



Management Discussion and Analysis for the quarter ended September 30, 2011

This Management Discussion and Analysis (“MD&A”) should be read in conjunction with Aurcana Corporation’s (the “Company” or “Aurcana”) unaudited interim consolidated financial statements for nine months ended September 30, 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 November 4, 2011.

Highlights:

Concept	Third quarter		Change	Year to date		Change
	2011	2010	Year-on-Year	2011	2010	Year-on-Year
Revenues (\$ million)	\$12.1	\$7.2	Up 68%	\$35.3	\$16.5	Up 114%
Earnings from mining operations (\$million)	\$ 6.8	\$ 2.1	Up 224%	\$ 17.5	\$ 3.4	Up 415%
Net Income (loss) \$million	\$ 3.8	\$ 1.2	Up 217%	\$ 6.1	\$ (0.7)	Up \$6.8 M
Operating Cash Flow before movements in working capital (\$ million) [1]	\$ 6.2	\$ (0.2)	Up \$ 6.4 M	\$ 14.9	\$ (2.1)	Up \$ 17.0 M
Silver Ounces produced	244,243	250,953	(3%)	742,026	587,057	26%
Silver Ounces equivalent produced [1] [2]	437,697	416,035	5%	1,273,360	968,373	Up 32%
Total Cash cost per silver equivalent oz [1]	\$9.25	\$9.87	Down 6%	\$10.48	\$10.90	Down 4%
Avg., revenue per silver Oz sold \$ [1]	\$37.24	\$18.98	Up 96%	\$36.50	\$18.10	Up 102%
Copper, lead and zinc concentrates produced (tonnes)	5,212	5,730	(9%)	15,287	12,692	20%
Zinc content %	43.4%	43.3%		42.4%	43.9%	(3.5%)
Copper content %	22.6%	13.1%	Up 72%	18.9%	14.0%	Up 35%
Lead content %	62.6%	N/A	N/A	58.5%	N/A	N/A
Ore mined (tonnes)	134,072	128,666	4%	406,974	350,406	16%
Ore milled (tonnes)	119,772	125,050	(4%)	380,703	298,258	28%

[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.

- 28% increase in milled tonnes processed for a total of 380,703 tonnes during the nine months ended September 2011, (2010: 298,258 tonnes); of which 57,371 tonnes or 15% were mined from NI 43-101 Measured and Indicated and the balance of 323,332 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.



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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 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**”).



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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

- 119,772 tonnes of ore processed during the current quarter;
- Copper, Zinc and Lead concentrate produced during current quarter – 5,212 tonnes (5,339 tonnes sold);
- Silver produced during current quarter– 244,243 ounces (235,981 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.

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 10,613 metres of diamond drilling during the nine months ended September, 2011.

The 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.

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 an estimated completion in early 2012.

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



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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 as scheduled.

Overall Performance

Earnings

The Company had earnings from mining operations of \$6.8 million for the quarter ended September 30, 2011 (2010: \$2.1 million); income before taxes of \$4.3 million (2010: \$1.2 million); a net income of \$3.8 million (2010: \$ 1.2 million). For the nine months ended September 30, 2011 the Company had earnings from mining operations of \$ 17.5 million (2010: \$ 3.4 million); income before taxes of \$ 7.6 million (2010: a loss \$ 0.7 million); a net income of \$ 6.1 million (2010: a loss of \$ 0.7 million).

The increase in earnings from 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 quarter ended September 30, 2011, the Company generated revenues from the sale of 1,690 tonnes of copper concentrate (2010: - 3,658 tonnes); 2,913 tonnes of zinc concentrate (2010: – 2,065 tonnes); 736 tonnes of Lead Concentrate (2010: nil); and 235,981 ounces of silver (2010 – 238,722 ounces) for total net revenues of \$12.1 million (2010 - \$7.2 million).

The average price for sales of copper, silver, zinc and lead during the period were Cu - \$3.98 (2010: \$3.29) per pound; Ag - \$37.24 (2010: \$18.98) per ounce; Zn \$0.98 (2010: \$0.91) per pound and Pb \$1.03 (2010: nil). Metal prices were a significant factor in the increased profitability of the Company.

Cost of Sales

The cost of sales for the quarter ended September 30, 2011 was \$5.3 million (2010: \$5.1 million). Cost of sales for nine months ended September 30 to \$ 17.9 million (2010: \$ 13.1 million).



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Quarter Ended	Sep-30 2011	Jun-30 2011	Mar-31 2011	Dec-31 2010	Sep-30 2010	Jun-30 2010	Mar-31 2010	Dec-31 2009
Mine Days	89	88	87	78	87	85	84	84
Mill Days	80	89	84	80	89	82	81	83
Inventory (start of period)								
Ore stockpiles (tonnes)	80,224	70,634	66,265	63,834	61,268	40,758	11,736	15,688
Zinc concentrate (tonnes)	104	40	94	41	142	103	45	51
Copper/silver concentrate (tonnes)	120	70	100	241	127	79	84	55
Lead concentrate (tonnes)	40	108	-					
Production								
Ore mined (tonnes)	134,072	143,290	129,612	127,353	128,666	113,711	108,029	89,208
Ore milled (tonnes)	119,772	133,700	127,231	124,345	125,050	94,201	79,007	86,358
Average Grade								
Zinc (%)	1.42%	1.34%	1.09%	1.17%	1.46%	1.18%	0.90%	0.95%
Copper (%)	0.39%	0.42%	0.44%	0.45%	0.48%	0.48%	0.48%	0.50%
Silver (g/t)	75	78	74	79	78	73	74	91
Lead (%)	0.47%	0.42%						
Zinc concentrate (tonnes)	2,885	2,731	1,582	1,324	1,964	1,124	933	929
Containing: Zinc (tonnes)	1,253	1,131	668	560	850	552	365	344
Containing: Zinc (%)	43%	41%	42%	42%	43%	49%	39%	37%
Copper concentrate (tonnes)	1,600	1,882	2,994	3,274	3,766	2,852	2,053	2,483
Containing: Copper (tonnes)	362	398	466	456	492	388	335	376
Containing: Copper (%)	23%	21%	16%	14%	13%	14%	16%	15%
Lead concentrate (tonnes)	727	778	108					
Containing: Lead (tonnes)	455	439	49					
Containing: Lead (%)	63%	56%	45%					
Silver (oz)	244,243	257,508	240,275	251,020	250,953	182,009	154,095	211,244
Inventory (end of period)								
Ore stockpiles (tonnes)	94,524	80,224	70,634	66,265	63,834	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/silver concentrate (tonnes)	31	40	108					
Sales								
Zinc concentrate (DMT)	2,913	2,667	1,364	1,248	2,065	1,085	874	928
Containing payable 85%: Zinc (tonnes)	1,107	929	479	426	730	394	318	344
Copper concentrate (tonnes)	1,690	1,832	3,050	3,310	3,658	2,788	2,065	2,428
Containing payable:96.5% Copper (tonnes)	349	392	436	417	442	351	318	335
Lead concentrate (tonnes)	736	846						
Containing payable:95% Lead (tonnes)	430	485						
Silver (oz)	235,981	263,357	218,701	244,052	238,722	172,356	153,790	192,926



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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 estimated completion of the project remains by May 2012.

We are continuing our underground mining training program and a secondary mine rescue team has been established in preparation for the commencement of underground mining activities.

All earthworks are completed along with 30% of concrete. The reclaim tunnel has been excavated, culvert installed along with concrete pad completed.

Other key achievements:

- Portal is completed and the Ramp is now developed 300 feet underground.
- Reclaim Tunnel has now been completed.
- Ball Mill Foundations have been completed and the Mill has been delivered to site.
- Two of the 6 Leach Tanks have been installed.
- All permits required for the Shafter silver mine to commence production have been received.
- Construction of the Shafter office at the mine site is underway with the external parts of the building complete, construction is continuing with the interior.
- The Merrill Crowe Equipment is built and ready for shipment.
- The refurbishing and modifications to the Filter Presses for the mill are well underway.
- Underground Production Equipment has been ordered for delivery in December 2011 through April 2012.
- Underground Development Equipment is on site and being used for decline development.
- There are 40 employees now on site.
- Jason Cyr was appointed General Manager for Shafter, taking over responsibilities from the project manager in September, 2011.

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; \$ 30.63/ounce at December 31, 2010; and \$ 30.04/ounce at September 30, 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 \$ 3.23/lb at September 30, 2011.



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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 \$ 0.86/lb at September 30, 2011.

Lead prices were at \$ 1.15/lb at December 31, 2010 and \$ 0.93/lb at September 30, 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 2011. Currently we can fix prices on a monthly basis with our concentrate buyer.

Administrative Costs

For the nine months ended September 30, 2011 was \$8,964,430 (2010: \$2,297,984):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Administrative costs[1]	\$ 569,914	\$ 472,478	\$ 2,366,631	\$ 1,357,053
Stock-based compensation (note 16)	1,931,570	56,536	5,600,831	260,918
Professional fees	105,012	105,878	393,153	456,515
Investor relations	103,286	26,357	492,226	184,522
Listing and filing fees	28,250	4,039	111,589	38,976
	<u>\$ 2,738,032</u>	<u>\$ 665,288</u>	<u>\$ 8,964,430</u>	<u>\$ 2,297,984</u>

[1] Administrative costs break down:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Management fees *	\$ 99,153	\$ 108,845	\$ 829,422	\$ 274,170
Rent and overhead	37,903	35,136	109,496	80,592
Travel and accommodation **	59,992	114,955	281,953	195,152
Office	30,784	13,156	121,113	77,202
Insurance	5,047	10,134	18,515	21,658
Admin, salaries and Consulting fees ***	226,910	200,316	713,687	678,072
Directors Fees	47,742	-	88,692	-
Other	62,382	(10,065)	203,752	30,207
	<u>\$ 569,914</u>	<u>\$ 472,478</u>	<u>\$ 2,366,631</u>	<u>\$ 1,357,053</u>

* Management fees - President & CEO includes non - recurrent 2009 and 2010 bonuses approved on April 2011

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

*** Includes Senior VP termination's fees



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Professional fees

The Company incurred professional fees for the nine months ended September 30, 2011 of \$393,153 (2010: \$456,515). Legal and IFRS conversion fees are included.

Investor Relations.

The Company incurred investor relation expenditures for the nine months ended September 30, 2011 of \$492,226 (2010: \$184,522). During 2011, the Company sought additional exposure through advertising on TV (Bloomberg) and magazines as well more attendance at trade shows and conferences.

Stock-based-compensation

The Company applies the fair value method of accounting for all awards and stock options by using the Black Sholes options pricing model "Black-Sholes model". For the nine months ended September 30, 2011 the stock-based compensation expense was \$5,600,831 (2010 - \$260,918). 21,475,000 options were granted, of which 9,470,833 vested in the period.

Financial data last 8 quarters

Quarter Ended	Sep-30 2011	Jun-30 2011	Mar-31 2011	Dec-31 2010
Total Revenues	\$ 12,093,483	\$ 12,392,391	\$ 10,853,851	\$ 9,655,451
Earnings from mine operations	\$ 6,811,070	\$ 5,304,988	\$ 5,357,171	\$ 4,009,463
Net Income (loss)	\$ 3,825,035	\$ 1,566,798	\$ 690,693	\$ (7,247,606)
Income (loss) per share	\$ 0.01	\$ -	\$ -	\$ (0.02)
Quarter Ended	Sep-30 2010	Jun-30 2010	Mar-31 2010	Dec-31 2009
Total Revenues	\$ 7,192,063	\$ 4,799,745	\$ 4,497,677	\$ 3,297,913
Earnings from mine operations	\$ 2,106,683	\$ 628,332	\$ 695,103	\$ 139,031
Net Income (loss)	\$ 1,235,530	\$ (1,393,868)	\$ (549,515)	\$ (545,119)
Income (loss) per share	\$ 0.01	\$ (0.01)	\$ -	\$ (0.01)

Quarters ended March 31 2010 to September 30 2011 are under IFRS; quarter ended December 2009 is under Canadian GAAP.

Revenues have been increasing consistently since Q3 (September 2010) mainly because of the Company made an expansion of 50% in its mill capacity to 1,500 tonnes per day from 1,000 tonnes. In addition Revenues show the impact of metal prices increase. During Q4 (December 2010) there was a net loss of \$ 7,247,606 mainly due to the effect of buying back the silver stream purchase agreement from Silver Wheaton Cayman.



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Liquidity

At September 30, 2011 the Company had working capital of \$2.8 million (Dec 2010 – working capital of \$14.1 million), which consisted of \$9.1 million held in cash and short term deposits; account receivables of \$3.0 million (trade & others); prepaid expenses of \$0.2 million; inventory of \$2.0 million. These amounts are offset by accounts payable of \$7.7 million; the current portion of the Company's notes payable of \$1.0 million in relation to equipment purchases at the La Negra & Shafter Silver Mines; and the Convertible Debenture with Silver Standard of \$2.9 million.

Although the Company continues to make improvements at its La Negra mine, and considering that the operation has 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 rely upon future cash flows from the mine to cover its overhead costs. 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 November 3, 2011, the Company had 358,942,115 common shares issued and outstanding.

As at November 3, 2011, the Company had 27,987,500 share purchase options outstanding at various exercised prices and maturing at various future dates.

As at November 3, 2011, the Company had 91,335,559 warrants outstanding as follows:

Number of Warrants	Exercise Price (CDN)	Expiry Date
4,511,000	\$ 0.40	June 30, 2013
24,960	\$ 0.35	June 30, 2013
76,146,146	\$ 0.41	July 12, 2013
<u>10,653,453</u>	\$ 0.41	July 12, 2012
<u><u>91,335,559</u></u>		



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Related Parties Transactions

For the nine months ended September 30, 2011, the Company paid or accrued:

	Note	September 30 2011 (9 months)	September 30 2010 (9 months)
Technical and consulting fees	(i)	\$ 464,622	\$ 253,498
General and administrative expenses	(ii)	92,921	80,742
Management fees	(iii)	829,422	274,920
Related party transactions fees		<u>\$ 1,386,965</u>	<u>\$ 609,161</u>

(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 non-recurrent 2009 & 2010 bonus, approved on 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 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.

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).



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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 September 30, 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 the first nine months of 2011 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.

The Company had 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.

- *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 25 to the September 30, 2011 financial



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statements and the net result was an approximate \$1.8 million translation adjustment, which was reset to \$nil with the offset going to the balance of the deficit at January 1, 2010, as permitted by the elections allowed under first time adoption of IFRS, besides there was an effect on the convertible debenture, increasing: mineral properties \$1.2 million; convertible debenture liability was decreased \$0.6 million; deficit increased in \$0.2 and contributed surplus consequently increased \$2.0 million.

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 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 September 30, 2011, the Company is exposed to currency risk through the following assets and liabilities denominated in CDN dollars:

	<u>September 30, 2011</u>
Cash and cash equivalents	CDN\$ 7,099,692
Investment securities	1,411,930
Other receivable	124,351
Accounts payable	(281,409)
Convertible debenture	<u>(2,841,812)</u>
	CDN\$ <u>5,512,753</u>
USD\$ Equivalent	5,259,166

At September 30, 2011, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

	<u>September 30, 2011</u>
Cash and cash equivalents	MXP\$ 3,580,205
Other receivable	2,968,743
Accounts payable	<u>(38,031,979)</u>
	MXP\$ <u>(31,483,032)</u>
USD\$ Equivalent	(2,265,865)



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Base on the above net exposures as at September 30, 2011, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US Dollar against the CDN dollar and the Mexican Peso would result in a \$299,330 change to the Company's loss in terms of unrealized exchange.

(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.

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, loans, leasing 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	7,716	\$ 7,716	\$ Nil	\$ Nil	\$ Nil
Notes payable	2,358	968	1,390	Nil	Nil
Convertible debentures *	2,862	2,862	Nil	Nil	Nil
Environmental obligations	1,514	Nil	Nil	Nil	1,514
Total	\$14,450	\$11,546	\$1,390	\$ Nil	\$1,514

The Company agreed to repay an aggregate of \$7,000,000 of the principal owing under the Debenture on or before July 15, 2011, which was actually paid on July 15, 2011;- the remaining \$3,000,000 principal balance will be repaid in equal four quarterly instalments 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.



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(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.

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 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



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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 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



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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.

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, 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.



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Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is communicated to senior management, to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under the rules of the Canadian Securities Administration, was conducted as of December 31, 2010 under the supervision of the Company's Disclosure Committee and with the participation of management. Based on the results of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report in providing reasonable assurance that the information required to be disclosed in the Company's annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported in the securities legislation.

Since the December 31, 2010 evaluation, there have been no adverse changes to the Company's controls and procedures and they continue to remain effective.

Internal Control over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with IFRS. The Company's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that accurately and fairly reflect the transactions of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS;
- ensure the Company's receipts and expenditures are made only in accordance with authorization of management and the Company's directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized transactions that could have a material effect on the annual or interim financial statements.

An evaluation of the effectiveness of the Company's internal control over financial reporting was conducted as of December 31, 2010 by the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, management has concluded that the Company's internal controls over financial reporting were effective.

There were no changes in the Company's business activities during the period ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.



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Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met. Further, the design of a control system reflects the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

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