General

The following information, prepared as at August 18, 2006, should be read in conjunction with the unaudited consolidated financial statements for the six months ended June 30, 2006 as well as the audited consolidated financial statements for the year ended December 31, 2005, the notes attached thereto and the related annual management's discussion and analysis. The company's critical accounting policies and risk factors have remained substantially unchanged and are still applicable to the Company unless otherwise indicated. All amounts are expressed in Canadian dollars.

Introduction

Aurcana Corporation (the Company) was incorporated under the laws of Ontario on October 12, 1917 under the name "Cane Silver Mines Limited" and was continued under the *Canadian Business Corporations Act* on September 14, 1998 under the name Aurcana Corporation. Aurcana is a reporting issuer in British Columbia, Alberta and Ontario.

Overview and Overall Performance

Aurcana is a junior natural resource issuer engaged in the acquisition and exploration of mineral exploration properties. Aurcana's primary focus is the exploration for gold and silver deposits in Mexico.

Further to the LOI signed with Reyna Mining & Engineering S.A. de C.V. ("Reyna") in February 2006,to acquire the La Negra silver-zinc-copper-lead mine in Queretaro State, Mexico, approximately, 250 kilometres northeast of Mexico City, the Company received exchange approval on April 17, 2006 and closed the acquisition on May18, 2006 and executed the definitive joint venture agreement with Reyna.

Under the joint venture agreement the Company will own an 80% interest in La Negra, and Reyna will own 20%. Aurcana will be responsible for the cost of the acquisition and up to US$3.0 million in expected costs and working capital to bring the mine back into production. The total cost of the acquisition is US$3.0 million of which US$2.0 million is to be paid to Penoles on closing (paid). The remaining payment of US$1.0 million, will be due 12 months from closing. Under the terms of the LOI Aurcana is required to pay Reyna US$25,000 on execution of the LOI (paid), US$500,000 and US$725,000 on the date which is twelve and twenty four months respectively from the execution of a definitive joint venture agreement. Aurcana will issue to Reyna three million shares of which one million shares will be issued on the execution of a definitive agreement (issued) and one million shares on each of the dates, which is twelve and twenty fours months, respectively, following the execution of a formal joint venture agreement. In addition the Company will issue 1,000,000 warrants at a price of $0.25 to Reyna (issued). Each warrant will entitle Reyna to purchase one common share for a period of two years. A finder's fee of 4% of the gross transaction of US$4,250,000 in the amount of US$170,000 was paid in cash.

Following the acquisition of the mine from Penoles the Company commenced the refurbishment of the mill and ancillary facilities and initiated underground mapping and sampling, along with a review of all information from Penoles relating to the remaining orebodies and their potential extensions.

Review of the 800 tonne per day mill, has shown normal "wear and tear" with minimal replacement parts and equipment required, including screens in the primary, secondary and tertiary crushers and wider belts for the conveyors. Re-engineering of the mill has shown that mill capacity can be expanded to 1000 tonnes per day with the addition of larger floatation tanks, 10 metres in diameter, zinc and copper thickeners and filters, all of which have been ordered. This upgrade to the copper and zinc circuits is also expected to result in greater recoveries of copper and zinc.

Included in the purchase of the mine were several pieces of underground mine equipment which included four scoop trams, two 6 and two 3.5 cubic yards, a 5 cubic yard loader, a single boom hydraulic jumbo drill jack legs and compressors. The equipment was found to be in good working condition with minimal repairs required. The scoop trams are currently being used to clean up certain ramps and stopes. The single boom jumbo along with jack legs will be used to conduct the initial development and commencement of mining operations anticipated during the fourth quarter of this year.

Review of underground operations has commenced with a digital database being completed to assist with mine planning.

The remaining infrastructure including office and warehouse facilities, maintenance shop, electrical substation and a tailings dam were also found to be in good condition. A housing site has undergone a few upgrades and will now accommodate the large anticipated workforce of which 45 are currently on site.

A review of the Penoles database for the previous underground drilling at the mine is underway and will be used to prepare a 2,000 metre drill program on key zones such as Cristo Rey, Tania and Alacran.

The Company on April 17, 2006 received Exchange approval on its non-brokered private placement for 22,350,000 Units for total proceeds of CDN$4,470,000. Finders' fees in the amount of $205,350 cash and 1,071,300 warrants were paid on portions of the placement. Each warrant entitles the holder to purchase one common share at a price of $0.25 in accordance with the same terms and conditions of the Warrants described above.

On May 23, 2006 the Company triggered the Accelerated Expiry of the Warrants pursuant to the non brokered private placement for 22,350,000 units. The Warrant Expiry Date was advanced to the close of business June 23, 2006. All 12,246,300 warrants were exercised for proceeds of $3,061,575.

On July 18, 2006 the Company completed a non-brokered private placement with Industriales Penoles S.A de C.V. for 1,032,272 common shares ("Shares") at a price of $0.55 per common share (Discounted Market Price) for total proceeds of US$500,000(CDN$567,750).

Results Of Operations

Loss for the Period:

The Company is currently in the exploration stage, and does not have revenues from operations and, except for income from cash and cash equivalents, relies on equity financing for its continuing financial liquidity. The primary focus during the six months ended June 30, 2006 was the acquisition of the La Negra Mine. In support of this activity during the six months ended June 30, 2006, the Company reported a loss before other items of $226,130 ($0.00 loss per share) compared to a loss of $93,284 ($0.00 loss per share) for June 30, 2005. The substantial increase in expenditures related to the acquisition of the La Negra mine and the non brokered private placement carried out during the period June 30, 2006. In relation to these activities, increased expenditures in the areas of consulting fees $18,015 (2005 - $Nil), licenses and taxes of $42,643 (2005 - $Nil), rent and overhead of $77,907 (2005 - $18,217) transfer agent fees and shareholder information of $18,084 (2005 - $11,215) and travel of $17,418 (2005 - $1,650) were recorded.

The net loss of $481,308 ($0.01 loss per share) compared to a loss of $334,024 ($0.01 loss per share) reported on June 30, 2005, property evaluation expenditures of $20,732 (2005 - $19,252), write off of mineral properties of $157,759 (2005 - $222,621) and a foreign exchange conversion loss of $76,687 (2005 – ($1,133). The write off mineral properties pertains to the Altiplano properties where in 2005 4 of the 5 properties were written off with only La Virgen property retained. The Company terminated its agreement on June 9, 2006 with Hochschild and wrote off the remaining acquisition and deferred exploration costs.

Results Of Operations *(Cont'd)*

Capitalized Exploration Expenditures

Total investments in and expenditures on mineral properties for the six months ended June 30, 2006 was $2,746,738 compared to $28,312 for the comparative period June 30, 2005. The expenditures for the current period were acquisition and deferred explorations costs incurred for the La Negra Mine, and for the comparative period related to the Company's Mexican projects, Altiplano and Real de Catorce both of which have now been written off.

Cash Flows:

Cash provided by operating activities for the six months ended June 30, 2006 was $7,387,575 compared to cash used of $90,656 for the comparative period ended June 30, 2005. The decrease in cash used was primarily a result of tax refunds received and an advance of funds provided by a director of the Company of $30,000 for the initial cash payment of US$25,000 required on signing of the LOI for the La Negra acquisition.

Cash used in investing activities for the six months ended June 30, 2006 was $2,936,950 compared to $28,312 for the comparative period June 30, 2005, all of which was for capitalized exploration expenditures as referred to above and for the purchase of mine vehicles and computer equipment, the largest component of the computer equipment included the purchase of a mine software Surpac.

Cash provided by financing activities for the six months ended June 30, 2006 was $7,387,362 and includes the exercise of stock options of $84,000, a private placement of $4,470,000, and the exercise of share purchase warrants of 3,016,595. During the six months ended June 30, 2005 the Company did not receive any funds from financing activities.

Summary of Quarterly Results

Three Months Ended	**Jun 30, 2006**	**Mar 31, 2006**	**Dec 31, 2005**	**Sept 30, 2005**
Total Revenues	$ —	$ —	$ —	$ —
Purchase of equipment	$ (190,212)	$ —	$ —	$ —
Investment in and expenditures on mineral properties	$ 2,688,219	$ (58,519)	$ 82,569	$ —
Income (loss) before Other Items	$ (180,502)	$ (45,628)	$ (66,583)	$ (34,465)
Net Income (loss)	$ (428,441)	$ (52,867)	$ (238,716)	$ (45,874)
Income (loss) per share	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.00)

For the three months ended June 30, 2006 the net loss included write off of mineral properties of $157,759 (2005 – 222,621) and a foreign exchange conversion loss of $77,156 (2005 – ($1,133). In addition the Company recorded property evaluation costs of $13,024 (2005 - $14,452).

Investments in and expenditures on mineral properties of $2,688,219 (2005 - $19,557) related to the acquisition of the La Negra Mine during the three months ended June 30, 2006. In 2005 these expenditures were in relation to the Company's Altiplano properties which have been written off. In addition the Company incurred expenditures of $190,212 (2005 - $Nil) for the purchase of vehicles and substantive computer equipment for the operation at the La Negra Mine.

Summary of Quarterly Results (cont'd)

Three Months Ended	**Jun 30, 2005**	**Mar 31, 2005**	**Dec 31, 2004**	**Sept 30, 2004**
Total Revenues	$ —	$ —	$ —	$ —
Investment in and expenditures on mineral properties	$ (19,557)	$ (8,755)	$ (159,144)	$ (168,084)
Income (loss) before Other Items	$ (64,479)	$ (28,806)	$ (47,288)	$ (47,006)
Net Income (loss)	$ (300,419)	$ (33,606)	$(269,902)	$ (67,640)
Income (loss) per share	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.00)

Significant items to report for the remaining quarterly results are as follows:

The Net Loss for the following quarters included write off of mineral properties as follows:

1) December 31, 2005 - $164,429
2) June 30, 2005 - $222,621
3) December 31, 2004 -$191,986
4) June 30, 2004 - $21,000

Liquidity And Capital Resources

As at June 30, 2006, the Company had working capital of $4,184,509, including $3,990,984 in cash, $10,196 of taxes receivable, $319,021 in prepaid expenses and advances less $135,693 of accounts payable.

For the six months ended June 30, 2006, cash inflows exceeded cash outflows by $3,954,324, which when combined with the $36,660 cash balance from the year ended December 31, 2005, resulted in an ending cash position of $3,990,984.

As at June 30, 2006 the Company was committed to rental payments of $32,500 in aggregate to a company controlled by directors over the term of the lease expiring in January 2007.

The primary factors that influence the future financial condition of the Company include the continued ability to raise equity capital and the level of expenditures required to meet its current commitments. As a mineral exploration company with no current revenue generating operations, the Company's cash flows consist of cash outflows for general and administrative expenses, mineral property expenditures, and expenditures for depreciable equipment such as computers and office equipment. Interest expense and income is expensed or credited against costs. Financing activities, such as share issuances, exercise of options and warrants result in cash inflows to the Company.

Transactions with Related Parties

During the six months ended the Company:

(a) paid or accrued management fees of $38,500 (2005 - $35,000) to a company controlled by directors;

(b) paid or accrued technical, geological and consulting services of $14,750 (2005 – 9,130) to a company controlled by a director; and

(c) paid or accrued rent of $15,000 (2005 - $Nil) to a company controlled by directors.

These fees were measured at the exchange amount, which is the amount agreed upon by the transacting parties.

Changes in Accounting Policies

There were no changes or adoptions of new significant policies in the period.

Outstanding Share Data

Authorized Capital:

Unlimited common shares without par value.

Issued and outstanding:

As at August 18, 2006 - 69,154,302 common shares were issued and outstanding at a recorded value of $23,837,088.

Outstanding options, warrants and convertible securities as at August 18, 2006 were:

Type of Security	**Number**	**Exercise Price**	**Expiry Date**
Share purchase warrants	1,000,000	$0.15	December 16, 2006
Share purchase warrants	1,000,000	$0.25	June 18, 2008
Stock options	200,000	$0.12	February 28, 2007
Stock options	100,000	$0.16	August 22, 2007
Stock options	20,000	$0.13	September 25, 2008
Stock options	5,000	$0.14	November 18, 2008
Stock options	475,000	$0.10	December 15, 2010
Stock options	2,450,000	$0.59	August 18, 2011

There were no shares in escrow as at August 18, 2006.

Forward Looking Statements

This MD&A may contain forward-looking statements including, but not limited to, comments regarding the timing and content of upcoming work programs, geological interpretations, receipt of property titles, and potential mineral recovery processes. Forward-looking statements address future events and conditions and therefore involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated in such statements.

Management's Responsibility For Financial Statements

The information provided in this report including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

The Company's management, including the chief executive officer and the chief financial officer, are responsible for the establishing and maintaining disclosure controls and procedures for the Company, and have designed such disclosure controls and procedures, or caused them to be designed under the supervision of management, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to management by others within those entities, particularly during the period in which the interim filings are being prepared.

Additional information on the Company can be found on SEDAR at www.sedar.com and on the Company's website at www.aurcana.com