



***2007***

**Annual Consolidated Financial Statements**

**For the year ended December 31, 2007**

April 25, 2008

## **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, 2007 and 2006 and the consolidated statements of earnings and comprehensive 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**



## Consolidated Balance Sheets

<i>As at December 31,</i>	2007 \$	2006 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and equivalents	4,274,394	3,833,786
Prepaid expenses and deposits	32,193	54,000
Receivables	284,372	1,436,347
Due from related parties ( <i>note 10</i> )	623,993	1,615,538
Income taxes receivable	96,775	-
	<b>5,311,727</b>	6,939,671
<b>Investments (<i>note 2</i>)</b>	<b>5,310,228</b>	2,659,709
<b>Mineral properties and deferred costs (<i>note 4</i>)</b>	<b>562,943</b>	509,044
<b>Property, plant and equipment, net (<i>note 5</i>)</b>	<b>46,222</b>	46,284
<b>Future income taxes (<i>note 9</i>)</b>	<b>52,565</b>	52,414
<b>Goodwill (<i>note 11</i>)</b>	-	62,014
<b>Total assets</b>	<b>11,283,685</b>	10,269,136
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	639,977	1,173,552
Income taxes payable	-	456,742
	<b>639,977</b>	1,630,294
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock ( <i>note 6</i> )	7,212,362	6,772,575
Contributed surplus ( <i>note 7</i> )	739,407	568,668
Retained earnings	2,691,939	1,297,599
	<b>10,643,708</b>	8,638,842
<b>Total liabilities and shareholders' equity</b>	<b>11,283,685</b>	10,269,136

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

Approved on behalf of the Board of Directors:

"Michel LeBel" (signed)  
Michel LeBel, Director

"Hugh Squair" (signed)  
Hugh Squair, Director



## Consolidated Statements of Earnings and Comprehensive Earnings

<i>For the years ended December 31,</i>	<b>2007</b>	2006
	<b>\$</b>	\$
<b>Income</b>		
Fee income	2,662,325	3,743,471
Realized gains on sale of investments	1,494,467	3,384,067
	<b>4,156,792</b>	7,127,538
<b>Expenses</b>		
General and administrative	2,884,322	2,948,684
Stock-based compensation	394,526	146,446
Goodwill write-down	62,014	-
Interest expense	55,994	683
Share of loss from equity accounted investment	34,526	-
	<b>3,431,382</b>	3,095,813
<b>Earnings (loss) before undernoted items</b>	<b>725,410</b>	4,031,725
Unrealized loss on investments held for trading (note 2)	5,302,553	-
Adjustment to fair value of liabilities (note 2)	(542,516)	-
Amortization	13,217	12,764
<b>Earnings (loss) before income taxes</b>	<b>(4,047,844)</b>	4,018,961
<b>Income taxes</b>		
Current	145,527	456,742
Future	(654,955)	520,511
	<b>(509,428)</b>	977,253
<b>Earnings (loss) before non-controlling interest</b>	<b>(3,538,416)</b>	3,041,708
Non-controlling interest	-	139,245
<b>Net earnings (loss) and comprehensive earnings (loss)</b>	<b>(3,538,416)</b>	2,902,463
<b>Earnings (loss) per share</b>		
Basic	<b>(0.10)</b>	0.09
Diluted	<b>(0.09)</b>	0.09

## Consolidated Statements of Retained Earnings (Deficit)

<i>For the years ended December 31,</i>	<b>2007</b>	2006
	<b>\$</b>	\$
<b>Retained earnings (deficit), at beginning of year</b>	<b>1,297,599</b>	(1,604,864)
Transitional adjustment on adoption of accounting policies (note 2)	4,932,756	-
Balance at beginning of year, as restated	<b>6,230,355</b>	(1,604,864)
Net earnings (loss) and comprehensive earnings (loss) for the year	<b>(3,538,416)</b>	2,902,463
<b>Retained earnings (deficit), at end of year</b>	<b>2,691,939</b>	1,297,599

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



## Consolidated Statements of Cash Flows

<i>For the years ended December 31,</i>	2007	2006
	\$	\$
<b>Cash flow from (used in) operating activities</b>		
Net earnings (loss) and comprehensive earnings (loss)	(3,538,416)	2,902,463
Amortization	13,217	12,764
Stock-based compensation	394,526	146,446
Investment writedown provision	-	161,360
Goodwill write-down	62,014	-
Realized and unrealized (gain) loss on investments held for trading	3,808,086	(3,384,067)
Share of (earnings) loss from equity investments	34,526	-
Non-controlling interest	-	139,245
Income taxes	(654,955)	977,253
	118,998	955,464
Changes in non-cash working capital	178,235	(923,280)
<b>Cash flow from (used in) operating activities</b>	<b>297,233</b>	<b>32,184</b>
<b>Cash flow from (used in) investing activities</b>		
Purchase of investments	(2,280,309)	(2,020,901)
Proceeds from the sale of investments	2,274,738	4,651,559
Fair value of assets acquired	-	(560,000)
Purchase of property, plant and equipment	(13,155)	(2,236)
Purchase of mineral properties	(25,000)	-
Payments received on mineral properties	24,999	-
Founder shares received	48,000	-
Expenditures on mineral properties and deferred costs	(53,898)	(509,044)
<b>Cash flow from (used in) investing activities</b>	<b>(24,625)</b>	<b>1,559,378</b>
<b>Cash flow from financing activities</b>		
Issuance of common shares, net of issue costs	168,000	1,935,139
<b>Cash flow from financing activities</b>	<b>168,000</b>	<b>1,935,139</b>
<b>Net increase (decrease) in cash and equivalents</b>	<b>440,608</b>	<b>3,526,701</b>
Cash and equivalents, beginning of year	3,833,786	307,085
<b>Cash and equivalents, end of year</b>	<b>4,274,394</b>	<b>3,833,786</b>
<b>Interest paid during the year</b>	<b>55,994</b>	<b>645</b>
<b>Income taxes paid during the year</b>	<b>699,811</b>	<b>-</b>

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



**Notes to Consolidated Financial Statements**  
**December 31, 2007**

**1. Nature of operations**

Based in Toronto, Augen Capital Corp. (“**Augen**” or “**Company**”) is a merchant bank specializing in the financing of and investment in early-stage resource companies and is a consultant for tax-advantaged flow-through investments in Canada’s resource sector. Augen is also registered as a limited market dealer with the Ontario Securities Commission.

**2. Adoption of new accounting policies**

On January 1, 2007, the Company adopted the CICA Handbook *Section 3855 Financial Instruments – Recognition and measurement; Section 3865 Hedges; and Section 1530 Comprehensive Income*. These standards require that all financial assets be classified as either held for trading (“**HFT**”), available for sale (“**AFS**”), held to maturity (“**HTM**”) or loans and receivables. Financial liabilities are classified as either trading or other. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value with subsequent measurement determined by the classification of each financial asset and liability. Transaction costs related to HFT securities are expensed as incurred. Transaction costs related to AFS, HTM, loans and receivables and deposits are generally capitalized and are then amortized using the effective interest method over the expected life of the instrument. Financial assets and financial liabilities held for trading are measured at fair value with the changes in fair value reported in earnings. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading are measured at amortized cost. Available for sale financial assets are measured at fair value with changes in fair value reported in other comprehensive income (“**OCI**”) until the financial asset is disposed of, or becomes impaired.

Accumulated other comprehensive income (“**AOCI**”) is a new component of shareholders’ equity. Comprehensive earnings are composed of the Company’s net earnings and other comprehensive income. Other comprehensive income will include unrealized gains and losses on available for sale financial assets, foreign currency translation on net investments in self-sustaining foreign operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes.

The Company does not have any comprehensive income components and, as such, comprehensive income is equal to net earnings. Accordingly, adopting CICA Handbook *Section 1530 Comprehensive Income* has had no effect on the Company’s financial statements.

As required, a transitional adjustment has been recognized in the opening balance of retained earnings as at January 1, 2007 for the following: (i) financial instruments that the Company classifies as held for trading and that were not previously recorded at fair value and (ii) the difference in the carrying amount of assets or liabilities. A transitional adjustment has been recognized in the opening balance of retained earnings relating to adjustments arising due to the re-measuring of financial assets classified as held for trading. Prior-period balances have not been restated. The impact of adopting these standards as at January 1, 2007 was as follows:

(\$000's)	As at December 31, 2006	Adjustment upon adoption of Section 3855	As at January 1, 2007	As at December 31, 2007
<b>Assets</b>				
Investments				
Held for trading	1,898	6,487	8,385	4,216
Available for sale and equity-accounted investments	1,271	-	1,271	1,094
<b>Impact on total assets</b>	<b>3,169</b>	<b>6,487</b>	<b>9,656</b>	<b>5,310</b>
<b>Liabilities and shareholders' equity</b>				
Accounts payable & accrued liabilities	1,174	900 <sup>(1)</sup>	2,074	
Future income taxes	(52)	655 <sup>(1)</sup>	603	
<b>Impact on total liabilities</b>	<b>1,122</b>	<b>1,555</b>	<b>2,677</b>	
<b>Shareholders' equity</b>				
Retained earnings	1,298	4,932	6,230	
<b>Impact on liabilities and shareholders' equity</b>	<b>2,420</b>	<b>6,487</b>	<b>8,907</b>	

<sup>(1)</sup> Incentive compensation payable, previously reported in the amount of \$900,000 on January 1, 2007 and charged directly to retained earnings as a transitional adjustment under CICA Handbook Section 3855, was reduced by \$542,500 during the year reflecting the change in fair value of the liability and offset by payments made during the year. The adjustment is reported as Adjustment to fair value of liabilities on the Statement of Earnings (Loss) and Comprehensive Earnings (Loss). The corresponding future taxes were also adjusted during the year.



**Notes to Consolidated Financial Statements**  
**December 31, 2007**

---

**2. Adoption of new accounting policies (continued)**

In 2007, the Company early adopted CICA Handbook *Section 1535 Capital Disclosures, Section 3861 Financial Instruments – Disclosure and Presentation, and Section 3862 Financial Instruments – Disclosures*. The adoption of these new pronouncements has enhanced the qualitative disclosure and did not have any effect on the Company's financial position or results of operations. Please refer to note 6: Capital stock, and note 12: Financial risk management for further details.

**3. 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:

Entity	Ownership
Aumerco Limited	100%
Augen General Partner 2007 Inc.	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 year. Actual results could differ from these estimates.

**Cash and equivalents**

Cash and equivalents include money market instruments and short-term investments with maturities of less than one year.

**Valuation of investments**

Investments held for trading are recorded at fair value with the difference between fair value and cost being recorded as unrealized appreciation or depreciation in value of investments. In the case of securities listed on stock exchanges, the fair value means the latest bid price. Investments available for sale are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of, or becomes impaired. Investments for which reliable quotations are not readily available are valued at their fair value using a valuation model and market inputs. 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.

The fair value of purchase warrants is calculated using the Black-Scholes valuation model. The following weighted average assumptions are used when determining fair value using the Black-Scholes valuation model:

Risk free rate	4.0 – 5.0%
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 year that the stock has been trading if less than the expected life, adjusted to reflect various factors including non-recurring price volatility, the Exchange hold periods on the instruments, and the liquidity of flow-through shares of Canadian resource companies.
Expected dividend yield	Determined by the terms and conditions of each instrument.



**Notes to Consolidated Financial Statements**  
**December 31, 2007**

---

**3. Summary of significant accounting policies (continued)**

**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.

Consideration in the form of cash and/or shares received under mineral property option agreements are applied against the acquisition cost of mineral properties. Consideration, in excess of the acquisition cost of the mineral properties, is reported as income for the period.

**Property, plant and equipment**

Property, plant and equipment is 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%
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 on 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 the carrying value. Any excess of carrying value over fair value is charged to income in the year in which impairment is determined.

**Stock-based compensation**

The Company follows guidance in the CICA 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	4.0 - 5.0%
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 year that the stock has been trading if less than the expected life, adjusted to reflect various factors including non-recurring price volatility, the Exchange hold periods on the instruments, and the liquidity of flow-through shares of Canadian resource companies.
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 related to the recognition of flow-through share tax deductions. Flow-through share tax deductions are recognized in the year in which they are renounced.



**Notes to Consolidated Financial Statements**  
**December 31, 2007**

**3. Summary of significant accounting policies (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 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, if applicable, 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 year.

**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 period incurred.

**4. Mineral properties and deferred costs**

For the years ended December 31,	2007	2006
	\$	\$
<b>Acquisition costs</b>		
Balance, beginning of year	-	-
Acquisition costs <sup>(1)</sup>	25,000	-
Option payments received <sup>(2)</sup>	(24,999)	-
	<b>1</b>	-
<b>Deferred exploration expenditures</b>		
Balance, beginning of year <sup>(3)</sup>	509,044	-
Exploration costs <sup>(3)</sup>	53,898	509,044
	<b>562,942</b>	509,044
<b>Balance, end of year</b>	<b>562,943</b>	509,044

<sup>(1)</sup> In January 2007, the Company staked the Roberts Property for \$25,000 consisting of 8 mineral claims located in the Roberts Township in Ontario.

<sup>(2)</sup> In March 2007, the Company granted International Kirkland Minerals Inc. ("IKI") the option to acquire a 100% interest in the Roberts Property for cash consideration of \$55,000, 3,000,000 IKI common shares, and \$200,000 in work expenditures. During the year and pursuant to the terms of the option agreement, IKI made \$5,000 in option payments and issued 1,000,000 IKI shares at a value of \$170,000. The acquisition cost was reduced to \$1 on the Consolidated Balance Sheet at December 31, 2007 and the Company reported \$150,000 in income on the Consolidated Statement of Earnings and Comprehensive Earnings for the year ended December 31, 2007.

<sup>(3)</sup> Deferred exploration expenditures relate to a prospecting and financing arrangement entered into by Augen in 2006. Augen currently owns 76% of Polar Bear Explorations ("PBE") with the balance owned by a private prospecting group, and subject to a 33% carried interest. 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 statements of net earnings and comprehensive earnings for the year ended December 31, 2007 and in the consolidated balance sheets at December 31, 2007. There were \$53,898 in PBE deferred exploration expenditures incurred for the year ended December 31, 2007.



**Notes to Consolidated Financial Statements**  
**December 31, 2007**

**5. Property, plant and equipment**

As at December 31,	2007			2006		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computer hardware	56,697	41,509	15,188	46,543	37,176	9,367
Computer software	3,001	1,501	1,500	-	-	-
Furniture and fixtures	82,514	57,186	25,328	82,514	50,854	31,660
Leasehold improvements	9,127	4,921	4,206	9,127	3,870	5,257
	<b>151,339</b>	<b>105,117</b>	<b>46,222</b>	<b>138,184</b>	<b>91,900</b>	<b>46,284</b>

**6. 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,	2007		2006	
	No. of Shares	\$	No. of Shares	\$
Balance at beginning of year	35,915,614	6,772,575	28,004,423	4,979,218
Issuance of shares for cash:				
Private placements	-	-	3,333,333	1,000,000
Exercise of stock options	600,000	439,787	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
Fair value – warrants issued	-	-	-	(141,782)
Share issuance costs	-	-	-	(50,000)
Balance at end of year	<b>36,515,614</b>	<b>7,212,362</b>	<b>35,915,614</b>	<b>6,772,575</b>

**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



**Notes to Consolidated Financial Statements**  
**December 31, 2007**

**6. Capital stock (continued)**

**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 is a rolling plan and 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.

For the years ended December 31,	2007		2006	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at beginning of year	\$0.24	1,400,000	\$0.17	2,425,000
Transactions during the year:				
Granted <sup>(1)</sup>	0.49	2,200,000	0.27	950,000
Options exercised	0.28	(600,000)	0.17	(1,474,525)
Expired	0.55	(100,000)	0.17	(500,475)
Outstanding at end of year	\$0.41	2,900,000	\$0.24	1,400,000
Exercisable at end of year	\$0.36	1,775,068	\$0.24	1,400,000

As at December 31, 2007, the 2,900,000 options have a weighted average remaining life of 2.99 years.

<sup>(1)</sup> During the year, the Company granted 2,200,000 stock options to directors, officers, and consultants. The estimated fair value of these options is \$802,100 using the Black Scholes model, of which \$394,500 has been charged during the year to the Statements of Earnings and Comprehensive Income and credited to contributed surplus in shareholders' equity on a straight line basis over any applicable vesting period. The weighted average grant date fair value of options issued during the year amounted to \$0.36 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	4.0 - 5.0%
Expected life	3 - 5 years (based on option term)
Expected volatility	93%-98%
Expected dividend yield	0.0%

**7. Contributed surplus**

For the years ended December 31,	2007	2006
	\$	\$
Balance at beginning of year	568,668	280,440
Value assigned to:		
Stock-based compensation on options granted	394,526	146,446
Exercise of stock options	(271,787)	-
Founder shares received of Augen Gold Corp.	48,000	-
Warrants issued on private placements	-	141,782
Balance at end of year	739,407	568,668

**8. Lease commitments**

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

2008	\$ 52,114
2009	\$ 7,806



**Notes to Consolidated Financial Statements**  
**December 31, 2007**

**9. 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:

<b>For the year ended December 31,</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Income tax (recovery) provision at statutory rates	<b>(1,462,081)</b>	1,451,649
Increase (decrease) related to:		
Non-taxable components of investment income	<b>(269,901)</b>	(611,162)
Previously unrecorded tax expense	<b>144,034</b>	-
Unrealized (gains) losses on held for trading investments	<b>957,641</b>	-
Stock-based compensation	<b>142,503</b>	52,896
Other	<b>(21,624)</b>	83,870
Provision for income taxes	<b>(509,428)</b>	977,253
Classified as:		
Current	<b>145,527</b>	456,742
Future	<b>(654,955)</b>	520,511
	<b>(509,428)</b>	977,253

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

<b>As at December 31,</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Future income tax asset (liability):		
Net operating losses carried forward	<b>17,248</b>	4,778
Recoverable taxes paid	<b>59,758</b>	-
Unrealized (gains) losses on held for trading investments	<b>6,083</b>	-
Accounting provisions not currently deductible	<b>29,234</b>	239,405
Less: valuation allowance	<b>(59,758)</b>	(191,769)
	<b>52,565</b>	52,414
Classified as:		
Non-current	<b>52,565</b>	52,414
	<b>52,565</b>	52,414



**Notes to Consolidated Financial Statements**  
**December 31, 2007**

---

**10. Related party transactions**

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

- A. The Company relies upon the services of a senior officer, who is also Chairman, for investment analysis and due diligence services. The services are provided by a related company that is controlled by the officer. The Company secured these services through an annual contract. During the year, the Company paid fees of \$237,500 (2006 - \$188,000) to the related company.
- B. The Company relies upon the services of a senior officer who is CEO. The services are provided by a related company that is controlled by the officer. The Company secured these services through an annual contract. During the year, the Company paid fees of \$94,500 (2006 - \$NIL) to the related company.
- C. The Company held investments at fair value of \$1,569,400 (2006 - \$ 3,050,000) at the end of the year (cost - \$225,300; 2006 - \$282,000) in an investee company where an officer of the Company was a director of the investee company until May 1, 2007.
- D. The Company relied upon the services of a senior officer for sales and marketing services until June 12, 2007. The services were provided by a related company that is controlled by the former officer. Fees of \$82,900 (2006 - \$126,000) were paid during the year to the related company.
- E. The Company held an investment, accounted for under the equity accounting method, in Augen Gold Corp. ("**AGC**") at a cost of \$788,500 (2006 - \$750,000), in which two directors of the Company are directors of AGC and two officers of the Company are officers of AGC. The Company charged \$101,000 (2006 - \$24,800) in professional service fees through a services agreement for CEO services, CFO services, premises, and overhead charges.

The Company received 240,000 founder shares of AGC valued at \$48,000. The amount was reported as an increase in contributed surplus.

An amount of \$273,600 (2006 - \$52,700), including loans advanced during the year, remains receivable from the investee company at the end of the year and is interest-bearing at the rate of prime plus 5% beginning January 1, 2008 and is payable on demand.

- F. The Company owns 100% of the general partners listed in note 3 and is responsible for the day to day management of the Augen limited partnerships. The general partners are entitled to an advisory fee equal to 2.00 - 2.25% of the net assets of the relevant partnerships. The general partners may earn a performance fee on the rollover transfer date of the limited partnerships into the BluMont Augen Resource Strategy Fund. The general partners earned advisory fees of \$473,600 (2006 - \$516,000) during the year. No performance fees were paid during the year (2006 - \$831,000). Certain general partners are reimbursed for administrative and operating expenses incurred on behalf of certain limited partnerships. The general partners were reimbursed \$329,800 (2006 - \$296,200) for such expenses during the year. An amount of \$336,900 (2006 - \$1,185,000) is due from the limited partnerships at December 31, 2007.
- G. The Company was entitled to an annual advisory fee equal to 2.50% of the net assets of BluMont Augen Resource Strategy Fund ("**RS Fund**") until October 11, 2007 when the Augen Resource Strategy Fund was subject to a name change to BluMont Augen Resource Strategy Fund and a change in Manager to BluMont Capital Corporation from Augen Capital Corp. Performance fees may be earned by the Company based on established thresholds on an annual basis. The Company earned advisory fees from the RS Fund of \$236,200 (2006 - \$252,000) and was paid \$NIL (2006 - \$44,700) performance fees during the year. The Company is reimbursed for administrative and operating expenses incurred on behalf of the RS Fund. The Company was reimbursed \$89,800 (2006 - \$36,000) by the Fund for such expenses during the year. An amount of \$60,900 (2006 - \$386,000) is receivable from the Fund at December 31, 2007.



**Notes to Consolidated Financial Statements**  
**December 31, 2007**

---

**11. Goodwill**

Augen acquired the residual non-controlling interest in Aumerco Limited in 2006 and now owns 100% of the outstanding shares of the company. The purchase price of \$560,000, less non-controlling interest of \$283,800, less goodwill of \$62,000, was assigned to investments. The amount of \$62,000 which was reported as goodwill in 2006, represented the excess purchase price over assets acquired, less liabilities assumed, based on their fair values. The fair value of goodwill at the end of the year has been determined to be \$NIL and a charge to reflect this write-off has been reported on the statement of operations.

**12. Financial risk management**

The Company's financial risk management goals are to ensure that the outcome of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance and protecting the Company's consolidated balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk with overall business strategy, diversifying risk, pricing appropriately for risk, mitigation through preventive controls, and transferring risk to third parties.

There have been no major or significant changes that have had an impact on the overall risk assessment of the Company during the year. The investment objective and strategy for the direct holdings in the Merchant Banking portfolio and the indirect holdings in the *Managed Products* portfolio remain unchanged. The Company invests primarily in the equity securities of Canadian resource issuers and investors are exposed to the risks and rewards of the Canadian resource sector.

The Company's exposure to potential loss from financial instruments relates primarily to its investment activities, and, in particular, credit risk and market risks including credit quality and equity market fluctuation risk.

*Credit Risk*

Credit risk is the risk that one party to a financial instrument fails to discharge its obligations and thereby causes financial loss to another party. The Company's exposure to credit risk is concentrated in two specific areas: the credit risk on operating balances, including Receivables and balances Due from related parties. The Company is also indirectly exposed to credit risk through its 100% interest in the general partners of the limited partnerships. Each of the outstanding limited partnerships has entered into term loan facilities at the prevailing prime interest rates plus a range of basis points. The term facilities are secured by a general security agreement on the assets of the limited partnerships and are subject to certain financial covenants. There are no other long-term or short-term loans outstanding.

The aggregate gross credit risk exposure at December 31, 2007 was \$5,182,800, and was comprised of \$284,400 in Receivables, \$624,000 in amounts Due from related parties, and \$4,274,400 of Cash and equivalents primarily held with financial institutions with an "AA" credit rating.



**Notes to Consolidated Financial Statements**  
**December 31, 2007**

---

**12. Financial risk management (continued)**

*Market Risk*

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, the trading price of equity and other securities, and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. Following is a discussion of the Company's primary market risk exposures and how those exposures are currently managed.

*Liquidity Risk*

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments. The purpose of liquidity management is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid securities.

The Company believes that its cash position, short term investments and investment in marketable securities provide adequate liquidity to meet all of the Company's obligations in 2008. The Company also expects to receive fee income on its flow-through consulting assets as well as investment income on its holdings of cash and equivalents.

*Market Price Fluctuations*

Fluctuations in the value of equity securities affect the level and timing of recognition in earnings and comprehensive earnings of gains and losses on securities held. General economic conditions, political conditions and many other factors can also adversely affect the stock markets and consequently, the value of the equity securities held.

Market price fluctuations in the value of equity securities affect the level and timing of recognition in earnings and comprehensive earnings of gains and losses on securities held. General economic conditions, political conditions and many other factors can also adversely affect the stock markets and consequently, the value of the equity securities held.

The Company focuses on small and mid-market capitalization companies as these companies have historically generated higher per share returns. These companies can, however, be more volatile than larger capitalization companies. The following table summarizes the potential impact of a 10% change in the Company's equity-related holdings on the net earnings (loss) and other comprehensive earnings (loss) for the year ended December 31, 2007. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumptions that the equity-related holdings had increased/decreased by 10% with other variables held constant and that all the Company's equity and equity-related instruments moved in a one-to-one correlation with the market.

Changes in equity-related holdings	Effect on Net earnings (loss) and other comprehensive earnings (loss) (pre-tax)
10% increase	531,023
10% decrease	(531,023)

Generally, a 10% decline in the equity-related holdings resulting from market price fluctuations would decrease the pre-tax net earnings and comprehensive earnings whereas a 10% increase in equity-related holdings resulting from market price fluctuations would increase the pre-tax net earnings and other comprehensive earnings.

**13. Capital management**

The Company includes cash and shareholders' equity in its capital management considerations. The Company's objectives when managing capital are to: safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders, and to provide an adequate return to shareholders by maximizing fee income from the Managed Products consulting assets and investment returns on the Merchant Banking investment portfolio. The Company manages capital in proportion to risk and manages the investment portfolio and capital structure based on economic conditions and prevailing commodity pricing and trends. The Company relies on cash flow generated from operations and additional financing, if required, to maintain adequate liquidity to support its ongoing working capital commitments.



**Notes to Consolidated Financial Statements**  
**December 31, 2007**

**14. Segmented information**

Augen operates under two segments: *Managed Products* and *Merchant Banking*.

The *Managed Products* ("MP") segment earned fees related to the limited partnerships and the mutual fund including management fees, performance fees, due diligence fees, setup fees, rollover fees, and operating expense reimbursements.

On August 29, 2007, Augen signed a definitive agreement with BluMont Capital Corporation ("BluMont") whereby BluMont assumed the sales and distribution and back-office for the flow-through business in the *Managed Products* segment. Effective October 11, 2007, pursuant to the terms of the agreement, the Augen Resource Strategy Fund was subject to a change in Manager to BluMont and subject to a name change to *BluMont Augen Resource Strategy Fund*. Future flow-through *BluMont Augen* limited partnership offerings will be launched by BluMont with Augen acting as the flow-through investment consultant. Fee income including management fees, performance fees, and due diligence fees are to be shared between Augen and BluMont. Operating expenses are to be reimbursed to BluMont by the limited partnerships and RS Fund.

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 with a goal of maximizing net gains realized on its investment portfolio.

The segmented financial results and assets are as follows:

**Consolidated Statements of Earnings**

	Managed Products		Merchant Banking		Total	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
<i>For the year ended December 31,</i>						
Income	2,118,180	3,583,631	2,038,612	3,543,907	4,156,792	7,127,538
Expenses	1,759,827	1,701,287	1,671,555	1,394,526	3,431,382	3,095,813
Earnings before undernoted items	358,353	1,882,344	367,057	2,149,381	725,410	4,031,725
Unrealized loss on investments held for trading	-	-	5,302,553	-	5,302,553	-
Adjustment to fair value of liabilities	-	-	(542,516)	-	(542,516)	-
Amortization	6,609	6,382	6,608	6,382	13,217	12,764
Earnings (loss) before income taxes	351,744	1,875,962	(4,399,588)	2,142,999	(4,047,844)	4,018,961

**Consolidated Assets**

	Managed Products		Merchant Banking		Total	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
<i>As at December 31,</i>						
Total assets (excluding goodwill)	733,415	2,777,877	10,550,270	7,429,245	11,283,685	10,207,122
Goodwill	-	-	-	62,014	-	62,014
	733,415	2,777,877	10,550,270	7,491,259	11,283,685	10,269,136

**15. Subsequent event**

On February 29, 2008, the Company acquired the residual 24% non-controlling interest in Polar Bear Explorations Inc. and now owns 100% of the outstanding shares of the company. The purchase price of \$165,000, representing the fair value of the company, was assigned to Mineral properties and deferred costs.



***2007***

**Management's Discussion and Analysis**

**For the year ended December 31, 2007**

This Management Discussion and Analysis ("MD&A") analyzes significant changes in the annual consolidated statements of earnings and comprehensive 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 annual consolidated financial statements for the year ended December 31, 2007 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	Overall Performance, Significant Events in 2007 and Outlook
Page 3	Financial Review
	Consolidated Operating Results
	Consolidated Financial Position
	Liquidity and Capital Resources
Page 9	Transactions with Related Parties
Page 10	Critical Accounting Estimates
Page 11	Changes in Accounting Policies
Page 12	Financial Instruments and Other Instruments

The MD&A has been prepared effective April 25, 2008.

#### **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 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.

#### **Recent Changes to Directors and Officers**

Effective March 2008, Michael G. Fowler was appointed to the Board of Directors. Effective April 25, 2008, George D. Elliott, Michel LeBel, and Rhoderic Whyte have voluntarily resigned from the Board of Directors. Mr. Elliott has also voluntarily resigned as Chief Executive Officer. Mr. Fowler has been appointed as the Interim CEO. Mr. Ian C. Peres has voluntarily resigned as Chief Financial Officer. Mr. Manish Z. Kshatriya, Director of Finance, is now the senior financial officer of the Company. Please refer to the Company's press releases which are available at [augencc.com](http://augencc.com) or [sedar.com](http://sedar.com) for further details.

## OVERALL PERFORMANCE

Based in Toronto, Augen Capital Corp. is a merchant bank specializing in the financing of and investment in early-stage resource companies and is a consultant for tax-advantaged flow-through investments in Canada's resource sector. Augen is also registered as a limited market dealer with the Ontario Securities Commission.

Other continuous disclosure documents, including the Company's press releases and 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 realized gains and recurring fee income from; (i) appreciation in its resource merchant banking portfolio, (ii) flow-through investment consulting assets in limited partnerships and mutual funds and (iii) providing strategic management support to emerging resource companies.

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

Augen Capital Corp. 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 their investee companies.

### **Significant Events in 2007**

The adoption of CICA Handbook Section 3855 on January 1, 2007 requires the reporting of unrealized fluctuations in the fair value of the *Merchant Banking* investment portfolio and has resulted in greater volatility in the Net Earnings and Comprehensive Earnings of Augen beginning in 2007. These accounting standards provide insight into the current fair value of the *Merchant Banking* investment portfolio, but do not necessarily provide an accurate indication of the ultimate realized gain or loss, which will be different. This is the first year in which unrealized fluctuations in the MB investment portfolio have been recorded. The fair value of the *Merchant Banking* investment portfolio declined during the quarter by \$1,030,300 (YTD \$5,302,600) and is reported as an "unrealized loss on investments held for trading" on the Statement of Earnings and Comprehensive Earnings.

On August 29, 2007, Augen signed a definitive agreement with BluMont Capital Corporation ("**BluMont**") whereby BluMont assumed the sales and distribution and back-office for the flow-through business in the *Managed Products* segment. Effective October 11, 2007, pursuant to the terms of the agreement, the Augen Resource Strategy Fund was subject to a change in Manager to BluMont and subject to a name change to *BluMont Augen Resource Strategy Fund*. Future flow-through *BluMont Augen* limited partnership offerings will be launched by BluMont with Augen acting as the flow-through investment consultant. Fee income including management fees, performance fees, due diligence fees are to be shared between Augen and BluMont. Operating expenses are to be reimbursed to BluMont by the limited partnerships and RS Fund.

## OUTLOOK

Mining shares to-date have been negatively impacted by softer uranium and base metal prices, generally disappointing senior mining company results, a strong Canadian dollar and the effects of the global credit crunch. Our financial results and Merchant Banking direct investments have reflected this situation. Looking forward, the outlook is for improved metal prices into 2008. Uranium prices are likely to improve as a result of continuing supply issues and potentially higher long term demand. Base metal prices somewhat reflect a significant slowdown in the United States but are remarkably strong considering this fact. World economic growth is at a current all-time high and we believe that this growth will offset a United States decline. In addition, problems on the supply side are almost a daily event. Gold is likely to continue to rise as the US dollar falls and countries look to lower interest rates. Improvement in commodity fundamentals is expected to improve mining share performance into 2008.

With respect to specific company fundamentals, our main investments namely, Energy Fuels and Augen Gold, show good upside potential. Energy Fuels is nearing production and Augen Gold has completed a major drill program. Our results in the Managed Products segment will start to reflect the benefits of higher capital raises and our sales and distribution agreement with BluMont Capital Corporation. We anticipate a significant increase in sales, which should be accretive to earnings in the near term.

On behalf of the Board of Directors,

"J. David Mason" (signed)

J. David Mason  
Chairman

**FINANCIAL REVIEW**

This section discusses significant changes in the annual consolidated statements of earnings and comprehensive earnings, consolidated balance sheets and consolidated statements of cash flows for the year ended December 31, 2007. All references to years "2007", "2006" or "2005" relate to the fiscal years ended December 31 of those years.

**SELECTED ANNUAL INFORMATION**

Highlights	For the years ended December 31,		
	2007	2006	2005
<b>Income</b>	4,157	7,128	2,165
<b>Net earnings (loss)</b>	(3,538)	2,902	891
<b>Earnings (loss) per share</b>			
<b>Basic</b>	(0.10)	0.09	0.03
<b>Diluted</b>	(0.09)	0.09	0.03
<b>Total Assets</b>	11,284	10,269	4,186
<b>Total Long Term Liabilities</b>	Nil	Nil	Nil

**MANAGED PRODUCTS**

The Managed Products ("MP") segment consists primarily of operations related to annual flow-through limited partnership and mutual fund consulting mandates. The MP segment earned fees related to the limited partnerships and the mutual fund including management fees, performance fees, due diligence fees, setup fees, rollover fees, and operating expense reimbursements.

Augen owns 100% of the general partners for: Augen Limited Partnership 2007, which had its final closing on April 29, 2007; Augen Limited Partnership 2006 and Augen Limited Partnership 2006-1.

On August 29, 2007, Augen signed a definitive agreement with BluMont Capital Corporation ("**BluMont**") whereby BluMont assumed the sales and distribution and back-office for the flow-through business in the *Managed Products* segment. Effective October 11, 2007, pursuant to the terms of the agreement, the Augen Resource Strategy Fund was subject to a change in Manager to BluMont and subject to a name change to *BluMont Augen Resource Strategy Fund*. Future flow-through *BluMont Augen* limited partnership offerings will be launched by BluMont with Augen acting as the flow-through investment consultant. Fee income including management fees, performance fees, due diligence fees are to be shared between Augen and BluMont. Operating expenses are to be reimbursed to BluMont by the limited partnerships and RS Fund.

The MP segment provides Augen with participation and diversification in the emerging resource sector via fees earned on consulting assets. The top ten consulting asset holdings at December 31, 2007 are listed below:

Name	Shares / Warrants	Fair Value	Projects	Location
Bonaventure Enterprises Inc.	9,022,400	\$ 1,630,009	Uranium, diamonds, gold	Quebec, Saskatchewan, Nevada
Paragon Minerals Corp.	1,630,000	1,447,878	Gold, base metals	Newfoundland and Labrador
Knight Resources Ltd.	12,166,666	1,409,070	Base metals	Quebec
American Creek Resources Ltd.	3,636,362	1,381,818	Gold, silver	British Columbia
Stratagold Corp.	6,086,957	1,156,521	Gold	Yukon, Guyana
Rochester Energy Corp.	2,070,000	900,450	Oil sands	Alberta
International Kirkland Minerals Inc.	14,331,250	935,219	Uranium	Quebec and Ontario
Sage Gold Inc.	2,000,000	870,940	Precious metals	Quebec, Ontario, Nevada
Kodiak Exploration Limited	166,700	781,823	Gold, base metals, uranium	Ontario, Saskatchewan, NWT
Avalon Ventures Ltd.	430,000	774,000	Rare metals	Ontario, British Columbia, NWT
		\$ 11,287,728		

**Augen Limited Partnership 2007**

Augen Limited Partnership 2007 ("**LP2007**") is a resource flow-through limited partnership that completed its second and final closing of its initial public offering on April 29, 2007 raising over \$12.0 million.

**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, raising a total of \$11.4 million.

**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, raising a total of \$3.5 million.

FINANCIAL REVIEW (CONTINUED)

**MANAGED PRODUCTS (continued)**

**BluMont Augen Resource Strategy Fund**

BluMont Augen Resource Strategy Fund Inc. ("RS Fund") is a mutual fund corporation incorporated under the laws of the Province of Ontario. The acquisition by the RS Fund of the net assets of Augen Limited Partnership 2005 on December 29, 2006, in exchange for shares of the RS Fund by way of a tax-deferred rollover of net assets, closed on January 31, 2007.

**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 with the goal of maximizing 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.

**Merchant Banking Portfolios**

The Company holds merchant banking investment portfolios directly and through its wholly-owned subsidiary, Aumerco Limited, which primarily consist of listed Canadian resource companies whose principal business is resource exploration and development. The top ten direct holdings at December 31, 2007 are as follows:

*Top Ten Direct Holdings - Merchant Banking Portfolio*

Name	Shares / Warrants	Fair Value	Projects	Location
Energy Fuels Inc.	1,113,031	\$ 1,569,374	Uranium	US South-West
Augen Gold Corp. <sup>(1)</sup>	4,040,000	788,500	Gold	Northern Ontario
Nordic Diamonds	3,500,000	665,000	Diamonds, base metals, gold	Northwest Territories, Sweden
Polar Bear Explorations Inc. <sup>(2)</sup>	760,000	562,942	Precious metals, base metals	Northern Ontario
American Bonanza Gold Corp.	2,500,000	500,000	Gold	Quebec, British Columbia, US South-West
Rukwa Uranium <sup>(2)</sup>	600,000	300,000	Uranium	Quebec
Staccato Gold Resources	860,000	206,400	Gold	Nevada
Vulcan Minerals Inc.	363,500	159,940	Oil	Newfoundland and Alberta
International Kirkland Minerals	1,750,000	148,750	Uranium	Quebec
Grande Portage Resources Ltd.	600,000	114,000	Base metals	Vancouver Island
		\$ 5,014,906		

<sup>(1)</sup> Private company investment reported under equity accounting

<sup>(2)</sup> Private company investment

Augen's two largest equity holdings in the Merchant Banking portfolio are described below:

**Energy Fuels Inc.**

Energy Fuels is a Toronto based mineral exploration and development company. The principal business activity of the company is mineral exploration, development and mining of uranium and vanadium properties in the States of Colorado, Utah and Arizona.

Augen Capital was instrumental in the success of Energy Fuels by implementing a strategy to recruit a strong management team with uranium expertise, successfully raising seed financing, and assisting with the acquisitions of highly prospective uranium properties. The success of Augen's strategy was demonstrated by the returns earned by shareholders.

The share price of Energy Fuels has been affected, along with other junior mining equities, by the general investor aversion to risk. In addition, the uranium spot price has trended essentially sideways. The Company believes that uranium prices are likely to improve as a result of continuing supply issues and potentially higher long-term demand.

FINANCIAL REVIEW (CONTINUED)

**MERCHANT BANKING (continued)**

**Augen Gold Corp.**

Augen Gold Corp. ("AGC") is a junior gold exploration company which, at December 31, 2007, held 120 unpatented mining claims and 63 patented mining claims covering 20,914 hectares (the "Property") over a 45 kilometer length located in Swayze Greenstone Belt, including the formerly producing Jerome gold mine and directly adjacent to the Young Shannon gold deposit.

The company's objective is to aggressively explore the Jerome mine in order to confirm existing and identify additional NI 43-101 compliant gold resources, to explore the gold potential along strike on the contiguous mining claims, and to continue to expand its property portfolio with highly prospective mineral assets.

The Jerome gold deposit, which is directly on the Augen Gold Property, was mined in the early 1940's, and produced a total of 56,200 ounces of gold at a grade of 0.19 ounces per ton. The mine was closed in 1943 due to the labour shortages resulting from the Second World War.

A NI 43-101 technical report ("Technical Report") was completed by Behre Dolbear & Company Ltd. in August, 2007 and revised in April 2008 which sets recommendations for further study and planning of additional work, and is available at [www.sedar.com](http://www.sedar.com). The Technical Report focuses on the Jerome deposit, where previous operators have drilled over 200 holes and also sampled the underground workings of Jerome gold mine. Few drill holes were targeted below the 1,100 foot level and there has been limited drilling along strike.

Further exploration work will be conducted to calculate a NI 43-101 resource in 2008 which will be used in the preparation of a feasibility study. Augen Gold believes that there is potential to expand the historical resource at depth and along strike on the Property.

Augen Gold recently filed a final prospectus, which was receipted by the OSC on April 23 2008, to raise up to \$9 million to advance the exploration programs at the company.

**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. These consolidated financial statements follow the same accounting principles and methods of application as those described in note 2 of the audited consolidated financial statements as at and for the year ended December 31, 2006 except as noted below under the **CHANGES IN ACCOUNTING POLICIES** section below.

**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 consolidated statements of earnings and comprehensive earnings for the year ended December 31, 2007 and the corresponding notes thereto. All references to years "2007" or "2006" relate to the fiscal years ended December 31 of those years.

The financial results for the year for the *Managed Products* and *Merchant Banking* segments are as follows:

Consolidated Statements of Earnings						
For the year ended December 31,	Managed Products		Merchant Banking		Total	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Income	2,118,180	3,583,631	2,038,612	3,543,907	4,156,792	7,127,538
Expenses	1,759,827	1,701,287	1,671,555	1,394,526	3,431,382	3,095,813
Earnings before undernoted items	358,353	1,882,344	367,057	2,149,381	725,410	4,031,725
Unrealized loss on investments held for trading	-	-	5,302,553	-	5,302,553	-
Adjustment to fair value of liabilities	-	-	(542,516)	-	(542,516)	-
Amortization	6,609	6,382	6,608	6,382	13,217	12,764
Earnings (loss) before income taxes	351,744	1,875,962	(4,399,588)	2,142,999	(4,047,844)	4,018,961

**CONSOLIDATED OPERATING RESULTS (CONTINUED)****Consolidated net earnings (loss)**

Consolidated net loss for the year was \$3,538,400 as compared to net earnings of \$2,902,500 in 2006. Consolidated income was \$4,156,800 for the year as compared to \$7,127,500 in 2006.

An unrealized loss on investments held for trading for the year of \$5,302,600 has been reported to reflect the unrealized decline in the fair value of the MB investment portfolio during the year. There is no comparative in 2006 due to the prospective application of CICA Handbook *Section 3855*. Consolidated expenses for the year before unrealized loss on investments held for trading, adjustment to fair value of liabilities, and amortization, were \$3,431,400 as compared to \$3,095,800 in 2006.

**Consolidated income**

The key items which have had an impact on the change in consolidated income during the year are outlined by segment below:

*Managed Products* segment

Consolidated income for the MP segment was \$2,118,200 for the year as compared to \$3,583,600 in 2006. The decline is primarily due to \$475,000 in setup fees earned on LP2007 in 2007 as compared to \$775,000 setup fees earned on LP2006 and LP2006-1 in 2006, \$NIL performance fees in 2007 as compared to \$875,000 earned in 2006, and \$NIL rollover fees in 2007 as compared to \$160,000 in 2006.

*Merchant Banking* segment

Consolidated income for the MB segment was \$2,038,600 for the year as compared to \$3,543,900 in 2006. The variation is primarily explained by a decline of \$1,889,600 in the net realized gain on the sale of investments for the year as compared to 2006, offset by an increase in due diligence fees of \$323,500 for the year as compared to \$NIL in 2006.

**Consolidated expenses**

The key items which have had an impact on the change in consolidated expenses during the year are outlined by segment below:

*Managed Products* segment

Consolidated expenses for the MP segment were relatively unchanged at \$1,759,800 for the year as compared to \$1,701,300 in 2006. The marginal increase was primarily due to an increase in wages and benefits of \$333,800 over 2006, an increase in stock based compensation of \$124,100, offset by the decline of \$172,000 in sales and marketing, and a \$300,000 one-time charge related to NAV restatement in 2006.

*Merchant Banking* segment

Consolidated expenses for the MB segment were \$1,671,600 for the year as compared to \$1,394,500 in 2006. The increase is primarily due to an increase in marketing and promotion of \$220,800, an increase in stock based compensation of \$124,100, an increase in professional fees of \$104,400, an increase of \$78,500 in directors' fees, and one-time interest and penalties of \$66,600 related to prior years' corporate tax and GST filings, an increase in employee search fees of \$54,400, the Goodwill write-down of \$62,000, all offset by the adjustment to fair value of liabilities of \$542,500.

**Consolidated loss on investments held for trading**

The fair value of the MB investment portfolio declined during the quarter by \$1,030,300 (YTD \$5,302,600) and is reported as an "unrealized loss on investments held for trading" on the Statement of Earnings and Comprehensive Earnings. The newly adopted Section 3855 accounting standards provide insight into the current fair value of the MB investment portfolio but do not necessarily provide an accurate indication of the ultimate realized gain or loss, which will be different. This is the first year in which unrealized fluctuations in the MB investment portfolio have been recorded.

**Consolidated earnings (loss) before income taxes***Managed Products* segment

Earnings before income taxes for the MP segment were \$589,700 in 2007, prior to \$100,500 in non-recurring fees related to a flow-through sales and distribution agreement and \$137,500 in non-recurring professional advisory fees and new product initiatives, as compared to \$1,876,000 in 2006, on income of \$2,118,200 in 2007 as compared to \$3,583,600 in 2006.

*Merchant Banking* segment

Earnings before income taxes for the MB segment were \$360,400 in 2007, prior to unrealized losses of \$5,302,600 and the decline in the fair value of liabilities of \$542,500, as compared to \$2,143,000 in 2006, on income of \$2,038,600 in 2007 as compared to \$3,543,900 in 2006.

**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)	2007				2006			
	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
<b>Income</b>	878	797	1,815	667	3,794	844	1,649	841
<b>Unrealized loss</b>	(1,031)	(2,264)	(1,747)	(261)	n/a	n/a	n/a	n/a
<b>Net earnings (loss)</b>	(708)	(2,051)	(249)	(530)	1,922	121	521	339
<b>Earnings per share – basic</b>	(0.02)	(0.06)	(0.01)	(0.01)	0.05	0.01	0.03	0.00
<b>– diluted</b>	(0.01)	(0.06)	(0.01)	(0.01)	0.05	0.01	0.03	0.00

**Analysis of 2007 quarterly results**

The adoption of CICA Handbook Section 3855 on January 1, 2007 requires the reporting of unrealized fluctuations in the fair value of the *Merchant Banking* investment portfolio and has resulted in greater volatility in the Net Earnings and Comprehensive Earnings of Augen beginning in 2007. These accounting standards provide insight into the current fair value of the *Merchant Banking* investment portfolio, but do not necessarily provide an accurate indication of the ultimate realized gain or loss, which will be different. This is the first year in which unrealized fluctuations in the MB investment portfolio have been recorded. The fair value of the *Merchant Banking* investment portfolio declined during the quarter by \$1,030,300 (YTD \$5,302,600) and is reported as an "unrealized loss on investments held for trading" on the Statement of Earnings and Comprehensive Earnings.

**CONSOLIDATED FINANCIAL POSITION**

This section should be read in conjunction with the consolidated balance sheets as at December 31, 2007 and the corresponding notes thereto. References made to "2007" or "2006" relate to December 31, 2007 and December 31, 2006, respectively.

**Consolidated assets**

Consolidated assets were \$11,283,700 at December 31, 2007 up 9.9% from \$10,269,100 at December 31, 2006. The assets, summarized by segment, are as follows:

Consolidated Assets	Managed Products		Merchant Banking		Total	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
<i>As at December 31,</i>						
<b>Total assets (excluding goodwill)</b>	733,415	2,777,877	10,550,270	7,429,245	11,283,685	10,207,122
<b>Goodwill</b>	-	-	-	62,014	-	62,014
	733,415	2,777,877	10,550,270	7,491,259	11,283,685	10,269,136

The key items which have had an impact on the change in consolidated assets are outlined by segment below:

*Managed Products* segment

Consolidated MP assets were \$733,400 at December 31, 2007 as compared to \$2,777,900 at December 31, 2006. The variation is primarily due to fluctuations in the amounts due from the limited partnerships and from the RS Fund.

*Merchant Banking* segment

Consolidated MB assets were \$10,550,300 in 2007 as compared to \$7,491,300 in 2006. The variation is primarily due to the adoption of CICA Handbook Section 3855 in Q1 2007 which resulted in a transitional adjustment to the MB assets on January 1, 2007. An increase of \$6,487,600 was reported in Q1 2007, reflecting the fair value of the MB investment portfolio, previously reported at historical cost. This fair value increase is offset by an unrealized loss of \$5,302,600 reported for the year to reflect the unrealized decline in the fair value of the MB investment portfolio since January 1, 2007, which is offset by the decline in the fair value of liabilities of \$542,500.

**Consolidated liabilities**

Consolidated liabilities were \$640,000 in 2007 as compared to \$1,630,300 in 2006. The variation is primarily due to a decline in accounts payable and accrued liabilities which was \$640,000 in 2007 as compared to \$1,173,600 in 2006, and the change in income taxes payable to \$NIL in 2007 as compared to \$456,700 in 2006.

**Shareholders' equity**

Shareholders' equity increased to \$10,643,700 in 2007 from \$8,638,800 in 2006. The increase is primarily due to: net transitional adjustments to the balance sheet on January 1, 2007 having an impact of \$6,487,600 on retained earnings; an increase in contributed surplus of \$394,500 related to YTD stock-based compensation charges and shares received in the Company's equity accounted investment in AGC valued at \$48,000; the issuance of common stock on the exercise of stock options of \$439,800 less a corresponding reduction of \$271,800 in contributed surplus for the exercise of stock options; and the net loss for the year.

### LIQUIDITY AND CAPITAL RESOURCES

This section should be read in conjunction with the annual consolidated balance sheets as at December 31, 2007 and the corresponding notes thereto. All references to years "2007" or "2006" 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, 2007 remains strong at 8.3 : 1 as compared to 4.3 : 1 at December 31, 2006.

The Company's objectives when managing capital are to: safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders, and to provide an adequate return to shareholders by maximizing fee income from the *Managed Products* consulting assets and investment returns on the *Merchant Banking* investment portfolio. The Company manages capital in proportion to risk and manages the investment portfolio and capital structure based on economic conditions and prevailing commodity pricing and trends. The Company relies on cash flow generated from operations and additional financing, if required, to maintain adequate liquidity to support its ongoing working capital commitments.

Receivables of \$284,400 at December 31, 2007 primarily consist of due diligence fees receivable collected in Q1 2008. Due from related parties of \$624,000 in 2007 primarily consists of \$273,600 due from Augen Gold Corp expected to be collected in Q2 2008, and \$260,700 due from Augen Limited Partnership 2007 also expected to be collected in Q2 2008. Income taxes receivable of \$96,800 represents amounts expected to be refunded when the tax return is assessed in 2008. Accounts payable and accrued liabilities of \$640,000 consist of amounts that are to be extinguished in due course.

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

Cash from operations, excluding changes in non-cash working capital, totaled \$119,000 for the year ended December 31, 2007 as compared to cash from operations of \$955,500 in 2006. The variation is primarily explained by a decline in net earnings (loss) and comprehensive earnings (loss) of \$6,440,900, the change in income taxes of \$1,632,200, offset by the change in net realized and unrealized loss of \$7,192,200.

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

Cash used in investing activities totaled \$24,600 in 2007 as compared to cash from investing activities of \$1,559,400 in 2006. The change is primarily due to an increase in the purchase of investments of \$259,400, a decrease in proceeds on the sale of investments of \$2,376,800, offset by a decline in assets acquired of \$560,000, shares received in the Company's equity accounted investment in AGC valued at \$48,000 as compared to \$NIL in 2006, and a decline of \$455,100 in mineral property expenditures.

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

Cash from financing activities was \$168,000 in 2007 as compared to \$1,935,100 in 2006. The decrease is primarily due to the exercise of stock options by directors and officers of \$168,000 as compared to \$247,000 in 2006, and 2006 activity including a \$1 million private placement financing in 2006, the exercise of warrants for \$643,000 in 2006, and \$96,000 in shares issued in 2006 to extinguish debt previously reported on the 2006 balance sheet.

### TRANSACTIONS WITH RELATED PARTIES

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

- A. The Company relies upon the services of a senior officer, who is also Chairman, for investment analysis and due diligence services. The services are provided by a related company that is controlled by the officer. The Company secured these services through an annual contract. During the year, the Company paid fees of \$237,500 (2006 - \$188,000) to the related company.
- B. The Company relies upon the services of a senior officer who is CEO. The services are provided by a related company that is controlled by the officer. The Company secured these services through an annual contract. During the year, the Company paid fees of \$94,500 (2006 - \$NIL) to the related company.
- C. The Company held investments at fair value of \$1,569,400 (2006 - \$ 3,050,000) at the end of the year (cost - \$225,300; 2006 - \$282,000) in an investee company where an officer of the Company was a director of the investee company until May 1, 2007.
- D. The Company relied upon the services of a senior officer for sales and marketing services until June 12, 2007. The services were provided by a related company that is controlled by the former officer. Fees of \$82,900 (2006 - \$126,000) were paid during the year to the related company.
- E. The Company held an investment, accounted for under the equity accounting method, in Augen Gold Corp. ("**AGC**") at a cost of \$788,500 (2006 - \$750,000), in which two directors of the Company are directors of AGC and two officers of the Company are officers of AGC. The Company charged \$101,000 (2006 - \$24,800) in professional service fees through a services agreement for CEO services, CFO services, premises, and overhead charges.

The Company received 240,000 founder shares of AGC valued at \$48,000. The amount was reported as an increase in contributed surplus.

An amount of \$273,600 (2006 - \$52,700), including loans advanced during the year, remains receivable from the investee company at the end of the year and is interest-bearing at the rate of prime plus 5% beginning January 1, 2008 and is payable on demand.

- F. The Company owns 100% of the general partners listed in note 3 and is responsible for the day to day management of the Augen limited partnerships. The general partners are entitled to an advisory fee equal to 2.00 - 2.25% of the net assets of the relevant partnerships. The general partners may earn a performance fee on the rollover transfer date of the limited partnerships into the BluMont Augen Resource Strategy Fund. The general partners earned advisory fees of \$473,600 (2006 - \$516,000) during the year. No performance fees were paid during the year (2006 - \$831,000). Certain general partners are reimbursed for administrative and operating expenses incurred on behalf of certain limited partnerships. The general partners were reimbursed \$329,800 (2006 - \$296,200) for such expenses during the year. An amount of \$336,900 (2006 - \$1,185,000) is due from the limited partnerships at December 31, 2007.
- G. The Company was entitled to an annual advisory fee equal to 2.50% of the net assets of BluMont Augen Resource Strategy Fund ("**RS Fund**") until October 11, 2007 when the Augen Resource Strategy Fund was subject to a name change to BluMont Augen Resource Strategy Fund and a change in Manager to BluMont Capital Corporation from Augen Capital Corp. Performance fees may be earned by the Company based on established thresholds on an annual basis. The Company earned advisory fees from the RS Fund of \$236,200 (2006 - \$252,000) and was paid \$NIL (2006 - \$44,700) performance fees during the year. The Company is reimbursed for administrative and operating expenses incurred on behalf of the RS Fund. The Company was reimbursed \$89,800 (2006 - \$36,000) by the Fund for such expenses during the year. An amount of \$60,900 (2006 - \$386,000) is receivable from the Fund at December 31, 2007.

**CRITICAL ACCOUNTING ESTIMATES**

**Valuation of investments**

Investments held for trading are recorded at fair value with the difference between fair value and cost being recorded as unrealized appreciation or depreciation in value of investments. In the case of securities listed on stock exchanges, the fair value means the latest bid price. Investments available for sale are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of, or becomes impaired. Investments for which reliable quotations are not readily available are valued at their fair value using a valuation model and market inputs. 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.

The fair value of purchase warrants is calculated using the Black-Scholes valuation model. The following weighted average assumptions are used when determining fair value using the Black-Scholes valuation model:

Risk free rate	4.0 – 5.0%
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, adjusted to reflect various factors including non-recurring price volatility, the Exchange hold periods on the instruments, and the liquidity of flow-through shares of Canadian resource companies.
Expected dividend yield	Determined by the terms and conditions of each instrument.

**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.

Consideration in the form of cash and/or shares received under mineral property option agreements are applied against the acquisition cost of mineral properties. Consideration, in excess of the acquisition cost of the mineral properties, is reported as income for the period.

**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 the carrying value. Any excess of carrying value over fair value is charged to income in the year in which impairment is determined.

**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, if applicable, 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 year.

**Stock-based compensation**

The Company follows guidance in the CICA 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	4.0 - 5.0%
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, adjusted to reflect various factors including non-recurring price volatility, the Exchange hold periods on the instruments, and the liquidity of flow-through shares of Canadian resource companies.
Expected dividend yield	0%.

CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

**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 related to the recognition of flow-through share tax deductions. Flow-through share tax deductions are recognized in the year in which they are renounced.

CHANGES IN ACCOUNTING POLICIES

**Adoption of new accounting policies**

On January 1, 2007, the Company adopted the CICA Handbook *Section 3855 Financial Instruments – Recognition and measurement; Section 3865 Hedges; and Section 1530 Comprehensive Income*. These standards require that all financial assets be classified as either held for trading (“HFT”), available for sale (“AFS”), held to maturity (“HTM”) or loans and receivables. Financial liabilities are classified as either trading or other. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value with subsequent measurement determined by the classification of each financial asset and liability. Transaction costs related to HFT securities are expensed as incurred. Transaction costs related to AFS, HTM, loans and receivables and deposits are generally capitalized and are then amortized using the effective interest method over the expected life of the instrument. Financial assets and financial liabilities held for trading are measured at fair value with the changes in fair value reported in earnings. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading are measured at amortized cost. Available for sale financial assets are measured at fair value with changes in fair value reported in other comprehensive income (“OCI”) until the financial asset is disposed of, or becomes impaired.

Accumulated other comprehensive income (“AOCI”) is a new component of shareholders’ equity. Comprehensive earnings are composed of the Company’s net earnings and other comprehensive income. Other comprehensive income will include unrealized gains and losses on available for sale financial assets, foreign currency translation on net investments in self-sustaining foreign operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes.

The Company does not have any comprehensive income components and, as such, comprehensive income is equal to net earnings. Accordingly, adopting CICA Handbook *Section 1530 Comprehensive Income* has had no effect on the Company’s financial statements.

As required, a transitional adjustment has been recognized in the opening balance of retained earnings as at January 1, 2007 for the following: (i) financial instruments that the Company classifies as held for trading and that were not previously recorded at fair value and (ii) the difference in the carrying amount of assets or liabilities. A transitional adjustment has been recognized in the opening balance of retained earnings relating to adjustments arising due to the re-measuring of financial assets classified as held for trading. Prior-period balances have not been restated. The impact of adopting these standards as at January 1, 2007 was as follows:

(\$000's)	As at December 31, 2006	Adjustment upon adoption of Section 3855	As at January 1, 2007	As at December 31, 2007
<b>Assets</b>				
Investments				
Held for trading	1,898	6,487	8,385	4,216
Available for sale and equity-accounted investments	1,271	-	1,271	1,094
Impact on total assets	3,169	6,487	9,656	5,310
<b>Liabilities and shareholders' equity</b>				
Accounts payable & accrued liabilities				
Future income taxes	1,174	900 (1)	2,074	
Impact on total liabilities	(52)	655 (1)	603	
Shareholders' equity	1,122	1,555	2,677	
Retained earnings	1,298	4,932	6,230	
Impact on liabilities and shareholders' equity	2,420	6,487	8,907	

(1) Incentive compensation payable, previously reported in the amount of \$900,000 on January 1, 2007 and charged directly to retained earnings as a transitional adjustment under CICA Handbook Section 3855, was reduced by \$542,500 during the year reflecting the change in fair value of the liability and offset by payments made during the year. The adjustment is reported as Adjustment to fair value of liabilities on the Statement of Earnings (Loss) and Comprehensive Earnings (Loss). The corresponding future taxes were also adjusted during the year.

**CHANGES IN ACCOUNTING POLICIES (CONTINUED)**

In 2007, the Company early adopted CICA Handbook *Section 1535 Capital Disclosures, Section 3861 Financial Instruments – Disclosure and Presentation, and Section 3862 Financial Instruments – Disclosures*. The adoption of these new pronouncements has enhanced the qualitative disclosure and did not have any effect on the Company's financial position or results of operations.

**FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

**Financial risk management**

The Company's financial risk management goals are to ensure that the outcome of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance and protecting the Company's consolidated balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk with overall business strategy, diversifying risk, pricing appropriately for risk, mitigation through preventive controls, and transferring risk to third parties.

There have been no major or significant changes that have had an impact on the overall risk assessment of the Company during the year. The investment objective and strategy for the direct holdings in the Merchant Banking portfolio and the indirect holdings in the *Managed Products* portfolio remain unchanged. The Company invests primarily in the equity securities of Canadian resource issuers and investors are exposed to the risks and rewards of the Canadian resource sector. The Company's exposure to potential loss from financial instruments relates primarily to its investment activities, and, in particular, credit risk and market risks including credit quality and equity market fluctuation risk.

*Credit Risk*

Credit risk is the risk that one party to a financial instrument fails to discharge its obligations and thereby causes financial loss to another party. The Company's exposure to credit risk is concentrated in two specific areas: the credit risk on operating balances, including Receivables and balances Due from related parties. The Company is also indirectly exposed to credit risk through its 100% interest in the general partners of the limited partnerships. Each of the outstanding limited partnerships has entered into term loan facilities at the prevailing prime interest rates plus a range of basis points. The term facilities are secured by a general security agreement on the assets of the limited partnerships and are subject to certain financial covenants. There are no other long-term or short-term loans outstanding.

The aggregate gross credit risk exposure at December 31, 2007 was \$5,182,800, and was comprised of \$284,400 in Receivables, \$624,000 in amounts Due from related parties, and \$4,274,400 of Cash and equivalents primarily held with financial institutions with an "AA" credit rating.

*Market Risk*

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, the trading price of equity and other securities, and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. Following is a discussion of the Company's primary market risk exposures and how those exposures are currently managed.

*Liquidity Risk*

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments. The purpose of liquidity management is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid securities.

The Company believes that its cash position, short term investments and investment in marketable securities provide adequate liquidity to meet all of the Company's obligations in 2008. The Company also expects to receive fee income on its flow-through consulting assets as well as investment income on its holdings of cash and equivalents.

*Market Price Fluctuations*

Market price fluctuations in the value of equity securities affect the level and timing of recognition in earnings and comprehensive earnings of gains and losses on securities held. General economic conditions, political conditions and many other factors can also adversely affect the stock markets and consequently, the value of the equity securities held.

The Company focuses on small and mid-market capitalization companies as these companies have historically generated higher per share returns. These companies can, however, be more volatile than larger capitalization companies. The following table summarizes the potential impact of a 10% change in the Company's equity-related holdings on the net earnings (loss) and other comprehensive earnings (loss) for the year ended December 31, 2007. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumptions that the equity-related holdings had increased/decreased by 10% with other variables held constant and that all the Company's equity and equity-related instruments moved in a one-to-one correlation with the market.

Changes in equity-related holdings	Effect on Net earnings (loss) and other comprehensive earnings (loss) (pre-tax)
10% increase	531,023
10% decrease	(531,023)

Generally, a 10% decline in the equity-related holdings resulting from market price fluctuations would decrease the pre-tax net earnings and comprehensive earnings whereas a 10% increase in equity-related holdings resulting from market price fluctuations would increase the pre-tax net earnings and other comprehensive earnings.