



**RESOURCE CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Second Quarter Ended**

**June 30, 2011**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### General

The following Management's Discussion and Analysis ("MD&A") of Augusta Resource Corporation and its subsidiaries, ("Augusta" or "the Company") should be read in conjunction with the accompanying interim condensed consolidated financial statements for the three and six months ended June 30, 2011 which is available on the SEDAR website at [www.sedar.com](http://www.sedar.com). The financial statements are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company's 2010 comparatives in this MD&A have been presented in accordance with IFRS. This MD&A contains "forward-looking statements" that are subject to risk factors set out in the cautionary note contained herein. All figures are in United States dollar unless otherwise noted. This MD&A has been prepared as of August 3, 2011.

The Company's shares are listed on the Toronto Stock Exchange ("TSX") and the NYSE Amex LLC under the symbol "AZC".

### Cautionary Statement on Forward-Looking Statements

Certain of the statements made and information contained herein and in the documents incorporated by reference may contain forward-looking statements or information within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and forward-looking statements or information within the meaning of the *Securities Act* (Ontario). Forward-looking statements or information include statements regarding the expectations and beliefs of management. Forward-looking statements or information include, but are not limited to, statements or information with respect to known or unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or information. Forward-looking statements or information are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements or information, including, without limitation, risks and uncertainties relating to Augusta's plans at its Rosemont property and other mineral properties, the interpretation of drill results and the estimation of mineral resources and reserves, the geology, grade and continuity of mineral deposits, the possibility that future exploration, development or mining results will not be consistent with the Company's expectations, metal recoveries, accidents, equipment breakdowns, title matters, labor disputes or other unanticipated difficulties with or interruptions in production and operations, the potential for delays in exploration or development activities or the completion of feasibility studies, the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations, currency fluctuations, failure to obtain adequate financing on a timely basis, the effect of hedging activities, including margin limits and margin calls, regulatory restrictions, including environmental regulatory restrictions and liability, the speculative nature of mineral exploration, dilution, competition, loss of key employees, and other risks and uncertainties. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements or information. Augusta does not expect to update forward-looking statements or information continually as conditions change, and you are referred to the full discussion of the Company's business contained in the Company's reports filed with the securities regulatory authorities in Canada and the United States. Readers are also advised to consider such forward-looking statements, which speak only as of the date the statements were made.

### Description of the Business

Augusta and its wholly owned subsidiary, Rosemont Copper Company ("RCC"), are engaged in the exploration and development of mineral properties in Pima County, Arizona. Augusta's main asset is the Rosemont copper project ("Rosemont") which is currently in the permitting stage. The Company anticipates that the U.S. Forest Service ("USFS") will be able to issue the draft Environment Impact Statement ("EIS") for public comment by the end of August 2011. A Record of Decision ("ROD") is expected to be issued in January 2012 with ground breaking to

commence in the first half of 2012. Rosemont is expected to be one of the largest copper mines in the United States, accounting for approximately 10% of total U.S. copper production.

The Rosemont property is comprised of approximately 15,000 acres (6,070 hectares) of patented and unpatented claims and fee land in addition to approximately 15,000 acres (6,070 hectares) of leased grazing ranchland. Rosemont is approximately 50 kilometres southeast of Tucson, Arizona near a number of large porphyry type producing copper mines operated by Freeport-McMoRan Copper & Gold Inc. and ASARCO LLC ("ASARCO"). Rosemont contains an open-pit mineable copper/molybdenum/silver skarn deposit, as well as other exploration targets.

### **Corporate Developments**

On June 8, 2011, John R. Brodie, FCA was elected to the Company's Board of Directors at its Annual General Meeting. Mr. Brodie replaces Michael A. Steeves, who retires from the Board after 12 years of services. Mr. Brodie is a Fellow of Chartered Accountants and was formerly a partner of KPMG LLP. He was elected a fellow for his distinguished service to the profession by the Institute of Chartered Accountants of British Columbia. Mr. Brodie is the President of John R. Brodie Capital and serves on the Board of several public companies in the resource and manufacturing sector.

On June 1, 2011, the preliminary draft EIS was delivered by the Coronado National Forest ("CNF") to the State of Arizona and local Cooperating Agencies for final review. The Cooperating Agencies have been mandated with 30 days to provide their final comments on the draft EIS as part of the federal government National Environmental Policy Act ("NEPA") process. On June 30, 2011, the Cooperating Agencies were given a 30-day extension for comments. This extension is not expected to affect USFS's announced schedule guidance of August 2011 for the draft EIS to be available for public comment under NEPA regulations and the ROD appears to be on track for January 2012 release.

On April 14, 2011, the Company announced that the USFS has scheduled January 2012 for the ROD on the Rosemont Copper project. In addition, the USFS has also provided a schedule guidance of August 2011 for the draft EIS to be available for public comment.

### **Rosemont Project**

#### ***Permitting and Environmental Impact Statement***

The EIS process is managed by the USFS. The ROD will be issued by the USFS and Bureau of Land Management for mining activities on public land and by the Army Corps of Engineers for mining activities within jurisdictional waters of the United States.

As noted above, the Company believes that the USFS will be able to issue the draft EIS for public comment in August 2011.

The Company continues working on completing the necessary work to obtain the following permits:

- The Aquifer Protection Permit when issued by the Arizona Department of Environmental Quality will establish the operating standards and controls so that operations do not degrade groundwater;
- The Air Permit when issued by the Pima County Department of Environmental Quality will establish the standards for air quality and emissions control for mining operations;
- The Certificate of Environmental Compliance Process managed by the Arizona Corporation Commission. The ultimate power route will be determined by the Commission and the permit will be issued to Tucson Electric Power. The timing for this process has been set so the Right of Way (below) will be the one approved for use by the Commission; and
- The State Land Department Right of Way valuation and approval process will provide a route to get water and power to Rosemont.

**Engineering and Ongoing Support Activities**

The Company continued with the engineering phase of the Rosemont project in the second quarter of 2011. Detailed engineering work has been adjusted to match the revised construction schedule. Since the commencement of permitting activities, the Company has maintained an active community relations program which includes maximizing the economic benefits to the region in which the Rosemont project operates in, support of local and regional activities and maintaining a community outreach program. During the first half of 2011 the Company has added a number of technical and operating personnel to its project team as the Company prepares for construction in first half of 2012.

As at June 30, 2011 and December 31, 2010, Augusta's capitalized costs on the Rosemont project were as follows:

**Mineral Properties**

As at January 1, 2010	\$ 26,670,935
Sale of interest	(1,057,978)
Acquisition costs	63,991
Capitalized interest	16,913
<b>As at December 31, 2010</b>	<b>\$ 25,693,861</b>
As at December 31, 2010	\$ 25,693,861
Sale of interest	(980,259)
<b>As at June 30, 2011</b>	<b>\$ 24,713,602</b>

**Development Costs**

As at January 1, 2010	\$ 48,844,541
Permitting, engineering and on-going support activities, net	31,298,677
Sale of interest	(2,802,972)
Capitalized loan interest and financing charges	4,782,613
Capitalized stock compensation expense	1,406,137
<b>As at December 31, 2010</b>	<b>\$ 83,528,996</b>
As at December 31, 2010	\$ 83,528,996
Permitting, engineering and on-going support activities, net	12,260,146
Sale of interest	(2,842,862)
Capitalized loan interest and financing charges	2,007,021
Capitalized stock compensation expense	2,251,346
<b>As at June 30, 2011</b>	<b>\$ 97,204,647</b>

During the six months ended June 30, 2011, the Company made deposits on long lead equipments totalling \$14.45 million (December 31, 2010 - \$26.61 million).

**Financings**

During the second quarter ended June 30, 2011, the Company received proceeds of \$2.22 million (Cdn\$2.13 million) from the exercise of 1,083,899 stock options at an average exercise price of \$2.05 (Cdn\$1.97). Year-to-date, the Company received proceeds of \$24.26 million (Cdn\$23.82 million) from the exercise of 1,292,230 at an average exercise price of \$2.06 (Cdn\$1.98) and 5,452,795 share purchase warrants at an exercise price of \$3.96 (Cdn\$3.90).

**Results of Operations**

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
<b>EXPENSES</b>				
Salaries and benefits	\$ 429,203	\$ 336,512	\$ 1,022,703	\$ 940,881
Stock-based compensation	942,111	359,667	1,998,062	692,824
Exploration and project investigation	398,433	-	656,679	-
Legal, Accounting and Audit	192,609	180,057	562,772	314,994
Travel	41,601	63,468	98,734	88,301
Consulting	6,847	4,246	40,997	20,174
Filing and Regulatory fees	98,157	19,847	155,554	78,495
Recruiting fees	-	-	4,749	28,128
Office and Administration	61,186	73,418	110,412	128,959
Rent	47,773	38,221	109,253	72,634
Investor Relations	27,215	11,540	48,437	58,192
Directors' fees	51,781	29,889	103,985	62,604
Insurance	80,435	45,628	116,729	80,464
Membership and Conferences	5,198	2,880	6,295	8,969
Amortization	58,918	40,952	115,558	80,856
Fiscal and Advisory services	3,214	3,680	9,721	7,111
Loss from operations	(2,444,681)	(1,210,005)	(5,160,640)	(2,663,586)
Interest and other income/expenses	159,012	141,484	415,866	340,655
Other expenses	(135,702)	(175,664)	(413,123)	(413,837)
Gains on shares and warrants	1,294,762	875,510	606,303	1,977,628
Foreign exchange gains (losses)	52,596	(436,439)	543,820	(324,715)
Interest and finance charges	(4,502)	(3,255)	(8,065)	(7,950)
Gain on sale of interest	10,524,856	-	21,158,194	-
Net profit (loss) before taxes	9,446,341	(808,369)	17,142,355	(1,091,805)
Deferred income tax expense	(2,150,882)	-	(2,150,882)	-
Net comprehensive profit (loss) for the period	\$ 7,295,459	\$ (808,369)	\$ 14,991,473	\$ (1,091,805)

For the three months ended June 30, 2011, the Company reported a \$7.30 million net comprehensive profit or \$0.05 diluted earnings per share compared to a \$0.81 million comprehensive loss or \$0.01 loss per share for the same period in 2010. The \$8.10 million increase in comprehensive profit was due primarily to a \$8.37 million after-tax gain from the sale of a 1.74% interest in the Rosemont joint venture, a \$0.49 million foreign exchange gains on Canadian dollar denominated working capital items and a \$0.42 million fair value gain from changes to the fair value of Canadian dollar denominated share purchase warrants issued pursuant to financings.

For the six months ended June 30, 2011, the Company reported a \$14.99 million net comprehensive profit or \$0.10 diluted earnings per share compared to a \$1.09 million net comprehensive loss or \$0.01 loss per share for the same period in 2010. The \$16.08 million increase in comprehensive profit was due to primarily to a \$19.01 million after-tax gain on the sale of a 3.41% interest in the Rosemont joint venture and offset by increases in stock-based compensation of \$1.31 million and foreign exchange gains of \$0.87 million. Gains from the changes in the fair value of Canadian dollar denominated share purchase warrants were \$1.37 million lower than the comparable period in 2010.

Other significant variances include:

Salaries and benefits increased \$0.09 million to \$0.43 million for the second quarter compared to \$0.34 million for the same period in 2010. The increase was due to costs associated with the hiring of additional personnel in the second half of 2010 and not reflected in the comparable periods. For the year, salaries and benefits increased \$0.8 million over the same period in 2010.

Stock based compensation costs increased \$0.58 million to \$0.94 million for the second quarter compared to \$0.36 million for the same period in 2010. The increase was due to the amortization of a comprehensive grant of stock options to its employees in the first quarter of 2011 compared to none for the same period in 2010. Stock compensation costs increased \$1.31 million for the six months ended June 30, 2011 due to the same explanation as above.

Project investigation costs which consist of new project investigation and legal due diligence costs totaled \$0.40 million during the second quarter compared to \$nil for the same period in 2010 and totaled \$0.66 million for the six month ended June 30, 2011

### Quarterly Results

	Interest and Other Income	Net Comprehensive Profit (Loss)	Basic Earnings (Loss) Per Share	Diluted Earnings (Loss) Per Share
Q2 2011	\$ 159,012	\$ 7,295,459	\$ 0.05	\$ 0.05
Q1 2011	256,854	7,696,014	0.06	0.05
Q4 2010 <sup>(1)</sup>	213,422	(1,193,358)	(0.01)	(0.01)
Q3 2010 <sup>(1)</sup>	115,641	(1,094,003)	(0.01)	(0.01)
Q2 2010	141,484	(808,369)	(0.01)	(0.01)
Q1 2010	199,171	(283,436)	0.00	0.00
Q4 2009 <sup>(1)</sup>	62,673	(2,139,179)	(0.02)	(0.02)
Q3 2009 <sup>(1)</sup>	\$ 25,619	\$ (943,401)	\$ (0.01)	\$ (0.01)

<sup>(1)</sup> Information for 2009 and the third and fourth quarters of 2010 is presented in accordance with Canadian GAAP and has not been restated in accordance with IFRS.

Factors that can cause fluctuations in the Company's quarterly results include the timing of stock option grants, volatility in share price affecting the fair value of share purchase warrants, the gain from sale of the Company's interest in Rosemont and foreign exchange gains or losses related to the Company's holding of Canadian dollar denominated working capital items. Since the Rosemont project is not yet in production, the Company believes that its losses and loss per share is not a primary concern to investors in the Company.

### Liquidity and Capital Resources

The Company's cash position decreased \$0.45 million during the quarter to \$49.94 million at June 30, 2011 compared to \$31.51 million at the beginning of the year. The cash position includes \$5.67 million (December 31, 2010 - \$6.15 million), which represents our share of the cash held in the Rosemont joint venture. Working capital at June 30, 2011 was \$2.63 million compared to \$42.78 million at the end of the first quarter and \$17.79 million at the beginning of the year. The decrease in working capital during the second quarter was due to the \$43.37 million reclassification of debt maturing on April 23, 2012 to current liability. Also included in the June 30, 2011 working capital is \$3.26 million (March 31, 2011 - \$4.49 million; December 31, 2010 - \$9.49 million) relating to the fair value of share purchase warrants issued with an exercise price denominated in Canadian dollars. Changes to the fair value of the warrants are reported in the statement of comprehensive profit or loss and will result in volatility in the Company's working capital and profit or loss until the warrants are either exercised or allowed to lapse.

During the second quarter the Company's Rosemont joint venture partner, United Copper & Moly LLC ("UCM"), made cash contributions totaling \$15.27 million and earned an additional 1.74% interest (first quarter 2011 - \$14.68 million (1.67% earned interest); fourth quarter 2010 - \$36.21 million (4.11% earned interest)) in the Rosemont joint venture pursuant to the September 15, 2010 Earn-In Agreement. To date, UCM has earned a 7.52% interest in the joint venture.

The Company used \$2.13 million (YTD - \$4.61 million) of cash in operating activities during the second quarter compared to \$0.86 million (YTD - \$2.52 million) for the same period in 2010. The \$1.27 million increase in cash used in operating activities was due primarily to the net \$0.87 million settlement of non-cash working capital items as they become due. The Company generated \$17.89 million (YTD - \$53.76 million) in cash from financing activities for the second quarter consisting of \$2.22 million (YTD - \$2.66 million) from the exercise of stock options and \$15.67 million (YTD - \$29.50 million) from UCM's cash contribution into Rosemont. Cash used in investing activities totaled \$16.08 million (YTD - \$31.07 million) for the quarter primarily on deposits on long-lead equipment totaling \$7.21 million (YTD - \$14.45 million) and \$9.0 million (YTD - \$16.73 million) on permitting, engineering and ongoing support activities. During the second quarter, the Company exercised all of its warrants to acquire 2 million common shares of Ely Gold & Minerals Inc. at a cost of Cdn\$0.5 million and had sold 362,500 shares for proceeds of \$0.12 million. The market value of the remaining shares as at the date of the MD&A was \$0.53 million. The Company also received from Ely the scheduled \$0.50 million payment from Ely in connection with the sale of DHI Minerals Inc. in 2008. The next payment of \$0.75 million is due on June 1, 2012.

The Company has an off-balance sheet arrangement under its agreement with Silver Wheaton Corp. ("Silver Wheaton") whereby the Company has agreed to sell to Silver Wheaton all of its silver and gold ounces produced at the lower of \$3.90 per ounce of silver and \$450 per ounce of gold delivered, or prevailing market price, in exchange for upfront cash payments of \$230 million, which will be drawn upon the issuance of the major project permits and the arrangement of project financing. The cash payments will be used to fund construction at Rosemont. In addition, there are contracts in place for the purchase of long-lead equipment. There were no material capital lease agreements.

The Company does not expect to generate any significant revenue from its operations until Rosemont commences commercial production.

UCM has completed its \$70 million commitment of funding Rosemont's permitting costs in the third quarter as part of its \$176 million equity earn-in investment in the Rosemont joint venture. The joint venture parties are currently negotiating a funding arrangement to cover the remaining permitting costs until the major permits are issued. Once the permits are issued Rosemont will commence drawing on UCM's remaining \$106 million commitment to fund construction costs.

The Company adjusted its planned 2011 capital expenditures program in accordance with the revised ROD schedule. Project financing for the construction of Rosemont is expected to be in place before the end of the fourth quarter of 2011. In the meantime, the Company will continue to monitor its cash flows and operate in a manner to preserve cash while the Company secures its final project financing.

#### **TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

On January 1, 2011, the Canadian Accounting Standards Board replaced Canadian GAAP with IFRS for publicly accountable enterprises, with a transition date of January 1, 2010. IFRS represents standards and interpretations approved by the IASB and are comprised of IFRSs, IASs, and interpretations issued by IFRICs or the former SICs.

As previously discussed in the Company's MD&A for the year ended December 31, 2010, the Company implemented its conversion from Canadian GAAP to IFRS through a transition plan that involves the following four phases: scoping and planning ("phase 1"); detailed assessment ("phase 2"); operations implementation ("phase 3"); and post implementation ("phase 4"). Phases 1, 2 and 3 were carried out in 2009 and 2010 and phase 4, which involves the maintenance of sustainable IFRS compliant data and processes for fiscal year 2011 and beyond, will be carried out throughout 2011. Management does not anticipate any significant issues with completing phase 4 of its transition plan.

The IASB continues to amend and add to its current IFRS standards and interpretations with several projects underway. Accordingly, the accounting policies adopted by the Company for the Company's first IFRS consolidated financial statements for the year ended December 31, 2011 may differ from the significant accounting policies used in the preparation of the Company's interim consolidated financial statements as at and for the three and six months ended June 30, 2011. The Company has prepared its June 30, 2011 interim consolidated financial statements in accordance with IAS 34, *Interim financial reporting*.

The interim consolidated financial statements for the three and six month periods ended June 30, 2011 were prepared in accordance with IAS 34, *Interim Financial Reporting*. The same accounting policies and methods of computation were followed in the preparation of these interim consolidated financial statements for the three month period ended March 31, 2011. In addition, the interim consolidated financial statements for the three month period ended March 31, 2011 contain certain incremental annual IFRS disclosures not included in the annual financial statements for the year ended December 31, 2010 which were prepared in accordance with previous Canadian GAAP. Accordingly, these interim consolidated financial statements for the three and six month ended June 30, 2011 should be read together with the annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP as well as the interim consolidated financial statements for the three month period ended March 31, 2011.

The following table summarizes the impact the transition to IFRS had on the Company's selected financial information for the three and six months ended June 30, 2010:

### Three months ended June 30, 2010

	Canadian GAAP	Capitalized Exploration and Evaluation Costs	Change in functional currency	Stock-based compensation	Capitalized interest and other	Marked-to- Market valuation of warrants	IFRS
Net comprehensive loss for the period	\$ (2,212,418)	\$ -	\$ -	\$ 23,814	\$ 14,869	\$ 1,365,366	\$ (808,369)
Total assets	173,283,629	(21,448,188)	10,863,409	339,994	178,590	-	163,217,434
Total Liabilities	52,191,862	-	-	-	-	(409,523)	51,782,339
Shareholders' Equity	121,091,767	(21,448,188)	10,863,409	339,994	178,590	409,523	111,435,095
Basic loss per share	\$ (0.019)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.007)

### Six months ended June 30, 2010

	Canadian GAAP	Capitalized Exploration and Evaluation Costs	Change in functional currency	Stock-based compensation	Capitalized interest and other	Marked-to- Market valuation of warrants	IFRS
Net comprehensive loss for the period	\$ (3,151,819)	\$ -	\$ -	\$ 52,333	\$ 36,265	\$ 1,971,416	\$ (1,091,805)
Total assets	173,283,629	(21,448,188)	10,863,409	339,994	178,590	-	163,217,434
Total Liabilities	52,191,862	-	-	-	-	(409,523)	51,782,339
Shareholders' Equity	121,091,767	(21,448,188)	10,863,409	339,994	178,590	409,523	111,435,095
Basic loss per share	\$ (0.027)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.010)

- a) The Company applied IFRS 2, share-based payments on all share-based payments. Under Canadian GAAP, the Company valued each grant using the Black-Scholes option pricing model and amortized the total cost over the vesting period. Per IFRS 2, the Company has adjusted its policy and is accounting for each vesting period as a separate grant, which resulted in changing the amortization schedules. Further, under Canadian GAAP, forfeitures were recorded as they occur; however, under IFRS, expected forfeitures are estimated and recorded. Estimated forfeitures are trued-up to actual forfeitures at each reporting period. As a result, the amounts recorded in reserves for share-based payments as at June 30, 2010 have been increased by \$1,017,211.

For the three and six months ended June 30, 2010, the amounts credited to stock-based compensation were \$23,814 and \$52,333, respectively.

- b) In accordance with IAS 32, share purchase warrants with an exercise price denominated in a currency other than the issuer's functional currency are considered a derivative instrument and classified as a liability. Warrants are fair valued at each balance sheet date with the corresponding change in value reported in statement of comprehensive profit and loss.

For the three and six months ended June 30, 2010, the amounts credited to gains (losses) on warrants and shares were \$1,365,366 and \$1,971,416, respectively, with a corresponding credit to deficit.

- c) In accordance with IFRS 6, the Company has elected to expense all exploration costs incurred prior to the determination of the commercial viability of its exploration and evaluation projects. These amounts were previously capitalized under Canadian GAAP and have been re-classified to deficit in the periods presented. The total amount re-classified was \$21,448,188 at June 30, 2010.
- d) In accordance with IAS 21, each entity determines its functional currency. The entity which holds the Rosemont project had previously been Canadian dollar functional currency has changed its functional currency to U.S. dollars. As a result, the carrying value of the Rosemont's non-current assets increased \$10,863,409 with a corresponding credit to accumulated other comprehensive income.
- e) IAS 23 requires that borrowing costs be capitalized if they are directly attributable to the acquisition, development or construction of a qualifying asset. A portion of the borrowing costs with respect to the Sumitomo loan had previously been expensed under Canadian GAAP had been capitalized to development costs under IFRS with a corresponding credit to deficit.

For the three and six months ended June 30, 2010, the amounts credited to interest and financing charges were \$21,396 and \$36,265, respectively.

#### **Outlook on Future Earnings**

Under IFRS, future net profits and losses will be impacted by changes to the fair value to the Company's share purchase warrants that have an exercise price denominated in Canadian dollars. Changes in the fair value of the share purchase warrants are primarily influenced by the Company's share price, the volatility of the share price and the Canadian to US dollar exchange rate. Increases in any of these factors will increase the fair value of the share purchase warrants and result in an additional non-cash expense to the Company in future periods. In addition, these changes in the valuation of the share purchase warrants will create a permanent difference for tax purposes and may result in significant volatility to the Company's effective tax rate.

## COMMITMENTS

As at June 30, 2011, the Company has the following known commitments and contractual obligations:

in thousands of US dollars	June 30, 2011	December 31, 2010
Operating leases		
Within one year	\$ 108	\$ 174
After one year but no more than five years	184	202
	<u>292</u>	<u>376</u>
Deposits on long-lead equipment		
Within one year	38,330	50,978
After one year but no more than three years	30,064	61,461
	<u>68,394</u>	<u>112,439</u>
Land purchases		
Within one year	-	360
Total	<u>\$ 68,686</u>	<u>\$ 113,175</u>

## Outlook

The main focus for the remainder of 2011 will be to continue with the detailed engineering, including earthwork, civil and structural design. Ongoing discussions with vendors are being held with respect to transportation storage, off-loading facilities and smelters for the copper and molybdenum concentrates as well as freight being delivered during the construction phase of the project.

After review of the preliminary DEIS by the State of Arizona and local Cooperating Agencies, subsequent levels of review will include the Regional Forest Service office and the cooperating agencies. On completion of these reviews the DEIS will then be printed and released to the public. This will be the start of the 90-day public consultation period. The Company anticipates the Rosemont DEIS will be released to the public in the third quarter of 2011 with public hearings scheduled for the fourth quarter of 2011. The Company expects the ROD to be issued in January 2012.

The Company's community relations campaign of meeting with community leaders, neighbourhood groups and public tours of the Rosemont project site will continue in 2011 to promote the economic benefits and the Company's plans on alleviating the impact of mining activities to the environment.

The Company continues with its project financing activities in the third quarter with the goal of securing project debt in the fourth quarter 2011. Construction is expected to start in first half of 2012. A decision will be made in early 2012 on whether to retire or replace the existing debt.

The Company has updated its forecast expenditures for 2011 of approximately \$75.0 million which was based on the revised ROD schedule. Planned expenditures for the remainder of 2011 will be approximately \$42.0 million, including \$8.7 million for detail engineering, \$8.2 million for environmental impact study and permitting, \$7.3 million for deposits on long-lead equipment, \$11.8 million for ongoing operations and support, and \$6.0 million for ranch operations, new projects and general and administrative expenses. Included in the forecast for ongoing operations and support is the hiring of additional project and operations personnel as the Company gears up for the start of construction in the first half of 2012.

Planned expenditures to the end of the third quarter will be funded from the joint venture's existing cash. The joint venture parties are currently negotiating a funding arrangement to cover remaining expenditures until the major permits are issued. However, unplanned expenditures or delays in the permitting process may require the Company to raise additional funds from equity or debt to cover its share. Unforeseen market events and

conditions could impede access to capital or increase the cost of capital. These events could have an adverse effect on Augusta's ability to fund its working capital and other capital requirements and hence, there is no assurance that these initiatives will be successful.

### Transactions with Related Parties

The Company shares rent, salaries and administrative services with companies related by common directors and officers. As at June 30, 2011, included in due from related parties was \$0.12 million (December 31, 2010 - \$0.01 million) due from related companies.

On July 1, 2010, the Company and the related companies formed a management services company ("ManCo") to share personnel costs, office rent and other administration costs to each of the companies under a management services agreement. Each company holds an equal share in ManCo. For the three and six months ended June 30, 2011, Manco charged the Company \$0.22 million and \$0.45 million, respectively (three and six months ended June 30, 2010 - \$Nil and \$Nil) for its share of salaries, rent and other administrative expenses.

Included in accounts payable as at June 30, 2011 was \$0.04 million (December 31, 2010 - \$0.07 million receivable) owing to an officer and other companies related to the officer for reimbursement of expenses.

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel for the three and six months ended June 30, 2011 and 2010 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Salaries and benefits	\$ 536,210	\$ 444,181	\$1,072,842	\$ 891,188
Stock-based compensation	1,092,920	254,414	2,291,725	461,626
	<u>\$1,629,130</u>	<u>\$ 698,595</u>	<u>\$3,364,567</u>	<u>\$1,352,814</u>

### Proposed Transactions

There are no undisclosed proposed transactions that will materially affect the performance of the Company.

### Outstanding Share Data

The following table summarizes the outstanding share information as at August 3, 2011.

	Number of Shares	Weighted Average Exercise Price (Cdn\$)
Issued and outstanding common shares	143,157,392	\$ -
Restricted share units	275,002	-
Incentive stock options	6,696,504	3.10
Share purchase warrants	1,791,700	\$ 3.90
	<u>151,920,598</u>	

### Critical Accounting Estimates

The most critical accounting estimates that may affect the Company's financial position are those requiring estimates of the recoverability of its capitalized mineral property expenditures, development costs and the determination of the fair value of stock-based compensation and warrants issued with strike price that is denominated in a currency other than the issuer's functional currency. Management believes the estimates used

are reasonable; however, actual results could differ materially from those estimates and, if so, would impact future results of operations and cash flows.

### **Mineral Properties and Development Costs**

Mineral properties consist of payments to acquire property rights and leases. Mineral properties are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Development costs incurred on a mineral property are deferred once management has determined that, based on a feasibility study, a property is capable of economical commercial production as a result of having established proven and probable reserves. Development costs are carried at cost less accumulated depletion and accumulated impairment charges. Exploration expenditures incurred prior to determining that a property has economically recoverable resources are expensed as incurred.

The Company reviews the carrying values of mineral properties and development costs regularly with a view to assessing whether there has been any impairment in value, or whenever events or changes in circumstances that indicate the carrying value may not be recoverable. In the event the estimated discounted cash flows expected from its use or eventual disposition is determined to be insufficient to recover the carrying value of the property, the carrying value is written down to the estimated recoverable amount.

Once a mine has achieved commercial production, mineral properties and development costs are depleted on a units-of-production basis over the life of the mine.

### **Stock-based Compensation**

The Company grants stock options to employees, directors and consultants under its stock option plan. The fair value method of accounting is used for stock-based awards. Under this method, stock options and restricted share units are recorded at their estimated fair value on the grant date and are charged either to earnings or capitalized to development costs over the vesting period with a corresponding credit to reserves. If the stock options are exercised, the proceeds are credited to share capital and the fair value of the options exercised is reclassified from reserves to share capital. Restricted shares are issued from treasury at date on the grant and are fair valued at the date of grant. The fair value is charged to either earnings or capitalized over the vesting period. On the vesting date, the fair value is transferred from reserves to share capital. For options subject to vesting, the Company calculates the fair value of each vesting period as separate awards with individual expected lives and amortizes the calculated expense for the award on a straight-line basis over the vesting period of the award.

### **Financial Instruments**

The Company may issue share purchase warrants with a Canadian dollar strike price to subscribers pursuant to debt or equity financings by the Company. Share purchase warrants are initially recorded at its estimated fair value on the date of issue and charged to either share issue costs on an equity issue or netted against the proceeds from a debt issue with a corresponding credit to warrants liability only if the underlying strike price is denominated in a currency that is not the same as the functional currency of the issuer. The share purchase warrants are fair valued at each balance sheet date and any changes to the fair value are charged or credited to the statement of comprehensive profit or loss. On the date of exercise, the warrants are fair valued and transferred from warrants liability to share capital.

## **CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

The Company's management, with participation of its Chief Executive Officer and Senior Vice-President and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on this assessment, the Chief Executive Officer and Senior Vice-President and Chief Financial Officer have concluded that as of the end of the period covered under this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports

it files is recorded, processed, summarized and reported, within the appropriate time periods and is accumulated and communicated to management, including the Chief Executive Officer and Senior Vice-President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### **Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS. However, due to inherent limitations, internal control over financial reporting may not prevent or detect all misstatements and fraud. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control.

The financial reporting changes that resulted from the application of IFRS accounting policies were implemented during the three months ended June 30, 2011 has not materially affected, or is not reasonably likely to materially affect, the Company's internal control over financial reporting.

### **RISKS AND UNCERTAINTIES**

The Company and its current and future business and financial condition are subject to various risks and uncertainties due to the nature of the business and the present stage of development of the Rosemont project. Certain of these risks and uncertainties are set out below and under the heading "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2010 which is available on SEDAR at [www.sedar.com](http://www.sedar.com) and EDGAR at [www.sec.gov](http://www.sec.gov).

#### ***Augusta will require additional capital to fund future business plans.***

As of June 30, 2011, Augusta had working capital \$2.63 million, including \$42.85 million of debt that will mature on April 23, 2012. A decision will be made in early 2012 on whether to retire or replace the existing debt. Augusta has minimal revenue from its operations and does not expect to generate any significant revenue until Rosemont is placed into commercial production. Augusta will require project financing to be in place by the end of the fourth quarter 2011 as the Company anticipates that the ROD will be issued in January 2012 and the Company prepares for construction at Rosemont. Augusta may raise additional capital through debt or equity financing, and possibly production sharing arrangements or other means. Recent upheavals in the financial markets worldwide could make it very difficult for Augusta to raise funds. Such funding may not be available on commercially acceptable terms or at all. The Company's failure to meet its ongoing obligations on a timely basis or raise additional funds that may be required could result in delay or indefinite postponement of further exploration and development of the Company's property or the loss or substantial dilution of any of its property interests.

#### ***Augusta could lose its only material property upon an event of default under the loan agreement with Red Kite.***

The Company's obligations under the Red Kite Loan Agreement are secured by the common shares and assets of Rosemont Copper Company, which holds the Company's only material property. In the event of a default in which the Company is unable to immediately pay all accrued and unpaid interest and principal debt, Red Kite is entitled to take possession of the common shares and assets of Rosemont Copper Company and sell, lease, or dispose of such collateral including the Rosemont property and apply the proceeds to the Company's debt. If such an event occurs, the Company could lose its only material property and the Company's shareholders could lose their entire investment.

#### ***Exploration, development and mining involve a high degree of risk.***

The Company's operations will be subject to all the hazards and risks normally encountered in the exploration, development and production of copper and other base or precious metals, including, without limitation, encountering unusual or unexpected geologic formations or other geological or grade problems, unanticipated changes in metallurgical characteristics and metal recovery, periodic interruptions due to inclement or hazardous weather condition, seismic activity, rock bursts, pit-wall failures, cave-ins, encountering unanticipated ground or water conditions, flooding, fire, and other conditions involved in the drilling, removal of material, environmental

hazards, discharge of pollutants or hazardous chemicals, industrial accidents, failure of processing and mining equipment, labour disputes, supply problems and delays and changes in the regulatory environment any of which could result in damage to, or destruction of, mineral properties, mines and other producing facilities, damage to life or property, personal injury or death, loss of key employees, environmental damage, delays in the Company's exploration and development activities, monetary losses and legal liabilities. Satisfying such liabilities may be very costly and could have a material adverse effect on the Company's future cash flow, results of operations and financial condition.

***Price volatility - copper, molybdenum, silver, gold and other metal prices.***

The value and price of the Company's common shares, its financial results, and its exploration, development and mining activities, if any, may be adversely affected by declines in the price of copper, molybdenum, silver, gold and other metals. Metal prices fluctuate widely and are affected by numerous factors beyond Augusta's control such as interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, and the political and general economic conditions throughout the world. Metal prices fluctuate in response to these and many factors that cannot be predicted. The prices used in making the resource estimates are disclosed and differ from daily prices quoted in the news media. The percentage change in the price of a metal cannot be directly related to the estimated resource quantities, which are affected by a number of additional factors. For example, a 10% change in price may have little impact on the estimated resource quantities and affect only the resultant cash flow, or it may result in a significant change in the amount of resources. Because mining occurs over a number of years, it may be prudent to continue mining for some periods during which cash flows are temporarily negative for a variety of reasons including a belief that the low price is temporary and/or the greater expense incurred in closing a property permanently.

Mineralized material calculations and life-of-mine plans using significantly lower metal prices could result in material write-down of Augusta's investment in Rosemont and increased amortization, reclamation and closure charges.

In addition to adversely affecting Augusta's mineralized material estimates and financial condition, declining metal prices may impact operations by requiring a reassessment of the commercial feasibility of a particular project. Such a reassessment may be the result of a management decision related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays in development or may interrupt operations, if any, until the reassessment can be completed.

***Insurance risk.***

The Company's insurance will not cover all the potential risks associated with mining operations such as environmental pollution and other hazards as a result of production which may not be insured against or which the Company does not elect to insure against due to high insurance premiums. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect on its financial condition and results of operations.

***Title to Augusta's properties may be subject to other claims.***

Although Augusta believes it has exercised commercially reasonable due diligence with respect to determining title to properties it owns, control or has the right to acquire by option, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interests may be subject to prior unrecorded agreements or transfers or native land claims and title may be affected by undetected defects. There may be valid challenges to the title of Augusta's properties, which, if successful, could impair development and/or operations. This may be exacerbated due to the large number of title transfers historically involved with some of the properties.

***Mineral resources and proven and probable reserves are estimates.***

Although the mineralized material and proven and probable reserve figures included in this document have been carefully prepared by independent engineers, these amounts are estimates only, and Augusta cannot be certain that specific quantities of copper, molybdenum, silver, gold or other mineral will in fact be realized. Any material

change in the quantity of mineralization, grade or stripping ratio, or mineral prices may affect the economic viability of the Company's properties. In addition, Augusta cannot be certain that metal recoveries in small-scale laboratory tests can be duplicated in larger scale tests under on-site conditions or during production. Until an unmined deposit is actually mined and processed the quantity of mineral resources and reserves and grades must be considered as estimates only.

***Government regulation may adversely affect Augusta's business and planned operations.***

Augusta believes its exploration projects comply with existing environmental and mining laws and regulations affecting its operations. The Company's mining, processing, development and mineral exploration activities, if any, are subject to various laws governing prospecting, mining, development, production, taxes, labor standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people and other matters. Augusta cannot guarantee that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development.

A portion of the present Rosemont land position is located on unpatented mine and millsite claims located on US federal public lands. The right to use such claims is granted under the General Mining Law of 1872. Unpatented mining claims are unique property interests in the United States, and are generally considered to be subject to greater title risk than other real property interests because the validity of unpatented mining claims is often uncertain. This uncertainty arises, in part, out of the complex federal and state laws and regulations under the General Mining Law and the interaction of the General Mining Law and other federal and state laws, such as those enacted for the protection of the environment. Unpatented mining claims are subject to possible challenges of third parties or contests by the federal government. The validity of an unpatented mining claim, in terms of both its location and maintenance, is dependent on strict compliance with a complex body of federal and state statutory or decisional law. In addition, there are few public records that definitively control the issues of validity and ownership of unpatentable mining claims. In recent years, the US Congress has considered a number of proposed amendments to the General Mining Law. If adopted, such legislation could, among other things:

- impose a royalty on the production of metals or minerals from unpatented mining claims;
- reduce or prohibit the ability of a mining company to expand its operations; and
- require a material change in the method of exploiting the reserves located on unpatented mining claims.

All of the foregoing could adversely affect the economic and financial viability of mining operations at the Rosemont property.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on Augusta's business and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.