

Augen Capital Corp.
Consolidated Financial Statements
December 31, 2003

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Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Shareholders of
Augen Capital Corp.

We have audited the consolidated balance sheets of Augen Capital Corp. as at December 31, 2003 and December 31, 2002 and the consolidated statements of loss, deficit and cash flows for the periods then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and December 31, 2002 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Hamilton, Canada
May 14, 2004

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Chartered Accountants

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

10 months

Year Ended December 31

2003**2002**

Revenue

Gain on sale of investments	\$ 240,296	\$ 60,148
Interest and dividends	5,119	22,428
Partnership advisory and performance fees	203,283	100,416
Consulting and due diligence fees	343,008	42,944
Other income	<u>16,035</u>	<u>27,862</u>
	<u>807,741</u>	<u>253,798</u>

Expenses

Administration	373,314	295,740
Depreciation and amortization	37,522	110,334
Professional fees	329,248	59,950
Stock-based compensation	<u>174,681</u>	<u>-</u>
	<u>914,765</u>	<u>466,024</u>
	<u>(107,024)</u>	<u>(212,226)</u>

Write-down of investments	<u>66,246</u>	<u>64,570</u>
Loss before income taxes	<u>(173,270)</u>	<u>(276,796)</u>
Income taxes (Note 7)		
Current	2,176	-
Future	<u>-</u>	<u>92,587</u>
	<u>2,176</u>	<u>92,587</u>
Loss before non-controlling interest	(175,446)	(369,383)
Non-controlling interest	<u>(9,342)</u>	<u>(5,979)</u>
Net loss	<u>\$ (166,104)</u>	<u>\$ (363,404)</u>

Deficit, beginning of year	\$ (2,483,000)	\$ (2,119,596)
Net loss	<u>(166,104)</u>	<u>(363,404)</u>
Deficit, end of year	<u>\$ (2,649,104)</u>	<u>\$ (2,483,000)</u>
Loss and diluted loss per share (Note 11)	<u>\$ (0.010)</u>	<u>\$ (0.021)</u>

See accompanying notes to the financial statements.

Augen Capital Corp.

Consolidated Balance Sheet

December 31	2003	2002
Assets		
Cash and cash equivalents	\$ 249,556	\$ 214,733
Receivables	876,750	392,279
Income taxes recoverable	-	2,176
Investments (Note 3)	596,753	822,124
Deferred financing costs and prepaids	13,645	24,775
Property and equipment (Note 4)	<u>290,742</u>	<u>303,071</u>
	\$ 2,027,446	\$ 1,759,158
Liabilities		
Payables and accruals	\$ 396,113	\$ 121,243
Long term debt (Note 5)	224,954	230,771
Future income tax liability	<u>11,924</u>	<u>11,924</u>
	632,991	363,938
Non-controlling interest	<u>58,428</u>	<u>67,770</u>
Shareholders' Equity		
Share capital (Note 6)	3,810,450	3,810,450
Contributed surplus	174,681	-
Deficit	<u>(2,649,104)</u>	<u>(2,483,000)</u>
	1,336,027	1,327,450
	\$ 2,027,446	\$ 1,759,158

Subsequent events (Note 12)

On behalf of the Board

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

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

See accompanying notes to the financial statements.

Augen Capital Corp.

Statement of Cash Flows

Year Ended December 31

2003

10 months

2002

Increase (decrease) in cash and cash equivalents:

Operating

Net loss	\$ (166,104)	\$ (363,404)
Gain on sale of investments	(240,296)	(60,148)
Future income taxes	-	92,587
Non-controlling interest	(9,342)	(5,979)
Depreciation	13,442	14,202
Issue of stock options	174,681	-
Write-down of investments	<u>66,246</u>	<u>64,570</u>
	(161,373)	(258,172)

Changes in non-cash working capital (Note 9)	<u>(196,295)</u>	<u>69,253</u>
	<u>(357,668)</u>	<u>(188,919)</u>

Financing

Repayment of long term debt	<u>(5,817)</u>	<u>(3,474)</u>
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Investing

Purchase of investments	(246,228)	(187,781)
Proceeds on sale of investments	645,648	243,641
Purchase of capital assets	<u>(1,112)</u>	<u>(706)</u>
	<u>398,308</u>	<u>55,154</u>

Net increase (decrease) in cash and cash equivalents **34,823** (137,239)

Cash and cash equivalents, beginning of year 214,733 351,972

Cash and cash equivalents, end of year \$ 249,556 \$ 214,733

See accompanying notes to the financial statements.

Augen Capital Corp.

Notes to the Consolidated Financial Statements

December 31, 2003

1. Nature of operations

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

2. Summary of significant accounting policies

Principles of consolidation

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

The Company's consolidated subsidiaries are Aumerco Limited (83% owned) ("Aumerco"), Augen General Partner I Inc. ("AGP 1") (100% owned), VIP Inc. (100% owned), Augen General Partner VI Inc. ("AGP VI") (100% owned), Augen General Partner VII Inc. ("AGP VII") (100% owned), Augen General Partner 2002 Inc. ("AGP 2002") (100% owned), Augen General Partner 2003 Inc. ("AGP 2003") and Tecgen Capital Corporation (100% owned).

User of estimates

In preparing the Company's financial statements, management is required 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

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

Investments

Portfolio investments are recorded at cost less any provision for permanent decline in market value. Investments flow-through shares are carried at cost net of related future income taxes.

Capital assets

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

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

Future income taxes

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 difference periods.

Augen Capital Corp.

Notes to the Financial Statements

December 31, 2003

2. Summary of significant accounting policies (continued)

Revenue recognition

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

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

Foreign currency translation

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

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

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

Stock-based compensation

Effective January 1, 2002, the Corporation adopted the new CICA recommendations relating to stock-based compensation and other stock-based payments. The Corporation has applied this change prospectively for new awards granted on or after January 1, 2002. However, direct awards of stock to employees and stock or stock option awards granted to non-employees will be accounted for in accordance with the fair value method of accounting for stock-based compensation. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. The Corporation's Employee Stock Option Plan and other disclosures are described in Note 6.

Effective January 1, 2003, the Corporation adopted the amendment to CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". The amendment, issued in November 2003, requires the expensing of all stock-based compensation awards for fiscal years beginning on or after January 1, 2004 using the fair value method. The Corporation has chosen to adopt the amendment using the prospective transitional alternative as permitted by the standard, and has therefore used the fair value method for all stock-based compensation awards granted on or after January 1, 2003. Pro forma disclosure relating to net earnings as if the fair value method of accounting has not been provided as there were no options granted during the 2002 fiscal year.

Comparative figures

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

Augen Capital Corp.

Notes to the Financial Statements

December 31, 2003

3. Investments	<u>2003</u>	<u>2002</u>
Investments in quoted companies (market value - \$ 1,565,437; 2002 - \$ 645,138)	\$ 536,798	\$ 756,817
Investment in Augen Resource 2 Balance Fund Inc. (R2B) (.01% interest in private mutual fund corporation)	100	100
Debentures and notes, bearing interest at varying rates from 2.12% to 8.75%, maturing September 1, 2005 to November 20, 2013 (market value - \$ 62,051; 2002 - \$ 67,978)	<u>59,855</u> \$ 596,753	<u>65,207</u> \$ 822,124

In addition, the Company holds warrants and options to acquire common shares in investee companies. The fair value of these instruments based on management estimates is \$ 51,997 (2002 - \$ nil).

Management has written down those investments that it considers to be permanently impaired. An amount of \$66,246 was written down during the year (2002 - \$64,570). Such estimates are subjective in nature and involve measurement uncertainties and significant judgement. It is therefore possible that the amount realized on the investments could be materially different than their carrying value.

4. Property and equipment

	<u>2003</u>		<u>2002</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 51,944	\$ -	\$ 51,944	\$ -
Building	295,559	69,804	295,559	60,398
Furniture and equipment	34,092	26,731	34,092	24,891
Computer hardware and software	30,733	26,674	29,621	25,173
Corporate video	11,921	10,298	11,921	9,604
	<u>\$ 424,249</u>	<u>\$ 133,507</u>	<u>\$ 423,137</u>	<u>\$ 120,066</u>
Net book value		<u>\$ 290,742</u>		<u>\$ 303,071</u>

Augen Capital Corp.

Notes to the Financial Statements

December 31, 2003

5. Long term debt 2003 2002

Fixed rate mortgage, bearing interest at 4.59%, secured by land and building. The mortgage is repayable in monthly instalments of \$1,407 principal and interest, due April 1, 2008.

\$ 224,954 **\$ 230,771**

The principal payments due in the next five years are as follows:

2004	\$	6,802
2005	\$	7,118
2006	\$	7,449
2007	\$	7,795
2008	\$	195,790

6. Capital stock

Authorized:

Unlimited number of common shares

Issued:

	<u>Number of Shares</u>	<u>Consideration</u>
Balance, February 28, 2002, December 31, 2002 and December 31, 2003	<u>18,485,533</u>	\$ <u>3,810,450</u>

There are 1,253,325 (2002 – 1,253,325) common shares held in escrow.

Augen Capital Corp.

Notes to the Financial Statements

December 31, 2003

6. Capital stock (continued)

Directors, Officers, Key Employees and Consultants Stock Option Plan (the "Plan")

The Directors approved a stock option plan whereby key employees, directors and officers and consultants who, in the opinion of the Board of Directors, are largely responsible for the management and growth of the Company are granted options. Options granted under the Plan shall not exceed 10% of the issued and outstanding common shares. As at December 31, 2003, there are stock options outstanding to key employees, directors, officers and consultants to purchase 1,600,000 common shares at \$0.16 per common share expiring December 17, 2006.

<u>Date Granted</u>	<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number of Options</u>
December 17, 2003	December 17, 2006	\$ 0.16	1,600,000

The changes in the stock options are as follows:

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

Augen Capital Corp.

Notes to the Financial Statements

December 31, 2003

7. Income taxes

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

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Income taxes at combined Federal and Provincial statutory income tax rates \$	(60,827)	(36.62)	\$ (106,013)	(38.30)
Non-taxable components of investment Income	25,019	15.06	(11,397)	(4.12)
Unrecorded tax benefits of losses	118,464	71.32	115,982	41.90
Tax benefit of utilizing loss Carryforward in subsidiary	41,840	(25.19)	(2,630)	(0.95)
Adjustment to future income taxes resulting from a change in the estimated losses that will be utilized before expiry	-	-	92,587	33.45
Permanent difference related to Stock-based compensation	(63,968)	(38.51)	-	-
Other timing differences	<u>25,329</u>	<u>(15.25)</u>	<u>4,058</u>	<u>1.47</u>
	<u>\$ 2,176</u>	<u>1.31</u>	<u>\$ 92,587</u>	<u>33.45</u>

The Company and its subsidiaries have non-capital losses of approximately \$1,468,000 available to reduce future taxable income, the tax effect of which has not been recorded in these consolidated financial statements. These losses expire as follows:

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

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

Augen Capital Corp.

Notes to the Financial Statements

December 31, 2003

8. Fair value of financial instruments

	<u>2003</u>			<u>2002</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Cost</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Cost</u>
Balance sheet items:						
Cash and cash equivalents	\$ 249,556	\$ 249,556	\$ -	\$ 214,734	\$ 214,734	\$ -
Receivables, income taxes recoverable	876,750	876,750	-	394,540	394,540	-
Investments	596,753	1,584,210	987,457	822,039	713,216	(108,823)
Payables and Accruals	396,113	396,113	-	(121,244)	(121,244)	-
Long term debt	<u>(224,954)</u>	<u>(224,954)</u>	<u>-</u>	<u>(230,771)</u>	<u>(230,771)</u>	<u>-</u>
	1,894,218	2,881,675	987,457	1,079,298	970,475	(108,823)
Off-balance sheet items						
Warrants and options	<u>-</u>	<u>51,997</u>	<u>51,997</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$1,894,218</u>	<u>\$2,933,672</u>	<u>\$1,039,454</u>	<u>\$1,079,298</u>	<u>\$ 970,475</u>	<u>\$ (108,823)</u>

Interest rate risk

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

Credit risk

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

9. Supplemental cash flow information

	<u>2003</u>	<u>2002</u>
Change in non-cash operating working capital:		
Receivables	\$ (484,471)	\$ (29,811)
Payables and accruals	274,870	8,403
Income taxes recoverable	2,176	-
Deferred financing costs	<u>11,130</u>	<u>90,661</u>
	<u>\$ (196,295)</u>	<u>\$ 69,253</u>
Interest paid	<u>\$ 20,887</u>	<u>\$ 15,257</u>

Augen Capital Corp.

Notes to the Financial Statements

December 31, 2003

10. Related party transactions

During the year, the Company paid management fees and other expenses in the amount of \$280,667 (2002 - \$53,333) to a company, whose shareholder is a director and the Chief Executive Officer of the Company. The same director and officer is also a director of an investee company in which the Company holds investments of \$76,909 (2002 - \$190,762) (quoted market value \$78,635; 2002 - \$42,518). The Company also has provided loans to the investee company for a total amount of \$325,490 (2002 - \$225,980). The loan was repaid subsequent to year end through an exchange of shares of the investee company for the debt.

During the year, the Company paid consulting fees, legal fees and other expenses of \$1,000 (2002 - \$15,474) to Company directors for services provided during the year.

During the year, the Company paid consulting fees and other marketing fees of \$ nil (2002 - \$39,487) to a business entity controlled by an officer of the Company.

11. Loss per share

The loss per share figure has been calculated using the weighted average number of common shares outstanding during the respective fiscal years which amounted to 17,232,208 (2002 - 17,232,208). The weighted average number of common shares outstanding has been reduced by the escrow shares as those shares do not have a time period until escrow expiry. During fiscal 2003, the outstanding stock options are anti-dilutive as a result of the net loss.

12. Subsequent events

Appointments

Subsequent to the year end, the Company announced the addition of two new members to the Board of Directors. In addition, a new member was appointed to the Advisory Board.

Grant of stock options

Subsequent to the year end, the Board of Directors approved a stock option grant to purchase 850,000 common shares of the Company by officers, directors, and employees at an issue price of \$0.32 per share. The grant is to provide compensation incentives for future services provided to the Company. The Company will have total stock options outstanding to purchase 2,450,000 common shares.

Issuance of shares for debt

Subsequent to the year end, the Board of Directors approved the issuance of 548,890 common shares for debt from creditors at a discounted market price equal to \$0.225 per common share. The issuance is to provide payment for financial, management, and marketing services.

Augen Capital Corp.

Notes to the Financial Statements

December 31, 2003

12. Subsequent events (continued)

Private placement

Subsequent to the year end, the Company announced the completion of a \$1 million private placement. The placement consists of 6.25 million units at \$0.16 per unit, with each unit consisting of one common share and one common share purchase warrant. Each common share purchase warrant will entitle the holder to purchase an additional common share of the Company at a price of \$0.30 per share until January 30, 2005. The Agent will be compensated with an 8% commission in cash and options equal to 10% of the placed units.

Lease obligation

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

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

2004	\$	6,760
2005	\$	42,972
2006	\$	55,043
2007	\$	55,043
2008	\$	45,869

The Company has reached a tentative agreement to sell the land and building with an effective date of July 31, 2004. The agreement is contingent upon the acquirer obtaining adequate financing.