



Management Discussion and Analysis for the quarter ended March 31, 2010

This Management Discussion and Analysis (“**MD&A**”) should be read in conjunction with Aurcana Corporation’s (the “**Company**” or “**Aurcana**”) unaudited interim consolidated financial statements for the three months ended March 31, 2010 and 2009 and the related notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles. This MD&A should also be read in conjunction with the audited consolidated financial statements and the notes thereto, for the year ended December 31, 2009 and related MD&A. This information can be found on SEDAR at www.sedar.com and on the Company’s website www.aurcana.com. The reader should be aware that historical results are not necessarily indicative of future performance.

Expressed in Canadian dollars, unless stated otherwise, this MD&A is current as of **May 31, 2010**.

Forward Looking Statements: This report contains “forward-looking statements”, including, but not limited to, statements regarding the Company’s expectations as to the market price of minerals, strategic plans, future commercial production, production targets and timetables, mine operating costs, capital expenditures, work programs, exploration budgets and mineral reserve and resource estimates. Forward-looking statements express, as at the date of this report, the Company’s plans, estimates, forecasts, projections, expectations, or beliefs as to future events or results. Forward-looking statements involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. Therefore, actual results and future events may differ materially from those currently anticipated in such statements.

Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward-looking statements, include, but are not limited to, factors associated with fluctuations in the market price of minerals, mining industry risks and hazards, environmental risks and hazards, uncertainty as to calculation of mineral reserves and resources, requirement of additional financing, risks of delays in construction and other risks.

The forward looking information in this MD&A is based on management’s current expectations and Aurcana assumes no obligations to update such information to reflect later events or developments, except as required by law. Additional information, about the risks and uncertainties of the Company’s business is provided in its disclosure materials included in its most recent annual and quarterly filings, filed with the securities regulatory authorities in Canada available at www.sedar.com. The Company’s risk factors have remained unchanged from its annual MD&A for the year ended December 31, 2009.

Basis of Presentation: While the accompanying unaudited 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 for the foreseeable future, there are events and conditions that cast significant doubt on the validity of that assumption. For the quarter ended March 31, 2010 and 2009, the Company had net earnings of \$701,540 and a net loss of \$879,946, respectively. The Company has had a history of recurring losses resulting in an accumulated deficit of \$40.7 million as at March 31, 2010 (Dec 31, 2009: \$41.4 million). The Company will need to raise sufficient funds to meet its obligations as well as fund operations and its ongoing exploration activities. The Company has no assurance that such financing will be available or be available on favourable terms. Factors that could affect the availability of financing include the Company’s performance (as measured by various factors including the progress and results of the Shafter and La Negra projects), the state of international debt and equity markets, investor perceptions and expectations and the global financial and metals markets.



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Basis of Presentation: (continued)

The unaudited interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

Nature of Business: Aurcana 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. The Company is listed on the TSX Venture Exchange ("**TSX-V**") under the symbol AUN and was elevated to Tier 1 Status in October 2008.

The principal business of the Company is the acquisition, exploration and development of mineral properties, with a focus on properties rich in Silver-Copper-Zinc-Lead. Since 2007, the Company has been operating the La Negra mine ("**La Negra**"), in which it holds a 92% indirect interest, in the state of Queretaro, Mexico. In addition, the Company has commenced with detailed engineering and permitting for the construction of its Shafter silver mine in Texas ("**Shafter**"), in which it holds a 100% indirect interest.

Highlights:

Results of Operations

During the quarter ended March 31, 2010, the Company:

- had net earnings of \$701,540 (2009: net loss of \$879,946), or \$0.01 per share (2009: net loss of \$0.01 per share);
- continued its expansion of the mill at La Negra with production expected to increase from the current 1,000 metric tonnes per day ("**TPD**") to 1,500 TPD by June, 2010;
- continued advancing Shafter towards a bankable feasibility.

La Negra

During the quarter ended March 31, 2010, the Company:

- processed 79,007 (2009: 69,555) tonnes of ore;
- produced 2,279 (2009: 2,146) and sold 2,302 (2009: 2,869) tonnes of copper concentrate;
- produced 1,042 (2009: 812) and sold 982 (2009: 1,045) tonnes of zinc concentrate;
- produced 154,095 (2009: 166,031) and sold 153,790 (2009: 190,647) ounces of silver;

The difference between production and shipment in all cases reflects the timing of the shipping relative to month end and varying inventory levels.



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Overall Performance

Earnings

The Company had net earnings of \$701,540 for the quarter ended March 31, 2010 (2009: net loss of \$879,946), or \$0.01 per share (2009: net loss of \$0.01 per share). Excluding a foreign exchange gain of \$1,291,315 (2009: foreign exchange loss of \$292,566) and other income of \$22,497 (2009: \$79,546), the Company had a loss from operations of \$612,272 (2009: loss of \$666,926).

Revenue

During the quarter ended March 31, 2010, the Company realized revenues from the sale of 2,302 tonnes of copper content (2009: 2,869 tonnes), 982 tonnes of zinc content (2009: 1,045 tonnes) and 153,790 ounces of silver (2009: 190,647 ounces) for total net revenues of \$4.7 million (2009: \$3.0 million).

The average sales price for copper, zinc and silver during the quarter ended March 31, 2010 were \$3.29 (2009: \$1.56), \$1.04 (2009: \$0.53) and \$16.94 (2009: \$12.60), respectively.

Sale of Silver

In June 2008, the Company contracted to sell to Silver Wheaton (Caymans) Ltd. ("**Silver Wheaton**") the equivalent of 50% of the silver metal produced from ore extracted during the mine-life at La Negra. In consideration, the Company received an upfront cash payment of US\$25 million which it recorded as deferred revenue, and a further sale price of US\$3.90 per ounce of silver sold to Silver Wheaton, with the sale price subject to an inflationary adjustment in year three. Under the terms of the agreement, the Company must deliver sufficient ounces of silver to Silver Wheaton within a forty year term, on a prescribed formula, or a portion of the deferred revenue, without interest, will become repayable to Silver Wheaton. All of the shares of Minera La Negra S.A. de C.V. have been pledged as security for the agreement with Silver Wheaton.

During the first quarter of 2009, as a result of ongoing negotiations surrounding the re-pricing of shipments with the concentrate buyer, and other factors, the Company fell into arrears on its payments of refined silver produced from La Negra to Silver Wheaton pursuant to the terms of the agreement with Silver Wheaton. The Company and Silver Wheaton negotiated a draft agreement to remedy this situation. At the date of this report the definitive agreement is still being finalized. The draft agreement and subsequent verbal agreements require that a minimum 10% of the silver owed is to be repaid each month, with the balance of ounces owing to accrue interest at a rate of 3.25% (US Prime rate). Included in accounts payable and accrued liabilities at March 31, 2010 was an amount of \$1.78 million (December 31, 2009: \$1.35 million) owing to Silver Wheaton for silver arrears.

As the sale amount and the corresponding deferred revenue are denominated in US dollars, the amounts included in the unaudited interim consolidated financial statements include an adjustment for unrealized foreign exchange variations.



Management Discussion and Analysis for the quarter ended March 31, 2010

Overall Performance (continued)

Sale of Silver (continued)

The related deferred revenue amounts are calculated as follows:

	US Dollars	Canadian Dollars
Balance, December 31, 2009	\$ 21,197,876	\$ 22,185,697
Recognized as revenue on deliveries	(325,856)	(333,351)
Unrealized foreign exchange gain	-	(690,343)
Amount reclassified as accounts payable	(465,155)	(432,711)
Balance, March 31, 2010	<u>\$ 20,406,865</u>	<u>\$ 20,729,292</u>

Cost of Sales

Cost of sales for the quarter ended March 31, 2010 were \$3.3 million (2009: \$2.5 million). As production costs track the tonnage produced, these numbers are not directly comparable unless tonnage is considered.

La Negra Mine

Mining operations and exploration drilling at La Negra continue to delineate additional mineralized zones, either between or as extensions of existing ore zones which add to the life of La Negra. During the quarter ended March 31, 2010, 58,000 tonnes (of the 98,000 tonnes milled) were mined from outside the existing reserve base. Results from new drilling have indicated the potential of up to 80,000 tonnes for the Cobriza Zone. Operationally, La Negra has the benefit of multiple mineral deposits that have existing development and are primarily copper-silver rich. A new National Instrument ("NI") 43-101 compliant resource review of the Maravillas deposit was completed in the first quarter of 2010 and increased historic reserves by 47% to 188,941 tonnes in the measured and indicated categories. During the quarter ended March 31, 2010, the Maravillas zone was prepared for contract mining with installation of a truck chute, development of access ramps, ventilation, waste and ore raises.

The operation is under constant review to monitor operational and cost cutting measures. A new inventory control system linking operations, maintenance and warehouse was introduced in the third quarter of 2009 and is being utilized in monitoring operational costs. A planned maintenance system for mine equipment has been implemented. Management cost variance reports were designed and are being implemented in 2010. With the expansion of the plant to 1,500 TPD by June 2010, the life of the existing tailings facility will be reduced to an estimated 5 years and additional options to maintain extended capacity are under consideration.

Plant expansion to 1,250 TPD by the end of May 2010 was completed as planned, with addition of a second ball-mill, a new cyclone system and the flotation circuit was expanded by adding more conditioning and flotation tanks. The construction of a second water tank and a third fine-ore storage bin will raise throughput to a consistent 1,500 TPD by June 2010. The flotation circuit was expanded to accommodate the 50% increase of mill capacity by adding more conditioning and flotation tanks.



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Production at La Negra

Quarter Ended	March 31 2010	Dec 31 2009	Sept 30 2009	June 30 2009	March 31 2009	Dec 31 2008	Sept 30 2008	June 30 2008
Inventory (start of period):								
Ore stockpiles (tonnes)	11,736	15,688	6,632	1,220	720	835	812	3,662
Zinc concentrate (tonnes)	49	56	120	371	350	110	8	101
Copper/silver concentrate (tonnes)	93	60	45	210	370	195	7	5

Production

Ore mined (tonnes)	90,293	89,208	83,250	79,110	69,366	73,666	84,042	78,732
Ore milled	79,007	86,358	72,716	72,323	69,555	70,236	81,989	73,768
Average grade								
Zinc	0.90%	0.95%	0.88%	1.19%	0.94%	1.60%	1.04%	0.73%
Copper	0.48%	0.50%	0.54%	0.48%	0.65%	0.77%	0.74%	0.74%
Silver (g/t)	74	91	85	99	99	85	74	67
Zinc concentrate (tonnes)	1,042	1,022	842	1,018	912	1,318	996	439
Containing zinc metal (tonnes)	365	344	353	429	358	573	452	178
Copper concentrate (tonnes)	2,279	2,731	2,432	2,154	2,622	2,608	2,661	2,354
Containing copper metal (tonnes)	335	335	334	311	390	445	504	428
Silver (ounces)	154,095	211,244	159,157	176,206	166,031	145,032	138,931	105,362
Inventory (end of period):							835	
Ore stockpiles (tonnes)	23,022	11,736	15,688	6,632	1,220	720		812
Zinc concentrate (tonnes)	103	49	56	120	371	520	108	8
Copper/silver concentrate (tonnes)	79	93	60	45	310	450	12	7

Sales

Zinc concentrate (WMT)	982	1,050	1,030	1,190	1,045	1,063	993	454
Payable zinc metal (tonnes)	318	344	358	403	331	339	363	162
Copper concentrate (WMT)	2,302	2,705	2,428	2,332	2,869	2,595	2,614	2,434
Payable copper metal (tonnes)	318	335	323	313	432	385	463	412
Payable Silver (ounces)	153,790	192,926	162,356	200,825	190,647	117,393	124,572	100,780

Shafter Project

In July 2008, Aurcana acquired a 100% indirect interest in Shafter from Silver Standard Resources Inc. ("**Silver Standard**"). In consideration, Aurcana paid Silver Standard US\$23 million in cash; issued 15 million common shares of the Company to Silver Standard and issued a \$10 million convertible debenture to Silver Standard which pays a 3.17% weighted average coupon with a three-year term and is convertible into 6.62 million common shares of the Company at \$1.51 per share.

In July 2008, Tetra Tech Inc., of Golden, Colorado completed a NI 43-101 compliant report disclosing a measured and indicated resource estimated at 24.6 million ounces of silver and an inferred resource estimated at 22.8 million ounces of silver using a four ounce per ton cut off.



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Shafter Project (continued)

All necessary infrastructure is in place with a major power line and paved highway crossing the property and an electrical sub-station on site. A 1,050 foot shaft serviced by an 80 ton per hour hoist and 5,100 feet of underground development were installed by Goldfields between 1978 and 1982. In addition, a portion of the extensive historical underground workings will be integrated into the mine plan.

In June 2009, the Company completed a NI 43-101 compliant pre-feasibility study. The pre-feasibility study includes trade off studies in mine, mill and infrastructure to optimize production capacity and maximize Shafter's economic return. The study recommends the use of a decline to access the deposit, and mechanized room and pillar extraction. The decline facilitates the efficient movement of supplies and large equipment for production and allows the existing shaft to be used for hoisting ore from the deepest area of the mine and reducing the truck haulage distance. Daily production is expected to be sustained at a rate of 1,500 tons per day. The decline is also expected to allow for early production and cash flow, as it will initially target resource blocks in the upper levels of the mine which are located above the water table.

The highlights of the report were:

- Payback estimated at under 2 years based on a silver price of \$13.55 per ounce;
- An internal rate of return ("IRR") estimated at 23% pre tax;
- A pre-tax net present value ("NPV") estimated at \$25 million using a 5% discount rate;
- An initial estimated capital expenditure estimated at under \$40 million;
- Silver production estimated at 3.8 million ounces in year one and 4 million ounces in year two;
- An average total cost estimated at \$7.50 per ounce of silver produced in the first two years;
- A mine life estimated at 4.7 years, based on measured and indicated resources;
- Average silver production estimated at 3.2 million ounces per year, life of mine; and
- An estimated 1,500 tons per day production rate achieved by driving a decline.

Revenue was calculated on the base case, using the three year average silver price of \$13.55 per ounce as of April 2009, as published by the London Metal Exchange. Only the measured and indicated resources are used for pre-feasibility study design, economics and life-of-mine.

During the first and second quarters of 2010, the Company has used the services of SNC-Lavalin to perform basic engineering leading to a finalized project configuration. This has raised the July 2009 Prefeasibility capital estimate to a Feasibility level of accuracy. The finalized project configuration has defined the amendments required to existing permits. Such amendments are generally minor in nature and the Company has received positive indication from Texas regulators that permit amendments will be issued upon application.

Project execution planning has been developed such that the construction of the mine can safely proceed immediately on receipt of financing. Planning includes securing the services of key personnel, including a mine construction manager, a permitting manager, a plant construction manager and locating an appropriate engineering company and construction company.



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Market Trends

Beginning in 2003, copper prices saw an overall increase in price of US\$1.30/lb to US\$3.23/lb in 2007. With the dramatic declines in commodities and overall financial markets in mid 2008, copper was down to US\$1.31/lb on December 31, 2008 but has steadily improved to US\$3.55/lb as at March 31, 2010.

Zinc prices have generally followed the same trend as copper with prices of US\$0.47/lb in 2003, increasing to US\$1.68/lb in June 2007 and then declining throughout 2008 to US\$0.51/lb on December 31, 2008 before trending up to US\$1.07/lb as of March 31, 2010.

Silver prices saw a dramatic increase from average prices of US\$4.87/ounce in 2003 to US\$13.38/ounce in 2007, followed by a decline throughout 2008 to US\$10.79/ounce at December 31, 2008 and then increasing significantly to US\$17.50/ounce as of March 31, 2010.

The Company is reviewing its options with respect to hedging in 2010. Under its current agreement, the Company has the option to fix prices for copper on a monthly basis with its concentrate buyer.

Results of Operations

For the quarter ended March 31, 2010, the Company had earnings from mining operations of \$610,434 (2009: \$64,384), or earnings from mining operations of \$0.01 per share (2009: \$0.00 per share).

Revenues for the quarter ended March 31, 2010 were \$4.7 million (2009: \$3.0 million) excluding the effects of sales to Silver Wheaton, and cost of sales was \$3.3 million (2009: \$2.5 million).

For presentation purposes, the Company separates its sales to Silver Wheaton on the statement of operations. For the quarter ended March 31, 2010, the Company experienced a loss from its trading activities with Silver Wheaton of \$325,997 (2009: \$142,621). The increased loss was a result of the combination of an increase in silver prices as well as the number of ounces sold during the quarter. The Company recognizes US\$3.90 per ounce received from Silver Wheaton plus a pro-rated portion of deferred revenue on a per ounce basis. As the combination of these amounts were significantly less than the cost of acquiring silver certificates, to deliver to Silver Wheaton, on the market, a loss was incurred.

Significant non-cash operating expenses for the quarter ended March 31, 2010 included depletion of mineral properties of \$485,156 (2009: \$367,914) and amortization of \$240,517 (2009: \$136,587).



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Corporate expenses

Corporate expenses for the quarter ended March 31, 2010 totaled \$896,709 (2009: \$588,689) with the most significant being administrative expenses of \$464,019 (2009: \$468,207), professional fees of \$155,947 (2009: \$2,196) and stock-based compensation of \$148,675 (2009: \$4,087).

Administrative expenses

The most significant administrative costs during the quarter ended March 31, 2010 consisted of consulting fees of \$337,678 (2009: \$188,018) that were paid to companies controlled by directors, officers or employees of the Company and travel and accommodation costs of \$39,863 (2009: \$6,397).

Professional fees

The professional fees during the quarter ended March 31, 2010 consisted of accrued audit fees of \$95,000 (2009: \$210) and legal fees of \$57,622 (2009: \$1,986). The audit fees recorded in 2010 pertained to the 2009 year-end audit of the Company. The increased legal fees were a result of the Company consulting various law firms with respect to certain legal matters including renegotiating its contracts with Silver Wheaton as well as the two matters described in "Contingencies" below.

Stock-based compensation

The Company applies the fair value method of accounting for all awards of stock options by using the Black-Scholes Option Pricing Model ("**Black-Scholes Model**"). The stock-based compensation of \$148,675 (2009: \$4,087) was the fair value, using the Black-Scholes Model, of the 900,000 stock options that were granted during the quarter ended March 31, 2010.

Cash Flows

During the quarter ended March 31, 2010, cash decreased by \$1,348,996, from \$2,852,174 at December 31, 2009 to \$1,503,178 at March 31, 2010. Cash of \$529,151 was provided by operating activities, cash of \$1,491,421 was used in investing activities and cash of \$386,726 was used in financing activities. Investing activities consisted of \$1,053,436 of plant and equipment purchases and \$437,985 of capitalized mineral property expenditures. Financing activities consisted of the Company paying down its notes payable by \$541,726, partially offset by proceeds of \$155,000 from the exercise of 500,000 stock options.



Management Discussion and Analysis for the quarter ended March 31, 2010

Financial Data for the last Eight Quarters

Quarter Ended	March 31 2010	Dec. 31 2009	Sept. 30 2009	June 30 2009
Total Revenues	\$ 4,677,771	\$ 2,294,296	\$ 5,228,565	\$ 5,223,323
Earnings (loss) from Operations	\$ (612,272)	\$ (3,040,975)	\$ 466,232	\$ (685,116)
Net Earnings (loss)	\$ 701,540	\$ (576,266)	\$ 2,388,932	\$ 2,837,670
Earnings (loss) per share	\$ 0.00	\$ (0.01)	\$ 0.02	\$ 0.03

	March 31 2009	December 31 2008	Sept. 30 2008	June 30 2008
Total Revenues	\$ 3,037,037	\$ 1,388,542	\$ 2,126,202	\$ 3,205,640
Loss from Operations	\$ (666,926)	\$ (5,583,643)	\$ (4,285,574)	\$ (1,045,140)
Net Loss	\$ (879,946)	\$ (18,960,624)	\$ (5,172,711)	\$ (962,245)
Loss per share	\$ (0.00)	\$ (0.19)	\$ (0.05)	\$ (0.01)

Liquidity

As at March 31, 2010, the Company had negative working capital of \$1,291,805 (December 31, 2009: working capital of \$687,232). The most significant current assets consisted of inventory of \$1,852,717 (December 31, 2009: \$1,361,922), cash of \$1,503,178 (December 31, 2009: \$2,852,174) and trade accounts receivable of \$1,017,237 (December 31, 2009: \$1,052,517). These amounts were offset by accounts payable and accrued liabilities of \$5,440,051 (December 31, 2009: \$4,361,865) and the current portion of the Company's notes payable of \$1,234,795 (December 31, 2009: \$1,391,375). The notes payable are a combination of equipment purchases at La Negra and amounts owed to the Company's principal customer.

At March 31, 2010, the Company's most significant long-term liabilities consisted of a convertible debenture of \$9,083,126 (December 31, 2009: \$8,919,003) with Silver Standard in relation to the Company's purchase of the Shafter Project and unearned revenues of \$20,729,292 (December 31, 2009: \$22,185,697) relating to the silver purchase agreement with Silver Wheaton.

As required under current Canadian Generally Accepted Accounting Principles ("GAAP"), the Company has recorded a future income tax liability of \$16,261,287 (December 31, 2009: \$16,754,344) in its financial statements with respect to its purchase of Shafter. FIT is not considered in the assessment of liquidity as it is an accounting estimate, required under Canadian GAAP, representing the potential future tax liability attached to Shafter. Any actual tax liability will exist when Shafter comes into production and is profitable. The actual tax liability at that time may differ from the estimate recorded. This accounting estimate may be revised or eliminated upon conversion to International Financial Reporting Standards ("IFRS").

While the Company continues to make improvements at La Negra, and considering that the operation generated positive cash flows since the Company assumed direct control at the mine, the operation has yet to reach consistent profitability such that the Company can realize additional cash flows from the mine. The Company's source of liquidity has consisted primarily of cash from proceeds of equity issues and there can be no assurance that the Company will be able to continue to raise funds, in which case it may be unable to meet its obligations. Should Aurcana be unable to realize a profit on its assets and discharge its liabilities in the normal course of business, the realizable value of its assets may be materially less than the amounts recorded on the balance sheets.



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Outstanding Share Capital

The Company is authorized to issue an unlimited number of common shares without par value.

As of the date of this report, the Company had 121,096,660 shares outstanding, 10,837,500 stock options outstanding and 6,508,560 warrants outstanding.

As of the date of this report, on a fully diluted basis, if all options and warrants were exercised, a total of 138,442,720 shares would be issued and outstanding.

On April 23, 2010, the Company announced that it will conduct, on a best efforts basis, a non-brokered private placement (the "**Financing**") of up to 40,000 units (the "**Units**") consisting of silver-secured notes and common share purchase warrants at an expected purchase price of US\$1,000 per Unit for gross proceeds of up to US\$40 million. The price of the Units amounts to a 25% discount to a silver price of US\$17.50 per ounce of silver. Each Unit is anticipated to consist of 76 troy ounce silver principal amount secured non-interest bearing notes ("**Senior Secured Notes**") and 500 common share purchase warrants (each a "**Warrant**"). Each Warrant is anticipated to entitle the holder to purchase one common share of the Company during the period of 4 years from completion of the Financing ("**Closing Date**") at a purchase price of CDN\$1.00 per common share provided that if the closing price of the Company's common shares as traded on the TSX-V, subsequent to 4 months from the Closing Date, is at or above CDN\$1.25 per share for a period of 20 consecutive trading days, the Company will have the right to accelerate the expiry of the Warrants upon giving 30 days notice to the holders thereof. Finders' fees may be paid on all or a portion of the Financing, in accordance with the policies of the TSX-V.

The Senior Secured Notes are anticipated to be non-interest bearing and are anticipated to mature in 4 years and will permit the holder to elect to take repayment of the principal amount in either cash or in silver bullion, based on the market value of an ounce of silver on the date of repayment. The Senior Secured Notes are anticipated to be repaid commencing January 1, 2011 in 24 monthly installments of the equivalent of 25,000 ounces per month and thereafter until maturity on December 1, 2014 in 24 monthly installments of the equivalent of 101,984 ounces per month. If a holder elects to be repaid in silver bullion, each monthly installment will be paid on the first business day of each month (each a "**Repayment Date**") through the delivery by the Company of physical silver to a trustee to be appointed. Holders of the Senior Secured Notes may periodically request the physical delivery of silver from the trustee in minimum amounts of 25,000 ounces (or other minimum amounts at the discretion of the Company) to an authorized London pool account.

The effect of the private placement is not included in the fully diluted total as, at the date of this report, the private placement has not closed. Further, there can be no assurance that the private placement will close in whole or in part or on terms as disclosed above.

Off-Balance Sheet Arrangements

At March 31, 2010, the Company had no off-balance sheet arrangements.



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Transactions with Related Parties

During the quarter ended March 31, 2010, the Company paid or accrued:

- Management fees of \$75,000 (2009: \$47,600) to companies controlled by directors or former directors;
- Administrative management fees of \$3,360 (2009: \$53,660) to companies controlled by directors;
- Technical and consulting services of \$38,500 (2009: \$38,620) to companies controlled by directors or officers; and
- Consulting fees of \$22,500 (2008: \$46,125) to officers, former officers and companies controlled by officers.

As at March 31, 2010, prepaid expenses and advances contained an amount of \$91,252 (December 31, 2009: \$56,434) paid to officers and directors as advances for travel, accommodation and conference costs.

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

Commitments

Supply agreement

On November 14, 2006, Minera La Negra signed a purchase contract with Trafigura Beheer B.V. ("Trafigura") whereby Trafigura agreed to purchase 100%, evenly spread from January to December, of copper concentrate to be produced during the years 2007, 2008 and 2009 by La Negra. Prices are based on the published prices in the Metal Bulletin in London in US dollars.

Office Lease

Effective May 1, 2010, the Company executed a lease for new office space for a period of 60 months, expiring on April 30, 2015. The minimum annual payments are \$86,160 (May 1, 2010 to April 30, 2012), \$89,750 (May 1, 2012 to April 30, 2013) and \$93,340 (May 1, 2013 to April 30, 2015).

Deferred Revenue

The Company has commitments to deliver 50% of its silver production from the La Negra property as payment for the funds received from the advance silver sale. Currently the Company is delivering 10% of production as per amended terms discussed above, and anticipates delivery of the remaining 40% during 2010.

Contingencies

- a) During the quarter ended March 31, 2010, the Company received a notice of legal action filed in Mexico by Mechanismos Mineros ("**Mechanismos**"), a former contractor who was responsible for labour outsourcing at La Negra. The suit alleged that Mechanismos was entitled to severance payments of approximately Mexican Pesos ("**MP**") \$1 million (approximately \$83,000). The Company denies any such liability and filed a counter claim for MP\$2.4 million (approximately \$198,000) alleging non-payment of payroll deductions withheld. The Company further alleges that Mechanismos has unlawfully retained legal, personnel and tax documents which are the property of the Company and which may be damaging to the Company.



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Contingencies (continued)

b) During the quarter ended March 31, 2010, the Company received a notice of assessment with respect to value-added tax and other taxes which the Government of Mexico believes are outstanding in the amount of MP\$66 million (approximately \$5.45 million). The notice was issued due to the inability of the Company to provide documentation to the government to support previous tax filings. The documentation had been retained by Mechanismos. Pursuant to a court order, the documentation was eventually returned to the Company and is being submitted to the government. The Company is currently in communication with the tax authorities, and believes that the assessment is in error and will be reversed. Accordingly, no provision is recorded for this amount.

Adoption of new accounting standards

Effective January 1, 2010 the Company adopted the following new accounting standards:

The Canadian Institute of Chartered Accountants (“CICA”) concurrently issued Section 1601 “*Consolidated Financial Statements*” and Section 1602 “*Non-Controlling Interests*”, which replace Section 1600 “*Consolidated Financial Statements*”. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 “*Business Combinations*”.

The Company has early adopted the requirements of CICA 1582, 1601 and 1602, effective January 1, 2010. The adoption resulted in a reclassification of non-controlling interests of \$598,307 to shareholders’ equity as at December 31, 2009. In addition, non-controlling interests are now presented within shareholders’ equity on the consolidated balance sheet and the non-controlling interests in income are no longer deducted in arriving at consolidated net earnings. There is no effect from adoption on previous business combinations.

International Financial Reporting Standards

Publicly listed enterprises will be required to adopt IFRS in replacement of Canadian GAAP on January 1, 2011. This transition will require the Company to present its March 31, 2011 financial statements under IFRS, with restated comparative information. The conversion to IFRS will impact the Company’s accounting policies, information technology, and financial reporting systems which include internal controls over financial reporting, data systems, and disclosure controls and procedures.

The Company commissioned PricewaterhouseCoopers (“PWC”) to prepare a diagnostic of the key elements of the transition to IFRS that will impact the Company’s financial statements. This diagnostic has identified and ranked the key IFRS to Canadian GAAP differences applicable to the Company including assessing the potential impact to the financial statements, note disclosures, and exemptions available on transition.



Management Discussion and Analysis for the quarter ended March 31, 2010

International Financial Reporting Standards (continued)

While the Company has begun assessing the adoption of IFRS for 2011 and will begin implementing accounting systems necessary to accommodate the transition within a reasonable timeframe, the financial reporting impact of the transition to IFRS cannot be reasonably quantified at this time. Based on work completed thus far, the Company has identified the following possible financial reporting impacts:

- **Business Combinations:** Business combinations recorded under IFRS will be significantly different than those recorded under Canadian GAAP. The rules that are the most likely to create differences include: the value the assets and liabilities are recorded at the date of acquisition; the treatment of contingent liabilities; the treatment of contingent consideration or payments; the impact of acquiring a business in steps; the initial measurement of the acquisition non-controlling interest; and the treatment of transaction costs. It is not possible to determine the actual financial statement impact until an actual business combination is being considered.
- **Financial Instruments:** The Company will need to conduct a comprehensive re-review of contracts and known embedded derivatives to determine the financial statement impact.
- **Impairment Testing:** Under IFRS there is the potential that impairment losses will arise more frequently, particularly as sites approach closure. IFRS also allows for the reversal of a prior impairment, which could result in greater variability in earnings if the recoverable amount of a previously impaired asset is determined to be higher than its carrying value.
- **Income Taxes:** An exposure draft on income taxes was released in March 2009, which will likely result in the release of a revised IFRS standard prior to the 2011 conversion date. The Company cannot yet quantify how the differences to Canadian GAAP might impact its financial statements.
- **Property, Plant and Equipment:** IFRS requires a componentization approach, separately identifying and measuring significant individual assets, and depreciating on their useful lives. IFRS also allows companies to elect fair value as the deemed cost of an individual asset as of the date of transition. The company is reviewing the valuation of certain assets in Mexico in this regard. These changes have the potential of significantly changing the results currently reflected in the company's current statements of operations.
- **Asset Retirement Obligations:** IFRS defines ARO as legal or constructive obligations, and requires re-measurement of the liability at each reporting date. In addition, accretion expense is recorded as a finance cost, not as depreciation. These differences may result in higher volatility and differences in presentation.
- **Foreign Currency Translation:** IFRS uses a functional currency approach, compared to the Canadian GAAP approach of integrated and self sustaining foreign operations. The Company is assessing the effect of this change.

There are a variety of other differences between Canadian GAAP and IFRS that do not appear to be applicable to the Company at this time or whose effect will be nominal based on current operations. It is possible that other significant differences to Canadian GAAP could arise prior to the January 1, 2011 transition date.



Management Discussion and Analysis for the quarter ended March 31, 2010

International Financial Reporting Standards (continued)

The next phase of the Company's changeover plan is to determine specific financial reporting impacts, select accounting policies and quantify differences to Canadian GAAP. The Company's Audit Committee is overseeing the IFRS conversion project and holds Management accountable for a successful IFRS transition. The Company will continue to communicate progress of this conversion in its upcoming quarterly reports.

Disclosure Controls and Procedures

Disclosure controls and procedures ("**DC&P**") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("**ICFR**") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with Canadian generally accepted accounting principles.

TSX-V listed companies are not required to provide representations in the annual filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a TSX-V issuer to design and implement on a cost effective basis DC&P and ICFR as defined in Multinational Instrument 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation

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