087,730
Mineral properties	3,329,176	14,000,000	-	17,329,176
Total capital assets	53,835,543	25,549,109	32,254	79,416,906
Total assets	62,663,829	26,110,874	8,814,791	97,589,494
Total liabilities	19,238,365	1,419,867	40,664,119	61,322,351

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

20. Segmented information (continued)

December 31, 2013	La Negra	Shafter	Corporate and other segments	Total
Sales to external customers	\$ 44,972,176	\$ -	\$ -	\$ 44,972,176
Mining operating expenses	27,399,842	-	-	27,399,842
Royalties	1,202,242	-	-	1,202,242
Freight and delivery	1,919,734	-	-	1,919,734
Depreciation and amortization	2,863,747	-	-	2,863,747
Depletion of mineral properties	107,342	-	-	107,342
Gross income	11,479,269	-	-	11,479,269
Impairment of PP&E and mining interests	-	114,127,359	-	114,127,359
Shafter mine care & maintenance costs	-	12,311,827	-	12,311,827
Shafter restructuring costs	-	3,594,990	-	3,594,990
General and administrative expenses	1,985,264	491,117	10,170,086	12,646,467
Intersegment charges (recovery)	3,640,810	(6,544,627)	2,903,817	-
Income (loss) before income taxes	5,853,195	(123,980,666)	(13,073,903)	(131,201,374)
Income tax expense (recovery)	4,580,067	1,154,120	(2,093,051)	3,641,136
Net income for the year	1,273,128	(125,134,786)	(10,980,852)	(134,842,510)
Property, plant and equipment	49,840,280	20,070,446	54,790	69,965,516
Mineral properties	3,550,541	15,500,000	-	19,050,541
Total capital assets	53,390,821	35,570,446	54,790	89,016,057
Total assets	62,589,954	37,487,683	25,494,589	125,572,226
Total liabilities	24,756,864	11,005,270	48,407,006	84,169,140

AURCANA CORPORATION
Notes to Consolidated Financial Statements
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21. Revenue from mining operations

Revenues: La Negra mine	Year ended December 31,	
	2014	2013
Gross revenues from mining operations	\$ 57,333,808	\$ 54,949,297
Deductions treatment charges, refining and smelting charges deducted by the customers	14,588,077	9,977,121
Revenues from mining operations	\$ 42,745,731	\$ 44,972,176
Net Revenues by customer:		
Customer "A"	\$ -	\$ 28,232,301
Customer "B"	42,745,731	16,739,875
Revenues from mining operations	\$ 42,745,731	\$ 44,972,176

22. Cost of Sales

	Year ended December 31,	
	2014	2013
Mine and mill supplies	\$ 13,719,144	\$ 11,627,244
Power	2,958,294	2,758,124
Wages, salaries and benefits	13,551,095	14,292,199
Profit sharing employees	40,056	295,873
Royalties	1,147,963	1,202,242
Freight and delivery	2,062,116	1,919,734
Change in inventories	2,946,543	(1,573,598)
Depreciation and amortization	3,644,963	2,863,747
Depletion of mineral properties	221,365	107,342
Total cost of sales	\$ 40,291,539	\$ 33,492,907

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

23. General and administrative costs

	Year ended December 31,	
	2014	2013
Administrative costs[1]	\$ 2,287,362	\$ 3,050,252
Professional fees	627,512	959,946
Investor relations	121,983	367,011
Marketing	74,799	487,046
Listing and filing fees	107,551	109,265
	<u>\$ 3,219,207</u>	<u>\$ 4,973,520</u>

[1] Administrative costs break down:

Management, salaries and consulting fees	\$ 1,382,531	\$ 1,734,597
Rent and overhead	149,948	181,215
Travel and accommodation	140,045	248,605
Office	113,094	261,255
Directors Fees	178,055	257,142
Other	323,689	367,438
	<u>\$ 2,287,362</u>	<u>\$ 3,050,252</u>

24. Financing expense and others

	Year ended December 31,	
	2014	2013
Accretion of provision for environmental rehabilitation	\$ 90,562	\$ 69,122
Accretion of Orion loan (Note 13)	3,859,295	2,001,557
Financing expense and bank charges	3,219,236	2,372,689
	<u>\$ 7,169,093</u>	<u>\$ 4,443,368</u>

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

25. Impairment

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

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

As at December 31, 2014, management of the Company determined that the decline in market capitalization of the Company, the decline in the price of silver and copper metals, the expected decrease in the Shafter resources estimate and the decrease in the La Negra mine resources estimate constituted impairment indicators for both the Shafter and La Negra mines. The Company involved external independent valuation company in order to prepare a fair value less cost to sell assessment for Shafter mine property.

a) Shafter mineral property

The external independent valuation company used the appraised value method (cost approach) and comparable transaction analysis (market approach) for the valuation of the Shafter mineral property.

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

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

The impairment charges for assets held for sale, plant and equipment, and mining interests recorded for Shafter as at December 31, 2014, were as follows:

Plant and equipment	Assets held for sale	Mineral Properties	Total
\$600,000	\$387,000	1,979,838	2,966,838

AURCANA CORPORATION
Notes to Consolidated Financial Statements
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25. Impairment (continued)

b) La Negra mine

The recoverable amount of the La Negra mine is based on its future after-tax cashflows expected to be derived from its mineral reserves value-in-use. The projected cash flows used in impairment testing are significantly affected by changes in assumptions for metal prices, future capital expenditures, changes in the amount of recoverable reserves, resources, and exploration potential, production costs estimates, discount rates, inflation and exchange rates. The Company's testing resulted in no impairment losses for the La Negra mine and incorporated the following assumptions:

(i) *Weighted average cost of capital*

Projected cash flows were discounted using an after-tax discount rate of 9% which represented the Company's weighted average cost of capital and which included estimates for risk-free interest rates, market value of the Company's equity, market return on equity, share volatility and debt-to-equity financing ratio.

(ii) *Pricing assumptions*

Metal pricing included in the cash flow projections for the next five years is based on consensus analyst pricing. The metal prices assumptions used in the Company's impairment assessment were as follows:

	2015	2016	2017	2018-2020
<u>Precious Metals</u>				
Silver Price (US\$/oz)	\$17.98	\$18.27	\$19.39	\$19.60
<u>Base & Other Metals</u>				
Copper Price (US\$/lb)	\$3.11	\$3.20	\$3.37	\$3.02
Lead Price (US\$/lb)	\$1.00	\$1.04	\$1.05	\$0.94
Zinc Price (US\$/lb)	\$1.08	\$1.15	\$1.18	\$1.00

(iii) *Life of mine ("LOM")*

As a result of an updated LOM which included lower forecast ore tonnes mined and reduced grades, the projected LOM for La Negra was reduced to five years for the purposes of the impairment test.

(iv) *Sensitivity*

The Company undertook a sensitivity analysis to identify the impact of changes in long-term metal pricing and production costs relative to current assumptions that would cause La Negra's carrying amount to exceed its recoverable amount.

The Company determined that a reduction in metal prices of 1.1% would cause the recoverable amount to equal the carrying value, although, this could be partially offset by the impact on prices of certain other inputs. An increase of 2.7% in production cost assumptions would also cause the recoverable amount to equal the carrying value.

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26. Financial instruments

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

(a) Foreign exchange risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates in currencies other than the functional currency of each entity. A significant change in the currency exchange rates between the local functional currency of each entity and the other currencies it employs could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2014, the Company's Canadian operations (Canadian dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in USD dollars:

		December 31, 2014
Cash and cash equivalents	USD\$	1,048,543
Intercompany amounts due		23,933,224
Accounts payable		(110,889)
Loan payable		(32,638,556)
	USD\$	<u>(7,767,678)</u>
CAD\$ Equivalent		(9,011,283)

Based on the above net exposures as at December 31, 2014, 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 \$901,128 change to the Company's net income for the year.

At December 31, 2014, the Company's Mexican operations (U.S. dollar functional currency) are exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

		December 31, 2014
Cash and cash equivalents	MXP\$	6,549,403
Other receivable		1,148,780
Accounts payable		(53,459,229)
	MXP\$	<u>(45,761,046)</u>
USD\$ Equivalent		(3,109,189)

Based on the above net exposures as at December 31, 2014, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the USD Dollar against the Mexican Peso would result in a \$310,919 change to the Company's net income for the year.

AURCANA CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise stated)

26. Financial Instruments (continued)

(b) Credit risk:

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

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

The Company manages its credit risk on short-term deposits by only investing with counterparties that carry investment grade ratings as assessed by external rating agencies and spreading the investments across these counterparties. Under the Company's risk management policy, allowable counterparty exposure limits are determined by the level of the rating unless exceptional circumstances apply. A rating of "A-" grade or equivalent is the minimum allowable rating required as assessed by international credit rating agencies. Likewise, it is the Company's policy to deal with banking counterparties for derivatives who are rated "A-" grade or above by international credit rating agencies and graduated counterparty limits are applied depending upon the rating.

Exceptions to the policy for dealing with relationship banks with ratings below "A-" are reported to, and approved by, the Audit Committee. As at December 31, 2014 substantially all cash and short-term deposits are with counterparties with ratings "A-" or higher.

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

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

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

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

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

The Company's expected source of cash flow in the upcoming year will be through its operations from the La Negra mine; equity financing; loans, leasing financing and entering into joint venture agreements, or a combination thereof. See Note 1 for additional discussion of Liquidity.

The following table summarizes the Company's undiscounted financial liabilities:

	Payments due by period (000's)					
	Total	< 1 year	1-2 years	2-3 years	3-4 years	Thereafter
	\$	\$	\$	\$	\$	\$
Accounts payable	\$12,872	\$12,872	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Long Term-debt	355	340	15	\$ Nil	\$ Nil	\$ Nil
Borrowings	36,240	10,872	10,872	10,872	3,624	\$ Nil
Derivative liability	2,690	\$ Nil	\$ Nil	1,155	818	717
Total	\$52,157	\$24,084	\$10,887	\$12,027	\$4,442	\$717

AURCANA CORPORATION**Notes to Consolidated Financial Statements****(Expressed in United States dollars, unless otherwise stated)****26. Financial Instruments (continued)****(e) Fair value estimation**

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

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

The following table summarizes the fair value hierarchy, as of December 31, 2014:

Recurring measurements	Fair Value Through Profit or Loss	Loans and Receivables	Other Financial Assets and Liabilities	Total	Fair Value Hierarchy
Financial Liabilities					
Derivative liabilities	\$ (2,690,031)	\$ -	\$ -	\$ (2,690,031)	Level 3
	\$ (2,690,031)	\$ -	\$ -	\$ (2,690,031)	

The following table summarizes the fair value hierarchy, as of December 31, 2013:

Recurring measurements	Fair Value Through Profit or Loss	Loans and Receivables	Other Financial Assets and Liabilities	Total	Fair Value Hierarchy
Financial Liabilities					
Derivative liabilities	\$ (10,932,524)	\$ -	\$ -	\$ (10,932,524)	Level 3
	\$ (10,932,524)	\$ -	\$ -	\$ (10,932,524)	

The carrying value and fair value of trade and other receivable and accounts payable and accrued liabilities as of December 31, 2014 are approximately the same. The Company assesses its financial instruments and non-financial contracts on a regular basis to determine the existence of any embedded derivatives which would be required to be accounted for separately at fair value and to ensure that any embedded derivatives are accounted for in accordance with the Company's policy.

The valuation technique used in the determination of fair values within Level 3 of the hierarchy, and the key unobservable inputs used in the valuation model are disclosed in Note 13.

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27. 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.

28. Subsequent events

- In February 2015, the Company entered into an agreement to settle the class action litigation commenced in the Ontario Superior Court of Justice (the "Action") against the Company and two former executives of the Company (the "Settlement").

The Settlement provides for the full and final settlement, release and dismissal of all claims brought under the Action. The Settlement is subject to customary conditions, including the receipt of court approval of the Settlement, which was received on April 10, 2015.

Under the terms of the Settlement, the Company will pay an aggregate of \$4,000,000 (the "Settlement Amount"), which amount, net of legal fees and other costs, will be divided among members of the plaintiff class on a pro rata basis. It is anticipated that the Settlement Amount will be fully funded by insurance maintained by the Company, and the Company does not anticipate that the payment of the Settlement Amount will have any effect on the Company's cash position or operations.

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

- In March 2015, the Company entered into a lease agreement for office space. The terms of the lease are for monthly payments over a three year term commencing May 1, 2015, with a total commitment value of \$321,612.