



AURCANA CORPORATION

Condensed Interim Consolidated Financial Statements

September 30, 2014

(Unaudited)

Expressed in United States dollars unless otherwise stated

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Aurcana Corporation

Condensed Interim Consolidated Statements of Financial Position
(Unaudited and expressed in United States dollars, unless otherwise stated)

	Notes	September 30 2014	December 31 2013
Assets			
Current assets			
Cash and cash equivalents	17	\$ 1,696,191	\$ 20,277,510
Trade and other receivables	3	4,930,996	2,130,151
Inventories	4	3,119,526	6,070,263
Prepaid expenses and advances		1,033,980	713,039
Assets held for sale	6	4,172,000	-
		<u>14,952,693</u>	<u>29,190,963</u>
Non Current assets			
Property, plant and equipment	5	69,091,451	69,965,516
Mineral Properties	7	18,969,660	19,050,541
Deferred tax asset		5,349,115	5,632,765
Long term deposits		-	227,902
		<u>\$ 108,362,919</u>	<u>\$ 124,067,687</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	\$ 15,089,891	\$ 15,333,058
Current portion of long-term debt	9	836,624	2,782,667
Current portion of borrowings	10	9,005,496	14,817,219
		<u>24,932,011</u>	<u>32,932,944</u>
Non Current liabilities			
Long-term debt	9	59,252	2,457,737
Borrowings	10	25,839,582	26,999,441
Derivative liability	11	4,465,146	10,932,524
Deferred tax liability		6,798,109	7,624,990
Provision for environmental rehabilitation	12	1,809,993	1,716,965
		<u>63,904,093</u>	<u>82,664,601</u>
Equity			
Share capital	13	182,173,235	168,678,333
Contributed surplus		33,959,554	32,329,060
Accumulated other comprehensive (income) loss		1,946,800	(1,295,529)
Deficit		<u>(173,663,296)</u>	<u>(158,354,262)</u>
Total equity attributable to equity holders of the parent		<u>44,416,293</u>	<u>41,357,602</u>
Non-controlling interest	14	42,533	45,484
Total equity		<u>44,458,826</u>	<u>41,403,086</u>
		<u>\$ 108,362,919</u>	<u>\$ 124,067,687</u>

Nature of Operations and Going concern (Note 1)

Commitments and contingencies (Note 16)

Subsequent events (Note 23)

See accompanying notes to these condensed interim consolidated financial statements.

Approved on behalf of the Board of Directors:

“Robert J. Tweedy”

Director

“Adrian Aguirre”

Director

Aurcana Corporation

Condensed interim Consolidated Statements of Comprehensive loss
(Unaudited and expressed in United States dollars, unless otherwise stated)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
Revenues					
Mining operations		\$ 11,364,478	\$ 10,359,644	\$ 33,651,414	\$ 34,458,481
Costs of sales	19	<u>10,812,929</u>	<u>7,793,879</u>	<u>30,847,487</u>	<u>24,548,337</u>
Earnings from mine operations		<u>551,549</u>	<u>2,565,765</u>	<u>2,803,927</u>	<u>9,910,144</u>
Other items					
General and administrative costs	20	844,679	967,830	2,370,183	3,498,594
Financing expense and others	21	1,520,885	1,446,686	5,903,242	1,743,993
Stock-based compensation	13	43,447	1,082,323	263,458	3,341,771
Impairment of property, plant and equipment assets and mining interests		-	6,138,442	-	6,138,442
Idled mine cost		-	6,813,729	-	6,813,729
Shafter mine Care & Maintenance cost		578,799	-	1,611,699	-
Loss on sale of short-term Investments		-	420,968	-	420,968
Foreign exchange loss		1,228,316	341,796	3,016,278	580,647
Orion loan and offtake agreement restructure loss and related costs	10, 11	334,712	-	4,977,390	-
Severance payments		641,997	-	641,997	-
Other (income) expenses		(549,977)	310,656	(492,248)	342,564
		<u>4,642,858</u>	<u>17,522,430</u>	<u>18,291,999</u>	<u>22,880,708</u>
(Loss) before income taxes		(4,091,309)	(14,956,665)	(15,488,072)	(12,970,564)
Current Income tax expense		47,114	514,783	650,792	1,482,918
Deferred income tax (benefit) expense		<u>(488,080)</u>	<u>(2,658)</u>	<u>(826,879)</u>	<u>368,882</u>
Net (loss) for the period		\$ (3,650,343)	\$ (15,468,790)	\$ (15,311,985)	\$ (14,822,364)
Items of other comprehensive income					
Items of other comprehensive income that may be reclassified subsequently to net income (loss):					
Currency translation adjustment		1,484,839	(279,057)	3,242,329	(622,413)
Reversal of unrealized loss on sale of Short-term investments		-	484,581	-	145,470
Comprehensive (loss) for the period		\$ (2,165,504)	\$ (15,263,266)	\$ (12,069,656)	\$ (15,299,307)
Total net income (loss) attributable to:					
Non-controlling interest		(2,294)	431	(2,951)	5,279
Equity holders of the Company		<u>(3,648,049)</u>	<u>(15,469,221)</u>	<u>(15,309,034)</u>	<u>(14,827,643)</u>
		\$ (3,650,343)	\$ (15,468,790)	\$ (15,311,985)	\$ (14,822,364)
Total comprehensive income (loss) attributable to:					
Non-controlling interest		(2,294)	431	(2,951)	5,279
Equity holders of the Company		<u>(2,163,210)</u>	<u>(15,263,697)</u>	<u>(12,066,705)</u>	<u>(15,304,586)</u>
		\$ (2,165,504)	\$ (15,263,266)	\$ (12,069,656)	\$ (15,299,307)
Weighted average number of shares – basic		85,167,772	58,409,564	71,486,370	58,403,079
Weighted average number of shares – diluted		85,167,772	58,409,564	71,486,370	58,403,079
Net (loss) per share – basic & diluted					
Basic		\$ (0.04)	\$ (0.26)	\$ (0.21)	\$ (0.25)
Diluted		\$ (0.04)	\$ (0.26)	\$ (0.21)	\$ (0.25)

See accompanying notes to these condensed interim consolidated financial statements.

Condensed interim Consolidated Statements of Changes in Equity
(Unaudited and 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	\$ 168,524,625	\$ 28,882,425	\$ (2,655,669)	\$ (23,510,416)	\$ 171,240,965	\$ 44,148	\$ 171,285,113
Currency translation adjustment	-	-	(622,413)	-	(622,413)	-	(622,413)
Realized gain on available for sale investments	-	-	145,470	-	145,470	-	145,470
Net income (loss) for the period	-	-	-	(14,827,643)	(14,827,643)	5,279	(14,822,364)
Shares issued for:							
Exercise of warrants	126,893	(26,967)	-	-	99,926	-	99,926
Issuance of warrants	-	688,931	-	-	688,931	-	688,931
Stock-based compensation	-	2,910,100	-	-	2,910,100	-	2,910,100
Balance, September 30, 2013	168,651,518	32,454,489	(3,132,612)	(38,338,059)	159,635,336	49,427	159,684,763
Currency translation adjustment	-	-	1,837,083	-	1,837,083	-	1,837,083
Net (loss) for the period	-	-	-	(120,016,203)	(120,016,203)	(3,943)	(120,020,146)
Shares issued for:							
Exercise of warrants	26,815	(3,945)	-	-	22,870	-	22,870
Issuance of warrants	-	3,425	-	-	3,425	-	3,425
Stock-based compensation	-	(124,909)	-	-	(124,909)	-	(124,909)
Balance, December 31, 2013	168,678,333	32,329,060	(1,295,529)	(158,354,262)	41,357,602	45,484	41,403,086
Currency translation adjustment	-	-	3,242,329	-	3,242,329	-	3,242,329
Net (loss) for the period	-	-	-	(15,309,034)	(15,309,034)	(2,951)	(15,311,985)
Shares issued for:							
Debt Restructuring	10,333,333	-	-	-	10,333,333	-	10,333,333
Private Placement	3,497,859	1,367,036	-	-	4,864,895	-	4,864,895
Share Issue Costs	(336,290)	-	-	-	(336,290)	-	(336,290)
Stock-based compensation	-	263,458	-	-	263,458	-	263,458
Balance, September 30, 2014	\$ 182,173,235	\$ 33,959,554	\$ 1,946,800	\$ (173,663,296)	\$ 44,416,293	\$ 42,533	\$ 44,458,826

See accompanying notes to these condensed interim consolidated financial statements.

Aurcana Corporation

Condensed interim Consolidated Statements of Cash Flows
(Unaudited and expressed in United States dollars, unless otherwise stated)

	Nine months ended September 30,	2013
	2014	2013
Cash flows from operating activities		
Net (loss) for the period	\$ (15,311,985)	\$ (14,822,364)
Adjustments for:		
Depreciation, depletion and amortization	2,820,057	2,129,826
Accretion of amounts receivable	-	(1,415)
Financing expense and others	5,903,242	1,743,993
Loss on sale of Short-term investments	-	420,968
Impairment of property, plant and equipment assets and mining interests	-	6,138,442
Stock-based compensation	263,458	3,572,064
Unrealized foreign exchange loss	2,853,242	559,116
Orion loan and offtake agreement restructure loss and related costs	4,977,390	-
Deferred Income Tax expense	(964,318)	368,882
Operating cash flow before movements in working capital items	541,086	109,512
Net change to non-cash working capital balances		
Trade and other receivables	(2,800,845)	446,853
Inventories	2,950,737	(2,560,012)
Amounts Receivable	-	600,940
Income Taxes Payable	-	(457,397)
Prepaid expenses and advances	(320,941)	(484,708)
Accounts payable and accrued liabilities	(1,815,142)	8,609,290
Cash provided by operating activities	<u>(1,445,105)</u>	<u>6,264,478</u>
Cash flows from investing activities		
Proceeds from the sale of equipment	1,334,119	-
Purchase of property, plant and equipment	(5,734,809)	(35,102,229)
Expenditures on mineral properties	-	1,139,612
Proceeds from sale of short-term investments	-	440,282
Long term deposits	-	(268,305)
Cash used in investing activities	<u>(4,400,690)</u>	<u>(33,790,640)</u>
Cash flows from financing activities		
Share capital issued (private placement), net of share issue	4,528,605	126,893
Financing cost and interest	(2,540,048)	(1,695,777)
Proceeds from borrowings and capital equipment contracts	-	61,250,000
Payments on borrowings and capital equipment contracts	(14,677,861)	(39,527)
Cash provided by financing activities	<u>(12,689,304)</u>	<u>59,641,589</u>
Increase (decrease) in cash and cash equivalents	(18,535,099)	32,115,427
Effect of exchange rate changes on cash	(46,220)	(409,746)
Cash and cash equivalents, beginning of the year	<u>20,277,510</u>	<u>10,027,622</u>
Cash and cash equivalents, end of the period	1,696,191	41,733,303

Supplemental Cash Flow information (Note 16)

See accompanying notes to these condensed interim consolidated financial statements.

AURCANA CORPORATION

Notes to Condensed interim Consolidated Financial Statements

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

1. Nature of Operations and going concern

Aurcana Corporation (the "Company") 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 copper, silver, 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.

The condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business until at least September 30, 2015. Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had cash and cash equivalents of \$1.7 million, a working capital deficit of \$10.0 million, a deficit of \$174 million and losses of \$15.3 million as at and for the nine months ended September 30, 2014.

The Company anticipates that silver and base metal prices will remain under pressure through the end of 2014 and the beginning of 2015, which will continue to impact the Company's margins and liquidity. Therefore, the Company is actively seeking additional sources of financing to continue operating and meeting its objectives, while continuing to be focused on minimizing uncommitted capital expenditures and preserving the Company's growth options. As of the date hereof, the Company is actively seeking sources of financing in order to pay the principle and interest due under its current borrowings. 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 September 30, 2015, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order 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 Condensed interim Consolidated Financial Statements

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

2. Basis of Preparation

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These interim financial statements do not include all the information required for a complete set of IFRS statements. However, selected notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2013.

These interim financial statements were authorised for issue by the board of directors of the Company on November 28, 2014.

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. The adoption of these standards did not have a material impact on the financial statements of the Company.

IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
IAS 39 Amendments	Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

Recent accounting pronouncements

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), which establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The required adoption date for IFRS 15 is the annual period beginning on or after January 1, 2017, with early adoption permitted. We are in the process of analyzing IFRS 15 and determining the effect on our consolidated financial statement as a result of adopting this standard.

Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company’s consolidated financial statements are included in Note 3 to the Company’s December 31, 2013 consolidated annual financial statements. Except for the significant accounting judgments and estimates disclosed below, there were no significant changes to the significant accounting judgments and estimates from December 31, 2013.

AURCANA CORPORATION

Notes to Condensed interim Consolidated Financial Statements

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

2. Basis of Preparation (continued)

(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.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. In order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transaction to provide it with additional liquidity. If the Company fails to generate sufficient operating cash flows, secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through September 30, 2015, it will not have adequate liquidity to fund its operations and meet its obligations (including its debt payment obligations), it may not be able to continue as a going concern (refer to Note 1).

If for any reason, the Company is unable to 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.

(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. In order to improve Aurcana's liquidity in the short term, Orion has agreed to waive principal and interest payments on their 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 "Offtake agreement" by one year. 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 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.

AURCANA CORPORATION

Notes to Condensed interim Consolidated Financial Statements

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

2. Basis of Preparation (continued)

The fair value of the derivatives embedded in the Orion loan agreement and the offtake agreement as at September 30, 2014 were \$ 4.5 million. The fair value of the derivatives would be an estimated \$ 114,481 lower or \$ 118,941 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 on 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 5)

(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.

(vii) Units of Production Depreciation and Useful Life

Estimated recoverable reserves 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.

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****2. Basis of Preparation (continued)**

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 reserves of the mine properties. Such calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Changes are accounted for prospectively.

(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.

3. Trade and Other Receivables

	September 30	December 31
	2014	2013
Trade receivables	\$ 4,403,182	\$ 1,490,116
Other receivables	527,814	640,035
	\$ 4,930,996	\$ 2,130,151

4. Inventories

	September 30	December 31
	2014	2013
Supplies inventory	\$ 2,389,714	\$ 2,780,146
Stockpile inventory	245,774	1,225,096
Concentrates and in-process inventory	484,038	2,065,021
	\$ 3,119,526	\$ 6,070,263

AURCANA CORPORATION
Notes to Condensed interim Consolidated Financial Statements
(Unaudited and expressed in United States dollars, unless otherwise stated)
5. Property, Plant and Equipment

	Buildings	Plant and Equipment	Mine Development Cost	Vehicles	Computer Equipment	Other	Assets Under Construction	Total
Cost								
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
allocation	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	-	3,997,225	3,629,883	16,944	-	-	227,118	7,871,170
Reclasification	(2,953,951)	2,936,507	-	17,444	-	-	-	-
Reclasification to assets held for sale	-	(5,200,000)	-	-	-	-	-	(5,200,000)
Disposals	-	(668,719)	-	(97,400)	-	-	-	(766,119)
Balance at September 30, 2014	\$ 3,061,086	\$ 45,951,886	\$ 32,360,294	\$ 661,155	\$ 523,741	\$ 846,523	\$ 774,769	\$ 84,179,454
Accumulated depreciation								
Balance at December 31, 2012	112,203	8,125,886	432,028	336,591	369,252	58,203	-	9,434,163
Charge for the period	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
Reclasification	(30,268)	30,268	-	-	-	-	-	-
Charge for the period	112,435	2,406,453	102,154	89,465	42,274	26,335	-	2,779,116
Balance at September 30, 2014	\$ 285,013	\$ 13,092,808	\$ 616,281	\$ 493,097	\$ 480,194	\$ 120,610	\$ -	\$ 15,088,003
Net book value								
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 September 30, 2014	\$ 2,776,073	\$ 32,859,078	\$ 31,744,013	\$ 168,058	\$ 43,547	\$ 725,913	\$ 774,769	\$ 69,091,451

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

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****6. 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:

Asset held for sale	Value
Underground mobile equipment	\$ 3,772,000
Underground support Equipment	400,000
	<u>\$ 4,172,000</u>

The assets held for sale were written down to their recoverable value as at December 31, 2013 as a result of the impairment test performed by management in accordance with IAS 36. Subsequent to the quarter ended September 31, 2014, the Company sold several pieces of its assets held for sale. See note 23 for additional information.

7. 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	-	-	-	-
Balance at September 30, 2014	<u>\$ 12,717,017</u>	<u>\$ 15,500,000</u>	<u>\$ -</u>	<u>\$ 28,217,017</u>
Accumulated depletion				
Balance at December 31, 2012	9,066,830	-	-	9,066,830
Charge for the year	99,646	-	-	99,646
Balance at December 31, 2013	9,166,476	-	-	9,166,476
Charge for the period	80,881	-	-	80,881
Balance at September 30, 2014	<u>\$ 9,247,357</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,247,357</u>
Net book value				
Balance at December 31, 2012	\$ 3,650,187	\$ 37,964,850	\$ 4,136,498	\$ 45,751,535
Balance at December 31, 2013	<u>\$ 3,550,541</u>	<u>\$ 15,500,000</u>	<u>\$ -</u>	<u>\$ 19,050,541</u>
Balance at September 30, 2014	<u>\$ 3,469,660</u>	<u>\$ 15,500,000</u>	<u>\$ -</u>	<u>\$ 18,969,660</u>

Mineral properties which are not in production are not subject to amortization.

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****8. Accounts Payable and Accrued Liabilities**

	September 30 2014	December 31 2013
Royalties	\$ 2,869,811	\$ 1,833,660
Property taxes	542,419	2,322,352
Salaries, payroll deductions and employee benefits.	1,554,502	2,044,526
Employees' statutory profit sharing	228,993	332,629
Mine suppliers - operating	6,739,781	6,699,907
Mine suppliers - capital	2,900,646	1,512,181
Other	253,739	587,803
	<u>\$ 15,089,891</u>	<u>\$ 15,333,058</u>

9. Current and Long-term Debt

	September 30 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	\$ 237,007	\$ 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	366,898	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 *	-	3,544,957
Macquire Equipment Finance- Capital equipment contracts, repayable in monthly payments totalling US\$16,065 including interest at 3.25% per annum, maturing December 2014	47,936	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	<u>244,035</u>	<u>488,070</u>
Total	<u>\$ 895,876</u>	<u>\$ 5,240,404</u>

* During the first quarter of the year, the Company paid to TAB Bank \$1.2 million plus the regular monthly payment. The remaining balance was fully paid in May 2014.

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****9. Current and Long-term Debt (continued)**

	September 30	December 31
	2014	2013
Current portion	\$ 836,624	\$ 2,782,667
Long-term debt	59,252	2,457,737
	<u>\$ 895,876</u>	<u>\$ 5,240,404</u>

Schedule of principal repayments is as follows:	September 30	December 31
	2014	2013
2014	\$ 271,118	\$ 2,782,667
2015	609,944	2,442,923
2016	14,814	14,814
	<u>\$ 895,876</u>	<u>\$ 5,240,404</u>

10. 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 an off-take agreement ("Original Off-take"). 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 might occur at any time without penalty. Interest payable was set at 3 month US\$ LIBOR (subject to a 1% minimum) plus 5.5%. The Loan proceeds were used by the Company to finance the construction and upgrade work for Shafter mine and the balance of the Loan was used to repay certain indebtedness and for operating purposes of the La Negra properties.

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 or gold, whichever is later, subject to an early buy-out provision.

AURCANA CORPORATION

Notes to Condensed interim Consolidated Financial Statements

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

10. Borrowings (continued)

On April 29, 2014, Aurcana entered into an agreement to amend the terms of its US\$50,000,000 Original Loan Pursuant to an amended and restated credit facility agreement (the "Amended Loan") between the Company and Orion dated April 29, 2014, the principal amount under the 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 US\$0.62 or Cdn\$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. The Loan is to be repaid in 48 equal monthly installments. Early prepayment may occur at any time without charges. Interest on the Loan continues to accrue at a rate equal to LIBOR (subject to a minimum of 1%) plus 5.5% per annum. The Loan continues to be guaranteed by Aurcana's subsidiaries and is also secured against the Company and its subsidiaries' assets.

Concurrently, Aurcana entered into offtake agreements ("New Offtakes") with Orion in respect of the 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 has agreed to sell the concentrates to Orion under the New Offtakes at the prices selected by Orion as an average spot price at any of the 10 days after the delivery.

Loan restructure

The April 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 and related derivative liabilities and the Original Offtake derivative and recognition of the new liabilities. The Original Loan was a hybrid instrument, containing a debt host component and two embedded derivatives – a 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 the carrying value of the Original Orion Loan debt host was \$35.3 million, 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 Offtake and Amended Loan derivative liabilities was \$3.9 million. The Company also issued shares with a 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 the Company recognised a loss of \$1.9 million on the extinguishment of the original off-take agreement. The Company also incurred \$0.7 million of legal fees and other costs related to the restructure which were expensed.

In order to improve Aurcana's liquidity in the short term, Orion agreed to waive principal and interest payments on their loan for July 31st, August 31st, and September 30th, 2014 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 "Offtake agreement" by one year to 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.

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****10. Borrowings (continued)**

The Orion loan and offtake agreement restructure loss and related costs are as follows:

	September 30	December 31
	2014	2013
Loan restructuring costs	\$ 1,875,112	\$ -
Change in fair value of derivatives	2,418,498	-
Legal fees	683,780	-
Balance	<u>\$ 4,977,390</u>	<u>\$ -</u>

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 \$0.5 million has been recognized for the quarter ended September 30, 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, 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, the Company's standard discount to spot price.

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****10. Borrowings (continued)****Valuation assumptions**

Key unobservable inputs used in the valuation model are the estimated delivery schedule based on the Company's life of mine plan and the credit spread of the Company.

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 Orion Loan and Offtake. The spread as at April 30, 2014 and September 30, 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 September 30, 2014	\$118,941	(\$114,481)

Presentation

Based on the Company's valuation as at September 30, 2014, the fair value of the derivatives decreased by \$80,874 during the quarter ended September 30, 2014. The decrease was recorded as other income.

For the quarter ended September 30, 2014, the Company recorded accretion of \$0.7 million related to the Orion loan as a finance cost. To calculate the accretion expense, the Company uses the contract life of 4 years and an effective interest rate of 14.1% resulting from the amendment to the Amended Loan.

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

Glencore	September 30 2014	December 31 2013
Principal advanced	\$ 4,750,000	\$ 18,000,000
Repayments	4,750,000	13,250,000
Balance	<u>\$ -</u>	<u>\$ 4,750,000</u>

AURCANA CORPORATION
Notes to Condensed interim Consolidated Financial Statements
(Unaudited and expressed in United States dollars, unless otherwise stated)
10. Borrowings (continued)

	September 30	December 31
	2014	2013
Orion		
Principal advanced Original loan	\$ 37,066,662	\$ 50,000,000
Transaction costs	-	1,075,000
Derivative liability	-	13,859,897
Fair value of Original loan	<u>37,066,662</u>	35,065,103
Accretion	<u>2,369,056</u>	2,001,559
Sub-total	<u>39,435,718</u>	37,066,662
Repayments	<u>4,166,667</u>	-
Sub-total	<u>35,269,051</u>	37,066,662
Extinguishment of Original loan	<u>(35,269,051)</u>	-
Balance	<u>\$ -</u>	<u>\$ 37,066,662</u>
Fair value of New loan	\$ 35,538,573	-
Accretion	<u>973,171</u>	-
Sub-total	<u>36,511,744</u>	-
Repayments	<u>1,666,666</u>	-
Balance	<u>\$ 34,845,078</u>	<u>\$ -</u>
Total Borrowings	<u>\$ 34,845,078</u>	<u>\$ 41,816,662</u>

(b) Scheduled repayments

Schedule of principal repayments is as follows:

	September 30	December 31
	2014	2013
2014	<u>2,718,114</u>	21,416,668
2015	<u>10,872,456</u>	16,666,668
2016	<u>10,872,456</u>	16,666,664
2017	<u>10,872,456</u>	-
2018	<u>3,624,148</u>	-
	<u>\$ 38,959,630</u>	<u>\$ 54,750,000</u>

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****10. Borrowings (continued)****(c) Carrying amounts and fair value of the current and non-current borrowings are as follows:**

	Carrying amount		Fair value	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Glencore Loan	-	4,750,000	-	4,750,000
Orion Loan	34,845,078	37,066,660	34,845,078	36,331,611
Derivatives	4,465,146	10,932,524	4,465,146	10,932,524
Total	39,310,224	52,749,184	39,310,224	52,014,135

11. Derivatives

As discussed in Note 10, the Company entered in the Amended Loan agreement and the New Offtake agreement with Orion. These agreements contain derivatives. The fair value of the derivatives as at September 30, 2014, was \$4.5 million. The Company recorded \$80,874 gain on change in fair value of the derivatives as of September 30, 2014.

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	(\$6,024)
Derivative liability – March 31, 2014	\$10,926,500
Change in fair value	\$1,746,134
Derivative liability under the Original Orion Loan and Offtake agreement at April 30, 2014	\$12,672,634
Derivative liability under the Amended Loan – April 30, 2014	\$3,944,891
Change in fair value	(\$30,642)
Derivative liability under the Amended Loan – June 30, 2014	\$3,914,249
Derivative liability under the amendment to the Amended Orion Loan – June 30, 2014	\$4,546,020
Change in fair value	(\$80,874)
Derivative liability – September 30, 2014	\$4,465,146

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****12. 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 September 30, 2014 using a 6.85% discount rate (December 31, 2013 - 5.9%) and a 5.13% inflation rate (December 31, 2013: 3.39%), in the amount of \$1,330,155 (December 31, 2013 - \$1,237,127).

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 September 30, 2014 any discount rate (December 31, 2013 – nil %) or inflation rate (December 31, 2012 – 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 period ended September 2014 and year 2013 is as follows:

	September 30 2014	December 31 2013
Environmental rehabilitation, beginning of the year	\$ 1,716,965	\$ 2,662,433
Addition (Reduction) and change in estimates	20,054	(1,014,590)
Accretion	72,974	69,122
Environmental rehabilitation, end of the period	<u>\$ 1,809,993</u>	<u>\$ 1,716,965</u>

13. Equity

Authorized - An unlimited number of common shares

Share issuance details:

	Number of Common Shares	Amount
Balance, December 31, 2012	58,378,465	\$ 168,524,625
Exercised warrants	31,099	\$ 126,893
Balance, September 30, 2013	58,409,564	\$ 168,651,518
Exercised warrants	3,000	\$ 26,815
Balance, December 31, 2013	58,412,564	\$ 168,678,333
Debt restructuring	16,499,501	\$ 10,333,333
Private placement	9,732,908	\$ 3,161,569
Balance, September 30, 2014	<u>84,644,973</u>	<u>\$ 182,173,235</u>

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****13. Equity (continued)**

On June 20, 2014 the Company issued an aggregate of 9,200,000 units (each unit a "Unit") of the Company at a purchase price of Cdn\$0.55 per Unit (the "Purchase Price") for gross proceeds to the Company of Cdn\$5,060,000. Each Unit consists of one common share (a "Share") of the Company and one common share purchase warrant (each a "Warrant"). Each Warrant entitles the holder to purchase an additional common share (a "Warrant Share") of the Company at an exercise price of Cdn\$0.80 per Warrant Share for a period of 36 months from the closing of the Offering. The Company paid to the Underwriter 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 the Purchase Price for a period of 24 months from the Closing.

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 number of shares reserved for issuance under the Plan to 8,379,852 common shares to directors, officers, employees and consultants. The exercise price, term and vesting period of each option are determined by the board of directors within regulatory guidelines. The number reserved for issuance remains less than 10% of the total issued and outstanding 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	(287,500)	6.74
Forfeited	(180,469)	6.60
Balance, September 30, 2013	3,571,875	5.90
Expired	(166,000)	5.78
Forfeited	53,499	7.75
Balance, December 31, 2013	3,459,374	5.87
Expired	(754,687)	4.93
Forfeited	(23,438)	7.18
Balance, September 30, 2014	2,681,249	6.21

At September 30, 2014, the number of vested options was 2,659,375, with an average exercise price of CDN\$6.20 per share.

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****13. Equity (continued)**

Outstanding	Vested	Exercise Price (\$CDN)	Expiry Date
53,125	53,125	\$ 2.28	December 18, 2014
9,375	9,375	\$ 2.20	February 12, 2015
43,750	43,750	\$ 4.88	January 14, 2016
768,750	768,750	\$ 6.08	February 22, 2016
9,375	9,375	\$ 6.08	May 4, 2016
887,500	887,500	\$ 5.52	May 30, 2016
37,500	37,500	\$ 5.60	December 5, 2016
496,875	496,875	\$ 8.16	June 11, 2017
12,500	12,500	\$ 7.76	December 6, 2017
362,500	340,625	\$ 6.32	February 28, 2018
2,681,250	2,659,375	\$ 6.20	

Stock based compensation

For the period ended September 30, 2014 the stock-based compensation expense was \$263,458 (2013: \$3,341,771). The fair value of stock options granted during the period is calculated using the following weighted average assumptions:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Risk-free interest rate	-	1.24%
Expected stock price volatility	-	79.98%
Expected dividend yield	-	n/a
Expected option life in years	-	4.9

AURCANA CORPORATION
Notes to Condensed interim Consolidated Financial Statements
(Unaudited and expressed in United States dollars, unless otherwise stated)
13. Equity (continued)

<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	(287,500)	6.74
Forfeited	(180,469)	6.60
Balance, September 30, 2013	3,571,875	5.90
Expired	(166,000)	5.78
Forfeited	53,499	7.75
Balance, December 31, 2013	3,459,374	5.87
Expired	(754,687)	4.93
Forfeited	(23,438)	7.18
Balance, September 30, 2014	2,681,249	6.21

As of September 30, 2014 details of outstanding warrants are as follows:

Number of Common Share Purchase Warrants	Exercise Price (CDN)	Expiry Date
5,511,481	\$3.28	December 7, 2014
293,750	\$2.49	June 30, 2015
9,200,000	\$0.80	June 20, 2017
532,908	\$0.55	June 20, 2016
15,538,139		

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

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Risk-free interest rate	1.12%	1.21%
Expected stock price volatility	66.14%	101.42%
Expected dividend yield	n/a	n/a
Expected warrant life in years	2.9	1.0

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****14. Non-Controlling Interest**

The non-controlling interest is comprised of the following:

Balance, December 31, 2012	\$	44,148
Non-controlling interest's share of profit in La Negra Mine		<u>5,279</u>
Balance, September 30, 2013		49,427
Non-controlling interest's share of (loss) in La Negra Mine		<u>(3,943)</u>
Balance, December 31, 2013		45,484
Non-controlling interest's share of (loss) in La Negra Mine		<u>(2,951)</u>
Balance, September 30, 2014	\$	<u><u>42,533</u></u>

15. 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	September 30 2014	September 30 2013
Technical and consulting fees	(i)	\$ 73,981	\$ 361,860
General and administrative expenses	(ii)	<u>210,553</u>	<u>360,437</u>
Consulting fees		<u><u>\$ 284,534</u></u>	<u><u>\$ 722,297</u></u>

- i) To companies controlled by officers or directors.
- ii) To a company controlled by the former President & CEO for management services performed.

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****15. Related Party Transactions (continued)****b) Compensation of key management personnel**

	September 30 2014	September 30 2013
Consulting fees	\$ 284,534	\$ 722,297
Directors' fees	135,332	205,809
Officer salaries	286,104	228,650
Stock-based compensation	263,458	2,910,100
	<u>\$ 969,428</u>	<u>\$ 4,066,856</u>

c) As a result of the Orion loan amendment the Company issued shares to Orion Mine Finance (Master) Fund I LP (Note 10) which became a related party to the Company. Transactions with Orion:

	September 30 2014	September 30 2013
Repayment of loan principal	\$ 5,833,333	\$ -
Payment of interest	1,218,750	-
	<u>\$ 7,052,083</u>	<u>\$ -</u>

16. Commitments and contingencies**Supply agreements**

On 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. Prices set in both agreements are based on the average of the month in which the shipment is made as per the published prices in the Metal Bulletin in London in US dollars. During July 2013, the agreement with Glencore was extended for 2014 and amended to include lead, copper and zinc concentrates.

On April 29, 2014, Aurcana entered into 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 has agreed to waive principal and interest payments on their 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 "Offtake agreement" by one year to 2021.

Office Lease

Effective May 1, 2010, the Company leases office space which expires on April 30, 2015. The Company is committed under the lease for payments totaling \$86,441.

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****16. Commitments and contingencies (continued)****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.

La Negra equipment operating lease.

The Company has an operating lease agreement with Varilease Finance Inc., for certain equipment located at La Negra in the amount of \$1,954,756 with a term of 36 months and \$55,295 equal payments; signed on September 24, 2013 (Note 23).

Class action

A class proceeding has been filed in the Ontario Superior Court of Justice naming the Company and two former officers of the Company as defendants. The plaintiffs in the proceeding assert that certain of the Company's news releases misrepresented the production level at the Shafter Property. The plaintiffs also assert that the Company had reasonable grounds to believe, and therefore ought to have publicly disclosed, that the resource estimates in respect of the Shafter Property published by the Company between June 2012 and October 2013 were incorrect. The plaintiffs seek 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 seeks damages on behalf of that class in the sum of \$150 million or such other sum as the court finds appropriate. Management has not disclosed the amount of any provision or expected insurance recovery as the net amount of these is not expected to be material and to disclose the amounts could be prejudicial.

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****17. Supplemental Cash Flow Information**

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

	September 30 2014	September 30 2013
Cash	\$ 1,691,970	\$ 41,689,781
Short-term investments	4,221	43,522
Cash and cash equivalents	<u>\$ 1,696,191</u>	<u>\$ 41,733,303</u>

Supplemental disclosures of cash flow information for six months ended:

	September 30 2014	September 30 2013
Cash interest paid	\$ 2,482,565	\$ 1,695,777
Tax installments paid	-	1,940,315

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 amend the terms of its US\$50,000,000 outstanding unsecured loan and restated the credit facility agreement with Orion. The principal amount under the Loan has been 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 the Lender at a deemed issue price of US\$0.62 or Cdn\$0.69, in consideration for reducing the principal amount outstanding under the Loan and terminating the Offtake Agreement in respect of the Shafter Mine. As a result of this transaction, no cash was involved.

Non-cash investing and financing activities are as follows:

	September 30 2014	September 30 2013
Increase (decrease) in accounts payable related to construction in progress and equipment suppliers	\$ 1,388,465	\$ (470,388)
Interest on debt capitalized to Construction in progress	-	318,427

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****18. 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.

September 30, 2014	La Negra	Shafter	Corporate and other segments	Total
Sales to external customers	\$ 33,651,414	\$ -	\$ -	\$ 33,651,414
Mining operating expenses	25,553,804	-	-	25,553,804
Royalties	883,101	-	-	883,101
Freight and delivery	1,590,526	-	-	1,590,526
Depreciation and amortization	2,739,176	-	-	2,739,176
Depletion of mineral properties	80,880	-	-	80,880
Gross income	2,803,927	-	-	2,803,927
Shafter production delay and other costs	-	1,611,699	-	1,611,699
General and administrative expenses	1,643,931	(439,966)	15,476,335	16,680,300
Intersegment charges (recovery)	3,313,866	-	(3,313,866)	-
Income (loss) before income taxes	(2,153,870)	(1,171,733)	(12,162,469)	(15,488,072)
Income tax expense	(236,598)	-	60,511	(176,087)
Net income (loss) for the year	(1,917,272)	(1,171,733)	(12,222,980)	(15,311,985)
Property, plant and equipment	56,430,711	12,628,947	31,793	69,091,451
Mineral properties	3,469,660	15,500,000	-	18,969,660
Total capital assets	59,900,371	28,128,947	31,793	88,061,111
Total assets	68,298,131	32,746,246	7,318,542	108,362,919
Total liabilities	20,409,741	3,555,924	39,938,428	63,904,093

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****18. Segmented information (continued)**

September 30, 2013	La Negra		Shafter	Corporate and other segments	Total
Sales to external customers	\$ 34,458,481	\$ -	\$ -	\$ -	\$ 34,458,481
Mining operating expenses	20,002,460	-	-	-	20,002,460
Royalties	903,704	-	-	-	903,704
Freight and delivery	1,512,347	-	-	-	1,512,347
Depreciation and amortization	2,086,318	-	-	-	2,086,318
Depletion of mineral properties	43,508	-	-	-	43,508
Gross income	9,910,144	-	-	-	9,910,144
General and administrative expenses	1,381,195	13,374,762	8,124,751	22,880,708	
Intersegment charges (recovery)	2,741,841	8,479,502	(11,221,343)	-	
Income (loss) before income taxes	5,810,393	(8,902,093)	(9,878,864)	(12,970,564)	
Income tax expense (recovery)	1,913,066	-	(61,266)	1,851,800	
Net income for the year	3,897,327	(8,902,093)	(9,817,598)	(14,822,364)	
Property, plant and equipment	47,445,001	102,600,862	62,256	150,108,119	
Mineral properties	3,614,375	41,276,259	-	44,890,634	
Total capital assets	51,059,376	143,877,121	62,256	194,998,753	
Total assets	55,184,835	151,413,827	43,990,328	250,588,990	
Total liabilities	26,135,791	14,244,649	50,523,787	90,904,227	

19. Cost of Sales

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Mine and Mill supplies	\$ 3,398,532	\$ 2,384,206	\$ 9,558,749	\$ 8,094,036
Power	682,921	696,415	2,348,072	1,943,920
Salaries and benefits	3,356,924	3,585,932	11,015,932	10,713,061
Profit Sharing Employees	64,188	130,791	230,441	497,206
Royalties	270,520	295,439	883,101	903,704
Freight and delivery	519,270	617,784	1,590,526	1,512,347
Change in Inventories	1,543,726	(649,594)	2,400,610	(1,245,763)
Depreciation and amortization	934,623	706,649	2,739,176	2,086,318
Depletion of mineral properties	42,225	26,257	80,880	43,508
Total Cost of Sales	\$ 10,812,929	\$ 7,793,879	\$ 30,847,487	\$ 24,548,337

Cost of sales includes change in finished goods inventory for the nine months of the year for \$(1,580,983) (2013: \$2,410,052).

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****20. General and administrative costs**

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Administrative costs[1]	\$ 605,892	\$ 675,146	\$ 1,662,026	\$ 2,160,334
Professional fees	208,755	167,316	436,553	545,712
Investor relations	20,234	46,149	105,143	303,689
Marketing	514	71,567	61,315	380,329
Listing and filing fees	9,284	7,652	105,146	108,530
	<u>\$ 844,679</u>	<u>\$ 967,830</u>	<u>\$ 2,370,183</u>	<u>\$ 3,498,594</u>

[1] Administrative costs break down:

Management, salaries and consulting fees	\$ 384,094	\$ 386,541	\$ 999,781	\$ 1,166,534
Rent and overhead	38,098	45,715	113,453	137,805
Travel and accommodation	45,801	48,492	89,155	198,009
Office	30,141	60,810	77,951	206,067
Directors Fees	48,899	65,402	135,332	205,809
Other	58,859	68,186	246,354	246,110
	<u>\$ 605,892</u>	<u>\$ 675,146</u>	<u>\$ 1,662,026</u>	<u>\$ 2,160,334</u>

21. Financing expense

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Accretion of provision for environmental rehabilitation	\$ 28,741	\$ (36,360)	\$ 72,974	\$ 48,216
Accretion of Orion loan (Note 10)	738,641	-	3,347,703	-
Financing expense and bank charges	753,503	1,483,046	2,482,565	1,695,777
	<u>\$ 1,520,885</u>	<u>\$ 1,446,686</u>	<u>\$ 5,903,242</u>	<u>\$ 1,743,993</u>

AURCANA CORPORATION**Notes to Condensed interim Consolidated Financial Statements****(Unaudited and expressed in United States dollars, unless otherwise stated)****22. Fair value measurements**

The Company's financial instruments include cash and cash equivalents, trade and other receivables, short-term investments, 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 September, 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	\$ (4,465,146)	\$ -	\$ -	\$ (4,465,146)	Level 3
	\$ (4,465,146)	\$ -	\$ -	\$ (4,465,146)	

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 September 30, 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 10.

AURCANA CORPORATION

Notes to Condensed interim Consolidated Financial Statements

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

23. Subsequent events

- On October 8th, the Company completed the sale of a significant number of pieces of mobile equipment located on the Shafter property in Texas, USA. The sales value of \$2.9 million resulted in the Company recognizing a loss of \$ 0.4 million on the transaction. Part of this equipment is allocated in the Aurcana's Balance Sheet as Assets held for sale.
- Upon review it was determined that a recently purchased Robbins raise bore machine was no longer suitable for operation at the La Negra mine resulting in a decision to offer it for sale. The equipment was sold for the same purchase price of the original transaction for a total of \$3.2 million (50% up front and the remaining 50% over 12 monthly equal instalments at an 8% annual interest rate).
- On September 24, 2013, the Company signed an operating lease agreement with Varilease Finance Inc. to buy the Robbins raise bore machine and a filter press. During 2013, Varilease paid to the vendors a total of \$2.0 million prior to discontinuing payments in response to the announcement of the Company's decision to place the Shafter mine under Care & Maintenance. After several discussions with Varilease, it was mutually agreed to cancel the agreement for \$1.6 million, which was paid on November 3rd, 2014.