

**Franconia Minerals**  
**C O R P O R A T I O N**

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**Notice to Reader**

The accompanying unaudited interim consolidated financial statements of Franconia Minerals Corporation for the three month and nine month periods ended June 30, 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 August 17, 2007

*/s/ Brian Gavin*

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Brian Gavin  
President

**Franconia Minerals Corporation**

(an exploration stage company)

**Consolidated Balance Sheets**

U.S. Dollars

*(Unaudited - Prepared by Management)*

	<u>June 30, 2007</u>	<u>September 30, 2006</u>
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 18,934,378	\$ 857,741
Prepaid expense	<u>257,378</u>	<u>86,365</u>
	<b>19,191,756</b>	<b>944,106</b>
<b>Deferred acquisition and exploration costs (Note 2)</b>	<b>11,236,518</b>	<b>4,845,029</b>
	<u>\$ 30,428,274</u>	<u>\$ 5,789,135</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 971,952	\$ 372,488
<b>Asset retirement obligations</b>	<u>25,000</u>	<u>25,000</u>
	<b>996,952</b>	<b>397,488</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note3)	32,531,049	8,915,822
Contributed Surplus (Note 3)	3,045,337	539,026
Deficit accumulated during development stage	<u>(6,145,064)</u>	<u>(4,063,201)</u>
	<b>29,431,322</b>	<b>5,391,647</b>
	<u>\$ 30,428,274</u>	<u>\$ 5,789,135</u>

**Approved on behalf of the Board:**

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*/s/ Brian Gavin*

Brian Gavin

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*/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 period ended June 30, 2007  
U.S. Dollars  
*(Unaudited - Prepared by Management)*

	Three months ended		Nine months ended	
	June 30,		June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Expenses</b>				
General administration	\$ (506,530)	\$ (109,486)	\$ (2,057,147)	\$ (324,224)
General exploration	(0)	(713)	(131)	(53,820)
Write off deferred acquisition and exploration costs	(5,877)	-	(24,585)	(25,089)
Compensation expense	-	-	-	(346,023)
<b>Loss from operations</b>	<u>(512,407)</u>	<u>(110,199)</u>	<u>(2,081,863)</u>	<u>(749,156)</u>
<b>Other income (expenses)</b>	-	6,530	-	8,120
<b>Net loss for period</b>	<u>(512,407)</u>	<u>(103,669)</u>	<u>(2,081,863)</u>	<u>(741,036)</u>
<b>Deficit accumulated during development stage</b>				
Beginning of period	(5,632,657)	(2,508,411)	(4,063,201)	(1,871,044)
<b>End of period</b>	<u>\$ (6,145,064)</u>	<u>\$ (2,612,080)</u>	<u>\$ (6,145,064)</u>	<u>\$ (2,612,080)</u>
<b>Loss per share</b>	\$ (0.01)	\$ (0.00)	\$ (0.05)	\$ (0.02)
<b>Weighted average common shares outstanding</b>	53,355,757	32,620,618	45,861,520	31,973,722

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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 period ended June 30, 2007  
U.S. Dollars

*(Unaudited - Prepared by Management)*

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
<b>Cash flows from (used in) operating activities</b>				
Net (loss) for the period	\$ (512,407)	\$ (103,669)	\$ (2,081,863)	\$ (741,036)
Items not involving cash:				
Foreign exchange				
Write off deferred costs	5,877	-	24,585	25,089
Stock-based compensation	12,935	-	1,115,411	346,023
Changes in non-cash working capital balances:				
Prepaid expenses	(19,160)	(14,712)	(171,013)	9,633
Accounts payable	586,605	210,402	599,465	115,686
	<u>73,850</u>	<u>92,021</u>	<u>(513,415)</u>	<u>(244,605)</u>
<b>Cash flows from financing activities</b>				
Funds held in trust	-	(211,250)	-	-
Issue of share capital, net of share issue costs	<u>19,703,151</u>	<u>3,042,531</u>	<u>25,006,127</u>	<u>3,999,065</u>
	<u>19,703,151</u>	<u>2,831,281</u>	<u>25,006,127</u>	<u>3,999,065</u>
<b>Cash flows from investing activities</b>				
Asset retirement obligation			-	-
Payments for deferred acquisition and exploration costs	<u>(3,017,495)</u>	<u>(1,353,668)</u>	<u>(6,416,075)</u>	<u>(1,582,638)</u>
	<u>(3,017,495)</u>	<u>(1,353,668)</u>	<u>(6,416,075)</u>	<u>(1,582,638)</u>
<b>Increase (decrease) in cash and equivalents</b>	<b>16,759,506</b>	<b>1,569,634</b>	<b>18,076,637</b>	<b>2,171,822</b>
Cash and equivalents, beginning of period	<u>2,174,872</u>	<u>700,572</u>	<u>857,741</u>	<u>98,384</u>
<b>Cash and equivalents, end of period</b>	<b>\$ <u>18,934,378</u></b>	<b>\$ <u>2,270,206</u></b>	<b>\$ <u>18,934,378</u></b>	<b>\$ <u>2,270,206</u></b>

*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 period ended June 30, 2007  
U.S. dollars  
*(Unaudited - Prepared by management)*

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**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](http://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.*

	June 30, 2007	September 30, 2006
Working Capital	\$ 18,219,804	\$ 571,618
Deficit	\$ (6,145,064)	\$ (4,063,201)

**Franconia Minerals Corporation**  
(an exploration stage company)  
**Notes to Consolidated Financial Statements**  
for the period ended June 30, 2007  
U.S. dollars  
(Unaudited - Prepared by management)

**2. 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	1,227,358	785,020	-	-	442,338
	Exploration	5,188,716	4,372,186	9,085	15,500	791,945
	Abandoned	<u>(24,585)</u>	<u>-</u>	<u>(9,085)</u>	<u>(15,501)</u>	<u>-</u>
June 30, 2007		\$ <u>11,236,518</u>	\$ <u>9,629,891</u>	\$ <u>-</u>	\$ <u>(0)</u>	\$ <u>1,606,627</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**  
(an exploration stage company)  
**Notes to Consolidated Financial Statements**  
for the period ended June 30, 2007  
U.S. dollars  
*(Unaudited - Prepared by management)*

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**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**  
(an exploration stage company)  
**Notes to Consolidated Financial Statements**  
for the period ended June 30, 2007  
U.S. dollars  
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**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

<b>Common Shares</b>	<b><u>Number</u></b>	<b><u>Amount</u></b>
		\$
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	38,981,138	8,915,822
Warrants exercised	2,587,093	4,104,286
Private Placement	15,223,184	21,008,036
Property Acquisitions	213,359	472,203
Stock Options exercised	625,000	287,325
Contributed Surplus transfer		383,721
Share Issue costs		(2,640,344)
	<u>57,629,774</u>	<u>32,531,049</u>
Balance, June 30, 2007		\$
	<u>57,629,774</u>	<u>32,531,049</u>

**Franconia Minerals Corporation**

(an exploration stage company)

**Notes to Consolidated Financial Statements**

for the period ended June 30, 2007

U.S. dollars

*(Unaudited - Prepared by management)*

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**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

(aa) 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 finder'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.

(bb) 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 four 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 four-month-and-one-day hold period expiring August 14, 2007.

(cc) 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. 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 (and subsequently the shares underlying the warrants) will be subject to a four 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.

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for the period ended June 30, 2007  
U.S. dollars  
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(ii) Warrant exercises

During the nine months ended June 30, 2007, 2,577,093 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 June 30, 2007:

Expiry Date	Price	Outstanding September 30, 2006	Issued	Exercised	Expired	Outstanding June 30, 2007
December 14, 2006	\$0.24- .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)		-
April 13, 2009	\$1.75		733,525			733,525
April 13, 2010	\$1.75		3,667,626			3,667,626
April 30, 2009	\$1.75		268,750			268,750
April 30, 2010	\$1.75		1,875,000			1,875,000
April 30, 2009	\$2.70		50,000			50,000
		538,945	8,875,944	(2,577,093)	(242,895)	6,594,901

**3. Share capital (continued)**

(e) Options

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

Date <u>Granted</u>	Date <u>Expire</u>	September 30, <u>2006</u>	September 30, <u>2006</u>	Exercised	Expired	June 30, <u>2007</u>	Exercise <u>Price</u>
8/19/04	8/19/09	735,000		210,000		525,000	\$ 0.32
04/15/05	04/15/07	50,000			50,000	-	\$ 0.34
04/15/05	04/15/10	1,670,000		350,000		1,320,000	\$ 0.34
11/23/06	11/23/11		1,530,500	65,000		1,465,500	\$ 1.23
		2,455,000	-	560,000	50,000	3,310,500	\$ 0.73

Date <u>Granted</u>	Date <u>Expire</u>	December 31, <u>2005</u>	September 30, <u>2006</u>	Exercised	Expired	September 30, <u>2006</u>	Exercise <u>Price</u>
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**Franconia Minerals Corporation**

(an exploration stage company)

**Notes to Consolidated Financial Statements**

for the period ended June 30, 2007

U.S. dollars

*(Unaudited - Prepared by management)*

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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>-</u>
				<u>2,455,000</u>	\$ 0.33

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 \$1,509,934 compensation expense for the stock options granted to directors, officers and consultants in the nine months ended June 30, 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 June 30, 2007, 3,310,500 options were outstanding.

**(f) Agent and other options**

In the nine months ended June 30, 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.

\$775,979 in share issue costs for options granted to agents using the fair value method with the following assumptions: volatility of 132%; risk-free interest rate of 4.13%; dividend yield of Nil; and expected life of two years

\$370,245 in share issue costs for options granted to agents using the fair value method with the following assumptions: volatility of 123%; risk-free interest rate of 4.13%; dividend yield of Nil; and expected life of two years

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

**(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.

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	Nine months ended June 30, 2007	Nine months ended June 30, 2006
Contributed surplus, beginning	\$ 539,026	\$ 521,993
Stock-based compensation expense	2,890,032	100,185
Reallocated on exercise of options	<u>(383,721)</u>	<u>(70,042)</u>
Contributed surplus, ending	<u>\$ 3,045,337</u>	<u>\$ 552,136</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 nine months totaled \$57,734 (nine months ended June 30, 2006 - \$24,514). These fees have been included in deferred acquisition and exploration costs.
- (ii) Land costs reimbursed in respect of Birch Lake totaled \$413,493 (nine months ended June 30, 2006 - \$141,834).
- (iii) Administrative costs reimbursed totaled \$55,334 (nine months ended June 30, 2006 - \$41,288).

Of the above amounts, a total of \$75,617 (2006 - \$20,425) is included in accounts payable at June 30, 2007.

(b) Other transactions

- (i) Legal fees paid to a director's law firm totaled \$50,090 during the nine months (nine months ended June 30, 2006 - \$50,281). 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 \$84,500 during the nine months (nine months ended June 30, 2006 - \$27,548). 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.

**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 45,861,520 for the nine months ended June 30, 2007 (nine months ended June 30, 2006 - 31,973,722). 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

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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**

Subsequent to the period, the Company provided its fifth and sixth progress reports on the on-going 2006-2007 core-drilling program at Birch Lake, which indicated that the latest drilling continues to intercept mineralization considerably thicker than the average 75-foot thickness indicated in the latest resource estimate prepared in October 2006 by Scott Wilson Roscoe Postle Associates to NI 43-101 standards. Approximately 40% of the planned 18-hole, 23,000-foot program at Franconia's Birch Lake deposit has been completed.