



**AUGEN
CAPITAL
CORP.**

2005

AUGEN CAPITAL CORP.

Consolidated Financial Statements

For the year ended December 31, 2005

AUGEN CAPITAL CORP.

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 Corp. ("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:

Page 1	Forward-Looking/Safe Harbour Statement and Fair Disclosure Statement
Page 2	Overview
Page 3-9	Financial Review
	Significant Events in 2005
	Consolidated Operating Results
	Consolidated Financial Position
	Liquidity and Capital Resources
Page 10-11	Transactions with Related Parties
Page 11-12	Critical Accounting Estimates
Page 13	Outlook

The MD&A is prepared as of April 24, 2006.

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 mutual fund corporations 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, 2004-1 and 2005, respectively.

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.

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

SIGNIFICANT EVENTS IN 2005

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, 2005.

<u>Selected Annual Information</u>	Review of the years ended December 31,		
	2005	2004	2003
000's except per share data			
Highlights			
Income	2,165	1,767	808
Net earnings (loss)	891	(20)	7
Net earnings (loss) per share	0.03	0.00	0.00
Total Assets	4,186	2,857	2,027
Total Long Term Liabilities	Nil	Nil	218

MANAGED PRODUCTS

The Company earns fees related to the limited partnerships and mutual funds including setup, due diligence, and annual and performance fees pursuant to the terms of the respective legal agreements.

Augen Resource Strategy Fund

Augen Resource Strategy Fund Inc. (the "Augen RSF") is a mutual fund corporation incorporated under the laws of the Province of Ontario in the first quarter of 2006.

Augen RSF is available for subscription through offering memorandum under the standard accredited investor exemptions. Subscription and redemption activity will be permitted on a weekly basis, offering investors improved liquidity on their investment in the product. An offering memorandum is available from Augen Capital Corp. – please contact your investment advisor.

Augen RSF will also provide a tax-deferred rollover of net assets at 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 will acquire the net assets of Augen Limited Partnership 2004-1 and Augen Limited Partnership 2003 in exchange for shares of the Fund by way of a tax-deferred rollover of net assets which is anticipated to close on or around May 1, 2006. Investors rolling into Augen RSF are subject to a four month hold period in order to permit the Portfolio Manager to generate sufficient liquidity in Augen RSF.

Augen Limited Partnership 2005

The Augen Limited Partnership 2005 offering, by way of Prospectus and Offering Memorandum, was the most successful raise in Augen's history at \$8.4 million. Substantial due diligence fees were generated from the investment in flow-through shares by Augen Limited Partnership 2005. The additional assets under administration result in a significant increase in the recurring partnership and advisory, and potential performance fees income.

FINANCIAL REVIEW (CONTINUED)

MANAGED PRODUCTS (continued)

Augen Limited Partnership 2004-1

On March 28, 2006, pursuant to a special meeting on March 27, 2006 of limited partners of the Partnership approving certain resolutions as set out in the Management Information Circular dated March 2, 2006, the Partnership announced the transfer of all of its assets on a tax-deferred basis to Augen RSF in exchange for Series III Class A shares of Augen RSF. The transaction is anticipated to close on or around May 1, 2006, upon which the Partnership will be dissolved and at which time assets will be allocated 99.99% to the limited partners and 0.01% to the General Partner. It is anticipated that the General Partner will be paid a performance bonus at the transaction close.

Augen Limited Partnership 2003

The Partnership announced the transfer of all of its assets on a tax-deferred basis to Augen RSF in exchange for Series II Class A shares of Augen RSF on November 8, 2005. The transaction is anticipated to close on or around May 1, 2006, upon which the Partnership will be dissolved and at which time assets will be allocated 99.99% to the limited partners and 0.01% to the General Partner. It is not anticipated that the General Partner will be paid a performance bonus.

Augen Resource 2 Balance Fund

Augen Resource 2 Balance Fund Inc. (the "Augen R2B") is a mutual fund corporation incorporated under the laws of the Province of Ontario on July 22, 2002.

The Fund acquired the net assets of Augen Limited Partnership V in 2002 in exchange for mutual fund shares of the corporation. The net assets of Augen Limited Partnership VI, VII and 2002 were also acquired by the Fund in 2004.

The Company has made the decision in Q1 2006 to close down Augen R2B and is offering the remaining investors the option to invest in Augen RSF.

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 BSc in Applied Geology.

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.

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.

Consolidated interest, dividends and accounting gains on the investment portfolios substantially increased by 182% to \$686 thousand in 2005 as compared to \$243 thousand in 2004. The Company took advantage on the strong resource markets and realized significant gains on sale of investments held in the portfolio.

FINANCIAL REVIEW (CONTINUED)

MERCHANT BANKING (continued)

Investee company services

Augen Capital Corp. expanded the number of technical services agreements with various investee companies for CFO, Corporate Secretary & General Counsel services, and premises and office administration costs. The Augen Limited Partnerships may hold investments in the investee companies. Fee income generated for the year amounted to \$237 thousand in 2005 as compared to \$24 thousand in 2004.

OTHER EVENTS - highlights

Financing

Augen Capital Corp. completed a private placement in September 2005 generating gross proceeds of \$250,000. The non-brokered placement was for 2,500,000 units at a price of \$0.10 per unit. Each unit consisted of one common share and one purchase warrant exercisable at \$0.25 until September 28, 2007. The proceeds were used for working capital purposes and the general expansion of merchant banking activities.

NEW ACCOUNTING POLICIES

In January 2005, the *CICA* issued the following related new accounting standards, effective October 1, 2006:

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.

The adoption of these new standards is currently being evaluated by the Company.

RESULTS OF OPERATIONS

There were a number of significant events that occurred during the year that affected Augen's consolidated operating results for 2005 and their comparability to the consolidated operating results for 2004, 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 net earnings (loss)

Consolidated net earnings in 2005 increased to \$891 thousand as compared to a net loss of \$20 thousand in 2004. The items that contributed to the significant improvement in profitability are outlined below.

Consolidated income

Consolidated revenues rose 23% to \$2,165 thousand in 2005 as compared to \$1,767 thousand in 2004. The key items which have impacted the change are outlined by segment below.

Managed Products

Managed products income was \$1,212 thousand in 2005 as compared to \$1,383 thousand in 2004. The key items that explain this change are outlined as follows:

The annual and performance fees increased to \$402 thousand in 2005 compared to \$297 thousand in 2004. A full year of advisory fees were earned on Augen Limited Partnership 2004-1 which amounted to \$198 thousand in 2005 as compared to \$57 thousand in 2004. Consulting and due diligence fee income were \$810 thousand in 2005 as compared to \$1,086 thousand in 2004. Gross fee income related to the setup of Augen Limited Partnership 2005 amounted to \$400 thousand in 2005 as compared to \$500 thousand related to the setup of Augen Limited Partnership 2004-1 in 2004. Due diligence fees earned on resource flow-through investments by Augen Limited Partnership 2005 were \$403 thousand in 2005 as compared to \$480 thousand in 2004 on Augen Limited Partnership 2004-1 investments.

Merchant Banking

Merchant banking income increased 148% to \$953 thousand in 2005 from \$384 thousand in 2004. The key items that explain this change are outlined as follows:

Accounting gains on the sale of investments held in the investment portfolios substantially increased by 185% to \$664 thousand in 2005 as compared to \$233 thousand in 2004. Consulting & due diligence fees amounted to \$30 thousand as compared to NIL in 2004, reflecting a more defined focus on merchant banking activities in 2005. Interest and dividends totaled \$22 thousand in 2005 as compared to \$10 thousand reported in 2004. Fee income generated from investee company services for the year amounted to \$237 thousand in 2005 as compared to \$24 thousand in 2004, primarily reflecting the addition of new investee and other companies during the year.

Consolidated expenses

Consolidated expenses declined 6% to \$1,616 thousand in 2005 as compared to \$1,728 thousand in 2004. The key items which have impacted the change are outlined by segment below.

Managed Products

Managed product expenses decreased to \$1,025 thousand in 2005 from \$1,096 thousand in 2004. The key items that explain this change are outlined as follows:

Portfolio administration is an expense allocation of wages and employee benefits and portfolio advisory fees and amounted to \$485 thousand in 2005 as compared to \$524 thousand in 2004. Sales consulting fees declined to \$120 thousand from \$218 thousand primarily reflecting the role of the new VP of Business Development from Q4 2004 onwards. Marketing and Promotion decreased to \$82 thousand from \$99 thousand reflecting more selective sales & marketing efforts with greater focus on the appropriate distribution of marketing material. Transfer agent and filing fees increased to \$39 thousand from \$4 thousand due to ongoing Augen Limited Partnership 2004-1 and initial Augen Limited Partnership 2005 fees borne by the Company under the terms of the respective partnership agreements. Portfolio advisory fees of \$24 thousand in 2005 as compared to NIL in 2004 reflect sub advisory fees charged for the first time on Augen Limited Partnership 2004-1 during 2005.

CONSOLIDATED OPERATING RESULTS (CONTINUED)

Consolidated expenses (continued)

Merchant Banking

Merchant banking expenses declined to \$590 thousand in 2005 from \$632 thousand in 2004. The key items that explain this change are outlined as follows:

General & administrative expenses decreased to \$263 thousand in 2005 from \$268 thousand in 2004 reflecting cost containment measures introduced during the year. Wages & employee benefits increased to \$96 thousand from \$86 thousand due primarily to contract staff hired to support the Augen Limited Partnership 2005 sales efforts. Professional fees declined to \$73 thousand in 2005 from \$102 thousand in 2004 primarily due to consulting fees incurred in 2004 which were not required in 2005 due to hiring of the Corporate Secretary and Chief Financial Officer in the second half of fiscal 2004. Portfolio advisory fees declined to \$65 thousand in 2005 from \$89 thousand in 2004. Writedown of investments deemed to be other than a temporary impairment amounted to \$38 thousand in 2005 as compared to \$26 thousand.

Other

The Company's non-capital loss carryforward amounts is expected to be fully utilized before they expire and the Company recorded a future income tax asset in the amount of \$608 thousand. This is reflected on the Consolidated Balance Sheet and increases net earnings on the Consolidated Statement of Earnings.

SUMMARY OF QUARTERLY RESULTS

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

	000's (except per share data)	2005				2004			
		Dec.	Sept.	June	Mar.	Dec.	Sept.	June	Mar.
Income		1,081	569	440	75	585	887	138	157
Net earnings (Loss)		790	162	73	(134)	166	57	(66)	(177)
Net earnings (loss) per share		0.03	0.01	(0.00)	(0.01)	0.00	0.02	(0.01)	(0.01)

Fourth Quarter 2005 Results

The most significant event during the fourth quarter was the closing of the second and third tranche of the Augen Limited Partnership 2005 offering making it the most successful raise in Augen's history at \$8.4 million. The net investable proceeds of the Partnerships was fully invested in primarily flow-through and other shares prior to December 31. This gives rise to due diligence fees to the Company which are earned in fiscal Q4. Augen Limited Partnership 2005 due diligence fees amounted to \$403 thousand as compared to \$480 for Augen Limited Partnership 2004-1.

The Company satisfied itself in Q4 2005 that the provisions of the *CICA Handbook* Section 3465 – "Income Taxes" have been met in that it is likely that the Company's non-capital loss carryforward amounts will be utilized before they expire. The Company has therefore recorded a future income tax asset in the amount of \$573 thousand. This is reflected on the Consolidated Balance Sheet and increases net earnings on the Consolidated Statement of Operations.

Consolidated income for the quarter was \$1,081 thousand and resulted in net earnings for the quarter of \$790 thousand or \$0.03 per share. This represents the highest level of profitability in the Company's history.

CONSOLIDATED FINANCIAL POSITION

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

Consolidated net assets

Consolidated assets less liabilities were \$3,690 thousand as at December 31, 2005 up by \$1,294 thousand or 54% from \$2,396 thousand at December 31, 2004. The key items which have impacted the change are outlined below.

Assets

The increase in assets is primarily due to an increase in cash of \$153 thousand, an increase in receivables of \$218 thousand, an increase in investments of \$461 thousand, and the recording of a future income tax asset of \$573 thousand, all offset by a decline of \$64 thousand in the intercompany receivables.

The increase in cash is the net impact of cash flows at December 31, 2005 versus December 31, 2004 which has improved with the increase in assets under administration.

Receivables are comprised of due diligence fees receivable on the Augen Limited Partnership 2005 investments and secured interest-bearing loans to various unitholders of Augen Limited Partnership 2003 to facilitate the tax-deferred rollover of assets into Augen Resource Strategy Fund which is anticipated to close on or around May 1, 2006. The majority of due diligence fees were fully collected by the end of Q1 2006. The full amount of the receivable will be repaid to the Company on closing of the rollover transaction which is anticipated to close on or around May 1, 2006.

Intercompany receivables are comprised of amounts due from the Company's products and subsidiaries. These interest-bearing receivables are primarily generated from fees charged as well as loans to the various products and subsidiary legal entities. The Company's general policy is not to extract amounts owing to it by the products and subsidiaries if, in so doing, liquidity and/or performance would be negatively impacted. The majority of these receivables were fully repaid in Q1 2006.

Investments at cost increased as merchant banking investment gains realized during the year were reinvested into various investee companies thereby expanding the merchant banking investment portfolio.

The Company satisfied itself that the provisions of the *CICA Handbook* Section 3465 – "Income Taxes" have been met in that it is likely that the Company's non-capital loss carryforward amounts will be utilized before they expire. The Company therefore recorded a current future income tax asset in the amount of \$608 thousand together with certain capital loss carryforwards.

Capital assets declined \$17 thousand due to the amortization charged for the current year.

Liabilities

Liabilities consist strictly of accounts payable and accrued liabilities consisting of trade payables and other accruals which have increased to \$386 thousand in 2005 from \$400 thousand in 2004.

Non-Controlling Interest

Non-controlling interest increased to \$145 thousand from \$61 thousand representing the change in net assets of Aumerco Ltd., an 83% owned subsidiary. Subsequent to year end, the Company approached the minority shareholders and offered a share for share exchange for capital stock in Augen Capital Corp. It is expected that this transaction will close in Q2 2006.

CONSOLIDATED FINANCIAL POSITION (CONTINUED)

Shareholders' equity

Augen Capital Corp. completed a private placement in September 2005 generating gross proceeds of \$250,000. The non-brokered placement was for 2,500,000 units at a price of \$0.10 per unit. Each unit consisted of one common share and one purchase warrant exercisable at \$0.25 until September 28, 2007. The proceeds were used for working capital purposes and the general expansion of merchant banking activities. Issue costs amounted to \$13 thousand in cash and \$37 thousand in the fair value of purchase warrants issued on the private placement.

Contributed surplus was impacted by 2005 stock-based compensation charges of \$130 thousand and \$37 thousand representing the fair value of purchase warrants issued on the 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. 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. At December 31 2005, the Company had 2,425 thousand options outstanding to acquire common shares, of which 1,831 thousand were vested and exercisable. No options were exercised during 2005.

LIQUIDITY AND CAPITAL RESOURCES

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

At December 31, 2005, there were \$1,676 thousand in cash and intercompany and other receivables, excluding the proprietary merchant banking investment portfolio at cost of \$1,853 thousand. The investment portfolios had fair value of \$2,166 thousand at December 31, 2005. The consolidated working capital ratio continues to improve and was 6.0 : 1 as at December 31, 2005 as compared to 3.5 : 1 for the same period ending 2004.

Current assets include receivables and intercompany receivables of \$1,368 thousand. Receivables of \$722 thousand relate to due diligence fees receivable and secured short-term loans to various Augen Limited Partnership 2003 unitholders as described above under Consolidated Financial Position under Assets. The majority of due diligence fees were fully collected by the end of Q1 2006. The full amount of the receivable will be repaid to the Company on closing of the rollover transaction which is anticipated to close on or around May 1, 2006. Intercompany receivables are comprised of amounts due from the Company's products and subsidiaries. These interest-bearing receivables are primarily generated from fees charged as well as loans to the various products and subsidiary legal entities. The majority of these receivables were fully repaid in Q1 2006.

Current liabilities are made up of accounts payable and accrued liabilities consisting of trade payables of \$155 thousand, due to broker for unsettled trades of \$30 thousand, and consulting fees payable of \$201 thousand. The accounts payable and accrued liabilities were repaid in normal course and \$80 thousand of the consulting fees payable were repaid by the issuance of Augen Capital Corp. shares subsequent to year end.

The Company has a strict discipline of identifying additional financing options when possible by way of private placement or other vehicles, as it has done in the 2005 private placement, well in advance of drawing down this robust financial position. 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.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Cash used in operating activities

Cash used in operations, excluding changes in working capital and other liabilities, totaled \$77 thousand in 2005 as compared to \$285 thousand in 2004. The decrease in cash used in operations was related primarily to the \$573 thousand future income tax asset recorded in 2005, by the increase in the non-controlling interest of \$83 thousand, by the accounting gain of \$117 thousand on the sale of the condo in 2004, all offset by the increase in accounting gain on sale of investments of \$431 thousand.

Cash from (used in) investing activities

Cash from investing activities totaled \$165 thousand in 2005, as compared to \$272 thousand of cash used in 2004. The increase in cash from investing activities was due primarily to the increase of \$732 thousand in proceeds generated on the sale of investments, offset by the \$72 thousand of purchases in capital assets in 2004, and offset by the \$390 thousand of proceeds realized in 2004 on the sale of the condo property.

Cash from (used in) financing activities

Cash from financing activities was \$237 thousand in 2005 compared to \$680 thousand in 2004. The decrease in cash provided is due to the \$237 thousand in net proceeds on private placements in 2005 as compared to \$905 thousand in 2004, offset by the \$225 thousand repayment of long-term debt in 2004.

TRANSACTIONS WITH RELATED PARTIES

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

- A. The Company relies upon the experience and expertise of J. David Mason, an officer & chairman, for investment analysis and due diligence services. Services are provided by a related company that is controlled by Mr. Mason. The Company secured these services through an annual contract to December 31, 2005. The Company paid consulting fees of \$257 thousand during the year of which \$180 thousand related to 2005 services (2004 - \$303 thousand) to the related company.
- B. The Company holds investments of \$397 thousand at December 31, 2005 (quoted market value \$182 thousand) and has an amount owing from an investee company of \$24 thousand resulting from loans and amounts owing 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. J. David Mason, chairman of the investee company, currently holds 50,000 fully-vested options of the company exercisable at an average price of \$0.32. Ian C. Peres, CFO of the investee company pursuant to the technical services agreement, was paid a cash bonus of \$16,000 by the investee company during the year ended December 31, 2005 and currently holds 250,000 fully-vested options of the company exercisable at an average price of \$0.22. E. Michael Skutezky, Corporate Counsel & Secretary of the investee company pursuant to the technical services agreement, currently holds 150,000 fully-vested options of the company exercisable at an average price of \$0.21.
- 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 related company that is controlled by the senior officer. The Company secured these services through an annual contract to December 31, 2005. The Company paid fees during the year of \$100 thousand (2004 - \$32 thousand) to the related 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 related company that is controlled by the senior officer. The Company secured these services through an annual contract to December 31, 2005. The Company paid fees during the year of \$87 thousand (2004 - \$24 thousand) to the related company.

The Company has engaged, as external counsel, the services of a law firm, of which the senior officer is an associate. The Company paid fees during the year in the amount of \$10 thousand (2004 - \$NIL) to the law firm.

TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

- E. Pursuant to the terms of a management agreement with Augen Resource 2 Balance Fund Inc. ("Augen R2B"), the Company is entitled to an annual management fee equal to 2.5% of the net assets of respective Partnerships, as well as a performance bonus based on established thresholds. No performance fees have been recognized since inception of Augen R2B. Augen R2B paid management fees of \$74 thousand during the year. Amounts in the form of management fees and loans due to the Company bear interest at Canadian prime rate plus 2% per annum. Augen R2B had \$382 thousand in loans due to Company at December 31, 2005 and was charged \$16 thousand in interest during the year.
- F. The Company owns 100% of Augen General Partnership XI Inc. ("GP XI"), Augen General Partnership X Inc. ("GP X"), Augen General Partnership 2003 Inc. ("GP 2003") (collectively the "General Partnerships"), which are the General Partnerships responsible for the day to day management of Augen Limited Partnership 2005 ("LP2005"), Augen Limited Partnership 2004-1 ("LP2004"), and Augen Limited Partnership 2003 ("LP2003"), (collectively the "Partnerships"), respectively.

Pursuant to the terms of the respective partnership agreements, the General Partnerships are entitled to an annual management fee equal to 2.5% of the net assets of respective Partnerships, as well as a performance bonus based on established thresholds. Performance fees are only recognized upon wind-up of a Partnership. LP2005 paid GP XI management fees of \$17 thousand during the year. LP2004 paid GP X management fees of \$198 thousand during the year. LP2003 paid to GP 2003 management fees of \$113 thousand during the year.

GP XI and GP 2003 are also entitled to a reimbursement of administrative and operating expenses incurred on behalf of LP2005 and LP2003 respectively. GP X is responsible for all administrative and operating expenses incurred on behalf of LP2004. GP XI was reimbursed \$30 thousand for such expenses by LP2005 during the year. GP 2003 was reimbursed \$12 thousand for such expenses by LP2003 during the year.

Amounts in the form of management fees and loans due to the General Partnerships from the Partnerships bear interest at Canadian prime rate plus 2% per annum. LP2005 had \$169 thousand in loans due to GP XI at December 31, 2005 and was charged \$3 thousand in interest by GP XI during the year. LP2004 had \$6 thousand in loans due from GP X at December 31, 2005 and was charged \$11 thousand in interest by GP X during the year. LP2003 had \$35 thousand in loans due to GP 2003 at December 31, 2005 and was charged \$5 thousand in interest by GP 2003 during the year.

- G. The Company paid consulting fees and other expenses of \$22 thousand in 2005 (2004 – NIL) to Company directors or to a company of which the director is a shareholder, for services provided during the year.

CRITICAL ACCOUNTING POLICIES AND 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.

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

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 Augen General Partnerships listed above, manages the operations and affairs of the various Augen Limited Partnerships (the "Partnerships"), and is thereby entitled to annual fees and performance fees from the limited partnerships, as outlined in the respective Partnership agreements ("Agreements"). These management fees are calculated in accordance with the Agreements and are accrued on a monthly basis. One time advisory and set-up fees are recognized upon initial and subsequent closings of the Partnership offerings during the year in accordance with the Agreements. Performance fees are recognized only on the wind-up of the respective Partnerships to the extent that performance thresholds have been met.

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%
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	0%

Contingency

The Company was named in an action by a former officer in 2004. The Company has engaged counsel to defend this \$350,000 claim and has filed a counterclaim. The Company has a contingency accrual in these financial statements.

OUTLOOK

The Company is pleased to report results of the twelve months ended December 31, 2005. 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 prospectus offering was made available for sale in June 2005 (Augen Limited Partnership 2005). In December, Augen closed this offering with a total raise of \$8.4 million, the largest on record.

Many of the metals that Augen's investments are based upon are near record highs, or have exceeded historic highs. The Company 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.

The Company has filed the preliminary prospectus for Augen Limited Partnership 2005 and has commenced marketing of the product. The maximum offering is \$30 million and has a broad selling syndicate which includes at least one bank-owned IDA firm.

The net assets of Augen Limited Partnership 2003 and Augen Limited Partnership 2004-1 are to be acquired by Augen Resource Strategy Fund on or around May 1, 2006. Performance for the 2004 partnerships is very strong and it is anticipated that performance fees will be earned by Company upon windup of the 2004 partnership which immediately follows the May 1, 2006 closing date.

The Company 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" (signed)

J. David Mason, M.Eng.
Chairman

April 21, 2006

Auditors' Report

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

We have audited the consolidated balance sheet of the Company as at December 31, 2005 and the consolidated statements of operations and cash flows for the year 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 audit 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements of the Company as at and for the year ended December 31, 2004 were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated May 9, 2005.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Ontario

AUGEN CAPITAL CORP.
Consolidated Statements of Operations

For the year ended December 31,	2005 \$	2004 \$
Income	2,165,210	1,766,747
Expenses	1,615,918	1,727,707
Earnings (loss) before the undernoted items	549,292	39,040
Stock-based compensation (note 3)	130,295	51,840
Amortization	17,244	16,388
	147,539	68,228
Earnings (loss) before income taxes	401,753	(29,188)
Income taxes		
Future	(572,925)	(11,924)
Earnings (loss) before non-controlling interest	974,678	(17,264)
Non-controlling interest	83,448	2,653
Net earnings (loss)	891,230	(19,917)
Basic and fully diluted earnings (loss) per share	0.03	(0.00)

Consolidated Statements of Deficit

For the year ended December 31,	2005 \$	2004 \$
Deficit, at beginning of year	(2,496,094)	(2,649,104)
Prior period adjustment (note 3)	-	172,927
Deficit, at beginning of year, as restated	(2,496,094)	(2,476,177)
Net earnings (loss)	891,230	(19,917)
Deficit, at end of year	(1,604,864)	(2,496,094)

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

AUGEN CAPITAL CORP.
Consolidated Balance Sheets

As at December 31,	2005 \$	2004 \$
ASSETS		
Current assets		
Cash and equivalents	307,085	154,152
Prepaid expenses and deposits	27,013	22,048
Receivables	721,978	504,418
Intercompany receivables	646,480	709,658
Future income taxes	572,925	-
	2,275,481	1,390,276
Investments	1,853,449	1,392,720
Capital assets	56,812	74,056
Total assets	4,185,742	2,857,052
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	386,419	399,502
	386,419	399,502
Non-controlling interest	144,529	61,081
	530,948	460,583
SHAREHOLDERS' EQUITY		
Common shares	4,979,218	4,779,158
Contributed surplus	280,440	113,405
Deficit	(1,604,864)	(2,496,094)
	3,654,794	2,396,469
Total liabilities and shareholders' equity	4,185,742	2,857,052

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

Approved on behalf of the Board of Directors:

"J. David Mason" (signed)
J. David Mason, Chairman

"J. Birks Bovaird" (signed)
J. Birks Bovaird, Director

AUGEN CAPITAL CORP.
Consolidated Statements of Cash Flows

For the year ended December 31,	2005 \$	2004 \$
Cash flow from operating activities		
Net earnings (loss)	891,230	(19,917)
(Gain) Loss on sale of investments	(664,073)	(232,985)
(Gain) on sale of capital assets	-	(117,149)
Non-controlling interest	83,448	2,653
Amortization	17,244	16,388
Stock-based compensation	130,295	51,840
Writedown of investments	37,949	26,467
Future income taxes	(572,925)	(11,924)
	(76,832)	(284,627)
Changes in non-cash working capital	(172,431)	(218,843)
Cash flow (used in) from operating activities	(249,263)	(503,470)
Cash flow from investing activities		
Purchase of investments	(1,042,303)	(1,065,069)
Proceeds on sale of investments	1,207,699	475,622
Proceeds on sale of capital assets	-	389,581
Purchase of capital assets	-	(72,134)
Cash flow (used in) from investing activities	165,396	(272,000)
Cash flow from financing activities		
Issuance of common shares, net of issue costs	236,800	905,020
Repayment of long-term debt	-	(224,954)
Cash flow (used in) from financing activities	236,800	680,066
Net increase (decrease) in cash and cash equivalents	152,933	(95,404)
Cash and cash equivalents, at beginning of period	154,152	249,556
Cash and cash equivalents, at end of period	307,085	154,152

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

AUGEN CAPITAL CORP.**Supplementary Information by Operating Segment - Consolidated Net Income**

For the year ended December 31,	2005	2004
	\$	\$
Managed Products		
Income	1,211,995	1,382,745
Expenses	1,025,431	1,095,571
	186,564	287,174
Merchant Banking		
Income	953,215	384,002
Expenses	590,487	632,136
	362,728	(248,134)
Earnings (loss)	549,292	39,040

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

AUGEN CAPITAL CORP.
Supplementary Information by Operating Segment - Consolidated Income

For the year ended December 31,	2005	2004
	\$	\$
Income		
Managed Products		
Consulting and due diligence	810,379	1,085,863
Annual and performance fees	401,616	296,882
	1,211,995	1,382,745
Merchant Banking		
Gain (loss) on sale of investments	664,073	232,985
Investee company services	237,301	24,000
Consulting and due diligence	29,612	-
Interest & dividend income	22,228	9,868
Gain (loss) on sale of capital assets	-	117,149
	953,215	384,002
	2,165,210	1,766,747

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

AUGEN CAPITAL CORP.**Supplementary Information by Operating Segment - Consolidated Expenses**

For the year ended December 31,	2005	2004
	\$	\$
Expenses		
Managed Products		
Portfolio administration	484,968	524,434
Professional fees	211,167	190,395
Sales consulting fees	120,077	218,387
Marketing & promotion	81,947	98,539
General & administrative	63,809	60,242
Transfer agent & filing fees	39,388	3,574
Portfolio advisory fees	24,074	-
	1,025,431	1,095,571
Merchant Banking		
General & administrative	262,519	268,264
Wages & employee benefits	96,163	85,703
Professional fees	73,420	101,664
Portfolio advisory fees	65,494	89,108
Writedown of investments	37,949	26,467
Transfer agent, listing & filing fees	30,305	26,949
Insurance and dues	24,639	33,982
	590,487	632,136
	1,615,918	1,727,707

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

AUGEN CAPITAL CORP.

Notes to Consolidated Financial Statements

December 31, 2005

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 significant intercompany transactions have been eliminated. The Company's consolidated subsidiaries are as follows:

Entity	Ownership
Aumerco Limited ("Aumerco")	83%
Augen General Partner XI	100%
Augen General Partner X	100%
Augen General Partner 2003	100%
Augen General Partner 2002	100%
Augen General Partner VII Inc.	100%
Augen General Partner VI Inc.	100%
Augen General Partner IV Inc.	100%
Visionary Investment Products Inc.	100%
Tecgen Capital Corporation	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 cash equivalents, and other monetary balances

Cash and cash 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. 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.

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%
Computer software	100%

AUGEN CAPITAL CORP.
Notes to Consolidated Financial Statements
December 31, 2005

2. Summary of significant accounting policies (continued)

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%
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	0%

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 Augen General Partnerships listed above, manages the operations and affairs of the various Augen Limited Partnerships (the "Partnerships"), and is thereby entitled to annual fees and performance fees from the limited partnerships, as outlined in the respective Partnership agreements ("Agreements"). These management fees are calculated in accordance with the Agreements and are accrued on a monthly basis. One time advisory and set-up fees are recognized upon initial and subsequent closings of the Partnership offerings during the year in accordance with the Agreements. Performance fees are recognized only on the wind-up of the respective Partnerships to the extent that performance thresholds have been met.

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 year incurred.

AUGEN CAPITAL CORP.
Notes to Consolidated Financial Statements
December 31, 2005

3. Prior Period Adjustment

In 2003, the Company incorrectly recognized the value of stock-based compensation. Accordingly, the Company 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. The opening deficit for 2004 has been restated to reflect the correction of this error.

4. 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

	2005		2004	
	No. of Shares *	\$	No. of Shares	\$
Balance at beginning of year	25,284,423	4,779,158	18,485,533	3,810,450
Issuance of shares for cash:				
Private placements	2,500,000	250,000	6,250,000	1,000,000
Issuances of shares for non-cash consideration:				
Finder's fees	220,000	-	-	-
Shares for debt	-	-	548,890	123,500
Fair value – unexercised warrants		(36,740)		
Share issuance costs		(13,200)		(154,792)
Balance at end of year	28,004,423	4,979,218	25,284,423	4,779,158

* There were 772,885 common shares held in escrow as at December 31, 2005.

Augen Capital Corp. completed a private placement in September 2005 generating gross proceeds of \$250,000. The non-brokered placement was for 2,500,000 units at a price of \$0.10 per unit. Each unit consisted of one common share and one purchase warrant exercisable at \$0.25 until September 28, 2007. The proceeds were used for working capital purposes and the general expansion of merchant banking activities.

AUGEN CAPITAL CORP.
Notes to Consolidated Financial Statements
December 31, 2005

4. Capital Stock (continued)

Warrants

During the year, the Company issued 2,720,000 purchase warrants on private placements. The fair value of these warrants estimated at \$37 thousand using the Black-Scholes model was credited to contributed surplus in shareholders' equity. The weighted average grant date fair value of warrants issued during the year amounted to \$0.014 per warrant. 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%
Expected life		2 year (based on warrant expiry date)
Expected volatility	86%	
Expected dividend yield		0%

The Company has the following purchase warrants outstanding:

Month Issued	Expiry Date	Exercise Price	No. Issued
September, 2005	September 28, 2007	\$ 0.25	2,720,000

Stock Option Plan

The Company has established a stock option plan whereby the board of directors may grant options to employees, directors 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.

	2005		2004	
	Weighted Average Exercise Price	No. Of Options	Weighted Average Exercise Price	No. Of Options
Outstanding at beginning of year	\$0.21	3,200,000	\$0.16	1,600,000
Transactions during the year:				
Granted	0.17	775,000	\$0.26	1,600,000
Forfeited or canceled	0.26	(1,550,000)	-	-
Outstanding at end of year	\$0.17	2,425,000	\$0.21	3,200,000
Exercisable at end of year	\$0.17	1,831,046	\$0.17	430,078

As at December 31, 2005, the 2,425,000 options have a weighted average remaining life of 1.66 years.

Additionally, an amount of \$76 thousand related to options that vested during the year was charged to stock based compensation and credited to contributed surplus. During the year, the Company issued 775,000 stock options. The fair value of these options is estimated at \$54 thousand using the Black-Scholes model and was charged as stock based compensation and credited to contributed surplus in shareholders' equity. The weighted average grant date fair value of options during the year amounted to \$0.07 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%
Expected life		3 year (based on option expiry date)
Expected volatility	105%	
Expected dividend yield		0%

5. Contributed Surplus

AUGEN CAPITAL CORP.
Notes to Consolidated Financial Statements
December 31, 2005

	2005 \$	2004 \$
Balance at beginning of year	113,405	174,681
Value assigned to:		
Stock-based compensation on options granted	130,295	111,651
Issue costs		
Unexercised warrants issued on private placements	36,740	-
Prior period adjustment related to stock based compensation on options granted in 2003	-	(172,927)
Balance at end of year	280,440	113,405

6. Lease Commitments

The Company has entered into lease agreements for premises and other equipment. The future minimum commitments in each of the next five years are as follows:

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

7. Segment Disclosure

Effective Q3 2005, the Company has changed the structure of its internal organization into two distinct operating segments. The Company has identified two key operating segments as the most useful in decisions surrounding the allocation of resources and assessment of performance of the Company. Managed Products and Merchant Banking have been newly-identified as reportable segments and the Company will be managing the business on this segmented basis prospectively. It is the view of the Company that this new reporting structure significantly enhances the understandability of the Company's operations for financial statements users. Refer to supplementary information for further information.

AUGEN CAPITAL CORP.
Notes to Consolidated Financial Statements
December 31, 2005

8. Income taxes

The Company's effective tax rate, which differs from the combined federal and provincial statutory income tax rate of 36.12% (2004 - 36.62%) has been reconciled as follows:

Year ended December 31	2005 \$	2004 \$
Income tax (recovery) provision at statutory rates	145,113	(10,689)
Increase (decrease) related to:		
Previously unrecorded tax benefits	(688,239)	64,451
Non-taxable components of investment income	(94,187)	(34,767)
Non-deductible meals & entertainment	3,601	-
Permanent difference due to stock-based compensation	47,062	(18,984)
Other, including permanent differences	13,725	(11,935)
Provision for income taxes	(572,925)	(11,924)
Classified as:		
Future	(572,925)	(11,924)
	(572,925)	(11,924)

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

As at December 31	2005 \$	2004 \$
Future income tax assets:		
Net operating losses carried forward	486,237	413,050
Net capital losses carried forward	86,688	86,688
Accounting provisions not currently deductible	178,835	228,630
Less: valuation allowance	(178,835)	(728,368)
	572,925	-
Classified as:		
Current asset	572,925	-
Long-term asset	-	-
	572,925	-

AUGEN CAPITAL CORP.
Notes to Consolidated Financial Statements
December 31, 2005

9. Financial Instruments

Fair values of financial instruments

The estimated fair values of financial instruments as at December 31, 2005 and 2004 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)	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment Portfolio	1,853	2,166	1,393	2,103

10. Related party transactions

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

- A. The Company relies upon the experience and expertise of J. David Mason, an officer & chairman, for investment analysis and due diligence services. Services are provided by a related company that is controlled by Mr. Mason. The Company secured these services through an annual contract to December 31, 2005. The Company paid consulting fees of \$257 thousand during the year (2004 - \$303 thousand) to the related company.
- B. The Company holds investments of \$397 thousand at December 31, 2005 (quoted market value \$182 thousand) and has an amount owing from an investee company of \$24 thousand resulting from loans and amounts owing 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. J. David Mason, chairman of the investee company, currently holds 50,000 fully-vested options of the company exercisable at an average price of \$0.32. Ian C. Peres, CFO of the investee company pursuant to the technical services agreement, was paid a cash bonus of \$16,000 by the investee company during the year ended December 31, 2005 and currently holds 250,000 fully-vested options of the company exercisable at an average price of \$0.22. E. Michael Skutezky, Corporate Counsel & Secretary of the investee company pursuant to the technical services agreement, currently holds 150,000 fully-vested options of the company exercisable at an average price of \$0.21.
- 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 related company that is controlled by the senior officer. The Company secured these services through an annual contract to December 31, 2005. The Company paid fees during the year of \$100 thousand (2004 - \$32 thousand) to the related 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 related company that is controlled by the senior officer. The Company secured these services through an annual contract to December 31, 2005. The Company paid fees during the year of \$87 thousand (2004 - \$24 thousand) to the related company.

The Company has engaged, as external counsel, the services of a law firm, of which the senior officer is an associate. The Company paid fees during the year in the amount of \$10 thousand (2004 - \$NIL) to the law firm.

AUGEN CAPITAL CORP.
Notes to Consolidated Financial Statements
December 31, 2005

10. Related party transactions (continued)

- E. The Company owns 100% of Augen General Partnership XI Inc. ("GP XI"), Augen General Partnership X Inc. ("GP X"), Augen General Partnership 2003 Inc. ("GP 2003") (collectively the "General Partnerships"), which are the General Partnerships responsible for the day to day management of Augen Limited Partnership 2005 ("LP2005"), Augen Limited Partnership 2004-1 ("LP2004"), and Augen Limited Partnership 2003 ("LP2003"), (collectively the "Partnerships"), respectively.

Pursuant to the terms of the respective partnership agreements, the General Partnerships are entitled to an annual management fee equal to 2.5% of the net assets of respective Partnerships. LP2005 paid GP XI management fees of \$17 thousand during the year. LP2004 paid GP X management fees of \$198 thousand during the year. LP2003 paid to GP 2003 management fees of \$113 thousand during the year.

GP XI and GP 2003 are also entitled to a reimbursement of administrative and operating expenses incurred on behalf of LP2005 and LP2003 respectively. GP X is responsible for all administrative and operating expenses incurred on behalf of LP2004. GP XI was reimbursed \$30 thousand for such expenses by LP2005 during the year. GP 2003 was reimbursed \$12 thousand for such expenses by LP2003 during the year.

Amounts in the form of management fees and loans due to the General Partnerships from the Partnerships bear interest at Canadian prime rate plus 2% per annum. LP2005 had \$169 thousand in loans due to GP XI at December 31, 2005 and was charged \$3 thousand in interest by GP XI during the year. LP2004 had \$6 thousand in loans due from GP X at December 31, 2005 and was charged \$11 thousand in interest by GP X during the year. LP2003 had \$35 thousand in loans due to GP 2003 at December 31, 2005 and was charged \$5 thousand in interest by GP 2003 during the year.

- F. Pursuant to the terms of a management agreement with Augen Resource 2 Balance Fund Inc. ("Augen R2B"), the Company is entitled to an annual management fee equal to 2.5% of the net assets of respective Partnerships, as well as a performance bonus based on established thresholds. No performance fees have been recognized since inception of Augen R2B. Augen R2B paid management fees of \$74 thousand during the year. Amounts in the form of management fees and loans due to the Company bear interest at Canadian prime rate plus 2% per annum. Augen R2B had \$382 thousand in loans due to Company at December 31, 2005 and was charged \$16 thousand in interest during the year.
- G. The Company paid consulting fees and other expenses of \$22 thousand in 2005 (2004 – NIL) to Company directors or to a company of which the director is a shareholder, for services provided during the year.

11. Contingency

The Company was named in an action by a former officer in 2004. The Company has engaged counsel to defend this \$350,000 claim and has filed a counterclaim. The Company has recorded a contingency accrual in these financial statements.