

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Franconia Minerals Corporation for the three month and six month periods ended March 31, 2007 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 auditors.

Dated May 29, 2007

/s/ Brian Gavin

Brian Gavin
President

Franconia Minerals Corporation

(an exploration stage company)

Consolidated Balance Sheets

U.S. dollars

(Unaudited - Prepared by management)

| | March 31 | September 30 |
|--|----------------------|---------------------|
| | 2007 | 2006 |
| ASSETS | | |
| Current | | |
| Cash and equivalents | \$ 2,174,872 | \$ 857,741 |
| Prepaid expense | <u>238,218</u> | <u>86,365</u> |
| | 2,413,090 | 944,106 |
| Deferred acquisition and exploration costs (Note 2) | 8,619,422 | 4,845,029 |
| | <u>\$ 11,032,512</u> | <u>\$ 5,789,135</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 385,347 | \$ 372,488 |
| Asset retirement obligations | <u>25,000</u> | <u>25,000</u> |
| | 410,347 | 397,488 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 3) | 14,183,550 | 8,915,822 |
| Contributed surplus (Note 3) | 2,071,273 | 539,026 |
| Deficit accumulated during exploration stage | <u>(5,632,657)</u> | <u>(4,063,201)</u> |
| | 10,622,166 | 5,391,647 |
| | <u>\$ 11,032,513</u> | <u>\$ 5,789,135</u> |

Approved on behalf of the Board:

/s/ Brian Gavin

Brian Gavin

/s/ Allan J. Marter

Allan J. Marter

*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

(an exploration stage company)

Consolidated Statements of Operations and Deficit

For The Six Months Ended March 31, 2007 And March 31, 2006

U.S. dollars

(Unaudited - Prepared by management)

| | Three months ended March 31 | | Six months ended March 31 | |
|--|--------------------------------|-----------------------|------------------------------|-----------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Expenses | | | | |
| General administration | \$ (152,625) | \$ (127,973) | \$ (1,550,616) | \$ (432,788) |
| General exploration | - | - | (131) | (53,107) |
| Write off deferred acquisition and exploration costs | (6,008) | - | (18,708) | (25,089) |
| Loss from operations | (158,634) | (127,973) | (1,569,456) | (510,984) |
| Other income (expenses) | - | - | - | 1,590 |
| Net loss for period | (158,634) | (127,973) | (1,569,456) | (509,394) |
| Deficit accumulated during exploration stage | | | | |
| Beginning of period | (5,474,023) | (2,380,438) | (4,063,201) | (1,871,044) |
| End of period | \$ <u>(5,632,657)</u> | \$ <u>(2,508,411)</u> | \$ <u>(5,632,657)</u> | \$ <u>(2,380,438)</u> |
| Loss per share | \$ (0.00) | \$ (0.01) | \$ (\$0.03) | \$ (\$0.02) |
| Weighted average common shares outstanding | 43,422,353 | 26,400,429 | 42,114,154 | 22,614,923 |

*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

(an exploration stage Company)

Consolidated Interim Statements of Cash Flows

For The Six Months Ended March 31, 2007 And March 31, 2006

U.S. dollars

(Unaudited - Prepared by management)

| | Three months ended March 31 | | Six months ended March 31 | |
|---|--------------------------------|--------------------------|------------------------------|-------------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Cash flows from (used in) operating activities | | | | |
| Net (loss) for the period | \$ (158,634) | \$ (127,973) | \$ (1,569,456) | \$ (509,394) |
| Items not involving cash: | | | | |
| Write off deferred costs | 6,008 | - | 18,708 | 25,089 |
| Non-cash services | | | | |
| Stock-based compensation | 12,935 | - | 1,102,476 | 346,023 |
| Changes in non-cash working capital balances: | | | | |
| Prepaid expenses | 3,396 | 10,499 | (151,853) | 13,846 |
| Accounts payable | (147,408) | (143,120) | 12,860 | 48,404 |
| | <u>(283,702)</u> | <u>(260,594)</u> | <u>(587,265)</u> | <u>(76,032)</u> |
| Cash flows from (used in) financing activities | | | | |
| Funds held in trust | - | - | - | 211,250 |
| Issue of share capital, net of share issue costs | 289,424 | 1,202,092 | 5,302,976 | (245,558) |
| | <u>289,424</u> | <u>1,202,092</u> | <u>5,302,976</u> | <u>(34,308)</u> |
| Cash flows from (used in) investing activities | | | | |
| Asset retirement obligations | - | - | - | - |
| Payments for deferred acquisition and exploration costs | (1,774,013) | (338,601) | (3,398,580) | 109,631 |
| | <u>(1,774,013)</u> | <u>(338,601)</u> | <u>(3,398,580)</u> | <u>109,631</u> |
| Increase (decrease) in cash and equivalents | (1,768,291) | 602,897 | 1,317,131 | (709) |
| Cash and equivalents, beginning of period | 3,943,163 | 97,675 | 857,741 | 98,384 |
| Cash and equivalents, end of period | \$ <u>2,174,872</u> | \$ <u>700,572</u> | \$ <u>2,174,872</u> | \$ <u>97,675</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
(An exploration stage Company)
Notes to Consolidated Financial Statements
For The Six Months Ended March 31, 2007
U.S. dollars
(Unaudited - Prepared by management)

1. Nature and continuance 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, and effective January 12, 2005, the Company was listed on the TSX Venture Exchange. The Company is in the exploration stage devoting substantially all of its efforts to 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 or 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 accompanying interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include the assets, liabilities and operations of the Company and its wholly-owned subsidiaries. They have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support from its creditors, complete public equity financings or generate profitable operations in the future.

These interim financial statements do not contain all the information required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the most recent audited financial statements and notes thereto contained in our Audited Financial Statements for the period ended September 30, 2006 available at www.sedar.com. The significant policies and methods of computation follow that of the most recent annual consolidated financial statements, except as modified for appropriate interim presentation. The disclosures provided in the notes below are incremental to those included in the audited financial statements. These interim financial statements are unaudited but, in the opinion of management, include all adjustments, consisting only of normal recurring items, necessary for a fair presentation. Interim results are not necessarily indicative of results which may be achieved in the future.

| | March 31 2007 | September 30 2006 |
|-----------------|------------------|----------------------|
| Working Capital | \$ 2,127,099 | \$ 571,618 |
| Deficit | \$ (5,533,501) | \$ (4,063,201) |

Franconia Minerals Corporation
(An exploration stage Company)
Notes to Consolidated Financial Statements
For The Six Months Ended March 31, 2007
U.S. dollars
(Unaudited - Prepared by management)

2. Deferred acquisition and exploration costs

| | | Total | Birch Lake | Mahoney | San Francisco | Red Knoll |
|--------------------|--------------|---------------------|---------------------|-------------|------------------|---------------------|
| September 30, 2005 | | \$ 2,569,025 | \$ 1,975,494 | \$ 178,483 | \$ 389,483 | \$ 25,565 |
| | Expenditures | | | | | |
| | Acquisition | 276,321 | 188,597 | - | - | 87,724 |
| | Exploration | 161,804 | 145,943 | 9,601 | 3,555 | 2,705 |
| | Abandoned | - | | | | |
| December 31, 2005 | | 3,007,150 | 2,310,034 | 188,084 | 393,038 | 115,994 |
| | Expenditures | | | | | |
| | Acquisition | 633,707 | 287,027 | 241,295 | 27,000 | 78,385 |
| | Exploration | 2,432,069 | 1,875,624 | 7,166 | 371,314 | 177,965 |
| | Abandoned | (1,227,897) | - | (436,545) | (791,352) | - |
| September 30, 2006 | | 4,845,029 | 4,472,685 | - | - | 372,344 |
| | Expenditures | | | | | |
| | Acquisition | 660,100 | 460,029 | - | - | 200,071 |
| | Exploration | 3,133,002 | 2,443,242 | 6,188 | 12,521 | 671,051 |
| | Abandoned | (18,709) | - | (6,188) | (12,521) | - |
| March 31, 2007 | | \$ <u>8,619,422</u> | \$ <u>7,375,956</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>1,243,466</u> |

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. BBJV's property is known as the Duluth Complex in the state of Minnesota.

On October 27, 2003, the Company exercised its option to enter into the BLJV Agreement to acquire up to an 82% interest in BBJV. Under the terms of the option agreement, the Company made a payment of \$35,000 and issued 546,144 common shares at a deemed price of \$0.20 (Cdn. \$0.30) per share. In 2006, certain amendments to the BLOA expanded the area of interest to include the American Copper & Nickel Company Inc. ("ACNC") lands (see note 5(b)) and modified the terms of the BLJV.

To acquire an undivided 60% legal and beneficial interest in the project, the Company must have:

- (i) Incurred \$10,000,000 in cumulative exploration expenditures as follows:
 - a. Total of \$2,000,000 no later than January 2, 2008 (completed); and
 - b. Complete the total of \$10,000,000 no later than January 2, 2010.

Franconia Minerals Corporation
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Notes to Consolidated Financial Statements
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U.S. dollars
(Unaudited - Prepared by management)

2. Deferred acquisition and exploration costs (continued)

(ii) Paid an aggregate of \$6,000,000 in cash and stock payments as follows:

| <u>Dates</u> | <u>Cash</u> | <u>In Shares</u> |
|-----------------------------------|---------------------|---------------------|
| October 27, 2003 (Effective Date) | \$ 150,000 * | \$ 125,000 * |
| December 17, 2004/March 1, 2006 | 50,000 * | 125,000 * |
| On/before April 15, 2006 | 100,000 * | - * |
| On/before June 30, 2006 | 50,000 * | 125,000 * |
| On/before January 2, 2007 | 175,000 * | 150,000 * |
| On/before January 2, 2008 | 225,000 | 225,000 |
| On/before January 2, 2009 | 250,000 | 250,000 |
| On/before January 2, 2010 | 3,000,000 | 1,000,000 |
| Total | \$ <u>4,000,000</u> | \$ <u>2,000,000</u> |

* Completed

The number of Company shares to be issued will be calculated using the weighted average trading price of the Company's shares converted to U.S. dollars for the month immediately preceding the month in which the payment is made.

With the foregoing conditions met, the Company will have the option to enter into a joint venture with BBJV. To comply with the terms of that future agreement, the Company will need to contribute to the joint venture its 60% of required expenditures plus an additional 20% of required expenditures. The additional 20% will be recoverable by payment to the Company of 70% of the cash flow from commercial production until 100% of such amounts, including interest, have been recovered by the Company.

To acquire an undivided 70% legal and beneficial interest in the project, the Company must incur an additional \$10,000,000 in work expenditures in a period of five years subsequent to initial conditions being met. The Company will be said to have a 70% interest in the project with a final payment of \$1,000,000 being made to BBJV. The Company will need to contribute to the joint venture its 70% of required expenditures plus an additional 15% of required expenditures. Again, the additional 15% paid will be recoverable by payment to the Company of 70% of the cash flow from commercial production until 100% of such amounts, including interest, have been recovered by the Company.

On completion of the additional \$10,000,000, the Company will have a one-time option period of 90 days to provide a guarantee that it will fund 100% of the costs associated with the project. The Company will then be said to have a vested 82% interest in the project. Similarly, additional costs paid on behalf of or related to BBJV will be recoverable by payment to the Company of 60% of the cash flow from commercial production until 100% of such amounts, including interest, have been recovered by the Company.

(b) American Copper & Nickel Company Inc. - Birch Lake

On December 22, 2003, Lehmann Exploration Management, a company controlled by a shareholder and officer, as operator of BBJV, entered into a binding letter of intent to acquire from ACNC, a wholly owned subsidiary of INCO, two federal leases covering 4,864.78 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 U.S. 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 Beaver Bay and are subject to the earn-in agreement in favor of the Company. In 2005, ACNC was reimbursed for land holding costs since acquisition by issuing 395,821 of the common shares of the Company for a deemed value of \$114,708 (Cdn \$0.36 per common share).

Franconia Minerals Corporation
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Notes to Consolidated Financial Statements
For The Six Months Ended March 31, 2007
U.S. dollars
(Unaudited - Prepared by management)

2. Deferred acquisition and exploration costs (continued)

(c) Red Knoll Project

In 2005, the Company signed a Property Acquisition Agreement with TCAI regarding the 8,000-acre Red Knoll property in Graham County, Arizona. Under the terms of the Agreement, the Company will earn a 100% interest in TCAI'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 the Company in the first year. In addition, the Company will reimburse TCAI for land holding costs in 2004 and issue shares to TCAI (see Note 6). Upon the Company completing \$2,000,000 in expenditures on the property, TCAI 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 TCAI does not exercise its back-in right, it will have no further rights to the property except for a 2% NSR. The Company will have the right to reduce the royalty to 1% by paying TCAI \$1,500,000. The Agreement calls for the Company to issue to TCAI 150,000 units of the Company at a deemed price of Cdn \$0.40 per unit. Each unit will consist of one common share of the Company 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 the earlier of (a) 15 trading days after receiving notice from the Company 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 (Note 6(c) (iii)). The Company will also issue an additional 100,000 units to TCAI on each anniversary date during the term of the option. Land holding costs are estimated to be \$48,000 per year.

In 2006, the Company complied with the requirement of a minimum expenditure of \$200,000 in the first year of the contract.

3. Share capital

(a) Authorized

Unlimited number of common shares
Unlimited number of preferred shares issuable in series

(b) Issued

| Common Shares | <u>Number</u> | | <u>Amount</u> |
|-------------------------------|--------------------------|-----------|--------------------------|
| Balance, December 31,2005 | 23,279,385 | \$ | 4,317,596 |
| Warrants exercised | 8,767,865 | | 3,139,813 |
| Private Placement | 6,388,888 | | 1,071,250 |
| Property Acquisitions | 350,000 | | 264,495 |
| Stock options exercised | 195,000 | | 52,380 |
| Contributed surplus transfer | - | | 83,152 |
| Share issue costs | - | | (12,864) |
| Balance, September 30,2006 | <u>38,981,138</u> | \$ | <u>8,915,822</u> |
| Warrants exercised | 246,050 | | 120,702 |
| Private Placement | 4,137,932 | | 5,280,001 |
| Property Acquisitions | 113,359 | | 150,000 |
| Stock Options exercised | 120,000 | | 42,424 |
| Contributed Surplus transfer | - | | 88,459 |
| Share Issue costs | - | | (413,858) |
| Balance, March,31 2007 | <u>43,598,479</u> | \$ | <u>14,183,550</u> |

Franconia Minerals Corporation
(An exploration stage Company)
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U.S. dollars
(Unaudited - Prepared by management)

3. Share capital (continued)

Effective January 15, 2007, CIBC Mellon Trust Company ("CIBC Mellon") had become the Corporation's principal transfer agent and registrar of the Corporation's common shares in Canada and the United Kingdom. As part of the Corporation's withdrawal from the PLUS Market (formerly OFEX) in the United Kingdom (last trading day December 29, 2006.), CIBC Mellon replaced and takes over the role of Capita IRG Plc.

(c) Common shares issued

(i) Private placements

The Company completed a non-brokered private placement financing of \$5,280,001 (Cdn \$6,000,001) in November 2006 through the issuance of units at \$1.30 (Cd. \$1.45) per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of \$1.66 (Cdn \$1.85) at any time prior to the earlier of (a) the date that is 15 trading days after receiving notice from the Company that the weighted average price of the common shares on the TSX Venture Exchange or TSX Exchange has been equal to or greater than \$2.69 (Cdn \$3.00) for a period of 15 consecutive trading days commencing at least 120 days after the date of issuance of the warrants; and (b) May 20, 2008. The common shares and warrants to be issued on exercise of the warrants are subject to a four month and one day hold period which expired March 21, 2007. The Company paid fin'er's fees in cash equal to 6% of the gross proceeds and issued brokers warrants equal to 6% of the units issued. The broker warrants have terms identical to the warrants issued pursuant to the unit offering and are subject to the same hold period.

(ii) Warrant exercises

During the six months ended March 31, 2007, 246,050 warrants were exercised and 242,895 expired.

(iii) Property acquisition

In February 2007, the Company issued 113,359 shares to BBJV, an entity managed and operated by a company controlled by a director and shareholder, at \$1.32 per share for total costs of \$150,000 in accordance with the terms of agreement on the Birch Lake properties.

(d) Warrants

The following table summarizes information about warrants outstanding at September 30, 2006 and March 31, 2007:

| Expiry Date | Price | Outstanding September 30 2006 | Issued | Exercised | Expired | Outstanding March 31 2007 |
|-------------------|--------------|-------------------------------------|------------------|------------------|------------------|---------------------------------|
| December 14, 2006 | \$ 0.24-0.48 | 284,820 | - | (46,050) | (238,770) | - |
| January 10, 2007 | \$ 0.32 | 4,125 | - | - | (4,125) | - |
| June 9, 2007 | \$ 0.54 | 50,000 | - | - | - | 50,000 |
| January 20, 2008 | \$ 0.54 | 75,000 | - | (75,000) | - | - |
| April 12, 2008 | \$ 0.51 | 125,000 | - | (125,000) | - | - |
| May 20, 2008 | \$ 1.57 | - | 2,281,043 | - | - | 2,281,043 |
| | | <u>538,945</u> | <u>2,281,043</u> | <u>(246,050)</u> | <u>(242,895)</u> | <u>2,331,043</u> |

Franconia Minerals Corporation
(An exploration stage Company)
Notes to Consolidated Financial Statements
For The Six Months Ended March 31, 2007
U.S. dollars
(Unaudited - Prepared by management)

3. Share capital (continued)

(e) Options

The Company has granted stock options to directors, officers and consultants of the Company as follows:

| Date | Expiry | September 30 | | | March 31 | Exercise |
|----------------|-------------|------------------|----------------|------------------|------------------|----------------|
| <u>Granted</u> | <u>Date</u> | <u>2006</u> | <u>Granted</u> | <u>Exercised</u> | <u>2007</u> | <u>Price</u> |
| 8/19/04 | 8/19/09 | 735,000 | | 120,000 | 615,000 | \$ 0.32 |
| 04/15/05 | 04/15/07 | 50,000 | | | 50,000 | \$ 0.34 |
| 04/15/05 | 04/15/10 | 1,670,000 | | | 1,670,000 | \$ 0.34 |
| 11/23/06 | 11/23/11 | | 1,530,500 | | 1,530,500 | \$ 1.23 |
| | | <u>2,455,000</u> | <u>-</u> | <u>120,000</u> | <u>3,865,500</u> | <u>\$ 0.69</u> |

| Date | Expiry | December 31 | | | September 30 | Exercise |
|----------------|-------------|------------------|----------------|------------------|------------------|----------------|
| <u>Granted</u> | <u>Date</u> | <u>2005</u> | <u>Granted</u> | <u>Exercised</u> | <u>2006</u> | <u>Price</u> |
| 8/19/04 | 8/19/09 | 750,000 | | 15,000 | 735,000 | \$ 0.32 |
| 04/15/05 | 04/15/07 | 50,000 | | | 50,000 | \$ 0.34 |
| 04/15/05 | 04/15/10 | 1,670,000 | | | 1,670,000 | \$ 0.34 |
| 08/02/05 | 08/02/10 | 180,000 | | 180,000 | - | \$ 0.32 |
| | | <u>2,650,000</u> | <u>-</u> | <u>195,000</u> | <u>2,455,000</u> | <u>\$ 0.33</u> |

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 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 five years.

The fair value of stock options is determined at the date of grant and the amount is charged to operations over the vesting period of the options.

The Company has recorded \$1,496,999 compensation expense for the stock options granted to directors, officers and consultants in the six months ended March 31, 2007 using the fair value method with the following assumptions: volatility of 122%; risk-free interest rate of 3.89%; dividend yield of Nil; and expected life of five years. Of this amount, \$394,523 has been recorded as part of deferred acquisition and exploration costs.

Stock options vested immediately, except 38,805 options that vest over a one-year period, with one-quarter vesting immediately, and one-quarter every three months thereafter.

As at March 31, 2007, 3,865,500 options were outstanding.

(f) Agent and other options

In the six months ended March 31, 2007, the Company recorded \$123,707 in share issue costs for options granted to agents using the fair value method with the following assumptions: volatility of 122%; risk-free interest rate of 3.89%; dividend yield of Nil; and expected life of two years.

The outstanding balances have been included in the schedule of warrants outstanding.

Franconia Minerals Corporation
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Notes to Consolidated Financial Statements
For The Six Months Ended March 31, 2007
U.S. dollars
(Unaudited - Prepared by management)

3. Share capital (continued)

(g) Contributed surplus

Contributed surplus increased in connection with the recognition of compensation cost relating to stock options.

Contributed surplus is decreased when those stock options are exercised.

| | Six months ended March 31 2007 | Nine months ended September 30 2006 |
|------------------------------------|---|--|
| Contributed surplus, beginning | \$ 539,026 | \$ 521,993 |
| Stock-based compensation expense | 1,620,706 | 100,185 |
| Reallocated on exercise of options | <u>88,459</u> | <u>(83,152)</u> |
| Contributed surplus, ending | <u>\$ 2,248,191</u> | <u>\$ 539,026</u> |

4. 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 that 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 that director were as follows:

- (i) Consulting fees charged in the six months totaled \$39,438 (six months ended March 31, 2006 - \$10,929). These fees have been included in deferred acquisition and exploration costs.
- (ii) Land costs reimbursed in respect of Birch Lake totaled \$278,604 (six months ended March 31, 2006 - \$47,002).
- (iii) Administrative costs reimbursed totaled \$42,130 (six months ended March 31, 2006 - \$17,208).

Of the above amounts, a total of \$10,645 (2006 - \$4,734) is included in accounts payable at March 31, 2007.

(b) Other transactions

- (i) Legal fees paid to a director's law firm totaled \$28,884 during the six months (six months ended March 31, 2006 - \$35,862). With the exception of legal costs included in share issue costs, these fees are included in general administration.
- (ii) Consulting fees paid to the Company's president totaled \$54,000 during the six months (six months ended March 31, 2006 - \$17,648). These costs have been included in general administration.

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.

Franconia Minerals Corporation

(An exploration stage Company)

Notes to Consolidated Financial Statements

For The Six Months Ended March 31, 2007

U.S. dollars

(Unaudited - Prepared by management)

5. Loss per share

The loss per share figures have been calculated using the weighted average number of common shares outstanding during the respective periods, which amounted to 42,114,154 for the six months ended March 31, 2007 (six months ended March 31, 2006 – 22,614,923). The effect of the conversion of all outstanding options and warrants would be anti-dilutive.

6. Consultant contracts and ongoing commitments

(a) Consulting contracts

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 \$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 that are not exercised within 30 days of 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 that contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, operating agreements, leasing agreements and asset use agreements. 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.

7. Subsequent events

Financial

(a) In April 2007, the Company completed a brokered private placement financing of Cdn\$11,736,403.20 by issuing 7,335,252 units at Cdn\$1.60 per unit.

Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of Cdn\$1.92 at any time prior to the earlier of:

1. 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 or the Toronto Stock Exchange has been equal to or greater than Cdn\$2.40 for a period of 15 consecutive trading days commencing on April 13, 2009; and
2. April 13, 2010. The units will be subject to a 4 month and one day hold period expiring August 14, 2007.

The net proceeds from the offering will be used for the Corporation's continued work on the pre-feasibility study on the Maturi-Birch Lake combined operation, other exploration programs and for general corporate purposes.

Northland Securities Inc, a full service broker dealer located in Minneapolis, Minnesota acted as agent in respect of the offering and will receive a commission in cash equal to 7% of the gross proceeds and non transferable brokers warrants equal to 10% of the units issued. The broker warrants will have an exercise price of Cdn\$1.92 and expire 24 months from the date of issue. The broker warrants are subject to a 4-month-and-one-day hold period expiring August 14, 2007.

(b) In April 2007, the Company completed a non-brokered private placement financing of Cdn\$6,000,000 by issuing 3,750,000 units at Cdn\$1.60 per unit. Each unit consisted of one common share and one-half common share purchase warrant.

7. Subsequent events (continued)

Each whole warrant entitles the holder to purchase one additional common share at an exercise price of Cdn\$1.92 at any time prior to the earlier of:

1. 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 or the Toronto Stock Exchange has been equal to or greater than Cdn\$2.40 for a period of 15 consecutive trading days commencing on April 30, 2009; and,
2. April 30, 2010.

The units will be subject to a 4 month and one day hold period expiring August 31, 2007. On a portion of the funds raised, the Corporation will pay a finder's fee in cash equal to 6% of that portion of the proceeds and issue warrants equal to 6% of that portion of the units issued. These warrants will have an exercise price of Cdn\$1.92 and expire 24 months from the date of issue. The common shares underlying the warrants are subject to a 4 month and one day hold period expiring August 31, 2007.

Operations

Subsequent to the period the Company announced the results of the Company's 2006/2007 core drilling program at the Red Knoll property in Graham County, Arizona. While ore-grade mineralization has not yet been encountered, all three drill holes intercepted host rocks with the potential for porphyry copper mineralization at depths ranging from 979 to 1782 feet. The Company believes these results warrant additional geophysical examination as well as further drilling in the area, particularly to the east. In addition, based on depths-to-Laramide, a number of geological targets have been identified that merit testing.

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 incurring 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.

The Company also provided a fourth progress report on the on-going 2006-2007 core-drilling program at Birch Lake, which indicated that the latest drilling intercepted mineralization that was both either similar to or of higher grade as well as considerably thicker than the average 75 foot thickness indicated in the latest resource estimate.

Franconia Minerals Corporation
Management Discussion and Analysis
for the three and six month periods ended March 31, 2007

This management discussion and analysis (MD&A) of results of operations and financial condition of Franconia Minerals Corporation (an exploration stage company) (Franconia or the Company) describes the operating and financial results of the Company for the three month and six month periods ended March 31, 2007. 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 and related notes for the three month and six month periods ended March 31, 2007, as well as the audited consolidated financial statements and related notes for the nine month period ended September 30, 2006 and the audited consolidated financial statements for fiscal 2005. The Company prepares and files its financial statements in accordance with Canadian generally accepted accounting principles.

The Company reports its financial results in U.S. 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 May 25, 2007.

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 TSX Venture Exchange and, until December 29, 2006, was listed on the PLUS market in London (formerly known as Ofex).

Franconia is an exploration 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 interests in mineral lands covering approximately 9,300 ha (23,000 acres) in two projects, in Minnesota and Arizona. 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 Birch Lake Project in Minnesota is an advanced-stage exploration project with an inferred mineral resource and its Red Knoll Project in Arizona is an early-stage exploration prospect.

Operational Activities

Birch Lake Project - 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 the Beaver Bay Joint Venture (BBJV), an entity related by virtue of common shareholders and a common director. BBJV's property is known as the Duluth Complex in the state of Minnesota. In 2006, certain amendments to the BLOA expanded the area of interest to include the American Copper & Nickel Company Inc. (ACNC) lands and modified the terms of the BLJV Agreement.

Under the terms of the amended agreement Franconia may earn up to an 82% interest in the Birch Lake and Maturi properties by making payments in cash and common shares to the BBJV, by completing work expenditures on the properties and by funding a project to commercial production. The term of the BLOA extends to January 2, 2010.

The cash payments to the BBJV total \$4,000,000 of which \$525,000 has been paid to date and the remaining \$3,475,000 is payable in installments through January 2, 2010. The Company has also issued a total of \$525,000 in shares to the BBJV to March 31, 2007. A further \$150,000 in shares was deemed issued on January 2, 2007 counting towards the total deemed value of \$2,000,000

of shares to be issued by January 2, 2010. The Company has to complete cumulative work expenditures of \$2,000,000 by no later than January 2, 2008 (completed) and complete a total of \$10,000,000 by no later than January 2, 2010. Franconia has expended approximately \$7,375,956 to March 31, 2007 on acquisition and exploration at Birch Lake.

With the foregoing conditions met, the Company will have the option to enter into a joint venture with BBJV. To comply with the terms of that future agreement, the Company will need to contribute to the joint venture its 60% of required expenditures plus an additional 20% of required expenditures. The additional 20% will be recoverable by payment to the Company of 70% of the cash flow from commercial production until 100% of such amounts, including interest, have been recovered by the Company.

To acquire an undivided 70% legal and beneficial interest in the project, the Company must incur an additional \$10,000,000 in work expenditures in a period of five years subsequent to initial conditions being met. The Company will be said to have a 70% interest in the project with a final payment of \$1,000,000 being made to BBJV. The Company will need to contribute to the joint venture its 70% of required expenditures plus an additional 15% of required expenditures.

Again, the additional 15% paid will be recoverable by payment to the Company of 70% of the cash flow from commercial production until 100% of such amounts, including interest, have been recovered by the Company.

On completion of the additional \$10,000,000, the Company will have a one-time option period of 90 days to provide a guarantee that it will fund 100% of the costs associated with the project. The Company will then have a vested 82% interest in the project. Similarly, additional costs paid on behalf of or related to BBJV will be recoverable by payment to the Company of 60% of the cash flow from commercial production until 100% of such amounts, including interest, have been recovered by the Company.

On June 26, 2006, the Company announced an 11,000 to 15,000-foot core drilling program at Birch Lake, the first phase of a two-phase program. In addition to providing data to improve the metallurgical processing, including the recovery of nickel from ore to concentrate, the program is helping to move the project towards final feasibility determination and with the State's environmental review and permitting process. Approximately 30% of the total 23-hole program was completed by May 25, 2007 and Franconia noted the most recent drilling has intercepted mineralization considerably thicker than the average 75 foot thickness of the deposit. Further, drilling continues to reveal mineralization that is generally similar to or higher than the average 0.59% copper, 0.19% nickel, 0.65 gram per tonne palladium, 0.32 g/t platinum and 0.14 g/t gold values already found in this 100.4-million-tonne inferred resource. Approximately 30% of the planned 23-hole 2006-2007 program has been completed. For example, hole BL06-05W3 intercepted 13.7 feet of 0.62% copper, 0.25% nickel plus 4.66 grams per tons of combined platinum, palladium and gold, the best overall mineralization found so far.

Birch Lake Resource Estimate

On October 3, 2006, the Company announced the completion of an independent updated resource estimate and preliminary economic assessment of the combined Birch Lake and Maturi inferred resources in Minnesota. Scott Wilson Roscoe Postle Associates, which prepared the estimate to NI 43-101 standards, considered:

- Development of a 100.4 million tonne resource at Birch Lake and development of an 83.1 million tonne resource at Maturi, 3 miles northeast of Birch Lake, both containing recoverable copper, nickel, cobalt, gold, platinum and palladium.
- Underground room and pillar mining (10,000 tonnes per day) at Birch Lake and underground long-hole transverse open stoping mining (8,000 tpd) at Maturi, flotation concentration and hydrometallurgical recovery with a combined annual production of 74 million lbs copper, 19 million lbs nickel, 2.9 million lbs cobalt, 7,400 oz gold, 33,000 oz platinum and 68,000 oz palladium over a 26-year mine life at Birch Lake and a 24-year mine life at Maturi. Material from Maturi would be transported to the Birch Lake site for concentration and hydrometallurgical recovery.
- Pre-production capital of \$616 million.
- Average operating cost of \$25.87/tonne.

All technical data have been reviewed by Brian Gavin, Franconia's president and an appropriately qualified person as defined by National Instrument 43-101.

Red Knoll Copper Project – Arizona

Subsequent to the period, on May 8, 2007, the Company released the results of its 2006/2007 core drilling program at 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. Drilling revealed a geochemical signature and hydrothermal alteration consistent with a copper porphyry system, and at a reasonable depth for mining. The three-hole, 6,862 foot program investigated three of four IP anomalies generated by a Titan 24 geophysical survey conducted by Quantec Geoscience in May of 2006. While ore-grade mineralization has not yet been encountered, all three drill holes intercepted host rocks with the potential for porphyry copper mineralization at depths ranging

from 979 to 1782 feet. Drilling also helped to identify several geological targets that warrant further examination.

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

In addition to the latest drilling expenditures, the Company complied with the requirement of a minimum expenditure of \$200,000 in 2006, the first year of the contract..

Financing Activities

On October 2, 2006, the Company reported that it had signed the final documentation with the State of Minnesota, which would provide a loan of between \$1.5- and 2.5-million to help develop the Company's Birch Lake Project. The funds are to be used for a two-phase technical development program aimed at advancing Birch Lake towards becoming a producing mine. 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. Under the terms of the loan, the State – through its two economic development entities, Iron Range Resources and the Department of Employment and Economic Development – will first lend \$0.2 million for work to be completed in 2006. Franconia will contribute matching funds of \$0.6 million for the same period. Further State funding of \$2.3 million will be matched against \$6.9 million from Franconia for work to be completed late in 2007 or the first quarter of 2008. In addition to the previously announced cash repayment terms, Franconia will issue the lender warrants to purchase one share of common stock of Franconia for each dollar advanced by the lender under the terms of the loan, at an exercise price equal to Cdn\$1.13. The warrants will have a term of three years.

On November 21, 2006, the Company announced that it had completed a non-brokered private placement financing for gross proceeds of Cdn\$6,000,001 through the issuance of units at Cdn\$1.45 per unit. Each unit consists of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of Cdn\$1.85 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 or TSX Exchange has been equal to or greater than Cdn\$3.00 for a period of 15 consecutive trading days commencing 120 days after the date of issuance of the warrants; and b) eighteen months from the date of issue. The net proceeds from the offering will be used for drilling at the Corporation's Red Knoll, Arizona copper target, a pre-feasibility study on Maturi-Birch Lake combined operation, and for general corporate purposes. The units were subject to a 4 month and one day hold period. The Corporation paid a finder's fee in cash equal to 6% of the gross proceeds and issue brokers warrants equal to 6% of the units issued. The broker warrants have terms identical to the warrants issued pursuant to the unit offering.

Subsequent Events – Financing

On April 13, 2007, the Company announced the completion of a brokered private placement financing of Cdn\$11,736,403.20 through the issuance of 7,335,252 units at Cdn\$1.60 per unit. Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of Cdn\$1.92 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 or the Toronto Stock Exchange has been equal to or greater than Cdn\$2.40 for a period of 15 consecutive trading days commencing on April 13, 2009; and b) April 13, 2010. The units will be subject to a 4 month and one day hold period expiring August 14, 2007.

On May 1, 2007, the Company announced that it had completed a non-brokered private placement financing of Cdn\$6,000,000 through the issuance of 3,750,000 units at Cdn\$1.60 per unit. Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of Cdn\$1.92 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 or the Toronto Stock Exchange has been equal to or greater than Cdn\$2.40 for a period of 15 consecutive trading days commencing on April 30, 2009; and b) April 30, 2010. The units will be subject to a 4 month and one day hold period expiring August 31, 2007. On a portion of the funds raised, the Corporation will pay a finder's fee in cash equal to 6% of that portion of the proceeds and issue warrants equal to 6% of that portion of the units issued. These warrants will have an exercise price of Cdn\$1.92 and expire 24 months from the date of issue. The common shares underlying the warrants are subject to a 4 month and one day hold period expiring August 31, 2007

In connection with the above private placement of units and subsequent related agreements and transactions, it was further announced that the Whitebox Entities, a Minneapolis, MN-based investment fund, were considered to have control or direction over an aggregate of 9,661,500 Common Shares, representing, in total, approximately 17.2% of the issued and outstanding Common Shares, based on a total of 56,238,500 Common Shares issued and outstanding calculated by including the number of

Common Shares that would be issued if all the warrants forming part of the 1,769,000 additional units so purchased were exercised.

Northland Securities Inc, a full service broker dealer located in Minneapolis, Minnesota acted as agent in respect of the offering and will receive a commission in cash equal to 7% of the gross proceeds and non transferable brokers warrants equal to 10% of the units issued. The broker warrants will have an exercise price of Cdn\$1.92 and expire 24 months from the date of issue. The broker warrants are subject to a 4 month and one day hold period expiring August 14, 2007.

The net proceeds from the above two offerings will be used for the Company's continued work on the pre-feasibility study on the Maturi-Birch Lake combined operation, other exploration programs and for general corporate purposes.

Corporate Changes

On November 17, 2006, the Company announced it had filed a notice in accordance with National Instrument 51-102 and had elected to change the date of its financial year-end from December 31 to September 30 starting with the financial period January 1, 2006 to September 30, 2006.

On November 20, 2006, Franconia announced its intention to withdraw from the PLUS market (formerly Ofex) in United Kingdom. Since no objection was received from shareholders, under the PLUS rules, the Company withdrew from this market on December 29, 2006.

On January 15, 2007, the Company announced that, effective January 15, 2007, CIBC Mellon Trust Company had become the Company's principal transfer agent and registrar of the Company's common shares in Canada and the United Kingdom. As part of the withdrawal from the PLUS Market in the United Kingdom, CIBC Mellon replaces and takes over the role of Capita IRG Plc.

On January 31, 2007, Franconia announced that Mr. George D. Tikkanen was formally appointed as Chairman of the Company's Board of Directors. Mr. Tikkanen, who has been a director of the Company since 2001, replaces Ernest K. Lehmann. Mr. Lehmann will remain as a director and will continue to assist Franconia as a technical, political and community affairs consultant.

Deferred Acquisition and Exploration Costs

| | | <u>Total</u> | <u>Birch Lake</u> | <u>Mahoney</u> | <u>San Francisco</u> | <u>Red Knoll</u> |
|-----------------------|-------------|----------------------------|----------------------------|--------------------|--------------------------|----------------------------|
| September 30, 2005 | | \$ 2,569,025 | \$ 1,975,494 | \$ 178,483 | \$ 389,483 | \$ 25,565 |
| Expenditures | Acquisition | 276,321 | 188,597 | - | - | 87,724 |
| | Exploration | 161,804 | 145,943 | 9,601 | 3,555 | 2,705 |
| Abandoned | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| December 31, 2005 | | 3,007,150 | 2,310,034 | 188,084 | 393,038 | 115,994 |
| Expenditures | Acquisition | 633,707 | 287,027 | 241,295 | 27,000 | 78,385 |
| | Exploration | 2,432,069 | 1,875,624 | 7,166 | 371,314 | 177,965 |
| Abandoned | | <u>(1,227,897)</u> | <u>-</u> | <u>(436,545)</u> | <u>(791,352)</u> | <u>-</u> |
| September 30, 2006 | | 4,845,029 | 4,472,685 | - | - | 372,344 |
| Expenditures | Acquisition | 660,100 | 460,029 | - | - | 200,071 |
| | Exploration | 3,133,002 | 2,443,242 | 6,188 | 12,521 | 671,051 |
| Abandoned | | <u>(18,709)</u> | <u>-</u> | <u>(6,188)</u> | <u>(12,521)</u> | <u>-</u> |
| March 31, 2007 | | <u>\$ 8,619,422</u> | <u>\$ 7,375,956</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,243,466</u> |

Results of Operations

Three months ended March 31, 2007

Franconia's operations in the three months to March 31, 2007 were focused on exploration (primarily on the Birch Lake Project as well as at Red Knoll, Arizona) and on its financing activities. The Company did not generate any operating revenue in the quarter. The Company's net loss for the quarter was \$(59,278) compared with a net loss of \$(1,410,822) in the previous quarter and with a net loss of \$(127,973) for the quarter ended March 31, 2006.

Summary of Results

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

| | 2 nd Quarter March 31, 2007 | 1 st Quarter December 31, 2006 | 3 rd Quarter* September 30, 2006 | 2 nd Quarter June 30, 2006 |
|---|--|---|---|---|
| General administration | \$ 53,369 | \$ 1,397,992 | \$ 214,695 | \$ 109,486 |
| General exploration | - | 131 | - | 713 |
| Stock-based compensation expense (now included in general administration) | - | - | - | - |
| Net income/(loss) | \$ (59,278) | \$ (1,410,822) | \$ (1,451,121) | \$ (103,669) |

| | 1 st Quarter March 31, 2006 | 4 th Quarter December 31, 2005 | 3 rd Quarter September 30, 2005 | 2 nd Quarter June 30, 2005 |
|----------------------------------|--|---|--|---|
| General administration | \$ 127,973 | \$ 86,766 | \$ 118,198 | \$ 92,760 |
| General exploration | - | 53,107 | - | - |
| Stock-based compensation expense | - | 346,023 | - | - |
| Net income (loss) | \$ (127,973) | \$ (509,396) | \$ (107,578) | \$ (71,711) |

Six Months to March 31, 2007

Franconia's operations in the six months to March 31, 2007 were focused on exploration and financing. The Company did not generate any operating revenue. The Company's net loss increased to \$(1,470,100) for the first six months of fiscal 2007 from \$(509,394) for the same period in 2006, primarily due to the cost of non-cash stock-based compensation expense from the issuance of stock options to directors, officers and consultants. The cost for stock options issued in the last six months was \$1,496,999, compared with \$346,023 in the same period a year earlier, and reflects the higher stock price of the Company's stock upon which the options were based this year.

Summary of Results

The following tables set out financial performance highlights for the first half of 2007 and 2006 and were prepared in accordance with Canadian GAAP:

| | Six Months to March 31, 2007 | Six Months to March 31, 2006 |
|---|------------------------------------|------------------------------------|
| General administration | \$ 1,451,260 | \$ 86,765 |
| General exploration | - | 53,107 |
| Stock-based compensation expense (now included in general administration) | - | 346,023 |
| Net income (loss) | \$ (1,470,100) | \$ (509,394) |

Liquidity and Capital Resources

At March 31, 2007 Franconia had working capital of \$2,127,099 (\$3,627,022 at December 31, 2006). Cash was \$2,275,038

compared with cash of \$3,943,163 at December 31, 2006.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

The Company had the following related party transactions:

(a) Transactions with a director and companies controlled by that 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 that director were as follows:

- (i) Consulting fees charged in the six months totaled \$39,438 (six months ended March 31, 2006 - \$10,929). These fees have been included in deferred acquisition and exploration costs.
- (ii) Land costs reimbursed in respect of Birch Lake totaled \$278,604 (six months ended March 31, 2006 - \$47,002).
- (iii) Administrative costs reimbursed totaled \$42,130 (six months ended March 31, 2006 - \$17,208).

Of the above amounts, a total of \$10,645 (2006 - \$4,734) is included in accounts payable at March 31, 2007.

(b) Other transactions

- (i) Legal fees paid to a director's law firm totaled \$28,884 during the six months (six months ended March 31, 2006 - \$35,862). With the exception of legal costs included in share issue costs, these fees are included in general administration.
- (ii) Consulting fees paid to the Company's president totaled \$54,000 during the six months (six months ended March 31, 2006 - \$17,648). These costs have been included in general administration.

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.

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. 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. During the quarter ended March 31, 2007 the Company did not issue any stock options. During the six months ended March 31, 2007 the Company recorded \$1,496,999 of compensation expense for the stock options granted to directors, officers and consultants using the fair-value method with the following assumptions: volatility of 122%; risk-free interest rate of 3.89%; dividend yield of nil; and expected life of five years. Of this amount, \$394,523 has been recorded as part of deferred acquisition and exploration costs.

Subsequent Events – Operations

Subsequent to the period the Company announced the results of the Company's 2006/2007 core drilling program at the Red Knoll property in Graham County, Arizona. While ore-grade mineralization has not yet been encountered, all three drill holes intercepted host rocks with the potential for porphyry copper mineralization at depths ranging from 979 to 1782 feet. The Company believes these results warrant additional geophysical examination as well as further drilling in the area, particularly to the east. In addition, based on depths-to-Laramide, a number of geological targets have been identified that merit testing.

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 incurring 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.

The Company also provided a fourth progress report on the on-going 2006-2007 core-drilling program at Birch Lake, which indicated that the latest drilling intercepted mineralization that was both either similar to or of higher grade as well as considerably thicker than the average 75 foot thickness indicated in the latest resource estimate.

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.

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; or
- (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

These interim financial statements do not contain all the information required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the most recent audited financial statements and notes thereto contained in our Audited Financial Statements for the period ended September 30, 2006 available at www.sedar.com. The significant policies and methods of computation follow that of the most recent annual consolidated financial statements, except as modified for appropriate interim presentation. The disclosures provided in the notes below are incremental to those included in the annual consolidated financial statements. These interim financial statements are unaudited but, in the opinion of management, include all adjustments, consisting only of normal recurring items, necessary for a fair presentation. Interim results are not necessarily indicative of results which may be achieved in the future.

The Company's unaudited consolidated financial statements for the quarter and six month periods ended March 31, 2007 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.

Going Concern Assumption

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 will require additional funds to enable the Company to continue to acquire and explore mineral properties. At March 31, 2007, Franconia reported working capital of \$2,127,099. While management has been successful in the past attracting financing, there is no assurance that sufficient funds will be raised in the future. These consolidated financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern.

During the latest six months and subsequent to March 31, 2007, the Company raised net proceeds from private placements and from the exercise of warrants, which should be sufficient to fund the Company's mineral property acquisition and exploration commitments and working capital requirements for the next 18 months.

The consolidated financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at March 31, 2007, the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Other

Deferred Acquisition and Exploration Costs

A break-down of Deferred Acquisition and Exploration Costs is provided above and in the unaudited consolidated financial statements of operations and deficit and cash flows and related notes for the three month and six month periods ended March 31, 2007.

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.

Capitalized Deferred Acquisition and Exploration Costs

For the six months ended March 31, 2007 and 2006, the material components of capitalized deferred acquisition and exploration costs were as follows:

| | Six months ended 3/31/07 | | | Six months ended 3/31/06 | | |
|-----------------------------|--------------------------|---------------------|-------------------|--------------------------|-------------------|-------------------|
| | Total | Birch Lake | Red Knoll | Total | Birch Lake | Red Knoll |
| Analytical services | \$ 68,870 | \$ 68,870 | \$ - | \$ 31,065 | \$ 31,065 | \$ - |
| Office and general | 210,651 | 197,247 | 13,405 | 44,552 | 39,094 | 5,458 |
| Travel and promotion | 27,080 | 12,298 | 14,782 | 4,782 | 2,443 | 2,339 |
| Land payments | 660,100 | 460,029 | 200,071 | 459,303 | 247,255 | 212,048 |
| Drilling | 189,602 | 44,194 | 145,408 | - | - | - |
| Vehicle | 26,325 | 18,334 | 7,991 | 4,750 | 4,245 | 505 |
| Consultants and contractors | <u>2,591,765</u> | <u>2,102,300</u> | <u>489,466</u> | <u>492,227</u> | <u>486,714</u> | <u>5,513</u> |
| | <u>\$ 3,774,394</u> | <u>\$ 2,903,272</u> | <u>\$ 871,122</u> | <u>\$ 1,036,679</u> | <u>\$ 810,815</u> | <u>\$ 225,864</u> |

General administration expenses

For each of the quarters ended March 31, 2007 and 2006, the material components of general administration expenses were as follows:

General administration expenses

| | Three Months Ended March 31 | | Six Months Ended March 31 | |
|-----------------------------------|--------------------------------|-------------------|------------------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Foreign exchange | \$ (34,803) | \$ - | \$ 99,356 | \$ (1,589) |
| Overhead: office, rent, utilities | 44,056 | 9,907 | 72,012 | 23,130 |
| Travel | 44,145 | 5,639 | 58,174 | 12,628 |
| Consultants and contractors | 99,226 | 112,429 | 1,321,076 | 199,089 |
| | <u>\$ 152,624</u> | <u>\$ 127,975</u> | <u>\$ 1,550,618</u> | <u>\$ 233,258</u> |

Disclosure of Outstanding Share Data

The Company is a public company listed on the TSX Venture Exchange. Effective December 29, 2006, the Company's shares were no longer listed on the PLUS market in the United Kingdom.

As at March 31, 2007, the Company had 43,598,479 common shares issued, warrants to purchase 2,331,043 common shares at \$0.24 to \$1.57 and options to purchase 3,865,500 common shares at \$0.32 to \$1.23.

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.