



Management Discussion and Analysis for the year ended December 31, 2010

This Management Discussion and Analysis (“**MD&A**”) should be read in conjunction with Aurcana Corporation’s (the “**Company**” or “**Aurcana**”) audited consolidated financial statements for the years ended December 31, 2010 and 2009 and the related notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles. 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 April 28, 2011.

Highlights:

- 67% increase in net revenues to \$26.9 million for the year ended December 31, 2010 from \$16.1 million in 2009 ;
- 154% increase in earnings from mining operations (excluding amortization and depletion) to \$10.7 million for the year ended December 31, 2010 from \$4.2 million in 2009;
- 40% increase in ore processed to 422,603 tonnes during 2010 year from 300,952 tonnes in 2009;
- 29% increase in copper concentrate produced to 11,656 tonnes during 2010 year from 9,036 tonnes in 2009;
- 12% increase in ounces of silver produced to 838,077 during 2010 year from 749,942 in 2009;
- 51% increase in zinc concentrate produced to 5,218 tonnes during 2010 year from 3,448 tonnes in 2009;
- In July 2010, the Company successfully concluded an on time and on budget expansion of La Negra mine to produce 1,500 tonnes per day from the prior 1,000 tonnes per day;
- On December 7, 2010 the Company closed a CDN\$ 60 million Equity Financing;
- On December 14, 2010 the Company bought back the silver stream purchase agreement from Silver Wheaton Cayman in the amount of US\$ 25 million and a final silver payment of approximately 206,000 silver ounces;
- On December 30, 2010 the Company paid out the balance of US\$ 3,080,000, covering the notes payable owed to Trafigura;
- The Company started construction of the Shafter Silver mine project, 100% owned by the Company, after completing the equity financing on December 7, 2010. The Shafter feasibility study shows an estimated pay back of 1.9 years based on \$15.53 per ounce of Silver and the construction is estimated to be completed by May 2012;
- A total of 477,759 tons were mined during the year, 68,219 tons were from NI 43-101 Measured and Indicated (reducing M&I from 604,986 tons to 529,253 during the year), none mined from NI 43-101 Inferred, none mined from Historical and 409,591 tons mined from new discoveries;
- La Negra's production increase was successfully supported by a 2010 diamond drilling in-house program of 11,000 metres; and
- La Negra’s underground drilling and development indicates 590,000t of mineralized material were located within extensions of six known mineral zones. This material cannot be designated as ore because it is not compliant with NI 43-101 regulations.



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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 could differ materially from those anticipated in such statements and Aurcana assumes no obligation to update forward-looking information in light of actual events or results.

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. Actual results may differ materially from those currently anticipated in such statements.

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 include its most recent annual and quarterly filings, filed with the securities regulatory authorities in Canada available at www.sedar.com.

Basis of Presentation:

The accompanying 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.

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-VE”) 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, primarily Silver-Copper-Zinc-Lead mines. 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, in 2008 the Company purchased a 100% indirect interest in the Shafter silver mine in Texas, USA (“**Shafter**”).

La Negra

- 422,603 tonnes of ore processed during the year;
- Copper concentrate produced – 11,945 tonnes (11,821 tonnes sold);
- Zinc concentrate produced – 5,345 tonnes (5,273 tonnes sold);
- Silver produced – 838,077 ounces (808,921 ounces sold);

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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Shafter

- In July 2008, the Company completed the acquisition of the Shafter silver mine, from Silver Standard Resources Inc. for \$38.7 million;
- 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. The full report can be viewed on the Aurcana website www.aurcana.com or on SEDAR www.sedar.com;
- In October 2010, the Company completed a NI 43-101 compliant feasibility study at a rate of 1,500 tons per day; and
- Highlights of the report are: Payback estimated at under 2 years based on a silver price of \$15.53 per ounce; an internal rate of return ("IRR") estimated at 32% pre tax; net present value ("NPV") estimated at \$34 million; an initial capital expenditure estimated at \$45 million; annual silver production estimated at 3.8 million ounces.

Corporate

- Robert J Tweedy was appointed as a new Director of the Company on July 2010.

Overall Performance

Aurcana is engaged in the business of mining, exploration and development of mineral properties. The principal focus is the operation and development of mineral properties, primarily silver operations located in Mexico and the United States. The Company is currently operating the La Negra silver-copper-zinc-lead mine ("La Negra"), located in the state of Queretaro, through Real de Maconi S.A. de C.V. In addition to the Mexico operations, the Company has acquired the Shafter Silver Mine located in Presidio County, southwest Texas which is held through the Company's 100% owned US subsidiary Silver Assets Inc.

Earnings

The Company had earnings from operations of \$3.4 million for 2010 compared to a loss of \$2.3 million in 2009; a loss from trading activity of \$5.2 million for 2010 compared to a loss of \$ 1.5 million in 2009; a net loss of the year for \$6.1 million compared to a net profit of \$3.9 million in 2009. Loss per share was \$0.04 compared to earnings of \$0.03 per share on both a basic and fully diluted basis for the previous year.

The increase in earnings from operations was mainly related to increased volumes and selling prices of the metals sold by the Company.

The increased loss on the trading activity was due to the low overall price recognized for the ounces delivered to Silver Wheaton under the now terminated silver stream purchase agreement as compared to the cost of acquiring the silver certificates at market and the loss of \$7.7 million on the termination of the agreement.

The Company also experienced only a \$1.5 million foreign exchange gain in the current year as compared to a \$7.7 million gain in the prior year, which also explains the swing from a net profit of \$3.9 million in 2009 to a loss of \$10.7 million in 2010. At the end of 2009 the Company had a big exposure to the US dollar mainly because of Silver Wheaton liability which at the end of 2010 such liability was paid out.



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Revenue

During the year ended December 31, 2010, the Company realized revenues from the sale of 11,821 tonnes of copper concentrate (2009- 9,318 tonnes); 5,273 tonnes of zinc concentrate (2009 – 3,860 tonnes) and 808,921 ounces of silver (2009 – 746,493 ounces) for total net revenues of \$26.9 million (2009 - \$16.1 million). These figures exclude sales related to the Company's trading activities, which were necessitated by the contract related to the Company's deferred revenue.

The average price for sales of copper, zinc and silver during the period were Cu - \$3.4198 (2009: \$2.3422) per pound; Ag - \$20.238 (2009: \$14.674) per ounce and Zn \$0.9792 (2009: \$0.7525) per pound. Metal prices were a significant factor in the increased profitability of the Company.

Sale of Silver

In June 2008, the Company agreed 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. The agreement was made in consideration of a prepayment to Cane Silver Inc., a 100% owned subsidiary of the Company, of US\$25 million in cash. A fee per ounce of silver of US\$3.90 was payable to Cane, subject to an inflationary adjustment in year three. Under the terms of the agreement, the Company was required to 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 La Negra were pledged as security for the agreement with Silver Wheaton. As the sale amount and the corresponding deferred revenue are denominated in US dollars, the amount included in the consolidated financial statements includes an adjustment for unrealized foreign exchange variations.

During the year ended December 31, 2010 the Company reached an agreement with Silver Wheaton to buy back the Silver Stream Purchase Agreement ("SPA") for a \$US 25 million payment and a final silver payment of 212,007 ounces in arrears. Consequently, of the Company is no longer obligated to sell 50% of its silver production to SW Caymans, and can now receive the full benefits of 100% of its silver production at La Negra on a go forward basis.

The Company recognized the following loss from trading activity:

	2010	2009
Sales earned from Silver Wheaton (US\$3.90/ounce)	\$ 1,674,825	\$ 1,124,373
Recognition of deferred revenue	3,641,671	1,739,730
	5,316,496	2,864,103
Cost of sales (at market price)	(10,512,311)	(4,331,551)
Loss from trading activity	\$ (5,195,815)	\$ (1,467,448)

The Company also recorded a loss on termination of the silver purchase agreement in the amount of \$7,681,310 (2009 - \$nil) during the year ended December 31, 2010, including legal fees of \$232,936. The termination of the silver purchase agreement greatly enhances the cash flow at the corporate level derived from the La Negra mine in Mexico, which will provide additional funds to Aurcana to supplement the funds received from its equity financing



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Cost of Sales

The cost of sales (excluding amortization and depletion) in 2010 was \$16.2 million compared to \$12.0 million for 2009. The increase in cost of sales represents an increase of approximately 35% as compared to a 40% increase in ore processed of 422,603 tonnes during 2010 year from 300,952 tonnes in 2009 which means a reduction of 4% during 2010 mainly due to La Negra's expansion of its processing capacity.

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 is expected to add to the mine life of La Negra. La Negra drill crews have completed 11,000 metres of diamond drilling during 2010. Exploration drilling and underground development during 2010 resulted in a positive NI 43-101 Measured and Indicated resource of 188,941 tonnes at the Maravillas deposit, which is one of the 27 ore-bodies identified.

Tailings facility has the capacity to accept tailings from the 1,500 t/d plant for 5 more years. A new tailings area has been identified to assure continued mine operations beyond 10 years. Environmental studies and other permit requirements have been initiated

Plant optimization studies continued throughout the year. Metallurgical studies were conducted to investigate the production of a lead-silver concentrate using gravimetric separation, which would remove a penalty for lead and result in a higher quality copper concentrate. Additional metallurgical studies were conducted for mill expansion design, optimizing the flotation circuit, and the potential of stockpiling high lead and high copper ore types for separate process to reduce penalties and produce a lead concentrate.



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Quarter Ended	Dec-31 2010	Sep-30 2010	Jun-30 2010	Mar-31 2010	Dec-31 2009	Sep-30 2009	Jun-30 2009	Mar-31 2009
Inventory (start of period):								
Ore stockpiles (tonnes)	63,834	61,268	40,758	11,736	15,688	6,632	1,220	720
Zinc concentrate (tonnes)	41	142	103	45	51	109	371	473
Copper/silver concentrate (tonnes)	241	127	79	84	55	41	282	409
Production								
Ore mined (tonnes)	127,353	128,666	113,711	108,029	89,208	84,204	78,228	69,246
Ore milled (tonnes)	124,345	125,050	94,201	79,007	86,358	72,716	72,323	69,555
Average Grade								
Zinc (%)	117%	146%	118%	90%	95%	90%	118%	94%
Copper (%)	45%	48%	48%	48%	50%	56%	52%	65%
Silver (g/t)	79	78	73	74	91	89	113	99
Zinc concentrate (tonnes)	1,324	1,964	1,124	933	929	765	925	829
Containing: Zinc (tonnes)	560	850	552	365	344	326	433	358
Copper concentrate (tonnes)	3,274	3,766	2,852	2,053	2,483	2,211	1,958	2,384
Containing: Copper (tonnes)	456	492	388	335	376	356	433	390
Silver (oz)	251,020	250,953	182,009	154,095	211,244	167,559	205,108	166,031
Inventory (end of period)								
Ore stockpiles (tonnes)	66,265	63,834	61,268	40,758	11,736	15,688	6,632	1,220
Zinc concentrate (tonnes)	94	41	142	103	45	51	109	371
Copper/silver concentrate (tonnes)	100	241	127	79	84	55	41	282
Sales								
Zinc concentrate (DMT)	1,248	2,065	1,085	874	928	925	1,069	938
Containing payable 85%: Zinc (tonnes)	426	730	394	318	344	358	403	331
Copper concentrate (tonnes)	3,310	3,658	2,788	2,065	2,428	2,183	2,105	2,602
Payable copper metal (tonnes)	417	442	351	318	335	323	313	432
Payable Silver (ounces)	244,052	238,722	172,356	153,790	192,926	162,086	200,834	190,647

Shafter Project

On July 17, 2008, Aurcana closed the acquisition of a 100% interest in the Shafter silver mine ("Shafter") located in southwest Texas from Silver Standard Resources Inc. ("Silver Standard"). Aurcana paid Silver Standard US \$23 million in cash; issued 15 million Aurcana common shares and issued a \$10 million convertible debenture paying a 3% coupon.

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 (2,900,000 tons at 8.48 ounces per ton) of silver and an inferred resource estimated at 22.8 million ounces (2,167,000 tons at 10.52 ounces per ton) of silver using a four ounce per ton cut off.

The majority of necessary infrastructure is in place with a 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. A portion of the extensive historical underground workings will be integrated into the mine plan.



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In October 2010, the Company completed a NI 43-101 compliant feasibility study. The feasibility study includes trade-off studies in mine, mill and infrastructure which 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. Accessing the ore body by decline will facilitate early production and cash flow, as it will target high-grade resource blocks in the upper levels of the mine above the water table.

The highlights of the report are:

- Payback estimated at under 2 years based on a silver price of \$15.53 per ounce, and 1 year at \$21 per ounce;
- An internal rate of return ("IRR") estimated at 32% pre tax at \$15.53 per ounce, and 73% at \$21 per ounce;
- A pre-tax net present value ("NPV") estimated at \$34 million at \$15.53 per ounce using a 5% discount rate, and \$104 million at \$21 per ounce;
- An initial capital expenditure estimated at \$45 million;
- Annual silver production estimated at 3.8 million ounces in years one and two; an average cost estimated at \$8.27 per ounce of silver;
- An estimated mine life of 5 years, based on Measured and Indicated Resources;
- Average silver production estimated at 3.4 million ounces per year, life of mine; and an estimated 1,500 tons per day production rate achieved by driving a decline.

The base case revenue was based on the three year average silver price of \$15.53 per ounce as published by the London Metal Exchange in October 2010. Only Measured and Indicated Resources were used in the feasibility study, project economics and life-of-mine determination. Project configuration and trade-off studies were finalized in early 2010 based on the basic engineering performed by SNC Lavalin. The finalized project configuration resulting from this work has allowed the permit amendment applications to be submitted, and forms the basis of the Feasibility Study published in November 2010.

Project execution planning is such that mine and process plant construction started immediately upon reception of equity financing done on December 7, 2010 with an 18 month construction timeline.

Market Trends

Silver prices saw a dramatic increase from average prices of US\$4.87/ounce in 2003 to US\$13.38 in 2007 with a drop in price to US\$10.79/ounce at December 31, 2008; US\$16.99/ounce as of December 31, 2009, and US\$ 30.63/ounce as of December 31, 2010.

Copper prices had seen an overall increase in price since 2003 of US\$1.30/lb to US\$3.23/lb in 2007. With declines in commodities and overall financial markets in mid 2008, copper was at US\$1.31/lb on December 31, 2008; US\$ 3.32/lb at December 31, 2009 and then has steadily improved to US\$4.42/lb at December 31, 2010.

Zinc prices have essentially followed the same trend with prices in 2003 of US\$0.47/lb increasing to US\$1.68/lb in June 2007 and with the same decline seen with most commodities prices was at US\$0.51/lb on December 31, 2008; US\$1.16/lb as of December 31, 2009 and US\$1.10/lb as of December 31, 2010.



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The Company is currently reviewing its options with respect to hedging in 2011. Currently we can fix prices on a monthly basis with our concentrate buyer.

Administrative expenses

Administrative expenses for the year ended December 31, 2010 was for \$2.1 million (2009 for \$1.8 million):

	Year ended December 31	
	2010	2009
Management fees *	\$ 360,000	\$ 183,000
Rent and overhead	121,000	93,000
Travel and accommodation**	284,000	158,000
Office	150,000	36,000
Insurance	40,000	24,000
Admin, salaries and Consulting fees***	1,058,000	941,000
Maintenance of Rosario mine	-	258,000
Other	98,000	110,000
	\$ 2,111,000	\$ 1,803,000

* Management fees increased due to a compensation package to the new President & CEO starting May 2009

** More road shows were done to promote value of Aurcana

***Increase mainly because of 2010 CFO was hired on full-time basis; previous CFO was part-time

Financing Costs

On August 20, 2010 the Company renegotiated a credit facility agreement (the Loan) with its principal customer Trafigura Beheer B.V. (Trafigura). As at June 30, 2010, the outstanding balance under the original loan was US\$ 2,020,000 and the Company exercised its right to draw down the loan to its full amount of US\$ 3,400,000. The Company received approximately US\$ 1,380,000 on August 23, 2010, which was used to purchase silver in arrears owed to Silver Wheaton.

As compensation for the renegotiation, the Company issued an aggregate of 2,125,203 common shares purchase warrants to Trafigura with each warrant entitling Trafigura to purchase one common share of the Company at an exercise price of \$0.30 per share with an expiry of August 20, 2012. The \$392,317 that was recorded as financing costs was the fair value of the warrants using the Black-Scholes Pricing Model. Also \$99,238 fees paid to Sprott for a credit facility plus legal fees on restructuring of the Trafigura debt.

Professional fees

The Company incurred professional fees for the year of \$583,541 (2009: \$221,616). The main increase was due to additional legal fees incurred on the Trafigura debt renegotiation; IFRS accounting fees; audit fee increases; and tax analysis studies.

Investor Relations.

The Company incurred investor relation expenditures for the year of \$250,468 (2009: \$216,401).



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Selected Annual Information

Fiscal Year Ended	December 2010 \$	December 2009 \$	December 2008 \$
Total revenues	26,936,880	16,133,550	8,790,780
Administrative expenses	2,111,439	1,803,427	1,890,546
Depletion of mineral properties	2,022,672	1,727,290	2,789,848
Stock-based compensation	272,602	802,287	438,183
Write off and impairment of mineral property costs and property, plant & equipment	-	-	4,039,708
Earnings (Loss) from operations	3,356,811	(2,301,903)	(10,885,934)
Net income (loss)	(6,054,162)	3,948,179	(24,106,786)
Basic gain (loss) per share	(0.04)	0.03	(0.24)
Fully diluted gain (loss) per share	(0.04)	0.03	-
Total assets	105,172,294	79,611,470	81,169,336
Current assets	26,510,649	6,440,472	7,466,544
Mineral properties	64,250,514	63,978,122	67,645,254
Current liabilities	12,882,022	5,753,240	4,203,896
Total liabilities	29,855,321	57,343,648	66,804,447
Cash dividends declared	\$Nil	\$Nil	\$Nil

Quarter Ended	Dec. 31 2010	Sept. 30 2010	June 30 2010	March 31 2010
Total Revenues	\$ 9,847,482	\$ 7,476,157	\$ 4,935,470	\$ 4,677,771
Income (Loss) from Operations	\$ 5,181,292	\$ (82,284)	\$ (1,129,925)	\$ (612,272)
Net Income (loss)	\$ (5,126,958)	\$ 1,508,131	\$ (3,136,875)	\$ 701,540
Income (loss) per share	\$ (0.02)	\$ 0.01	\$ (0.03)	\$ 0.00

	Dec. 31 2009	Sept. 30 2009	June 30 2009	March 31 2009
Total Revenues	\$ 2,294,296	\$ 5,228,565	\$ 5,223,323	\$ 3,387,366
Income (loss) from Operations	\$ (3,040,975)	\$ 466,232	\$ (685,116)	\$ (509,492)
Net Income (loss)	\$ (576,266)	\$ 2,388,932	\$ 2,837,670	\$ (879,946)
Income (loss) per share	\$ (0.01)	\$ 0.02	\$ 0.03	\$ (0.00)



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Liquidity

At December 31, 2010 the Company had working capital of \$13.6 million (2009 – working capital of \$0.6 million) which consisted of \$22.1 million held in cash and short term deposits; account receivables of \$1.6 million (trade) and \$0.2 million (other); prepaid expenses of \$0.1 million; inventory of \$1.6 million, and marketable securities of \$1.0 million. These amounts are offset by accounts payable of \$4.3 million; the current portion of the Company's notes payable of \$0.2 million in relation to equipment purchases at the La Negra mine; Income Tax at La Negra for \$0.7 million and the current portion of the Convertible Debenture with Silver Standard of \$7.7 million.

As required under current Canadian GAAP, the Company has recorded a Future Income Tax Liability ("FITL") of \$13.6 million in its financial statements with respect to the acquisition of the Shafter project in 2008. During 2009, the FITL increased to \$16.8 million as a result of foreign exchange and then decreased to \$13.6 million in 2010 as a result of a foreign exchange gain. 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 the Shafter project. Any actual tax liability will exist if and when the Shafter project 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 IFRS.

While the Company continues to make improvements at its La Negra mine, 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. 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.

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

As at December 31, 2010, the Company had 322,854,948 common shares issued and outstanding.

As at December 31, 2010, the Company had 11,037,500 share purchase options outstanding at various exercise prices and maturing at various future dates.

As at December 31, 2010, the Company had 123,273,429 warrants outstanding:

- Exercisable at a price of \$0.30 and \$0.35 expiring May 16, 2011 a total of 4.9 million.
- At a price of \$0.30 expiring August 20, 2012 a total of 2.1 million.
- At a price of \$0.35 expiring March 2, 2013 a total of 0.3 million.
- At a price of \$0.40 expiring June 30, 2013 a total of 6.2 million.
- At a price of \$0.35 expiring June 30, 2013 a total of 0.1 million.
- At a price of \$ 0.41 expiring July 12, 2013 for a total of 96.8 million.
- At a price of \$ 0.41 expiring July 12, 2012 for a total of 12.8 million.

Transactions with Related Parties

During the year ended December 31, 2010, the Company paid or accrued:

- Management fees of \$360,000 (2009: \$183,600) to companies controlled by directors or former directors;
- Administrative management fees of \$130,943 (2009: \$105,798) to companies controlled by directors;



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- Technical and consulting services of \$387,800 (2009:\$277,900) to companies controlled by directors or officers; and
- Consulting fees of \$37,500 (2009: \$60,000) to former officers and companies controlled by former officers.

Commitments:

Supply agreement

On November 14, 2006, 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 the La Negra Mine. Prices are based on the published prices in the Metal Bulletin in London in US dollars at the transaction date unless fixed by us for the month at the discretion of the Company. In August 2010 the copper purchase contract was extended to 2012 and the parties agreed to review the zinc purchase contract by the end of 2011.

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).

Changes in Accounting Policies: These financial statements are presented in accordance with generally accepted accounting principles applicable in Canada, and have been prepared in accordance with the Significant Accounting Policies described in Note 2 of our audited financial statements for the year ended December 31, 2010, except as noted below.

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 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests", which replaced Section 1581 Business Combinations" and Section 1600 "Consolidated Financial Statements". Section 1582 effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. 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.

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 \$788,587 to shareholders' equity as at December 31, 2010. 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.



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International Financial Reporting Standards (“IFRS”)

Publicly listed enterprises will be required to adopt IFRS in replacement of Canadian Generally Accepted Accounting Principles 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 has retained a consultant 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 Aurcana assessed the potential impact to the financial statements, note disclosures, and exemptions available on transition.

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 may be significantly different than those recorded under Canadian GAAP prior to the adoption of CICA 1582. The Company has early adopted the requirements of CICA 1582, 1601 and 1602 effective January 1, 2010, and as a result, does not expect the transition to IFRS 3, Business Combinations, to have a significant impact as the standards are largely converged and IFRS allows for certain exemptions for first-time adopters.
- *Impairment Testing:* Both Canadian GAAP and IFRS require an entity to undertake impairment testing where there is an indication of impairment for Property, plant and equipment. However, the methodology for such testing is different under Canadian GAAP than it is under IFRS.

Canadian GAAP provides a two-step approach to testing a long-lived asset for impairment, where the first step is a test for recoverability whereby the carrying value is compared to the undiscounted cash flows that the asset is expected to generate. If the undiscounted cash flows exceed the carrying amount, no impairment charge is necessary. If the undiscounted cash flows are lower than the carrying amount of the asset, then the asset is written down to the estimated fair value, determined based on the discounted cash flows.

Under IFRS, the first step of the Canadian GAAP impairment test is eliminated and the undiscounted cash flows are not considered. The carrying value of the asset is compared to its recoverable amount, determined to be the higher of an asset’s fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. An impairment loss is recognized to the extent that the carrying value exceeds the recoverable amount.

Unlike Canadian GAAP where impairment reversals are not permitted, IFRS requires 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.

The preliminary conclusion is that there will be no adjustment required to the carrying values of the Company’s mineral properties or its property, plant and equipment.



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- *Income Taxes:* There are a number of IFRS and Canadian GAAP differences in accounting for income taxes, the most significant related to the calculation of temporary differences on non-monetary items and the initial recognition exemption on an asset acquisition.

Under Canadian GAAP, deferred tax balances are calculated in the currency in which the taxes are denominated and then converted to the accounting presentation currency at the current rate. IFRS requires that deferred taxes be determined in an entity's functional accounting currency. The different treatment under IFRS results in a measurement difference for deferred taxes on monetary items where an entity's tax and accounting functional currencies differ.

IFRS provides an initial recognition exemption such that a deferred tax asset or liability is not recognized in the event that it arises from initial recognition of an asset or liability acquired outside of a business combination. This exemption does not exist in Canadian GAAP.

The Company expects there will be a material reduction of approximately \$13.6 million to the carrying value of the Shafter project and the related future income taxes payable on conversion to IFRS.

- *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. However, management do not expect a material adjustment as the main assets subject to depreciation are located in Mexico and have already been subjected to componentization at the mine level.
- *Asset Retirement Obligations:* IFRS has a lower threshold for recognition of provisions than Canadian GAAP. For example, under IFRS a provision for asset retirement obligations would be recorded to the extent that it is probable and represents a legal or constructive obligation. This could result in the additional recognition of provisions upon transition to IFRS. The measurement of those provisions may also be adjusted, as IFRS requires re-measurement of the liability at each reporting date as well as potential differences in the discount rate used in the calculation. These differences may result in higher volatility within the income statement and differences in presentation.
- *Foreign Currency Translation:* Canadian GAAP requires an entity to determine the functional currency of the parent company and then assess whether a subsidiary is an integrated or self-sustaining entity. This determination dictates the method of foreign exchange translation for the consolidated financial statements. IFRS requires functional currency to be assessed independently for each entity within a consolidated group and introduces the concept of primary and secondary factors. The Company is assessing the effect of this change.
- *Share-based Payments:* Canadian GAAP requires that share-based payments are measured at fair value with an expense recorded over the vesting period of the instrument. The Company's Canadian GAAP accounting policy is largely consistent with IFRS with the exception of the initial inclusion of a forfeiture rate in the fair value estimation and minor changes to the initial valuation of option tranches which vest over different periods. We have not yet determined the impact that these changes will have on our consolidated financial statements.



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In addition to the above-noted impacts, the Company has also performed an analysis of the optional exemptions available under IFRS 1 “*First-time Adoption of International Financial Reporting Standards*” (“IFRS 1”). The decisions reached regarding these options exemptions are preliminary at this time, and the most significant are as follows:

- Share-based payments: Full retrospective application is avoided for equity instruments which have vested as of January 1, 2010, the date of transition to IFRS.
- Business combinations (IFRS 3): Permits an entity that has conducted prior business combinations to apply IFRS 3 on a prospective basis from the date of transition. This avoids the requirement to restate prior business combinations.
- Changes in Existing Decommissioning, Restoration and Similar Liabilities (IFRIC 1): This exemption allows a first-time adopter to utilize a practical methodology rather than full retrospective restatement for the initial measurement of the liability and cost of the related asset.
- Borrowing Costs (IAS 23): This exemption allows a first-time adopter to apply IAS 23 (revised) from the date of transition prospectively to IFRS for all qualifying assets for which the capitalization start date is on or after that date. Borrowing costs will not be capitalized retrospectively and the Company will only capitalize borrowing costs incurred after the date of transition (January 1, 2010).

The next phase of the Company’s changeover plan is to determine specific financial reporting impacts, continue to 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.

Accounting Estimates:

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.

Financial Instruments:

The Company’s is exposed to certain financial risks, including currency risk, credit risks, liquidity risk, price risk and interest risk.

(a) Currency risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, the United States and Mexico and a portion of its expenses are incurred in US dollars and Mexican Pesos. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar or Mexican Peso could have an effect on the Company’s results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.



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At December 31, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

	December 31, 2010
Cash and cash equivalents	US\$ 9,988,560
Accounts receivable	1,859,270
Accounts payable	(1,588,879)
Notes payable	(235,929)
Future income tax liability	(13,599,048)
	US\$ (3,576,026)
Canadian dollar equivalent	\$ (3,556,715)

At December 31, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

	December 31, 2010
Cash and cash equivalents	MP\$ 492,488
Income Tax and PSE (La Negra)	(16,429,782)
Accounts payable and accrued liabilities	(11,951,216)
	MP\$ (27,888,510)
Canadian dollar equivalent	\$ (2,247,232)

Based on the above net exposures as at December 31, 2010, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar and the Mexican Peso would result in a material change to the Company's loss in terms of unrealized foreign exchange of approximately \$0.6 million.

(b) Credit risk:

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from amounts receivable and marketable securities.

The Company's trade receivables are the result of sales of concentrates to one significant purchaser. As such, the company is at risk with respect to collections of these receivables.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.



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

The Company's expected source of cash flow in the upcoming year will be through its operations at La Negra, equity financing and entering into joint venture agreements, or a combination thereof.

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

	Payments due by period				
	(000's)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Accounts payable	\$ 3,656	\$ 3,656	\$ Nil	\$ Nil	\$ Nil
Notes payable	235	235	Nil	Nil	Nil
Income tax and PSE (La Negra)	1,324	1,324	Nil	Nil	Nil
Convertible debentures *	10,468	8,167	2,301	Nil	Nil
Environmental obligations	1,470	Nil	Nil	Nil	1,470
Total	\$17,153	\$13,382	\$2,301	\$ Nil	\$1,470

*The Company has agreed to repay an aggregate of \$7,000,000 of the principal owing under the Debenture on or before July 15, 2011;- the remaining \$3,000,000 principal balance will be repaid in equal quarterly installments commencing on October 15, 2011;- the rate of interest on the principal outstanding after July 15, 2011 will be 9% per annum; and - the Company may prepay the Debenture at any time prior to maturity without penalty

(d) Price risk

The Company is subject to revenue price risk from fluctuations in the market prices of copper, silver and zinc. The Company is also exposed to commodity price risk on diesel fuel through its mining operations. The Company's risk management policy does not currently provide for the management of these exposures through the use of derivative financial instruments. Commodity price risk is also the risk that metal prices will move adversely during the time period between shipment of the concentrate and final payment for the concentrate. The Company's commodity price risk related to financial instruments primarily relates to changes in fair value of embedded derivatives in accounts receivable reflecting commodity sales provisionally priced based on the forward price curve at the end of each quarter.

(e) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Risks and Uncertainties:

The operations of Aurcana are speculative due to the high risk nature of its business which involves the copper and zinc production and exploration and development of mining properties. The following is a brief discussion of those distinctive or special characteristics of Aurcana's operations and industry which, may have a material impact on, or constitute risk factors in respect of Aurcana's financial performance.



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Mining Risks and Insurance

The business of mining is subject to certain types of risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected changes to rock formations, changes in the regulatory environment, cave-ins and flooding. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Any payments made with regards to such liabilities may have a material adverse effect on Aurcana's financial performance and results of operations. The Company carries insurance to protect itself against certain risks of mining and processing to the extent that is economically feasible but which may not provide adequate coverage in all circumstances.

Uncertainty of Mineral Reserves

Mineral reserves and mineral resources are estimates of the size and grade of deposits based on limited sampling and on certain assumptions and parameters. No assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery of payable metals will be realized. The ore grade actually recovered by the Company may differ from the estimated grades of the mineral reserves and mineral resources. Prolonged declines in the market price of copper or zinc may render mineral reserves containing relatively lower grades of mineralization uneconomic to exploit and could materially reduce the Company's reserves. Should such reductions occur, the Company could be required to take a material write-down of its investment in mining properties or delay or discontinue production or the development of new projects, resulting in increased net losses and reduced cash flow. Market price fluctuations, as well as increased production costs or reduced recovery rates, may render mineral reserves containing relatively lower grades of mineralization uneconomical to recover and may ultimately result in a restatement of mineral resources. Short-term factors relating to mineral reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may impair the profitability of a mine in any particular accounting period.

The Company adjusts its mineral reserves annually by the amount extracted in the previous year, by the additions and reductions resulting from new geological information and interpretation, actual mining experience, and from changes in operating costs and metal prices. Mineral reserves are not revised in response to short-term cyclical price variations in metal markets.

Replacement of Mineral Reserves

There are a number of uncertainties inherent in any program relating to the location of economic mineral reserves, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities and the appropriate financing thereof. Accordingly, there can be no assurance that the Company's programs will yield new mineral reserves to replace mined reserves and to expand current mineral reserves.

Reclamation Obligations

Reclamation requirements may change and do vary depending on the location and the government regulatory body, but they are similar in that they aim to minimize long term effects of exploration and mining disturbance by requiring the operating company to control possible deleterious effluents and to re-establish to some degree predisturbance land forms and vegetation. The Company calculates its estimates of the ultimate reclamation liability based on current laws and regulations and the expected future costs to be incurred in reclaiming, restoring



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and closing its operating mine site. It is possible that the Company's estimate of its ultimate reclamation liability could change in the near term due to possible changes in laws and regulations and changes in cost estimates

Exploration Risks

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration programs planned will result in a profitable commercial mining operation.

Whether any mineral deposit is commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices which are highly cyclical; and government regulations, including minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Aurcana not receiving an adequate return on invested capital.

Conflicting Interests

Certain of the directors and officers of Aurcana also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by such directors and officers involving Aurcana will be made in accordance with their duties and obligations to deal fairly and in good faith to Aurcana and such other companies. In addition, such directors and officers are required to declare and refrain from voting on any matter in which such directors and officers may have a conflict of interest.

Permitting and Title

Aurcana's operations may require licenses and permits from various governmental authorities. There can be no assurance that Aurcana will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and production operations on Aurcana's properties.

Any of Aurcana's properties may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. If a title defect or defects do exist, it is possible that Aurcana may lose all, or a portion, of its interest in the affected mineral claims. Aurcana has no present knowledge of any defect in the title of any of the properties in which the company has or may acquire an interest.

Management Services

The success of Aurcana depends to a large extent, on the ability and judgment of the senior management of Aurcana and upon Aurcana's ability to retain the services of senior management. The loss of their services may have a material adverse affect on Aurcana.

Market Influences

The Company's Common Shares are listed for trading on the TSX Venture Exchange. Shareholders of the Company may be unable to sell significant quantities of the Common Shares into the public trading markets without a significant reduction in the price of the shares, if at all. The market price of the Common Shares may be affected significantly by factors such as changes in the Company's operating results, the availability of financings,



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fluctuations in the price of metals, the interest of investors, traders and others in small exploration stage public companies such as the Company and general market conditions. In recent years the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly small capitalization exploration companies similar to the Company, have experienced wide fluctuations, which have not necessarily been related to the operating performances, underlying asset values or future prospects of such companies. There can be no assurance that future fluctuations in the price of the Company's shares will not occur.

Controls and Procedures:

In connection with Exemption Orders issued in November 2007 and revised in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificate under National Instrument ("NI") 52-109 (Certification of disclosure in an Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

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.