AUGUSTA
RESOURCE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

For the Period Ending

June 30, 2006

Augusta Resource Corporation

General

The following Management's Discussion and Analysis ("MD&A") of Augusta Resource Corporation and its subsidiaries, (the "Company", "Augusta", "we", "us", "our") should be read in conjunction with the accompanying consolidated financial statements and notes for quarter ended June 30, 2006 and with the restated audited consolidated financial statements for the year ended December 31, 2005, all of which are available at the SEDAR website at www.sedar.com. This report has taken into account information available up to and including August 28, 2006.

All financial information in this MD&A is prepared in accordance with Canadian generally accepted accounting principles and presented in Canadian dollars unless otherwise indicated.

Restatement

During the preparation of the Form 40-F filing document, a requirement of an American Stock and Options Exchange (AMEX) listing the Company is pursuing, the Company discovered non-cash errors relating to its financial statements (including the audited year end financial statements) for the first quarter ended March 31, 2006 as well as for each quarter of 2005. In the previously released financial statements the Company had not properly accounted for the convertible debenture issued on June 1, 2005. Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3860 requires that the proceeds received from the issuance of convertible debt be allocated between its equity and debt components. The Company had treated all the proceeds as debt. Further, upon review of the option pricing model (Black-Scholes) used for valuing stock options and warrants issued during 2005, the Company concluded that the time period used to calculate the volatility assumption required adjustment. Refer to the June 30, 2006 Consolidated Financial Statements Note 2 for more details.

Forward-Looking Statements

Certain statements contained in the following Management's Discussion and Analysis constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance of achievements of the Company to be materially different from actual future results and achievements expressed or implied by such forward-looking statements, which speak only as of the date the statements were made, and readers are also advised to consider such forward-looking statements while considering the risks detailed in the Company's 2005 year end MD&A.

Description of Business

We are engaged in the exploration and development of mineral properties located in Pima County, Arizona and White Pine County, Nevada. Our properties are in the exploratory and development stages and are thus non-producing and consequently do not generate any operating income or cash flows from operations. The Company depends on equity and debt capital to finance its activities.

New Exchange and New Trading Symbol

During the quarter the Company applied for a Toronto Stock Exchange ("TSX") listing for its common shares and on August 10, 2006 the Company commenced trading under the symbol "AZC". As of the market close on August 9, 2006, Augusta no longer trades on the TSX Venture Exchange. The Company's graduation to the TSX fulfils a corporate strategy to achieve greater exposure to institutional and retail investors and generate a broader shareholder base. Graduating to the principal Canadian exchange is an important step in marketing the Company to the global investment community.

New Developments

On June 5, 2006 Augusta appointed Mr. Bruce Nicol, former Acting Chief Financial Officer of Placer Dome Inc. ("Placer Dome"), as Senior Vice-President and Chief Financial Officer of Augusta, effective September 1, 2006. Mr. Nicol is a Chartered Accountant with 15-years of professional experience in the international mining industry, working with Placer Dome as an officer and in senior financial roles.

Mr. Nicol was appointed Acting Chief Financial Officer of Placer Dome in February 2006. Preceding this appointment, he served as Vice-President and Controller of Placer Dome since 1996. Mr. Nicol joined Placer Dome in 1991, as Manager of Corporate Accounting and was promoted to Controller of Placer Dome Canada Limited in 1994. Prior to his employment with Placer Dome, he had careers with PWA Corporation/Canadian Airlines as well as Price Waterhouse. Mr. Nicol obtained his Bachelor of Commerce degree from the University of British Columbia and is a member of the Canadian Institute of Chartered Accountants. In his role as Chief Financial Officer of Augusta, Mr. Nicol will be responsible for finance, corporate and operational accounting and treasury.

In early August, the Company announced the appointment of Mr. Lance Newman as Vice-President, Metallurgical Operations, and Mr. Mark Stevens as Chief Project Geologist.

Mr. Newman joins Augusta after working for more than a decade with Stillwater Mining Company, spending the last nine years as Refinery Manager. Prior to this role, he spent a total of eight years working in increasingly senior metallurgical and superintendent positions with Gold Fields of South Africa. Mr. Newman has 19 years of concentrating, smelting and refining operations experience with several successful startups in base and precious metals plant operations. In addition to holding a Bachelor of Science (honours) in Chemistry from Rhodes University, Mr. Newman is also Chairman of the Palladium Research Group and an Advisory Board Member for the Process Plant Technology faculty at the Montana State University College of Technology.

Mr. Stevens joins Augusta with 25 years of technical and managerial experience in the exploration, evaluation, and mining of base and precious metals. Prior to joining Augusta, he was the Chief Geologist with Pincock, Allen & Holt, a consulting group based out of Denver, Colorado. Mr. Stevens spent nearly two decades with the company, completing more than 150 project evaluations that included geological modeling, resource estimation, project technical studies, due diligence reviews and audits, as well as pre-feasibility and feasibility studies. He spent the earlier part of his career as a Project Geologist for various firms including Getty Mining Company (Utah), WGM Inc. (Alaska), Kennecott Corporation (Alaska) and Chevron Resources (Denver). Mr. Stevens holds his Bachelor of Science in Geology from Colorado State University, and his Masters of Science in Geology from the University of Utah.

The Company also announced the appointment of Mrs. Marlo Hamer-Jackson as Manager, Investor Relations and Corporate Communications and Ms. Tracey Brix-Nielsen as Controller to its management team. Mrs. Hamer-Jackson and Ms. Brix-Nielsen bring extensive knowledge and experience in the resource sector to the Company working with Goldcorp Inc., Placer Dome Inc., and Teck Cominco Ltd.

Overview of Performance

Property in Pima County, Arizona

On June 14, 2006 the Company announced the results of a Preliminary Assessment ("PA") on its 100% owned Rosemont copper/molybdenum project. The PA demonstrates that the Rosemont copper/molybdenum deposit may be developed as a low cost open pit mine with potentially robust project economics.

Economic highlights of the PA include: (All dollar figures are in United States dollars unless otherwise indicated.)

Financial:	Case 1	Case 2
Net Present Value (8% discount rate)	\$442M	\$494M
Internal Rate of Return (IRR)	17%	17%
Cash Costs/lb. Cu (net of by-products)	\$0.42	\$0.37
Direct Capital Costs (incl. 15% contingency)	\$636M	\$806M
Net Present Value (8%) (excl. capital contingency)	\$499M	\$595M
IRR (excl. capital contingency)	20%	20%
Annual Production:		
Copper (lbs)	226,000,000	233,300,000
Molybdenum (lbs)	5,100,000	5,100,000
Silver (oz) (as by-product credit)	6,700,000	6,700,000

Economics calculated using \$1.20/lb Copper ("Cu"), \$10/lb Molybdenum ("Mo") and \$7.50/oz Silver ("Ag"). (See PA report features for study assumptions and summary.)

The PA marks the beginning of the detailed development process for mining and production operations at Rosemont. It has been completed following one year of current exploration by the Company at the Rosemont property, and should be read in conjunction with the NI 43-101 compliant Mineral Resource Estimate and Technical Report for the Rosemont Deposit dated April 21, 2006, which was completed by WLR Consulting, Inc. (see news release dated January 24, 2006), and accessible on the Company's website at www.augustaresource.com or on SEDAR at www.sedar.com.

The Company continued its 20,000-meter exploration, in-fill and geotechnical drilling campaign on the Rosemont deposit, initiated in late March 2006, with five drill rigs currently in operation. Initial drill results from four holes were announced in early July.

Highlights include 190.5m at 0.51% /cu, 140.21m at 1.32% Cu, 111.25m at 0.82% Cu and 163m at 0.72% Cu.

Drill Holes	From(m)	To(m)	Interval(m)	Cu%	Mo%	Ag (g/t)
AR-2015	260.60	451.10	190.50	0.51	0.014	5.3
AR-2015	505.97	576.07	70.10	0.66	0.024	9.9
AR-2015	605.03	620.27	15.24	1.28	0.018	20.3
AR-2016	236.22	376.43	140.21	1.32	0.015	8.6
AR-2017	0.00	15.24	15.24	0.26	N/A*	N/A*
AR-2017	27.43	105.16	77.73	0.50	N/A*	N/A*
AR-2017	243.84	355.09	111.25	0.82	0.021	5.0
AR-2017	473.96	573.94	99.98	0.40	0.037	4.8
AR-2021	6.09	16.76	10.67	0.38	N/A*	N/A*
AR-2021	88.36	100.58	12.22	0.32	N/A*	N/A*
AR-2021	271.27	434.34	163.07	0.72	0.014	5.1

* No Assay – Oxide Portion

The current program is expected to be completed by the end of September.

Also in June, the Company obtained a sustainable water supply source for Rosemont when it signed two contracts with the Central Arizona Water Conservation District (CAWCD). These contracts are significant because they address the water supply question ahead of the Environmental Impact Statement Review process, which removes a significant amount of uncertainty regarding project impacts to the region.

On August 1, 2006 the Company filed a “Plan of Operations” for the Rosemont project to the United States Forest Service, the first formal step signifying the start of the Environmental Impact Statement and Public Review Processes of that plan - two key activities in the permitting process. The 48-page document, which details the project’s description, operations, environmental protection measures, community and social resources and reclamation plan, was submitted to the Forest Service as part of the agency’s federal requirements, and will be reviewed under the National Environmental Policy Act (“NEPA”).

On August 16, 2006, the Company announced the awarding of the Rosemont feasibility study to M3 Engineering & Technology Corporation. The feasibility study commenced in early August and is currently scheduled for completion by the end of the first quarter of 2007.

As of June 30, 2006, the Company has deferred $5,879,898 in exploration expenditures related to the property, of which $2,450,792 was incurred during the second quarter and $597,825 in the first quarter.

Properties in White Pine County, Nevada

The Company owns 100% of the Mount Hamilton property through its subsidiary DHI Minerals Ltd. The project is located approximately 45 miles east of Eureka, Nevada and approximately 35 miles west of Ely, Nevada and is accessible from Highway 50 over good all-weather gravel roads. The White Pine Mining District has a long history of silver and gold mining, dating back to the first gold discovery in 1865.

The Mount Hamilton Gold Project is comprised of nine surveyed patent mineral claims, totaling 120 acres; and 21 unsurveyed mining claims, totaling 405 acres. Mount Hamilton has multiple exploration targets including surface bulk mineralization as well as high-grade vein style mineralization. Six separate high priority areas have been identified.

During the quarter management announced the start of a Pre-Feasibility Study at Mount Hamilton to evaluate development of the Centennial Deposit as well as a 10,000-foot Phase I Exploratory Drilling Program on the Shell molybdenum/tungsten deposit.

As of June 30, 2006, the Company has deferred $225,463 in exploration expenditures related to the Mount Hamilton property, of which $24,741 was incurred during the second quarter and $58,179 in the first quarter. On the Shell property, $12,788 of exploration spending has been deferred to June 30, 2006, none during 2006.

Property in Grant County, New Mexico

On May 15, 2006 the Company announced that after completing a detailed geological assessment, the Company has elected not to pursue its option to purchase the Lone Mountain project located in Grant County, South Western New Mexico.

All project costs and deferred exploration expenditures totalling $309,550 were written-off in the quarter ended June 30, 2006.

As at June 30, 2006, the Company's capitalized costs on its mining assets were as follows:

	Mining Properties Cost		Deferred Exploration Expenses	
	June 30	December 31	June 30	December 31
Mining assets:	2006	2005	2006	2005
Rosemont property	$24,437,454	$ 8,315,611	$ 5,879,898	$ 2,831,281
Mt. Hamilton property	6,574,757	6,574,757	225,463	142,543
Lone Mountain property	-	271,236	-	48,947
Shell property	211,290	-	12,788	12,789
	$31,223,501	$15,161,604	$ 6,118,149	$ 3,035,560

Mining properties:	2006	2005
Balance, beginning of period	$15,161,604	$ 285,064
Acquisition costs	16,333,132	15,124,447
Lone Mountain cost adjustment	(24,993)	
Write-offs	(246,242)	(247,907)
Balance, June 30, 2006 and December 31, 2005	$31,223,501	$15,161,604

Deferred exploration expenses:		
Balance, beginning of period	$ 3,035,560	$ 19,785
Geologists, consultants and professional services	3,145,897	3,019,369
Write-offs	(63,308)	(3,594)
Balance, June 30, 2006 and December 31, 2005	$ 6,118,149	$ 3,035,560

Results of Operations

Comparison of the six-month period ending June 30, 2006 and 2005

	Six Months Ended June 30 2006	2005 (restated, note 2)	Change
EXPENSES			
Accounting and audit	$ 62,400	$ -	$ 62,400
Administration	15,000	15,000	-
Amortization	1,526	-	1,526
Consulting and communication	45,411	38,752	6,659
Debt issuance costs	272,796	45,178	227,618
Filing and regulatory	48,936	114,846	(65,910)
Fiscal and advisory services	40,018	17,023	22,995
Foreign exchange (gain)	(115,197)	2,440	(117,637)
Investor relations	73,437	33,236	40,201
Legal fees	76,710	5,251	71,459
Office and sundry	175,873	130,714	45,159
Insurance	74,341	-	74,341
Recruitment fees	-	45,174	(45,174)
Salaries,benefits and bonuses	891,643	211,427	680,216
Stock based compensation	1,018,056	345,525	672,531
Write-off mining assets	309,550	-	309,550
Travel	146,019	20,170	125,849
Other expense	58,990	(8,847)	67,837
Loss from operations	(3,195,509)	(1,015,889)	(2,179,620)
Interest and other income	305,822	7,420	298,402
Interest and finance charges	(1,073,677)	(343,627)	(730,050)
NET LOSS FOR THE PERIOD	$ (3,963,364)	$ (1,352,096)	$(2,611,268)
BASIC & DILUTED LOSS PER SHARE	$ (0.08)	$ (0.05)	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING- BASIC AND DILUTED	48,660,225	27,896,450	

Loss from operations for the six-month period ending June 30, 2006 was $3,195,509. This was $2,179,620 higher than the loss of $1,015,889 for the six-month period ending June 30, 2005. The net loss for the period was $ 3,963,364 ($0.08 loss per share), which was $2,611,268 greater than the net loss of $1,352,096 for the six-month period ending June 30, 2005 ($0.05 loss per share). The significant increase in the net loss for the period is mostly the result of increased salaries, benefits and bonuses, stock compensation, the write-off of mining assets, increased debt issuance costs and higher interest and financing charges. Changes are discussed below.

Accounting and audit increased to $62,400 for the six months ended June 30, 2006. Although no audit work was performed on the quarter the Company incurred a significant increase in the audit fees. This increase is primarily the result of additional work regarding the TSX listing and financing announced in the first quarter of 2006.

Amortization of $1,526 was recorded during the period due to the establishment of an office in Glendale, Colorado and the purchase of computer hardware in the spring of 2005.

During 2006 the remaining debt issuance costs of $272,796 on the convertible debenture was amortized.

Filing and regulatory expenses during the six-month period ending June 30, 2006 were $48,936, which is a decrease of $65,910 over $114,846 incurred to June 30, 2005. This decrease is the result of the acquisitions announced during the first quarter in 2005 and the filing fees related to the financings in 2005.

Fiscal and advisory services during the six-month period ending June 30, 2006 were $40,018 an increase of $22,995 over $17,023 during the period ending June 30, 2005. This increase is the result of shares issued during the period from the exercise of warrants and the special warrant financing.

The foreign exchange gain of $115,197 during the six-month period ended June 30, 2006 is an increase of $117,637 over the foreign exchange loss during the six-month period ended June 30, 2005 of $2,440. The gain reflects a weakening of the U.S. dollar during 2006.

Investor relations increased to $73,437 during the six-month period ended June 30, 2006 from $33,236 in the prior year period. In 2006 the Company hired an in-house investor relations staff member after initially incurring costs for the outside services of Roth Investor Relations. During the first half of 2005, no formal services were in place for investor relations.

Legal fees for the six-month period ended June 30, 2006 are $76,710 compared to $5,251 for the six-month period ended June 30, 2005 an increase of $71,459. The Company's 2006 activities are substantially larger and more complex requiring additional legal work not required the previous year. Additionally, legal work has been required in preparing for US filing requirements.

The Company acquired Directors' and Officers insurance for $74,341 during the first quarter. No liability coverage was undertaken in 2005.

Office and sundry expenses for the six-month period ended June 30, 2006 are $175,873 compared to $130,714 for the six-month period ended June 30, 2005. The costs are higher as a result of the opening of the US office in Glendale, Colorado.

Salaries and benefits have increased by $680,216, in part due to performance bonuses accrued in 2006 plus the addition of the new President & CEO, VP Exploration and VP Projects and Environment, positions based in Colorado. An administrative/secretarial person has also been engaged for this office.

The Company paid $45,174 to a recruiting firm during the search for a new president in 2005.

$1,018,056 in stock based compensation expense was recognized in the period compared to $345,525 the previous period. This expense is the realization of the fair value of stock options granted over their respective vesting periods. This expense is a non-cash item and relates to the timing and recognition of the fair value on the issuance of stock options.

Travel has increased by $125,849 for the six-month period ended June 30, 2006. This increase is the result of additional personnel, investor marketing presentation travel and new travel requirements for development of properties.

Other expenses of $58,990 capture operational expenditures pertaining to the working ranch acquired with the acquisition of the Rosemont property.

The increase in interest income to $305,822 during the period resulted from substantial increased bank balances from equity funds raised during the first quarter of 2006 and the investment of these funds in guaranteed investment certificates.

Interest and finance charges for the six-month period ended June 30, 2006 are $1,073,677, an increase of $730,050 over $343,627 for the six-month period ended June 30, 2005. This increase is the result of the non-cash accretion interest on long-term notes as well as the interest due on the $3,000,0000 convertible debenture issued by the Company. The convertible debenture was retired on June 1, 2006.

Comparison of the three-month period ending June 30, 2006 and 2005

	Three Months Ended June 30		
	2006	2005	Change
		(restated, note 2)	
EXPENSES			
Accounting and audit	$ 26,900	$ -	$ 26,900
Administration	7,500	7,500	-
Amortization	681	-	681
Consulting and communication	20,556	(154,576)	175,132
Debt issuance costs	109,118	45,178	63,940
Filing and regulatory	29,771	76,351	(46,580)
Fiscal and advisory services	21,811	16,506	5,305
Foreign exchange (gain)	(105,937)	2,248	(108,185)
Investor relations	15,623	33,236	(17,613)
Legal fees	56,571	5,146	51,425
Office and sundry	123,815	100,764	23,051
Salaries benefits and bonuses	650,176	155,108	495,068
Stock based compensation	787,510	223,008	564,502
Write-off mining assets	309,550	-	309,550
Travel	97,920	20,170	77,750
Other expense	58,990	(8,847)	67,837
Loss from operations	(2,210,555)	(521,792)	(1,688,763)
Interest and other income	233,839	6,039	227,800
Interest and finance charges	(460,167)	(345,309)	(114,858)
NET LOSS FOR THE PERIOD	$ (2,436,883)	$ (861,062)	$ (1,575,821)
BASIC & DILUTED LOSS PER SHARE	$ (0.04)	$ (0.03)	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED	57,210,694	30,542,602	

Operating loss for the three-month period ending June 30, 2006 was $2,210,555. This was $1,688,763 higher than the loss of $521,792 for the same quarter in 2005. The net loss for the three-month period was $2,436,883 ($0.04 loss per share) compared to a net loss of $861,062 ($0.03 loss per share) for the three-month period ended June 30, 2005.

Accounting and audit increased to $26,900 for the three months ended June 30, 2006. Although no audit work was performed on the quarter the Company incurred a significant increase in the audit fees for the review related to the TSX listing.

Amortization of $681 was recorded during the period due to the establishment of an office in Glendale, Colorado and the purchase of computer hardware in the spring of 2005.

Debt issuance costs of $109,118 on the convertible debenture were amortized fully during the period ended June 30, 2006.

Filing and regulatory expenses during the three-month period ending June 30, 2006 were $29,771, which is a decrease of $46,580 over $76,351 incurred during the same quarter in 2005. Prior year expenditures were high as a result of the acquisitions announced during the first quarter in 2005 and the filing fees related to the financings in 2005.

Fiscal and advisory services during the three-month period ending June 30, 2006 were $21,811 an increase of $5,305 over $16,506 during the quarter ending June 30, 2005.

The foreign exchange gain of $105,937 during the three-month period ended June 30, 2006 is an increase of $108,185 over the foreign exchange loss during the quarter ended June 30, 2005 of $2,448. The gain reflects a weakening of the U.S. dollar during 2006.

Legal fees for the three-month period ended June 30, 2006 are $56,571 compared to $5,146 for the quarter ended June 30, 2005 an increase of $51,425. The Company's 2006 activities are substantially larger and more complex requiring additional legal work not required the previous year. Additionally, legal work has been required in preparing for US filing requirements.

Investor relations decreased to $15,623 during the three-month period ended June 30, 2006 from $33,236 in the same quarter in 2005. The expenditures incurred in 2005 were to provide investors with information on the Company's increased operations and activities. During the second quarter of 2006 the Company appointed an Investor Relations Manager to assume the role previously performed by outside consultants.

Office and sundry expenses for the three-month period ended June 30, 2006 are $123,815 compared to $100,764 for the three-month period ended June 30, 2005. The costs are higher as a result of the opening of the US office in Glendale, Colorado.

Salaries and benefits have increased by $495,068, which is primarily due to performance bonuses and the addition of the VP Projects and Environment, a position based in Colorado.

$787,510 in stock based compensation expense was recognized in the quarter compared to $223,008 for the three-month period ended June 30, 2006. This expense is the realization of the fair value of stock options granted over their respective vesting periods. This expense is a non-cash item and relates to the timing and recognition of the fair value on the issuance of stock options.

Travel has increased by $77,750 for the three-month period ended June 30, 2006. This increase is the result of additional personnel, investor marketing presentation travel and new travel requirements for development of properties.

The increase in interest income to $233,839 during the quarter resulted from substantial increased bank balances from equity funds raised during the first quarter of 2006 and the investment of these funds in guaranteed investment certificates.

Interest and finance charges for the three-month period ended June 30, 2006 are $460,167 compared to $345,309 for the same quarter in 2005 reflecting the timing of the issuance and repayment of the convertible debenture.

Summary of Quarterly Results

Selected financial information for each of the eight most recently completed quarters, as revised, of fiscal 2006, 2005 and 2004 are as follows, the first quarter of 2006 and the 2005 quarters have been restated:

	Revenue	Net income (loss)	Net income (loss) per share basic & diluted
Jun 2006	Nil	$ (2,230,633)	$ (0.04)
Mar 2006	Nil	$ (1,526,481)	$ (0.04)
Dec 2005	Nil	$ (2,527,247)	$ (0.07)
Sep 2005	Nil	$ (1,458,494)	$ (0.04)
Jun 2005	Nil	$ (861,062)	$ (0.03)
Mar 2005	Nil	$ (491,034)	$ (0.02)
Dec 2004	Nil	$ (97,916)	$ (0.01)
Sep 2004	Nil	$ (130,313)	$ (0.01)

Liquidity

The Company's mineral exploration and development activities have provided the Company with no sources of income and a history of losses, working capital deficiencies and deficit positions. However, given the nature of its business, the results of operations as reflected in the net losses and losses per share do not provide meaningful interpretation of the Company's performance and valuation.

The Company's working capital as at June 30, 2006 was $18,527,861 compared with a working capital deficiency of $1,553,214 as at December 31, 2005, an increase of $20,081,075. The Company raised $44,099,000 in special warrants and over $2,410,000 in other equity during the period. The Company has $20,546,630 remaining in cash and cash equivalents, with $16,113,222 used to purchase Rosemont, $2,866,139 paid for share issuance costs, $1,165,420 for the repayment of long-term notes and $3,407,563 expended on exploration and the Shell property option. The Company also retired the remaining $3,000,000 convertible debenture plus interest on June 1, 2006. No additional long-term liabilities have been incurred during the period.

The following table lists as of June 30, 2006 information with respect to the company's known contractual obligations.

	Payments due by period				
Contractual Obligations	*Total*	*Less than 1 year*	*1- 3 years*	*3 – 5 years*	*More than 5 years*
Long-Term Debt Obligations [1]	$1,542,698	$1,524,208	$ 18,490	$ -	$ -
Operating Lease Obligations [2]	314,399	74,644	239,755	-	-
Other Long-Term Liabilities Reflected on the Company's Balance Sheet under Canadian GAAP[3]	2,200,000	-	-	2,200,000	-
Total	$4,057,097	$1,598,852	$ 258,245	$2,200,000	$ -

(1) Represents amounts owed to various unrelated parties totaling $41,778. These amounts do not bear interest. Represents $1,500,920 in notes payable for the purchase of DHI Minerals Ltd. and the Mt. Hamilton property.

(2) Represents Glendale office rent of approximately $7,146 USD per month, under a 36-month lease agreement expiring on June 30, 2009 and Vancouver office rent of $4,542 per month, under a monthly lease agreement. A five-year lease is expected to be completed by September 30, 2006.

(3) $2,200,000 in deferred tax liability on the acquisition of the Mt. Hamilton property through DHI Minerals Ltd.

Capital Resources

The Company's primary capital assets are cash and mineral properties, which are discussed in detail in the section, Overall Performance. The Company has entered into several option agreements, which provide for further acquisitions and exploration expenses to be incurred, however, these are option agreements and the Company is not committed to completing these expenditures.

We do not anticipate that it will require additional capital to fund our business activities during the current period. However, we have no revenues from operations and do not expect to generate any revenues from operations in the foreseeable future.

We anticipate that we will require capital for the following over the next 12 months:

- Exploration and development at the Rosemont Property of approximately $3,600,000;
- Complete feasibility study on the Rosemont Property of approximately $2,800,000;
- Contingency costs related to the Rosemont Property of approximately $1,050,000;
- Permitting activities on the Rosemont Property of approximately $1,600,000;
- Note payment due on the Mount Hamilton purchase of approximately $1,500,900;
- Complete pre-feasibility study on the Mt. Hamilton Property of approximately $360,000;
- Exploration expenditures and other payments to maintain our Shell Deposit in good standing of approximately $810,000;
- General and administrative expenses of approximately $2,290,000.

We do not anticipate that it will require additional capital to fund our business activities during the current period.

In the first quarter, the Company announced a brokered private placement of $40,090,000. The offering consisted of 21,100,000 Special Warrants at a price of $1.90 per Special Warrant plus an option to increase the size of the offering by 10%, or 2,110,000 Special Warrants, to cover oversubscriptions.

On March 17, 2006 the Company closed a brokered private placement of 23,210,000 special warrants with gross proceeds of $44,099,000.

Each Special Warrant is convertible, without payment of additional consideration, into a unit consisting of one common share (23,210,000 shares) and one-half transferable common share purchase warrant (11,605,000 warrants). Each whole warrant will entitle the holder to acquire, at any time within two years, one common share of the Company at a price of $3.10 expiring on March 17, 2007 and $4.10 expiring on March 17, 2008.

On April 26, 2006 the Company filed its final prospectus, which qualified the distribution of the 23,210,000 common shares and 11,605,000 common share purchase warrants of the special warrant financing.

Proceeds from the private placement are to be used to complete the 2006 budgeted activities, buy out the Rosemont option agreement entirely and provide for certain expenditures to be incurred in early 2007.

The Company historically has relied upon equity subscriptions to satisfy its capital requirements. The Company will continue to depend upon equity capital to finance its activities. There are no assurances that capital requirements will be met by this means of financing as inherent risks are attached therein including commodity prices, financial market conditions, and general economic factors.

Off Balance-Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Transactions with Related Parties

During the period ended June 30, 2006, the Company incurred expenses of $15,000 (2005 - $15,000) for administrative services provided by a company in which a Director of the Company has a 25% interest. During the period ended June 30, 2006, the Company incurred salaries and bonuses of $227,500 (2005 - $75,000) to the Chairman of the Company, $299,800 (2005 - $57,012) to the President and CEO of the Company, $73,543 (2005 - $32,065) to the Vice President Exploration and $95,000 (2005 – $37,500) to the CFO.

At June 30, 2006, $1,467 of accounts payable (2005 - $5,743 of accounts receivable) is due to Sargold Resource Corporation, a related company, which share office space and certain common directors with the Company. At June 30, 2006, $150,000 of accounts payable (2005 - $Nil) is due to the Chairman of the Company, $170,000 of accounts payable (2005 - $37,500) is due to the CFO of the Company for salaries and bonuses accrued in the current and prior year. Also, included in accounts receivable at June 30, 2006 is an amount of $33,827 (2005 - $75,950) due from a related company with common directors.

Proposed Transactions

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

Changes in Accounting Policies including Initial Adoption

None

Financial Instruments and Other Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, notes and advances and convertible debenture as reflected in the balance sheet approximate their fair values. The company has no significant concentrations of credit risk.

Share Capital information

As at the date of this report the Company had an unlimited number of common shares authorized for issuance, with 64,798,400 issued and outstanding. The Company had 5,056,834 outstanding stock options with 1,086,834 vested and available for exercise. The Company also had 26,707,600 in outstanding warrants available to be exercised. From June 30, 2006 to the date of this report 8,333 options were exercised for total proceeds of $2,500.

On August 2, 2006 the Company granted 365,000 stock options to officers and employees of the Company at an exercise price of $1.78 per share for a period of five years expiring on August 2, 2011.

Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company conducted an evaluation of the disclosure controls and procedures as required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. They concluded that at June 30, 2006 the Company's disclosure controls and procedures were effective in ensuring that material information regarding this annual report and other disclosure was made known to them on a timely basis.