



Third Quarter Report

September 30, 2006

Notice to Readers

The interim unaudited consolidated financial statements of Augusta Resource Corporation (the "Company") for the three and nine months ended September 30, 2006 ("Financial Statements") have been prepared by management and have not been reviewed by the Company's auditors. The Financial Statements should be read in conjunction with the Company's restated audited consolidated financial statements for the year ended December 31, 2005 which are available at the SEDAR website at www.sedar.com.

Directors' Report to Our Shareholders

For the first nine months of 2006, the Company continued to focus its efforts on advancing the development of the 100% owned Rosemont copper/molybdenum project in Arizona. During the first quarter of 2006, the Company raised the largest ever financing in its history to complete the acquisition of the Rosemont property on March 31, 2006 and to advance exploration, development and permitting activities.

On August 10, 2006 the Company graduated to the Toronto Stock Exchange with the symbol "AZC". The move to Canada's major stock exchange is a further step in our strategic plan to maximize the value of the Company's assets by expanding awareness within the global investment community. Throughout the quarter the management team conducted marketing tours in Canada, the United States and Europe to meet with institutional investors and research analysts. In addition, on September 14, 2006 the Company's common shares commenced trading on the Frankfurt Stock Exchange ("FWB") under the symbol "A5R".

Project Updates

Rosemont Property – The Company commenced a 20,000 meter drill program during the latter part of the second quarter at the Rosemont Property with emphasis on moving inferred resources into the measured and indicated category. The drill program and a concurrent program of re-logging and re-assay of historic drill core will define potential oxide copper zones and quantify a silver resource for the deposit, in addition to upgrading the sulfide copper-molybdenum resource.

During the third quarter management decided to move the Rosemont project to full feasibility study. M3 Engineering was awarded the contract in early August, and is expected to deliver the study by the end of the first quarter of 2007.

The Company also commenced the permitting process when it filed Rosemont's initial "Plan of Operations" with the US Forest Service in early August. The Plan of Operations is the document that will be assessed through the Environmental Impact Statement (EIS) and Public Review Processes. The draft EIS is expected to be completed by the end of the fourth quarter 2007. Based on this timing the Company expects that the US Forest Service "Record of Decision" and the final permits would be in place by mid to late 2008. Following a construction and start-up period ending in 2009, the first full year of production would be 2010.

On September 14, 2006 the Company released the latest drill assay results from eight new holes at Rosemont. Highlights of the recent drill results include sulfide copper ("Cu") intervals in the host limestone of 90 meters at 1.09% Cu; 215 meters at 0.67% Cu; 175 meters at 0.63% Cu and 262 meters at 0.67% Cu. Copper assay results in the upper arkosic and andesitic oxide zone are also returning grade and length intervals above expectation.

Augusta completed the in-fill drilling at Rosemont during the latter half of September, and the remaining assays will be processed during the fourth quarter. The Company plans to file an updated resource statement later this year. For complete drill results and for a plan map of drilling activity to date, please refer to the September 14th news release posted at www.augustaresource.com.

White Pine County Properties – The Company announced the acquisition of the Mount Hamilton property located in Nevada in December 2004, and announced the option of the Shell Deposit property in January 2005. The Shell Deposit property is situated in close proximity to the Mount Hamilton property, approximately 35 miles west of Ely, Nevada.

On May 11, 2006, the Company announced it had retained Pincock, Allen & Holt, to conduct a Pre-Feasibility Study at Mount Hamilton. The study is evaluating the development of the Centennial Deposit as an open-pit heap leach gold mine. The independent Technical Report was filed in March 2005, and identified a National Instrument 43-101 compliant resource of 309,000 ounces Au in an indicated resource of 7.4 million of 0.042 ounces Au per ton, using a cut-off grade of 0.025 ounces per ton gold.

Mineralization appears to be open in several directions, and potentially amenable to open pit mining. The study is being expanded to assess run of mine heap leaching methods. Final study results are now expected early in 2007.

Also in May, the Company announced a 10,000-foot Phase I Exploratory Drilling Program at the Shell Deposit. The drilling program commenced in August. The Shell Deposit property contains a historical resource of molybdenum, gold and tungsten, including 517,156 tons of 0.238 ounces gold per ton. Compilation of data from prior programs has been completed and an updated geological model developed.

The Rosemont, Mount Hamilton, and the Shell projects are valuable assets. We remain committed to these assets in order to realize significant value for all of our shareholders. For further details please refer to our Financial Statements and Management Discussion and Analysis.

On behalf of the Board,

/S/ Gil Clausen

Gil Clausen
President & Chief Executive Officer

October 25, 2006

AUGUSTA RESOURCE CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
As at September 30, 2006 and December 31, 2005

(See Note 1 - Basis of presentation)

	Notes	September 2006	December 31 2005 (restated, note 2)
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 14,602,134	\$ 2,252,044
Accounts receivable	10	377,547	28,470
Prepaid expenses		173,649	48,334
Deferred debt issuance costs	6	-	272,796
		<u>15,153,330</u>	<u>2,601,644</u>
CAPITAL ASSETS	3	109,620	9,042
MINING ASSETS			
	4		
Land and Mining properties		31,784,918	15,161,604
Deferred exploration expenses		11,299,096	3,035,560
		<u>43,084,014</u>	<u>18,197,164</u>
		<u>\$ 58,346,964</u>	<u>\$ 20,807,850</u>
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	10	\$ 836,256	\$ 813,931
Current portion of convertible debenture	6	-	2,204,032
Current portion of notes and advances	5	1,578,969	1,136,895
		<u>2,415,225</u>	<u>4,154,858</u>
LONG-TERM			
Future income taxes		2,200,000	2,200,000
Notes, advances and other	5	17,289	1,492,267
		<u>4,632,514</u>	<u>7,847,125</u>
Commitments	12		
SHAREHOLDERS' EQUITY			
Share capital	7	59,948,167	18,437,248
Contributed surplus	7	14,666,294	6,226,110
Deficit		(20,900,011)	(11,702,633)
		<u>53,714,450</u>	<u>12,960,725</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>\$ 58,346,964</u>	<u>\$ 20,807,850</u>

On Behalf of the Board of Directors

/S/ Richard W. Warke

/S/ Gil Clausen

Richard W. Warke – Director
See accompanying Notes to the Consolidated Financial Statements

Gil Clausen - Director

AUGUSTA RESOURCE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(UNAUDITED)
For the Three and Nine months ended September 30, 2006 and 2005

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
		(restated, note 2)		(restated, note 2)
EXPENSES				
Stock based compensation	\$ 770,099	\$ 336,005	\$ 1,788,155	\$ 681,530
Salaries, benefits and bonuses	339,358	180,900	1,231,001	392,327
Write-off of mining assets	-	-	309,550	-
Office and sundry	63,703	57,396	189,629	188,110
Travel	63,785	14,867	209,804	35,037
Filing and regulatory	139,228	(7,932)	188,164	106,914
Investor relations	50,582	3,489	173,966	36,725
Accounting and audit	34,452	-	96,852	-
Legal fees	11,862	(1,367)	88,572	3,884
Insurance	6,408	-	80,749	-
Consulting and communication	7,878	3,421	53,289	42,173
Recruitment fees	45,124	-	45,124	45,174
Fiscal and advisory services	2,640	5,437	42,658	22,460
Administration (note 10)	7,500	7,500	22,500	22,500
Amortization	5,639	748	7,165	748
Foreign exchange (gain)	(624)	(240,268)	(115,821)	(237,828)
Other expenses	42,046	-	101,036	(8,847)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss from operations	(1,589,680)	(360,196)	(4,512,393)	(1,330,907)
Interest and other income	191,821	29,021	497,643	36,441
Debt issuance costs (note 6)	-	(135,534)	(272,796)	(180,712)
Interest and finance charges	(55,603)	(991,785)	(1,129,280)	(1,335,412)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET LOSS	(1,453,462)	(1,458,494)	(5,416,826)	(2,810,590)
Deficit, beginning of the period	(19,437,326)	(7,533,376)	(11,702,633)	(4,991,105)
Share issue expenses	(9,223)	(78,853)	(3,780,552)	(1,269,028)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
DEFICIT, END OF PERIOD	<u>\$ (20,900,011)</u>	<u>\$ (9,070,723)</u>	<u>\$ (20,900,011)</u>	<u>\$ (9,070,723)</u>
BASIC & DILUTED LOSS PER SHARE	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.10)</u>	<u>\$ (0.09)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	<u>66,669,287</u>	<u>35,122,731</u>	<u>54,701,774</u>	<u>30,331,680</u>

See accompanying Notes to the Consolidated Financial Statements

AUGUSTA RESOURCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
For the Three and Nine months ended September 30, 2006 and 2005

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
		(restated, note 2)		(restated, note 2)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING:				
OPERATING				
Net loss for the period	\$ (1,453,462)	\$ (1,458,494)	\$ (5,416,826)	\$ (2,810,590)
Items not affecting cash:				
Stock based compensation	770,099	336,005	1,788,155	681,530
Accretion interest on debt	52,908	855,943	1,010,532	1,153,886
Debt issuance costs	-	135,534	272,796	180,712
Amortization	5,639	748	7,165	748
Unrealized foreign exchange (gain) loss	1,855	(205,824)	(78,377)	(205,824)
Write-off of mining assets	-	-	309,550	-
Other	(1,202)	-	(3,672)	(8,847)
	<u>(624,163)</u>	<u>(336,088)</u>	<u>(2,110,677)</u>	<u>(1,008,385)</u>
Net changes in non-cash working capital items: (note 8)	<u>(650,984)</u>	<u>(104,565)</u>	<u>(606,889)</u>	<u>(367,685)</u>
Net cash flows used in operating activities	<u>(1,275,147)</u>	<u>(440,653)</u>	<u>(2,717,566)</u>	<u>(1,376,070)</u>
FINANCING				
Issuance of common shares	748,499	707,260	3,158,758	10,480,921
Issuance of convertible debt security	-	-	-	6,000,000
Repayment of notes and advances	-	-	(1,165,420)	(14,950)
Repayment of convertible debt security	-	-	(3,000,000)	-
Issuance of special warrants	-	-	44,099,000	-
Share issue expense	(9,223)	(123,852)	(2,875,362)	(832,520)
Net cash flows from financing activities	<u>739,276</u>	<u>583,408</u>	<u>40,216,976</u>	<u>15,633,451</u>
INVESTING				
Investment in mining properties, net of related payables	(561,418)	-	(16,894,550)	(8,590,461)
Deferred exploration expenses, net of related payables	(4,739,464)	(830,920)	(8,147,027)	(1,065,478)
Investment in fixed assets	(107,743)	-	(107,743)	(10,636)
Acquisition of DHI Minerals Inc.	-	-	-	(4,000)
Investment in marketable securities	-	(6,035)	-	(89,596)
Net cash flows used in investing activities	<u>(5,408,625)</u>	<u>(836,955)</u>	<u>(25,149,320)</u>	<u>(9,760,171)</u>
NET CASH INFLOW (OUTFLOW)	(5,944,496)	(694,200)	12,350,090	4,497,210
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>20,546,630</u>	<u>6,181,209</u>	<u>2,252,044</u>	<u>989,799</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 14,602,134</u>	<u>\$ 5,487,009</u>	<u>\$ 14,602,134</u>	<u>\$ 5,487,009</u>
SUPPLEMENTAL INFORMATION (note 9)				
Interest Paid	\$ -	\$ -	\$ 135,000	\$ -
Interest Received	\$ 122,001	\$ 29,021	\$ 231,202	\$ 36,441

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 30, 2006 AND 2005

1. BASIS OF PRESENTATION

The accompanying interim consolidated financial statements of Augusta Resource Corporation (the “Company”) have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and accordingly do not include all disclosures required for annual financial statements.

These interim consolidated financial statements follow the same significant accounting policies and methods of application as the Company’s annual restated consolidated financial statements for the year ended December 31, 2005 (the “Annual Financial Statements”). The interim consolidated financial statements should be read in conjunction with the Annual Financial Statements.

In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for interim periods are not necessarily indicative of the result that may be expected for the full fiscal year ending December 31, 2006.

2. 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 for the first quarter ended March 31, 2006 as well as for the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 30, 2006 AND 2005

2. RESTATEMENT (continued)

Through September 30, 2005 and as at December 31, 2005 the impact of the restatement was:

	As previously reported	Adjustments	As restated
<u>December 31, 2005</u>			
<u>Balance Sheet</u>			
Deferred debt Issuance costs	1,132,792	(859,996)	272,796
Current portion of convertible debt	3,000,000	(795,968)	2,204,032
Share capital	17,392,510	1,044,738	18,437,248
Contributed surplus	7,177,811	(951,701)	6,226,110
Deficit	(11,545,568)	(157,065)	(11,702,633)
 <u>September 30, 2005</u>			
<u>Statement of operations</u>			
Debt issuance costs	-	180,712	180,712
Foreign exchange (gain)	(214,828)	(23,000)	(237,828)
Interest and finance charges	233,815	1,101,597	1,335,412
Stock based compensation	5,502,720	(4,821,190)	681,530
Net loss for the period	(6,372,471)	3,561,881	(2,810,590)
Share issue expenses	(2,401,957)	1,132,929	(1,269,028)
Deficit, end of period	(13,765,533)	4,694,810	(9,070,723)
Loss per share	(0.21)	0.12	(0.09)
 <u>Statement of cash flows</u>			
Net loss for the period	(6,372,471)	3,561,881	(2,810,590)
Accrued interest on debt	52,289	1,101,597	1,153,886
Debt issuance costs	-	180,712	180,712
Unrealized foreign exch	(182,824)	(23,000)	(205,824)
Stock based compensation	5,502,720	(4,821,190)	681,530

3. CAPITAL ASSETS

	September 30, 2006				December 31, 2005
	Cost	Accumulated Amortization	Net Book Value		Net Book Value
Furniture and Equipment	\$ 31,328	\$ 1,566	\$ 29,762	\$	-
Building	28,703	-	28,703		-
Computer hardware	28,074	4,670	23,404		9,042
Computer software	30,273	2,523	27,750		-
	<u>\$ 118,379</u>	<u>\$ 8,759</u>	<u>\$ 109,620</u>	<u>\$</u>	<u>9,042</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 30, 2006 AND 2005

4. MINING ASSETS

On March 31, 2006 the Company exercised its option to purchase the Rosemont property in Pima County, Arizona with a payment of \$16.1 million. Augusta now owns a 100% interest in the Rosemont property subject to a 3% NSR.

The purchase price was determined based on the fair value of the consideration provided and allocated to the fair value of the Rosemont property land and mineral rights acquired based on management's best estimates. The process has been conducted in accordance with the recent accounting pronouncement relating to "Mining Assets – Impairment and Business Combinations" (Emerging Issue Committee Abstract 152).

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 and has written-off its investment.

	Mining Properties Cost		Deferred Exploration Expenses	
	September 30 2006	December 31 2005	September 30 2006	December 31 2005
Mining assets:				
Rosemont property	\$ 24,998,871	\$ 8,315,611	\$ 10,933,415	\$ 2,831,281
Mt. Hamilton property	6,574,757	6,574,757	339,016	142,543
Shell property	211,290	-	26,665	12,789
Lone Mountain property	-	271,236	-	48,947
	<u>\$ 31,784,918</u>	<u>\$ 15,161,604</u>	<u>\$ 11,299,096</u>	<u>\$ 3,035,560</u>

	2006	2005
Mining properties:		
Balance, beginning of period	\$ 15,161,604	\$ 285,064
Acquisition costs	16,894,549	15,124,447
Lone Mountain cost adjustment	(24,993)	-
Write-offs	(246,242)	(247,907)
Balance, September 30, 2006 and December 31, 2005	<u>\$ 31,784,918</u>	<u>\$ 15,161,604</u>

Deferred exploration expenses:		
Balance, beginning of period	\$ 3,035,560	\$ 19,785
Geologists and professional services	8,326,844	3,019,369
Write-offs	(63,308)	(3,594)
Balance, September 30, 2006 and December 31, 2005	<u>\$ 11,299,096</u>	<u>\$ 3,035,560</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 30, 2006 AND 2005

5. LONG TERM NOTES AND ADVANCES

	September 30 2006	December 31 2005
Notes and advances	\$ 40,577	\$ 44,692
Long term notes	1,555,681	2,584,470
	1,596,258	2,629,162
Less: Current portion	(1,578,969)	(1,136,895)
Total long term notes and advances	<u>\$ 17,289</u>	<u>\$ 1,492,267</u>

The purchase of the Mount Hamilton property included cash consideration of US\$3,000,000 (\$3,103,438). An initial installment payment of US\$500,000 (\$620,100) was paid and the remaining consideration comprised two non-interest bearing US dollar notes totaling US\$2,500,000 (\$2,655,695) and was discounted using an interest rate of 15%. On June 30, 2006 the US\$1,000,000 note was repaid. The remaining note is due on April 30, 2007.

Amount USD\$	Discounted USD\$	Discounted CDN\$
<u>\$ 1,500,000</u>	<u>\$ 1,391,859</u>	<u>\$ 1,555,681</u>

Other notes and advances do not provide for specific terms of repayment and are unsecured.

6. CONVERTIBLE DEBENTURE

On June 1, 2005, in connection with the Rosemont acquisition, the Company issued a convertible debenture for \$6,000,000. The debenture has a one-year term, with half due within six-months, and is convertible at the option of the lender into 2,181,818 common shares of the Company at a price of \$2.75 per share. The convertible debenture bears an interest rate of 9% annually and the Company has the option to repay the convertible debenture on the specified repayment dates in cash or stock. The convertible debenture was issued with 363,363 common shares of the Company to the lender at a fair market value at the date of the transaction of \$2.805 per common share (after a discount of 15% to reflect a hold period expiring on October 2, 2005.).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 30, 2006 AND 2005

6. CONVERTIBLE DEBENTURE (continued)

In accordance with CICA Handbook Section 3860, and following the fair value allocation approach, the Company allocated the proceeds as follows:

Common shares	\$1,019,233
Convertible debenture	
Equity component	1,478,083
Debt component	<u>3,502,684</u>
	<u>\$6,000,000</u>

The difference between the debt allocation of \$3,502,684 and the repayment amount of \$6,000,000 is interest expense, which is accrued over the term of the debenture. Through June 1, 2006, all of the interest expense amounting to \$2,497,316 had been accrued.

On November 17, 2005 the Company renegotiated the terms of its convertible debenture to allow for repayment in the form of cash and stock, as opposed to cash or stock. As consideration, the Company agreed to issue 750,000 warrants with an exercise price of \$1.44 expiring in one year, for which regulatory approval was received on March 15, 2006. The fair value of the warrants issued was \$288,938, which was allocated to debt (\$203,193) and equity (\$85,745).

On December 1, 2005, the Company retired \$3,000,000 of the convertible debenture plus interest of \$270,000 through payment of \$1,620,000 in cash and the issuance of 1,500,000 common shares at a price of \$1.10 per share. As the shares were issued at a discount of 20% to the market value in accordance with the terms of the convertible debenture agreement, a loss on repayment of the convertible debenture of \$390,000 occurred which was recorded in the statement of operations.

In connection with the issuance of the convertible debenture and common shares, the Company also paid a fee in the amount of 6% cash and 218,181 warrants. The fair value of the warrants of \$247,769 was allocated to debt (\$144,643) and equity (\$103,126). Each warrant is exercisable to acquire one common share at \$2.75 per warrant for a period of one year expiring on June 14, 2006. The warrants had a hold period expiring on October 15, 2005.

The remaining debenture was retired on June 1, 2006 with the payment of \$3 million cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 30, 2006 AND 2005

6. CONVERTIBLE DEBENTURE (continued)

	September 30 2006	December 31 2005
Convertible debenture, beginning of period	\$ 2,204,032	\$ -
Convertible debenture issued	-	3,502,684
Accretion of discount interest	795,968	1,701,348
Repayment of debenture	(3,000,000)	(3,000,000)
	<u>\$ -</u>	<u>\$ 2,204,032</u>
Deferred debt issuance costs, beginning of period	\$ 272,796	\$ -
Debt issuance costs - incurred	-	598,424
Debt issuance costs - amortized	(272,796)	(325,628)
	<u>\$ -</u>	<u>\$ 272,796</u>

7. SHARE CAPITAL

- (a) **Authorized:** Unlimited number of common shares without par value.
- (b) **Issued:** Changes in the Company's share capital were as follows:

	Number of Shares	Amount
Common shares, Balance at December 31, 2003	9,164,555	\$ 4,081,331
Issued for finder's fees	140,000	7,000
Issued for cash	10,460,000	523,000
Common shares, Balance at December 31, 2004	19,764,555	\$ 4,611,331
Issued to convertible debenture holder	363,363	1,019,233
Issued for convertible debenture repayment	1,500,000	2,040,000
Issued for property acquisitions	4,100,000	885,000
Issued for cash	8,998,500	8,370,551
Issued for fractional rounding due to share consolidation	9	-
Issued for options exercised	445,833	75,873
Issued for warrants exercised	4,342,333	1,435,260
Common shares, Balance at December 31, 2005	39,514,593	\$ 18,437,248
Issued for warrants exercised	9,528,807	3,380,404
Issued for options exercised	13,333	3,000
Issued for special warrants exercised	23,210,000	38,127,515
Common shares, Balance at September 30, 2006	72,266,733	\$ 59,948,167

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 30, 2006 AND 2005

7. **SHARE CAPITAL (continued)**

(c) **Private Placement**

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. Fair value of the Special Warrants is \$5,971,485. The fair value of the warrants was calculated using the Black-Scholes option pricing model for warrant valuation, assuming an average volatility of 87% on the underlying shares, a risk free interest rate of 4.00%, a two year term to expiry and no annual dividends.

The Company filed and obtained a receipt for a short form prospectus, which qualifies the distribution of the common shares and warrants underlying the Special Warrants effective April 28, 2006.

In consideration for their services, the agents received a cash commission equal to 6% of the gross proceeds, totaling \$2,645,940 from the offering and 1,392,600 agent's warrants exercisable into common shares which is equal to 6% of the number of Special Warrants sold. Each agent's warrant will entitle the holder to acquire one common share of the Company at a price of \$3.10 expiring March 17, 2007 and \$4.10 expiring March 17, 2008. Fair value of the agent's warrants is \$905,190. The fair value of the warrants was calculated using the Black-Scholes option pricing model for warrant valuation, assuming an average volatility of 87% on the underlying shares, a risk free interest rate of 4.00%, a two year term to expiry and no annual dividends.

(d) **Options**

On September 30, 2006, certain directors and officers of the Company held 4,691,001 stock options, and certain employees of the Company held 357,500 stock options to purchase common shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 30, 2006 AND 2005

7. **SHARE CAPITAL (continued)**

(d) **Options (continued)**

The following table summarizes the status of the Company's stock option plans as at September 30, 2006:

	2006	
	Number of Shares	Average Exercise Price
Outstanding at beginning of year	3,226,834	\$ 1.35
Granted	1,885,000	\$ 2.05
Exercised	(13,333)	\$ 0.22
Cancelled	(50,000)	\$ 2.20
Outstanding at end of period	5,048,501	\$ 1.71
Options exercisable at September 30, 2006	1,191,001	\$ 1.43

The following table summarizes stock options outstanding at September 30, 2006:

Options Outstanding and Exercisable					
Exercise Prices	Number Outstanding at September 30, 2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Prices	Number Exercisable at September 30, 2006	Weighted Average Exercise Prices
\$ 0.30	79,334	0.2 Years	\$ 0.30	79,334	\$ 0.30
\$ 0.33	66,667	0.6 Years	\$ 0.33	66,667	\$ 0.33
\$ 0.10	207,500	3.1 Years	\$ 0.10	207,500	\$ 0.10
\$ 2.05	450,000	3.5 Years	\$ 2.05	337,500	\$ 2.05
\$ 1.96	125,000	3.5 Years	\$ 1.96	62,500	\$ 1.96
\$ 2.30	100,000	3.8 Years	\$ 2.30	100,000	\$ 2.30
\$ 1.56	2,035,000	3.9 Years	\$ 1.56	200,000	\$ 1.56
\$ 1.55	150,000	4.0 Years	\$ 1.55	37,500	\$ 1.55
\$ 2.07	816,000	4.5 Years	\$ 2.07	-	\$ 2.07
\$ 2.20	604,000	4.5 Years	\$ 2.20	100,000	\$ 2.20
\$ 1.78	365,000	4.8 Years	\$ 1.78	-	\$ 1.78
\$ 1.90	50,000	4.8 Years	\$ 1.90	-	\$ 1.90
	5,048,501			1,191,001	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. SHARE CAPITAL (continued)

(e) Warrants

The following table summarizes information about warrants outstanding at September 30, 2006. Each warrant is exercisable into one common share.

Currency	Exercise Price	Expiry Dates	Outstanding at December 31,2005	Issued	Exercised	Expired	Outstanding at September 30, 2006
CDN	\$ 0.45	March 3, 2006	685,000	-	685,000	-	-
CDN	\$ 1.25	April 15, 2006	729,807	-	704,807	25,000	-
CDN	\$ 2.50	April 15, 2006	832,155	-	229,000	603,155	-
CDN	\$ 2.75	June 14, 2006	218,181	-	-	218,181	-
CDN	\$ 0.10	September 7, 2006	7,460,000	-	7,460,000	-	-
CDN	\$ 1.44	April 28, 2007	-	750,000	450,000	-	300,000
USD	\$ 0.16	May 6, 2007	3,750,000	-	-	-	3,750,000
CDN	\$ 3.00	June 29, 2007	2,200,000	-	-	-	2,200,000
CDN	\$ 3.10	March 17, 2007 ⁽¹⁾	-	12,997,600	-	-	12,997,600
			<u>15,875,143</u>	<u>13,747,600</u>	<u>9,528,807</u>	<u>846,336</u>	<u>19,247,600</u>

- (1) Each 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.

(f) Contributed Surplus

On September 30, 2006, the contributed surplus was as follows:

	<u>2006</u>
Balance - Beginning of period	\$ 6,226,110
Stock based compensation expense for the year	1,788,155
Fair value of warrants issued on private placement	5,971,485
Fair value of warrants issued on share issuance	905,190
Transfer to share capital upon exercise of warrants	<u>(224,646)</u>
Balance - End of period	<u>\$ 14,666,294</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

The following table summarizes the changes in non-cash working capital items:

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	2006	2005	2006	2005
Net changes in non-cash working capital items:				
Accounts receivable	\$ (99,479)	\$ (67,349)	\$ (349,077)	\$ (2,546)
Prepaid items	35	34,838	(125,315)	20,237
Accounts payable & accrued liabilities	<u>(551,540)</u>	<u>(72,054)</u>	<u>(132,498)</u>	<u>(385,376)</u>
	<u>\$ (650,984)</u>	<u>\$ (104,565)</u>	<u>\$ (606,890)</u>	<u>\$ (367,685)</u>

9. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	2006	2005	2006	2005
Special warrants converted into common shares	\$ -	\$ -	\$ 38,127,515	\$ -
Warrants issued as share issue expenses	\$ -	\$ -	\$ 905,190	\$ 120,000
Acquisition of DHI Minerals Ltd.	\$ -	\$ -	\$ -	\$ 4,760,601

10. RELATED PARTY TRANSACTIONS

During the period ended September 30, 2006, the Company incurred expenses of \$22,500 (2005 - \$22,500) for administrative services provided by a company in which a director of the Company has a 25% interest.

At September 30, 2006, \$26,888 of accounts receivable (2005 - \$4,349) is due from a related company, which shares office space and certain common directors with the Company. At September 30, 2006, \$150,000 of accounts payable (2005 - \$12,367 accounts receivable) is due to the Chairman of the Company, \$76,250 of accounts payable (2005 - \$56,250) is due to the Vice President Administration of the Company for salaries and bonuses accrued in the current and prior year. Also, included in accounts receivable at September 30, 2006 is an amount of \$41,920 (2005 - \$54,223) due from a related company with common directors.

All related party transactions are recorded at the exchange value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. FINANCIAL INSTRUMENTS

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

12. COMMITMENTS

The Company leases building premises recorded as operating leases. The terms of the leases extend through to June 30, 2009. The future minimum lease payments are as follows:

<u>Year</u>	
2006	\$ 36,053
2007	\$ 126,855
2008	88,894
2009	<u>48,388</u>
Total	<u>\$ 300,190</u>

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Robert P. Wares
Richard W. Warke (Chairman)

OFFICERS

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Bruce Nicol ~ Senior Vice President and Chief Financial Officer
Donald B. Clark ~ Vice President Administration
Mike Clarke ~ Vice President Exploration
Lance Newman ~ Vice President Metallurgical Operations
James Sturgess ~ Vice President Projects and Environment
Richard Warke ~ Vice President Corporate Development
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SHARES LISTED

Toronto Stock Exchange
Trading Symbol ~ AZC