

**FRANCONIA MINERALS CORPORATION**  
(an exploration stage company)  
**Consolidated Financial Statements**  
**March 31, 2008**  
(U.S. Dollars)

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## Notice to Reader

The accompanying unaudited interim consolidated financial statements of Franconia Minerals Corporation (the “Company”) for the quarter and six month periods ended March 31, 2008 have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. These statements have not been reviewed by the Company’s auditors.

/s/ Brian Gavin

Brian Gavin, President

May 12, 2008

**FRANCONIA MINERALS CORPORATION**

(an exploration stage company)

**Consolidated Balance Sheets**

(U.S. Dollars)

*(Unaudited - Prepared by Management)*

	<u>March 31</u> <u>2008</u>	<u>September 30</u> <u>2007</u>
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents (Note 5)	\$ 5,897,026	\$ 17,104,454
Prepaid expenses	<u>362,455</u>	<u>326,619</u>
	<b>6,259,481</b>	<b>17,431,073</b>
<b>Investments (Note 5)</b>	<b>6,100,000</b>	<b>-</b>
<b>Mineral Property Interests (Note 2)</b>	<b>18,786,534</b>	<b>14,681,145</b>
	<u>\$ 31,146,015</u>	<u>\$ 32,112,218</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 303,955	\$ 972,548
<b>Asset Retirement Obligations</b>	<u>25,000</u>	<u>25,000</u>
	<b>328,955</b>	<b>997,548</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital (Note 3)</b>	<b>32,990,724</b>	<b>32,756,567</b>
<b>Contributed Surplus (Note 3)</b>	<b>5,727,872</b>	<b>5,649,500</b>
<b>Deficit accumulated during exploration stage</b>	<u>(7,901,537)</u>	<u>(7,291,397)</u>
	<b>30,817,059</b>	<b>31,114,670</b>
	<u>\$ 31,146,015</u>	<u>\$ 32,112,218</u>

Commitments (Note 6)

Subsequent Events (Note 7)

**Approved on behalf of the Board:**

/s/ Brian Gavin

\_\_\_\_\_  
Brian Gavin

/s/ Allan J. Marter

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Allan J. Marter

*These consolidated 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**  
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**Consolidated Statements of Operations and Deficit**  
(U.S. Dollars)  
*(Unaudited - Prepared by Management)*

	Three months ended		Six months ended	
	March 31		March 31	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Expenses</b>				
General administration	\$ 405,401	\$ 152,625	\$ 887,704	\$ 1,550,616
General exploration	14,672	-	31,109	131
Write off deferred acquisition and exploration costs	7,979	6,008	15,958	18,708
<b>Loss from operations</b>	<u>428,053</u>	<u>158,633</u>	<u>934,772</u>	<u>1,569,455</u>
<b>Other income</b>	<u>(150,811)</u>	<u>-</u>	<u>(324,632)</u>	<u>-</u>
<b>Net loss for period</b>	<u>277,242</u>	<u>158,633</u>	<u>610,140</u>	<u>1,569,455</u>
<b>Deficit accumulated during exploration stage</b>				
Beginning of period	7,624,295	5,474,023	7,291,397	4,063,201
End of period	\$ <u>7,901,537</u>	\$ <u>5,632,656</u>	\$ <u>7,901,537</u>	\$ <u>5,632,656</u>
<b>Loss per share</b>	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.04)
<b>Weighted average number of common shares outstanding</b>	58,170,565	43,422,353	58,097,271	42,114,154

*These consolidated 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**

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**Consolidated Statements of Cash Flows**

(U.S. Dollars)

*(Unaudited - Prepared by Management)*

	Three months ended		Six months ended	
	March 31		March 31	
	2008	2007	2008	2007
<b>Cash flows from (used in) operating activities</b>				
Net (loss) for the period	\$ (277,242)	\$ (158,633)	\$ (610,140)	\$ (1,569,455)
Items not involving cash:				
Write off deferred costs	7,979	6,008	15,958	18,708
Stock-based compensation	39,186	12,935	78,372	1,102,476
Changes in non-cash working capital balances:				
Prepaid expenses	13,471	3,396	(35,836)	(151,853)
Accounts payable	(61,379)	(147,408)	(929,389)	12,860
	<u>(277,984)</u>	<u>(283,702)</u>	<u>(1,481,034)</u>	<u>(587,264)</u>
<b>Cash flows from financing activities</b>				
Issue of share capital, net of share issue costs	-	289,424	-	5,302,976
	<u>-</u>	<u>289,424</u>	<u>-</u>	<u>5,302,976</u>
<b>Cash flows from (used in) investing activities</b>				
Payments for deferred acquisition and exploration costs	(2,480,239)	(1,774,013)	(3,626,393)	(3,398,580)
	<u>(2,480,239)</u>	<u>(1,774,013)</u>	<u>(3,626,393)</u>	<u>(3,398,580)</u>
<b>Increase (decrease) in cash and equivalents</b>	<b>(2,289,910)</b>	<b>(1,768,291)</b>	<b>(5,107,428)</b>	<b>1,317,132</b>
Cash and equivalents, beginning of period	14,286,936	3,943,163	17,104,454	857,741
Reclassification to non-current Investments	(6,100,000)	-	(6,100,000)	-
<b>Cash and equivalents, end of period</b>	<b>\$ 5,897,026</b>	<b>\$ 2,174,872</b>	<b>\$ 5,897,026</b>	<b>\$ 2,174,873</b>
<b>Supplemental Information</b>				
Shares Issued for Property	\$ 234,157	\$ 302,359	\$ 234,157	\$ 6,799,975

*These consolidated 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

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**Notes to Consolidated Financial Statements**

For the periods ended March 31, 2008 and March 31, 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 November 19, 2007, the Company was listed on the Toronto Stock Exchange (TSX).

The Company is in the process of exploring its mineral properties and has not determined whether these properties contain economically recoverable reserves of ore. The Company has not earned significant revenues from its mineral properties and is considered to be in the exploration stage.

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 year ended September 30, 2007 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. Comparative numbers may have been restated to conform to current presentation. Interim results are not necessarily indicative of results which may be achieved in the future.*

		March 31, 2008		September 30, 2007
Working Capital	\$	5,955,526	\$	16,458,525
Deficit	\$	(7,901,537)	\$	(7,291,397)

## FRANCONIA MINERALS CORPORATION

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**Notes to Consolidated Financial Statements**

For the periods ended March 31, 2008 and March 31, 2007

(U.S. Dollars)

*(Unaudited - Prepared by management)***2. Mineral Property Interests**

		<u>Total</u>	<u>Birch Lake</u>	<u>Mahoney</u>	<u>San Francisco</u>	<u>Red Knoll</u>
September 30, 2006		\$ 4,845,029	\$ 4,472,685	\$	\$	\$ 372,344
Expenditures	Acquisition	310,105	260,034			50,071
	Exploration	1,708,984	1,428,126	3,291	9,409	268,158
Abandoned		(12,700)		(3,291)	(9,409)	
December 31, 2006		<u>6,851,418</u>	<u>6,160,845</u>	<u>-</u>	<u>-</u>	<u>690,573</u>
Expenditures	Acquisition	349,995	199,995			150,000
	Exploration	1,424,018	1,015,116	2,897	3,112	402,893
Abandoned		(6,009)		(2,897)	(3,112)	
March 31, 2007		<u>\$ 8,619,422</u>	<u>\$ 7,375,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,243,466</u>
September 30, 2007		\$ 14,681,145	\$ 12,914,012	\$	\$	\$ 1,767,133
Expenditures	Acquisition	5,473	5,473			
	Exploration	1,857,227	1,809,060	3,989	3,990	40,188.00
Abandoned		-		(3,989)	(3,990)	
December 31, 2007		<u>16,535,866</u>	<u>14,728,545</u>	<u>-</u>	<u>-</u>	<u>1,807,321</u>
Expenditures	Acquisition	895,271	661,114			234,157
	Exploration	1,363,376	1,268,200	\$ 3,990	\$ 3,989	87,197
Abandoned		(7,979)		(3,990)	(3,989)	
March 31, 2008		<u>\$ 18,786,534</u>	<u>\$ 16,657,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,128,675</u>

**(a) Birch Lake Property**

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 part of the Duluth Complex in the state of Minnesota (Note 4(a)).

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

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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 2(b)) and modified the terms of the BLJV Agreement.

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 (completed).

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

Dates	Cash	In Shares
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
<b>Total</b>	<b>\$ 4,000,000</b>	<b>\$ 2,000,000</b>

\* 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. The Company issued 113,359 shares (nine-months ended September 30, 2006 – Nil) (Note 3(c)(ii)) in accordance with the agreement. 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 director, as operator of BBJV, entered into a binding letter of intent to acquire from ACNC, a wholly-owned subsidiary of Inco United States, Inc. ,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

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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).

(c) Red Knoll Project

In 2005, the Company signed a Property Acquisition Agreement with Teck Cominco American, Inc. ("TCAI") regarding the 8,000-acre Red Knoll property in Graham County, Arizona. Under the terms of the Agreement, the Company will obtain an option to earn a 100% interest in TCAI's unpatented mining claims by spending \$2,000,000 over four years on exploration including minimum expenditures of \$200,000 in the first year. In addition, the Company will reimburse TCAI for land holding costs in 2004 and issue to TCAI 150,000 units of the Company upon written approval of the agreement by the TSX. In order to exercise the option, the Company must issue 100,000 units (identical to the 150,000 units noted above) on each anniversary date of the Agreement. The units are to be issued at an agreed price of Cdn \$0.40 per unit and 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. 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 over four years. If TCAI does not exercise its back-in right, it will have no further rights to the property except for a 2% net smelter return. The Company will have the right to reduce the royalty to 1% by paying TCAI \$1,500,000. Land holding costs are estimated to be \$48,000 per year.

The Company is in compliance with the requirements for minimum expenditures, and has expended \$1,046,797 on exploration to date.

**Realization of Assets**

The investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse

**Title to Mineral Property Interests**

Although the Company has taken steps to verify the title to mineral 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 title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

**Environmental**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

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**2. Mineral Property Interests (continued)**

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated. The Company has given a guarantee to ensure the Company has adequate resources to finance future rehabilitation costs. A provision has been made to reflect estimated costs for rehabilitation of claims.

**3. Share Capital**

(a) Authorized

Unlimited number of common shares

Unlimited number of preferred shares issuable in series

(b) Issued

	<u>Six months ended</u>	
Balance, September 30, 2006	38,981,138	\$ 8,915,822
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>\$ 15,011,266</u>
Balance, September 30, 2007	58,024,774	\$ 32,756,567
Warrants exercised		
Private Placement		
Property Acquisitions	161,792	234,157
Stock Options exercised		
Contributed Surplus transfer		
Share Issue costs		
Balance, March 31, 2008	<u>58,186,566</u>	<u>\$ 32,990,724</u>

In January 2008, under the terms of the Birch Lake Option Agreement, the Company issued 161,792 shares and paid \$225,000 in cash to the Beaver Bay Joint Venture (BBJV). These amounts contributed toward the \$4,000,000 in cash and \$2,000,000 in shares to be paid and issued respectively by January 2, 2010.

(c) (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 4,137,932 units at \$1.276 (Cdn \$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:

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**3. Share Capital (continued)**

1. 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-V 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
2. May 20, 2008.

The Company paid finder's and other fees of \$285,151 and issued 212,079 broker's warrants valued at \$123,707. The broker's warrants have terms identical to the warrants issued pursuant to the unit offering.

(bb) In April 2007, the Company completed a brokered private placement financing of \$10,407,443 (Cdn \$11,736,403) by issuing 7,335,252 units at \$1.42 per unit (Cdn \$1.60). 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 Cdn \$1.92 at any time prior to the earlier of:

1. 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-V or the TSX 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 Company paid finder's and other fees of \$762,884 and issued 733,525 non-transferable broker's warrants valued at \$775,979. The broker's warrants have an exercise price of Cdn \$1.92 and expire 24 months from the date of issue.

(cc) In April 2007, the Company completed a non-brokered private placement financing of \$5,320,592 (Cdn \$6,000,000) by issuing 3,750,000 units at \$1.42 (Cdn \$1.60) 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 Cdn \$1.92 at any time prior to the earlier of:

1. 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-V or the TSX 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 Company paid finders and other fees of \$322,589 and issued 268,750 broker's warrants valued at \$370,245. These warrants have an exercise price of Cdn \$1.92 and expire 24 months from the date of issue

(ii) Property acquisition

During the quarter, the Company paid \$225,000 for a property acquisition payment and issued 161,792 shares valued at \$234,157 on the date of issuance in January to the Beaver Bay Joint Venture in accordance with commitments noted in 2(a)(ii) above.

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**3. Share Capital (continued)**

(d) Warrants

The following summarizes information about warrants outstanding:

<u>Expiry Date</u>	<u>Price (Cdn\$)</u>	Outstanding September 30				Outstanding March 31
		<u>2007</u>	<u>Issued</u>	<u>Exercised</u>	<u>Expired</u>	<u>2008</u>
April 13, 2009	\$ 1.92	733,525	-	-	-	733,525
April 13, 2010	\$ 1.92	3,667,626	-	-	-	3,667,626
April 30, 2009	\$ 1.92	268,750	-	-	-	268,750
April 30, 2010	\$ 1.92	1,875,000	-	-	-	1,875,000
May 14, 2008	\$ 2.70	50,000	-	-	-	50,000
		<u>6,594,901</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,594,901</u>

  

<u>Expiry Date</u>	<u>Price (Cdn\$)</u>	Outstanding September 30				Outstanding March 31
		<u>2006</u>	<u>Issued</u>	<u>Exercised</u>	<u>Expired</u>	<u>2007</u>
December 14, 2006	0.40-0.60	284,820	-	(46,050)	(238,770)	-
January 10, 2007	0.40-0.61	4,125	-	-	4,125	-
June 9, 2007	0.57	50,000	-	-	-	50,000
January 20, 2008	0.60	75,000	-	(75,000)	-	-
April 12, 2008	0.60	125,000	-	(125,000)	-	-
May 20, 2008	1.85	-	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>

(e) Options

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

<u>Date Granted</u>	<u>Date Expire</u>	September 30 <u>2007</u>	<u>Granted</u>	<u>Exercised</u>	<u>Expired</u>	March 31 <u>2008</u>	<u>Exercise Price</u>
8/19/04	8/19/09	350,000	-	-	-	350,000	\$ 0.40
04/15/05	04/15/07	-	-	-	-	-	\$ 0.42
04/15/05	04/15/10	1,090,000	-	-	-	1,090,000	\$ 0.42
11/23/06	11/23/11	1,465,500	-	-	-	1,465,500	\$ 1.45
08/17/07	08/17/12	1,511,000	-	-	-	1,511,000	\$ 1.95
		<u>4,416,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,416,500</u>	<u>\$ 1.28</u>

  

<u>Date Granted</u>	<u>Date Expire</u>	September 30 <u>2006</u>	<u>Granted</u>	<u>Exercised</u>	<u>Expired</u>	March 31 <u>2007</u>	<u>Exercise Price</u>
8/19/04	8/19/09	735,000	-	120,000	-	615,000	\$ .40
04/15/05	04/15/07	50,000	-	-	-	50,000	\$ .42
04/15/05	04/15/10	1,670,000	-	-	-	1,670,000	\$ .42
11/23/06	11/23/11	-	1,530,500	-	-	1,530,500	\$ 1.45
		<u>2,455,000</u>	<u>1,530,500</u>	<u>120,000</u>	<u>-</u>	<u>3,865,500</u>	

FRANCONIA MINERALS CORPORATION

(an exploration stage company)

**Notes to Consolidated Financial Statements**

For the periods ended March 31, 2008 and March 31, 2007

(U.S. Dollars)

*(Unaudited - Prepared by management)*

**3. Share Capital (continued)**

The Company has a stock option plan (the "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 10% of the Company's issued and outstanding common shares, up to a maximum of 5,762,977 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.

During August 2007, the board of directors approved an amendment to the stock option plan to reduce the maximum number of common shares to be delivered upon exercise of all options granted under the plan from 20% to 10% of the Company's issued and outstanding common shares from time to time. The shareholders approved the amendment to the stock option plan at the Annual General and Special Meeting held on April 21, 2008, confirming the 10% and maximum number of shares as above.

Stock options are vested, except 67,500 options that vest during the year ending September 30, 2008.

(f) Contributed surplus

Changes in contributed surplus are as follows:

	Six months ended March 31 2008	Year ended September 30 2007
Contributed surplus, beginning	\$ 5,649,500	\$ 539,026
Stock-based compensation expense	78,372	1,607,771
Reallocated on exercise of options	-	(454,470)
Contributed surplus, ending	\$ 5,727,872	\$ 5,649,500

**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. (Note 2(a))

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

- (i) Consulting fees charged for the three month periods ended March 31, 2007 and March 31, 2008 were \$23,477 and \$5,740, respectively. For the six month periods ended March 31, 2007 and March 31, 2008 fees charged were \$46,954 and \$14,654, respectively. These fees have been included in deferred acquisition and exploration costs.
- (ii) Land costs reimbursed in respect of Birch Lake totaled \$278,604 and \$231,360 for the three month periods ended March 31, 2007 and March 31, 2008, respectively, and \$372,638 and \$438,351 for the six month periods ended March 31, 2007 and March 31, 2008, respectively.
- (iii) Administrative costs reimbursed totaled \$16,047 and \$42,130 for the three month periods ended March 31, 2007 and March 31, 2008, respectively. Administrative costs reimbursed totaled \$63,314 for the six month period ended March 31, 2007, and \$23,769 for the six-month period ended March 31, 2008. Of the above amounts, a total of \$11,795 and \$10,645 is included in accounts payable at March 31, 2007 and March 31, 2008, respectively.

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(an exploration stage company)

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For the periods ended March 31, 2008 and March 31, 2007

(U.S. Dollars)

*(Unaudited - Prepared by management)*

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**4. Related Party Transactions (continued)**

(b) Other transactions

- (i) Legal fees paid to a director's law firm totaled \$14,695 and \$17,402 for the three month periods ended March 31, 2007 and March 31, 2008, respectively. For the six month periods fees paid were \$28,884 and \$29,266, respectively. With the exception of legal costs included in share issue costs, these fees are included in general administration
- (ii) Consulting fees paid to an officer were Nil and Nil for the three and six months ended March 31, 2007. For the three and six months ended March 31, 2008 fees were \$19,020 and \$35,970, respectively.
- (iii) Fees paid or accrued to directors totaled \$18,750 for each of the three months ended March 31, 2007 and 2008. For both the six months ended March 31, 2007 and 2008, fees paid were \$37,500.
- (iv) Consulting fees paid to the Company's president totaled \$27,000 and \$37,500 for the three months ended March 31, 2007 and 2008, respectively. For the six month periods ended March 31, 2007 and 2008, fees were \$54,000 and \$75,000, respectively. These costs have been included in general administration.

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

**5. Financial Instruments**

(a) Interest rate risk

The Company is exposed to interest rate risk due to the cash equivalents that are tied to short term interest rates which are reset at predetermined short term intervals of between 7 and 35 days.

(b) Credit risk

Cash and cash equivalents include cash deposits and highly liquid short term investments. We consider all highly liquid marketable securities with maturities of less than 91 days at date of purchase to be cash equivalents. The Company is not exposed to significant risk with its cash and cash equivalents due to these being placed with major financial institutions. The non-current Investments as described below may carry a liquidity risk if the ARS market does not recover, although the underlying securities are of high quality and government guaranteed.

(c) Currency risk

The Company translates the results of foreign operations into U.S. currency using rates approximating the average exchange rate for the year. The exchange rate may vary from time to time. The Company does not use derivatives or similar instruments to manage currency risk.

(d) Cash and cash equivalents

Term deposits are renewed on a working day-by-day basis. All balances at March 31, 2008 are fully matured and have effective interest rates of 3.5% and 4.35% for Canadian dollar and US dollar accounts, respectively. The Company places its cash and cash equivalents with major financial institutions. Money fund accounts are fully repayable on demand and have average effective yield rates of approximately 5%.

As at March 31, 2008, the Company reclassified \$6.1 million in Auction Rate Securities (ARS) investments from cash equivalents to non-current Investments on the Consolidated Balance Sheet. This change was deemed necessary due to uncertainty as to when these investments can be successfully liquidated as a result of current market failures for ARS. Management believes the credit quality of the ARS held is high (all individual funds are rated either AAA or AA by independent rating agencies), and that the Company will ultimately recover all amounts invested in these securities. Further, given the Company's alternative cash resources, management does not believe the current illiquidity of these investments will have any material impact on the ability of the Company to execute its business plans. However, given the unprecedented nature of current market conditions, there is some amount of risk associated with the recovery of principal on these investments. Franconia has a standing "sell" order with its broker-dealers to liquidate the ARS holdings as soon

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**Notes to Consolidated Financial Statements**

For the periods ended March 31, 2008 and March 31, 2007

(U.S. Dollars)

*(Unaudited - Prepared by management)*

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**5. Financial Instruments (continued)**

as possible, and as a result recovered \$400,000 of previously illiquid ARS holdings during March 2008. Although the Company intends to continue actively seeking such liquidity, there is no certainty that it will continue to become available.

(e) Derivatives – mineral properties

The Company retains and/or has obligations related to certain carried interest rights and net smelter royalties, the value of which is derived from future events and commodity prices. These rights are derivative instruments; however, the mineral rights to which they relate are not sufficiently developed to reasonably determine value.

(f) Other comprehensive income

These financial statements do not include any other comprehensive income.

**6. Consulting 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. Each of 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**

Subsequent to the period, the Company paid \$360,000 to Rendfield Land Company (a subsidiary of Allete, Inc.) as earnest money on a real estate transaction in Lake County, Minnesota. Negotiations are continuing on a finalized purchase agreement. If carried through to completion, this purchase will become part of the Birch Lake Project.

Subsequent to the period, the company signed an agreement with Marlow Geoservices to acquire 228 acres in Lake County, Minnesota for a sum total of \$570,000. Of the total, \$50,000 was paid in April 2008, with the remaining \$520,000 to be paid prior to May 30, 2008. This land also will become part of the Birch Lake Project.

The Board of Directors adopted a shareholder rights plan (the "Rights Plan") in March 2008, which was approved by the shareholders at the Annual General and Special Meeting of Shareholders held on April 21, 2008. The Rights Plan is now effective following the ratification by shareholders and upon ratification, the Rights Plan will have a term of up to nine years, subject to re-ratification at the annual general meetings to be held in 2011 and 2014.

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(an exploration stage company)

**Notes to Consolidated Financial Statements**

For the periods ended March 31, 2008 and March 31, 2007

(U.S. Dollars)

*(Unaudited - Prepared by management)*

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**8. Future Accounting Changes**

The CICA has issued the following new Handbook Sections that will become effective on April 1, 2008 for the Company:

- CICA Handbook Section 3862, “Financial Instruments – Disclosures”
- CICA Handbook Section 3863, “Financial Instruments – Presentation”
- CICA Handbook Section 1535, “Capital Disclosures”

CICA Handbook Section 3862 modifies the disclosure requirements for CICA Handbook Section 3861, “Financial Instruments – Disclosure and Presentation”, including required disclosure for the assessment of the significance of financial instruments for an entity’s financial position and performance and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. CICA Handbook Section 3863 carries forward the presentation requirements of CICA Handbook Section 3861. The Company is currently evaluating the impact of the adoption of these new sections.

CICA Handbook Section 1535 establishes standards for disclosing information about an entity’s capital and how it is managed. The entity’s disclosure should include information about its objectives, policies and processes for managing capital and disclose whether or not it has complied with any capital requirements to which it is subject and the consequences of non-compliance. The Company is currently evaluating the impact of adoption of this new section.

Each of these sections will be effective for the Company for its annual and interim financial statements beginning on or after April 1, 2008.

**FRANCONIA MINERALS CORPORATION**  
**Management Discussion and Analysis**  
**for the three month and six month periods ended March 31, 2008**

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, 2008. 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, 2008 as well as with the audited consolidated financial statements and related notes for the fiscal year ended September 30, 2007. 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 as of May 12, 2008.

**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 Toronto Stock Exchange (TSX), having moved on November 19, 2007 from the TSX Venture Exchange. Prior to December 29, 2006, the Company was also 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 hectares (“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 part of 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 \$750,000 has been paid to date and the remaining \$3,250,000 is payable in installments through January 2, 2010. The Company has also issued a total of \$750,000 in shares to the BBJV to March 31, 2008. \$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. Additionally, 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 (completed) by no later than January 2, 2010. Franconia has expended approximately \$16,130,572 to March 31, 2008 on acquisition and exploration at Birch Lake.

Once both foregoing conditions are 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.

The Company will have an option to acquire an undivided additional 10% legal and beneficial interest in the project. To do so, 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 then 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 the first phase of a two-phase core drilling program at Birch Lake. In addition to providing data to improve the metallurgical processing, including the recovery of nickel from ore to concentrate, the ongoing program is helping to move the project towards final feasibility determination and with the State's environmental review and permitting process. As noted in the previous MD&A, the Company provided one additional progress report in March on the now complete 2006-2008, 65,000 foot core-drilling program, announcing that the most recent drilling continued to intercept mineralization considerably thicker than the average 75-foot thickness of the deposit, as defined in the preliminary economic assessment prepared by Scott Wilson Roscoe Postle Associates (Scott Wilson RPA) to NI 43-101 standards. The current drill program has consistently revealed mineralization that is generally similar to or higher than the average 0.59% copper, 0.19% nickel and 0.65g/t palladium, 0.32g/t platinum, and 0.14g/t gold values already found in this 100.4 million tonne inferred resource. For example, wedge offset drill hole BL07-13W3, completed near the western edge of the area previously tested, intercepted 319 feet (true thickness is approximately 90% of interval) of 0.59% copper (Cu), 0.19% nickel (Ni), and .73 grams per tonne (g/t) of combined platinum, palladium and gold, including 60 ft. at 1.00% Cu, 0.28% Ni and 1.92 g/t of combined platinum, palladium and gold, amongst the best mineralization found on the project thus far. The Company has engaged Scott Wilson RPA to incorporate the results of this latest drill program on the Birch Lake property to prepare a new resource estimate to NI 43-101 standards and their report is expected before the end of the June 2008 quarter.

### **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 RPA, 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 resources containing recoverable copper, nickel, cobalt, gold, platinum and palladium.
- Underground room and pillar mining (10,000 tonnes per day [tpd]) 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.

On December 3, 2007, the Company announced the completion of its Technical Report, prepared to NI 43-101 standards, which provides resource estimates for both underground and open pit scenarios for the Spruce Road copper-nickel deposit, part of the Birch Lake Project. This report was also prepared by Scott Wilson RPA, which estimated an underground Inferred Resource at Spruce Road of 124.4 million tonnes grading 0.59% copper and 0.21% nickel, as well as an alternate open-pit scenario for Spruce Road consisting of an Indicated Resource of 377 million tonnes grading 0.39% copper and 0.14% nickel.

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

### **Red Knoll Copper Project – Arizona**

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. Subsequently, the Company launched a second round of drilling at Red Knoll, with a planned 10,000 foot, three month diamond core drill program in four holes to follow up on the previous drilling and geophysical test work. In the quarter ended March 31, 2008, the Company incurred \$33,183 of exploration costs related to the Red Knoll Project.

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.

### **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 up to \$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 calendar 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 calendar 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.

As at March 31, 2008, the Company had applied for received preliminary approval for \$1,039,466 as partial proceeds from the loan. The agreement provides for interest to be charged on the outstanding balance at U.S. prime rate until the earlier of close of financing for any commercial mining operation and December 31, 2011. It also provides for the issue of one warrant to purchase one share of the Company for each dollar advanced. The loan is secured by a blanket security on the property and other guarantees.

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 a 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. On June 21, 2007, the Company announced that, pursuant to the terms of this placement and in response to the Company's notice that the above-noted condition a) had been met, all warrant holders from the private placement had exercised their right to convert their warrants into the Company's common shares. The Company received total proceeds of Cdn\$4,218,930 and issued 2,281,043 new common shares from Treasury in exchange for these warrants.

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 were subject to a 4-month-and-one-day hold period which expired on 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 were subject to a 4-month-and-one-day hold period which expired on August 31, 2007. On a portion of the funds raised, the Corporation paid 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 have an exercise price of Cdn\$1.92 and expire 24 months from the date of issue. The common shares underlying the warrants were subject to a 4-month-and-one-day hold period which expired on 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, Minnesota-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 received 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 have an exercise price of Cdn\$1.92 and expire 24 months from the date of issue. The broker warrants were subject to a 4-month-and-one-day-hold period which expired on August 14, 2007.

The net proceeds from the above two offerings are being 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, a director of the Company since 2001, replaced Ernest K. Lehmann. Mr. Lehmann remains as a director and continues to assist Franconia as a technical, political and community affairs consultant.

On June 21, 2007, the Company announced its engagement of a specialist investor relations firm in the United States, EVC Group, Inc, which is assisting Franconia in gaining increased exposure to investors, primarily in the United States by providing strategic advisory services, financial community targeting and marketing and financial media relations. The services agreement with EVC is for an initial term of six months at a fee of \$10,000 per month and will subsequently continue on a month-to-month basis.

On October 25, 2007, the Company announced the appointment of Mr. Chad R. Houck as Chief Financial Officer and, on November 6, 2007, the appointment of Dr. William C. Brice as Director of Government & Community Relations.

On November 19, 2007, the Company's common shares were delisted from the TSX-V, and commenced trading on the TSX at the opening of business Monday November 19, 2007, under the symbol FRA.

### 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, 2006		\$ 4,845,029	\$ 4,472,685	\$	\$	\$ 372,344
	Expenditures					
	Acquisition	310,105	260,034			50,071
	Exploration	1,708,984	1,428,126	3,291	9,409	268,158
	Abandoned	(12,700)		(3,291)	(9,409)	
December 31, 2006		<u>6,851,418</u>	<u>6,160,845</u>	<u>-</u>	<u>-</u>	<u>690,573</u>
	Expenditures					
	Acquisition	349,995	199,995			150,000
	Exploration	1,424,018	1,015,116	2,897	3,112	402,893
	Abandoned	(6,009)		(2,897)	(3,112)	
March 31, 2007		<u>\$ 8,619,422</u>	<u>\$ 7,375,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,243,466</u>
September 30, 2007		\$ 14,681,145	\$ 12,914,012	\$	\$	\$ 1,767,133
	Expenditures					
	Acquisition	5,473	5,473			
	Exploration	1,857,227	1,809,060	3,989	3,990	40,188.00
	Abandoned	-		(3,989)	(3,990)	
December 31, 2007		<u>16,535,866</u>	<u>14,728,545</u>	<u>-</u>	<u>-</u>	<u>1,807,321</u>
	Expenditures					
	Acquisition	895,271	661,114			234,157
	Exploration	1,363,376	1,268,200	\$ 3,990	\$ 3,989	87,197
	Abandoned	(7,979)		(3,990)	(3,989)	
March 31, 2008		<u>\$ 18,786,534</u>	<u>\$ 16,657,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,128,675</u>

### Results of Operations

#### Three Months ended March 31, 2008

Franconia's operations in the three months to March 31, 2008 were focused on exploration (primarily on the Birch Lake Project) 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 \$(277,242) compared with a net loss of \$(332,898) for the previous quarter and with a net loss of \$(158,633) for the quarter ended March 31, 2007.

## Summary of Results

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

	<b>2<sup>nd</sup> Quarter March 31 2008</b>	<b>1<sup>st</sup> Quarter December 31 2007</b>	<b>4<sup>th</sup> Quarter September 30 2007</b>	<b>3<sup>rd</sup> Quarter June 30 2007</b>
General administration	\$ 405,401	\$ 482,302	\$ 1,490,298	\$ 506,530
General exploration	14,672	16,431	1,967	-
Stock-based compensation expense (now included in general administration)	-	-	-	-
Net income/(loss)	\$ (277,242)	\$ (332,898)	\$ (1,146,334)	\$ (512,407)

	<b>2<sup>nd</sup> Quarter March 31 2007</b>	<b>1<sup>st</sup> Quarter December 31 2006</b>	<b>3<sup>rd</sup> Quarter* September 30 2006</b>	<b>2<sup>nd</sup> Quarter June 30 2006</b>
General administration	\$ 152,625	\$ 1,397,992	\$ 214,695	\$ 109,486
General exploration	-	131	-	713
Stock-based compensation expense	-	-	-	-
Net income (loss)	\$ (158,633)	\$(1,410,822)	\$(1,451,121)	\$ (103,669)

### Six months ended March 31, 2008

Franconia's operations in the six months to March 31, 2008 were focused on exploration (primarily on the Birch Lake Project) and on its financing activities. The Company did not generate any operating revenue in the quarter. The Company's net loss for the six month period was \$(610,140) compared with a net loss of \$(1,569,456) for the two quarters ended March 31, 2007.

## Summary of Results

The following tables, prepared in accordance with Canadian GAAP, set out financial performance highlights for the six month periods ended March 31, 2008 and 2007:

	<b>Six months March 31 2008</b>	<b>Six months March 31 2007</b>
General administration	\$ 887,704	\$ 1,550,616
General exploration	31,109	-
Stock-based compensation expense (now included in general administration)	-	-
Net income/(loss)	\$(610,140)	\$ (1,569,455)

### Liquidity and Capital Resources

At March 31, 2008, Franconia had working capital of \$5,955,526 (\$16,458,525 at September 30, 2007; \$2,127,099 at March 31, 2007.) Cash and equivalents was \$5,897,026 at March 31, 2008, compared with \$17,104,454 at September 30, 2007 and with \$2,275,038 at March 31, 2007. The reduction since last quarter is mainly attributable to a reclassification of \$6.1 million in Student Loan Auction Rate Securities (ARS) from Cash Equivalents to non-current Investments. Liquidity problems in U.S. Credit Markets necessitated this change, but the underlying investments appear to remain strong for the long term.

### Consultant Contracts and Ongoing Commitments

#### 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.

### 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.

### **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 for the three month periods ended March 31, 2007 and March 31, 2008 were \$23,477 and \$5,740, respectively. For the six month periods ended March 31, 2007 and March 31, 2008 fees charged were \$46,954 and \$14,654, respectively. These fees have been included in deferred acquisition and exploration costs.
- (ii) Land costs reimbursed in respect of Birch Lake totaled \$278,604 and \$231,360 for the three month periods ended March 31, 2007 and March 31, 2008, respectively, and \$372,638 and \$438,351 for the six month periods ended March 31, 2007 and March 31, 2008, respectively.
- (iii) Administrative costs reimbursed totaled \$16,047 and \$42,130 for the three month periods ended March 31, 2007 and March 31, 2008, respectively. Administrative costs reimbursed totaled \$63,314 for the six month period ended March 31, 2007, and \$23,769 for the six-month period ended March 31, 2008. Of the above amounts, a total of \$11,795 and \$10,645 is included in accounts payable at March 31, 2007 and March 31, 2008, respectively.

#### (b) Other transactions

- (i) Legal fees paid to a director's law firm totaled \$14,695 and \$17,402 for the three month periods ended March 31, 2007 and March 31, 2008, respectively. For the six month period fees paid were \$28,884 and \$29,266, respectively. With the exception of legal costs included in share issue costs, these fees are included in general administration
- (ii) Consulting fees paid to an officer were Nil and Nil for the three and six months ended March 31, 2007. For the three and six months ended March 31, 2008 fees were \$19,020 and \$35,970, respectively.
- (iii) Fees paid or accrued to directors totaled \$18,750 for each of the three months ended March 31, 2007 and 2008. For both the six months ended March 31, 2007 and 2008 the fees paid were \$37,500.
- (iv) Consulting fees paid to the Company's president totaled \$27,000 and \$37,500 for the three months ended March 31, 2007 and 2008, respectively. For the six month period ended March 31, 2007 and 2008 fees were \$54,000 and \$75,000, respectively. These costs have been included in general administration.

These transactions are in the normal course of operations and 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 10% of the Company's issued and outstanding common shares, up to a maximum of 5,762,977 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, 2008 the Company did not issue stock options. During the three month and six month periods ended March 31, 2008 the Company recorded \$Nil of compensation expense for the stock options granted to directors, officers and consultants using the fair-value method. In addition to this amount, \$Nil has been recorded as part of deferred acquisition and exploration costs.

## **Subsequent Events**

Subsequent to the period, the Company paid \$360,000 to Rendfield Land Company (a subsidiary of Allete, Inc.) as earnest money on a real estate transaction in Lake County, Minnesota. Negotiations are continuing on a finalized purchase agreement. If carried through to completion, this purchase will become part of the Birch Lake Project.

Subsequent to the period, the company signed an agreement with Marlow Geoservices to acquire 228 acres in Lake County, Minnesota for a sum total of \$570,000. Of the total, \$50,000 was paid in April 2008, with the remaining \$520,000 to be paid prior to May 30, 2008. This land also will become part of the Birch Lake Project.

## **Shareholder Rights Plan**

The Board of Directors adopted a shareholder rights plan (the "Rights Plan") in March 2008, which was approved by the shareholders at the Annual General and Special Meeting of Shareholders held on April 21, 2008. The Rights Plan is now effective following the ratification by shareholders and upon ratification, the Rights Plan will have a term of up to nine years, subject to re-ratification at the annual general meetings to be held in 2011 and 2014.

The objectives of the Rights Plan include providing shareholders with adequate time to properly assess the merits of any proposed take-over bid or similar transaction involving the shares of Franconia without undue pressure; encouraging the development of alternative transactions or competing take-over bids under such circumstances; and, giving the directors adequate time to fully consider any such take-over bid or similar transaction and any alternative transaction that may be proposed.

The Rights Plan takes the form of an agreement between the Company and CIBC Mellon Trust Company, as rights agent, dated as of March 24, 2008. Under the Rights Plan, one right (a "Right") was issued and becomes attached to each outstanding Common Share. A Right will also attach automatically to each Common Share issued thereafter, while the Rights Plan is in effect. The Rights will trigger (i.e., separate from the Common Shares) and become exercisable ten trading days after a person (an "Acquiring Person") has acquired 20% or more of, or commences or announces a take-over bid for, the Company's outstanding Common Shares other than by an acquisition pursuant to a Permitted Bid or a Competing Permitted Bid, as defined in the Rights Plan.

The acquisition by an Acquiring Person of 20% or more of the Common Shares is a "Flip-In Event". When a Flip-In Event occurs prior to the expiration of the Rights Plan, each Right shall constitute the right to purchase from Franconia, on payment of the Exercise Price of \$100.00, a Common Share, subject to adjustments of the Exercise Price pursuant to the Rights Plan. In certain circumstances, the number of Common Shares that may be acquired for the Exercise Price may increase substantially. In these circumstances each Right will then entitle the holder, on payment of the Exercise Price, to purchase that number of Common Shares having an aggregate market value equal to twice the Exercise Price.

The potential for the issue of a substantial number of additional Common Shares at a price effectively half of their market value to all shareholders other than an Acquiring Person, is intended to encourage bidders to make a Permitted Bid or to obtain the redemption of the Rights or a waiver of the Rights Plan, thereby meeting the timing and other objectives of the Rights Plan referred to above. The circumstances in which the Rights can be redeemed or the Rights Plan can be waived are limited. Prior to the rights being triggered, they will have no value and will have no dilutive effect on the Common Shares

Investment advisors (acting in the ordinary course of their business), trust companies (acting in their capacities as trustees and administrators), statutory bodies whose business includes the management of funds, administrators of registered pension plans, and crown agents acquiring greater than 20% of the Common Shares are exempt from triggering a Flip-In Event, provided that

they are not making, or are not part of a group making, a take-over bid.

Prior to separation, the Rights are evidenced by a legend stamped on the Common Share certificates and are not transferable separately from the Common Shares. From and after separation, the Rights will be evidenced by rights certificates and will be transferable separately from the Common Shares.

Following the Stock Acquisition Date and prior to the Separation Date, the Board may, in certain circumstances, waive the application of the Rights Plan to a particular flip-In Event (an "Exempt Acquisition"). The Board may also, at any time prior to occurrence of a Flip-in-Event and with shareholder approval, redeem all of the outstanding Rights at Cdn \$0.00001 per Right. The Rights will deem to have been redeemed by the Board following completion of a Permitted Bid or Competing Permitted Bid.

North American institutional investors, such as pension plans, scrutinize shareholder rights plans to ensure that all shareholders receive equal treatment and provide the company sufficient time to consider alternatives to a particular bid. Franconia has considered and implemented these principles in the Rights Plan and does not expect concerns from institutional investor scrutiny. Franconia confirmed that it has no knowledge of any proposed offer to acquire Franconia's shares or any other business combination transaction. The Board, upon the advice of a committee of independent directors, considered it prudent to adopt the Rights Plan to ensure that shareholders are treated fairly and are not subject to undue pressure to tender in the event of such a transaction.

### **Shares issued**

During the quarter, the Company paid \$225,000 for a property acquisition payment and issued 161,792 shares valued at \$234,157 at the date of issuance in January to the Beaver Bay Joint Venture in accordance with commitments noted in 2(a)(ii) of the unaudited consolidated financial statements and related notes for the three month and six month periods ended March 31, 2008.

### **Minnesota loan**

The Company has a pending application to the state of Minnesota for an advance of funds in accordance with an agreement whereby Minnesota will provide a loan of up to \$2,500,000 to fund expenditures on the Birch Lake project. In order to receive the full amount of the loan, the Company must incur \$10,000,000 in total expenditures. The Company has applied (and received preliminary approval) for \$1.04 million as partial proceeds from the loan. The agreement provides for interest to be charged on the outstanding balance at U.S. prime rate until the earlier of close of financing for any commercial mining operation and December 31, 2011. It also provides for the issue of one warrant to purchase one share of the Company for each dollar advanced. The loan is to be secured by a blanket security on the Birch Lake property and other guarantees.

### **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.

### **Significant Accounting Policies**

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

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiary, Franconia Minerals Corporation (US) Inc. All significant inter company transactions have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents include cash deposits and highly liquid short term investments. We consider all highly liquid marketable securities with maturities of less than 91 days at date of purchase to be cash equivalents. The Company is not exposed to significant risk with its cash and cash equivalents due to these being placed with major financial institutions. The non-current Investments as described in Risk Considerations below may carry a liquidity risk if the ARS market does not recover, although the underlying securities are of high quality and government guaranteed.

(c) Deferred acquisition and exploration costs

The Company is engaged in the acquisition, exploration and development of mineral properties. Deferred acquisition costs include amounts paid under option and 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. 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 carrying amounts are written down when the long-term expectation is that the net carrying amount will not be recovered or when a decision to abandon the property is made. Proceeds from disposition of mineral properties are credited to the capitalized costs with no gain or loss being recognized until all costs are recovered.

(d) Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assumed. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

(e) Foreign exchange

Foreign currency balances, including those of foreign subsidiaries, are expressed in U.S. dollars on the following bases:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses, at the average rate of exchange for the year.

Gains and losses arising from the translation of foreign currency are included in net loss for the year.

(f) Joint venture

The Company's exploration and development activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities. Joint venture accounting, which reflects the Company's proportionate interest in mineral properties, is applied by the Company only when the parties enter into formal comprehensive agreements for ownership and mining participation terms.

(g) Functional and reporting currency

All of the Company's mining exploration operations are currently in the United States. Because only limited operations are conducted in Canadian dollars, the U.S. dollar is the functional and reporting currency. All figures reported in these consolidated financial statements are stated in U.S. dollars unless otherwise noted.

(h) Stock-based compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus under shareholders' equity. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to share capital.

(i) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

However, diluted loss per share is not presented where the effects of various conversions and exercise of options and warrants would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding

(j) Asset retirement obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

The Company holds a tenement bond to ensure the Company has adequate resources to finance future rehabilitation costs. A provision has been made to reflect estimated costs for rehabilitation of claims.

(k) Measurement uncertainty

The amounts recorded for stock-based compensation, impairment of deferred acquisition and exploration costs, and asset retirement obligations are based on estimates. The Black-Scholes option pricing model is based on estimates of assumptions for expected volatility and risk-free interest rates. The recoverability of amounts shown for deferred acquisition, and exploration and development costs is dependent on the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties and on future production or proceeds of disposition. The assumptions used to determine the asset retirement obligation are based on current market interest rates and future restoration expenditures. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(l) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of environmental obligations, asset retirement obligations, rates for depletion and amortization, the impairment of mineral property interests, valuation allowance for future tax assets and the estimates used in the calculation of stock-based compensation. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

### **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.

As at March 31, 2008, the Company reclassified \$6.1 million in Auction Rate Security (ARS) investments from Cash Equivalents to non-current Investments on the Consolidated Balance Sheet. This change was deemed necessary due to uncertainty as to when these investments can be successfully liquidated as a result of current market failures for ARS. Management believes the credit quality of the ARS held is high (all individual funds are rated either AAA or AA by independent rating agencies), and that the Company will ultimately recover all amounts invested in these securities. Further, given the Company's alternative cash resources, management does not believe the current illiquidity of these investments will have any material impact on the ability of the Company to execute its business plans. However, given the unprecedented nature of current market conditions, there is some amount of risk associated with the recovery of principal on these investments. Franconia has a standing "sell" order with its broker-dealers to liquidate the ARS holdings as soon as possible, and as a result recovered \$400,000 of previously illiquid ARS holdings during March 2008. Although the Company intends to continue actively seeking such liquidity, there is no certainty that it will continue to become available.

## Going-Concern Assumption

The Company's ability to continue as a going-concern is dependent on the Company being able to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its mineral interests, the attainment of profitable mining operations, and, or the receipt of proceeds from the disposition of its mineral property interests. These consolidated financial statements have been prepared on a going-concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going-concern.

	March 31, 2008	September 30, 2007
Working Capital	\$ 5,955,526	\$ 16,458,525
Deficit	\$ (7,901,537)	\$ (7,291,397)

## 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, 2008, 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.

### 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 and six month periods ended March 31, 2008.

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, 2008 and 2007, the material components of capitalized deferred acquisition and exploration costs were as follows:

	Six months ended March 31, 2008			Six months ended March 31, 2007		
	Total	Birch Lake	Red Knoll	Total	Birch Lake	Red Knoll
Analytical services	\$ 187,679	\$ 186,631	\$ 1,048	\$ 68,870	\$ 68,870	\$ -
Office and general	55,685	51,283	4,402	210,651	197,247	13,405
Travel and promotion	74,981	65,467	9,514	27,080	12,298	14,782
Land payments	900,744	666,587	234,157	660,100	460,029	200,071
Drilling	337,805	321,038	16,767	189,602	145,408	145,408
Vehicle	27,063	19,395	7,668	26,325	7,991	7,991
Consultants and contractors	2,521,432	2,433,446	87,986	2,591,765	2,102,300	489,466
	<u>\$ 4,105,389</u>	<u>\$ 3,743,846</u>	<u>\$ 361,542</u>	<u>\$ 3,774,394</u>	<u>\$ 871,122</u>	<u>\$ 871,122</u>

## General Administration Expenses

For each of the three and six month periods ended March 31, 2008 and 2007, the material components of general administration expenses were as follows:

### General administration expenses

	Three months ended March 31		Six months ended March 31	
	2008	2007	2008	2007
Stock Compensation	\$ 39,186	\$ 12,935	\$ 78,372	\$ 25,870
Foreign exchange	(13,372)	(34,803)	2,335	99,356
Overhead: office, rent, utilities	42,813	44,056	61,402	72,012
Travel	15,390	44,145	31,580	58,174
Consultants and contractors	213,286	86,291	676,516	1,295,206
Directors' Fees	18,750	18,750	37,500	37,500
	<u>\$ 316,052</u>	<u>\$ 171,374</u>	<u>\$ 887,704</u>	<u>\$ 1,588,118</u>

## Disclosure of Outstanding Share Data

The Company is a public company listed on the Toronto Stock Exchange (TSX).

As at March 31, 2008, the Company had 58,186,566 common shares issued, warrants to purchase 6,594,901 common shares at \$1.91 - \$2.70 and options to purchase 4,416,500 common shares at \$0.40 - \$1.95.

## Additional Information

Additional information relating to the Company is available on the Internet at the SEDAR website located at [www.sedar.com](http://www.sedar.com) and at [www.franconiaminerals.com](http://www.franconiaminerals.com).