



**2006**

**Consolidated Financial Statements**

**For the year ended December 31, 2006**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") analyzes significant changes in the audited consolidated statements of earnings, consolidated balance sheets and consolidated statements of cash flows of Augen Capital Corp. ("Augen" or the "Company"). It should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006 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 has been prepared effective April 26<sup>th</sup>, 2007.

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

This MD&A contains forward-looking statements about the Company's future prospects. These forward-looking statements are based on information currently available to the Company and the Company provides no assurance that actual results will meet management's expectations.

Forward-looking statements include estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur.

Forward-looking statements may be identified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", or "plan". Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results relating to, among other things, results of exploration, project development, reclamation and capital costs of the companies in the merchant banking portfolios ("investee companies"), and the Company's financial condition and prospects, could differ materially from those currently anticipated in such statements for many reasons such as; changes in general economic conditions and conditions in the financial markets; changes in demand and prices for the minerals the investee companies expect to produce; litigation, legislative, environmental and other judicial, regulatory, political and competitive developments; technological and operational difficulties encountered in connection with the activities of the Company's and investee companies; and other matters discussed in this MD&A. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. The Company does not undertake to update any forward-looking statement that may be made from time to time by the Company or on its behalf, except in accordance with applicable securities laws.

## OVERVIEW

Augen is a public (TSX-V "AUG") merchant bank specializing in the financing and investing in early-stage resource mining exploration companies. Augen considers itself the financier of first resort for these emerging resource companies.

Other continuous disclosure documents, including the Company's press releases, quarterly and annual reports are available through its filings with the securities regulatory authorities in Canada at [www.sedar.com](http://www.sedar.com).

### **Augen business objective**

Augen's primary objective is to create long-term shareholder value through (i) appreciation in its resource merchant banking portfolios held in Augen Capital Corp., the parent company, and Aumerco Limited, a 100%-owned private Ontario corporation, (ii) offering tax-assisted Augen Limited Partnership products, (iii) offering Augen Resource Strategy Fund and (iv) strategic management support to emerging resource companies; all generating gains, recurring fee income and cash flow.

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

Augen Capital Corp., the parent company, maintains a strong financial position with substantial liquidity along with a merchant banking portfolio in order to be responsive to new opportunities to create long-term value and, if required, support existing operating companies and products.

### **Ownership by management**

Each member of management has a personal financial interest in Augen Capital Corp. The management team's depth and breadth of experience in the resource sector supports the management teams of the investee companies in enhancing 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.

## OUTLOOK

The Company is pleased to report results of the year ended December 31, 2006.

The continuous and significant growth in assets under administration year over year has enabled management to strengthen and build the Company. The Augen Limited Partnership 2006 prospectus offering was the most successful flow-through product raise in Augen's history at \$11.4 million. The Augen Limited Partnership 2006-1 offering memorandum closed at \$3.5 million on December 1, 2006. Augen has now raised over \$40 million in managed products over the last five years. Management expects a minimum raise of \$15 million annually for its structured products, which in the next several years, will translate into strong earnings growth beyond current levels.

Augen's merchant banking portfolio increased three times during the year and had a fair value of \$8.5 million at year-end. The Company has focused on strengthening the portfolio with the acquisition of three significant property packages. All projects are based in Ontario and include distinct gold exploration, nickel and diamond targets. Subsequent to year-end the Company acquired uranium claims in the Roberts Township in Ontario which were vended into a TSX venture-listed company. Energy Fuels Inc. was a most successful venture for Augen and the objective is to achieve similar success with these and other projects in the merchant banking portfolio. The portfolio of four projects and large share positions provides significant upside potential beyond the steady growth of managed products. This is a departure from our prior approach whereby smaller funds were invested in a large number of companies.

The merchant banking portfolio had exceptional performance reflecting good sector allocations and near record metal prices. Management remains optimistic that the resource sectors will continue to outperform the broader equity markets with supply shortages perceived for several metals. Examples include uranium recently at \$113/lb (up 4.5 times over the year); nickel at \$22.40/lb (up 2.5 times); and gold which has been retracing back to its April, 2006 high of \$720 per ounce. Several Canadian mines (base metals, nickel and gold) are being brought into production, supported by major resource companies who must buy reserves to supplement their exploration efforts. It is expected that many more Canadian mines will be brought into production over the next decade in sharp contrast to the previous decade. Junior and senior producers of nickel, gold and other commodities remain take-over targets which is a testament to the strength of the minerals and metals sector.

Management is appreciative of the higher level of shareholder support and confidently expects 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" (signed)*

J. David Mason, M.Eng.  
Chairman

## FINANCIAL REVIEW

### SIGNIFICANT EVENTS IN 2006

This section discusses significant changes in the audited consolidated statements of earnings, consolidated balance sheets and consolidated statements of cash flows for the year ended December 31, 2006. All references to years such as "2006" or "2005" relate to the fiscal years ended December 31 of those years.

### SELECTED ANNUAL INFORMATION

Highlights	For the years ended December 31,		
	2006	2005	2004
Income	7,128	2,165	1,767
Net earnings (loss)	2,902	891	(20)
Earnings per share - basic & diluted	0.09	0.03	0.00
Total Assets	10,269	4,186	2,857
Total Long Term Liabilities	Nil	Nil	Nil

### MANAGED PRODUCTS

The Managed Products ("MP") segment primarily consists of annual resource flow-through limited partnership offerings, and the Augen Resource Strategy Fund, a mutual fund corporation. The MP segment earns fees related to the limited partnerships and the mutual fund including setup, due diligence, and advisory and performance fees.

Augen Capital Corp. owns 100% of the general partners for Augen Limited Partnership 2006 and Augen Limited Partnership 2006-1, both offered for sale during the current year. Augen Capital Corp. also owns 100% of the general partners for Augen Limited Partnership 2005, Augen Limited Partnership 2004-1, and Augen Limited Partnership 2003, all of which were subject to asset rollover into Augen Resource Strategy Fund during the year. Augen Capital Corp. is the Manager for Augen Resource Strategy Fund.

#### **Augen Limited Partnership 2006**

Augen Limited Partnership 2006 ("LP2006") is a resource flow-through limited partnership that completed its initial public offering on September 29, 2006. LP2006 raised a total of \$11.4 million, making it the most successful offering in the history of the Company. The syndicate was the largest ever assembled for an Augen flow-through offering.

#### **Augen Limited Partnership 2006-1**

Augen Limited Partnership 2006-1 ("LP2006-1") is a resource flow-through limited partnership that completed a private placement to accredited investors on December 1, 2006. The investment objective is to primarily invest in mining exploration companies with market capitalizations up to \$100 million, with some oil and gas investments.

#### **Augen Resource Strategy Fund**

Augen Resource Strategy Fund Inc. (the "Augen RSF" or "Fund") is a mutual fund corporation incorporated under the laws of the Province of Ontario in the first quarter of 2006. The investment objective of the Fund is to provide long-term capital growth, by investing primarily in equity securities of senior and emerging Canadian resource companies. The Fund is also permitted to invest in fixed income and money market instruments.

Augen RSF is available on *FundSERV* for subscription through offering memorandum under the standard accredited investor exemptions. It is anticipated that Augen RSF will provide a tax-deferred rollover of net assets at the fair value of ongoing Augen Limited Partnerships in exchange for shares of the Fund, thereby providing a liquidity event for the limited partners.

Augen RSF acquired the net assets of Augen Limited Partnership 2004-1 and Augen Limited Partnership 2003 on May 1, 2006, and the net assets Augen Limited Partnership 2005 on December 29, 2006, in exchange for shares of the Augen RSF by way of a tax-deferred rollover of net assets.

## FINANCIAL REVIEW (CONTINUED)

### MANAGED PRODUCTS (CONTINUED)

#### **Augen Limited Partnership 2005**

Augen Limited Partnership 2005 ("LP2005" or "Partnership") was one of the top performing flow-through products in the industry.

On December 20, 2006, pursuant to a special meeting on December 18, 2006 of limited partners of LP2005 approving certain resolutions, LP2005 announced the transfer of its net assets on a tax-deferred basis to Augen RSF in exchange for Class B shares of Augen RSF. The transaction closed on January 31, 2007, with a transfer date of December 29, 2006, at which time the Partnership was dissolved and the assets were allocated 99.99% to the limited partners and 0.01% to the general partner. Performance fees payable to the general partner were reported during the year.

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

The net assets of Augen Limited Partnership 2004-1 ("LP 2004") were acquired by Augen RSF on May 1, 2006 however no performance fees were paid during the year.

#### **Augen Limited Partnership 2003**

The net assets of Augen Limited Partnership 2003 ("LP 2003") were acquired by Augen RSF on May 1, 2006. Investment performance was good and resulted in a positive after-tax return for investors. No performance fees were paid during the year.

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

The Company has made the decision to discontinue offering shares in Augen Resource 2 Balance Fund ("Augen R2B") and intends to wind-up Augen R2B in the near term.

### MERCHANT BANKING

The Merchant Banking ("MB") segment consists of a core investment portfolio of primarily emerging resource stocks. The MB segment provides financing and strategic management support to resource investee companies and strives to maximize net gains realized on its investment portfolio.

Due diligence fees are earned in the normal course for necessary diligence, in conjunction with the Company's Advisory Board, for certain investments in the merchant banking and managed products investment portfolios. The due diligence is primarily 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, with the support of the Augen Capital Corp. advisory board.

#### **Merchant Banking Portfolios**

The Company holds merchant banking portfolios directly in Augen Capital Corp. and indirectly through its wholly-owned subsidiary, Aumerco Limited, which primarily consist of listed Canadian resource companies whose principal business is resource exploration and development.

The merchant banking portfolios are reported at cost on the financial statements with fair values reported in the notes to the financial statements. The portfolios generate interest, dividends and capital gains or losses.

#### **Polar Bear Project**

Augen established Polar Bear Exploration Inc. ("PBE"), a private company, to acquire claims in the Hudson Bay/James Bay area of northern Ontario, south east of the coastal town of Pewanuck and south west of Polar Bear Provincial Park. An underlying agreement had been previously negotiated with the Weenusk First Nations which has the mineral rights. Twenty-five claim groups (the "Property") have been staked in PBE. Augen currently owns 76% of PBE with the balance owned by a private prospecting group. The airborne magnetic surveys that were completed reveal a large number of intense anomalies. These are generally found in a host rock of volcanic basalts, and similarities can be observed with both the Thompson Manitoba and Nunavik (Raglan) nickel occurrences. Additionally, this area is almost due North of the Victor Pipe which is being prepared for diamond production by DeBeers. PBE has utilized the services of Terraquest Ltd. and Scott Hogg and Associates, geophysical services, and now has well defined drill targets based on magnetic anomalies over an area of approximately 80 km x 30 km. Targets are nickel, copper, and precious metals in a volcanic sulphide formation as well as a separate trend that may contain diamonds in kimberlitic intrusives. Augen is considering financing options including a reverse takeover transaction with a publicly listed company in 2007.

## **FINANCIAL REVIEW (CONTINUED)**

### **MERCHANT BANKING (CONTINUED)**

#### **Augen Gold Corp.**

Augen has established Augen Gold Corp. ("AGC"), a private company, to acquire a claim group in the Swayze Greenstone belt between Sudbury and Timmins. The claim group consists of approximately 63 patented and 119 staked claims covering 7,280 acres in a largely contiguous block covering a significant portion of 6 townships including the former-producing Jerome Mine. The latter has historically measured resources of gold (non NI-43-101 compliant) in addition to silver and molybdenum values. Gold occurrences are ubiquitous through-out the length of the property and a thorough exploration program has never been undertaken outside of the former producing Jerome mine area. Augen raised \$2.75 million by way of private placement to fund the purchase of the claims and provide working capital. AGC represents a core holding in the merchant banking portfolio. Augen is considering financing options including a reverse takeover transaction with a publicly listed company in 2007.

#### **Investee Company Services**

Augen Capital Corp. had in place services agreements with various investee companies and Augen products for CFO, Corporate Secretary & General Counsel services, and premises and office administration services. The Augen limited partnerships and Augen RSF may hold investments in these investee companies.

### **OTHER EVENTS - highlights**

#### **Financing**

The Company completed a private placement in Q2 2006 for 3,333,333 units at \$0.30 per unit for aggregate proceeds of \$1,000,000. Each unit consists of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at an exercise price of \$0.35 and expires on September 29, 2008. The fair value of purchase warrants including broker warrants of \$142 thousand was recorded during the year.

### **ACCOUNTING POLICIES**

#### **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 the same as outlined in note 2 to the 2006 audited annual consolidated financial statements.

#### **New Accounting Standards To Be Adopted in 2007**

The CICA issued the following related new accounting standards, the adoption of which is currently being evaluated by the Company:

#### **Comprehensive Income**

CICA Handbook Section 1530: "Comprehensive Income"; established standards for reporting comprehensive income, defined as a change in value of net assets that is not due to owner activities, by introducing a new requirement to temporarily present certain gains and losses outside of net income.

#### **Equity**

CICA Handbook Section 3251: "Equity"; establishes standards for the presentation of equity and changes in equity during the reporting period.

#### **Financial Instruments**

CICA Handbook Section 3855: "Financial Instruments – Recognition and Measurement"; establishes standards for the recognition, classification and measurement of financial instruments including the presentation of any resulting gains and losses. Assets classified as available-for-sale securities will have revaluation gains and losses included in other comprehensive income until these assets are no longer included on the balance sheet.

## FINANCIAL REVIEW (CONTINUED)

### ACCOUNTING POLICIES (CONTINUED)

#### Disclosure Controls

The Chairman and CFO of the Company are able to certify the design of the Company's internal controls over financial reporting, but have identified certain weaknesses in the design of these internal controls.

There is a potential for a lack of segregation of duties that may lead to the possibility of inaccuracies in financial reporting. The Company has certain compensating controls in place which minimize the risk and continues to improve the knowledge and competency of accounting staff to ensure quality financial reporting.

The Company continues to improve documentation and is in the process of implementing policies and procedures to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external reporting in accordance with GAAP.

As of the date of this MD&A, the Company is in the process of establishing a strategy to ensure the Company becomes compliant with the requirements of NI 52-109.

The internal controls over financial reporting will be designed under the supervision of the Chairman and CFO. It is expected that the Company will be in a position to certify that these internal controls are in place and that the effectiveness of those controls will be evaluated.

### CONSOLIDATED OPERATING RESULTS

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

This section should be read in conjunction with the audited consolidated statements of earnings for the year ended December 31, 2006 and the corresponding notes thereto. All references to years such as "2006" or "2005" relate to the fiscal years ended December 31 of those years.

#### Consolidated net earnings

Consolidated net earnings for the year were \$2,902 thousand as compared to \$891 thousand in 2005. Consolidated income increased to \$7,128 thousand for the year as compared to \$2,165 thousand in 2005. Consolidated expenses before amortization were \$3,096 thousand for the year as compared to \$1,746 thousand in 2005.

The Company operates under two segments: Managed Products and Merchant Banking.

The Managed Products ("MP") segment consists of annual resource flow-through limited partnership offerings, and the Augen Resource Strategy Fund. The MP segment earns fees related to the limited partnerships and mutual fund including setup, due diligence, and annual and performance fees.

The Merchant Banking ("MB") segment consists of a core investment portfolio of primarily emerging resource stocks. The MB segment provides financing and strategic management support to resource investee companies and strives to maximize net gains realized on its investment portfolio.

The segmented financial results are as follows:

Consolidated Statements of Earnings						
For the years ended December 31,	Managed Products		Merchant Banking		Total	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Income	3,583,631	1,293,825	3,543,907	871,385	7,127,538	2,165,210
Expenses	1,701,287	1,090,578	1,394,526	655,635	3,095,813	1,746,213
Earnings before amortization & income taxes	1,882,344	203,247	2,149,381	215,750	4,031,725	418,997
Amortization	6,382	8,622	6,382	8,622	12,764	17,244
Earnings before income taxes	1,875,962	194,625	2,142,999	207,128	4,018,961	401,753

## CONSOLIDATED OPERATING RESULTS (CONTINUED)

### Consolidated net earnings (continued)

#### Consolidated income

The key items which have impacted the change in consolidated income are outlined by segment below:

##### *Managed products segment*

Consolidated income for the MP segment increased to \$3,584 thousand for the year as compared to \$1,294 thousand in 2005. The highlights are as follows:

Advisory and performance fees for the year were \$1,724 thousand as compared to \$402 thousand in 2005. The increase is primarily due to performance fees of \$875 thousand earned on the rollover of net assets of LP2004 and LP2005 into Augen RSF as compared to nil in 2005, and advisory fees from Augen RSF of \$251 thousand and LP2006 & LP2006-1 of \$105 thousand as compared to nil in 2005.

Consulting and due diligence fees were \$1,606 thousand for the year as compared to \$810 thousand in 2005, primarily due to setup fees of \$775 thousand related to the LP2006 and LP 2006-1 offerings as compared to \$400 thousand related to LP2005 in 2005, due diligence fees of \$671 thousand earned on investment recommendations to the general partners of LP2006 and LP 2006-1 as compared to \$403 thousand for LP 2005 in 2005, and rollover fees of \$160 thousand in 2006 as compared to nil in 2005.

Investee company services were \$254 thousand as compared to \$82 thousand in 2005.

##### *Merchant banking segment*

Consolidated income for the MB segment increased to \$3,544 thousand for the year as compared to \$871 thousand in 2005. The highlights are as follows:

Realized gains on the sale of investments were \$3,384 thousand for the year as compared to \$664 thousand in 2005, reflecting active trading of the merchant banking portfolio. Investee company services were \$100 thousand in 2006 as compared to \$155 thousand in 2005. Interest and dividends were \$52 thousand as compared to \$22 thousand in 2005.

#### Consolidated expenses

The key items which have impacted the change in consolidated expenses are outlined by segment below:

##### *Managed products segment*

Consolidated expenses for the MP segment were \$1,701 thousand in 2006 as compared to \$1,091 thousand in 2005. The highlights are as follows:

Wages and benefits and portfolio administration fees were \$407 thousand for the year as compared to \$486 thousand in 2005. Professional fees were \$385 thousand for the year as compared to \$211 thousand in 2005. The increase in professional fees reflects the offering of the LP2006 and LP2006-1 products as compared to one LP2005 product in 2005. Sales & marketing expenses were \$389 thousand for the year versus \$202 thousand in 2005, reflecting the addition of a new member on the product sales team, as well as incremental costs for two product offerings in 2006 as compared to one in 2005. General & administrative expenses were slightly up to \$147 thousand as compared to \$127 thousand in 2005, reflecting a marginal increase. Stock-based compensation of \$73 thousand was recorded during the year as compared to \$65 thousand in 2005. The Company has recorded a one-time charge of \$300 thousand during the year to cover the amount of compensation due to Augen R2B and sundry expenses resulting from a restatement of Augen R2B's net asset value.

##### *Merchant banking segment*

Consolidated expenses for the MB segment were \$1,395 thousand in 2006 as compared to \$656 thousand in 2005. The highlights are as follows:

Wages and benefits was \$739 thousand for the year as compared to \$97 thousand for the same year last year. The increase is due to an increase in headcount, and incentive compensation of \$507 thousand. Augen restructured various investee companies by adding Augen officers to the senior management team and by changing the strategic direction of the companies. Certain investee positions were sold for substantial gains during the year. The incentive compensation is recorded and payable only upon the realization of gains on these positions. General and administrative expenses were \$281 thousand for the year as compared to \$421 thousand in 2005, reflecting cost containment measures. Professional fees were \$141 thousand for the year as compared to \$73 thousand in 2005. Stock-based compensation of \$73 thousand was recorded during the year as compared to \$65 thousand in 2005. Investment write-downs amounted to \$161 thousand for the year.

## SUMMARY OF QUARTERLY RESULTS

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

Restated - \$000's (except per share data)	2006				2005			
	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
<b>Income</b>	3,794	844	1,649	841	1,081	569	440	75
<b>Net earnings (loss)</b>	1,922	120	521	339	826	162	73	(134)
<b>Earnings per share – basic &amp; diluted</b>	0.05	0.01	0.03	0.00	0.03	0.01	(0.00)	(0.01)

### Q4 2006 Results

Realized gains on the sale of merchant banking investments increased 641% to \$1,690 thousand for the quarter as compared to \$228 thousand in 2005, reflecting active trading of the merchant banking portfolio.

The LP2006-1 offering closed during the quarter at \$3,476 thousand. Partnership setup fee expenses of \$350 thousand were reimbursed during the quarter. Due diligence fees of \$195 thousand were earned during the quarter.

#### *Restatement of quarterly results*

The Company has restated its consolidated quarterly results for the first three quarters of 2006. The restatement does not impact the 2006 annual results and only reflects a change in timing of the recognition of performance fee income and incentive compensation. The restatement has no impact on the cash flow of the Company.

During the first quarter of 2006, the Company recognized \$1,109 thousand in performance fee income in connection with the performance of Augen Limited Partnership 2005 ("LP 2005"). The performance fee income was adjusted to \$833 thousand in the Q2 2006 results, and further adjusted to \$691 thousand in the Q3 2006 results. It has been determined that, in accordance with GAAP, the LP2005 performance fee income should have been recognized in Q4 2006.

The restated Q1 income is \$841 thousand versus \$1,950 thousand reported, the restated Q2 income is \$2,490 thousand versus \$3,234 thousand reported, and restated Q3 income is \$3,334 thousand versus \$3,936 thousand reported.

During the second quarter of 2006, the Company recognized \$535 thousand in incentive compensation in connection with the unrealized gains on certain merchant banking investment positions. The incentive compensation was adjusted to \$650 thousand in the Q3 2006 results. The merchant banking portfolio is currently reported on the balance sheet at historical cost and it has been determined that a portion of the amount of the incentive compensation, in accordance with GAAP, should be recognized as gains are realized on certain merchant banking investments.

The restated year-to-date net earnings for Q1 is \$339 thousand versus \$1,047 thousand reported, for Q2 is \$860 thousand versus \$1,038 thousand reported, and is \$980 thousand versus \$983 thousand reported for Q3. The impact in earnings per share for Q1 is \$0.00 versus \$0.04 reported, for Q2 is \$0.03 versus \$0.04 reported, and for Q3 is unchanged. The table below summarizes the restatements by quarter:

\$000's (except per share data)	Q4 2006	Q3 2006		Q2 2006		Q1 2006	
	Reported	Reported	Restated	Reported	Restated	Reported	Restated
<b>Performance fees income (YTD)</b>	875	691	89	833	89	1,109	-
<b>Income (YTD)</b>	7,128	3,936	3,334	3,234	2,490	1,950	841
<b>Incentive compensation (YTD)</b>	508	650	52	535	70	-	-
<b>Expenses before income taxes (YTD)</b>	3,109	2,536	1,938	1,792	1,327	318	318
<b>Net earnings (YTD)</b>	2,902	983	980	1,038	860	1,047	339
<b>EPS - basic and diluted (YTD)</b>	0.09	0.04	0.04	0.04	0.03	0.04	0.00

## CONSOLIDATED FINANCIAL POSITION

This section should be read in conjunction with the audited consolidated balance sheets as at December 31, 2006 and the corresponding notes thereto. All references to years such as "2006" or "2005" relate to the fiscal years ended December 31 of those years.

### Consolidated assets

Consolidated assets were \$10,269 thousand in December 31, 2006 up 145% from \$4,186 thousand at December 31, 2005. The assets, summarized by segment, are as follows:

Consolidated assets						
As at December 31,	Managed Products		Merchant Banking		Total	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
<b>Total assets</b>	<b>2,846,546</b>	682,466	<b>7,360,576</b>	3,503,276	<b>10,207,122</b>	4,185,742
<b>Goodwill (note 11)</b>	-	-	<b>62,014</b>	-	<b>62,014</b>	-
	<b>2,846,546</b>	682,466	<b>7,422,590</b>	3,503,276	<b>10,269,136</b>	4,185,742

The key items which have impacted the change in consolidated assets are outlined by segment below:

#### *Managed products segment*

Consolidated MP assets were \$2,847 thousand in 2006 as compared to \$682 thousand in 2005. The highlights are as follows:

Cash and equivalents increased to \$1,225 thousand in 2006 from \$8 thousand in 2005. The increase primarily reflects the cash flow generated from the various limited partnerships and mutual fund including the receipt of advisory fees, expense reimbursements from the managed products, and repayment of loans from the general partner for the setup of LP2006 and LP2006-1.

Due from related parties were \$1,546 thousand in 2006 as compared to \$623 thousand in 2005 and consist of amounts due for advisory and performance fees, expense reimbursements, and loans. The increase is primarily due to performance and rollover fees of \$822 thousand due from LP2005, and changes in advisory fees and loans.

#### *Merchant banking segment*

Consolidated MB assets were \$7,423 thousand in 2006 as compared to \$3,503 thousand in 2005. The highlights are as follows:

Cash and equivalents increased to \$2,609 thousand in 2006 from \$299 thousand in 2005. The increase is primarily due to active trading resulting in the realization of gains in the merchant banking portfolio.

Receivables were \$1,429 thousand in 2006 as compared to \$722 thousand in 2005. The increase is primarily due to \$999 thousand in amounts due from brokers on unsettled trades in 2006 as compared to nil in 2005, the increase in due diligence fees receivable of \$421 thousand in 2006 as compared to \$341 thousand in 2005, offset by the secured interest-bearing loans collected in 2006 of \$405 thousand to various unitholders of LP2003 to facilitate the purchase of LP2005 in 2005.

Investments were \$2,660 thousand in 2006 as compared to \$1,853 thousand in 2005. On September 28, 2006, Augen acquired the remaining 17% non-controlling interest in Aumerco Limited. The purchase price of \$560 thousand, net of non-controlling interest of \$284 thousand, and goodwill of \$62 thousand, was assigned to investments. The goodwill represented the excess purchase price over assets acquired, less liabilities assumed, based on their fair values. The market values of investments at December 31, 2006 were \$8,535 thousand as compared to \$2,166 thousand at December 31, 2005, reflecting significant appreciation of the merchant banking portfolio.

Mineral properties and deferred costs were \$509 thousand and represent expenditures incurred to date under a prospecting and financing arrangement whereby Augen owns 76% of the voting of Polar Bear Explorations Inc.

Future income taxes were \$52 thousand in 2006 as compared to \$573 thousand in 2005 reflecting the year-to-date drawdown of the capitalized carry-forward losses to be applied against future taxable income.

## CONSOLIDATED FINANCIAL POSITION (CONTINUED)

### Consolidated liabilities

Consolidated liabilities were \$1,630 thousand in 2006 as compared to \$386 thousand in 2005. The highlights are as follows:

Accounts payable and accrued liabilities were \$1,174 thousand in 2006 as compared to \$386 thousand in 2005. The increase is due to an increase in accounts payable of \$81 thousand, an increase in due to broker of \$120 thousand for unsettled trades, and incentive compensation payable of \$480 thousand in 2006 as compared to nil in 2005. Income taxes payable were \$457 thousand as compared to nil in 2005.

### Non-controlling interest

The non-controlling interest was nil at December 31, 2006 as Augen acquired the remaining 17% non-controlling interest in the net assets of Aumerco Limited during the year.

### Shareholders' equity

Shareholders' equity increased to \$8,639 thousand in 2006 from \$3,655 thousand in 2005. The increase is primarily due to the following items:

The Company completed a private placement in Q2 2006 for 3,333,333 units at \$0.30 per unit for aggregate proceeds of \$1,000,000. Each unit consists of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at an exercise price of \$0.35 and expires on September 29, 2008. The fair value of purchase warrants and broker warrants of \$142 thousand was recorded during the year.

Directors and officers exercised 1,474,525 stock options of Augen Capital Corp. for \$247 thousand during the year at an average exercise price of \$0.17. A total of 2,570,000 warrants were exercised for \$643 thousand during the year. There were 533,333 shares issued to extinguish \$96 thousand in debt previously reported on the balance sheet.

Net earnings were \$2,903 thousand year-to-date represents the balance of the variation in shareholders' equity.

## LIQUIDITY AND CAPITAL RESOURCES

This section should be read in conjunction with the audited consolidated balance sheets as at December 31, 2006 and the corresponding notes thereto. All references to years such as "2006" or "2005" relate to the fiscal years ended December 31 of those years.

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.

The consolidated working capital ratio at December 31, 2006 remains strong at 4.3 : 1 as at December 31, 2006 as compared to 4.4 : 1 for the year ended December 31, 2005.

Receivables of \$1,436 thousand in 2006 primarily consist of \$999 thousand in amounts due from brokers, and \$421 thousand in due diligence fees receivable, both collected shortly after year-end. Related party receivables of \$1,616 thousand in 2006 were fully collected in Q1 2007.

Accounts payable and accrued liabilities were extinguished in due course with the majority of the \$1,174 thousand being paid by the end of Q2 2007. Income taxes payable were paid subsequent to year-end.

### Cash from (used in) operating activities

Cash from operations, excluding changes in non-cash working capital, totaled \$955 thousand for the year ended December 31, 2006 as compared to cash used in operations of \$77 thousand in 2005. The variation is primarily explained by an increase in net earnings of \$2,011 thousand, an increase in the write-down provision of \$123 thousand, an increase in current and future income taxes of \$1,550 thousand, offset by an increase in Investment gains of \$2,720 thousand.

### Cash from (used in) investing activities

Cash from investing activities totaled \$1,559 thousand in 2006, substantially up from \$165 thousand in 2005. The increase is primarily due to an increase in proceeds from the sale of investments of \$3,444 thousand offset by an increase purchases of \$979 thousand, and by the acquisition of the 17% interest in Aumerco Limited for \$560 thousand, and the \$509 thousand in expenditures on mineral properties and deferred costs incurred during the year.

### Cash from (used in) financing activities

Cash from financing activities was \$1,935 thousand in 2006 as compared to \$237 thousand in 2005. The variation is primarily explained by the \$1 million private placement closed during the year as compared to the \$250 thousand private placement closed in 2005, the exercise of stock options by directors and officers for \$247 thousand during the year, warrants exercised for \$643 thousand during the year, and \$96 thousand in shares issued to extinguish debt previously reported on the balance sheet during the year.

## TRANSACTIONS WITH RELATED PARTIES

The Company had dealings during the period with the following related parties:

- A. The Company relies upon the experience and expertise of a senior officer who is also Chairman, for investment analysis and due diligence services. Services are provided by a related company that is controlled by the officer. The Company secured these services through an annual contract. The Company paid fees of \$188 thousand during the year to the related company.
- B. The Company holds investments of \$282 thousand at December 31, 2006 (quoted market value \$3,050 thousand) in an investee company where an officer of the Company, was an officer of the investee company until December 1, 2006 and remains a director of the investee company. There is an amount owing from the investee company of \$25 thousand resulting from loans and amounts owing pursuant to a services agreement which was terminated October 31, 2006. The officer currently holds 400,000 fully-vested options of the investee company exercisable at an average price of \$0.32.
- C. The Company relies upon the experience and expertise of a senior officer for sales & marketing services. Services are provided by a related company that is controlled by the officer. The Company secured these services through an annual contract and paid fees of \$126 thousand during the year to the related company.
- D. The Company owns 100% of the general partners and is responsible for the day to day management of the limited partnerships. The general partners are entitled to an advisory fee equal to 2.25 - 2.5% of the net assets of relevant limited partnerships. The general partners are also entitled to a performance fee on the rollover transfer date of the limited partnerships into Augen RSF. The general partners earned advisory fees of \$516 thousand and performance fees of \$831 thousand during the year.

Certain general partners are reimbursed for administrative and operating expenses incurred on behalf of certain limited partnerships. The general partners earned \$329 thousand for such expenses during the year. Unpaid fees and loans due to the general partners bear interest at Canadian prime rate plus 2% per annum. The limited partnerships were charged \$45 thousand in interest by the general partners during the year.

An amount of \$1,185 thousand is receivable from the limited partnerships at December 31, 2006.

- E. The Company is entitled to an annual advisory fee equal to 2.5% of the net assets of Augen RSF and Augen R2B (collectively the "Funds"). Augen R2B is to be wound up in the near term. Performance fees may be earned by the Company based on established thresholds. The Company earned advisory fees of \$252 thousand and performance fees of \$89 thousand during the year from the Funds.

The Company is reimbursed for administrative and operating expenses incurred on behalf of Augen RSF. The Company was reimbursed \$36 thousand by the Funds for such expenses during the year.

An amount of \$386 thousand is receivable from the Funds at December 31, 2006.

- F. The Company has amounts due from investee companies of \$44 thousand at December 31, 2006.

## CRITICAL ACCOUNTING ESTIMATES

### Investments

Portfolio investments are recorded at cost. Where there has been a decline in the value of an investment that is determined to be other than temporary, the carrying value of the investment is written down to its estimated net realizable value.

Investments in shares of investee companies in which Augen's ownership and rights provide the ability to exercise significant influence are accounted for using the equity method.

### Mineral properties and deferred costs

The Company defers the costs of exploration on existing projects and carries them as assets until production commences. The amount at which mineral properties and deferred exploration costs are recorded do not necessarily reflect present or future values. If a project is successful, the related mineral property and deferred exploration costs are amortized over the estimated economic life of the project. If a project is unsuccessful, or if exploration has ceased because continuation is not economically feasible, the mineral properties and the related deferred exploration costs are written off. Option payments are applied against the mineral property or deferred exploration costs.

### Goodwill

Goodwill represents the excess of the price paid for subsidiaries over the fair value of the net assets acquired, and is recorded as such in the balance sheet. Goodwill is reviewed at least annually for indications of impairment to ensure that the fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

### Future income taxes

The Company follows the liability method of income tax allocation whereby future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of the assets and liabilities and measured using the substantively enacted income tax rates expected to apply when such differences are expected to reverse. Future income taxes arise from the recognition of those accumulated capital and non-capital losses, which in the opinion of management are more likely than not to be realized before expiry. Future income taxes also arise as a result of timing differences between the recognition of flow-through share tax deductions and of provisions for impairment of investments which are recorded for tax purposes and accounting purposes in different periods.

### Revenue recognition

The Company recognizes fees for services rendered, including consulting and due diligence fees, when all significant acts have been completed or the Company has completed all engagement requirements in accordance with the relevant agreements, and when collection of revenue is reasonably assured.

The Company, through incorporated general partners, manages the operations and affairs of the various limited partnerships and is entitled to advisory fees which are accrued on a periodic basis. Performance fees are earned on the rollover transaction asset transfer date of the limited partnerships into the mutual fund corporation. The reimbursement of set-up expenses from the limited partnerships are recorded upon the initial and subsequent closings of the partnership offerings during the period.

### Stock-based compensation

The Company follows guidance in the Canadian Institute of Chartered Accountants Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which requires that a fair value based method of accounting be applied to all stock-based payments. The fair value of stock-based compensation is recorded as a charge to net earnings with a corresponding credit to contributed surplus.

The fair value of incentive stock options granted to directors, officers, or consultants and purchase warrants issued to shareholders on private placements are calculated using the Black-Scholes valuation model. The fair value for each instrument is estimated using the following weighted average assumptions:

Risk free rate	3.0 - 4.0%
Expected life	Determined by the terms and conditions of each instrument
Expected volatility	Determined by the closing sale price for the company for a historical time interval equal to the expected life of the instrument or the period that the stock has been trading if less than the expected life
Expected dividend yield	Determined by the terms and conditions of each investment.

## CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

### Contingencies

The Company was named in an action by a former officer in 2004. The Company settled the suit during the year and the amount previously provided for in these financial statements was sufficient to extinguish the amount of the full and final settlement.

The Company has an incentive compensation plan pursuant to which management bonuses are paid based on gains realized on investments held in the merchant banking portfolio. The bonuses range from 0% - 20% of the gains realized. If the unrealized gains held in the portfolio at December 31, 2006 were realized, an amount of \$1,177 thousand would have been payable. The actual amount of the management bonus will vary as a result of market fluctuations in the merchant banking portfolio.

# AUGEN CAPITAL CORP.

## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements, the notes thereto and other financial information contained in the management's discussion and analysis, are the responsibility of, and have been prepared by management. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, by necessity, include items that reflect the best estimates and judgement of management. Financial information presented elsewhere in this document is consistent with that shown in the consolidated financial statements.

Management has developed and maintains a system of internal accounting controls that are designed to ensure that transactions are properly authorized and recorded as they occur and to provide reasonable assurance that the Company's assets are protected from unauthorized use. Management, under the supervision of the Chairman and the Chief Financial Officer, are in the process of designing a framework to evaluate disclosure controls and procedures in line with Canadian securities regulations.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is currently comprised of four independent Directors, reviews the interim and annual consolidated financial statements and the management's discussion and analysis and recommends them for approval by the Board of Directors. Other key responsibilities of the Audit Committee include the monitoring of the Company's system of internal control over financial reporting, including disclosure controls, and reviewing the qualifications, independence and performance of the external auditors. The Audit Committee reports its findings to the Board of Directors before the consolidated financial statements are approved by the Board of Directors.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the independent auditors, in accordance with generally accepted auditing standards. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related matters.

*"J. David Mason" (signed)*

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**J. David Mason**  
Chairman

*"Ian C. Peres" (signed)*

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**Ian C. Peres**  
Chief Financial Officer

April 24<sup>th</sup>, 2007

April 24, 2007

## **Auditors' Report**

**To the Shareholders of**  
**Augen Capital Corp.** (the Company)

We have audited the consolidated balance sheets of the Company as at December 31, 2006 and 2005 and the consolidated statements of earnings and cash flows for the years 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 audits.

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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants, Licensed Public Accountants**

**AUGEN CAPITAL CORP.**  
**Consolidated Statements of Earnings**

<i>For the years ended December 31,</i>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>Income</b>	<b>7,127,538</b>	2,165,210
<b>Expenses</b>	<b>3,095,813</b>	1,746,213
<b>Earnings before income taxes and amortization</b>	<b>4,031,725</b>	418,997
Amortization	<b>12,764</b>	17,244
<b>Earnings before income taxes</b>	<b>4,018,961</b>	401,753
<b>Income taxes</b>		
Current	<b>456,742</b>	-
Future	<b>520,511</b>	(572,925)
	<b>977,253</b>	(572,925)
<b>Earnings before non-controlling interest</b>	<b>3,041,708</b>	974,678
Non-controlling interest	<b>139,245</b>	83,448
<b>Net earnings</b>	<b>2,902,463</b>	891,230
<b>Earnings per share - basic and diluted</b>	<b>0.09</b>	0.03

**Consolidated Statements of Retained Earnings (Deficit)**

<i>For the years ended December 31,</i>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>Deficit, at beginning of year</b>	<b>(1,604,864)</b>	(2,496,094)
Net earnings	<b>2,902,463</b>	891,230
<b>Retained earnings (deficit), at end of year</b>	<b>1,297,599</b>	(1,604,864)

The accompanying notes are an integral part of these financial statements.

**AUGEN CAPITAL CORP.**  
**Consolidated Balance Sheets**

<i>As at December 31,</i>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and equivalents	3,833,786	307,085
Prepaid expenses and deposits	54,000	27,013
Receivables	1,436,347	721,978
Due from related parties (note 10)	1,615,538	646,480
	<b>6,939,671</b>	<b>1,702,556</b>
<b>Investments (note 9)</b>	<b>2,659,709</b>	<b>1,853,449</b>
<b>Mineral properties and deferred costs (note 3)</b>	<b>509,044</b>	<b>-</b>
<b>Capital assets, net (note 4)</b>	<b>46,284</b>	<b>56,812</b>
<b>Future income taxes (note 8)</b>	<b>52,414</b>	<b>572,925</b>
<b>Goodwill (note 11)</b>	<b>62,014</b>	<b>-</b>
<b>Total assets</b>	<b>10,269,136</b>	<b>4,185,742</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,173,552	386,419
Income taxes payable (note 8)	456,742	-
	<b>1,630,294</b>	<b>386,419</b>
<b>Non-controlling interest (note 3 and note 11)</b>	<b>-</b>	<b>144,529</b>
	<b>1,630,294</b>	<b>530,948</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 5)	6,772,575	4,979,218
Contributed surplus (note 6)	568,668	280,440
Retained earnings (deficit)	1,297,599	(1,604,864)
	<b>8,638,842</b>	<b>3,654,794</b>
<b>Total liabilities and shareholders' equity</b>	<b>10,269,136</b>	<b>4,185,742</b>

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board of Directors:

"Eric W. Slavens" (signed)  
**Eric W. Slavens, Director**

"Hugh Squair" (signed)  
**Hugh Squair, Director**

**AUGEN CAPITAL CORP.**  
**Consolidated Statements of Cash Flows**

<i>For the years ended December 31,</i>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flow from operating activities</b>		
Net earnings	2,902,463	891,230
Gain on sale of investments	(3,384,067)	(664,073)
Non-controlling interest	139,245	83,448
Amortization	12,764	17,244
Stock-based compensation	146,446	130,295
Investment writedown provision	161,360	37,949
Current and future Income taxes	977,253	(572,925)
	955,464	(76,832)
Changes in non-cash working capital	(923,280)	(172,431)
<b>Cash flow from (used in) operating activities</b>	<b>32,184</b>	<b>(249,263)</b>
<b>Cash flow from investing activities</b>		
Purchase of investments	(2,020,901)	(1,042,303)
Proceeds from the sale of investments	4,651,559	1,207,699
Fair value of assets acquired (note 11)	(560,000)	-
Purchase of capital assets	(2,236)	-
Expenditures on mineral properties and deferred costs	(509,044)	-
<b>Cash flow from investing activities</b>	<b>1,559,378</b>	<b>165,396</b>
<b>Cash flow from financing activities</b>		
Issuance of common shares, net of issue costs	1,935,139	236,800
<b>Cash flow from financing activities</b>	<b>1,935,139</b>	<b>236,800</b>
<b>Net increase in cash and equivalents</b>	<b>3,526,701</b>	<b>152,933</b>
Cash and equivalents, at beginning of period	307,085	154,152
<b>Cash and equivalents, at end of period</b>	<b>3,833,786</b>	<b>307,085</b>

The accompanying notes are an integral part of these financial statements.

## **1. Nature of operations**

Based in Toronto, Augen Capital Corp. ("Augen" or "Company") is a merchant bank specializing in the financing of early-stage resource companies and is a provider of tax-advantaged flow-through investments in Canada's resource sectors.

## **2. Summary of significant accounting policies**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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. All inter-company transactions have been eliminated. The Company's consolidated subsidiaries are as follows:

<b>Entity</b>	<b>Ownership</b>
Aumerco Limited ("Aumerco")	100%
Augen General Partner 2006 Inc.	100%
Augen General Partner XII Inc.	100%
Augen General Partner XI Inc.	100%
Augen General Partner X Inc.	100%
Augen General Partner 2003 Inc.	100%
Polar Bear Explorations Inc.	76%
Tecgen Capital Corporation	100%
Visionary Investment Products Inc.	100%

### **Use of Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires Augen management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

### **Cash and equivalents, and other monetary balances**

Cash and equivalents consist of liquid investments such as money market instruments and commercial paper carried at cost plus accrued interest which approximates market value.

### **Investments**

Portfolio investments are recorded at cost. Realized gains are reported on an average cost basis. Where there has been a decline in the value of an investment that is determined to be other than temporary, the carrying value of the investment is written down to its estimated net realizable value.

Investments in shares of investee companies in which Augen's ownership and rights provide the ability to exercise significant influence are accounted for using the equity method.

### **Mineral properties and deferred costs**

The Company defers the costs of exploration on existing projects and carries them as assets until production commences. The amount at which mineral properties and deferred exploration costs are recorded do not necessarily reflect present or future values. If a project is successful, the related mineral property and deferred exploration costs are amortized over the estimated economic life of the project. If a project is unsuccessful, or if exploration has ceased because continuation is not economically feasible, the mineral properties and the related deferred exploration costs are written off. Option payments are applied against the mineral property or deferred exploration costs.

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

### **Capital assets**

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

Furniture and equipment	20%
Computer hardware	30%
Leasehold improvements	20%

### **Goodwill**

Goodwill represents the excess of the price paid for subsidiaries over the fair value of the net assets acquired, and is recorded as such in the balance sheet. Goodwill is reviewed at least annually for indications of impairment to ensure that their fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

### **Stock-based compensation**

The Company follows guidance in the *Canadian Institute of Chartered Accountants Handbook* Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which requires that a fair value based method of accounting be applied to all stock-based payments. The fair value of stock-based compensation is recorded as a charge to net earnings with a corresponding credit to contributed surplus.

The fair value of incentive stock options granted to directors, officers, or consultants and purchase warrants issued to shareholders on private placements are calculated using the Black-Scholes valuation model. The fair value for each instrument is estimated using the following weighted average assumptions:

Risk free rate	3.0 - 4.0%
Expected life	Determined by the terms and conditions of each instrument
Expected volatility	Determined by the closing sale price for the company for a historical time interval equal to the expected life of the instrument or the period that the stock has been trading if less than the expected life
Expected dividend yield	Determined by the terms and conditions of each investment

### **Future income taxes**

The Company follows the liability method of income tax allocation whereby future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of the assets and liabilities and measured using the substantively enacted income tax rates expected to apply when such differences are expected to reverse. Future income taxes arise from the recognition of those accumulated capital and non-capital losses, which in the opinion of management are more likely than not to be realized before expiry. Future income taxes also arise as a result of timing differences between the recognition of flow-through share benefits and of provisions for impairment of investments which are recorded for tax purposes and accounting purposes in different periods.

### **Revenue recognition**

The Company recognizes fees for services rendered, including consulting and due diligence fees, when all significant acts have been completed or the Company has completed all engagement requirements in accordance with the relevant agreements, and when collection of revenue is reasonably assured.

The Company, through incorporated general partners, manages the operations and affairs of the various limited partnerships and is entitled to advisory fees which are accrued on a periodic basis. Performance fees are earned on the rollover transaction asset transfer date of the limited partnerships into the mutual fund corporation. The reimbursement of set-up expenses from the limited partnerships are recorded upon the initial and subsequent closings of the partnership offerings during the period.

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

### Foreign currency translation

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

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

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

### 3. Mineral properties and deferred costs

Mineral properties and deferred costs represent expenditures incurred to date on a prospecting and financing arrangement that Augen entered into during the year. Augen has earned a 76% interest in Polar Bear Explorations Inc. ("PBE"), a private company, based on prescribed expenditure commitments. The PBE results are included in these financial statements.

The non-controlling shareholders of PBE do not have any obligation to contribute any additional capital, until Augen contributes sufficient capital under the provisions of the shareholder agreement. Augen is the primary entity obligated to fund future exploratory work under the shareholder agreement and no non-controlling interest related to the other shareholder(s) has been recognized in the consolidated statement of earnings for the year ended December 31, 2006 and in the consolidated balance sheet at December 31, 2006.

### 4. Capital Assets

	2006			2005		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computer equipment	46,543	37,176	9,367	44,307	33,641	10,666
Furniture and fixtures	82,514	50,854	31,660	82,514	42,939	39,575
Leasehold improvements	9,127	3,870	5,257	9,127	2,556	6,571
	<b>138,184</b>	<b>91,900</b>	<b>46,284</b>	<b>135,948</b>	<b>79,136</b>	<b>56,812</b>

### 5. Capital Stock

#### Authorized Share Capital

The Company is authorized to issue an unlimited number of Common Shares without par value, Preferred Shares issuable in series, and Series A Preferred Shares. The Series A shares are non-redeemable, non-callable, non-voting and with no right to dividends. The Preferred shares issuable in series will have the rights, privileges, restrictions and conditions assigned to the particular series upon the Board of Directors approving their issuance.

#### Issued Share Capital

The issued and outstanding share capital consists of Common Shares as follows:

For the years ended December 31,	2006		2005	
	No. of Shares	\$	No. of Shares	\$
Balance at beginning of year	28,004,423	4,979,218	25,284,423	4,779,158
Issuance of shares for cash:				
Private placements	3,333,333	1,000,000	2,500,000	250,000
Exercise of stock options	1,474,525	246,639	-	-
Exercise of warrants	2,570,000	642,500		
Issuances of shares for non-cash consideration:				
Shares for debt	533,333	96,000	-	-
Finders' fees	-	-	220,000	-
Fair value – warrants issued		(141,782)		(36,740)
Share issuance costs		(50,000)		(13,200)
Balance at end of year	<b>35,915,614</b>	<b>6,772,575</b>	<b>28,004,423</b>	<b>4,979,218</b>

**AUGEN CAPITAL CORP.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**5. Capital Stock (continued)**

**Warrants**

The Company has the following purchase warrants outstanding:

Month Issued	Expiry Date	Exercise Price	No. Issued
June, 2006	June 29, 2008	\$ 0.35	3,400,000

**Stock Option Plan**

The Company has established a stock option plan whereby the board of directors may grant options to directors, officers and consultants to purchase common shares of the Company. The maximum number of authorized but unissued shares available to be granted under the plan shall not exceed 10% of its issued and outstanding common shares. Each stock option granted is for a term not exceeding five years unless otherwise specified. Stock options are subject to vesting periods not exceeding five years and all stock options issued subsequent to fiscal 2004 are subject to immediate vesting.

For the years ended December 31,	2006		2005	
	Weighted Average Exercise Price	No. Of Options	Weighted Average Exercise Price	No. Of Options
Outstanding at beginning of year	\$0.17	2,425,000	\$0.21	3,200,000
Transactions during the year:				
Granted (1)	0.27	950,000	0.17	775,000
Options exercised	0.17	(1,474,525)	-	-
Expired	0.16	(210,000)		
Forfeited or canceled	0.17	(290,475)	0.26	(1,550,000)
Outstanding at end of year	\$0.24	1,400,000	\$0.17	2,425,000
Exercisable at end of year	\$0.24	1,400,000	\$0.17	1,831,046

As at December 31, 2006, the 1,400,000 options have a weighted average remaining life of 2.13 years.

(1) During the year, the Company granted 950,000 stock options to directors, officers, and consultants. The estimated fair value of these options is \$146 thousand using the Black Scholes model and is charged to the statement of earnings and retained earnings and credited to contributed surplus in shareholders' equity. The weighted average grant date fair value of options issued during the period amounted to \$0.154 per option. The underlying weighted average assumptions used in the estimation of fair value in the Black Scholes model are as follows:

Risk free rate	3.0% - 4.0%
Expected life	3 year (based of option term)
Expected volatility	100% - 103%
Expected dividend yield	0.0%

**6. Contributed Surplus**

For the years ended December 31,	2006	2005
	\$	\$
Balance at beginning of year	280,440	113,405
Value assigned to:		
Stock-based compensation on options granted	146,446	130,295
Warrants issued on private placements	141,782	36,740
Balance at end of year	568,668	280,440

**AUGEN CAPITAL CORP.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006**

**7. Lease Commitments**

The Company has entered into lease agreements for premises and other equipment. The future minimum lease commitments are as follows:

2007	\$61,288
2008	\$52,114
2009	\$ 7,806

**8. Income taxes**

The Company's effective tax rate, which differs from the combined federal and provincial statutory income tax rate of 36.12% has been reconciled as follows:

For the years ended December 31,	2006 \$	2005 \$
Income tax (recovery) provision at statutory rates	1,451,649	145,113
Increase (decrease) related to:		
Previously unrecorded tax benefits	-	(688,239)
Non-taxable components of investment income	(611,162)	(94,187)
Permanent difference due to stock-based compensation	52,896	47,062
Other, including permanent differences	83,870	17,326
Provision for income taxes	977,253	(572,925)
Classified as:		
Current	456,742	-
Future	520,511	(572,925)
	977,253	(572,925)

The Company's future income tax assets are comprised of the following:

As at December 31	2006 \$	2005 \$
Future income tax assets:		
Net operating losses carried forward	4,778	438,260
Net capital losses carried forward	-	86,688
Accounting provisions not currently deductible	239,405	226,812
Less: valuation allowance	(191,769)	(178,835)
	52,414	572,925
Classified as:		
Non-current	52,414	572,925
	52,414	572,925

**9. Financial Instruments**

**Fair values of financial instruments**

The estimated fair values of financial instruments at December 31, 2006 and December 31, 2005 are based on relevant market prices and information available at those dates. The carrying values of cash and equivalents, receivables, payables and accrued liabilities approximate the fair values of these financial instruments. Financial instruments with carrying values different from their fair values that have not been disclosed elsewhere in these consolidated financial statements include the following:

As at December 31, (\$ 000's)	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment Portfolio	2,660	8,535	1,853	2,166

**10. Related party transactions**

The Company had dealings during the period with the following related parties:

- A. The Company relies upon the experience and expertise of a senior officer who is also Chairman, for investment analysis and due diligence services. Services are provided by a related company that is controlled by the officer. The Company secured these services through an annual contract. The Company paid fees of \$188 thousand during the year to the related company.
- B. The Company holds investments of \$282 thousand at December 31, 2006 (quoted market value \$3,050 thousand) in an investee company where an officer of the Company, was an officer of the investee company until December 1, 2006 and remains a director of the investee company. There is an amount owing from the investee company of \$25 thousand resulting from loans and amounts owing pursuant to a services agreement which was terminated October 31, 2006. The officer currently holds 400,000 fully-vested options of the investee company exercisable at an average price of \$0.32.
- C. The Company relies upon the experience and expertise of a senior officer for sales & marketing services. Services are provided by a related company that is controlled by the officer. The Company secured these services through an annual contract and paid fees of \$126 thousand during the year to the related company.
- D. The Company owns 100% of the general partners and is responsible for the day to day management of the limited partnerships. The general partners are entitled to an advisory fee equal to 2.25 - 2.5% of the net assets of relevant Partnerships. The general partners are also entitled to a performance fee on the rollover transfer date of the limited partnerships into Augen RSF. The general partners earned advisory fees of \$516 thousand and performance fees of \$831 thousand during the year.

Certain general partners are reimbursed for administrative and operating expenses incurred on behalf of certain limited partnerships. The general partners earned \$329 thousand for such expenses during the year. Unpaid fees and loans due to the general partners bear interest at Canadian prime rate plus 2% per annum. The limited partnerships were charged \$45 thousand in interest by the general partners during the year.

An amount of \$1,185 thousand is receivable from the limited partnerships at December 31, 2006.

- E. The Company is entitled to an annual advisory fee equal to 2.5% of the net assets of Augen Resource Strategy Fund and Augen Resource 2 Balance Fund (collectively the "Funds"). Augen Resource 2 Balance Fund is to be wound up in the near term. Performance fees may be earned by the Company based on established thresholds. The Company earned advisory fees of \$252 thousand and performance fees of \$89 thousand during the year from the Funds.

The Company is reimbursed for administrative and operating expenses incurred on behalf of Augen RSF. The Company was reimbursed \$36 thousand by the Funds for such expenses during the year. An amount of \$386 thousand is receivable from the Funds at December 31, 2006.

- F. The Company has amounts due from investee companies of \$44 thousand at December 31, 2006.

**11. Acquisition of Non-Controlling Interest**

On September 28, 2006, the Company acquired the remaining 17% non-controlling interest in Aumerco Limited ("Aumerco") and now owns 100% of the outstanding shares of Aumerco. The purchase price of \$560 thousand, net of non-controlling interest of \$284 thousand, and goodwill of \$62 thousand, was assigned to investments. The amount of \$62 thousand was reported as goodwill representing the excess purchase price over assets acquired, less liabilities assumed, based on their fair values.

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**12. Segmented Information**

Augen is a merchant bank specializing in the financing of primarily early stage resource companies and is an industry leader in tax-advantaged flow-through investments in Canada's resource sector. The Company operates under two segments: Managed Products and Merchant Banking.

The Managed Products ("MP") segment consists of annual resource flow-through limited partnership offerings, and the Augen Resource Strategy mutual fund. The MP segment earns fees related to the limited partnerships and mutual fund including setup, due diligence, and annual and performance fees.

The Merchant Banking ("MB") segment consists of a core investment portfolio of primarily emerging resource stocks. The MB segment provides financing and strategic management support to resource investee companies and strives to maximize net gains realized on its investment portfolio.

The segmented financial results are as follows:

<b>Consolidated Statements of Earnings</b>						
<i>For the years ended December 31,</i>	<b>Managed Products</b>		<b>Merchant Banking</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Income</b>	<b>3,583,631</b>	1,293,825	<b>3,543,907</b>	871,385	<b>7,127,538</b>	2,165,210
<b>Expenses</b>	<b>1,701,287</b>	1,090,578	<b>1,394,526</b>	655,635	<b>3,095,813</b>	1,746,213
<b>Earnings before amortization and income taxes</b>	<b>1,882,344</b>	203,247	<b>2,149,381</b>	215,750	<b>4,031,725</b>	418,997
<b>Amortization</b>	<b>6,382</b>	8,622	<b>6,382</b>	8,622	<b>12,764</b>	17,244
<b>Earnings before income taxes</b>	<b>1,875,962</b>	194,625	<b>2,142,999</b>	207,128	<b>4,018,961</b>	401,753

<b>Consolidated Assets</b>						
<i>As at December 31,</i>	<b>Managed Products</b>		<b>Merchant Banking</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Total assets</b>	<b>2,846,546</b>	682,466	<b>7,360,576</b>	3,503,276	<b>10,207,122</b>	4,185,742
<b>Goodwill (note 11)</b>	-	-	<b>62,014</b>	-	<b>62,014</b>	-
	<b>2,846,546</b>	682,466	<b>7,422,590</b>	3,503,276	<b>10,269,136</b>	4,185,742

**13. One-time charge**

The Company has recorded a one-time charge of \$300 thousand during the year to cover the amount of compensation due to Augen Resource 2 Balance Fund ("Augen R2B") and sundry expenses resulting from a restatement of Augen R2B's net asset value.

**14. Contingencies**

The Company was named in an action by a former officer in 2004. The Company settled the suit during the year and the amount previously provided for in these financial statements was sufficient to extinguish the amount of the full and final settlement.

The Company has an incentive compensation plan pursuant to which management bonuses are paid based on gains realized on investments held in the merchant banking portfolio. The bonuses range from 0% - 20% of the gains realized. If the unrealized gains held in the portfolio at December 31, 2006 were realized, an amount of \$1,177 thousand would have been payable. The actual amount of the management bonus will vary as a result of market fluctuations in the merchant banking portfolio.