



MANAGEMENT DISCUSSION AND ANALYSIS

For the Period Ending

September 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 the quarter ended September 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 October 25, 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 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 September 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 Exchanges and New Trading Symbols

On August 10, 2006 the Company graduated to the Toronto Stock Exchange with the symbol change to “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 order to increase awareness of the Company. In addition, the Company commenced trading of its common shares on the Frankfurt Stock Exchange (“FWB”) on September 14, 2006, under the symbol “A5R”.

Overview of Performance

Property in Pima County, Arizona

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 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 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 the Rosemont copper-molybdenum project in Arizona. 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 intervals above expectation.

Assay results for the drill program to date are outlined below (distances are in metres):

| Hole | From | To | Interval | Cu | Mo | Ag g/t | Comments |
|----------------|--------|--------|----------|------|-------|--------|----------------------------|
| AR2015 | 260.60 | 451.10 | 190.50 | 0.51 | 0.014 | 5.3 | |
| | 505.97 | 576.07 | 70.10 | 0.66 | 0.024 | 9.9 | |
| | 605.03 | 620.27 | 15.24 | 1.28 | 0.018 | 20.3 | |
| AR2016 | 236.22 | 376.43 | 140.21 | 1.32 | 0.015 | 8.6 | |
| AR2017 | 0.00 | 15.24 | 15.24 | 0.26 | - | - | Oxide |
| | 27.43 | 105.16 | 77.73 | 0.50 | - | - | Oxide |
| | 243.84 | 355.09 | 111.25 | 0.82 | 0.021 | 5.0 | |
| | 473.96 | 573.94 | 99.98 | 0.40 | 0.037 | 4.8 | |
| AR2019 | 109.73 | 141.73 | 32.00 | 0.25 | - | - | Oxide |
| | 187.45 | 207.26 | 19.81 | 0.29 | 0.013 | 1.2 | |
| | 460.25 | 505.97 | 45.72 | 0.39 | 0.021 | 5.2 | |
| | 536.45 | 614.17 | 77.72 | 0.40 | 0.015 | 7.6 | |
| AR2021 | 6.09 | 16.76 | 10.67 | 0.38 | - | - | Oxide |
| | 88.36 | 100.58 | 12.22 | 0.32 | - | - | Oxide |
| | 271.27 | 434.34 | 163.07 | 0.72 | 0.014 | 5.1 | |
| AR2022 | 493.78 | 519.68 | 25.90 | 0.31 | 0.016 | 3.9 | East limit at depth |
| AR2024 | 6.10 | 76.20 | 70.10 | 0.55 | - | - | Oxide |
| | 368.81 | 614.17 | 245.36 | 0.39 | 0.017 | 4.6 | |
| AR2025 | 275.84 | 451.10 | 175.26 | 0.63 | 0.017 | 5.0 | |
| AR2026 | 131.06 | 172.21 | 41.15 | 0.54 | 0.008 | 3.3 | |
| | 202.69 | 228.60 | 25.91 | 0.24 | 0.007 | 1.7 | |
| | 313.94 | 403.86 | 89.92 | 1.09 | 0.014 | 18.5 | |
| AR2028B | 310.90 | 525.78 | 214.88 | 0.67 | 0.019 | 3.9 | |
| AR2030 | 251.46 | 513.59 | 262.13 | 0.67 | 0.014 | 9.8 | |
| AR2031 | 156.97 | 330.71 | 173.74 | 0.30 | 0.036 | 2.8 | |

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 on filing 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 on the Company's website at www.augustaresource.com.

As of September 30, 2006, the Company has deferred \$10,933,415 in exploration, engineering and permitting expenditures related to the property, of which \$5,053,517 was incurred during the third quarter, \$2,450,792 in 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 second 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 nearby Shell molybdenum/tungsten deposit. The drill program, which commenced in August, is to confirm and extend known mineralization zones of molybdenum, gold and tungsten. Management expects to release a preliminary assessment on the property in 2006. A Pre-Feasibility or potential Feasibility Study may not be completed until the second quarter 2007 pending more definitive metallurgical tests on “run of mine” heap leaching.

As of September 30, 2006, the Company has deferred \$339,016 in exploration expenditures related to the Mount Hamilton property, of which \$113,553 was incurred during the third quarter, \$24,741 was incurred during the second quarter and \$58,179 in the first quarter. On the Shell property, \$26,665 in exploration expense has been deferred to September 30, 2006, of which, \$13,877 was incurred during the third quarter and \$12,788 of exploration spending was deferred prior to 2006.

Property in Grant County, New Mexico

During the second quarter 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, southwestern New Mexico.

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

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

| | Mining Properties Cost | | Deferred Exploration Expenses | |
|--|------------------------|----------------------|-------------------------------|---------------------|
| | September 30 | December 31 | September 30 | December 31 |
| | 2006 | 2005 | 2006 | 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> |
| | | | | |
| Mining properties: | 2006 | 2005 | | |
| 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> | | |

Results of Operations

Comparison of the nine-month period ending September 30, 2006 and 2005

| | Nine Months Ended September 30 | | Change |
|---|--------------------------------|-----------------------|-----------------------|
| | 2006 | 2005 | |
| EXPENSES | | | |
| Stock based compensation | \$ 1,788,155 | \$ 681,530 | \$ (1,106,625) |
| Salaries, benefits and bonuses | 1,231,001 | 392,327 | (838,674) |
| Write-off of mining assets | 309,550 | - | (309,550) |
| Office and sundry | 189,629 | 188,110 | (1,519) |
| Travel | 209,804 | 35,037 | (174,767) |
| Filing and regulatory | 188,164 | 106,914 | (81,250) |
| Investor relations | 173,966 | 36,725 | (137,241) |
| Accounting and audit | 96,852 | - | (96,852) |
| Legal fees | 88,572 | 3,884 | (84,688) |
| Insurance | 80,749 | - | (80,749) |
| Consulting and communication | 53,289 | 42,173 | (11,116) |
| Recruitment fees | 45,124 | 45,174 | 50 |
| Fiscal and advisory services | 42,658 | 22,460 | (20,198) |
| Administration | 22,500 | 22,500 | - |
| Amortization | 7,165 | 748 | (6,417) |
| Foreign exchange (gain) | (115,821) | (237,828) | (122,007) |
| Other expenses | 101,036 | (8,847) | (109,883) |
| Loss from operations | (4,512,393) | (1,330,907) | (3,181,486) |
| Interest and other income | 497,643 | 36,441 | 461,202 |
| Debt issuance costs | (272,796) | (180,712) | (92,084) |
| Interest and finance charges | (1,129,280) | (1,335,412) | 206,132 |
| NET LOSS FOR THE PERIOD | \$ (5,416,826) | \$ (2,810,590) | \$ (2,606,236) |
| BASIC & DILUTED LOSS PER SHARE | \$ (0.10) | \$ (0.09) | |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING- BASIC AND DILUTED | 54,701,774 | 30,331,680 | |

Loss from operations for the nine-month period ending September 30, 2006 was \$4,512,393. This was \$3,181,486 higher than the loss of \$1,330,907 for the nine-month period ending September 30, 2005. The net loss for the period was \$5,416,826 (\$0.10 loss per share) compared to a net loss of \$2,810,590 for the nine-month period ending September 30, 2005 (\$0.09 loss per share). The increase in the net loss is primarily due to increased corporate and project development activity, particularly for the Rosemont Property, an increase in stock based compensation expense and the write-down of the Lone Mountain property partially offset by increased interest income.

Stock based compensation expense was \$1,106,625 higher for the nine-months ended September 30, 2006 than for the same period in 2005 reflecting the additional cost of stock options issued during the period. Stock based compensation is recognized in accordance with the fair value based method of accounting for stock compensation, with the offsetting credit recorded as an increase in contributed surplus.

Salaries and benefits increased \$838,674 compared to the nine-months ended September 30, 2005 primarily due to an increase in personnel whose primary focus is the advancement of the

Rosemont property, coupled with performance bonuses for key officers. The US operation has increased personnel from three to eight employees and the Vancouver office from four to nine employees. In most cases the Vancouver office employees are also involved in managing other related public companies.

During the period management has focused its efforts on advancing its properties and maximizing the value of the Company's assets by expanding awareness with the global investment community. Travel expense increased by \$174,767 and investor relations increased \$137,241 over the same nine-month period in 2005 reflecting this increased activity.

Accounting and audit increased to \$96,852 for the nine months ended September 30, 2006. The fees incurred during the period cover the year-end audit for 2005 and additional services required in connection with the first quarter financing and the TSX listing.

A foreign exchange gain of \$115,821 was recognized during the nine-month period ended September 30, 2006 compared to a foreign exchange gain of \$237,828 over the same nine-month period ended September 30, 2005. The foreign exchange gain primarily pertains to the revaluation of the US dollar note payable. The unrealized exchange gain was greater in 2005 reflecting the weakening of the US dollar compared to prior periods as well as the higher balance in 2005.

Legal fees for the nine-month period ended September 30, 2006 are \$88,572 compared to \$3,884 for the nine-month period ended September 30, 2005 an increase of \$84,688. The Company's 2006 corporate activities have increased and are more complex requiring additional legal work not required the previous year.

For the nine-month period ended September 30, 2006 the Company acquired Directors' and Officers insurance along with liability coverage for the Rosemont property for \$80,749. No liability coverage was undertaken in 2005.

Other expenses of \$101,036 capture operational expenditures pertaining to the working ranch acquired with the acquisition of the Rosemont property.

The increase in interest income to \$497,643 during the period resulted from the substantial increase in bank balances from equity funds raised during the first quarter of 2006 and the investment of these funds in short-term investments.

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

Interest and finance charges for the nine-month period ended September 30, 2006 are \$1,129,280, a decrease of \$206,132 over \$1,335,412 for the nine-month period ended September 30, 2005. This decrease is the result of lower interest after \$3,000,000 of the convertible debenture was retired on June 1, 2006 and \$3,000,000 was retired December 1, 2005.

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

| | Three Months Ended September 30 | | Change |
|---|---------------------------------|-----------------------|-----------------|
| | 2006 | 2005 | |
| EXPENSES | | | |
| Stock based compensation | \$ 770,099 | \$ 336,005 | \$ (434,094) |
| Salaries, benefits and bonuses | 339,358 | 180,900 | (158,458) |
| Office and sundry | 63,703 | 57,396 | (6,307) |
| Travel | 63,785 | 14,867 | (48,918) |
| Filing and regulatory | 139,228 | (7,932) | (147,160) |
| Investor relations | 50,582 | 3,489 | (47,093) |
| Accounting and audit | 34,452 | - | (34,452) |
| Legal fees | 11,862 | (1,367) | (13,229) |
| Insurance | 6,408 | - | (6,408) |
| Consulting and communication | 7,878 | 3,421 | (4,457) |
| Recruitment fees | 45,124 | - | (45,124) |
| Fiscal and advisory services | 2,640 | 5,437 | 2,797 |
| Administration | 7,500 | 7,500 | - |
| Amortization | 5,639 | 748 | (4,891) |
| Foreign exchange (gain) | (624) | (240,268) | (239,644) |
| Other expenses | 42,046 | - | (42,046) |
| Loss from operations | (1,589,680) | (360,196) | (1,229,484) |
| Interest and other income | 191,821 | 29,021 | 162,800 |
| Debt issuance costs | - | (135,534) | 135,534 |
| Interest and finance charges | (55,603) | (991,785) | 936,182 |
| NET LOSS FOR THE PERIOD | \$ (1,453,462) | \$ (1,458,494) | \$ 5,032 |
| BASIC & DILUTED LOSS PER SHARE | \$ (0.02) | \$ (0.04) | |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING- BASIC AND DILUTED | 66,669,287 | 35,122,731 | |

The operating loss for the three-month period ending September 30, 2006 was \$1,589,680. This was \$1,229,484 higher than the loss of \$360,196 for the same quarter in 2005. The net loss for the three-month period was \$1,453,462 (\$0.02 loss per share) compared to a net loss of \$1,458,494 (\$0.04 loss per share) for the three-month period ended September 30, 2005. As noted earlier there has been significant corporate and development activities undertaken in 2006, which is reflected in the higher loss from operations in the quarter. The increase is primarily due to an increase in stock based compensation, expenditures of a corporate nature, and a reduction in unrealized foreign exchange gain.

The stock based compensation expense was \$434,094 higher than in the comparative period of 2005 reflecting the associated expense of additional stock options issued in 2006.

Filing and regulatory expenses during the three-month period ending September 30, 2006 were \$147,160 higher than the comparative period of 2005 and legal fees were \$34,452 higher than the three-months ended September 30, 2005 primarily due to the costs associated with the Company's TSX listing in August.

The Company incurred recruitment fees of \$45,124 in the quarter for the placement of key personnel in our Denver office.

The foreign exchange gain of \$624 during the three-month period ended September 30, 2006 is significantly less than the gain of \$240,268 recognized during the three-months ended September 30, 2005. The gain in the comparative period in 2005 resulted from the weakening of the US dollar from the prior period on the Company's US\$2.5 million note payable.

Other expenses of \$42,046 capture operational expenditures pertaining to the working ranch acquired with the acquisition of the Rosemont property.

The increase in interest income to \$191,821 during the quarter resulted from the substantial increase in bank balances from equity funds raised during the first quarter of 2006 and the investment of these funds in short-term investments.

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

Interest and finance charges for the three-month period ended September 30, 2006 are \$55,603 compared to \$991,785 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 of fiscal 2006, 2005 and 2004 are as follows, the first quarter of 2006 and the 2005 quarters have been restated:

| | Revenue | Net loss | Net loss per share basic & diluted |
|----------|---------|----------------|--|
| Sep 2006 | Nil | \$ (1,453,462) | \$ (0.02) |
| Jun 2006 | Nil | \$ (2,436,883) | \$ (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) |

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 an accumulated deficit position. 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 September 30, 2006 was \$12,738,105 compared with a working capital deficiency of \$1,553,214 as at December 31, 2005, an increase of \$14,291,319. The Company raised \$44,099,000 in Special Warrants and \$3,158,758 in other equity during the period. Funds expended were \$16,683,260 used to purchase the remaining Rosemont Property interest, \$211,290 paid for the Shell property option, \$2,875,362 paid for share issuance costs, \$1,165,420 for the repayment of long-term notes and \$8,147,027 expended on exploration. 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 Company has \$14,602,134 remaining in cash and cash equivalents.

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

| <i>Contractual Obligations</i> | <i>Payments due by period</i> | | | | |
|---|-------------------------------|-----------------------------|-----------------------|------------------------|----------------------------------|
| | <i>Total</i> | <i>Less than 1 year</i> | <i>1- 3 years</i> | <i>3 – 5 years</i> | <i>More than 5 years</i> |
| Long-Term Debt Obligations ⁽¹⁾ | \$1,717,127 | \$1,699,838 | \$ 17,289 | \$ - | \$ - |
| Operating Lease Obligations ⁽²⁾ | 300,190 | 143,397 | 156,793 | - | - |
| Other Long-Term Liabilities Reflected on the Company's Balance Sheet under Canadian GAAP ⁽³⁾ | 2,200,000 | - | - | 2,200,000 | - |
| Total | \$4,217,317 | \$1,843,235 | \$ 174,082 | \$2,200,000 | \$ - |

⁽¹⁾ Represents \$1,676,550 note payable for the purchase of DHI Minerals Ltd. and the Mt. Hamilton property as well as amounts owed to various unrelated parties totaling \$40,577. These amounts do not bear interest.

⁽²⁾ Represents Glendale office rent of approximately US\$6,300 per month, under a 36-month lease agreement expiring on June 30, 2009, US\$939 per month for lodging premises in Tucson, under a 12-month lease agreement expiring on August 31, 2007 and Vancouver office rent of \$4,542 per month for one year ending September 30, 2007.

⁽³⁾ Deferred tax liability of \$2,200,000 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, Overview of Performance. The Company has entered into option agreements, which provide for further acquisitions and exploration expenses to be incurred, however, as these are not contractual obligations the Company is not obligated to complete these expenditures.

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

- Exploration and development at the Rosemont Property of approximately \$2,300,000;
- Complete feasibility study on the Rosemont Property of approximately \$2,000,000;
- Contingency costs related to the Rosemont Property of approximately \$750,000;
- Permitting activities on the Rosemont Property of approximately \$1,500,000;
- Note payment due on the Mount Hamilton purchase of approximately \$1,676,500;
- Completion of pre-feasibility study on the Mt. Hamilton Property of approximately \$334,000;
- Exploration expenditures and other payments to maintain our Shell Deposit in good standing of approximately \$810,000;
- General and administrative expenses of approximately \$2,700,000.

We do not anticipate that the Company will require additional capital to fund business activities during the remainder of 2006 and into 2007. However, as the Company has no revenues from operations and do not expect to generate any revenues from operations in the foreseeable future, additional financings will be required to advance the properties beyond what is described above.

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 short form 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 have been used to complete the 2006 budgeted exploration and development activities, buy out the Rosemont option agreement entirely and provide for certain expenditures to be incurred in 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 conclusions of the feasibility study, permitting of exploration and development activity, 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 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 Sargold Resource Corporation, 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.

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 72,266,733 issued and outstanding. The Company had 5,048,501 outstanding stock options with 1,191,001 vested and available for exercise. The Company also had 19,247,600 in outstanding warrants available to be exercised. From September 30, 2006 to the date of this report no options were exercised.

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 September 30, 2006 the Company's disclosure controls and procedures were effective in ensuring that material information regarding the interim financial statements and MD&A was made known to them on a timely basis.