

FORAN MINING CORPORATION

FINANCIAL STATEMENTS

NINE MONTHS ENDED JUNE 30, 2006 and 2005

(Unaudited - Prepared by Management)

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

FORAN MINING CORPORATION
NINE MONTHS ENDED JUNE 30, 2006 and 2005

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FORAN MINING CORPORATION

**CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2006 and 2005
(Unaudited – Prepared by Management)**

	Nine Months June 30, 2006	Nine Months June 30, 2005
ASSETS		
Current Assets		
Cash	\$ 511,657	1,479
Short-term investments	-	10,138
Accounts receivable	8,864	326,054
Prepaid Expenses	23,859	177,044
Deposits	<u>50,000</u>	<u>145,000</u>
	594,380	659,715
Other Asset (Note 3)	500,000	500,000
Investment in partnership (Note 4)	1	1
Mineral properties (Note 5)	2,460,074	9,498,428
Capital Assets (Note 6)	1,539,011	2,803,351
Long-term Deposits	<u>50,000</u>	<u>-</u>
	<u>\$ 5,143,466</u>	<u>\$ 13,461,495</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 479,736	\$ 329,398
Convertible loan(s) (Note 7)	7,383,500	4,300,000
Current Portion of Long-term Debt	<u>3,417</u>	<u>3,416</u>
	<u>7,866,653</u>	<u>4,632,814</u>
Long-term Debt (Note 8)	<u>19,389</u>	<u>33,059</u>
	<u>7,886,042</u>	<u>4,665,873</u>
Contingencies (Note 9)		
SHAREHOLDERS' DEFICIENCY		
Share Capital (Note 10)	27,293,481	27,874,906
Equity portion of convertible loan (Note 7)	117,500	-
Contributed surplus	5,586	5,586
Deficit	<u>(30,159,143)</u>	<u>(19,084,870)</u>
	<u>(2,742,576)</u>	<u>8,795,622</u>
	<u>\$ 5,143,466</u>	<u>\$ 13,461,495</u>

APPROVED ON BEHALF OF THE BOARD:

Director _____ Director _____

See accompanying notes to consolidated financial statements.

FORAN MINING CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
NINE MONTHS ENDED JUNE 30, 2006 AND 2005

(Unaudited – prepared by Management)

	Three Months June 30, 2006	Three Months June 30, 2005	Nine Months June 30, 2006	Nine Months June 30, 2005
REVENUE				
Interest Income	-	4,420	128	12,102
Total Revenue	-	4,420	128	12,102
EXPENDITURES- Administrative				
Administration	48,807	7,144	150,417	195,754
Agency Fees	3,398	6,223	29,200	42,416
Amortization	3,716	172,329	14,850	364,655
Interest & Bank Charges	72,817	72,577	213,661	96,013
Professional fees	82,289	87,089	319,567	142,262
Rent	12,469	4,900	31,521	27,500
Repairs & maintenance	2,964	-	63,288	-
Wages & benefits	36,266	155,417	128,972	376,145
	<u>262,726</u>	<u>555,679</u>	<u>951,476</u>	<u>1,244,745</u>
Loss before the under-noted Write-down (Recovery) of mineral properties	(262,726)	(551,259)	(951,348)	(1,232,643)
Gain (Loss) on Disposal of Assets (Note 3)	6,362	-	1,043	-
LOSS FOR THE PERIOD	(269,087)	(551,259)	(931,632)	(1,233,461)
Deficit, beginning of period	(29,890,055)	(18,533,610)	(29,227,511)	(17,851,408)
DEFICIT END OF PERIOD \$	(30,159,142)	(19,084,869)	(30,159,143)	(19,084,869)
Basic and fully diluted loss per share	\$ (0.49)	(0.01)	(0.49)	(0.02)
Weighted average number of shares outstanding	59,613,851			

See accompanying notes to consolidated financial statements.

FORAN MINING CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOW NINE MONTHS ENDED JUNE 30, 2006 and 2005 (Unaudited – Prepared by Management)

	Three Months June 30, 2006	Three Months June 30, 2005	Nine Months June 30, 2006	Nine Months June 30, 2005
Cash flows from operating activities				
Loss for the period	(269,087)	(551,259)	(931,632)	(1,233,461)
Items not affecting cash				
Amortization	3,716	172,329	14,849	364,655
Write-down (Recovery) of mineral properties	-	-	(20,759)	818
Write-down (Recovery) of assets	6,362	-	1,043	-
	(259,009)	(378,930)	(936,499)	(867,988)
Net changes in non-cash working capital items				
Related to operations:				
Accounts receivable	3,942	(209,279)	7,167	(135,548)
Prepaid and deposits	(15,573)	(13,075)	39,601	(174,867)
Accounts payable and accrued liabilities	63,588	(310,867)	122,429	184,917
Cash provided by (used in) operating activities	(207,052)	(912,151)	(767,302)	(993,486)
INVESTING ACTIVITIES				
Mineral property expenditures	(2,004,500)	(1,209,077)	(2,015,980)	(2,574,061)
Property, plant and equipment	7,528	(442,271)	146,789	(2,843,255)
Other Asset Investment	-	-	-	(500,000)
Cash used in investing activities	(1,996,972)	(1,651,348)	(1,869,191)	(5,917,316)
FINANCING ACTIVITIES				
Proceeds from issuance of debt	2,700,000	1,300,000	3,101,000	4,300,000
Repayment of long-term debt	(3,417)	(3,417)	(10,252)	(10,252)
Proceeds from issuance of shares	-	15,875	0	2,039,300
Cash provided by financing activities	2,696,583	1,312,458	3,090,748	6,329,048
INCREASE IN FUNDS	492,559	(1,251,041)	454,255	(581,754)
Cash and cash equivalents at beginning of period	19,098	1,262,658	57,402	593,371
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 511,657	11,617	511,657	11,617

Cash and cash equivalents consist of cash on hand and balance with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

Cash	<u>\$ 511,657</u>	<u>\$11,617</u>
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See accompanying notes to consolidated financial statements.

FORAN MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JUNE 30, 2006 and 2005
(Unaudited – Prepared by Management)

1 Nature and continuation of operations

The Company was incorporated under the laws of British Columbia and its principal business activities include the acquisition and exploration of mineral properties.

These consolidated financial statements have been prepared on the basis of generally accepted accounting principles as applicable to a going concern, which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future.

The Company has incurred significant operating losses and its ability to continue as a going concern is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete their development, future production or proceeds from the disposition thereof and to achieve a favorable outcome of its contingencies (Note 9).

2. Significant accounting policies

These consolidated financial statements have been prepared to reflect the following significant accounting policies:

Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, 623133 Saskatchewan Ltd. All inter-company transactions and balances have been eliminated upon consolidation.

Investment in partnership

The Company's investment in a partnership is accounted for by the cost basis of accounting and is recorded at the lower of cost and net realizable value.

Capital Assets

Property, plant and equipment are recorded at cost. Amortization is provided on a declining balance basis over the estimated useful life of the asset. Annual Amortization rates are as follows:

Automobiles	30%
Buildings	25%
Buildings (shop)	25%
Computer and survey equipment	30%
Equipment	30%
Furniture and fixtures	20%
Mine rescue trailer and equipment	25%
Rail bed Road	0%
Trailers	25%

FORAN MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. Significant accounting policies (continued)

Mineral Properties

The Company capitalizes mineral property acquisition costs and exploration and development expenditures on a property-by-property basis. These costs will be amortized over the estimated productive lives of the properties upon commencement of production using the unit-of-production method, or written down to their estimated fair value if the properties are abandoned, allowed to lapse, there is little prospect of further work being carried out by the Company or there has been permanent impairment in their value, with the associated write-down being charged to operations.

Mineral property acquisition costs include the cash consideration paid and the fair value of common shares issued, based on the trading price of the shares on the date of the agreement to issue the shares.

The amounts shown for mineral properties represent costs incurred to date, less recoveries and write-downs, and do not necessarily reflect present or future values.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences), and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment.

The Company finances a portion of its exploration activities through the use of flow-through shares. The Company records the tax cost of expenditures renounced to subscribers on the date the deductions are renounced to the subscribers. Share capital is reduced and future income tax liabilities are increased by the estimated tax benefits renounced by the Company to the subscribers, except to the extent that the Company has unrecorded loss carryforwards and tax pools in excess of book value available for deduction.

Stock-based compensation

The Company grants stock options under a fixed stock option plan in accordance with the TSX Venture Exchange ("TSX-V") policies and accounts for stock options using the fair value method. Fair value is measured at the grant date using the Black-Scholes valuation model with compensation expense and equity recognized over the vesting period of the options granted. During the period \$nil (2004, - \$5,586) of compensation and equity has been recognized. Consideration paid by directors and employees to exercise their stock options is recorded as share capital.

Loss per share

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds received on exercise of options and warrants would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the change.

FORAN MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JUNE 30, 2006 and 2005
(Unaudited – Prepared by Management)

2. Significant accounting policies (Continued)

Foreign currency translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Exchange gains and losses are recognized in operations.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant areas requiring the use of management estimates include impairment of mineral properties, impairment of capital assets, useful lives for amortization of capital assets, reclamation and environmental obligations, and contingencies reported in the notes to the financial statements. Financial results as determined by actual events could differ from those estimates.

3. Other asset

The Company made a \$500,000 payment for 2,500,000 shares of the capital stock of Copper Reef (1973) Limited (“Copper Reef”) pursuant to an assignment agreement on the Hanson Lake mineral property.

4. Investment in partnership

During the year ended September 30, 2003, the Company, with two other companies, formed a general partnership which acquired an interest in the 1999 Investment Co. Limited Partnership.

During the year ended September 30, 2003, the Company received a cash distribution of \$281,156 (less a finder’s fee of \$8,430) from the general partnership which represents the aggregate amount of cash the Company expects to receive from this investment. No cash distributions were received by the Company in the years ended September 30, 2005 and 2004.

FORAN MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JUNE 30, 2006 and 2005
(Unaudited – Prepared by Management)

5. Mineral Properties

Nine Months ended June 30, 2006

	Balance September 30, 2005	Acquisition costs and license fees	Exploration and development expenditures	Recoveries, MEAP Grant, and Write-offs and Recoveries	Balance March 31, 2006
Kisseynew, MB	\$ 1	\$ -	\$ -	\$ -	\$ 1
Sewell Lake, MB	1	-	-	-	1
Morton Lake, MB	1	-	-	-	1
McIlvenna, SK	0	2,000,781	250	-	2,001,031
Otter Lake, MB	1	-	-	-	1
Kaskattama, MB	1	-	-	-	1
North Star Gold, MB	1	-	-	-	1
Jupiter, MB	1	-	-	-	1
Kettle River, MB	-	-	-	-	-
Gold Rock, MB	-	-	-	-	-
Sask Project	210,212	4,250	-	-	214,462
Man Project	233,873	7,485	3,215	-	244,573
Other	1	-	-	-	1
	<u>\$ 444,093</u>	<u>\$ 2,012,516</u>	<u>\$ 3,465</u>	<u>\$ -</u>	<u>\$ 2,460,074</u>

Nine Months ended June 30, 2005

	Balance September 30, 2004	Acquisition costs and license fees	Exploration and development expenditures	Recoveries, MEAP Grant, and Write-offs and Recoveries	Balance June 30, 2005
Kisseynew, MB	\$ 1	\$ -	\$ -	\$ -	\$ 1
Sewell Lake, MB	1	-	583	(583)	1
Morton Lake, MB	1	-	-	-	1
McIlvenna, SK	1	-	275	(275)	1
Otter Lake, MB	137,025	-	4,836	(12,869)	128,992
Kaskattama, MB	745,190	-	197,421	(44,869)	897,742
North Star Gold, MB	5,358,182	-	2,235,343	(27,947)	7,565,578
Jupiter, MB	75,317	5,875	25,716	-	106,908
Kettle River, MB	5,359	-	-	-	5,359
Gold Rock, MB	28,843	10,750	3,212	-	42,805
Sask Project	149,823	20,993	39,256	-	210,072
Man Project	225,440	-	-	-	225,440
Other	200,000	-	528	-	200,528
	<u>\$ 6,925,183</u>	<u>\$ 37,618</u>	<u>\$ 2,507,170</u>	<u>\$ (86,543)</u>	<u>\$ 9,383,428</u>

FORAN MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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5. Mineral properties (continued)

Details of the exploration and development expenditures incurred during each of the nine months ended June 30, 2006 and 2005 for the Company's major properties are as follows:

Nine Months ended June 30, 2006

	<u>Manitoba Project</u>	<u>Total</u>
Airborne Geophysical and Geological surveys	-	-
Assaying, sampling, line cutting And mapping	-	-
Drilling	-	-
Geological consulting	-	-
Engineering services	-	-
Environmental impact	-	-
Helicopter/Staking	3,215	3,215
Propane, fuel and diesel	-	-
Site visit, report and insurance	-	-
Road work, blasting, loading and hauling	-	-
Travel, accommodation and field	-	-
Truck and equipment rental	-	-
	<u>\$ 3,215</u>	<u>\$ 3,215</u>

Nine Months ended June 30, 2005

	<u>North Star Gold</u>	<u>Kaskattama</u>	<u>Jupiter</u>	<u>Other</u>	<u>Total</u>
Airborne Geophysical and geological surveys	27,650	120,000	3,800	10,400	161,850
Assaying, sampling, line cutting and mapping	132,573	18,449	12,493	90	163,605
Drilling	948,271	8,177	-	-	956,448
Geological consulting	221,106	5,457	2,145	-	228,708
Engineering services	61,406	-	-	-	61,406
Environmental impact	90,178	-	-	-	90,178
Helicopter	3,430	43,796	-	12,409	59,635
Propane, fuel and diesel	198,085	-	-	-	198,085
Site visit, report and insurance	18,342	400	5,434	1,553	25,729
Small Tool Purchase/Repair	52,065	-	-	-	52,065
Road work, blasting, loading and hauling	172,698	-	-	-	172,698
Travel, accommodation and field	41,530	1,142	1,844	14,804	59,320
Truck and equipment rental	145,600	-	-	-	145,600
Camp Maintenance	92,965	-	-	-	92,965
Security Costs	29,444	-	-	-	29,444
	<u>\$ 2,235,343</u>	<u>197,421</u>	<u>25,716</u>	<u>39,256</u>	<u>\$ 2,497,736</u>

FORAN MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JUNE 30, 2006 and 2005
(Unaudited – Prepared by Management)

5. Mineral properties (continued)

a) McIlvenna Bay, Saskatchewan

In January 2005, the Company entered into an option agreement to acquire a 100% interest in the Hanson Lake property located in Saskatchewan. Total consideration consists of paying \$1,006,500 to Cameco Corporation (“Cameco”) and \$493,500 to BHP Billiton (“Billiton”) on or before January 25, 2005, \$1,342,000 to Cameco and \$658,000 to Billiton on or before May 31, 2006, or issuing Foran Mining Corporation common Shares worth \$2,013,000 to Cameco and \$987,000 to Billiton on or before May 31, 2006. The Company has the option to purchase one percent (1%) net smelter returns for \$1,000,000.

In January 2005, the Company entered into an agreement to conditionally assign to Copper Reef Mines (1973) Ltd. (“Copper Reef”) all of its rights and interests in the property option agreement for the Hanson Lake mineral property. In a letter dated January 24, 2005, Cameco and Billiton conditionally consented to the assignment. The Company believes that the conditions have not been satisfied. The initial consideration consists of Copper Reef funding the 1st payment of \$1,500,000 to Cameco and Billiton. Copper Reef also agreed to issue 5,500,000 common shares to the Company, with an additional 2,500,000 units issued at a price of \$0.20 per unit, for a total of \$500,000. By notice made July 19, 2005, the Company filed a Demand for Arbitration seeking rescission of the Assignment Agreement.

In May 2006, the Company entered into a Settlement Agreement to suspend and discontinue arbitration proceedings. The Company paid the aggregate sum of \$2,000,000 as full and final payment to Cameco (\$1,342,000) and Billiton (\$658,000) due May 31, 2006.

Pursuant to the Settlement Agreement, the Company is the holder of an undivided seventy-five percent (75%) interest in and to the Property and Copper Reef is the holder of an undivided twenty-five percent (25%) interest save and except the one percent (1%) NSR reserved to Cameco and Billiton. Title to the property shall remain registered in the Company’s name and the Company will be the operator. The Company will return the 2,500,000 shares previously issued and Copper Reef will issue 250,000 shares in return. The Company will retain 5,750,000 shares in the capital stock of Copper Reef and be entitled to maintain a maximum 25% equity interest in Copper Reef if they so desire.

The Company has entered into a Joint Venture Agreement with Copper Reef with respect to their respective interests in the property. The Joint Venture Agreement provides that Copper Reef is to fund its pro-rata share of future programs or mining operations. The Company will not call for a cash contribution of more than \$750,000 in the first year from the signing of this agreement.

The Company will transfer to Copper Reef all of its right, title and interest in and to six project groups held by the Company in Manitoba. These properties shall include:

- 1) The North Star Deposit Claims (excluding Jupiter and Gold Rock which are non transferable without consent of the claim owners);
- 2) The East Big Island Group; (Milk Claims) and the Bartley Claims;
- 3) The West Big Island Group; Big Island, Steeves Lake and Bib claims;
- 4) Leo Lake Claims Group including Alberts Lake, Amulet, Murr Claims, Mike, and Lew;
- 5) Morgan Lake and both Kississing claims
- 6) Gold Button

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5. Mineral properties (continued)

b) Jupiter, Manitoba

In April 2003, the Company entered into an agreement to acquire a 100% interest in the Jupiter mineral claims adjacent to North Star Gold mineral claims for \$10,000 with an additional \$15,000 due April 10, 2006, issue 100,000 common shares over a four-year period, and complete a work commitment of \$150,000 by April 10, 2006. The Company has the option to purchase 2% net smelter returns for \$1,000,000. As of the period ended March 31, 2006, 75,000 common shares have been issued valued at \$33,750, and work of \$73,750 has been expended on exploration.

In May 2006 the Company renegotiated the Option Agreement to extend the terms of obligation from April 10, 2006 to April 10, 2007.

Subsequent to the Settlement Agreement, the Company has relinquished the Option Agreement.

c) Gold Rock, Manitoba

In December 2003, the Company acquired an option to purchase 100% interest in the Gold Rock mining lease located in the North Star Lake area of Manitoba for \$15,000 cash, with an additional \$5,000 due November 1, 2005 and \$10,000 due November 1, 2006. The Company has the option to purchase 2% net smelter returns for \$1,000,000 and the optionor will retain a 25% net profit interest in the first 25 feet below surface of vein material currently documented. As of March 31, 2006, the Company has issued 50,000 shares valued at \$21,500 and paid \$15,000.

In March 2006, the Company entered into a new option agreement for \$50,000 in exploration expenditures being incurred before July 15, 2007 and in the event that exploration has not commenced by this date, \$50,000 will be paid by August 15, 2007 to the optionor with the exploration expenditure to be completed by January 31, 2008. Additional consideration to the optionor includes a 10% Net Profit Interest payable on the first 20 feet of currently documented vein material below surface and a royalty in the amount of 2% of Net Smelter Returns. The Company may purchase 75% of the optionor's NSR at any time for the total sum of \$750,000, leaving the optionor a 0.5% NSR.

Subsequent to the Settlement Agreement, the Company has relinquished the Option Agreement.

d) Saskatchewan and Manitoba Projects

On November 21, 2003, the TSX-V accepted for filing the Purchase Agreement dated November 11, 2003, for 100% of Aur Resource Inc.'s interest in 29 Mining Claim Groups located in the Flin Flon, Snow Lake and Lynn Lake areas of Manitoba and Saskatchewan.

The properties included 29 property claim groups totaling more than 50,000 hectares, all associated data files, airborne data for over 70 airborne EM surveys, as well as office and warehouse equipment, furnishings and supplies.

The purchase gave the Company control of 21 sulphide zones, at least eight gold deposits/zones and provided numerous developed drill targets, most of which are designed to

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5. Mineral properties (continued)

extend known zones. The Company has committed, through previous mineral property ownership agreements associated with the Saskatchewan and Manitoba projects, to pay various net smelting and net profits interest royalty fees. The net smelting fees range from 0% - 2% and the net profits interest royalty fees range from 0% - 15%.

e) Other Properties

In March 1998, the Company entered into an agreement with two companies, controlled by two parties who subsequently became directors and officers of the Company, to acquire a group of mineral property interests and underlying royalty rights in the Flin Flon Greenstone Belt in Manitoba and Saskatchewan. The Company acquired a 100% interest in 20 mineral claims in Manitoba known as the Big Island property, as well as a 65% to 100% interest in seven other claim groups in Manitoba and Saskatchewan. As consideration, the Company issued 3,000,000 common shares of the Company in fiscal 1999.

Pursuant to the Settlement Agreement the Company has transferred to Copper Reef five (5) of these property groupings consisting of 184 claims.

6. Capital Assets

	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	<u>Cost</u>	<u>Amortization</u>	<u>Cost</u>	<u>Amortization</u>
Automotive Equipment	58,835	30,690	\$ 115,501	\$ 38,441
Buildings	331,409	170,060	384,805	33,300
Building (Shop)	103,219	68,219	103,219	14,755
Computer and survey equipment	26,476	14,459	143,238	87,405
Equipment	237,690	118,863	251,196	37,729
Furniture and fixtures	13,153	4,219	26,232	8,656
Mill building and equipment	2,132,130	1,132,130	2,129,183	228,230
Mine rescue trailer & equipment	0	0	69,550	8,221
Rail bed road	115,000	0	115,000	0
Trailers	88,315	28,576	56,220	19,057
	<u>\$ 3,106,227</u>	<u>\$ 1,576,216</u>	<u>\$ 3,394,144</u>	<u>\$ 475,794</u>
Net Book Value	<u>\$ 1,539,011</u>		<u>\$ 2,918,350</u>	

7. Convertible loan

In October 2004 the Company entered into an agreement with BBS Aircraft Inc. (“BBS”), a company controlled by a director of the Company, in which the Company would borrow up to \$5,000,000 for the purchase of a mill and for the development of the Company’s North Star mineral property location. As at March 31, 2006, the Company received loan proceeds of \$4,801,000 and accrued interest in the amount of \$299,522. The loan bears interest at a rate of the greater of 6% and the Royal Bank of Canada prime rate plus 2% per annum, is secured by a grid promissory note, security agreement and a registered financing statement in the personal property registry in the province of Manitoba, as well as

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7. Convertible Loan (continued)

an assignment of all insurance policies covering the Company's property given as security under the security agreement. The repayment terms include an annual payment of 75% of the Company's after-tax profits of the North Star mineral property. In addition to the above, the Company issued on December 31, 2005 2,350,000 Class A common shares to BBS.

In the event that the loan and any accrued interest remain unpaid after December 31, 2006 and at the request of BBS, the Company, subject to regulatory approval, will issue common shares (at the current share price of the common shares at the time of the request) for debt for any amount outstanding under the loan agreement.

The convertible loan is presented in its component parts in the financial statements, measured at their respective fair values at the time of issue. The debt component has been calculated as the present value of the required interest and principal payments at the time the loan was issued. The difference between the debt component and the face value of the loan is classified as equity.

8. Long-term debt

	<u>2006</u>	<u>2005</u>
Ford Motor Credit Corporation loan bearing interest at 0% with monthly installments of \$1,139, secured by specific equipment, due February 2008	\$ 33,059	\$ 46,727
Less current portion	3,417	3,417
Less portion paid to June 30, 2006	10,253	10,251
	\$ 19,389	\$ 33,059

Principal payments due in each of the next three years are as follows:

2006	\$ 13,669
2007	13,669
2008	5,721

9. Contingencies

- a) The former CEO of Foran Mining Corporation and a company owned by the former CEO of the Company ("the Party") attempted to commence arbitration proceedings against Foran Mining Corporation. The Party is seeking \$16,000 for services rendered per an Exploration Management Agreement. The Former CEO of the Company is also seeking unspecified damages associated with the termination of the Exploration Management Agreement. The Company has not agreed to resolve the dispute by arbitration and no further action has been taken. The Company's position is that no amount is owed to any member of the Party. The outcome of the arbitration proceeding and the statement of claim by the former CEO are undeterminable and no amounts have been recorded in the financial statements.
- b) Copper Reef commenced arbitration proceedings against the Company seeking to enforce certain provisions of the Assignment Agreement associated with the Hanson Lake mineral property (see Note 3). The Company wishes to rescind the aforementioned agreement. If the agreement is rescinded, then the Company would be obligated to pay Copper Reef \$1,500,000 as repayment of the first option payment made for the Hanson Lake mineral property, also the \$500,000 paid to Copper Reef in the current year would be repaid to the Company. The

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9. Contingencies (continued)

outcome of the arbitration proceeding is undeterminable and the only amount recognized in the financial statements is the \$500,000 that the Company paid to Copper Reef.

- c) The Company has issued a statement of claim against the former CEO of the Company with respect to breach of fiduciary duty. The former CEO of the Company is possibly claiming wrongful or constructive dismissal as noted in his affidavit with respect to the statement of claim noted above. The likelihood of loss or gain from the above statement of claim and affidavit are undeterminable and no amounts have been recorded in the financial statements.

On May 24, 2006 the Company announced that it has reached settlement in its disputes with Copper Reef Mines (1973) Ltd., M'Ore Exploration and Stephen Leo Masson.

10. Share Capital

Authorized an unlimited amount of common shares, without par value

Issued

	Common Shares	Share Capital
Balance, September 30, 2003	38,003,960	\$ 18,884,395
Issued for cash - private placement	8,218,500	4,910,360
Issued for stock options	2,000	900
Issued for cash - warrants	5,751,166	1,630,951
Issued for mineral properties	950,000	409,000
Balance, September 30, 2004	52,925,626	25,835,606
Issued for cash - private placement	5,000,166	2,000,075
Issued for stock options	50,000	10,000
Issued for mineral properties	80,000	34,600
Share issue costs	-	(586,800)
Balance, September 30, 2005	58,055,792	\$ 27,293,481
Issued for convertible loan equity	2,350,000	0
Balance, June 30, 2006	60,405,792	\$ 27,293,481

Share purchase warrants

The continuity of share purchase warrants for the nine months ended June 30, 2005 is as follows:

<u>Expiry Date</u>	<u>Exercise Price</u>	Balance			Balance	
		September 30, 2004	Issued	Exercised	Expired	March 31, 2005
December 18/05	0.80	5,284,000	-	-	-	5,284,000
January 6, 2006	0.45	3,333,500	-	-	-	3,333,500
		8,617,500	-	-	-	8,617,500

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10. Share Capital **(continued)**

The continuity of share purchase warrants for the nine months ended June 30, 2006 is as follows:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Balance September 30, 2005</u>			<u>Balance March 31, 2006</u>	
		<u>Issued</u>	<u>Exercised</u>	<u>Expired</u>		
December 18/05	0.80	5,284,000	-	5,284,000		0
January 6, 2006	0.45	3,333,500	-	3,333,500		0
		<u>8,617,500</u>	<u>-</u>	<u>8,617,500</u>		<u>0</u>

Stock Options

A summary of the status of the Company's stock option plan and changes during the periods ended June 30, 2006 and 2005 is presented below:

	<u>2006</u>		<u>2005</u>	
	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Number of options</u>	<u>Weighted Average exercise price</u>
Outstanding, beginning of Period	690,000	\$ 0.35	1,915,000	\$ 0.41
Granted	1,075,000	0.10	000	0.00
Exercised	000	0	50,000	0.20
Expired or forfeited	<u>200,000</u>	<u>0.35</u>	<u>1,175,000</u>	<u>.00</u>
Outstanding, end of period	<u>1,565,000</u>	<u>0.18</u>	<u>690,000</u>	<u>\$ 0.40</u>

The following table provides details of stock options outstanding at June 30, 2006:

	<u>Number outstanding</u>	<u>Remaining life (years)</u>
\$0.10 options	1,075,000	4.26
\$0.54 options	150,000	0.84
\$0.38 options	90,000	0.36
\$0.34 options	250,000	0.06
	<u>1,565,000</u>	<u>1.38</u>

11. Related party transactions

In addition to related party transactions already disclosed, the Company entered into the following transactions with related parties:

- a) During the nine month period ended June 30, 2006 the Company paid and accrued \$ 6,313 (2005 – \$5,000) for office rent to a related party.
- b) During the nine month period ended June 30, 2006 the Company paid and accrued \$ 3,032 (2005 – nil) for professional services.

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12. Income taxes

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets and liabilities are as follows:

	<u>2005</u>	<u>2004</u>
Future income tax assets		
Accounting amortization in excess of tax	\$ 1,599,184	\$ 199,242
Loss carried forward	11,808	1,022,746
Mineral properties	<u>18,757,047</u>	<u>18,361,547</u>
	<u>20,368,039</u>	<u>19,583,535</u>
Future income tax liabilities		
Valuation allowance	<u>20,368,039</u>	<u>19,583,535</u>
Net future income tax asset	<u>\$ -</u>	<u>\$ -</u>

As at September 30, 2005, the Company has non capital losses carried forward in Canada of approximately \$11,808 (2004 - \$1,022,746) that will expire 2009. The mineral property expenses of \$18,757,047 (2004 - \$18,361,547) are available to be carried forward indefinitely.

Partnership income accounted for on the cost basis is \$Nil (2004- \$Nil), whereas allocated partnership income for income tax purposes is \$3,147,843 (2004 - \$1,619,979).

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes is as follows:

	<u>2005</u>	<u>2004</u>
Loss for the year before taxes	<u>\$ 11,962,902</u>	<u>\$ 614,967</u>
Expected income tax expense (recovery)	<u>\$ (4,679,886)</u>	<u>\$ (240,575)</u>
Write-down of capital assets	550,076	-
Write down of resource properties	3,595,466	3,445
Partnership income subject to tax	1,231,436	685,283
Recognized resource expenditures	(296,994)	-
Recognized benefits of non-capital losses	<u>(400,098)</u>	<u>(448,153)</u>
	\$ -	\$ -

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13. Financial instruments

Fair value of financial instruments

The carrying amounts of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of those instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. A change in market interest rates will have a direct effect on the fair value of the long-term debt.

14. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

15. Subsequent events

On July 19, 2006 the Company announced that it has granted 1,600,000 incentive stock options under its 2006 Stock Option Plan to directors and officers at an exercise price of \$0.18 per share. These options will expire July 15, 2011. The Company also announced the appointment of Bob Nysten as Chief Executive Officer and of Allyson Stephens as Chief Financial Officer.

On July 28, 2006 the Company announced the closing of a private placement of 16,875,000 common shares at \$0.16 for gross proceeds of \$2.7M, originally announced on May 1, and amended on May 31, 2006. This private placement was approved at the shareholders' special meeting held on June 7, 2006. The proceeds of the private placement have been used to buy back the 3/16th interest in the McIlvenna Bay property which was sold to Turtle Creek Trust in May 2006.

On August 2, 2006 the Company announced that it has engaged Toll Cross Securities Inc as its exclusive financial advisor.