



## Management Discussion and Analysis for the quarter and six months ended June 30, 2012

This Management Discussion and Analysis (“**MD&A**”) should be read in conjunction with Aurcana Corporation’s (the “**Company**” or “**Aurcana**”) unaudited condensed interim consolidated financial statements for the quarter ended June 30, 2012 and 2011 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](http://www.sedar.com) and on the Company’s website [www.aurcana.com](http://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. The MD&A is prepared as of August 14, 2012

### Highlights:

	Second Quarter		Change Year-on-Year	Year to date		Change Year-on-Year
	2012	2011		2012	2011	
Revenues (\$ million) [3]	\$13.3	\$12.4	Up 7%	\$24.9	\$23.2	Up 7%
Earnings from mining operations (\$million)	5.5	5.3	Up 4%	11.0	10.7	Up 3%
Net Income (\$million)	1.4	1.6	Down 12%	3.4	2.3	Up 50%
Operating Cash Flow after taxes before movements in working capital (\$ million)	\$ 4.7	\$ 2.3	Up 106%	\$ 10.4	\$ 7.0	Up 49%
Silver Ounces produced	373,037	257,508	Up 45%	660,523	497,783	Up 33%
Silver Ounces equivalent produced [1] [2]	690,162	455,516	Up 52%	1,181,218	886,551	Up 33%
Production Cash cost per silver equivalent oz [1]	\$8.43	\$11.47	Down 26%	\$8.80	\$10.48	Down 16%
Total Cash Cost per silver oz net of by-products [3]	\$0.91	\$2.17	Down 58%	\$0.89	\$2.14	Down 59%
Cost per milled ton. [1] [2]	\$34.00	\$40.43	Down 16%	\$35.06	\$38.81	Down 10%
Copper, lead and zinc concentrates produced (tonnes)	7,751	5,391	Up 44%	13,107	10,075	Up 30%
Ore mined (tonnes)	143,718	143,290	0%	276,156	272,902	Up 1%
Ore milled (tonnes)	176,591	133,700	Up 32%	307,161	260,931	Up 18%
Avg., price per silver Oz sold \$ [1]	\$28.51	\$36.86	Down 23%	\$30.38	\$36.25	Down 16%
Avg., price per Zinc Lb sold \$ [1]	\$0.86	\$1.02	Down 16%	\$0.89	\$1.04	Down 14%
Avg., price per Copper Lb sold \$ [1]	\$3.52	\$4.14	Down 15%	\$3.63	\$4.30	Down 16%
Avg., price per Lead Lb sold \$ [1]	\$0.89	\$1.16	Down 23%	\$0.91	\$1.13	Down 19%

[1] A non IFRS measure

[2] Depreciation and amortization not included

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

Remarks: Revenues, earnings from mining operations and production figures originate from La Negra mine

- 18% increase in milled tonnes processed for a total of 307,161 milled tonnes during the six months ended June 2012, (2011: 260,931 tonnes); of which 45,588 milled tonnes or 15% were mined from NI 43-101 Measured and Indicated resources and the balance of 261,573 milled tonnes or 85% were mined from non 43-101 compliant resources;



## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

- La Negra Mine in Mexico completed its second consecutive mill expansion from a capacity of 1,500 tonnes per day (tpd) to 2,500 tpd on time and on budget in April 2012. The planned milling rate is 2,000 tpd and La Negra continuously exceeded the planned rate in Q2, 2012.
- Shafter Silver Mine in Texas commissioning and testing of the processing plant continues. As a result of the testing to date, two key areas have been identified for improvement; further mine development and the processing plant mill dewatering.
  - The underground production will be supplemented by a test open pit until fourth quarter of 2012 as further development is required in order to sustain 1,500 tons per day. Further development of the underground mine is currently under review.
  - During the second quarter, the deferred stripping of a small test open pit was started. The mineralized rock is expected to be processed starting in late August.
  - Resulting from the commissioning test in Q2, the dewatering process of the processing plant is currently being re-configured. The processing plant continues testing to reach 1,500 tons per day as anticipated, and will be ready in the fourth quarter 2012.

### **Basis of Presentation:**

The accompanying condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

### **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**"). 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 acquired 100% indirect interest in the Shafter Silver Mine in Texas, USA ("**Shafter**").



## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

### **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**

- 176,591 tonnes of ore processed during the current period (2011: 133,700 tonnes);
- Copper, Zinc and Lead concentrate produced during current period – 7,751 tonnes (2011: 5,391 tonnes);
- Silver produced during current period–373,037 ounces (2011: 257,508 ounces);

Mining operations and exploration drilling at La Negra continue to delineate additional mineralized zones, either between or as extensions of existing mineralized zones. These results are expected to add to the mine life of La Negra. Drill crews have completed 5,968 metres of diamond drilling during the current period (2011:6,863 metres).

The tailings facility has the capacity to accept tailings from the 2,000 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.

### **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 (2,090,000 tonnes average 8.48 silver Oz/ton) and an inferred resource estimated at 22.8 million ounces of silver (2,167,000 tonnes average 10.52 silver Oz/ton) using a four ounce per ton cut off. The full report can be viewed on the Aurcana website [www.aurcana.com](http://www.aurcana.com) or on SEDAR [www.sedar.com](http://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.
- 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 plant construction was completed by the end of Q1 2012, two months ahead of schedule and under budget, and the commissioning and testing phase commenced on April 2012.



## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

- Shafter Silver Mine in Texas commissioning and testing of the processing plant continues. As a result of the testing to date, two key areas have been identified for improvement; further mine development and the processing plant mill dewatering.
- During the commissioning test in Q2, the dewatering process of the processing plant experienced difficulty and as such, the dewatering process is currently being re-configured. The processing plant continues its testing to intend use of 1,500 tons per day which is expected to be ready early in the fourth quarter 2012.

### **Shafter Exploration**

During the second quarter surface mapping, rock sampling and diamond drilling at the Shafter Project continued with a focus on the “near mine” environment. Both the historic Presidio and the new Shafter operation are located along a strong structure, the Mina Grande Fault. In other mining camps such a fault will serve as a plumbing system, such that drilling deeper along the fault often results in new discoveries. This is the reasoning behind the current phase of exploration.

Our program thus far has included sampling the trace of the fault at surface and drilling core holes to depth. The surface work has encountered strong hydrothermal alteration and anomalous silver, particularly both north and south of the Presidio mine. Two holes were drilled north of Presidio but did not return favourable results. Additional exploration is required and will continue in the coming months, particularly in the vicinity of an interesting geophysical anomaly detected during a historic Induced Polarization survey.

At Shafter, drill hole S-12-417 was drilled to search for “feeder structures” below historic hole SM-7. This hole cut strong alteration and silicification from 850 to 891 feet that is interpreted to represent the easterly extension of the known mineralized Shafter horizon intersected in hole SM-7. Assays are pending. Drilling is continuing in this area.

### **Overall Performance**

#### **Earnings**

The Company had earnings from La Negra mining operations of \$5.5 million for the quarter ended June 30, 2012 (2011: \$5.3 million); income before taxes of \$2.0 million (2011: \$1.7 million); a net income of \$1.4 million (2011: \$ 1.6 million). For the six months ended June 30, 2012 the Company had earnings from mining operations of \$ 11.0 million (2011: \$ 10.7 million); income before taxes of \$ 4.6 million (2011: \$ 3.3 million); a net income of \$ 3.4 million (2011: \$ 2.3 million).

The increase in earnings from La Negra mining operations for the quarter ended June 30, 2012 as well as for the six months ended June 30, 2012 was mainly related to increased volumes sold and the increase in the higher grades of the metals in the concentrates produced by the Company in spite of lower metal prices.



## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

### **Revenue**

During the quarter ended June 30, 2012, the Company generated revenues from sales of La Negra mine of 4,244 tonnes of zinc concentrate (2011: – 2,667 tonnes); 2,425 tonnes of copper concentrate (2011: - 1,832 tonnes); 945 tonnes of Lead Concentrate (2011: 846); and 323,307 ounces of silver (2011 – 263,357 ounces) for total net revenues of \$13.7 million (2011 - \$12.4 million). During the six months ended June 30, 2012, the Company generated revenues from the sale of 7,510 tonnes of zinc concentrate (2011: – 4,032 tonnes); 3,995 tonnes of copper concentrate (2011: - 4,882 tonnes); 1,682 tonnes of Lead Concentrate (2011: 846); and 582,074 ounces of silver (2011 – 482,058 ounces) for total net revenues of \$25.3 million (2011 - \$23.2 million).

A new lead concentrate circuit was added in Q2, 2011, due to this, the recoveries of copper improved with the removal of lead, resulting in two separate concentrate streams.

Revenues in the quarter ended June 30, 2012 were derived from 53% silver (2011: 58%), 21% copper (2011:25%), 18% zinc (2011:10%), and 8% lead (2011: 8%). Revenues in the six months ended June 30, 2012 were derived from 53% silver (2011: 58%), 24% copper (2011:30%), 16% zinc (2011:8%) and 7% lead (2011: 4%).The sale of concentrates are recorded net of charges for treatment, refining, smelting and royalties.

The average price for sales of zinc, copper, silver and lead during the quarter ended June 30, 2012 was Ag - \$28.51 (2011: \$36.86) per ounce; Cu - \$3.52 (2011: \$4.14) per pound; Zn \$0.86 (2011: \$1.02) per pound and Pb \$0.89 (2011: \$1.16) per pound. The average price for sales of silver, copper, zinc, and lead during the six months ended June 30, 2012 was Ag - \$30.38 (2011: \$36.25) per ounce; Cu - \$3.63 (2011: \$4.30) per pound; Zn \$0.89 (2011: \$1.04) per pound and Pb \$0.91 (2011: \$1.13) per pound.

### **Cost of Sales**

The cost of sales of La Negra mine for the quarter ended June 30, 2012 was \$7.8 million (2011: \$7.1 million), which includes depletion, depreciation and amortization in the amount of \$1.4 million for the current period (2011: \$1.1 million). The cost of sales for the six months ended June 30, 2012 was \$13.9 million (2011: \$12.6 million), which includes depletion, depreciation and amortization in the amount of \$2.4 million for the current period (2011: \$2.0 million).

The cost of production (excluding shipping, freight, depreciation and amortization) for the quarter ended June 30, 2012 was \$6.0 million (2011: \$5.7 million) or cost per tonne produced \$34.00 based on 176,591 milled tonnes (2011: \$40.43 based on 133,700 tonnes). For the six months ended June 30, 2012 was \$10.8 million (2011: \$10.1 million) or cost per tonne produced \$35.06 based on 307,161 milled tonnes (2011: \$38.81 based on 260,931 tonnes). Current cost per tonne produced is lower than the previous year due to higher volumes and productivity, although there was an increase in salaries of 10% starting January 1, 2012 for hourly labour miners plus 22 more miners and 7 more geologists were hired to access the new mineralized zones.



## Management Discussion and Analysis for the quarter and six months ended June 30, 2012

### La Negra mine:

Quarter Ended	Jun-30 2012	Mar-31 2012	Dec-31 2011	Sep-30 2011	Jun-30 2011	Mar-31 2011	Dec-31 2010	Sep-30 2010
Mine Days	89	88	92	89	88	87	78	87
Mill Days	85	85	87	80	89	84	80	89
<b>Inventory (start of period)</b>								
Ore stockpiles (tonnes)	102,906	101,038	94,524	80,224	70,634	66,265	63,834	61,268
Zinc concentrate (tonnes)	79	242	76	104	40	94	41	142
Copper/silver concentrate (tonnes)	67	162	30	120	70	100	241	127
Lead concentrate (tonnes)	75	39	31	40	108	-	-	-
<b>Production</b>								
Ore mined (tonnes)	143,718	132,438	131,776	134,072	143,290	129,612	127,353	128,666
Ore milled (tonnes)	176,591	130,570	125,262	119,772	133,700	127,231	124,345	125,050
Ore milled daily average (tonnes)	2,075	1,534	1,441	1,497	1,506	1,520	1,554	1,405
<b>Average Grade</b>								
Zinc (%)	1.49%	1.53%	1.53%	1.42%	1.34%	1.09%	1.17%	1.46%
Copper (%)	0.42%	0.37%	0.40%	0.39%	0.42%	0.44%	0.45%	0.48%
Silver (g/t)	80	81	81	75	78	74	79	78
Lead (%)	0.41%	0.45%	0.46%	0.47%	0.42%			
Zinc concentrate (tonnes)	4,255	3,109	3,065	2,885	2,731	1,582	1,324	1,964
Containing: Zinc (tonnes)	1,950	1,478	1,380	1,253	1,131	668	560	850
Containing: Zinc (%)	46%	48%	45%	43%	41%	42%	42%	43%
Copper concentrate (tonnes)	2,517	1,474	1,679	1,600	1,882	2,994	3,274	3,766
Containing: Copper (tonnes)	541	326	358	362	398	466	456	492
Containing: Copper (%)	22%	22%	21%	23%	21%	16%	14%	13%
Lead concentrate (tonnes)	979	772	730	727	778	108		
Containing: Lead (tonnes)	575	482	465	455	439	49		
Containing: Lead (%)	59%	62%	64%	63%	56%	45%		
Silver (oz)	373,037	287,486	265,230	244,243	257,508	240,275	251,020	250,953
Total Ag Eq. (Oz Ag Eq)	690,162	491,056	467,235	430,090	455,516	431,035	385,942	416,035
<b>Inventory (end of period)</b>								
Ore stockpiles (tonnes)	70,032	102,906	101,038	94,524	80,224	70,634	66,265	63,834
Zinc concentrate (tonnes)	83	79	242	76	104	40	94	41
Copper/silver concentrate (tonnes)	158	67	162	30	120	70	100	241
Lead/silver concentrate (tonnes)	109	75	39	31	40	108		
<b>Sales</b>								
Zinc concentrate (DMT)	4,244	3,266	2,892	2,913	2,667	1,364	1,248	2,065
Containing payable 85%: Zinc (tonnes)	1,607	1,293	1,069	1,107	929	479	426	730
Copper concentrate (tonnes)	2,425	1,570	1,547	1,690	1,832	3,050	3,310	3,658
Containing payable:96.5% Copper (tonnes)	478	319	305	349	392	436	417	442
Lead concentrate (tonnes)	945	737	721	736	846			
Containing payable:95% Lead (tonnes)	532	426	431	430	485			
Silver (oz) payable at 95%	323,307	258,767	235,811	235,981	263,357	218,701	244,052	238,722

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





## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

### **Professional fees**

The Company incurred professional fees for the quarter ended June 30, 2012 of \$74,933 (2011: \$201,616). For the six months ended June 30, 2012 professional fees were \$119,052 (2011: \$288,141), decrease was mainly on legal fees, as a result of no fees involved any more on Sprott lawsuit.

### **Investor Relations**

The Company incurred investor relation expenditures for the quarter ended June 30, 2012 of \$320,295 (2011: \$215,593). For the six months ended June 30, 2012, investor relation expenditures were \$570,917 (2011:\$388,940). During this period, the Company sought additional exposure through advertising on TV (Bloomberg) and magazines as well more attendance at trade shows and conferences.

### **The Company's financial quarterly information is as follow:**

Quarter Ended	Jun-30	Mar-31	Dec-31	Sep-30
	2012	2012	2011	2011
Total Revenues	\$ 13,273,096	\$ 11,581,721	\$ 10,542,453	\$ 12,093,483
Earnings from mine operations	\$ 5,480,639	\$ 5,507,440	\$ 5,708,583	\$ 6,811,070
Net Income	\$ 1,403,126	\$ 1,992,127	\$ 1,574,320	\$ 3,825,035
Income per share	\$ -	\$ 0.01	\$ 0.01	\$ 0.01

  

Quarter Ended	Jun-30	Mar-31	Dec-31	Sep-30
	2011	2011	2010	2010
Total Revenues	\$ 12,392,391	\$ 10,853,851	\$ 9,655,451	\$ 7,192,063
Earnings from mine operations	\$ 5,304,988	\$ 5,357,171	\$ (1,835,492)	\$ 2,106,683
Net Income (loss)	\$ 1,566,798	\$ 690,693	\$ (7,859,234)	\$ 1,235,530
Income (loss) per share	\$ -	\$ -	\$ (0.06)	\$ 0.01

Revenues have been increasing consistently since Q3 (September 2010) mainly as a result of better metal prices, higher metal content of the concentrate and lastly for the second quarter of 2012 due to the Company's recent expansion of its mill capacity from 1,500 tonnes to 2,000 tonnes per day although there was a relative decrease in metal prices compared with previous periods.

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.





## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

### **Liquidity**

At June 30, 2012 the Company had working capital of \$16.4 million (Dec 2011 –\$33.6 million), which consisted of \$17.0 million held in cash and short term deposits; account receivables of \$6.1 million (trade & others); inventory of \$3.8 million; Short-term investment of \$0.5; amount receivables \$1.0; and prepaid expenses of \$0.9 million. These amounts are offset by accounts payable of \$10.4 million; and the current portion of the Company's notes payable of \$2.5 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 August 17, 2012, the Company had 453,788,185 common shares issued and outstanding.

As at August 17, 2012, the Company had 31,225,000 share purchase options outstanding at various exercised prices and maturing at various future dates.

As at August 17, 2012, the Company had 80,894,395 warrants outstanding as follows:

Number of Warrants	Exercise Price (CDN)	Expiry Date
2,516,000	\$ 0.40	June 30, 2013
24,960	\$ 0.35	June 30, 2013
46,920,665	\$ 0.41	December 7, 2013
5,006,270	\$ 0.41	December 7, 2012
<u>26,426,500</u>	<u>\$ 1.00</u>	<u>November 29, 2013</u>
<u><u>80,894,395</u></u>		



## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

### **Related Parties Transactions**

The Company's related parties consist of companies owned by executive officers and directors and payments to these parties are as follows:

	Note	June 30 2012	June 30 2011
Technical and consulting fees	(i)	\$ 122,979	\$ 350,536
General and administrative expenses	(ii)	92,920	40,913
Management fees	(iii)	646,433	659,822
Related party transactions fees		<u>\$ 862,332</u>	<u>\$ 1,051,271</u>

- i) To companies controlled by officers or directors.
- 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.

Compensation of key management personnel:

	June 30 2012	June 30 2011
Related party transactions fees	\$ 862,332	\$ 1,051,271
Directors' fees	97,527	41,472
Officer salaries	107,388	114,049
Share-based payment	3,742,320	3,057,754
	<u>\$ 4,809,567</u>	<u>\$ 4,264,546</u>

### **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 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.



## Management Discussion and Analysis for the quarter and six months ended June 30, 2012

### 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).

### Financial Instruments:

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 June 30, 2012, the Company's Canadian operations are exposed to currency risk through the following assets and liabilities denominated in USD dollars:

	<u>June 30, 2012</u>	
Cash and cash equivalents	USD\$	3,868,993
Other receivable		1,008,404
Accounts payable		(2,592,514)
Leasing Sandvik		(5,962,642)
	USD\$	<u>(3,677,759)</u>
<b>CDN\$ Equivalent</b>		<b>(3,698,723)</b>

At June 30, 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in Mexican Pesos:

	<u>June 30, 2012</u>	
Cash and cash equivalents	MXP\$	1,568,762
Other receivable		82,779,051
Accounts payable		(129,285,188)
	MXP\$	<u>(44,937,375)</u>
<b>CDN\$ Equivalent</b>		<b>(3,411,196)</b>

Base on the above net exposures as at June 30, 2012, 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 \$710,992 change to the Company's loss in terms of unrealized exchange.



## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

### **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 against certain risks of mining and processing to the extent that is economically feasible but which may not provide adequate coverage in all circumstances.



## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

### **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 reclamation liability could change in the near term due to possible changes in laws and regulations and changes in cost estimates



## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

### **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 an interest.



## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

### **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 IFRS.



## **Management Discussion and Analysis for the quarter and six months ended June 30, 2012**

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 IFRS.

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](http://www.sedar.com) and on the Company's website at [www.aurcana.com](http://www.aurcana.com).