

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Franconia Minerals Corporation for the Six months ended June 30, 2006 have been prepared by management and approved by the Audit Committee and Board of Directors of the Corporation. These statements have not been reviewed by the Corporation's external auditors.

Dated August 28, 2006



Brian Gavin
President

Franconia Minerals Corporation

(a development stage Company)

Consolidated Statements of Operations and Deficit

For The Six Months Ended June 30, 2006 And June 30, 2005

U.S. Dollars

(Unaudited - Prepared by Management)

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2006</u>	2005 <i>Restated</i>	<u>2006</u>	2005 <i>Restated</i>
Expenses				
General administration	\$ (109,486)	\$ (92,760)	\$ (237,459)	\$ (234,543)
General exploration	(713)	-	(713)	-
Write off deferred acquisition and exploration costs	-	-	-	-
Compensation expense	-	(346,023)	-	(346,023)
Loss from operations	<u>(110,199)</u>	<u>(438,783)</u>	<u>(238,172)</u>	<u>(580,566)</u>
Other income (expenses)	6,530	21,049	6,530	(12,626)
Gain from sale of investment				
Net loss for period	<u>(103,669)</u>	<u>(417,734)</u>	<u>(231,642)</u>	<u>(593,192)</u>
Deficit accumulated during development stage				
Beginning of period	<u>(2,508,411)</u>	<u>(1,691,753)</u>	<u>(2,380,438)</u>	<u>(1,516,295)</u>
End of period	<u>\$ (2,612,080)</u>	<u>\$ (2,109,487)</u>	<u>\$ (2,612,080)</u>	<u>\$ (2,109,487)</u>
Loss per share	\$ (0.003)	\$ (0.021)	\$ (0.008)	\$ (0.029)

*These financial statements should be read in conjunction with the most recent annual audited financial statements
The accompanying notes are an integral part of these consolidated financial statements*

Franconia Minerals Corporation

(a development stage Company)

Consolidated Interim Statements of Cash Flows

For The Six Months Ended June 30, 2006 And June 30, 2005

U.S. Dollars

(Prepared by Management)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2006	2005	2006	2005
Cash flows from operating activities		<i>Restated</i>		<i>Restated</i>
Net (loss) for the period	\$ (103,669)	\$ (417,734)	\$ (231,642)	\$ (593,192)
Items not involving cash:				
Management fees				(1,416)
Foreign exchange				
Write off deferred costs				
Gain on sale of investments				
Non-cash services				
Compensation		346,023		346,023
Changes in non-cash working capital balances				
Prepaid expenses	(14,712)	8,822	(4,213)	(7,433)
Accounts payable	210,402	30,662	67,282	57,267
	<u>92,021</u>	<u>(32,227)</u>	<u>(168,573)</u>	<u>(198,751)</u>
Cash flows from financing activities				
Advances (payments) on Note Payable			-	-
Funds held in trust	(211,250)		(211,250)	-
Advances from joint venture partner, net of expenditures			-	(9,442)
Issue of share capital, net of share issue costs	3,042,531	107,893	4,244,623	1,437,930
	<u>2,831,281</u>	<u>107,893</u>	<u>4,033,373</u>	<u>1,428,488</u>
Cash flows from investing activities				
Proceeds from sale of short term investments				-
Payments for deferred acquisition and exploration costs	(1,353,668)	(676,082)	(1,692,269)	(900,399)
	<u>(1,353,668)</u>	<u>(676,082)</u>	<u>(1,692,269)</u>	<u>(900,399)</u>
Increase (decrease) in cash and equivalents	1,569,634	(600,416)	2,172,531	329,338
Cash and equivalents, beginning of period	700,572	1,570,604	97,675	640,850
Cash and equivalents, end of period	\$ <u>2,270,206</u>	\$ <u>970,188</u>	\$ <u>2,270,206</u>	\$ <u>970,188</u>

*These financial statements should be read in conjunction with the most recent annual audited financial statements**The accompanying notes are an integral part of these consolidated financial statements*

Franconia Minerals Corporation

(a development stage Company)

Notes to Consolidated Financial Statements

For The Six Months Ended June 30, 2006

US Dollars

(Unaudited - Prepared by Management)

1. Nature of Operations

Franconia Minerals Corporation (the "Company") was incorporated on August 7, 1998 under the Alberta Business Corporations Act. The Company is a public company listed on the Ofex Exchange, Europe's independent public market for small to medium enterprises. Effective January 12, 2005, the Company was listed on the TSX Venture Exchange. The Company is in the development stage devoting substantially all of its efforts to exploring mineral properties. Commercial operations have not commenced. Most of the Company's efforts are related to activities such as raising capital for the purpose of acquiring and exploring mineral properties.

The Company continues to develop and explore its mineral properties and has not yet determined whether these properties contain mineral resources that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production of proceeds from disposition of the mineral properties. There are no guarantees that such conditions will be met. The amounts shown as mineral properties represent net costs to date, less amounts written off and do not necessarily represent present or future values.

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property titles may be subject to unregistered prior agreements, transfers or native land claims and title may be affected by unasserted claims.

2. Going Concern Assumption

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company had working capital of \$1,786,182 at June 30, 2006. The Company will require additional funds to enable the Company to continue to acquire and explore mineral properties. While management has been successful in the past attracting financing, there is no assurance that sufficient funds will be raised in the future.

3. Significant Accounting Policies

The significant policies and methods of computation follow that of the most recent annual consolidated financial statements. The disclosures provided below are incremental to those included in the annual consolidated financial statements.

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Franconia Minerals Corporation (US) Inc.

Franconia Minerals Corporation

(a development stage Company)

Notes to Consolidated Financial Statements

For The Six Months Ended June 30, 2006

US Dollars

*(Unaudited - Prepared by Management)***3. Significant Accounting Policies - continued**

The Company is engaged in the acquisition, exploration and development of mineral properties. Deferred acquisition costs include amounts paid under option and farm in agreements as well as lease payments under property leases. Deferred exploration costs such as topographical, geochemical, geophysical studies, and costs for drill testing are capitalized and carried at cost until the properties to which they relate are placed into production, sold or where management has determined there to be a permanent impairment in value. These costs may also include indirect administrative fees and office costs being incurred for these properties. The Company expenses all general explorations costs as incurred.

The Company reviews and evaluates the recoverability of the carrying amounts of all its non-producing properties annually based on management's intentions and are written down when the long-term expectation is that the net carrying amount will not be recovered. The costs relating to a property are written off when the decision to abandon the property is made. Proceeds from disposition of mineral properties are normally credited to the capitalized costs with no gain or loss being recognized unless the sale is significant to the capitalized property costs. For such significant dispositions, a gain or loss would be recognized. In addition, if there has been a delay in development activity for several successive years, a write-down of those project-capitalized costs will be charged to income.

Most of the Company's mining operations are in United States Dollars. The Company's operations outside of the United States are primarily in Canada conducted in Canadian Dollars. Because only limited operations are conducted in Canadian Dollars, the Company adopted the United States Dollar as its reporting currency. Accordingly, the consolidated financial statements have been prepared on that basis. All numbers reported in these consolidated financial statements are stated in United States Dollars unless otherwise denoted.

4. Deferred Acquisition and Exploration Costs

		December 31	Expenditures	June 30
		2005	2006	2006
Birch Lake	Acquisition	\$ 861,425	\$ 259,468	\$ 1,120,893
	Exploration	1,448,609	653,501	2,102,110
Mahoney	Acquisition	21,339	241,295	262,634
	Exploration	166,745	9,364	176,109
San Francisco	Acquisition	113,358	27,000	140,358
	Exploration	279,680	207,385	487,065
Red Knoll	Acquisition	100,273	119,955	220,228
	Exploration	15,721	174,301	190,022
		<u>\$ 3,007,150</u>	<u>\$ 1,692,269</u>	<u>\$ 4,699,419</u>
Summary	Acquisition	\$ 1,096,395	\$ 647,718	\$ 1,744,113
	Exploration	1,910,755	1,044,551	2,955,306
		<u>\$ 3,007,150</u>	<u>\$ 1,692,269</u>	<u>\$ 4,699,419</u>

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
For The Six Months Ended June 30, 2006
US Dollars
(Unaudited - Prepared by Management)

5. Equity Instruments

(a) Authorized

Unlimited number of common shares

(b) Issued

Common Shares	<u>Number</u>		<u>Amount</u>
Balance, December 31,2005	23,279,385	\$	4,014,507
Warrants exercised	7,266,297		2,779,988
Private Placement	6,388,888		1,071,250
Property Acquisitions	350,000		264,495
Share issue costs	-		(12,864)
	<u>37,284,570</u>	\$	<u>8,117,376</u>

Warrants

Balance, December 31,2005	9,342,308	\$	303,089
Warrants expired	(3,979,386)		(30,143)
Warrants exercised	(7,266,297)		
Warrants issued	4,138,888		141,754
	<u>2,235,513</u>	\$	<u>414,700</u>
Balance, June 30, 2006		\$	<u><u>8,532,076</u></u>

(c) Escrow shares

As a result of prospectus financing in 2004, 1,982,301 shares of the Company were placed in escrow. 25% of this amount was released on the date the Company was listed on the TSX Venture Exchange and the remaining shares will be released at 25% thereof every six months commencing July 2005. At June 30, 2006, the Company has 495,575 shares held in escrow with its transfer agent. The final release occurred July 11, 2006.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
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5. Equity Instruments – continued

(d) Warrants

General	Description	Expiry Date	Exercise Price CDN \$	Number Outstanding
	Prospectus 2004	12/14/2006	0.60	187,500
	Prospectus II 2004	1/10/2007	0.60	1,375
	Private Placement 2005	3/23/2007	0.60	195,000
	Note Conversion	5/3/2008	0.25	1,388,888
	Property Acquisition	1/20/2008	0.60	75,000
	Property Acquisition	6/9/2007	0.57	50,000
	Property Acquisition	4/12/2008	0.60	125,000
				<u>2,022,763</u>
Agents and others				
	Prospectus 2004	12/14/2006	0.60	210,000
	Prospectus II 2004	1/10/2007	0.40	2,750
				<u>212,750</u>
				<u>2,235,513</u>

The Company gave notice to various warrant holders that the weighted average price of the Common Shares on the TSX Venture Exchange has been equal to or greater than \$0.50 (Cdn \$0.60) for a period of 15 consecutive trading days. The holders had 15 days after receipt of the notice to exercise their warrants or they expire. Warrants unexercised expired.

(e) Options

The Company has a stock option plan available to employees, directors, officers and consultants with grants under the Plan approved from time to time by the Board of Directors. Under the Plan, the Company is authorized to issue options to purchase in aggregate up to 20% of the Company's issued and outstanding common shares, up to a maximum of 4,412,820 common shares. Each option can be exercised to acquire one common share of the Company. The term of the options and vesting provisions are determined by the board of directors, subject to applicable stock exchange rules. The exercise price for an option granted under the plan may not be less than the price permitted by the applicable stock exchange and generally vest at the time of granting and have a term of 5 years.

The fair value of stock options is determined at the date of the grant and the amount is charged to operations over the vesting period of the options. The fair value of the options was determined using the Black-Scholes model

Stock Options	<u>Number</u>	<u>Weighted average exercise price</u>
Balance, December 31, 2005	2,650,000	\$ 0.32
Options granted	-	
Options exercised	-	
Balance, June 30, 2006	<u>2,650,000</u>	\$ 0.32

Franconia Minerals Corporation
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US Dollars
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5. Equity Instruments - continued

(f) Contributed surplus

Balance December 31, 2005	\$	521,993
Warrants expired		30,143
Balance June 30, 2006	\$	<u>552,136</u>

6. Property Commitments

(a) Birch Lake Option Agreement (Minnesota)

On November 12, 2002, the Company entered into the Birch Lake Option Agreement (BLOA) to hold the option to enter into an Earn-in and Joint Venture Agreement ("BLJV Agreement") with Beaver Bay Joint Venture (BBJV), an entity related by virtue of common shareholders and a common director. On March 31, 2006 the Company signed an eighth amendment to the BLOA (see Note 6(a) above) with BBJV. Under the terms of the amended agreement Franconia will earn a 60% interest in the properties by:

- (i) Making cash payments to the BBJV totaling \$4,000,000 of which \$200,000 was paid as at December 31, 2005 and the remaining \$3,800,000 is payable between April 15, 2006 and January 2, 2010;
- (ii) Issuing additional shares such that the total value of shares issued to BBJV shall equal US \$2,000,000. Shares were issued in December 2005, January 2006 with a total deemed value of \$375,000. The remaining shares are to be issued between January 2, 2007 and January 2, 2010 and;
- (iii) Completing cumulative work commitments a total of \$2,000,000 by no later than January 2, 2008 and a total of \$10,000,000 by no later than January 2, 2010. These amounts include the qualifying expenditures incurred to date by the Company at Birch Lake. In addition, the amount of the additional cash payment required to exercise the Company's option to increase its interest in the joint venture from 60% to 70% is increased from \$500,000 to \$1,000,000. The Option Agreement and Terms outlined, and as previously amended, remain unchanged in all other aspects.

This amendment extends the time for the Company's commitments under the BLOA by two year and two months.

(b) American Copper Nickel Company - Birch Lake

On December 22, 2003, Lehmann Exploration Management, a company controlled by a shareholder and officer, as operator of the Beaver Bay Joint Venture ("BBJV"), entered into a binding letter of intent to acquire from American Copper Nickel Company (ACNC), a wholly owned subsidiary of INCO, two federal leases covering 4864.78 net mineral acres and ownership of 160 acres in fee, 74.11 acres of surface rights only and 328.88 net mineral acres of mineral rights. The federal leases are subject to a royalty to the US Government on production, and are also subject in part to overriding royalties to certain private parties not to exceed 1%. All the mineral rights acquired from ACNC are subject to payment to ACNC of a royalty of 7.5% of net distributable earnings from the subject rights. The annual holding costs for 2003 through 2013 are estimated to be approximately \$70,000 per year for lease rentals and real estate taxes. These lands were acquired in the name of BBJV and are subject to the earn-in agreement in favor of the Company.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
For The Six Months Ended June 30, 2006
US Dollars
(Unaudited - Prepared by Management)

6. Property Commitments - continued

(c) Teck Cominco American Incorporated (TCAI)

The Company signed an Option to Earn-in agreement with Teck Cominco American Incorporated (TCAI) relative to the San Francisco project effective January 2, 2002. This agreement provides TCAI with a three-year option to form a Joint Venture with the Company, within 60 days of completion by the Company of an exploration program consisting of eight 1200-foot exploration drill holes on the property. At December 31, 2003, the Company had drilled 4 qualifying exploration holes. The subsequent joint venture will allow TCAI to earn a 60% interest in the property by expending \$3,000,000 in exploration on the property over four years. Subsequent expenditures will be on a pro rata basis, however, TCAI will make all contributions on the interest. Dilution to 20% will cause a party's interest to be converted to a 10% net proceeds royalty interest

Pursuant to Section 12 of the Option to Earn-in agreement, in August of 2005 TCAI and Company signed a letter confirming that the Company had not as yet completed the specified work program and that would TCAI would still retain the right to exercise the option as outlined above after the Company completed the drilling of four exploratory holes in 2006 at an estimated cost of \$500,000.

(d) Mahoney Project

In January 2004, the Company staked 54 unpatented lode claims (covering approximately 1,080 acres) in Luna County, New Mexico as part of the Mahoney Project. The Company concluded a Property Acquisition Agreement (the "Acquisition Agreement") entered into in 2005 with Teck Cominco American Incorporated ("Teck Cominco") regarding Franconia's Mahoney property ("Mahoney") in Luna County, New Mexico. The Acquisition Agreement calls for Franconia to spend US\$2,000,000 over four years on exploration on Maloney, including an expenditure of US\$500,000 in the first year.

Upon Franconia completing its full expenditure obligations on the property, Teck Cominco will have a one-time option to earn a 75% interest in Mahoney by spending an additional US\$5,000,000 on the property within four years. If Teck Cominco does not exercise this earn-in right, it will have no further rights to the property except for a 2% net smelter royalty. Franconia will also have the right to reduce the royalty to 1% by paying Teck Cominco US\$1,500,000.

(e) San Francisco Project (Utah)

The Company entered into an agreement with Horn Silver Mines, Inc, on September 15, 2000. The agreement has a term of 20 years with an option to renew for 20 years. Included in this agreement is a royalty fee of 3% NSR with a right to buy down the royalty at \$750,000 per 1%.

The rental payments due are as follows:

2006	\$54,000
2007	54,000
2008	54,000
2009	54,000
2010	54,000
	<u>\$270,000</u>

Franconia Minerals Corporation

(a development stage Company)

Notes to Consolidated Financial Statements

For The Six Months Ended June 30, 2006

US Dollars

(Unaudited - Prepared by Management)

6. Property Commitments - continued

(f) Red Knoll Project

In 2005, the Company signed a Property Acquisition Agreement with Teck Cominco American Incorporated (Teck Cominco) regarding the 8,000 acre Red Knoll property in Graham County, Arizona. Under the terms of the Agreement, Franconia will earn a 100% interest in Teck Cominco's unpatented mining claims by spending \$2,000,000 over four years on exploration. The Agreement calls for a minimum expenditure of \$200,000 by Franconia in the first year. In addition, Franconia will reimburse Teck Cominco for land holding costs in 2004 and issue shares to Teck Cominco (see below). Upon Franconia completing \$2,000,000 in expenditures on the property, Teck Cominco will have a one-time option to elect to back-in to a 70% interest in the Red Knoll property by spending \$5,000,000. If Teck Cominco does not exercise its back-in right, it will have no further rights to the property except for a 2% NSR royalty. Franconia will have the right to reduce the royalty to 1% by paying Teck Cominco \$1,500,000. The agreement calls for Franconia to issue to Teck Cominco 150,000 units of Franconia at a deemed price of Cdn \$0.40 per unit. Each unit will consist of one common share of the Corporation and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of Cdn \$0.60 at any time prior to 5:00 p.m. Toronto time on the earlier of: a) 15 trading days after receiving notice from the Corporation that the weighted average price of the Common Shares has been equal to or greater than Cdn \$0.70 for a period of 15 consecutive trading days; or b) two years from the date of issue of the units. Franconia will also issue an additional 100,000 units to Teck Cominco on each anniversary date during the term of the option, Land holding costs are estimated to be \$48,000 per year.

7. Related Party Transactions

Except as disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions

(a) Transactions with a director and companies controlled by a director

The Company has entered into various agreements with a director and companies controlled by that director, regarding the Birch Lake properties, and consulting and administration services. This director holds certain mining claims and leases in respect of the Birch Lake properties in trust for the Company.

Transactions between the Company and the director and companies controlled by him were as follows:

- (i) Land acquisition and maintenance costs \$94,832
- (ii) Administrative costs \$24,080
- (iii) Consulting fees \$13,585

(b) Other Transactions

- (i) Legal fees incurred with a director's law firm \$14,419
- (ii) Consulting fees paid to the Company's president totaled \$9,900
- (iii) Consulting fees paid to a director \$2,250

Transactions in the normal course of operations have been recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. Loss per share

The loss per share figures has been calculated using the weighted average number of common shares outstanding during the period.

Franconia Minerals Corporation

(a development stage Company)

Notes to Consolidated Financial Statements

For The Six Months Ended June 30, 2006

US Dollars

(Unaudited - Prepared by Management)

9. Financial Instruments

As disclosed in Note 3 (i) of the Company's consolidated financial statements for the year ended December 31, 2005, the Company may hold various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to fair value risk, currency risk, and credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical

Currency risk

Currency risk is the risk to the Company's operations that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Concentration risk

A majority of the Company's cash is with one major banking institution. Deposits held with this bank may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimum risk.

10. Funds Held In Trust

The Company completed a non-brokered private placement by issuing a \$211,250 (Cdn \$250,000) 10% convertible unsecured debenture expiring January 12, 2009 to a private investor. Under the terms of the debenture, prior to maturity the holder can convert the outstanding principal into units at \$0.15 (Cdn \$0.18), each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.21 (Cdn \$0.25) at any time prior to the earlier of: (a) January 12, 2009 and (b) the date that is two years after the date that the debenture is converted. The loan was converted during the period.

11. Consultant Contracts and Ongoing Commitments

(a) The Company has entered into one year consulting contracts, automatically renewable annually, with five consultants who are also shareholders or directors of the Company. These agreements provide for a consulting fee of US\$450 per day and reimbursement of expenses. If these Agreements are terminated by the Company, without cause, the consultants will receive severance pay from the Company in amounts ranging from \$50,000 to \$100,000 to a maximum of \$400,000 in total. In addition, the Company will cancel any previously issued share options held by the consultants which are not exercised within the 30 days of the termination by payment to the consultants of the amount equal to the difference between the exercise price of the options and the average closing price of the common shares on the relevant stock exchange or trading platform during the previous 30 days.

(b) Other

In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, operating agreements, leasing agreements, asset use agreements etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

Franconia Minerals Corporation

(a development stage Company)

Notes to Consolidated Financial Statements

For The Six Months Ended June 30, 2006

US Dollars

(Unaudited - Prepared by Management)

12. Subsequent Events

At June 30, 2006, the Company had 495,575 shares held in escrow with its transfer agent. The final release occurred July 11, 2006.

On July 31, 2006, announced that it recently signed an amendment to its Earn-In Agreement (the Birch Lake Option) with the Beaver Bay Joint Venture ("BBJV") regarding the Birch Lake Project in the Duluth Complex of Minnesota, USA. This amendment increases the area of interest of the Birch Lake Option by approximately 8,300 acres to include additional land acquired in 2005 from American Copper & Nickel Inc., some of which were outside of the area of interest of the Birch Lake Option.

Under the terms of the Birch Lake Option, Franconia may earn an 82% interest in the properties by making payments in cash and common shares to BBJV, and by funding the project to commercial production. This option agreement, as previously amended, remains unchanged in all other respects. Mr. Ernest K. Lehmann, a founder, chairman and director of Franconia, owns a controlling interest in North Central Mineral Ventures, which in turn owns 70% of BBJV.

The Company also announced that, effective July 26, 2006, the board of directors of Franconia, based on the recommendation of the audit committee, has accepted the resignation of BDO Dunwoody LLP received on July 24, 2006 and has appointed Smythe Ratcliffe Chartered Accountants to fill the vacancy.

The Company gave notice to the warrant holder related to the Note Conversion (Notes 5(d) and 10 above) that the weighted average price of the Common Shares on the TSX Venture Exchange had been equal to or greater than \$0.60 (Cdn \$0.70) for a period of 15 consecutive trading days. The warrant holder exercised 1,388,888 warrants to purchase 1,388,888 common shares at a price of \$0.21 (Cdn \$0.25) per share for proceeds of \$312,500 (Cdn\$347,222) to the Company.

FRANCONIA MINERALS CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
SIX MONTHS ENDED JUNE 30, 2006

This management discussion and analysis (“MD&A”) of results of operations and financial condition of Franconia Minerals Corporation (a development stage corporation) (“Franconia” or “the Company”) describes the operating and financial results of the Company for the three month period ended June 30, 2005 (“second quarter 2006”). The MD&A supplements, but does not form part of the financial statements of the Company and should be read in conjunction with Franconia’s unaudited consolidated financial statements of operations and deficit and cash flows and related notes for the three month period ended June 30, 2006 and the audited consolidated financial statements for fiscal 2005 and 2004. The Company prepares and files its financial statements in accordance with Canadian generally accepted accounting principles. The Company reports its financial results in US dollars.

Forward-looking Statements

Some statements contained in this MD&A are forward-looking, and therefore involve uncertainties or risks that could cause actual results to differ materially. Such statements include comments regarding mining and milling operations, mineral resources and exploration program performance. Factors that could cause actual results to differ materially include metal price volatility, economic and political events affecting metal supply and demand, fluctuations in mineralization grade, geological, technical, mining or processing problems, future profitability and production. The Company disclaims any obligation to update forward-looking statements.

Date of MD&A

This MD&A was prepared on August 28, 2006.

Overview of Operations

Franconia was incorporated on August 7, 1998 under the Alberta Business Corporations Act. The Company is a public company listed on the Ofex, Europe’s independent public market for small to medium enterprises.

Effective January 12, 2005, the Company was also listed on the TSX Venture Exchange. Franconia is a development stage Company, which devotes substantially all of its efforts to exploring mineral properties. Commercial operations have not commenced. Most of the Company’s efforts are related to activities such as raising capital for the purpose of acquiring and exploring mineral properties.

The Company currently has interest in 16,511 ha (40,800 acres) of mineral lands in four projects, in Minnesota, Utah, Arizona and New Mexico. The land interests comprise earn-in and joint venture agreements, exploration and mining agreements and direct interests through the Company’s filings for unpatented claims, state mineral leases and federal prospecting permits. The Company’s properties are all early stage exploration prospects, except for the Birch Lake Project, which is an advanced-stage exploration project with an inferred mineral resource.

Operational Activities

On March 31, 2006, the Company signed an eighth amendment to the BLOA (see Note 6(a) of the Fiscal 2005 Consolidated Financial Statements) with BBJV. Under the terms of the amended agreement Franconia may earn a 60% interest in the properties by:

- (i) Making cash payments to the BBJV totaling \$4,000,000 of which \$200,000 was paid as at December 31, 2005 and the remaining \$3,800,000 is payable between April 15, 2006 and January 2, 2010;
- (ii) Issuing additional shares of stock, such that the total value of shares of stock issued to BBJV shall equal a deemed value of \$2,000,000 of which \$225,000 was deemed to be issued as at December 31, 2005, and \$150,000 was deemed to be issued in January 2006 and the remaining shares are to be issued between January 2, 2007 and January 2, 2010 and;
- (iii) Completing cumulative work expenditures totaling \$2,000,000 by no later than January 2, 2008 and a total of \$10,000,000 by no later than January 2, 2010. These amounts include the approximately \$1,200,000 expended to date by Franconia at Birch Lake. In addition, the amount

of the additional cash payment required to exercise Franconia's option to increase its interest in the joint venture from 60% to 70% is increased from \$500,000 to \$1,000,000. The Option Agreement and Terms outline, as previously amended, remain unchanged in all other aspects.

The amendment extends the time for the Company's commitments under the BLOA by two years and two months.

In addition to the Cdn\$1,000,000 private placement completed on February 9, 2006, subsequent to the year end, the Company received a total of approximately \$2.8 million from the issuance of shares on the exercise of warrants.

On April 19, 2006, the Company announced the assay results from a diamond drill program on its Dunka nickel-copper massive sulfide exploration target located in northeastern Minnesota. Dunka lies southwest of Franconia's inferred copper-nickel-PGM resources at Birch Lake and Maturi. The goal of the program was to test for the continuity of high-grade nickel-copper mineralization encountered in historic drilling. The drilling revealed only relatively modest values of copper and nickel, indicating that the higher-grade massive sulfide mineralization in Hole D-5 appears to be restricted in size. This information was reviewed by Franconia's exploration manger William F. Rowell, a qualified person as defined by National Policy 43-101.

On May 15, 2006, Franconia reported that it had begun a Titan 24 geophysical survey on the 8,000 acre Red Knoll property in Graham County, Arizona, adjacent to and northeast of Phelps Dodge's porphyry copper deposits in the Safford District. Franconia was targeting concealed porphyry-style copper mineralization buried beneath post-mineral volcanic cover.

The Red Knoll Property is on the northeast-trending structural zone thought to control mineralization at the Safford district and also lies on a regional northeast-trending magnetic low connecting the Safford and Morenci camps.

The Red Knoll property is subject to a Property Acquisition Agreement with Teck Cominco American Incorporated (Teck Cominco) whereby Franconia can earn a 100% interest in the unpatented mining claims by spending US\$2,000,000 in exploration expenditures over four years and issuing shares to Teck Cominco. Upon Franconia completing expenditures on the property, Teck Cominco has a one-time option to elect to back-in to a 70% interest in the property by spending US\$5,000,000 over four years.

On May 30, 2006, the Company announced the commencement of a 5-hole, 7,500 foot diamond drilling program on the Company's 100%-controlled San Francisco zinc property in Beaver County, in southwestern Utah. Franconia was targeting the discovery of high-grade zinc manto-style mineralization with a minimum size of at least 2 million tons contained zinc. The project, which was originally brought to the attention of Franconia by Teck Cominco American Incorporated, lies in a region of extensive past and present day mining operations.

On June 6, 2006, the Company announced receipt of a resource estimate for the Maturi copper-nickel-platinum group metal (PGM) target, part of the Birch Lake Project in Minnesota. The Maturi target lies on a package of mineral rights acquired in 2005 by Franconia from American Copper & Nickel Company, Inc. (ACNC). The Maturi target is located about 3 miles north of Franconia's 39 million tonne Birch Lake copper-nickel-PGM resource. A supporting Technical Report, prepared by Roscoe Postle Associates to NI 43-101 standards, was later filed and made available on SEDAR.

The Company noted that the 51 million tonne Maturi Inferred Resource complements Franconia's 39 million tonne Inferred Resource at Birch Lake and raises the possible scenario of two nearby underground copper-nickel-PGM mines feeding one central processing facility - all controlled by Franconia.

On June 26, 2006, the Company announced the commencement of a core drilling program at its Birch Lake copper-nickel-PGM project in the Duluth Complex in northeastern Minnesota. The planned 11,000 to 15,000-foot drill program was expected to be completed by late September with assay results available by late October 2006.

The work represents the first phase of a two-phase program and is aimed at improving the metallurgical processing of the ores, focusing on the recovery of nickel from ore to concentrate. The entire program is also assisting to move the project towards final feasibility determination and with the State's environmental review and permitting process.

Financing Activities

On May 2, 2006, the Company announced it had received a Letter of Intent ("LOI") from the State of Minnesota, which would provide a loan of between US\$1.5- and 2.5-million to help develop the Company's copper-nickel-PGM resource project at Birch Lake in the Duluth Complex of northeastern Minnesota. Under the terms of this tentative agreement, the Company also agreed to contribute matching funds – based on a one-to-three ratio – up to a maximum of approximately US\$7.5 million (at the possible maximum loan limit of \$2.5 million). The US\$10 million potential total would be used for a two-phase technical development program aimed at advancing Birch Lake towards becoming a producing mine. Completion of the formal agreement was subject to a number of terms, including the State's due diligence as well as finalization of term sheets and financing documents.

Franconia proposed that the loan be repaid from production and would be appropriately collateralized, with details still to be worked out.

All of these funds would be earmarked primarily for in-fill drilling to further define the Birch Lake resource as well as to provide metallurgical samples for improving nickel recoveries to concentrate and conducting feasibility level metallurgical testing of both concentrate production and hydrometallurgical treatment of concentrates to produce saleable nickel-cobalt and PGM intermediates for refining and SXEW cathode copper on site. A small part of the funds would be utilized for related environmental review and permitting along with conceptual mine design for the Birch Lake project.

On May 8, 2006, that Company announced that, pursuant to the terms of previously announced non-brokered private placement of a convertible note, Franconia had issued 1,388,888 common shares and common share purchase warrants for the same number of common shares. The private investor holding the Cdn. \$250,000 10% convertible unsecured note expiring January 12, 2009 has exercised his right to convert this note into shares and warrants. Under the terms of the convertible note, prior to maturity the holder could convert the outstanding principal into Units at Cdn. \$0.18, each Unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of Cdn. \$0.25. The common shares and warrants issued pursuant to the conversion of the note are subject to a hold period expiring May 13, 2006.

On May 23, 2006, the Company reported that, pursuant to the terms of a non-brokered private placement announced in February and in response to the Company's notice that the weighted average price of the common shares on the TSX Venture Exchange has been equal to or greater than Cdn\$0.60 for a period of 15 consecutive trading days, all unit-holders had exercised their rights to convert their warrants into the Company's common shares. The Company issued 2,500,000 new common shares from Treasury in exchange for these warrants.

In February, the Company had raised Cdn\$1,000,000 through the issuance of units at Cdn\$0.20 per unit. Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitled the holder to purchase one additional common share at an exercise price of Cdn\$0.30 at any time prior to the earlier of: a) the date which is the 15th trading day after receiving notice from the Corporation that the weighted average price of the common shares on the TSX Venture Exchange has been equal to or greater than Cdn\$0.60 for a period of 15 consecutive trading days; and b) August 8, 2007. The common shares and common share purchase warrants issued are subject to a hold period expiring on June 9, 2006. In addition to the net proceeds originally received from the offering, the Company would receive proceeds of \$750,000 from the exercise of these warrants.

On June 21, 2006, the Company announced that the loan being considered by agencies of the State of Minnesota, reported by the Company on May 2, 2006, had been approved.

Subsequent Events

At June 30, 2006, the Company had 495,575 shares held in escrow with its transfer agent. The final release occurred July 11, 2006

On July 31, 2006, announced that it recently signed an amendment to its Earn-In Agreement (the Birch Lake Option) with the Beaver Bay Joint Venture ("BBJV") regarding the Birch Lake Project in the Duluth Complex of Minnesota, USA. This amendment increases the area of interest of the Birch Lake Option by approximately 8,300 acres to include additional land acquired in 2005 from American Copper & Nickel Inc., some of which were outside of the area of interest of the Birch Lake Option.

Under the terms of the Birch Lake Option, Franconia may earn an 82% interest in the properties by making payments in cash and common shares to BBJV, and by funding the project to commercial production. This option agreement, as previously amended, remains unchanged in all other respects. Mr. Ernest K. Lehmann, a founder, chairman and director of Franconia, owns a controlling interest in North Central Mineral Ventures, which in turn owns 70% of BBJV.

The Company also announced that, effective July 26, 2006, the board of directors of Franconia, based on the recommendation of the audit committee, has accepted the resignation of BDO Dunwoody LLP received on July 24, 2006 and has appointed Smythe Ratcliffe Chartered Accountants to fill the vacancy.

The Company gave notice to the warrant holder related to the Note Conversion (Notes 5(d) and 10 above) that the weighted average price of the Common Shares on the TSX Venture Exchange had been equal to or greater than \$0.60 (Cdn \$0.70) for a period of 15 consecutive trading days. The warrant holder exercised 1,388,888 warrants to purchase 1,388,888 common shares at a price of \$0.21 (Cdn \$0.25) per share for proceeds of \$312,500 (Cdn\$347,222) to the Company.

Deferred Acquisition and Exploration Costs

		December 31	Expenditures	June 30
		2005	2006	2006
Birch Lake	Acquisition	\$ 861,425	\$ 259,468	\$ 1,120,893
	Exploration	1,448,609	653,501	2,102,110
Mahoney	Acquisition	21,339	241,295	262,634
	Exploration	166,745	9,364	176,109
San Francisco	Acquisition	113,358	27,000	140,358
	Exploration	279,680	207,385	487,065
Red Knoll	Acquisition	100,273	119,955	220,228
	Exploration	15,721	174,301	190,022
		\$ 3,007,150	\$ 1,692,269	\$ 4,699,419
Summary	Acquisition	\$ 1,096,395	\$ 647,718	\$ 1,744,113
	Exploration	1,910,755	1,044,551	2,955,306
		\$ 3,007,150	\$ 1,692,269	\$ 4,699,419

Mineral Property Commitments

(a) Birch Lake Option Agreement (Minnesota)

On November 12, 2002, the Company entered into the Birch Lake Option Agreement (BLOA) to hold the option to enter into an Earn-in and Joint Venture Agreement ("BLJV Agreement") with Beaver Bay Joint Venture (BBJV), an entity related by virtue of common shareholders and a common director. On March 31, 2006 the Company signed an eighth amendment to the BLOA (see Note 6(a) above) with BBJV. Under the terms of the amended agreement Franconia will earn a 60% interest in the properties by:

- (i) Making cash payments to the BBJV totaling \$4,000,000 of which \$200,000 was paid as at December 31, 2005 and the remaining \$3,800,000 is payable between April 15, 2006 and January 2, 2010;
- (ii) Issuing additional shares such that the total value of shares issued to BBJV shall equal US \$2,000,000. Shares were issued in December 2005, January 2006 with a total deemed value of \$375,000. The remaining shares are to be issued between January 2, 2007 and January 2, 2010 and;
- (iii) Completing cumulative work commitments a total of \$2,000,000 by no later than January 2, 2008 and a total of \$10,000,000 by no later than January 2, 2010. These amounts include the qualifying expenditures incurred to date by the Company at Birch Lake. In addition, the amount of the additional cash payment required to exercise the Company's option to increase its interest in the joint venture from 60% to 70% is increased from \$500,000 to \$1,000,000. The Option Agreement and Terms outlined, and as previously amended, remain unchanged in all other aspects.

This amendment extends the time for the Company's commitments under the BLOA by two year and two months.

(b) American Copper Nickel Company - Birch Lake

On December 22, 2003, Lehmann Exploration Management, a company controlled by a shareholder and officer, as operator of the Beaver Bay Joint Venture ("BBJV"), entered into a binding letter of intent to acquire from American Copper Nickel Company (ACNC), a wholly owned subsidiary of INCO, two federal leases covering 4864.78 net mineral acres and ownership of 160 acres in fee, 74.11 acres of surface rights only and 328.88 net mineral acres of mineral rights. The federal leases are subject to a royalty to the US Government on production, and are also subject in part to overriding royalties to certain private parties not to exceed 1%. All the mineral rights acquired from ACNC are subject to payment to ACNC of a royalty of 7.5% of net distributable earnings from the subject rights. The annual holding costs for 2003 through 2013 are estimated to be approximately \$70,000 per year for lease rentals and real estate taxes. These lands were acquired in the name of BBJV and are subject to the earn-in agreement in favor of the Company.

(c) Teck Cominco American Incorporated (TCAI)

The Company signed an Option to Earn-in agreement with Teck Cominco American Incorporated (TCAI) relative to the San Francisco project effective January 2, 2002. This agreement provides TCAI with a three-year option to form a Joint Venture with the Company, within 60 days of completion by the Company of an exploration program consisting of eight 1200-foot exploration drill holes on the property. At December 31, 2003, the Company had drilled 4 qualifying exploration holes. The subsequent joint venture will allow TCAI to earn a 60% interest in the property by expending \$3,000,000 in exploration on the property over four years. Subsequent expenditures will be on a pro rata basis, however, TCAI will make all contributions on the interest. Dilution to 20% will cause a party's interest to be converted to a 10% net proceeds royalty interest

Pursuant to Section 12 of the Option to Earn-in agreement, in August of 2005 TCAI and Company signed a letter confirming that the Company had not as yet completed the specified work program and that

would TCAI would still retain the right to exercise the option as outlined above after the Company completed the drilling of four exploratory holes in 2006 at an estimated cost of \$500,000.

(d) Mahoney Project

In January 2004, the Company staked 54 unpatented lode claims (covering approximately 1,080 acres) in Luna County, New Mexico as part of the Mahoney Project. The Company concluded a Property Acquisition Agreement (the "Acquisition Agreement") entered into in 2005 with Teck Cominco American Incorporated ("Teck Cominco") regarding Franconia's Mahoney property ("Mahoney") in Luna County, New Mexico. The Acquisition Agreement calls for Franconia to spend US\$2,000,000 over four years on exploration on Maloney, including an expenditure of US\$500,000 in the first year.

Upon Franconia completing its full expenditure obligations on the property, Teck Cominco will have a one-time option to earn a 75% interest in Mahoney by spending an additional US\$5,000,000 on the property within four years. If Teck Cominco does not exercise this earn-in right, it will have no further rights to the property except for a 2% net smelter royalty. Franconia will also have the right to reduce the royalty to 1% by paying Teck Cominco US\$1,500,000.

(e) San Francisco Project (Utah)

The Company entered into an agreement with Horn Silver Mines, Inc, on September 15, 2000. The agreement has a term of 20 years with an option to renew for 20 years. Included in this agreement is a royalty fee of 3% NSR with a right to buy down the royalty at \$750,000 per 1%.

The rental payments due are as follows:

2006	\$54,000
2007	54,000
2008	54,000
2009	54,000
2010	54,000
	<u>\$270,000</u>

(f) Red Knoll Project

In 2005, the Company signed a Property Acquisition Agreement with Teck Cominco American Incorporated (Teck Cominco) regarding the 8,000 acre Red Knoll property in Graham County, Arizona. Under the terms of the Agreement, Franconia will earn a 100% interest in Teck Cominco's unpatented mining claims by spending \$2,000,000 over four years on exploration. The Agreement calls for a minimum expenditure of \$200,000 by Franconia in the first year. In addition, Franconia will reimburse Teck Cominco for land holding costs in 2004 and issue shares to Teck Cominco (see below). Upon Franconia completing \$2,000,000 in expenditures on the property, Teck Cominco will have a one-time option to elect to back-in to a 70% interest in the Red Knoll property by spending \$5,000,000. If Teck Cominco does not exercise its back-in right, it will have no further rights to the property except for a 2% NSR royalty. Franconia will have the right to reduce the royalty to 1% by paying Teck Cominco \$1,500,000. The agreement calls for Franconia to issue to Teck Cominco 150,000 units of Franconia at a deemed price of Cdn \$0.40 per unit. Each unit will consist of one common share of the Corporation and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of Cdn \$0.60 at any time prior to 5:00 p.m. Toronto time on the earlier of: a) 15 trading days after receiving notice from the Corporation that the weighted average price of the Common Shares has been equal to or greater than Cdn \$0.70 for a period of 15 consecutive trading days; or b) two years from the date of issue of the units. Franconia will also issue an additional 100,000 units to Teck Cominco on each anniversary date during the term of the option. Land holding costs are estimated to be \$48,000 per year.

Results of Operations

Three Months Ended June 30, 2006

Franconia's operations in the three months to June 30, 2006 were focused on exploration and financing. The Company did not generate any operating revenue. The Company's net loss decreased to (\$103,669) for the second quarter 2006 from (\$127,973) for the first quarter 2006 primarily due to lower general and administrative expenses resulting from less time and money being devoted to financing activities compared with a (restated) loss of (\$417,734) the same quarter of the previous year, which included compensation expense of \$346,023 related to stock and compensation options granted.

Summary of Results

The following tables set out financial performance highlights for the last eight quarters and were prepared in accordance with Canadian GAAP:

	2nd Quarter June 30, 2006	1st Quarter March 31, 2006	4th Quarter December 31, 2005	3rd Quarter September 30, 2005
General administration	\$ 109,486	\$ 127,973	\$ 86,766	\$ 118,198
General exploration	713	0	53,107	0
Compensation expense	0	0	346,023	0
Net income (loss)	(103,669)	(127,973)	(509,396)	(107,578)

	2nd Quarter June 30, 2005	1st Quarter March 31, 2005	4th Quarter December 31, 2004	3rd Quarter September 30, 2004
General administration	\$ 92,760	\$ 141,783	214,846	24,175
General exploration	0	0	(307,353)	0
Compensation expense	0	0	44,326	0
Net income (loss)	(71,711)	(175,457)	31,687	34,740

Six Months to June 30, 2006

Franconia's operations in the six months to June 30, 2006 were focused on exploration and financing. The Company did not generate any operating revenue. The Company's net loss decreased to (\$231,642) for the first six months of 2006 from (\$593,192) for the same period in 2005 primarily due to compensation expense of \$346,023 related to stock and compensation options granted.

Summary of Results

The following tables set out financial performance highlights for the first half of 2006 and 2005 and were prepared in accordance with Canadian GAAP:

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
General administration	\$ 237,459	\$ 234,543
General exploration	713	0
Compensation expense	0	346,023
Net income (loss)	(231,642)	(593,192)

Liquidity and Capital Resources

At June 30, 2006, Franconia reported working capital of \$1,786,182 (\$412,238 at March 31, 2006 and working deficit of (\$316,280) at December 31, 2005). Cash & cash equivalents were \$2,270,206 at June 30, 2006 (\$700,572 at March 31, 2006 and \$97,675 at December 31, 2005.)

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

Except as disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions

(a) Transactions with a director and companies controlled by a director

The Company has entered into various agreements with a director and companies controlled by that director, regarding the Birch Lake properties, and consulting and administration services. This director holds certain mining claims and leases in respect of the Birch Lake properties in trust for the Company.

Transactions between the Company and the director and companies controlled by him were as follows:

- (i) Land acquisition and maintenance costs \$94,832
- (ii) Administrative costs \$24,080
- (iii) Consulting fees \$13,585

(b) Other Transactions

- (i) Legal fees incurred with a director's law firm \$14,419
- (ii) Consulting fees paid to the Company's president totaled \$9,900
- (iii) Consulting fees paid to a director \$2,250

Consultant Contracts and Ongoing Commitments

- (a) The Company has entered into one year consulting contracts, automatically renewable annually, with five consultants who are also shareholders or directors of the Company. These agreements provide for a consulting fee of US\$450 per day and reimbursement of expenses. If these Agreements are terminated by the Company, without cause, the consultants will receive severance pay from the Company in amounts ranging from \$50,000 to \$100,000 to a maximum of \$400,000 in total. In addition, the Company will cancel any previously issued share options held by the consultants which are not exercised within the 30 days of the termination by payment to the consultants of the amount equal to the difference between the exercise price of the options and the average closing price of the common shares on the relevant stock exchange or trading platform during the previous 30 days.

(b) Other

In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, operating agreements, leasing agreements, asset use agreements etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

Costs Related to Issuance of Stock Options

The Company has a stock option plan available to employees, directors, officers and consultants with grants under the Plan approved from time to time by the Board of Directors. (See Note 5(e) in the 2005 Audited Consolidated Financial Statements.) The Company has recorded \$428,022 compensation expense for the stock options granted to directors, employees and consultants in 2005 using the fair-value method

with the following assumptions: volatility of 62-87%; risk-free interest rate of 4%; dividend yield of Nil; and expected life of 2 to 5 years. The 1,900,000 options issued in 2005 had a fair value on grant date of approximately \$0.29. \$82,577 of this amount has been recorded as part of deferred acquisition and exploration costs.

Proposed Transactions

There are no material decisions by the board of directors of the Company with respect to any imminent or proposed transactions that have not been disclosed.

Critical Accounting Estimates

Interests in Mining Properties and Deferred Exploration Expenditures

In accordance with the Company's accounting policies, acquisition costs and exploration expenditures relating to mineral properties are deferred until the properties are brought into commercial production or disposed.

Amortization will commence when a property is put into commercial production. As the Company does not currently have any properties in commercial production, no amortization has been recorded. (See "Deferred Acquisition and Exploration Costs" below.)

Mineral reserve and mineral resource estimates are not precise and also depend on statistical inferences drawn from drilling and other data, which may prove to be unreliable. Future production could differ from mineral resource estimates for the following reasons:

- (a) Mineralization or formation could be different from those predicted by drilling, sampling and similar tests;
- (b) The grade of mineral resources may vary from time to time and there can be no assurance that any particular level of recovery can be achieved from the mineral resources; and
- (c) Declines in the market prices of contained minerals may render the mining of some or all of the Company's mineral resources uneconomic.

Any of these factors may result in impairment of the carrying amount of interests in mining properties or deferred exploration expenditures.

Summary of Significant Accounting Policies

Significant Accounting Policies

The significant policies and methods of computation follow that of the most recent annual consolidated financial statements. The disclosures provided below are incremental to those included in the annual consolidated financial statements.

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Franconia Minerals Corporation (US) Inc.

The Company is engaged in the acquisition, exploration and development of mineral properties. Deferred acquisition costs include amounts paid under option and farm in agreements as well as lease payments under property leases. Deferred exploration costs such as topographical, geochemical, geophysical studies,

and costs for drill testing are capitalized and carried at cost until the properties to which they relate are placed into production, sold or where management has determined there to be a permanent impairment in value. These costs may also include indirect administrative fees and office costs being incurred for these properties. The Company expenses all general explorations costs as incurred.

The Company reviews and evaluates the recoverability of the carrying amounts of all its non-producing properties annually based on management's intentions and are written down when the long-term expectation is that the net carrying amount will not be recovered. The costs relating to a property are written off when the decision to abandon the property is made. Proceeds from disposition of mineral properties are normally credited to the capitalized costs with no gain or loss being recognized unless the sale is significant to the capitalized property costs. For such significant dispositions, a gain or loss would be recognized. In addition, if there has been a delay in development activity for several successive years, a write-down of those project-capitalized costs will be charged to income.

Most of the Company's mining operations are in United States Dollars. The Company's operations outside of the United States are primarily in Canada conducted in Canadian Dollars. Because only limited operations are conducted in Canadian Dollars, the Company adopted the United States Dollar as its reporting currency.

Accordingly, the consolidated financial statements have been prepared on that basis. All numbers reported in these consolidated financial statements are stated in United States Dollars unless otherwise denoted.

Changes in Accounting Policies

There were no changes to accounting policies in the most recent period.

Financial and Other Instruments

The Company has not made use of any hedging or other financial instruments, and is not exposed to significant interest rate nor credit risks arising from its financial instruments.

Risk Considerations

Franconia's business of exploring for mineral resources involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company continues to develop and explore its mineral properties and has not yet determined whether these properties contain mineral resources that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production of proceeds from disposition of the mineral properties. There are no guarantees that such conditions will be met. The amounts shown as mineral properties represent net costs to date, less amounts written off and do not necessarily represent present or future values.

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property titles may be subject to unregistered prior agreements, transfers or native land claims and title may be affected by unasserted claims.

The Company's consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company had a \$323,280 working capital deficiency at December 31, 2005. The Company will require additional funds to enable the Company to continue to acquire and explore mineral properties. While management has been successful in the past attracting financing, there is no assurance that sufficient funds will be raised in the future. Subsequent to year end, the Company raised \$1,097,271 (Cdn\$1,316,738) in new equity issues and conversion of warrants, which will be used to fund the company's mineral property commitments (Note 6 of the Consolidated Financial Statements) and working capital requirements. The consolidated financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern.

Going Concern Assumption

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for

the foreseeable future. The Company had working capital of \$1,786,182 at June 30, 2006. The Company will require additional funds to enable the Company to continue to acquire and explore mineral properties. While management has been successful in the past attracting financing, there is no assurance that sufficient funds will be raised in the future.

Disclosure Controls and Procedures

Management has ensured that there are disclosure controls and procedures which provide reasonable assurance that material information relating to the Company is disclosed on a timely basis particularly information relevant to the period in which annual filings are being prepared. Management believes these disclosure controls and procedures have been effective during the three month period ended June 30, 2006.

Other

Deferred Acquisition and Exploration Costs

For a break-down of Deferred Acquisition and Exploration Costs, refer to note 4 of the unaudited consolidated financial statements of operations and deficit and cash flows and related notes for the three month period ended June 30, 2006.

Deferred acquisition costs include amounts paid under option and farm in agreements as well as lease payments under property leases. Deferred exploration costs such as topographical, geochemical, geophysical studies, and costs for drill testing are capitalized and carried at cost until the properties to which they relate are placed into production, sold or where management has determined there to be a permanent impairment in value. These costs may also include indirect administrative fees and office costs being incurred for these properties. The Company expenses all general explorations costs as incurred.

The Company reviews and evaluates the recoverability of the carrying amounts of all its non-producing properties annually based on management's intentions and are written down when the long-term expectation is that the net carrying amount will not be recovered. The costs relating to a property are written off when the decision to abandon the property is made. Proceeds from disposition of mineral properties are normally credited to the capitalized costs with no gain or loss being recognized unless the sale is significant to the capitalized property costs. For such significant dispositions, a gain or loss would be recognized. In addition, if there has been a delay in development activity for several successive years, a write-down of those project-capitalized costs will be charged to income.

Additional Information

Additional information relating to the Company is available on the Internet at the SEDAR website located at www.sedar.com and at www.franconiaminerals.com.

Disclosure of Outstanding Share Data

The Company is a public company listed on the Ofex, Europe's independent public market for small to medium enterprises. Effective January 12, 2005, the Company was also listed on the TSX Venture Exchange.

As at June 30, 2006, the Company had the following outstanding securities:

- 1) 37,284,570 common shares issued.
- 2) Warrants to purchase 2,022,763 common shares at \$0.23 (Cdn\$0.25) to \$0.54 (Cdn\$0.60).
- 3) Options to purchase 2,650,000 common shares at \$0.24 (Cdn\$0.29) to \$0.34 (Cdn\$0.42).
- 4) Agent and other options to purchase 212,750 common shares at \$0.32 (Cdn\$0.40) to \$0.33 (Cdn\$0.40).