



Management Discussion and Analysis for the Year ended December 31, 2011

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 year ended December 31, 2011 and 2010 and the related notes thereto, which have been prepared in accordance with International Financing Reporting Standards (“**IFRS**”). 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 United States dollars, unless otherwise stated, this MD&A is current as of April 12, 2012.

Highlights:

Concept	Year to date		Change Year-on-Year
	2011	2010	
Revenues (\$ million) [3]	\$45.9	\$26.1	Up 76%
Earnings from mining operations (\$million)	23.2	1.6	Up \$21.6 M
Net Income (loss) \$million	7.7	(8.6)	Up \$16.3 M
Operating Cash Flow after taxes before movements in working capital (\$ million)	\$ 19.5	\$ (3.7)	Up \$ 23.2 M
Silver Ounces produced	1,007,256	838,077	Up 20%
Silver Ounces equivalent produced [1] [2]	1,741,702	1,354,315	Up 28%
Production Cash cost per silver equivalent oz [1]	\$10.10	\$11.03	Down 9%
Avg., revenue per silver Oz sold \$ [1]	\$35.25	\$21.50	Up 64%
Avg., revenue per Copper Lb sold \$ [1]	\$4.04	\$3.50	Up 15%
Avg., revenue per Zinc Lb sold \$ [1]	\$0.97	\$0.99	Down 3%
Avg., revenue per Lead Lb sold \$ [1]	\$1.03	N/A	N/A
Copper, lead and zinc concentrates produced (tonnes)	20,761	17,290	Up 20%
Ore mined (tonnes)	538,750	477,759	13%
Ore milled (tonnes)	505,965	422,603	20%

[1] A non IFRS measure

[2] Based on contained metals and production, silver equivalent is calculated using long term prices of US\$25.00/oz Ag, US\$0.90/lb Zn, US\$2.25/lb Cu and US\$0.55/lb Pb.

[3] Revenues from the sale of concentrates are recorded net of charges for treatment, refining, smelting and royalties.



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- 20% increase in milled tonnes processed for a total of 505,965 tonnes during the year ended December 2011, (2010: 422,603 tonnes); of which 74,908 tonnes or 15% were mined from NI 43-101 Measured and Indicated and the balance of 431,057 tonnes or 85% were mined from new discoveries and non 43-101 compliant deposits;
- La Negra's production increase was supported by a continuous in-house diamond drilling program;
- Shafter Silver Mine in Texas construction still in progress and estimated to be in production in May 2012 as planned; and
- All permits required for the Shafter silver mine to commence production have been received.

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, except as required by law.

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



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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**"). On February 17, 2012, the Company increased its ownership in Real de Maconi S.A. de C.V. ("Real Maconi") from 92% to 99.86 % 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**").

Company Description

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.

La Negra Mine

- 505,965 tonnes of ore processed during the current year (2010:422,603 tonnes);
- Copper, Zinc and Lead concentrate produced during current year – 20,761 tonnes (2010: 17,290 tonnes);
- Silver produced during current year–1,007,256 ounces (2010: 838,077 ounces);
- Total silver ounces equivalent produced during current year 1,741,702 (2010: 1,354,315)

Mining operations and exploration drilling at La Negra continue to delineate additional mineralized zones, either between or as extensions of existing ore zones. These results are expected to add to the mine life of La Negra. Drill crews have completed 13,317 metres of diamond drilling during the year ended December, 2011 (2010:11,000 metres).

The tailings facility has the capacity to accept tailings from the 2,000 t/d plant for 3 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.

Additional expansion of La Negra is in progress as planned to increase production from 1,500 up to 2,000 tonnes/day, with an investment of \$ 4.5 million and completed at the end of March 2012.



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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, which estimated production 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.
- In January 2011 the "kick-off" of the construction project occurred. The expected date of completion remains by May 2012.
- The current silver prices are remaining significantly higher than \$15.53 per ounce used in the feasibility study.
- Plant & Mine construction progressing on time and on budget.

Overall Performance

Earnings

The Company had earnings from mining operations of \$23.2 million for the year ended December 31, 2011 (2010: \$1.6 million); income before taxes of \$9.6 million (2010: loss for \$9.1 million); a net income of \$7.7 million (2010: loss for \$ 8.6 million).

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

Revenue

During the year ended December 31, 2011, the Company generated revenues from the sale of 8,119 tonnes of copper concentrate (2010: - 11,821 tonnes); 9,836 tonnes of zinc concentrate (2010: - 5,273 tonnes); 2,303 tonnes of Lead Concentrate (2010: nil); and 953,850 ounces of silver (2010 - 808,921 ounces) for total net revenues of \$45.9 million (2010 - \$26.1 million).

Revenues from the sale of concentrates are recorded net of charges for treatment, refining, smelting and royalties.

The average price for sales of copper, silver, zinc and lead during the year were Cu - \$4.04 (2010: \$3.50) per pound; Ag - \$35.25 (2010: \$21.50) per ounce; Zn \$0.97 (2010: \$0.99) per pound and Pb \$1.03 (2010: nil). Metal prices were a significant factor in the increased profitability of the Company.



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Cost of Sales

The cost of sales for the year ended December 31, 2011 was \$22.7 million (2010: \$24.6 million), which includes depletion, depreciation and amortization in the amount of \$3.5 million for the current year (2010: \$3.0 million); Loss from trading activity (net) and Impairment of property, plant & equipment was nil for this year (2010: \$5.2 million).

The cost of production (excluding shipping, freight, depreciation and amortization) for the year ended December 31, 2011 was \$17.6 million (2010: \$14.9 million) or cost per tonne produced \$34.70 (2010: \$35.30).



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Quarter Ended	Dec-31 2011	Sep-30 2011	Jun-30 2011	Mar-31 2011	Dec-31 2010	Sep-30 2010	Jun-30 2010	Mar-31 2010
Mine Days	92	89	88	87	78	87	85	84
Mill Days	87	80	89	84	80	89	82	81
Inventory (start of period)								
Ore stockpiles (tonnes)	94,524	80,224	70,634	66,265	63,834	61,268	40,758	11,736
Zinc concentrate (tonnes)	76	104	40	94	41	142	103	45
Copper/silver concentrate (tonnes)	30	120	70	100	241	127	79	84
Lead concentrate (tonnes)	31	40	108	-	-	-	-	-
Production								
Ore mined (tonnes)	131,776	134,072	143,290	129,612	127,353	128,666	113,711	108,029
Ore milled (tonnes)	125,262	119,772	133,700	127,231	124,345	125,050	94,201	79,007
Average Grade								
Zinc (%)	1.53%	1.42%	1.34%	1.09%	1.17%	1.46%	1.18%	0.90%
Copper (%)	0.40%	0.39%	0.42%	0.44%	0.45%	0.48%	0.48%	0.48%
Silver (g/t)	81	75	78	74	79	78	73	74
Lead (%)	0.46%	0.47%	0.42%	-	-	-	-	-
Zinc concentrate (tonnes)	3,065	2,885	2,731	1,582	1,324	1,964	1,124	933
Containing: Zinc (tonnes)	1,380	1,253	1,131	668	560	850	552	365
Containing: Zinc (%)	45%	43%	41%	42%	42%	43%	49%	39%
Copper concentrate (tonnes)	1,679	1,600	1,882	2,994	3,274	3,766	2,852	2,053
Containing: Copper (tonnes)	358	362	398	466	456	492	388	335
Containing: Copper (%)	21%	23%	21%	16%	14%	13%	14%	16%
Lead concentrate (tonnes)	730	727	778	108	-	-	-	-
Containing: Lead (tonnes)	465	455	439	49	-	-	-	-
Containing: Lead (%)	64%	63%	56%	45%	-	-	-	-
Silver (oz)	265,230	244,243	257,508	240,275	251,020	250,953	182,009	154,095
Zinc (Oz Ag Eq.)	109,526	99,485	89,763	53,017	44,445	67,461	43,810	28,969
Copper (Oz Ag Eq)	71,033	71,912	78,970	92,462	90,478	97,621	76,985	66,469
Lead (Oz Ag Eq)	22,553	22,056	21,292	2,377	-	-	-	-
Total Ag Eq. (Oz Ag Eq)	468,342	437,697	447,533	388,130	385,942	416,035	302,805	249,533
Inventory (end of period)								
Ore stockpiles (tonnes)	101,038	94,524	80,224	70,634	66,265	63,834	61,268	40,758
Zinc concentrate (tonnes)	242	76	104	40	94	41	142	103
Copper/silver concentrate (tonnes)	162	30	120	70	100	241	127	79
Lead/silver concentrate (tonnes)	39	31	40	108	-	-	-	-
Sales								
Zinc concentrate (DMT)	2,892	2,913	2,667	1,364	1,248	2,065	1,085	874
Containing payable 85%: Zinc (tonnes)	1,069	1,107	929	479	426	730	394	318
Copper concentrate (tonnes)	1,547	1,690	1,832	3,050	3,310	3,658	2,788	2,065
Containing payable:96.5% Copper (tonnes)	305	349	392	436	417	442	351	318
Lead concentrate (tonnes)	721	736	846	-	-	-	-	-
Containing payable:95% Lead (tonnes)	431	430	485	-	-	-	-	-
Silver (oz)	235,811	235,981	263,357	218,701	244,052	238,722	172,356	153,790

Sales figures are before T.C., refining, treatment charges and royalties.



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Shafter Silver Mine development project

The Shafter Silver Mine is 100% owned by Aurcana, located in Presidio TX. Construction was commenced in January 2011 and a ground breaking ceremony with a first blast was held in February, as was planned in the Feasibility study.

The Shafter silver mine has entered the final phase of construction two months ahead of schedule and on budget with the commissioning of the processing plant, highlights include:

- Two stage crushing feeding into the ball mill has been commissioned with ore from surface stock piles with 132,000 tons expected to be milled during the during Q2 2012.
- Power will be supplied initially by generators with the power station completion expected by May 2012
- The underground decline ramp has reached new ore having 6 ounces per ton silver average grade.

Market Trends

Silver prices saw a dramatic increase from an average price of \$4.87/ounce in 2003 to \$13.38/ounce in 2007 with a drop in price to \$10.79/ounce at December 31, 2008; and then continued increases to \$16.99/ounce as of December 31, 2009; \$ 30.91/ounce at December 31, 2010; and \$ 27.88/ounce at December 31, 2011.

Copper prices had seen an overall increase in price since 2003 of \$1.30/lb to \$3.23/lb in 2007. With declines in commodities and overall financial markets in mid 2008, copper was at \$1.31/lb on December 31, 2008; \$ 3.32/lb at December 31, 2009; \$4.42/lb at December 31, 2010 and \$ 3.43/lb at December 31, 2011.

Zinc prices have essentially followed the same trend with prices in 2003 of \$0.47/lb increasing to \$1.68/lb in September 2007 and with the same decline seen with most commodities prices was at \$0.51/lb on December 31, 2008; \$1.16/lb at December 31, 2009; \$1.10/lb at December 31, 2010 and \$ 0.83/lb at December 31, 2011.

Lead prices were at \$ 1.17/lb at December 31, 2010 and \$ 0.90/lb at December 31, 2011. Lead concentrate is being produced by the Company since end of March 2011.

The Company is currently reviewing its options with respect to hedging in 2012. Currently the Company is able to fix prices on a monthly basis with our concentrate buyer.



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Administrative Costs

	Years ended December 31,	
	2011	2010
Administrative costs[1]	\$ 2,990,345	\$ 2,049,362
Professional fees	774,583	566,385
Investor relations	669,820	243,104
Listing and filing fees	128,632	54,386
	<u>\$ 4,563,379</u>	<u>\$ 2,913,237</u>

[1] Administrative costs break down:	Years ended December 31,	
	2011	2010
Management fees *	\$ 849,235	\$ 414,563
Rent and overhead	145,853	117,258
Travel and accommodation **	361,457	258,177
Office	185,817	170,181
Insurance	25,265	39,474
Salaries and Consulting fees	989,584	897,586
Directors Fees ***	159,236	-
Other	273,898	152,123
	<u>\$ 2,990,345</u>	<u>\$ 2,049,362</u>

* Management fees - President & CEO includes a retroactive bonus for 2009 and 2010 approved by the board of directors in April 2011.

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

*** Includes retroactive payment of \$32,000 for 2010 directors' fees approved by the board of directors in April 2011.

Professional fees

The Company incurred professional fees for the year ended December 31, 2011 of \$774,583 (2010: \$566,385). Legal and IFRS conversion fees are included.



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Investor Relations

The Company incurred investor relation expenditures for the year ended December 31, 2011 of \$669,820 (2010: \$243,104). During 2011, the Company sought additional exposure through advertising on TV (Bloomberg) and magazines as well more attendance at trade shows and conferences.

Selected Annual Information

Fiscal Year Ended	December 2011 \$	December 2010 \$	December 2009 \$
Total revenues	45,882,178	26,144,936	16,133,550
Administrative expenses	4,563,379	2,913,237	1,803,427
Depletion, depreciation and amortization	3,479,244	2,990,512	2,560,969
Stock-based compensation	7,811,935	264,588	802,287
Earnings (Loss) from mining operations	23,181,812	1,594,626	1,221,631
Net income (loss)	7,656,846	(8,567,087)	3,948,179
Operating Cash Flow after taxes before movements in working capital (\$ million)	\$19.5	\$(3.7)	\$(2.0)
Basic gain (loss) per share	0.02	(0.06)	0.03
Fully diluted gain (loss) per share	0.02	(0.06)	0.03
Total assets	154,187,709	87,351,219	79,611,470
Current assets	44,101,239	26,653,807	6,440,472
Property, Plant & Equipment	52,728,808	11,895,943	7,916,519
Mineral properties	55,116,656	46,742,066	63,978,122
Current liabilities	10,463,373	12,645,150	5,753,240
Total liabilities	14,870,083	16,041,174	57,343,648
Cash dividends declared	\$Nil	\$Nil	\$Nil

2009 figures are in Canadian GAAP.



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Financial data last 8 quarters

Quarter Ended	Dec-31	Sep-30	Jun-30	Mar-31
	2011	2011	2011	2011
Total Revenues	\$ 10,542,453	\$ 12,093,483	\$ 12,392,391	\$ 10,853,851
Earnings from mine operations	\$ 5,708,583	\$ 6,811,070	\$ 5,304,988	\$ 5,357,171
Net Income (loss)	\$ 1,574,320	\$ 3,825,035	\$ 1,566,798	\$ 690,693
Income (loss) per share	\$ 0.01	\$ 0.01	\$ -	\$ -

	Dec-31	Sep-30	Jun-30	Mar-31
	2010	2010	2010	2010
Total Revenues	\$ 9,655,451	\$ 7,192,063	\$ 4,799,745	\$ 4,497,677
Earnings from mine operations	\$ (1,835,492)	\$ 2,106,683	\$ 628,332	\$ 695,103
Net Income (loss)	\$ (7,859,234)	\$ 1,235,530	\$ (1,393,868)	\$ (549,515)
Income (loss) per share	\$ (0.06)	\$ 0.01	\$ (0.01)	\$ -

Revenues have been increasing since Q3 (September 2010) mainly as a result of the Company's 50% expansion in its mill capacity to 1,500 tonnes per day from 1,000 tonnes. In addition Revenues show the impact of the metal prices increase. During Q4 (December 2010) there was a net loss of \$ 7,859,234, mainly due to the effect of terminating the silver stream purchase agreement from Silver Wheaton Cayman.

Liquidity

At December 31, 2011 the Company had working capital of \$33.6 million (Dec 2010 – working capital of \$14.0 million), which consisted of \$36.6 million held in cash and short term deposits; account receivables of \$3.5 million (trade & others); inventory of \$2.4 million; Short-term investment of \$0.4; amount receivables \$0.9; and prepaid expenses of \$0.4 million. These amounts are offset by accounts payable of \$9.3 million; and the current portion of the Company's notes payable of \$1.2 million in relation to equipment purchases at the La Negra and Shafter Silver Mine.

Outstanding Share Capital:

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

As at April 12, 2012, the Company had 446,921,611 common shares issued and outstanding.

As at April 12, 2012, the Company had 25,125,000 share purchase options outstanding at various exercised prices and maturing at various future dates.



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As at April 12, 2012, the Company had 85,811,967 warrants outstanding as follows:

Number of Warrants	Exercise Price (CDN)	Expiry Date	Amount (CDN)
3,356,000	\$ 0.40	June 30, 2013	\$ 1,342,400
24,960	\$ 0.35	June 30, 2013	\$ 8,736
48,228,859	\$ 0.41	July 12, 2013	\$ 19,773,832
7,775,648	\$ 0.41	July 12, 2012	\$ 3,188,016
26,426,500	\$ 1.00	November 18, 2013	\$ 26,426,500
85,811,967			

Related Parties Transactions

For the Year ended December 31, 2011, the Company paid or accrued:

	Note	December 31 2011	December 31 2010
Technical and consulting fees	(i)	\$ 535,533	\$ 376,399
General and administrative expenses	(ii)	121,204	129,562
Management fees	(iii)	849,235	414,563
Related party transactions fees		\$ 1,505,972	\$ 920,524

- (i) To companies controlled by officers or directors. Includes termination fees for Senior Vice President.
- (ii) To a company controlled by corporate secretary for management services performed as an officer.
- (iii) To a company controlled by President & CEO for management services performed, includes a retroactive bonus for 2009 and 2010 approved by the board of directors in April 2011

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 average prices in the Metal Bulletin in London in US dollars of the following month of shipment is made. In



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August 2010 the copper purchase contract was extended to 2012 and the parties reviewed the zinc purchase contract at the end of 2011, as per current market conditions.

On March 2011, La Negra signed a purchase contract with Glencore International AG, whereby Glencore's Mexican subsidiary (Metagri), agreed to purchase 100% of lead concentrate to be produced during the years 2011 and 2012. Prices are based on the published prices in the Metal Bulletin in London in US dollars within five days after monthly lot is closed.

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).

International Financial Reporting Standards ("IFRS")

Publicly listed enterprises are required to adopt IFRS in replacement of Canadian Generally Accepted Accounting Principles on January 1, 2011. This transition required the Company to present its December 31, 2011 financial statements under IFRS, with restated comparative information. The conversion to IFRS has impacted 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 retained a consultant to prepare a diagnostic of the key elements of the transition to IFRS that have impacted the Company's financial statements. This diagnostic 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.

The Company has completed the adoption of IFRS for 2011 year and has implemented accounting systems necessary to accommodate the transition. The financial reporting impact of the transition to IFRS has been quantified as follows:

- *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.



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Upon the change to IFRS, the Company eliminated the deferred income tax liability related to the acquisition of Shafter at January 1, 2010 in the amount of \$17,637,443, decreased the related mining property asset by \$14,249,903 and recorded a decrease of \$3,387,540 to the deficit. The Company also eliminated the tax asset, in the amount of \$1,695,685 related to its United States non-capital loss carry-forwards, which do not meet the more likely than not test, by an offsetting increase to the opening deficit at January 1, 2010.

Under IFRS, as at and for the year ended December 31, 2010, the Company reversed the foreign exchange gain recorded under Canadian GAAP in the amount of \$1,857,848, reversed the deferred income tax liability in the amount of \$15,779,595, decreased the related mining property asset by \$14,249,903 and recorded a cumulative decrease in deficit of \$1,529,692. The Company also eliminated the tax asset, in the amount of \$2,107,112 related to its United States non-capital loss carry-forwards, which do not meet the more likely than not test and reversed the recognition of future income tax recovery of \$411,427 recorded on the U.S. tax losses under Canadian GAAP and recorded a cumulative increase in deficit of \$2,107,112.

The Company also reclassified a Canadian GAAP foreign exchange loss on its tax basis in Mexico of \$1,723,140 from foreign exchange (gain) loss for Canadian GAAP purposes to deferred income tax recovery for the year ended December 31, 2011 in accordance with IFRS.

- *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 has identified the U.S. dollar to be the functional currency of its controlled subsidiaries and the Canadian dollar as the functional currency of the parent company. Further, the Company elected to change to reporting its accounts in U.S. dollars from January 1, 2010 from its previous Canadian dollar reporting currency. The effect of these changes are summarized in Note 29 to the December 31, 2011 financial statements.

Upon the change to IFRS, the Company decreased the debt portion of the convertible debt at January 1, 2010 in the amount of \$610,486, increased contributed surplus by \$1,969,310 and increased the deficit by \$1,358,824 representing the increased accretion of the debt required under IFRS prior to January 1, 2010.

Under IFRS, for the year ended December 31, 2010, the Company increased the accretion of the debt portion of the convertible debt recorded under Canadian GAAP in the amount of \$304,051 and the adjustment to the December 31, 2010 debt portion of the convertible debt decreased to \$306,435 and the deficit increased by \$1,662,875.



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Financial Instruments:

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

(a) Foreign exchange risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, The United States and Mexico and a portion of its expenses are incurred in CDN dollars and Mexican Pesos. A significant change in the currency exchange rates between the US dollar relative to the CDN 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.

At December 31, 2011, the Company's Canadian operations are exposed to currency risk through the following assets and liabilities denominated in USD dollars:

	<u>December 31, 2011</u>
Cash and cash equivalents	USD\$ 20,474,265
Accounts payable	(1,383,602)
Convertible debenture	<u>(2,798,626)</u>
	USD\$ <u>16,292,036</u>
 CDN\$ Equivalent	 16,114,453

At December 31, 2011, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

	<u>December 31, 2011</u>
Cash and cash equivalents	MXP\$ 100,001
Other receivable	2,246,160
Accounts payable	<u>(31,246,712)</u>
	MXP\$ <u>(28,900,551)</u>
 CDN\$ Equivalent	 (2,305,108)

Base on the above net exposures as at December 31, 2011, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the CDN Dollar against the US dollar and the Mexican Peso would result in a \$1,380,935 change to the Company's loss in terms of unrealized exchange.



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(b) Credit risk:

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

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

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

Exceptions to the policy for dealing with relationship banks with ratings below "A-" are reported to, and approved by, the Audit Committee. As at December 31, 2010 substantially all cash and short-term deposits are with counterparties with ratings "A-" or higher.

The Company's credit risk associated with trade accounts receivable is managed through establishing long-term contractual relationships with international trading companies using industry-standard contract terms. More than 60% of the Company's product sales are generated from one customer which represents 4% of its sales for the year. Other accounts receivable consist of amounts owing from government authorities in relation to the refund of value-added taxes applying to inputs for the production process and property, plant and equipment expenditures.

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

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

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



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

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Accounts payable	9,313	\$9,313	\$ Nil	\$ Nil	\$ Nil
Notes payable	2,818	1,150	1,668	Nil	Nil
Total	\$12,131	\$10,463	\$1,668	\$ Nil	\$ Nil

(d) Price risk

The Company is subject to revenue price risk from fluctuations in the market prices of copper, silver, lead 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.

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

(e) Fair value estimation

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

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



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The following table summarizes the fair value hierarchy, as of December 31, 2011:

	Fair value through profit or loss \$	Loans and receivables \$	Other financial assets and liabilities \$	Total \$	fair value hierarchy
Financial Assets					
Cash and cash equivalents	-	36,560,380	-	36,560,380	n/a
Trade and other receivable	-	3,451,158	-	3,451,158	n/a
Short-term investments	383,481	-	-	383,481	Level 1
Amounts receivable	-	942,616	-	942,616	n/a
	383,481	40,954,154	-	41,337,635	
Financial Liabilities					
Accounts payable and accrued liabilities	-	-	(9,193,574)	(9,193,574)	n/a
Long Term Debt	-	-	(2,818,287)	(2,818,287)	n/a
	383,481	40,954,154	(12,011,861)	29,325,774	

The following table summarizes the fair value hierarchy, as of December 31, 2010:

	Fair value through profit or loss \$	Loans and receivables \$	Other financial assets and liabilities \$	Total \$	fair value hierarchy
Financial Assets					
Cash and cash equivalents	-	22,176,481	-	22,176,481	n/a
Trade and other receivable	-	1,795,700	-	1,795,700	n/a
Short-term investments	975,238	-	-	975,238	Level 1
Amounts receivable	-	-	-	-	n/a
	975,238	23,972,181	-	24,947,419	
Financial Liabilities					
Accounts payable and accrued liabilities	-	-	(4,318,474)	(4,318,474)	n/a
Long Term Debt	-	-	(236,661)	(236,661)	n/a
	975,238	23,972,181	(4,555,135)	20,392,284	



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There were no material differences between the carrying value and fair value of long-term assets and liabilities as of December 31, 2011. The Company assesses its financial instruments and non-financial contracts on a regular basis to determine the existence of any embedded derivatives which would be required to be accounted for separately at fair value and to ensure that any embedded derivatives are accounted for in accordance with the Company's policy.

Management of Capital:

In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt and acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay dividends.

The Company's investment policy is to limit investments to guaranteed investment certificates, banker's acceptance notes, investment savings accounts or money market funds with high quality financial institutions in Canada and treasury bills, selected with regards to the expected timing of expenditures from operations.

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.

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



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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 and closing its operating mine site. It is possible that the Company's estimate of its ultimate



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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

Some 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.



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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. 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, fluctuations in the price of metals, the interest of investors, traders and others in small exploration stage public companies 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 operating performance, underlying asset values or future prospects. 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.



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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.