



ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007



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AUDITORS' REPORT

To the Shareholders of Augen Capital Corp.

We have audited the consolidated balance sheet of Augen Capital Corp. as at December 31, 2008 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2007 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated April 25, 2008.

Smith Nixon LLP

Licensed Public Accountants
Chartered Accountants
Toronto, Ontario
March 27, 2009



Consolidated Balance Sheets

<i>As at December 31,</i>	2008 \$	2007 \$
ASSETS		
Current assets		
Cash	2,381,816	4,274,394
Prepaid expenses and deposits	55,023	32,193
Receivables	44,400	284,372
Due from related parties (<i>note 11</i>)	1,440,930	623,993
Income taxes recoverable	462,364	96,775
	4,384,533	5,311,727
Investments		
Investment in Augen Gold Corp. (<i>note 4</i>)	642,145	4,521,754
Investment in Augen Gold Corp. (<i>note 4</i>)	1,253,444	788,474
Mineral properties and deferred costs (<i>note 5</i>)	747,208	562,943
Property, plant and equipment, net (<i>note 6</i>)	88,985	46,222
Future income taxes (<i>note 10</i>)	470,929	52,565
Total assets	7,587,244	11,283,685
LIABILITIES		
Current liabilities		
Accounts payable	97,957	27,528
Accrued and other liabilities	157,605	599,789
	255,562	627,317
Deferred lease inducement	40,794	12,660
Total liabilities	296,356	639,977
SHAREHOLDERS' EQUITY		
Capital stock (<i>note 7</i>)	7,235,551	7,212,362
Contributed surplus (<i>note 8</i>)	875,748	739,407
Retained earnings (deficit)	(820,411)	2,691,939
	7,290,888	10,643,708
Total liabilities and shareholders' equity	7,587,244	11,283,685

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

Approved on behalf of the Board of Directors:

"Tony Busseri" (signed)
Tony Busseri, Director

"Hugh Squair" (signed)
Hugh Squair, Director



Consolidated Statements of Operations and Comprehensive Earnings

For the years ended December 31,	2008 \$	2007 \$
Income		
Fee income	1,454,814	2,662,325
Realized gains on sale of investments held for trading	80,668	1,494,467
	1,535,482	4,156,792
Expenses		
General and administrative	2,558,442	2,884,322
Stock-based compensation	143,530	394,526
Goodwill write-down	-	62,014
Interest expense	44,532	55,994
	2,746,504	3,396,856
Earnings (loss) before undernoted items	(1,211,022)	759,936
Share of loss and dilution gains from equity accounted investment (note 4)	(464,970)	34,526
Unrealized loss on investments held for trading	3,246,331	5,302,553
Non-recurring charges (note 15)	514,876	-
Adjustment to fair value of liabilities	(220,380)	(542,516)
Amortization	22,565	13,217
Earnings (loss) before income taxes	(4,309,444)	(4,047,844)
Income taxes (note 10)		
Current	(378,730)	145,527
Future	(418,364)	(654,955)
	(797,094)	(509,428)
Net earnings (loss) and comprehensive earnings (loss)	(3,512,350)	(3,538,416)
Earnings (loss) per share		
Basic and diluted	(0.10)	(0.10)
Weighted average shares outstanding	36,576,270	35,196,377

Consolidated Statements of Retained Earnings (Deficit)

For the years ended December 31,	2008 \$	2007 \$
Retained earnings (deficit), at beginning of year	2,691,939	1,297,599
Transitional adjustment on adoption of accounting policies	-	4,932,756
Balance at beginning of year, as restated	2,691,939	6,230,355
Net earnings (loss) and comprehensive earnings (loss) for the year	(3,512,350)	(3,538,416)
Retained earnings (deficit), at end of year	(820,411)	2,691,939

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



Consolidated Statements of Cash Flows

<i>For the years ended December 31,</i>	2008 \$	2007 \$
Cash flow from (used in) operating activities		
Net earnings (loss) and comprehensive earnings (loss)	(3,512,350)	(3,538,416)
Amortization	22,565	13,217
Stock-based compensation	143,530	394,526
Goodwill write-down	-	62,014
Realized and unrealized (gain) loss on investments held for trading	3,165,663	3,808,086
Share of loss and dilution gains from equity accounted investment	(464,970)	34,526
Future income taxes	(418,364)	(654,955)
	(1,063,926)	118,998
Changes in non-cash working capital	(425,392)	399,124
Cash flow from (used in) operating activities	(1,489,318)	518,122
Cash flow from (used in) investing activities		
Purchase of investments	(267,450)	(2,280,309)
Proceeds from the sale of investments	981,396	2,274,738
Repayment of advances to related parties	1,401,552	-
Advances to related party	(2,285,165)	(220,889)
Purchase of property, plant and equipment	(65,328)	(13,155)
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	(184,265)	(53,898)
Cash flow from (used in) investing activities	(419,260)	(245,514)
Cash flow from financing activities		
Issuance of common shares, net of issue costs	16,000	168,000
Cash flow from financing activities	16,000	168,000
Net increase (decrease) in cash	(1,892,578)	440,608
Cash, beginning of year	4,274,394	3,833,786
Cash, end of year	2,381,816	4,274,394
Interest paid during the year	24,878	55,994
Income taxes paid during the year	86,098	699,811

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



Notes to Consolidated Financial Statements December 31, 2008

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 or projects. In addition, Augen acts as a consultant to issuers of mineral resource tax-advantaged flow-through shares in Canada. Augen is also registered as a limited market dealer with the Ontario Securities Commission.

2. Adoption of new accounting policies

Effective January 1, 2008, the amendments to the going concern disclosure under CICA Handbook *Section 1400 General Standards of Financial Statement Presentation* have been adopted. CICA Handbook *Section 3863 Financial Instruments – Presentation* was also adopted on this date. 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.

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%
Polar Bear Explorations Inc.	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%

Use of estimates

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

The areas that involve significant use of management estimates and assumptions are: recognition of impairment of mineral properties, allowances for amounts due from related parties, stock-based compensation, determination of fair values of certain investments held for trading, impairment of equity investment, the valuation of warrants, determination of income tax assets and loss carry-forwards, and determination of contingent liabilities.

Financial instruments

Financial assets are classified as held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are classified as either held for trading or other liabilities. 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 held for trading securities are expensed as incurred. Transaction costs related to financial assets available for sale, held to maturity, and loans and receivables 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 until the financial asset is disposed of, or becomes impaired. The Company has classified receivables and due from related parties as loans and receivables, cash equivalents and investments as held for trading, and accounts payable as other liabilities. Accrued liabilities included incentive compensation payable, previously charged directly to retained earnings as a transitional adjustment, which was reduced by the change in the fair value of the liability and offset by payments made during the year. The adjustment is reported as adjustment to fair value of liabilities in earnings.

Accumulated other comprehensive income is a component of shareholders' equity. Comprehensive earnings are composed of the Company's net earnings and other comprehensive income. Other comprehensive income includes 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 other comprehensive income components and, as such, comprehensive income is equal to net earnings (loss).



Notes to Consolidated Financial Statements
December 31, 2008

3. Summary of significant accounting policies (continued)

Cash and equivalents

Cash and equivalents may include money market instruments and short-term investments with maturities of less than three months.

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.

Fair value of investments in shares of private companies, for which market quotations or other benchmarks are not available, is determined by reviewing the most recent arms' length equity financing of the subject company and determining whether or not such financing is relevant for valuation purposes. In the absence of such financing, fair value is determined by applying the relative change in the quoted value of a peer group of listed companies having similar characteristics to the private investment. A discount may be applied to the resulting fair value in order to reflect the liquidity risk associated with private company investments. Private company investments are not valued above original cost unless compelling evidence exists to support such an increase.

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 amounts 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, is applied against the acquisition cost of the mineral property and related deferred exploration expenditures. Consideration, in excess of the acquisition cost and related deferred exploration expenditures on the mineral property, is reported as income for the year and is included under fee income in the consolidated statements of operations and comprehensive earnings.

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 or straight-line basis using the following rates:

Furniture and equipment	20%
Computer hardware	30%
Computer software	100%
Leasehold improvements	5 years, straight-line

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 and 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%.



**Notes to Consolidated Financial Statements
December 31, 2008**

3. Summary of significant accounting policies (continued)

Future income taxes

The Company follows the asset and 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 period in which the tax authorities are notified of expense renunciations.

Deferred lease inducements

Deferred lease inducements, which include free rent, are recorded as liabilities on the consolidated balance sheets and recognized as a reduction of rent expense on a straight-line basis over the term of the lease.

Revenue recognition

The Company recognizes revenue when all significant acts in relation to revenue have been completed or the Company has performed all engagement requirements in accordance with the relevant agreements and at the time of recognition, the collection of revenue is reasonably assured. The Company recognizes revenue through each of its Managed Products and Merchant Banking segments.

Managed Products

In the Managed Products segment, the Company earns fees for services rendered, including consulting and due diligence fees. 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 periodically based on the average net assets of the limited partnerships as described in the respective limited partnership offering documents. Performance fees, if applicable, are earned on the rollover transaction asset transfer date of the limited partnerships into a mutual fund corporation. The reimbursement of set-up expenses from the limited partnerships offered during the year are recorded upon the initial and subsequent closings of the limited partnership.

Merchant Banking

In the Merchant Banking segment, the Company earns revenue primarily through securities transactions. These transactions are recorded on a trade-date basis. Realized gains and losses on the disposal of investments and unrealized gains and losses due to the change in fair value of held-for-trading investments are reflected in the consolidated statements of operations and comprehensive earnings and are calculated on an average cost basis. The Merchant Banking segment also earns fees for consulting and due diligence services. Fee income also includes dividend income recorded on the ex-dividend date, and interest income, recorded on an accrual basis using the effective interest method.

Foreign currency translation

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

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

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

4. Investment in Augen Gold Corp.

Augen Capital Corp.'s investment in Augen Gold Corp. ("**AGC**") has been accounted for under CICA Handbook *Section 3051 Investments*, using the equity-accounting method. The equity accounting method requires Augen's investment in AGC to be recorded at cost, and adjusted for its proportionate share of income or loss and capital transactions from AGC. As at December 31, 2008, the investment in AGC has been recorded at \$1,253,444 which has been adjusted for its proportionate share of loss of \$33,353 and dilution gains of \$498,323. The fair market value of AGC as at December 31, 2008, based on the closing bid price per share, was \$161,600.



**Notes to Consolidated Financial Statements
December 31, 2008**

5. Mineral properties and deferred costs

For the years ended December 31,	2008	2007
	\$	\$
Acquisition costs		
Balance, beginning of year	1	-
Acquisition costs ⁽¹⁾	-	25,000
Option payments received ⁽²⁾	-	(24,999)
	1	1
Deferred exploration expenditures		
Balance, beginning of year	562,942	509,044
Exploration costs ⁽³⁾	184,265	53,898
	747,207	562,942
Balance, end of year	747,208	562,943

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

⁽²⁾ 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. In 2007, 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 \$150,001 in income on the consolidated statement of operations and comprehensive earnings for the year ended December 31, 2007.

In March 2008, pursuant to the terms of the option agreement, IKI issued 1,000,000 shares to the Company at a value of \$40,000. The amount was reported in income during the year.

In May 2008, pursuant to the terms of the option agreement, IKI made \$25,000 in option payments. The amount was reported in income during the year.

⁽³⁾ On February 29, 2008, the Company acquired the residual 24% non-controlling interest in Polar Bear Explorations Inc. ("PBE") and now owns 100% of the outstanding shares of PBE. The purchase price of \$165,000, representing the fair value of the non-controlling interest in PBE, has been assigned to Mineral properties and deferred costs. The balance of \$19,265 relates to other deferred exploration expenditures.

In 2006, Augen established Polar Bear Explorations Inc. ("PBE"), a mining company currently in the exploration stage, to acquire claims in the Hudson Bay / James Bay area of northern Ontario, south east of the community of Peawanuck and south west of Polar Bear Provincial Park. Twenty-four claims (the "Property") have been staked and recorded in PBE. PBE owns 100% of the mineral rights on the Property. The Ministry of Northern Development and Mines has granted an Exclusion of Time to PBE which waives the annual expenditure requirements required by the Mining Act, pending the completion of an exploration agreement with the Weenusk First Nation.

6. Property, plant and equipment

	As at December 31, 2008			As at December 31, 2007		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computer hardware	61,872	46,841	15,031	56,697	41,509	15,188
Computer software	4,116	3,559	557	3,001	1,501	1,500
Furniture and equipment	99,052	63,905	35,147	82,514	57,186	25,328
Leasehold improvements	42,500	4,250	38,250	9,127	4,921	4,206
	207,540	118,555	88,985	151,339	105,117	46,222



**Notes to Consolidated Financial Statements
December 31, 2008**

7. 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 preferred shares are non-redeemable, non-callable, non-voting and have 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,	2008		2007	
	No. of Shares	\$	No. of Shares	\$
Balance, beginning of year	36,515,614	7,212,362	35,915,614	6,772,575
Issuance of shares for cash:				
Exercise of stock options	100,000	23,189	600,000	439,787
Balance, end of year	36,615,614	7,235,551	36,515,614	7,212,362

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 stock option plan is a rolling plan and the maximum number of authorized but unissued shares available to be granted 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,	2008		2007	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding, beginning of year	\$0.41	2,900,000	\$0.24	1,400,000
Transactions during the year:				
Granted ⁽¹⁾	0.25	1,050,000	0.49	2,200,000
Options exercised	0.16	(100,000)	0.28	(600,000)
Expired	0.41	(1,600,000)	0.55	(100,000)
Outstanding, end of year	\$0.35	2,250,000	\$0.41	2,900,000
Exercisable, end of year	\$0.39	1,076,393	\$0.36	1,775,068

As at December 31, 2008, the 2,250,000 options have a weighted average remaining life of 3.26 years. Subsequent to the end of the year, 600,000 stock options were forfeited.

⁽¹⁾ During the year, the Company granted 1,050,000 stock options. The estimated fair value of options that have vested during the year is \$143,530 using the Black-Scholes model. The estimated fair value of the vested options has been charged during the year to the statements of operations and comprehensive earnings and credited to contributed surplus in shareholders' equity on a straight-line basis over any applicable vesting period. 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%

8. Contributed surplus

For the years ended December 31,	2008	2007
	\$	\$
Balance, beginning of year	739,407	568,668
Value assigned to:		
Stock-based compensation on vested options	143,530	394,526
Exercise of stock options	(7,189)	(271,787)
Founder shares received of Augen Gold Corp.	-	48,000
Balance, end of year	875,748	739,407



Notes to Consolidated Financial Statements
December 31, 2008

9. Commitments and contingencies

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

2009	\$ 234,565
2010	\$ 230,570
2011	\$ 227,287
2012	\$ 224,188
2013	\$ 186,823

Certain legal actions against the Company are pending. Additionally, in the normal course of operations, certain contingencies may arise relating to legal actions undertaken against the Company. In the opinion of management, the outcome of such pending and potential legal actions will not have a material adverse effect on the Company's results of operations, liquidity or its financial position.

10. Income taxes

The Company's reported income taxes differ from the amounts obtained by applying statutory rates (2008 - 33.5%, 2007 - 36.12%) to the loss before income taxes as follows:

For the years ended December 31,	2008	2007
	\$	\$
Income tax (recovery) provision at statutory rates	(1,443,664)	(1,462,081)
Increase (decrease) related to:		
Non-taxable components of investment income	(13,512)	(269,901)
Previously unrecorded tax expense	83,633	144,034
Unrealized (gains) losses on held for trading investments	469,933	957,641
Share of (loss) and dilution gains from equity investment	(77,883)	(12,471)
Stock-based compensation	48,082	142,503
Reduction in future income taxes resulting from reduction in tax rate	125,383	-
Other	10,934	(9,153)
Provision for income taxes	(797,094)	(509,428)
Classified as:		
Current	(378,730)	145,527
Future	(418,364)	(654,955)
	(797,094)	(509,428)

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

As at December 31,	2008	2007
	\$	\$
Future income tax asset (liability):		
Net operating losses carried forward	111,606	17,248
Recoverable taxes paid	59,758	59,758
Investments	349,277	6,083
Accounting provisions not currently deductible	10,046	29,234
Less: valuation allowance	(59,758)	(59,758)
	470,929	52,565
Classified as:		
Non-current	470,929	52,565
	470,929	52,565



**Notes to Consolidated Financial Statements
December 31, 2008**

11. Related party transactions

The amounts due from related parties are as follows:

As at December 31,	2008	2007
	\$	\$
Due from investee company ⁽³⁾	1,157,217	273,604
Due from Managed Products ^{(4), (5)}	283,713	400,389
	1,440,930	673,993
Due to other related parties ^{(1), (2), (3)}	-	(50,000)
Total amount due from related parties, net	1,440,930	623,993

The amounts which are receivable and payable at the end of the year are summarized in the table above. The following were related party transactions during the year, of which certain amounts have been collected or paid. The transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties:

- (1) 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 \$255,455 (2007 - \$237,500) to the related company.
- (2) The Company relied upon the services of a senior officer, who was CEO, for strategic planning and management services. The services were provided by a related company that is controlled by the officer. The Company secured these services through an annual contract which was terminated effective April 25, 2008. During the year, the Company paid fees of \$66,666 (2007 - \$94,500) to the related company.
- (3) The Company holds an investment, accounted for under the equity-accounting method in AGC. A director of the Company is a director of AGC and two officers of the Company are officers of AGC. The Company reported \$233,636 (2007 - \$101,000) in professional service fees earned through a services agreement with AGC for CEO and CFO services, premises and overhead charges, and interest charged on loan advances at the rate of prime plus 5% per annum beginning January 1, 2008. The balance at year end of \$1,157,217 consists of loan advances in the amount of \$1,121,851 which were unsecured with no terms of repayment. Subsequent to the end of the year, the loan advances were converted into 7,479,010 common shares of AGC at a price of \$0.15 per share. The remaining balance of \$35,366 represents operational costs, which were collected subsequent to the end of the year. The Company also received a cash commission of \$31,055 and broker warrants valued at \$13,340, paid by Union Securities Inc. ("**Union**"), from proceeds Union received from AGC for acting as its agent in connection with the AGC IPO completed on June 5, 2008.

In 2007, the Company had an amount of \$50,000 due to an investee company of which an officer of the Company was a director until May 1, 2007. The amount was written off and included in income in 2008.

- (4) 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 respective partnerships. The general partners may earn a performance fee on the rollover transfer date of the limited partnerships into BluMont Augen Resource Strategy Fund. The general partners earned advisory fees of \$89,065 (2007 - \$473,608) during the year. No performance fees were paid during the period (2007 - \$NIL). Certain general partners are reimbursed for administrative and operating expenses incurred on behalf of certain limited partnerships. The general partners were reimbursed \$142,857 (2007 - \$329,763) for such expenses during the year.
- (5) 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 ("**BluMont**") from Augen Capital Corp. Pursuant to the terms of an agreement entered into by Augen and BluMont, Augen continues to earn a percentage of fees from RS Fund. Performance fees may be earned by the Company based on established thresholds on an annual basis. The Company earned advisory fees from RS Fund of \$142,695 (2007 - \$236,193) and was paid performance fees of \$NIL (2007 - \$NIL) during the year. The Company was reimbursed \$7,192 (2007 - \$89,753) for administrative and operating expenses during the year as BluMont is now the Manager of RS Fund.

Pursuant to the terms of the agreement between Augen and BluMont, the Company earned a percentage of the advisory fees for investment consulting services, paid from the new BluMont Augen limited partnerships. The Company earned investment consulting fees of \$263,306 (2007 - \$NIL) during the year.



**Notes to Consolidated Financial Statements
December 31, 2008**

12. Segmented information

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

The Managed Products ("MP") segment earns fees related to the limited partnerships and the mutual fund. These fees include, where applicable, management fees, performance fees, due diligence fees, setup fees, and operating expense reimbursements.

On August 29, 2007, Augen signed a definitive agreement with BluMont whereby BluMont assumed the sales and distribution and back-office for the flow-through business in the MP 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 Operations and Comprehensive Earnings						
	Managed Products		Merchant Banking		Total	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
<i>For the years ended December 31,</i>						
Income	924,853	2,118,180	610,629	2,038,612	1,535,482	4,156,792
Expenses	1,316,244	1,759,827	1,430,260	1,637,029	2,746,504	3,396,856
Earnings (loss) before undernoted items	(391,391)	358,353	(819,631)	401,583	(1,211,022)	759,936
Share of loss and dilution gains from equity accounted investment (note 4)	-	-	(464,970)	34,526	(464,970)	34,526
Unrealized loss on investments held for trading	-	-	3,246,331	5,302,553	3,246,331	5,302,553
Non-recurring charges (note 15)	257,438	-	257,438	-	514,876	-
Adjustment to fair value of liabilities	-	-	(220,380)	(542,516)	(220,380)	(542,516)
Amortization	11,282	6,609	11,283	6,608	22,565	13,217
Earnings (loss) before income taxes	(660,111)	351,744	(3,649,333)	(4,399,588)	(4,309,444)	(4,047,844)
Income taxes						
Current					(378,730)	145,527
Future					(418,364)	(654,955)
					(797,094)	(509,428)
Net earnings (loss) and comprehensive earnings (loss)					(3,512,350)	(3,538,416)
Consolidated Assets						
	Managed Products		Merchant Banking		Total	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
<i>As at December 31,</i>						
Total assets	540,012	733,415	7,047,232	10,550,270	7,587,244	11,283,685
Shareholders' equity per share^(*)					0.20	0.29
<i>* Defined as shareholders' equity per financial statements, divided by common shares outstanding</i>						



**Notes to Consolidated Financial Statements
December 31, 2008**

13. 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.

The long-term investment objective and strategy for the direct holdings in the Merchant Banking portfolio and the consulting assets in the Managed Products portfolio remain unchanged. However, the short-term corporate objective and strategy continues to be modified to reflect the current global economic financial crisis and general market uncertainty, which will inevitably have an impact on the overall risk assessment of the Company. Such modifications include streamlining operational costs, preserving cash to the extent possible, and as a result of the weakened markets, management has suspended the disposition of securities until the markets show signs of improvement. The Company invests primarily in the equity securities of Canadian resource issuers. 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, fair value risk, credit risk, liquidity risk, and market risk including credit quality and equity market fluctuation risk as described below.

Fair value risk

The carrying value of accounts receivable, due from related parties, accounts payable, and accrued liabilities approximates fair value due to the relatively short-term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

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 the credit risk on balances due from related parties. The Company was exposed to credit risk with respect to the loan advances due from its equity-accounted investment in AGC, which earned interest at the prime lending rate plus 5%. The loan advances were converted into common shares of AGC after year end as disclosed in the *Subsequent Events* section.

The aggregate gross credit risk exposure at December 31, 2008 was \$3,867,146, and was comprised of \$44,400 in receivables, \$1,440,930 in amounts due from related parties, and \$2,381,816 of cash held with financial institutions with an "AA" credit rating and securities brokerage firms.

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. All financial liabilities, with the exception of deferred lease inducements, are current.

The Company believes that its cash position, short term investments, if any, and investments in marketable securities provide adequate liquidity to meet all of the Company's financial obligations for at least the next twelve months. The Company also expects to receive fee income on its flow-through consulting assets as well as investment income on its holdings of cash.

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. Market price fluctuations and 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, 2008. 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 comprehensive earnings (loss) (pre-tax)
10% increase	64,215
10% decrease	(64,215)

Generally, a 10% decline in the value of equity-related holdings resulting from market price fluctuations would decrease the pre-tax net earnings and comprehensive earnings whereas a 10% increase in the value of equity-related holdings resulting from market price fluctuations would increase the pre-tax net earnings and other comprehensive earnings. Currently, two investments represent 48% of the Company's MB investment portfolio.



**Notes to Consolidated Financial Statements
December 31, 2008**

14. Capital management

The Company includes cash, receivables, amounts due from related parties, investments and shareholders' equity in its capital management considerations. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders by maximizing fee income from the MP consulting assets and investment returns on the MB 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 following table is a summary of quantitative data about what the Company manages as capital:

	December 31, 2008	December 31, 2007	Change
	\$	\$	\$
Cash	2,381,816	4,274,394	(1,892,578)
Receivables	44,400	284,372	(239,972)
Due from related parties	1,440,930	623,993	816,937
Investments	642,145	4,521,754	(3,879,609)
Shareholders' equity	7,290,888	10,643,708	(3,352,820)

The Company monitors these items to assess its ability to fulfill its ongoing financial obligations. The Company relies on cash flow generated from operations, ongoing cost cutting measures and additional financing, if required, to maintain adequate liquidity to support its ongoing working capital commitments. As a result of the current economic conditions and market uncertainty, the Company: has streamlined operational costs; is preserving cash to the extent possible; and has suspended the disposition of securities until the markets show signs of improvement.

15. Non-recurring charges

The non-recurring charges of \$514,876 include legal expenses, proxy solicitation fees and other professional consulting fees relating to the 2008 Annual and Special Meeting of Shareholders, which was expected to be a contested meeting until a settlement was reached among the former CEO and Lead Director, and the current Chairman of the Company, regarding the composition of management's slate of nominees to the Board of Directors. These costs are expected to be one time in nature and not to reoccur.

16. Subsequent events

New Management Agreement

On February 27, 2009, the Company announced that it had entered into a management agreement effective March 1, 2009 pursuant to which OreReserve Asset Management Corp. (the "**Manager**"), a newly formed subsidiary of Integrated Asset Management Corp. ("**IAM**") (TSX: IAM), will manage the Company's business. The Manager is owned 51% by IAM and 49% by certain employees of the Manager, of which 26% is owned by J. David Mason, Chairman and CEO of Augen Capital Corp. and President and CEO of the Manager. Augen's employees and consultants have been retained by, and commenced working with, the Manager effective March 1, 2009. Pursuant to the Management Agreement, the Manager will perform all management and administrative functions for Augen, including managing its merchant banking and consulting operations. Under the Management Agreement, Augen's non-public company overhead costs are capped at their 2008 rate subject to an annual increase based on increases in the Consumer Price Index. Augen is expected to recoup some or all of these overhead costs through a revenue sharing provision in the Management Agreement. The management fee paid under the Management Agreement will be the greater of \$1,151,520 or 2% of the average of the Company's quarterly net asset value ("**Yearly Base NAV**"). There is also a bonus of 20% payable to the Manager of the amount by which the Company's pre-tax income exceeds a threshold increase of 6% in Yearly Base NAV (the "**Performance Bonus**"). The four-year initial term of the Management Agreement begins on March 1, 2009 and will expire on December 31, 2012 (the "**Initial Term**"). The Management Agreement will renew automatically for a fifth year (the "**Extended Term**"), provided at least one of three performance criteria is met by the Manager. The performance criteria include the Manager earning a Performance Bonus in a specified number of years during the Initial Term, the Manager raising a minimum amount of new capital in Augen for investment purposes and/or an increase in Augen's shareholders' equity by at least 6% per annum during the Initial Term. Following the Extended Term, the Management Agreement will be deemed to renew automatically for successive one-year terms. Following the Extended Term, the Management Agreement may be terminated by either Augen or the Manager on 60 days' prior written notice, subject to a termination penalty equal to two times the prevailing Management Fee if Augen terminates the Management Agreement. The Management Agreement may be terminated immediately by either Augen or the Manager, without penalty, in certain circumstances, including certain events of bankruptcy and insolvency, a party voluntarily ceasing to carry on business in the ordinary course and breach of contract.

On February 27, 2009, in connection with the Management Agreement, Augen collected \$257,978 due from BluMont Capital Corporation.

Shares-for-Debt transaction

The Company called a special meeting of the shareholders of AGC, an investee company in the MB portfolio. The meeting was held on March 13, 2009. The shareholders of AGC were asked to vote on a resolution approving a shares-for-debt transaction for the conversion of debt owed by AGC to the Company, into common shares. One hundred percent of the disinterested shareholders who voted on this resolution did so in favour of the conversion. As a result, AGC has issued 7,479,010 common shares at a price of \$0.15 per share to settle \$1,121,851 of debt and the Company now owns 11,519,010 shares of AGC which represents 35.5% of the issued and outstanding common shares of AGC.

17. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. Net loss previously reported has not been affected by this reclassification.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007



MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") analyzes significant changes in the annual consolidated balance sheets, consolidated statements of operations and comprehensive earnings, 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, 2008 and notes thereto.

The MD&A is presented in the following sections:

Page 1	Forward-Looking/Safe Harbour Statement and Fair Disclosure Statement
Page 2	About Our Business
Page 5	Significant Events
Page 7	Financial Review
	Accounting Policies and Estimates
	Consolidated Operating Results
	Summary of Quarterly Results
	Consolidated Financial Position
	Liquidity and Capital Resources
Page 16	Transactions with Related Parties
Page 17	Changes in Accounting Policies
Page 17	Financial Instruments and Risk Management

The MD&A has been prepared effective April 30, 2009.

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

On March 6, 2008, Michael G. Fowler was appointed to the Board of Directors. On April 25, 2008, George D. Elliott, Michel LeBel, and Rhoderic Whyte voluntarily resigned from the Board of Directors. Mr. Elliott also voluntarily resigned as Chief Executive Officer and Mr. Fowler was appointed as the Interim Chief Executive Officer. Mr. Ian C. Peres voluntarily resigned as Chief Financial Officer and Mr. Manish Z. Kshatriya, Director of Finance, became the interim Chief Financial Officer of the Company.

Effective April 29, 2008, Mr. Tony Busseri was appointed to the Board of Directors and served as the Chair of the Company's Audit Committee through to the Company's Annual and Special Meeting which was held on May 29, 2008. At the Special Meeting, Mr. Tony Busseri, Mr. James Kelleher, and Mr. Roger Muelhaupt were elected to the Board of Directors.

On July 3, 2008, the Company announced the appointment of Mr. Michael D. Harris to the Company's Board of Directors. On July 11, 2008, the Company announced the composition of the new board committees. Mr. Harris assumed the Chair of the Governance, Nomination, and Compensation committees, as well as being Lead Director. It was further reported that Mr. Busseri would continue as Chair of the Audit Committee.

On September 12, 2008, the Company announced three appointments to its management team. Mr. J. David Mason was appointed as President and Chief Executive Officer. Mr. Manish Z. Kshatriya was appointed as Chief Financial Officer. Mr. Michael G. Fowler was appointed as Chief Operating Officer.

On December 12, 2008, Mr. Michael G. Fowler resigned as Chief Operating Officer and Director.

On February 27, 2009, in connection with the new Management Agreement discussed in the *Significant Events* section, the Company announced the appointment of Mr. Victor Koloshuk to its Board of Directors, subject to approval of the TSX Venture Exchange ("**TSX-V**"). As a result, the Augen Capital Board of Directors is now comprised of: Chairman, J. David Mason; Victor Koloshuk; and independent Directors Michael Harris, Tony Busseri, James Kelleher, Roger Muelhaupt and Dr. Hugh Squair. Please refer to the Company's press releases which are available at www.augenc.com or www.sedar.com for further details.

ABOUT OUR BUSINESS

Based in Toronto, Ontario, Canada, Augen is a merchant bank specializing in the financing of and investment in early-stage resource companies or projects. In addition, Augen acts as a consultant to issuers of mineral resource tax-advantaged flow-through shares in Canada. Augen is also registered as a limited market dealer with the Ontario Securities Commission ("**OSC**").

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.

Augen business objective

The primary business objective of the Company is to create shareholder value through recurring revenue streams and capital appreciation of assets held for investment. Augen expects to focus on a smaller number of larger sized transactions. The Company expects to achieve these objectives primarily through, (1) its merchant banking activities including transactional fee income, (2) fees from providing management services and strategic advice to investee companies, and (3) capital appreciation from the acquisition and disposition of merchant banking positions. In addition, the Company receives fee income from its consulting activities in the mineral resource flow-through sector.

Augen maintains a strong financial position with substantial liquidity in the form of cash and securities in order to be responsive to new opportunities and support existing ones.

ABOUT OUR BUSINESS (Continued)

MANAGED PRODUCTS

The Managed Products ("MP") segment consists primarily of operations and consulting mandates related to flow-through limited partnerships and mutual fund consulting mandates. The MP segment earns fees related to the limited partnerships and the mutual fund. These fees include, where applicable, management fees, performance fees, and due diligence fees. Augen and the general partners are also entitled to reimbursement for operating expenses incurred on behalf of the limited partnerships.

The MP segment provides Augen with participation and diversification in the emerging resource sector via fees earned on consulting assets. The top ten consulting assets at December 31, 2008 are listed below:

Top Ten Consulting Assets

Name	Shares / Warrants	Fair Value	Projects	Location
Bravo Venture Group	2,700,000	\$ 1,170,000	Gold, silver	Northern British Columbia
Explor Resources Inc.	5,625,000	900,002	Gold, base metals	Ontario, Quebec, Saskatchewan
Alexis Minerals Corporation	1,900,000	855,000	Gold, base metals	Quebec
Hawthorne Gold Corp.	2,000,000	800,000	Gold	British Columbia
Stornoway Diamond Corporation	6,666,667	600,000	Diamonds	Ontario, Quebec, Saskatchewan, Alberta, NWT
Uracan Resources Ltd.	3,600,000	540,001	Uranium	Quebec, Saskatchewan
Metanor Resources Inc.	1,200,000	534,000	Gold	Quebec, Ontario
Northern Star Mining Corporation	857,200	497,176	Gold	Quebec
Cogitore Resources Inc.	3,666,666	476,667	Base metals	Quebec, Ontario
Rockport Mining Corp. ⁽¹⁾	470,589	400,001	Gold	New Brunswick
Top ten - subtotal		6,772,847		
Other consulting assets		9,893,042		
Fair value, consulting assets		\$ 16,665,889		

⁽¹⁾ Private company investment

Augen owns 100% of the general partners of the following limited partnerships:

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 having raised over \$12.0 million.

Augen Limited Partnership 2006

The net assets of Augen Limited Partnership 2006 ("LP2006") were acquired by RS Fund on December 31, 2007 in exchange for Class C shares of RS Fund. The transaction closed on January 22, 2008.

Augen Limited Partnership 2006-1

The net assets of Augen Limited Partnership 2006-1 ("LP2006-1") were acquired by RS Fund on December 31, 2007 in exchange for Class D shares of RS Fund. The transaction closed on January 22, 2008.

The Company also consults on and earns fees from the assets of: BluMont Augen Limited Partnership 2008, BluMont Augen Quebec Limited Partnership 2008, BluMont Augen Limited Partnership 2007-1, and BluMont Augen Resource Strategy Fund.

ABOUT OUR BUSINESS (Continued)

MERCHANT BANKING

The Merchant Banking ("MB") segment consists of an investment portfolio of primarily emerging resource companies. The MB segment provides financing and strategic management support to certain resource investee companies with the goal of maximizing net gains realized on the MB investment portfolio.

Due diligence fees are earned in the normal course of carrying out necessary due diligence, in conjunction with the Company's Advisory Board, for certain investments in the merchant banking investment 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 Company also holds one investment in a private company. The top ten holdings in the MB investment portfolios at December 31, 2008 are listed below:

Top Ten Holdings - Merchant Banking Portfolios

Name	Shares /		Projects	Location
	Warrants	Fair Value		
Energy Fuels Inc.	963,031	\$ 207,052	Uranium	US South-West
American Bonanza Gold Corp.	3,125,000	100,111	Gold	Quebec, British Columbia, US South-West
Staccato Gold Resources Ltd.	1,720,000	61,041	Gold	Nevada
Bravo Venture Group	180,000	36,000	Gold, silver	Northern British Columbia
Rukwa Uranium Ltd. ⁽¹⁾	600,000	30,000	Uranium	Quebec
Stornoway Diamond Corporation	219,780	18,681	Diamonds	Ontario, Quebec, Saskatchewan, Alberta, NWT
Grande Portage Resources Ltd.	600,000	18,000	Gold, base metals	British Columbia
Nordic Diamonds Ltd.	7,000,000	17,500	Diamonds, base metals, gold	Northwest Territories, Sweden
Maxim Resources Inc.	200,000	17,000	Oil and gas	Trinidad, Gulf of Mexico, Texas
New Nadina Explorations Limited	136,500	15,015	Diamonds, silver, gold	British Columbia, Saskatchewan, NWT, Nunavut
Top ten holdings - subtotal		520,400		
Other holdings		121,745		
Fair value, per financial statements		\$ 642,145		
Augen Gold Corp. ⁽²⁾	4,040,000	\$ 161,600	Gold	Northern Ontario

⁽¹⁾ Private company investment of \$300,000 made in May 2007. Fair value as at December 31, 2008 was determined in accordance with the Company's accounting policy for the valuation of investments.

⁽²⁾ Investment reported at a carrying value of \$1,253,444 under the equity accounting method for investments on the financial statements

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

Augen Gold Corp.

Augen Gold Corp. ("AGC") is a junior gold exploration company which, at December 31, 2008, held 63 patented and 143 unpatented claims covering 24,335 hectares (the "Property") over a 45 kilometre length located in the Swayze Greenstone Belt, including the formerly producing Jerome Gold Mine and directly adjacent to the Young Shannon gold deposit.

At year end, the Company held 16.21% (2007 – 23.8%) of the issued and outstanding common shares of AGC. Subsequent to year end, the percentage has increased to 35.5% as described in the *Significant Events* section. The following summarizes the financial information of AGC: Assets were \$9,396,645 (2007 – \$5,617,522); Liabilities were \$1,334,707 (2007 - \$606,735); and Net loss was \$205,783 (2007 - \$158,229).

AGC'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 prospective mineral assets.

The Jerome gold deposit, which is directly on the Property, was mined in the early 1940s, 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.

ABOUT OUR BUSINESS (Continued)

A technical report ("**Technical Report**") in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("**NI 43-101**") 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. The Technical Report focuses on the Jerome deposit, where previous operators have drilled over 200 holes and also sampled the underground workings of the 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 which will be used in the preparation of a feasibility study. AGC believes that there is potential to expand the historical resource at depth and along strike on the Property. In June 2008, AGC completed its initial public offering of equity securities raising \$4.33 million.

Energy Fuels Inc.

Energy Fuels Inc. ("**Energy Fuels**") is a Toronto based mineral exploration and development company. The principal business activity of Energy Fuels is mineral exploration, development and mining of uranium and vanadium properties in the states of Colorado, Utah and Arizona.

Augen 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 promising uranium properties. The success of Augen's strategy was demonstrated by the increase in the stock price of Energy Fuels.

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

SIGNIFICANT EVENTS

- 1) The net assets of Augen Limited Partnership 2006 and Augen Limited Partnership 2006-1 were acquired by the BluMont Augen Resource Strategy Fund Inc. ("**RS Fund**") effective December 31, 2007. The transaction closed on January 22, 2008.
- 2) During the year, BluMont Augen Limited Partnership 2008, a resource flow-through limited partnership, completed its initial public offering raising gross proceeds of \$9,906,600. BluMont Augen Quebec Limited Partnership 2008, also a resource flow-through limited partnership, completed its initial public offering raising gross proceeds of \$7,212,000. Pursuant to an agreement entered into on August 24, 2007 by Augen and BluMont Capital Corporation ("**BluMont**"), Augen will share with BluMont, the fee income including management fees, due diligence fees, and if applicable, performance fees, resulting from the increase in the Company's flow-through consulting asset base.
- 3) On February 27, 2009, the Company announced that it had entered into a management agreement ("**Management Agreement**") effective March 1, 2009 pursuant to which OreReserve Asset Management Corp. (the "**Manager**"), a newly formed subsidiary of Integrated Asset Management Corp. ("**IAM**") (TSX: IAM), will manage the Company's business. The transaction was overseen by a special committee and was unanimously approved by the Board of Directors. IAM is Canada's leading alternative asset management company and has approximately \$2.1 billion in assets and committed capital under management in real estate, private corporate debt, private equity, managed futures and retail alternative investments. OreReserve is owned 51% by IAM and 49% by certain employees of the Manager, of which 26% is owned by J. David Mason, Chairman and Chief Executive Officer of Augen and the President and Chief Executive Officer of the Manager. Pursuant to the Management Agreement, Mr. Mason will continue to act as President and Chief Executive Officer of Augen. Augen's employees and consultants have been retained by, and commenced working with, the Manager effective March 1, 2009. The management team is: J. David Mason, President and Chief Executive Officer; Peter F. Chodos, Executive Vice President and Chief Operating Officer; and Manish Z. Kshatriya, Chief Financial Officer and Secretary.

SIGNIFICANT EVENTS (Continued)

Pursuant to the Management Agreement, the Manager will perform all management and administrative functions for Augen, including managing its merchant banking and consulting operations. Under the Management Agreement, Augen's non-public company overhead costs are capped at their 2008 rate subject to an annual increase based on increases in the Consumer Price Index. Augen is expected to recoup some or all of these overhead costs through a revenue sharing provision in the Management Agreement.

Pursuant to the Management Agreement it is IAM's intention to acquire by September 1, 2009 up to 3,264,000 common shares of Augen (approximately 8.9% of the currently issued and outstanding shares) at a maximum cost of \$489,600. IAM may acquire shares in the secondary market through the facilities of the TSX-V or otherwise. To the extent that IAM has neither acquired 3,264,000 shares nor spent an aggregate of \$489,600 (excluding brokerage costs) acquiring shares by September 1, 2009, IAM will apply the remainder of the \$489,600 to acquire shares from Augen, subject to the approval of the TSX-V.

Pursuant to the terms of a voting trust agreement, Mr. Mason, as voting trustee, has the right to vote the Augen shares owned by IAM for a period of five years. Shares will be released from the voting trust if Mr. Mason and his associates reduce their holdings below 3,264,000 shares. Mr. Mason and his associates have agreed to vote their shares and IAM's shares in favour of the Manager's nominees to the Augen Board of Directors during the term of the voting trust agreement. Pursuant to the terms of the Management Agreement, the Manager is entitled to nominate two individuals for election to Augen's Board of Directors at each annual meeting of Augen's shareholders. Initially, those nominees will be Mr. Mason and Mr. Koloshuk.

The four-year initial term of the Management Agreement begins on March 1, 2009 and will expire on December 31, 2012 (the "Initial Term"). The Management Agreement will renew automatically for a fifth year (the "Extended Term"), provided at least one of three performance criteria is met by the Manager. The performance criteria include the Manager earning a performance bonus in a specified number of years during the Initial Term, the Manager raising a minimum amount of new capital in Augen for investment purposes and/or an increase in Augen's shareholders' equity by at least 6% per annum during the Initial Term. Following the Extended Term, the Management Agreement will be deemed to renew automatically for successive one-year terms. Following the Extended Term, the Management Agreement may be terminated by either Augen or the Manager on 60 days' prior written notice, subject to a termination penalty equal to two times the prevailing Management Fee if Augen terminates the Management Agreement. The Management Agreement may be terminated immediately by either Augen or the Manager, without penalty, in certain circumstances, including certain events of bankruptcy and insolvency, a party voluntarily ceasing to carry on business in the ordinary course and breach of contract. Specific details regarding the Management Agreement were filed with the Company's continuous disclosure record on SEDAR on February 27, 2009.

On February 27, 2009, in connection with the Management Agreement, Augen collected \$257,978 due from BluMont Capital Corporation.

- 4) The Company called a special meeting of the shareholders of AGC, an investee company in the MB portfolio. The meeting was held on March 13, 2009. The shareholders of AGC were asked to vote on a resolution approving a shares-for-debt transaction for the conversion of debt owed by AGC to the Company, into common shares. One hundred percent of the disinterested shareholders who voted on this resolution did so in favour of the conversion. As a result, AGC has issued 7,479,010 common shares at a price of \$0.15 per share to settle \$1,121,851 of debt and the Company now owns 11,519,010 shares of AGC which represents 35.5% of the issued and outstanding common shares of AGC.

FINANCIAL REVIEW

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 annual consolidated financial statements follow the accounting principles and methods of application as those described in notes 2 and 3 of the audited annual consolidated financial statements as at and for the year ended December 31, 2008.

SELECTED ANNUAL INFORMATION

\$000s except for share data	For the years ended December 31,		
	2008	2007	2006
Highlights			
Income	1,535	4,157	7,128
Net earnings (loss)	(3,512)	(3,538)	2,902
Earnings (loss) per share			
Basic and diluted	(0.10)	(0.10)	0.09
Total assets	7,587	11,284	10,269
Total long-term liabilities	41	13	28

CONSOLIDATED OPERATING RESULTS – THREE MONTHS ENDED DECEMBER 31, 2008

There were a number of notable events that occurred during the three month period ended December 31, 2008 that affected Augen's consolidated operating results and their comparability to the consolidated operating results for the same period in the previous year, as outlined in the following sections.

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

Consolidated Statements of Operations and Comprehensive Earnings						
<i>For the three months ended December 31,</i>	Managed Products		Merchant Banking		Total	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Income (loss)	289,007	752,176	43,668	125,143	332,675	877,319
Expenses	354,338	399,266	385,037	379,146	739,375	778,412
Earnings (loss) before undernoted items	(65,331)	352,910	(341,369)	(254,003)	(406,700)	98,907
Share of loss and dilution gains from equity accounted investment	-	-	(471,644)	13,504	(471,644)	13,504
Unrealized loss on investments held for trading	-	-	725,293	1,030,271	725,293	1,030,271
Non-recurring charges	-	-	-	-	-	-
Adjustment to fair value of liabilities	-	-	-	(61,182)	-	(61,182)
Amortization	2,439	1,652	2,440	1,652	4,879	3,304
Earnings (loss) before income taxes	(67,770)	351,258	(597,458)	(1,238,248)	(665,228)	(886,990)
Income taxes						
Current					(55,745)	(60,571)
Future					(54,500)	(119,101)
					(110,245)	(179,672)
Net earnings (loss) and comprehensive earnings (loss)					(554,983)	(707,318)

FINANCIAL REVIEW (Continued)

Consolidated net earnings (loss)

Consolidated net loss was \$554,983 in 2008 compared to a net loss of \$707,318 in 2007.

Consolidated income was \$332,675 in 2008 compared to \$877,319 in 2007.

Consolidated expenses in 2008 before share of loss and dilution gains from equity-accounted investment, unrealized loss on investments held for trading, non-recurring charges, adjustment to fair value of liabilities, and amortization, were \$739,375 compared to \$778,412 in 2007.

The Company recognized a net gain of \$471,644 which represents its share of capital dilution gain from the equity-accounted investment in AGC, partially offset by its share of loss from AGC in 2008 as compared to a net loss of \$13,504 in 2007.

An unrealized loss on investments held for trading of \$725,293 has been reported in 2008 compared to an unrealized loss of \$1,030,271 in 2007, to reflect a further decline in the fair value of the MB investment portfolio.

Consolidated income

The Company's income is driven primarily by the strength of its MB portfolio and the MP consulting asset base. The strength of the MB portfolio and the MP consulting asset base is correlated with global market conditions and the general economic environment. The current global financial crisis has had a significant impact on the MB portfolio and the MP consulting asset base, which has reduced the Company's ability to generate income.

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

Managed Products segment

Consolidated income for the MP segment declined by \$463,169 in 2008 to \$289,007 compared to \$752,176 in 2007. The decline is primarily due to a decrease in consulting and due diligence fees of \$445,005 in 2008.

Merchant Banking segment

Consolidated income for the MB segment was \$43,668 in 2008 compared to \$125,143 in 2007. The variation is primarily due to consulting and due diligence fees of \$NIL in 2008 compared to \$119,160 in 2007, partially offset by an increase in investee company service fees of \$22,432 in 2008 from \$31,500 in 2007.

Consolidated expenses

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

Managed Products segment

Consolidated expenses for the MP segment were \$354,338 in 2008 compared to \$399,266 in 2007. The decrease is primarily due to a decrease in wages and benefits of \$47,692.

Merchant Banking segment

Consolidated expenses for the MB segment were \$385,037 in 2008 compared to \$379,146 in 2007, which were relatively unchanged on an aggregate basis.

FINANCIAL REVIEW (Continued)

Consolidated earnings (loss) before income taxes

Managed Products segment

The loss before income taxes for the MP segment was \$67,770 in 2008 compared to earnings of \$351,258 in 2007. The change is primarily due to a decline in income of \$463,169 as described above in the consolidated income section, partially offset by a decrease of \$44,928 in expenses as described in the consolidated expenses section above.

Merchant Banking segment

The loss before income taxes for the MB segment was \$597,458 in 2008 compared to a loss before income taxes of \$1,238,248 in 2007. The change is primarily due to a net gain of \$471,644 which represents the Company's share of loss and capital dilution gain from the equity-accounted investment in AGC, a change in unrealized loss on investments held for trading of \$725,293 in 2008 compared to \$1,030,271 in 2007, partially offset by a decline in income of \$81,475 as described above in the consolidated income section.

CONSOLIDATED OPERATING RESULTS – YEAR ENDED DECEMBER 31, 2008

There were a number of notable events that occurred during the year ended December 31, 2008 that affected Augen's consolidated operating results and their comparability to the consolidated operating results in the previous year, as outlined in the following sections.

This section should be read in conjunction with the annual consolidated statements of operations and comprehensive earnings for the year ended December 31, 2008 and the corresponding notes thereto.

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

Consolidated Statements of Operations and Comprehensive Earnings

<i>For the year ended December 31,</i>	Managed Products		Merchant Banking		Total	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Income (loss)	924,853	2,118,180	610,629	2,038,612	1,535,482	4,156,792
Expenses	1,316,244	1,759,827	1,430,260	1,637,029	2,746,504	3,396,856
Earnings (loss) before						
items	(391,391)	358,353	(819,631)	401,583	(1,211,022)	759,936
Share of loss and dilution gains from equity accounted investment	-	-	(464,970)	34,526	(464,970)	34,526
Unrealized loss on investments held for trading	-	-	3,246,331	5,302,553	3,246,331	5,302,553
Non-recurring charges	257,438	-	257,438	-	514,876	-
Adjustment to fair value of liabilities	-	-	(220,380)	(542,516)	(220,380)	(542,516)
Amortization	11,282	6,609	11,283	6,608	22,565	13,217
Earnings (loss) before income taxes	(660,111)	351,744	(3,649,333)	(4,399,588)	(4,309,444)	(4,047,844)
Income taxes						
Current					(378,730)	145,527
Future					(418,364)	(654,955)
					(797,094)	(509,428)
Net earnings (loss) and comprehensive earnings (loss)					(3,512,350)	(3,538,416)

FINANCIAL REVIEW (Continued)

Consolidated net earnings (loss)

Consolidated net loss was \$3,512,350 in 2008 compared to a net loss of \$3,538,416 in 2007.

Consolidated income was \$1,535,482 in 2008 compared to \$4,156,792 in 2007.

Consolidated expenses in 2008 before share of loss and dilution gains from equity-accounted investment, unrealized loss on investments held for trading, non-recurring charges, adjustment to fair value of liabilities, and amortization, were \$2,746,504 compared to \$3,396,856 in 2007.

The Company recognized a net gain of \$464,970 which represents its share of capital dilution gain from the equity-accounted investment in AGC, partially offset by its share of loss from AGC in 2008 as compared to a net loss of \$34,526 in 2007.

An unrealized loss on investments held for trading of \$3,246,331 has been reported in 2008 compared to an unrealized loss of \$5,302,553 in 2007, to reflect a further decline in the fair value of the MB investment portfolio.

The Company incurred a total of \$514,876 in non-recurring charges in 2008, of which 50% was allocated to each of the Company's operating segments. The non-recurring charges include legal expenses, proxy solicitation fees and other professional consulting fees relating to the 2008 Annual and Special Meeting of Shareholders, which was expected to be a contested meeting until a settlement was reached among the former CEO and Lead Director, and the current Chairman of the Company, regarding the composition of management's slate of nominees to the Board of Directors. These costs are expected to be one time in nature and not to reoccur.

Consolidated income

The Company's income is driven primarily by the strength of its MB portfolio and the MP consulting asset base. The strength of the MB portfolio and the MP consulting asset base is correlated with global market conditions and the general economic environment. The current global financial crisis has had a significant impact on the MB portfolio and the MP consulting asset base, which has reduced the Company's ability to generate income.

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

Managed Products segment

Consolidated income for the MP segment was \$924,853 in 2008 compared to \$2,118,180 in 2007. The decline is due to a decrease in consulting and due diligence fees of \$1,046,065 resulting from \$475,000 in setup fees on LP2007 being reported in 2007 compared to \$NIL setup fees reported in 2008 and \$905,534 of due diligence fees being reported in 2007 compared to \$334,469 in 2008, a decrease in advisory and performance fees of \$126,192 which is a reflection of the impact that the global economic crisis has had on the fair value of the consulting asset base, and a decline in interest and dividend income of \$21,070.

Merchant Banking segment

Consolidated income for the MB segment was \$610,629 in 2008 compared to \$2,038,612 in 2007. The variation is explained by a net realized gain on the sale of investments of \$80,668 in 2008 compared to net realized gain on the sale of investments of \$1,494,467 in 2007 when the MB segment realized gains of approximately \$1,000,000 from the partial disposition of Energy Fuels Inc. and a complete disposition of Goldquest Mining Corp. Further, as a result of the weakened markets, management has suspended the disposition of securities until the markets show signs of improvement. In 2008, the MB segment earned \$202,603 in consulting fees compared to \$275,496 in 2007. Interest and dividend income decreased to \$93,722 in 2008 compared to \$167,650 in 2007. The decrease is partially offset by an increase of \$132,636 in fees charged for investee company services in 2008.

FINANCIAL REVIEW (Continued)

Consolidated expenses

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

Managed Products segment

Consolidated expenses for the MP segment were \$1,316,244 in 2008 compared to \$1,759,827 in 2007. The decrease is explained as follows: professional fees decreased to \$68,422 in 2008 compared to \$435,098 in 2007, when the Company incurred increased legal fees related to the sales and marketing agreement entered into with BluMont and new product initiatives, and advisory fees related to the preparation of historic corporate tax returns; pursuant to an agreement entered into by Augen with BluMont, sales and marketing costs related to limited partnership offerings are now incurred by BluMont, and therefore sales and marketing costs were \$NIL in 2008 compared to \$216,620 in 2007; stock-based compensation decreased to \$71,765 in 2008 compared to \$197,263 in 2007; general and administrative expenses declined to \$86,020 in 2008 compared to \$202,857 in 2007. The Company currently has only LP2007 outstanding compared to LP2006, LP2006-1 and LP2007 outstanding in 2007, resulting in less general and administrative expense activity in 2008. These decreases in expenses were partially offset by the following increases: wages and benefits increased to \$1,064,492 in 2008 compared to \$683,152 in 2007 primarily due to severance payments to former officers of the Company; and portfolio administration expense increased to \$25,546 in 2008 compared to \$24,836 in 2007.

Merchant Banking segment

Consolidated expenses for the MB segment were \$1,430,260 in 2008 compared to \$1,637,029 in 2007. The decrease is primarily explained as follows: general and administrative expense decreased to \$473,131 in 2008 as compared to \$793,628 in 2007, stock based compensation decreased to \$71,765 in 2008 compared to \$197,263 in 2007, \$NIL write-down of goodwill in 2008 compared to a write-down of \$62,014 in 2007. The decreases in expenses were partially offset by the following: sales and marketing expenses increased to \$141,469 compared to \$NIL in 2007, professional fees increased to \$325,413 in 2008 compared to \$245,700 in 2007, and wages and benefits increased to \$187,851 in 2008 compared to \$120,556 in 2007.

Consolidated earnings (loss) before income taxes

Managed Products segment

The loss before income taxes for the MP segment was \$660,111 in 2008 compared to earnings of \$351,744 in 2007. The change is primarily due to a decline in income of \$1,193,327 as described above in the consolidated income section, offset by a decrease of \$443,583 in expenses as described in the consolidated expenses section above. The Company incurred \$514,876 of non-recurring charges in 2008, of which 50% was allocated to each of the Company's operating segments. As such, the MP segment loss has further increased by \$257,438 due to the allocation of these non-recurring charges.

Merchant Banking segment

The loss before income taxes for the MB segment was \$3,649,333 in 2008 compared to a loss before income taxes of \$4,399,588 in 2007. The change is due to a decline in income of \$1,427,983 as described above in the consolidated income section, offset by a decrease of \$206,770 in expenses as described in the consolidated expenses section above. The Company recognized a net gain of \$464,970 which represents its share of capital dilution gain from the equity-accounted investment in AGC, partially offset by its share of loss from AGC in 2008 as compared to a net loss of \$34,526 in 2007. The Company recorded a change in unrealized loss on investments held for trading of \$3,246,331 in 2008 compared to \$5,302,553 in 2007. The CICA Handbook *Section 3855* accounting standard, adopted in 2007, provides insight into the current fair value of the MB investment portfolio but does not necessarily provide an accurate indication of the ultimate realized gain or loss, which will be different. The Company incurred \$514,876 of non-recurring charges in 2008, of which 50% was allocated to each of the Company's operating segments. As such, the MB segment loss has further increased by \$257,438 due to the allocation of these non-recurring charges. The adjustment to the fair value of liabilities resulted in a recovery of \$220,380 in 2008 compared to \$542,516 in 2007.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

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)	2008				2007			
	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Income	332	301	694	208	878	797	1,815	667
Unrealized loss	(725)	(1,245)	(707)	(569)	(1,031)	(2,264)	(1,747)	(261)
Net earnings (loss)	(554)	(1,253)	(959)	(746)	(708)	(2,051)	(249)	(530)
Earnings per share – basic	(0.02)	(0.03)	(0.03)	(0.02)	(0.02)	(0.06)	(0.01)	(0.01)
– diluted	(0.02)	(0.03)	(0.03)	(0.02)	(0.01)	(0.06)	(0.01)	(0.01)

CONSOLIDATED FINANCIAL POSITION

This section should be read in conjunction with the annual consolidated balance sheet for the year ended December 31, 2008 and the corresponding notes thereto. References made to "2008" or "2007" relate to the years ended December 31 respectively unless stated otherwise.

Consolidated assets

Consolidated assets were \$7,587,244 at December 31, 2008 down 33% from \$11,283,685 at December 31, 2007. The assets, summarized by segment, are as follows:

Consolidated Assets						
<i>As at December 31,</i>	Managed Products		Merchant Banking		Total	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Total assets	540,012	733,415	7,047,232	10,550,270	7,587,244	11,283,685
Shareholders' equity per share (*)					0.20	0.29

** Defined as shareholders' equity per financial statements, divided by common shares outstanding*

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 declined by \$193,403 from \$733,415 in 2007, primarily due to a decrease in cash of \$76,627 and a decrease of \$116,676 in amounts due from outstanding Managed Products.

Merchant Banking segment

Consolidated MB assets declined by \$3,503,038 from \$10,550,270 in 2007, primarily due to dispositions of securities during the earlier part of 2008 and fluctuations in the fair market value of the MB investment portfolio, which overall declined by \$3,879,609, a decrease in cash of \$1,815,951, and a decrease in receivables of \$239,972. The decreases were partially offset by an increase in the amounts due from related parties of \$933,613, the Company's mineral properties and deferred costs which increased by \$184,265, an increase in prepaid expenses and deposits of \$22,830, the net increase in the carrying value of the investment in AGC of \$464,970, and net changes related to future income taxes and income taxes recoverable which reflect the recognition of an increase in loss carry forwards that the Company expects to recover in the future.

Consolidated liabilities

Consolidated liabilities decreased by \$343,621 from \$639,977 in 2007, primarily due to fluctuations in accounts payable and accrued liabilities and the timing of payments.

FINANCIAL REVIEW (Continued)

Shareholders' equity

Shareholders' equity decreased to \$7,290,888 in 2008 from \$10,643,708 in 2007. The decrease is primarily due to the 2008 net loss of \$3,512,350, offset by a net increase in contributed surplus of \$136,341 resulting from the vesting and exercise of stock options and the increase of \$23,189 in capital stock resulting from the exercise of stock options.

As at December 31, 2008, the Company had 36,615,614 common shares issued and outstanding and stock options to purchase 2,250,000 common shares, of which 1,076,393 have vested.

LIQUIDITY AND CAPITAL RESOURCES

This section should be read in conjunction with the annual consolidated balance sheets as at December 31, 2008 and December 31, 2007 and the corresponding notes thereto. All references to years "2008" or "2007" relate to the years ended December 31 respectively unless stated otherwise.

Augen believes that maintaining a strong financial position at the parent company level 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, 2008 has increased, and remains strong at 17.2 : 1 compared to 8.5 : 1 at December 31, 2007.

The Company includes cash, receivables, amounts due from related parties, investments and shareholders' equity in its capital management considerations. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders by maximizing fee income from the MP consulting assets and investment returns on the MB 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 following table is a summary of quantitative data about what the Company manages as capital:

	December 31, 2008	December 31, 2007	Change
	\$	\$	\$
Cash	2,381,816	4,274,394	(1,892,578)
Receivables	44,400	284,372	(239,972)
Due from related parties	1,440,930	623,993	816,937
Investments	642,145	4,521,754	(3,879,609)
Shareholders' equity	7,290,888	10,643,708	(3,352,820)

The Company monitors these items to assess its ability to fulfill its ongoing financial obligations. The Company relies on cash flow generated from operations, ongoing cost cutting measures and additional financing, if required, to maintain adequate liquidity to support its ongoing working capital commitments. As a result of the current economic conditions and market uncertainty, the Company: has streamlined operational costs; is preserving cash to the extent possible; and has suspended the disposition of securities until the markets show signs of improvement.

Receivables of \$44,400 at December 31, 2008 consist primarily of due diligence fees, which are expected to be collected in the normal course of business. The amount due from related parties of \$1,440,930 in 2008 consists of: a net amount of \$283,713 due from Augen and BluMont / Augen Managed Products; \$35,366 of operational costs and \$1,121,851 in loan advances due from Augen Gold Corp. The amount due from the Managed Products and the operation costs due from Augen Gold Corp. were collected subsequent to the end of the year. The loan advances due from Augen Gold Corp. were converted into shares of Augen Gold Corp. subsequent to the end of the year, as described earlier in the *Significant Events* section. Accounts payable and accrued liabilities of \$255,562 consist of amounts that are to be extinguished in due course.

FINANCIAL REVIEW (Continued)

The Company's cash flows are driven primarily by the strength of its MB portfolio and the MP consulting asset base. The strength of the MB portfolio and the MP consulting asset base is correlated with global market conditions and the general economic environment. The current global financial crisis has had a significant impact on the MB portfolio and the MP consulting asset base, which has reduced the Company's ability to generate income as demonstrated in the following table:

Trend analysis - 2008	Q4	Q3	Q2	Q1	Annual
NAV - MP consulting assets	16,665,889	25,103,473	40,400,521	26,190,502	
Advisory and performance fees	69,940	94,556	198,474	216,028	578,998
Consulting and due diligence fees	215,376	84,434	34,659	-	334,469
NAV - MB investment portfolio	642,145	1,323,141	2,530,181	3,677,900	
Realized gains (losses)	(28,254)	-	299,838	(190,916)	80,668
Unrealized gains (losses)	(725,293)	(1,244,848)	(707,426)	(568,764)	(3,246,331)
Cash from (used in) operating activities	(572,227)	900,611	(614,591)	(1,203,111)	(1,489,318)

The above trend analysis demonstrates a general downward trend in the net asset value ("**NAV**") of the MP consulting assets and the MB investment portfolio resulting in an erosion of the NAV of the MP consulting assets of 33.6% in Q4 and a 51% decline in the NAV of the MB investment portfolio, both having a direct correlation with the decrease in earnings.

Consulting and due diligence fees increased by \$130,942 in Q4 2008 compared to Q3 2008. The 155% increase is due to the timing of when the fees were earned. In comparison, consulting and due diligence fees were \$660,381 in the fourth quarter of 2007. Year-over-year, consulting and due diligence fees have declined by 76%.

Augen does not expect the general market condition to improve in the immediate future. However the Company believes that it currently has enough cash on hand to sustain operations for the next two years. To deal with the current financial crisis, subsequent to year end, Augen entered into a management agreement with OreReserve Asset Management Inc. to increase the Company's ability to raise funds and increase the depth and breadth of management. Details of the management agreement are discussed in the *Significant Events* section.

The following is an analysis of the Company's cash flows for the year and quarter ended December 31, 2008:

Cash from (used in) operating activities

For the year ended December 31, 2008, cash used in operations, excluding changes in non-cash working capital, totaled \$1,063,926 in 2008 compared to cash from operations of \$118,998 in 2007. The variation is primarily explained by the decrease of \$642,423 in net realized and unrealized losses on investments held for trading, the variation in the net share of loss and dilution gains from the equity-accounted investment of \$499,496, the decline in stock-based compensation of \$250,996, and the decrease of \$62,014 in goodwill write-down, partially offset by the decrease in the net loss of \$26,066 and the change in income taxes of \$236,591. Cash used in operations increased by changes in non-cash working capital items totaling \$425,392 in 2008 compared to a decrease in the change in non-cash working capital items of \$399,124 in 2007. As a result of considering non-cash working capital items, the total cash used in operations in 2008 was \$1,489,318 compared to cash from operations of \$518,122 in 2007.

For the three month period ended December 31, 2008, cash used in operations, excluding changes in non-cash working capital, totaled \$291,861 in 2008 compared to cash from operations of \$392,009 in 2007. The variation is primarily explained by the decrease of \$344,172 in net realized and unrealized losses on investments held for trading, the variation in the net share of loss and dilution gains from the equity-accounted investment of \$485,148, partially offset by the decrease in the net loss of \$152,335. Cash used in operations for the fourth quarter increased by changes in non-cash working capital items totaling \$280,366 in 2008 compared to a decrease in the change in non-cash working capital items of \$152,492 in 2007. As a result of considering non-cash working capital items, the total cash used in operations in the fourth quarter of 2008 was \$572,227 compared to cash from operations of \$544,501 in 2007.

FINANCIAL REVIEW (Continued)**Cash from (used in) investing activities**

For the year ended December 31, 2008, cash used in investing activities totaled \$419,260 in 2008 compared to cash used in investing activities of \$245,514 in 2007. The change is due to a decrease in proceeds on the sale of investments of \$1,293,342, an increase in net advances to a related party of \$662,724, an increase of \$130,367 in mineral property expenditures, an increase of \$52,173 in the purchase of property, plant and equipment, and a decrease in founder shares received of \$48,000, offset by a decrease in the purchase of investments of \$2,012,859.

For the three month period ended December 31, 2008, cash from investing activities totaled \$162,564 compared to cash used in investing activities of \$821,475 in 2007. The change is primarily due to a reduction of \$721,180 in purchases of investments to \$72,552 in 2008 compared to \$793,732 in 2007, and the reclassification of the net advances of \$294,147 repaid by a related party from operating activities to investing activities in the fourth quarter.

Cash from (used in) financing activities

For the year ended December 31, 2008, cash from financing activities was \$16,000 in 2008 compared to \$168,000 in 2007. The decrease is due to the variation in the number of options exercised in each year and the exercise price associated with each of the options.

For the three month period ended December 31, 2008, cash from financing activities was \$NIL in 2008 compared to \$42,600 in 2007. The decrease is due to the variation in the number of options exercised in each period and the exercise price associated with each of the options.



MANAGEMENT'S DISCUSSION AND ANALYSIS

TRANSACTIONS WITH RELATED PARTIES

The amounts due from related parties are as follows:

As at December 31,	2008	2007
	\$	\$
Due from investee company ⁽³⁾	1,157,217	273,604
Due from Managed Products ^{(4), (5)}	283,713	400,389
	1,440,930	673,993
Due to other related parties ^{(1), (2), (3)}	-	(50,000)
Total amount due from related parties, net	1,440,930	623,993

The amounts which are receivable and payable at the end of the year are summarized in the table above. The following were related party transactions during the year, of which certain amounts have been collected or paid. The transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties:

- ⁽¹⁾ 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 \$255,455 (2007 - \$237,500) to the related company.
- ⁽²⁾ The Company relied upon the services of a senior officer, who was CEO, for strategic planning and management services. The services were provided by a related company that is controlled by the officer. The Company secured these services through an annual contract which was terminated effective April 25, 2008. During the year, the Company paid fees of \$66,666 (2007 - \$94,500) to the related company.
- ⁽³⁾ The Company holds an investment, accounted for under the equity-accounting method in AGC. A director of the Company is a director of AGC and two officers of the Company are officers of AGC. The Company reported \$233,636 (2007 - \$101,000) in professional service fees earned through a services agreement with AGC for CEO and CFO services, premises and overhead charges, and interest charged on loan advances at the rate of prime plus 5% per annum beginning January 1, 2008. The balance at year end of \$1,157,217 consists of loan advances in the amount of \$1,121,851 which were unsecured with no terms of repayment. Subsequent to the end of the year, the loan advances were converted into 7,479,010 common shares of AGC at a price of \$0.15 per share. The remaining balance of \$35,366 represents operational costs, which were collected subsequent to the end of the year. The Company also received a cash commission of \$31,055 and broker warrants valued at \$13,340, paid by Union Securities Inc. ("**Union**"), from proceeds Union received from AGC for acting as its agent in connection with the AGC IPO completed on June 5, 2008.

In 2007, the Company had an amount of \$50,000 due to an investee company of which an officer of the Company was a director until May 1, 2007. The amount was written off and included in income in 2008.

- ⁽⁴⁾ The Company owns 100% of the general partners listed in note 3 of the financial statements 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 respective partnerships. The general partners may earn a performance fee on the rollover transfer date of the limited partnerships into BluMont Augen Resource Strategy Fund. The general partners earned advisory fees of \$89,065 (2007 - \$473,608) during the year. No performance fees were paid during the period (2007 - \$NIL). Certain general partners are reimbursed for administrative and operating expenses incurred on behalf of certain limited partnerships. The general partners were reimbursed \$142,857 (2007 - \$329,763) for such expenses during the year.
- ⁽⁵⁾ 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 ("**BluMont**") from Augen Capital Corp. Pursuant to the terms of an agreement entered into by Augen and BluMont, Augen continues to earn a percentage of fees from RS Fund. Performance fees may be earned by the Company based on established thresholds on an annual basis. The Company earned advisory fees from RS Fund of \$142,695 (2007 - \$236,193) and was paid performance fees of \$NIL (2007 - \$NIL) during the year. The Company was reimbursed \$7,192 (2007 - \$89,753) for administrative and operating expenses during the year as BluMont is now the Manager of RS Fund.

Pursuant to the terms of the agreement between Augen and BluMont, the Company earned a percentage of the advisory fees for investment consulting services, paid from the new BluMont Augen limited partnerships. The Company earned investment consulting fees of \$263,306 (2007 - \$NIL) during the year.

CHANGES IN ACCOUNTING POLICIES

Adoption of new accounting policies

Effective January 1, 2008, the amendments to the going concern disclosure under CICA Handbook *Section 1400 General Standards of Financial Statement Presentation* have been adopted. CICA Handbook *Section 3863 Financial Instruments – Presentation* was also adopted on this date. 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.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than in the first quarter of 2011, with restatement of comparative information presented. The conversion to IFRS could potentially have an impact on the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also have an impact on business activities, such as certain contractual arrangements, debt covenants and capital requirements. The Company is currently evaluating the future impact of IFRS on its financial statements and has initiated a preliminary IFRS transition plan with a proposed timeline for the execution and completion of the transition to IFRS. The transition plan was established following a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS on the Company's accounting and reporting processes, information systems, business processes and external disclosures. During 2009, the Company will continue to focus its efforts on identifying specific Canadian GAAP and IFRS differences, select ongoing IFRS policies, determine any information technology issues and consider the impact of transition to IFRS on internal control over financial reporting and business activities, including the effect, if any, on covenants and compensation arrangements. External advisors will be retained, if deemed necessary, to assist management with the transition. The Company's Audit Committee will receive quarterly updates on the progress, cost and major milestones of the IFRS transition.

FINANCIAL INSTRUMENTS AND 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.

The long-term investment objective and strategy for the direct holdings in the Merchant Banking portfolio and the consulting assets in the Managed Products portfolio remain unchanged. However, the short-term corporate objective and strategy continues to be modified to reflect the current global economic financial crisis and general market uncertainty, which will inevitably have an impact on the overall risk assessment of the Company. Such modifications include streamlining operational costs, preserving cash to the extent possible, and as a result of the weakened markets, management has suspended the disposition of securities until the markets show signs of improvement. The Company invests primarily in the equity securities of Canadian resource issuers. Investors are exposed to the risks and rewards of the Canadian resource sector.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial instruments

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

Fair value risk

The carrying value of accounts receivable, due from related parties, accounts payable, and accrued liabilities approximates fair value due to the relatively short-term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

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 the credit risk on balances due from related parties. The Company was exposed to credit risk with respect to the loan advances due from its equity-accounted investment in AGC, which earned interest at the prime lending rate plus 5%. The loan advances were converted into common shares of AGC after year end as discussed in the *Significant Events* section.

The aggregate gross credit risk exposure at December 31, 2008 was \$3,867,146, and was comprised of \$44,400 in receivables, \$1,440,930 in amounts due from related parties, and \$2,381,816 of cash held with financial institutions with an "AA" credit rating and securities brokerage firms.

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. All financial liabilities, with the exception of deferred lease inducements, are current.

The Company believes that its cash position, short term investments, if any, and investments in marketable securities provide adequate liquidity to meet all of the Company's financial obligations for at least the next twelve months. The Company also expects to receive fee income on its flow-through consulting assets as well as investment income on its holdings of cash.

Currency risk

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company believes it is not significantly exposed to foreign exchange risk at this time as its business activities are primarily denominated in Canadian currency. The Company may however be exposed to foreign exchange fluctuations, which could have a significant adverse effect on its consolidated results of operations from time to time, should the Company enter into foreign currency denominated transactions.

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. Market price fluctuations and 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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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, 2008. 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 comprehensive earnings (loss) (pre-tax)
10% increase	64,215
10% decrease	(64,215)

Generally, a 10% decline in the value of equity-related holdings resulting from market price fluctuations would decrease the pre-tax net earnings and comprehensive earnings whereas a 10% increase in the value of equity-related holdings resulting from market price fluctuations would increase the pre-tax net earnings and other comprehensive earnings. Currently, two investments represent 48% of the Company's MB investment portfolio.

Risk

Augen's future financial performance may be influenced by its ability to manage and maintain the value of its existing MB investment portfolio; successfully evaluate, structure and complete new investments in listed and private entities for both the MB and MP segments; and manage and grow its existing assets under management. Access to capital has been severely limited for the small and mid-cap emerging resource exploration mining sector in the current economic environment. The Company believes this is a result of investors' general aversion to risk associated with emerging resource exploration mining company investments.

Augen attempts to manage the risks associated with its MB investment portfolio and its MP consulting assets through planning, significant due diligence of investment opportunities and active involvement in and monitoring of its investments where appropriate.

Augen's financial condition, results of operations and business are subject to certain risks which may negatively affect the Company. Certain of these risks are described below. Additional risks not currently known to the Company, or that the Company currently believes to be immaterial, may also affect and negatively impact the business.

Dependence on management

Augen is dependent upon the efforts, skill and business contacts of key members of the Company's Manager for, among other things, the information and deal flow they generate during the normal course of their activities and the synergies which exist amongst their various fields of expertise and knowledge. Accordingly, the Company's continued success will depend upon the continued service of these individuals. The loss of the services of any of these individuals could have a material adverse effect on the Company's revenues, net income and cash flows and could harm the Company's ability to maintain or grow existing assets and raise additional funds in the future.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Investment portfolio exposure

Given the nature of Augen's activities, the Company's results of operations and financial condition are dependent upon the market value of the investments in its MB portfolio and the consulting assets in the MP segment. Market value can be reflective of the actual or anticipated operating results of the investee companies and/or the general market conditions that affect the sectors in which Augen invests. The Company's investment activities are concentrated in the emerging resource exploration mining sector, with a current focus on the gold, base metals and uranium sectors. There are various factors that could affect these sectors and that have a negative impact on the companies in the MB investment portfolio and thereby have an adverse effect on Augen's business and financial results. Additionally, the Company's investments are primarily in small-cap businesses which the Company believes exhibit potential for growth but which may not ever mature or generate the returns the Company expects or may require a number of years to do so. Emerging resource exploration companies may never achieve commercial discoveries and production. This may create an irregular pattern in the Company's revenues and results from operations, if at all. Additionally, macro economic factors such as fluctuations in commodity prices and global political, economic and market conditions could have an adverse effect on one or more sectors to which the Company is exposed, and a disproportionate effect on the sectors as compared to the overall market, thereby negatively impacting one or more of the investments in the MB portfolio and the consulting assets in the MP segment concurrently. Company specific risks, such as the risks associated with the emerging resource exploration mining sector or the quality of management of the investee companies generally, could have an adverse effect on one or more of the Company's investments at any point in time. Company specific and industry specific risks which materially adversely affect Augen's investments and consulting assets may have a materially adverse impact on the Company's operating results.

Share prices of investments

Augen's investments in securities of public companies are subject to volatility in the share prices of the companies. There can be no assurance that an active trading market for any of the subject shares is sustainable. The trading prices of the subject shares could be subject to wide fluctuations in response to various factors beyond the control of Augen, including: quarterly variations in the investee companies' results of operations; changes in earnings, if any; estimates or commentaries provided by research analysts; conditions in the emerging resource exploration mining sector; and general market or economic conditions. In recent years, equity markets have experienced extreme price and volume fluctuations. These fluctuations have had a substantial effect on market prices, sometimes unrelated to the operating performance of the specific companies. Such market fluctuations could adversely affect the market price of the Company's investments in the MB portfolio and the consulting asset base in the MP segment which would have a significant negative impact on the Company's operating results.

Concentration of investments

Augen's investments are concentrated in the emerging resource mineral mining sector. The Company expects to focus on a smaller number of larger sized transactions in the future and therefore performance may be disproportionately subject to adverse developments in the resource sector. There are currently no restrictions on the proportion of Augen's funds and no limit on the amount of funds that may be allocated to any particular investment. Accordingly, the Company's investment activities may be highly concentrated in a limited number of investments, or a particular segment within the mineral resource sector. The consequence of this type of concentration is that the Company's financial results may be substantially adversely affected by the unfavourable performance of any one of the limited number of investments or the particular segment within the mineral mining sector.

Thinly traded securities

Augen invests in common shares of certain publicly traded companies and holds common share purchase warrants in public companies that are characterized by thin, and sometimes uneven trading volumes, and are potentially subject to highly volatile price movements. One of the factors used when determining the valuation of warrants held in the Company's MB investment portfolio is price volatility; therefore, the theoretical valuation of warrants for thinly traded companies may be under or over-stated as a result. Certain thinly traded companies will also impact the liquidity of the Company's MB investment portfolio.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Private company investments and illiquid securities

Augen may, from time to time, hold investments in private companies. As there may not be an active market for such securities, Augen's ability to react quickly to market conditions or negotiate the most favourable terms for exiting such investments may be restricted. Investments in private companies may offer relatively high potential returns, but will also be subject to a relatively high degree of risk. There can be no assurance that a public market will develop for private company investments that may be held by Augen or that Augen will otherwise be able to realize a return on such investments. Augen also invests in illiquid securities of public companies. The Company is exposed to the risk of increased losses or lesser gains as a result of the time that may occur between the decision to sell such an investment is made and the monetization of such investment.

Income and cash flows

Augen generates income and cash flows primarily from the disposition of investments in the MB portfolio and fees earned from the consulting assets in the MP segment in addition to its financing activities, and interest earned on the Company's cash balances. The amount of income and cash generated from the MB and MP segments is dependent upon various factors, most of which are outside of the Company's direct control. The Company's liquidity and operating results may be adversely affected if access to the capital markets is restricted, whether as a result of a downturn in the market conditions generally or to matters specific to Augen, or if the value of the Company's investments or consulting asset base decline, resulting in: lower fees, a decrease in proceeds of disposition, and capital losses or less gains for Augen upon disposition.

Reduced income during periods of declining resource prices

Augen's income is likely to be lower during a period of declining natural resource market and commodity prices. The Company's income in the MB segment is dependent on the equity financing and expansion of companies in the natural resource sector, as a portion of Augen's income is comprised of due diligence fees and or commissions paid on the placement of funds in investee companies that are raising capital. A prolonged period of declining natural resource prices could cause a reduction in income from due diligence fees and commissions. The Company's investment income is also driven in part by natural resource and commodity prices and a decline in resource prices may have an effect on investment income.

Resource development

Resource development involves a high degree of risk which cannot be avoided, even with a combination of careful evaluation, experience and knowledge. Augen typically invests in projects, or companies having projects, in early stages of exploration or development. As such, there is no assurance that such projects will prove to be economically feasible and there is also no assurance that the projects owned by companies in which the funds of Augen may be invested will be brought into commercial production. Investee companies are also subject to government regulatory and other political risk as well as volatility in commodity prices that can affect the economic feasibility of projects.

Financing requirements

Augen may, from time to time, require funds to support the Company's growth and operations and may seek to obtain additional funds for these purposes through public or private equity or debt financing. There are no assurances that additional funding will be available to the Company at all, on acceptable terms or at an acceptable level. Any additional equity financing may cause shareholders of the Company to experience dilution, and any debt financing, of which Augen currently has none, may result in increased interest expense or restrictions on the Company's operations or ability to incur additional debt. Any limitations on the Company's ability to access the capital markets for additional funds could have a material adverse effect on the Company's ability to grow its MB investment portfolio or maintain the value of existing assets.

Management of growth

Significant growth in Augen's business, as a result of acquisitions or otherwise, could place a strain on the managerial, operational and financial resources and information systems of the Company's Manager. The Company's future operating results will depend on the ability of the Manager to manage rapidly changing business conditions, and to implement and improve the Manager's technical, administrative and financial controls and reporting systems. No assurance can be given that the Manager will succeed in these efforts.