

**Augen Capital Corp.**  
**Consolidated Financial Statements**  
December 31, 2004

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

The Management’s Discussion and Analysis (“MD&A”) analyzes significant changes in the consolidated statements of earnings, consolidated balance sheets and consolidated statements of cash flows of Augen Capital Corporation (“Augen” or the “Company”). It should be read in conjunction with the audited annual consolidated financial statements and notes thereto. The MD&A and the Augen consolidated financial statements have been prepared to provide information on Augen on a consolidated basis and should not be considered as providing sufficient information to make an investment decision in regard to any particular subsidiary company or product.

The MD&A is presented in the following sections:

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The MD&A was originally prepared March 13, 2005 and updated September 20, 2005

### **FORWARD-LOOKING/SAFE HARBOUR STATEMENT AND FAIR**

#### **DISCLOSURE STATEMENT**

This MD&A may contain, without limitation, certain statements that include words such as “believes”, “expects”, “anticipates” and words of similar connotation, which would constitute forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that may cause actual performance or results to be materially different from those anticipated in these forward-looking statements. Augen is under no obligation to update any forward-looking statements contained herein should material facts change due to new information, future events or other factors.

## **OVERVIEW**

Augen is a public (TSX-V “AUG”) merchant bank specializing in the financing and investing of early-stage mining exploration companies. Augen considers itself the Financier of First Resort for these emerging resource companies.

### **Augen business objective**

Augen’s primary objective is to create long-term shareholder value through (i) appreciation in its resource investment portfolios held in Augen Capital Corp., the parent company, and Aumerco Limited, an 83%-owned private Ontario corporation, (ii) offering tax-assisted Augen Limited Partnership products, (iii) offering Augen Resource 2 Balance Mutual Fund and (iv) strategic management support to emerging resource companies; all generating recurring fee income and cash flow.

### **Maintain a financially strong parent company**

Augen Capital Corporation, the parent company, maintains a strong financial position with substantial liquidity along with a proprietary investment portfolio in order to be responsive to new opportunities to create long-term value and, if required, support existing operating companies and products. Augen Capital Corporation owns 100% of the General Partner for Limited Partnership 2003 and 2004-1.

### **Ownership by management**

Each member of management has a personal financial interest in Augen Capital Corporation. The management team’s depth and breadth of experience in the resource sector supports the management teams of the investee companies in building the value of their businesses. In addition, the senior management teams of the investee companies typically have a meaningful personal ownership in these investee companies.

## FINANCIAL REVIEW

This section discusses significant changes in Augen's consolidated statements of earnings, consolidated balance sheets and consolidated statements of cash flows for the fiscal year ended December 31, 2004.

<u>Selected Annual Information</u>	Review of the years ended		
000's except per share data			
Highlights	2004	2003	2002 *
Revenue	1,767	808	254
Net income (loss)	(20)	7	(363)
Income (loss) per share	0.00	0.00	(0.02)
Total Assets	2,857	2,027	1,759
Total Long Term Financial Liabilities	Nil	218 **	231

\* 10 month period ended December 31, 2002

\*\* restated number

### Accounting policies and estimates

Augen prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the consolidated financial statements. Significant accounting policies and methods used in preparation of the financial statements are described in note 2 to the audited annual consolidated financial statements.

## **FINANCIAL REVIEW (CONTINUED)**

### **INVESTMENT PRODUCTS**

#### **Augen Limited Partnership 2004-1**

The Augen Limited Partnership 2004-1 offering, by way of Prospectus and Offering Memorandum, was the most successful raise in Augen's history at \$8.3 million. The additional assets under administration result in a significant increase in the recurring partnership and advisory, and potential performance fees income.

#### **Augen Resource 2 Balance Fund**

Augen Resource 2 Balance Fund Inc. (the "Fund") is a mutual fund corporation incorporated under the laws of the Province of Ontario on July 22, 2002. The Fund has been created to provide a tax-deferred rollover of net assets at current value from previous and ongoing Augen Flow-Through Limited Partnerships (the "Partnerships" or "Partnership") in exchange for shares of the Fund, as well as a liquidity event for the tax-deferred limited partners in the Partnerships. As such, there are no new subscriptions in the Fund, other than shares of the Fund issued upon the acquisition of former Partnership net assets. The acquired net assets primarily consist of listed Canadian resource companies whose principal business is resource exploration and development. The investment objective is to gradually liquidate the acquired resource holdings and reinvest the proceeds into senior-listed equities and fixed income securities.

The Fund acquired the net assets of Augen Limited Partnership V in 2002. The net assets of Augen Limited Partnership VI, VII and 2002 were acquired by the Fund in June 2004, at fair market value of \$1,240 thousand, in exchange for mutual fund shares of the corporation. The acquired Partnership net assets primarily consist of Canadian resource companies whose principal business is resource exploration and development. These additional assets are offset by redemptions of \$605 thousand during the year, which is normal course given the nature of the Fund's existence, as roughly half of the investors generally redeem their position once the tax shelter requirements have been met. Certain investors elected to redeem their holdings from former Partnerships and reinvest the proceeds into Augen Limited Partnership 2004-1 during the year. The net impact of the redeemed assets is that recurring partnership advisory fee income has declined \$15 thousand per annum.

## **FINANCIAL REVIEW (CONTINUED)**

### **MERCHANT BANKING**

The Company provides seed financing and strategic management support primarily to listed Canadian resource companies whose principal business is resource exploration and development.

Due diligence fees are earned in the normal course for reasonable and necessary diligence, in conjunction with the Company's board of advisors, for all investment decisions held in the proprietary investment portfolio and managed investments products. This function is executed by the Chairman and Senior Investment Strategist who has over thirty years of experience in the mining industry and holds a M. Eng in Mining and a BA Sc in Applied Geology.

Substantial due diligence fees were generated from the investment in flow-through shares by Augen Limited Partnership 2004-1 which had a material impact on the annual earnings of the Company in fiscal 2004.

### **INVESTMENT PORTFOLIOS**

The Company has a proprietary investment portfolio which primarily consists of listed Canadian resource companies whose principal business is resource exploration and development and senior-listed equities and fixed income securities. There is no fee income generated from this investment portfolio. Interest, dividends and accounting gains amounted to \$76 thousand in 2004 as compared to interest, dividends and accounting losses of \$23 thousand in 2003.

In addition, an investment portfolio is held in Aumerco Ltd ("Aumerco"), a private Ontario corporation, 83% owned by the Company. The investment portfolio primarily consists of listed Canadian resource companies whose principal business is resource exploration and development and senior-listed equities and fixed income securities. Aumerco is charged advisory fees of 2.5% and performance fees of 20% of excess performance above 12 % per annum as outlined in the Management Agreement, by the Company. Interest, dividends and accounting gains amounted to \$157 thousand in 2004 as compared to interest, dividends and accounting gains of \$263 thousand in 2003.

### **TECHNICAL SERVICES AGREEMENTS**

Augen Capital Corp. updated its technical services agreements effective October 1, 2004 with various investee companies for CFO, Corporate Secretary & General Counsel services, and premises an office administration costs. The Augen Limited Partnerships hold no investment in the investee companies. Fee income generated for the year amounted to \$24 thousand as compared to \$16 thousand for the previous fiscal year ended December 31, 2003.

## **FINANCIAL REVIEW (CONTINUED)**

### **OTHER EVENTS - highlights**

#### **FINANCING**

Augen Capital Corp. completed a private placement in March 2004 generating gross proceeds of \$1,000,000. The non-brokered placement was for 6,250,000 units at a price of \$0.16 per unit. Each unit consisted of one common share and one purchase warrant exercisable at \$0.30 until January 30, 2005. Unexercised warrants expired subsequent to year-end. The proceeds were used primarily for working capital purposes and to generally expand merchant banking activities.

#### **NEW HEADQUARTERS**

The Company established its new headquarters in the heart of the financial district at 120 Adelaide Street West effective May 2004. The condominium property, the Company's former headquarters, located at 6 Victoria Street, was sold in the same period at an accounting gain of \$117 thousand.

#### **STOCK OPTION PLAN**

In 2003, the Company incorrectly recognized the value of stock-based compensation. Accordingly, the Company has retroactively restated 2003 results to reflect the correct accounting treatment. The net impact of this correction on the 2003 comparative figures was a \$173 thousand reduction in stock-based compensation and net loss, with a corresponding reduction in deficit at December 31, 2003.

#### **New accounting policies in 2004**

##### **Generally accepted accounting principles**

In the first quarter of 2004, Augen adopted *Canadian Institute of Chartered Accountants ("CICA") Handbook* Section 1100, "Generally Accepted Accounting Principles". This section establishes standards for financial reporting in accordance with GAAP and provides guidance on sources to consult when selecting accounting policies and determining the appropriate disclosure if a matter is not explicitly dealt with in the primary sources of GAAP. In addition, Augen has adopted *CICA Handbook* Section 1400, "General Standards of Financial Statement Presentation", which provides updated guidance on general concepts associated with financial statements. The adoption of these sections did not have a material impact on Augen's audited annual consolidated financial statements.

## **FINANCIAL REVIEW (CONTINUED)**

### **New accounting policies in 2004 (continued)**

#### **Consolidation of variable interest entities**

In 2003, the CICA issued Accounting Guideline 15 (“AcG-15”), “Consolidation of Variable Interest Entities”. Variable interest entities (“VIEs”) are entities that have insufficient equity and/or their equity investors lack one or more specified essential characteristics of a controlling financial interest. This guideline provides specific guidance for determining when an entity is a VIE, and who, if anyone, should consolidate the VIE. This guideline is effective on a prospective basis for Augen’s 2005 fiscal year. The effect of the adoption of this guideline is currently being evaluated.

#### **Investment companies**

In January 2004, the CICA issued Accounting Guideline 18 (“AcG-18”), “Investment Companies”. AcG-18 provides guidance regarding an investment company’s measurement of its investments, determining whether an entity is an investment company; and when an investor in an investment company should account for the investment company’s investments in the same manner as the investment company accounts for those investments. Generally the guideline is effective for fiscal years beginning on or after July 1, 2004, and may be applied prospectively or retroactively. However, certain provisions are not required to be adopted until fiscal years beginning on or after July 1, 2005. Augen has determined that this guideline will not have a material effect on Augen’s audited annual consolidated financial statements.

## **RESULTS OF OPERATIONS**

There were a number of significant events that occurred during the year that affected Augen's consolidated operating results for 2004 and their comparability to the consolidated operating results for 2003, as outlined in the following sections.

### **CONSOLIDATED OPERATING RESULTS**

This section should be read in conjunction with the audited annual consolidated statements of earnings and the corresponding notes thereto.

#### **Consolidated revenues**

Consolidated revenues were \$1.8 million in 2004 compared to \$0.8 million in 2003.

The partnership advisory and performance fees increased to \$797 thousand in 2004 compared to \$203 thousand in 2003. A full year of advisory fees were earned on Augen Limited Partnership 2003 which amounted to \$186 thousand in 2004 as compared to \$10 thousand in 2003. Performance fees of \$190 thousand were earned in 2004 on Augen Limited Partnership 2002 as compared to NIL in 2003. Gross fee income related to the setup of Augen Limited Partnership 2004-1 amounted to \$500 thousand in 2004 as compared to NIL in 2003. Finally, consistent with Augen's revenue recognition policy and given the general downtrend in the resource market in 2004, performance fees previously accrued of \$190 thousand in 2003 were reversed in 2004 thereby reducing the partnership advisory fees.

Consulting and due diligence fees were \$586 thousand in 2004 compared to \$343 thousand in 2003. The increase is primarily due to due diligence fees earned on resource flow-through investments by Augen Limited Partnership 2004-1 for the \$8.3 million in assets raised.

#### **Interest and other income**

Interest and dividends totaled \$10 thousand in 2004, up 50% from \$5 thousand reported in 2003. Other income was \$24 thousand in 2004 compared to 2003, a marginal increase year over year.

## **CONSOLIDATED OPERATING RESULTS (CONTINUED)**

### **Gains on shares of operating companies**

Augen recorded gains on shares of flow-through and other shares of early stage mining companies \$233 thousand in 2004 compared to \$240 thousand of such gains in 2003.

Augen recorded a \$117 thousand non-cash gain of disposal of the condominium property located at 6 Victoria Street, the Company headquarters until May 2004.

### **Expenses**

Administration expenses were \$940 thousand in 2004 as compared to \$373 thousand in 2003. The reason for sharp increase is primarily due to the substantial marketing efforts for the promotion of Augen Limited Partnership 2004-1, the increased premises costs associated with the move and occupation of the new head office space at 120 Adelaide Street beginning May 2004, and the increase in staff to manage the significant increase in assets under management. Sales and marketing expenses increased to \$226 thousand in 2004 from \$27 thousand in 2003 primarily due to compensation paid beginning January 1, 2004 to the former Executive VP of Sales. Travel and promotion increased to \$36 thousand from \$9K due to an increase in the amount of travel & meal costs to nationally promote Augen and its products. Premises cost was \$76 thousand in 2004 as compared to NIL in 2003. Wages, employee search fees and temporary staff costs amounted to \$177 thousand in 2004 as compared to \$29 thousand in 2003. Stock-based compensation increased to \$52 thousand from \$2 thousand, as previously reported in 2003.

Professional fees were \$761 thousand in 2004 as compared to \$329 thousand in 2003. The reason for the sharp increase is primarily due to a number of factors. The legal and audit fees related to the setup of Augen Limited Partnership 2004-1, issued by way of prospectus and offering memorandum, was \$190 thousand in 2004 as compared to \$75 thousand for the setup of Augen Limited Partnership 2003, issued strictly by way of offering memorandum, in fiscal 2003. Consulting fees amounted to \$323 thousand as compared to \$153 thousand in 2003. Other legal fees amounted to \$80 thousand in 2004 including the hiring, on a part-time basis, of the Group General Counsel & Corporate Secretary, as compared to \$25 thousand in 2003. Audit fees amounted to \$40 thousand in 2004 as compared to \$58 thousand in 2003. Fees paid to independent accountants amounted to \$46 thousand in 2004 as compared to NIL in 2003 due primarily to the part-time hire of a CFO and Controller in 2004 until the hiring of a full-time CFO & Controller in October.

## CONSOLIDATED OPERATING RESULTS (CONTINUED)

### Consolidated net earnings (loss)

Consolidated net loss in 2004 was \$20 thousand compared to net earnings of \$7 thousand in 2003.

## SUMMARY OF QUARTERLY RESULTS

The following table summarizes Augen's key consolidated financial information for the last eight quarters.

	2004				2003			
	Dec.	Sept.	June	Mar.	Dec.	Sept.	June	Mar.
000's (except per share data)								
Revenue	585	887	138	157	730	4	60	13
Income or (loss)	166	57	(66)	(177)	134	(64)	(32)	(44)
Income (loss) per share	0.00	0.02	(0.01)	(0.01)	0.00	(0.01)	(0.01)	(0.01)

### Fourth Quarter 2004 Results

The most significant item during the fourth quarter was the closing of the third and fourth tranches of the Augen Limited Partnership 2004-1 offering making it the most successful raise in Augen's history at \$8.3 million. The net investable proceeds of the Partnerships must be fully invested in primarily flow-through and other shares prior to December 31 of the prevailing calendar year. This gives rise to due diligence fees to the Company which are earned in fiscal Q4. Augen Limited Partnership 2004-1 due diligence fees amounted to \$556 thousand as compared to \$337 for Augen Limited Partnership 2003.

Augen Capital Corp. updated its technical services agreements effective October 1, 2004 with various investee companies for CFO, Corporate Secretary & General Counsel services, and premises and office administration costs. Recurring fee income is expected to be \$96 thousand per annum going forward, versus \$24 thousand in 2003, under the terms of the updated technical services agreements.

The full-time VP of Business Development was hired in Q4 to continue to expand the Mutual Fund Dealers Association ("MFDA") & Investment Dealers Association ("IDA") distribution channels. The full-time CFO was also hired in the fourth quarter 2004, taking over the responsibilities from the part-time CFO in October.

## CONSOLIDATED FINANCIAL POSITION

This section should be read in conjunction with the audited annual consolidated balance sheets and the corresponding notes thereto.

### **Consolidated assets**

Consolidated assets were \$2,857 thousand as at December 31, 2004 up by \$830 thousand from \$2,027 thousand at December 31, 2003.

### **Assets**

The increase in assets is primarily due to an increase in investments of \$796 thousand and an increase in Receivables of \$337 thousand. This is offset by a \$100 thousand decrease in Cash and Equivalents and a reduction in Property and Equipment of \$217 thousand resulting from the disposal of the condominium property and equipment purchased upon set up of the new head office of 120 Adelaide Street West.

### **Liabilities**

Long-term debt of \$218 thousand at December 31, 2003 was fully extinguished during the year upon disposal of the condominium property.

### **Shareholders' equity**

Shareholders' equity increased to \$2,396 thousand at December 31, 2004 from \$1,336 thousand at December 31, 2003.

In March 2004, Augen Capital Corp. completed a private placement for 6,250,000 units at a price of \$0.16 for gross proceeds of \$1,000,000. Issue costs amounted to \$155 thousand. Each unit consisted of one common share and one purchase warrant exercisable at \$0.30 until January 30, 2005. Unexercised warrants expired subsequent to year-end.

In March 2004 \$124 thousand of third party and related party debt was converted into 548,890 common shares.

The contributed surplus was impacted by 2004 stock-based compensation charges of \$51 thousand and \$60 thousand of issue costs related to the March 2004 private placement.

Augen Capital Corp., the parent company, has a Stock Option Plan in place that provides for options to be granted to directors, officers, and employees for the acquisition of common shares of the Company for a term not exceeding three years. The options vest equally over the three years. At December 31 2004, the Company had \$3 million options outstanding to acquire common shares, of which \$467 thousand were vested and exercisable. During 2004, no options were exercised.

## LIQUIDITY AND CAPITAL RESOURCES

This section should be read in conjunction with the audited annual consolidated balance sheets and the corresponding notes thereto.

Augen believes that maintaining a strong financial position at the parent company with substantial liquidity enables the Company to pursue new opportunities to create long-term value and support Augen's existing operating companies and products.

At December 31, 2004, Augen Capital Corporation had \$665 thousand of cash and near-cash items, excluding its proprietary investment portfolio of \$1,046 thousand. The consolidated working capital ratio improved to 3.5 : 1 as at December 31, 2004 as compared to 2.8 : 1 for the same period ending 2003.

Current assets include \$1,200 thousand in receivables including due diligence fees receivable of \$556 thousand, the majority of which is collected within 60 days of year-end, partnership and advisory fees receivable of \$507 thousand due from the 2003 and 2004-1 Partnerships and Augen Resource 2 Balance Fund, due from the investee company under the terms of the technical services agreement of \$35 thousand, and GST recoverable of \$34 thousand.

Current liabilities are made up of accounts payable and accrued liabilities consisting of trade payables of \$29 thousand, consulting fees payable of \$211 thousand, a contingent liability reserve of \$50 thousand, amortization of a rent-free amount of \$49 thousand, and miscellaneous accruals of \$35 thousand.

This strong working capital position, in addition to the proprietary investment portfolio, well-positions the Company to meet all its current obligations for the foreseeable future.

The Company has a strict discipline of raising additional financing when possible by way of private placement or other vehicles, as it has done in the 2004 private placement, well in advance of drawing down this robust financial position.

### **Cash used in operating activities**

Cash used in operations, excluding changes in working capital and other liabilities, totaled \$285 thousand in 2004 compared to \$161 thousand in 2003. The increase in cash used in operations compared to the same period last year was related primarily to changes in non-cash items including the accounting gain on sale of the condo property of \$117 thousand and the increase in the cost of stock-based compensation of \$50 thousand.

## **LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)**

### **Cash from (used in) financing activities**

Cash from financing activities was \$680 thousand in 2004 compared to cash used of \$6 thousand in 2003. Included in the 2004 cash provided from financing activities was \$905 thousand of cash received from a private placement completed in March 2004 (net of issue costs of \$94 thousand) for 6,250,000 units at a price of \$0.16 for gross proceeds of \$1,000 thousand. Each unit consisted of one common share and one purchase warrant exercisable at \$0.30 until January 30, 2005. The mortgage balance of \$225 thousand was fully extinguished upon the sale of the condo property.

### **Cash from (used in) investing activities**

Cash used in investing activities totaled \$272 thousand in 2004, an increase from \$670 thousand of cash provided from investing activities in 2003. The increase in cash used in investing activities was due primarily to the purchase of investments in 2004, of \$1,001 thousand compared to \$246 thousand of cash used in 2003, proceeds of \$390 thousand on the sale of the condo property in 2004, and equipment relating to the set up of new head offices at 120, Adelaide Street West in 2004.

## **TRANSACTIONS WITH RELATED PARTIES**

The Company deals on a regular basis with the following related parties:

- A. The Company relies upon the experience and expertise of J. David Mason, a senior officer & director for investment analysis and due diligence services. Services are provided by a company that is controlled by the senior officer and director. The Company has secured these services through an annual contract to December 2005. During the year, the Company paid management fees and other expenses in the amount of \$340 thousand (2003 - \$281 thousand) to the company.
- B. J. David Mason is also a director of a company in which the Company holds investments of \$317 thousand (2003 - \$77 thousand) (quoted market value \$366 thousand in 2004; 2003 - \$79 thousand) and has provided loans to the company for a total amount of \$41 thousand (2003 - \$325 thousand). The Company received \$24 thousand in fees in 2004 (2003 - \$24 thousand) pursuant to a technical services agreement between the Company and the investee company for services such as CFO, Corporate Secretarial, General Counsel, premises and office administration services.

## TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

C. The Company relies upon the experience and expertise of Ronald K. Mann, a senior officer for sales & marketing services. Services are provided by a company that is controlled by the senior officer. The Company has secured these services through an annual contract to December 2005. During the year, the Company paid fees in the amount of \$15 thousand (2003 – NIL) to the company.

D. The Company relies upon the experience and expertise of E. Michael Skutezky, a senior officer for Group General Counsel and Corporate Secretarial services. Services are provided by a company that is controlled by the senior officer. The Company has secured these services through an annual contract to December 2005. The Company has engaged, as external counsel, the services of a law firm, of which the senior officer is an associate. During the year, the Company paid fees in the amount of \$30 thousand (2003 – NIL) to the company and \$6 thousand (2003 - NIL) to the law firm.

During the year, the Company paid consulting fees, legal fees and other expenses of \$35 thousand (2003 - \$10 thousand) to Company directors or to a company of which the director is a shareholder, for services provided during the year.

## CRITICAL ACCOUNTING ESTIMATES

### Capital assets

Capital assets are recorded at cost less accumulated depreciation. Depreciation is recorded over the estimated useful life of assets on the diminishing balance basis using the following rates:

Building	4%
Furniture and equipment	20%
Computer hardware and video film	30%
Computer software	100%

## OUTLOOK

The Company is pleased to report results of the twelve months ended December 31, 2004. This reflects a dramatic turn-around in the junior resource sector, as well as recognition of the importance of the Company's mission and credibility by the investment community.

The Company's first ever prospectus offering was made available for sale in June 2004 (Augen Limited Partnership 2004-1). In December, Augen closed this offering with a total raise of \$8.3 million, the largest on record.

Given the significant sales growth in assets under management year over year, there have been positive changes made to staffing levels and premises. A sales support role was created and filled with a full-time hire to support the unprecedented sales growth. These changes together with the hiring of a Group General Counsel in Q3 and, most recently, the hiring of a full-time CFO in Q4, are expected to have a significant impact by early 2005 on the Company's foreseeable asset growth.

Bearing in mind that the threshold that management has set for profitable operation is \$25 million under management and that this goal, we hope to exceed in fiscal 2005. As at March 31<sup>st</sup>, 2005, Augen had \$17 million under management. These assets fluctuate with the stock market and have been over \$20 million in the past several months. The Augen Limited Partnership 2005 final prospectus was filed in May 2005 (another record for the earliest filing of Augen's annual limited partnership), with a goal of raising \$15 million.

Augen engaged a top-tier legal firm in Q1 2005 to file a prospectus to take Augen Resource 2 Balance mutual fund public and make available for sale on Fundserv. If successful, the timeliness of reporting of the Net Asset Values will be greatly improved with a weekly versus quarterly valuation, provide greater flexibility on terms of subscription and redemption activity, as well as allow unitholders access to their account information via IDA and MFDA member firm monthly statements. Other options are also being explored to provide improved product features.

Many of the metals that Augen's investments are based upon are near record highs, or have exceeded historic highs. Management remains optimistic that equity markets will be favourable over the next several years, owing to perceived shortages. This is especially apparent for uranium, copper and zinc, to mention only three of many commodities.

Management would like to thank its shareholders for continuing support, and looks forward to continuing to build enterprise value, with the mission of being "Financier of first resort, to the Canadian resource exploration business".

On behalf of the Board of Directors,

"J. David Mason"

J. David Mason, M.Eng.  
Chairman

Grant Thornton LLP  
Chartered Accountants  
Management Consultants

## Auditors' Report

To the Shareholders of  
**Augen Capital Corp.**

We have audited the consolidated balance sheets of Augen Capital Corp. as at December 31, 2004 and December 31, 2003 and the consolidated statements of loss, deficit and cash flows for the periods then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and December 31, 2003 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

*Grant Thornton LLP*

Hamilton, Canada  
May 9, 2005

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**Augen Capital Corp.****Consolidated Statements of Loss and Deficit**

Restated

Year Ended December 31

**2004****2003**

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**Revenue**

Gain on sale of investments	<b>\$ 232,985</b>	\$ 240,296
Interest and dividends	<b>9,868</b>	5,119
Partnership advisory and performance fees	<b>796,812</b>	203,283
Consulting and due diligence fees	<b>585,933</b>	343,008
Gain on sale of property	<b>117,149</b>	-
Other income	<b><u>24,000</u></b>	<u>16,035</u>
	<b><u>1,766,747</u></b>	<u>807,741</u>

**Expenses**

Administration	<b>940,393</b>	373,314
Depreciation and amortization	<b>16,388</b>	37,522
Professional fees	<b>760,847</b>	329,248
Stock-based compensation	<b>51,840</b>	1,754
Write-down of investments	<b><u>26,467</u></b>	<u>66,246</u>
	<b><u>1,795,935</u></b>	<u>808,084</u>

Loss before income taxes **(29,188)** (343)

## Income taxes (Note 8)

Current	-	2,176
Future	<b><u>(11,924)</u></b>	<u>-</u>
	<b><u>(11,924)</u></b>	<u>2,176</u>

Loss before non-controlling interest **(17,264)** (2,519)

Non-controlling interest **2,653** (9,342)

Net (loss) earnings **\$ (19,917)** \$ 6,823

Basic and diluted earnings (loss) earnings per share (Note 12) **\$ (0.00)** \$ 0.00

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Deficit, beginning of year – as previously reported	<b>\$ (2,649,104)</b>	\$ (2,483,000)
Prior period adjustment (Note 3)	<b><u>172,927</u></b>	<u>-</u>

Deficit, beginning of year – as restated **(2,476,177)** (2,483,000)

Net (loss) earnings **(19,917)** 6,823

Deficit, end of year **\$ (2,496,094)** \$ (2,476,177)

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See accompanying notes to the consolidated financial statements.

# Augen Capital Corp.

## Consolidated Balance Sheets

December 31	2004	Restated 2003
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 154,152	\$ 249,556
Receivables	1,214,076	876,750
Prepays	<u>22,048</u>	<u>13,645</u>
	1,390,276	1,139,951
Investments (Note 4)	1,392,720	596,753
Property and equipment (Note 5)	<u>74,056</u>	<u>290,742</u>
	<u>\$ 2,857,052</u>	<u>\$ 2,027,446</u>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 399,502	\$ 396,113
Current portion of long term debt (Note 6)	<u>-</u>	<u>6,802</u>
	399,502	402,915
Long term debt (Note 6)	-	218,152
Future income taxes	<u>-</u>	<u>11,924</u>
	<u>399,502</u>	<u>632,991</u>
Non-controlling interest	<u>61,081</u>	<u>58,428</u>
<b>Shareholders' Equity</b>		
Share capital (Note 7)	4,779,158	3,810,450
Contributed surplus	113,405	1,754
Deficit	<u>(2,496,094)</u>	<u>(2,476,177)</u>
	<u>2,396,469</u>	<u>1,336,027</u>
	<u>\$ 2,857,052</u>	<u>\$ 2,027,446</u>

Commitments (Note 13), and Contingencies (Note 14)

On behalf of the Board

\_\_\_\_\_  
"J.D. Mason" (signed) Director  
J.D. Mason

\_\_\_\_\_  
"W.P.G. Allen" (signed) Director  
W.P.G. Allen

See accompanying notes to the consolidated financial statements.

# Augen Capital Corp.

## Consolidated Statements of Cash Flows

Year Ended December 31

2004

Restated

2003

Increase (decrease) in cash and cash equivalents:

### Operating

Net (loss) earnings	\$ (19,917)	\$ 6,823
Gain on sale of investments	(232,985)	(240,296)
Gain on sale of property	(117,149)	-
Non-controlling interest	2,653	(9,342)
Depreciation	16,388	13,442
Stock-based compensation	51,840	1,754
Write-down of investments	26,467	66,246
Future income taxes	<u>(11,924)</u>	<u>-</u>

(284,627) (161,373)

Changes in non-cash working capital (Note 10) (218,843) (196,295)

(503,470) (357,668)

### Financing

Repayment of long term debt	(224,954)	(5,817)
Proceeds on issue of capital stock, net of issue costs	<u>905,020</u>	<u>-</u>
	<u>680,066</u>	<u>(5,817)</u>

### Investing

Purchase of investments	(1,065,069)	(246,228)
Proceeds on sale of investments	475,622	645,648
Proceeds on disposal of property	389,581	-
Purchase of equipment	<u>(72,134)</u>	<u>(1,112)</u>
	<u>(272,000)</u>	<u>398,308</u>

Net (decrease) increase in cash and cash equivalents (95,404) 34,823

Cash and cash equivalents, beginning of year 249,556 214,733

Cash and cash equivalents, end of year \$ 154,152 \$ 249,556

See accompanying notes to the consolidated financial statements.

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# Augen Capital Corp.

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 1. Nature of operations

The Company is primarily an investment company which invests in private and public Canadian companies in the natural resource sector. The Company also provides consulting and due diligence services to investee companies.

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### 2. Summary of significant accounting policies

The Company follows generally accepted accounting principles accepted in Canada in preparing its consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimates. The significant accounting policies used in the preparation of the consolidated financial statements are as follows:

#### Principles of consolidation

The consolidated financial statements include the accounts of the Company together with all of its subsidiaries.

The Company's consolidated subsidiaries are Aumerco Limited (83%), Visionary Investment Products Inc. (100%), Augen General Partner VI Inc. (100%), Augen General Partner VII Inc. (100%), Augen General Partner 2002 Inc. (100%), Augen General Partner 2003 Inc. (100%), Augen General Partner X Inc. (100%) and Tecgen Capital Corporation (100%).

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less.

#### Investments

Portfolio investments are recorded at cost less any provision for permanent decline in market value.

#### Capital assets

Capital assets are recorded at cost less accumulated depreciation. Depreciation is recorded over the estimated useful life of assets on the diminishing balance basis using the following rates, with the exception of Leasehold improvements which are depreciated on straight-line basis:

Building	4%
Furniture and equipment	20%
Computer hardware and video film	30%
Computer software	100%
Leasehold improvements	20%

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# Augen Capital Corp.

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 2. Summary of significant accounting policies (continued)

#### Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward for future years for tax purposes that are more like than not to be realized. Future assets and liabilities are measured using the enacted or substantively enacted tax rates and laws that are expected to in effect when the differences are expected to reverse.

#### Revenue recognition

The Company recognizes fees for services rendered when all significant acts have been completed, in accordance with the relevant agreements and collection of revenue is assured. Due diligence fees include receipts of a combination of cash, shares and warrants. No value has been placed on warrants received for due diligence, based on the likelihood of eventual exercise.

The Company earns set-up fees when a new limited partnership is established. Those fees are calculated in accordance with the specific limited partnership agreements to which they apply and are recorded as revenue at the time of the close of the limited partnership offering.

The Company earns performance fees and annual fees from limited partnerships that it advises. Those fees are calculated in accordance with the specific limited partnership agreements to which they apply and are accrued on a monthly basis.

#### Foreign currency translation

Balances of the Company denominated in foreign currencies are translated into Canadian dollars as follows:

- Monetary assets and liabilities at year end rates;
- All other assets and liabilities at historical rates;
- Revenue and expense transactions at the average rate of exchange prevailing during the year.

Exchange gains and losses arising on these transactions are reflected in income in the year incurred.

#### Stock-based compensation

Effective January 1, 2003, the Corporation adopted the amendment to CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". The amendment, issued in November 2003, requires the expensing of all stock-based compensation awards for fiscal years beginning on or after January 1, 2004 using the fair value method. The Corporation has chosen to adopt the amendment using the prospective transitional alternative as permitted by the standard, and has therefore used the fair value method for all stock-based compensation awards granted on or after January 1, 2003. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. The Corporation's Employee Stock Option Plan and other disclosures are described in Note 6.

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# Augen Capital Corp.

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 2. Summary of significant accounting policies (continued)

#### Variable interest entities

The Company will be evaluating the applicability of the recommendations of the Accounting Standards Board ("ASB") of the CICA, relating to Accounting Guideline 15 "Variable Interest Entities". The new guideline presents the views of the Accounting Standards Board on the determination of whether an organization is considered to be have a variable interest in an entity that would not otherwise require consolidation, and the basis for consolidating variable interest entities. The guideline requires that variable interest entities be consolidated in the financial statements of companies that are deemed to control such variable interest entities. This guideline is effective for fiscal years beginning on or after November 1, 2004.

#### Investment Companies

The Company will not be adopting the recommendations of the Accounting Standards Board ("ASB") of the CICA, relating to Accounting Guideline 18 "Investment Companies" on the basis that the Company does not qualify as an investment company in accordance with the provisions of the guideline. The new guideline presents the views of the Accounting Standards Board on the determination of whether an organization is considered to be an investment company and the basis for investment companies to measure and report their investments. The guideline requires that investment companies measure all of their investments at fair value and present them on this basis in the financial statements. Changes in the fair value of investments are included in the investment company's net income for the period in which the change occurred. This guideline is effective for fiscal years beginning on or after July 1, 2004.

#### Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current period.

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### 3. Prior period adjustment

In 2003, the Company incorrectly recognized the value of stock-based compensation. Accordingly, the Company has retroactively restated 2003 results to reflect the correct accounting treatment. The net impact of this correction upon the 2003 comparative figures was a \$172,927 reduction in stock-based compensation and net loss, with a corresponding reduction in deficit at December 31, 2003.

# Augen Capital Corp.

## Notes to the Consolidated Financial Statements

December 31, 2004

4. Investments	<u>2004</u>	<u>2003</u>
Investments in quoted companies (market value - \$ 2,102,955; 2003 - \$ 1,565,437)	\$ 1,326,401	\$ 536,798
Investment in Augen Resource 2 Balance Fund Inc. (R2B) (0.01% interest in private mutual fund corporation)	100	100
Debentures and notes, bearing interest at varying rates from 2.33% to 8.25%, maturing January 27, 2005 to February 13, 2049 (market value - \$ 67,141; 2003 - \$ 62,051)	<u>66,219</u> \$ 1,392,720	<u>59,855</u> \$ 596,753

The fair values of shares or other securities for which market quotations are readily available are valued at the closing sale price or, if there is no sale price, the average of the closing bid and ask prices. In addition, the Company holds warrants to acquire common shares in investee companies.

The estimated fair value of the warrants is \$ 63,348 (2003 - \$ 20,799). The fair value of the warrants has been calculated using the Black-Scholes method. The fair value for each warrant has been estimated at the period end using empirical information for the risk free interest rate, the expected life of the warrants, the expected volatility and management's estimate of an appropriate discount factor for the security.

Management has written down those investments that it considers to be permanently impaired. An amount of \$26,647 was written down during the year (2003 - \$66,246). Such estimates are subjective in nature and involve measurement uncertainties and significant judgement. It is therefore possible that the amount realized on the investments could be materially different than their carrying value.

### 5. Property and equipment

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ -	\$ -	\$ 51,944	\$ -
Building	-	-	295,559	69,804
Leasehold improvements	9,126	913	-	-
Furniture and equipment	82,514	33,045	34,092	26,731
Computer hardware and software	45,318	30,080	30,733	26,674
Corporate video	11,921	10,785	11,921	10,298
	<u>\$ 148,879</u>	<u>\$ 74,823</u>	<u>\$ 424,249</u>	<u>\$ 133,507</u>
Net book value		<u>\$ 74,056</u>		<u>\$ 290,742</u>

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# Augen Capital Corp.

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 6. Long term debt

Fixed rate mortgage, bearing interest at 4.59%, secured by land and building. The mortgage is repayable in monthly instalments of \$1,407 principal and interest, due April 1, 2008. The mortgage was extinguished during 2004 at the time of the disposal of property.

	<u>2004</u>	<u>2003</u>
	\$ -	\$ 224,954
Less: current portion	-	<u>6,802</u>
	<u>\$ -</u>	<u>\$ 218,152</u>

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### 7. Capital stock

#### Authorized:

Unlimited number of common shares

#### Issued:

	<u>Number of Shares</u>	<u>Consideration</u>
Balance, December 31, 2002 and 2003	18,485,533	\$ 3,810,450
Shares issued in private placement	6,250,000	1,000,000
Shares issued as repayment of debt	548,890	123,500
Less: share issue costs	-	<u>(154,792)</u>
Balance, December 31, 2004	<u>25,284,423</u>	<u>\$ 4,779,158</u>

As at August 21, 2003, 1,253,325 Common Shares were held in escrow. As at December 31, 2004, 187,998 Common Shares were released from escrow leaving 1,047,327 Common Shares held in escrow as at December 31, 2004.

In January 2004, the Company issued 6,250,000 warrants in conjunction with the shares issued in the private placement. Each warrant entitles the holder to acquire one common share of the Company at a price of \$0.30 per common share until January 30, 2005. No value for the warrants has been separately reported in these financial statements in accordance with the recommendations of the CICA's Emerging Issues Committee's release (EIC 71).

# Augen Capital Corp.

## Notes to the Consolidated Financial Statements

December 31, 2004

### 7. Capital stock (continued)

#### Stock Option Plan (the "Plan")

The Directors approved the Plan whereby key employees, directors and officers and consultants who, in the opinion of the Board of Directors, are largely responsible for the management and growth of the Company are granted options. Options granted under the Plan shall not exceed 20% of the issued and outstanding common shares. As at December 31, 2004, there are stock options outstanding to key employees, directors, officers and consultants to purchase 3,000,000 common shares at a weighted average exercise price of \$0.22 per common share expiring December 17, 2006 through November 30, 2007.

<u>Date Granted</u>	<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number of Options</u>
December 17, 2003	December 17, 2006	\$ 0.16	1,400,000
February 18, 2004	February 18, 2007	0.32	850,000
November 16, 2004	November 16, 2007	0.20	500,000
November 30, 2004	November 30, 2007	0.20	250,000

The changes in the stock options are as follows:

	<u>Total Number of Options</u>	<u>Weighted Average Exercise Price</u>
December 31, 2002		
Outstanding, beginning of year	1,147,000	\$ 0.15
Expired	(1,147,000)	\$ 0.15
Forfeited	-	\$ -
Granted	<u>1,600,000</u>	<u>\$ 0.16</u>
Outstanding at December 31, 2003	1,600,000	\$ 0.16
Forfeited	(200,000)	\$ 0.16
Granted	<u>1,600,000</u>	<u>\$ 0.26</u>
Outstanding at December 31, 2003	<u>3,000,000</u>	<u>\$ 0.22</u>

The fair value of each option granted is estimated at the date of grant using the Black-Scholes option pricing model using weighted average assumptions for grants as follows:

	<u>2004</u>	<u>2003</u>
Risk free interest rate (%)	<b>3.0%</b>	3.0%
Expected life (years)	<b>3.0</b>	3.0
Expected volatility	<b>120%</b>	120%

Under the plan, there are 466,667 options that are vested and exercisable under the plan as at December 31, 2004.

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# Augen Capital Corp.

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 8. Income taxes

The Company's effective tax rate, which differs from the combined federal and provincial statutory income tax rates, may be reconciled as follows:

	<u>2004</u>	<u>2003</u>
	<u>Amount</u>	<u>Amount</u>
Income taxes at combined Federal and Provincial statutory income tax rates	\$ (10,689)	\$ (126)
Non-taxable components of investment Income	(34,767)	25,019
Unrecorded tax benefits of losses	64,451	118,464
Tax benefit of utilizing loss carry forward in subsidiary	-	(41,840)
Permanent difference related to Stock-based compensation	(18,984)	(642)
Net effect of investment write-downs and recovery of prior write-downs	20,550	(109,595)
Other timing differences	<u>(32,485)</u>	<u>10,896</u>
	<u>\$ (11,924)</u>	<u>\$ 2,176</u>

Future income taxes comprise:

	<u>2004</u>	<u>2003</u>
Loss carry forwards	\$ 413,050	\$ 349,050
Accounting write-down of investments	228,630	221,105
Other	<u>(27,165)</u>	<u>(20,565)</u>
	614,515	549,590
Less: valuation allowance	<u>(614,515)</u>	<u>(549,590)</u>
	<u>\$ -</u>	<u>\$ -</u>

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# Augen Capital Corp.

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 8. Income taxes (continued)

The Company and its subsidiaries have non-capital losses of approximately \$1,642,000 available to reduce future taxable income, the tax effect of which has not been recorded in these consolidated financial statements. These losses expire as follows:

2005	\$ 281,000
2006	\$ 287,000
2007	\$ 241,000
2008	\$ 71,000
2009	\$ 265,000
2010	\$ 323,000
2011	\$ 176,000

The Company has also accumulated net capital losses of approximately \$ 240,000. The benefit of these losses has also not been recorded in the financial statements. The net capital losses can be carried forward indefinitely.

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### 9. Financial instruments

#### Fair values

The Company's financial instruments consist of cash and cash equivalents, receivables, investments and payables and accruals. The method of determining the fair values for shares and warrants has been disclosed in Note 4. The fair values of cash and cash equivalents, receivables and payables and accruals approximate their carrying amounts.

#### Interest rate risk

The Company's financial instruments consist of cash and cash equivalents, receivables, investments, payables and accruals, and long term debt. Changes in interest rates impact the fair value of the company's fixed rate investments and the long-term debt.

#### Credit risk

The Company is subject to credit risk through trade receivables and its advances to other companies. This risk is mitigated by the variety of resource entities for which due diligence services are provided. In addition, the Company is able to protect its ability to collect the annual and performance fees from limited partnerships as the general partners serve as investment managers for the limited partnerships.

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# Augen Capital Corp.

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 10. Supplemental cash flow information

	<u>2004</u>	<u>2003</u>
Change in non-cash operating working capital:		
Receivables	\$ (337,326)	\$ (484,471)
Payables and accruals	126,886	274,870
Income taxes recoverable	-	2,176
Prepays	<u>(8,403)</u>	<u>11,130</u>
	<u>\$ (218,843)</u>	<u>\$ (196,295)</u>
Interest paid	<u>\$ 13,171</u>	<u>\$ 20,887</u>

During the year, the company issued 548,890 common shares valued at \$123,500 in satisfaction of debt. This transaction is not reflected in the statement of cash flows as it is a non-cash transaction.

During the year, the company received due diligence fees in the form of shares and warrants. The due diligence fees received in the form of shares is \$164,030 (2003 - \$16,965).

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### 11. Related party transactions

During the year, the Company paid management fees and other expenses in the amount of \$340,000 (2003 - \$280,667) to a company, whose shareholder is a director and the Chief Executive Officer of the Company. The same director and officer is also a director of an investee company in which the Company holds investments of \$316,909 (2003 - \$76,909) (quoted market value \$365,982; 2003 - \$78,635) and has provided loans for a total amount of \$41,321 (2003 - \$325,490). The Company also received fees of \$24,000 from this investee company.

During the year, the Company paid consulting fees, legal fees and other expenses of \$30,000 (2003 - \$1,000) to Company directors for services provided during the year.

Related party fees and expenses have been measured at the exchange amount.

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### 12. Earnings per share

The earnings per share figure has been calculated using the weighted average number of common shares outstanding during the respective fiscal years which amounted to 31,983,757 (2003 - 17,232,208). The weighted average number of common shares outstanding has been reduced by the escrow shares as those shares do not have a time period until escrow expiry.

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# Augen Capital Corp.

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 13. Commitments

#### Lease obligation

During the year, the Company entered into an agreement to lease office space commencing November 1, 2004. The Company used the premises for a rent-free period of six months prior to the commencement of the lease agreement.

The Company has entered into agreements to lease office equipment through the year 2010.

The future minimum commitments in each of the next five years are as follows:

2005	\$	50,421
2006	\$	61,789
2007	\$	61,288
2008	\$	52,114
2009	\$	7,806

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### 14. Contingencies

The Company has been named in an action by a former officer. The claim is for \$350,000. On the advice of counsel the Company has provided a contingency of \$ 50,000 in the current year. The Company has engaged counsel to defend the Company in the action and has filed a counterclaim.