



# **ENDEAVOUR MINING CAPITAL CORP.**

**First Quarter Report  
November 30, 2004**

*(Expressed in Thousands of United States Dollars)*

# ENDEAVOUR MINING CAPITAL CORP.

Management's Discussion and Analysis of  
Results of Operations and Financial Condition  
First Quarter Report – November 30, 2004

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## Introduction

This discussion and analysis should be read in conjunction with the financial information included in the unaudited consolidated financial statements. The unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The functional currency of the business is the United States Dollar. All monetary values are expressed in United States Dollars, unless otherwise indicated. This discussion and analysis is prepared as of January 5, 2005.

Endeavour Mining Capital Corp. ("Endeavour" or "Corporation") is a merchant banking company focused on the global natural resources sector. The Corporation originates and invests in equity, equity-linked and debt transactions where it can generate value by using the extensive international expertise of its Board of Directors and its investment advisor, Endeavour Financial. The Corporation actively manages its investment capital base and earnings are generated through capital appreciation, fees and interest.

## First quarter highlights

- Net income of \$19.8 million or \$0.86 per share
- Net asset value per share of CDN\$4.79 at November 30, 2004 (CDN \$4.17 at August 31, 2004)

## Critical Accounting Policies

Effective September 1, 2004, the Company adopted the amended recommendations of the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". Under the amended standards of this Section, the fair value of all stock-based awards granted are estimated using the Black-Scholes model and are recorded in operations over the vesting periods. The compensation cost related to stock options granted after September 1, 2004 is recorded in operations.

Previously, the Company provided note disclosure of pro forma net earnings per share as if the fair value based method had been used to account for share purchase options granted to employees, directors and officers after September 1, 2002. The amended recommendations have been applied retroactively from September 1, 2002 without restatement of prior periods. As a result, as of September 1, 2004, retained earnings decreased by \$452 and contributed surplus increased by \$452.

There were no options granted by the Company in the three months ended November 30, 2004 and therefore no compensation expense for share purchase options is included in the statement of operations. Had the same basis been applied to 2003 share purchase options granted, net income for the three months ended November 30, 2003 would have been as follows:

(in thousands, except per share amounts)	November 30, 2003	
Net income	\$	26,936
Additional compensation expense for options		(150)
Pro forma net income	\$	26,786
Pro forma basic earnings per share	\$	1.54
Pro forma diluted earnings per share	\$	1.53

Compensation expense was determined using an option pricing model assuming no dividends were to be paid, a weighted average volatility of the Corporation's share price of 61.2%, an annual risk free interest rate of 4.3% and expected lives of five years.

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## Results from Operations

	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Total investment income	\$ 22,616	\$ (4,381)	\$ (6,693)	\$ (2,317)
Net income (loss)	19,797	(3,999)	(5,833)	(2,435)
Basic earnings (loss) per share	\$ 0.86	\$ (0.17)	\$ (0.25)	\$ (0.11)
Diluted earnings (loss) per share	\$ 0.85	\$ (0.17)	\$ (0.25)	\$ (0.11)

  

	Q1 2004	Q4 2003	Q3 2003	Q2 2003
Total investment income	\$ 32,492	\$ 15,530	\$ 2,045	\$ 8,254
Net income (loss)	26,936	12,132	1,406	7,887
Basic earnings (loss) per share	\$ 1.54	\$ 0.78	\$ 0.09	\$ 0.51
Diluted earnings (loss) per share	\$ 1.54	\$ 0.78	\$ 0.09	\$ 0.49

During the three month period ended November 30, 2004, investment income totaled \$22.6 million and net income totaled \$19.8 million (or \$0.86 per share), which compares to investment income of \$32.5 million and net income of \$26.9 million (or \$1.54 per share) during the three month period ended November 30, 2003. The higher earnings in the comparative quarter in the prior year were primarily due to relatively stronger mining equity market valuations during that quarter.

The Corporation marks its investments to market at each reporting period, and as highlighted in the above table, the Corporation experiences significant movements in its quarterly results which are substantially driven by changes in the unrealized appreciation and depreciation of its investments. The marked-to-market value of the Corporation's investments is affected by many factors but the primary forces include metal prices and investor sentiment. The Corporation is highly leveraged to its core merchant banking investments and, in certain periods, these unrealized movements have been very dramatic. In each of the last 8 consecutive quarters, the Corporation has generated net realized gains on investments.

Endeavour employs an operating style that has shown excellent results and allows it to add value quickly and efficiently. The Corporation offers a unique combination of financial and intellectual capital to help build companies and generate shareholder value. It invests in companies with the potential for significant future growth with aggressive management teams either in-place or brought in as part of the transaction. During the first quarter, the Corporation's historic merchant banking investments continued to perform well, and certain of these holdings were liquidated. While the core merchant banking positions remain metals-based, a number of special situations in coal, uranium and oil and gas have been added.

Endeavour operates in a highly competitive financial marketplace that demands the utmost discretion and confidentiality. Accordingly, our practice is not to disclose sensitive details regarding individual transactions. This practice has been carefully considered with the primary objective of maximizing our potential returns by limiting the possibility of adverse market impacts caused by inopportune disclosure.

# ENDEAVOUR MINING CAPITAL CORP.

## Management's Discussion and Analysis of Results of Operations and Financial Condition First Quarter Report – November 30, 2004

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The Corporation relies on their investment advisor, Endeavour Financial, for new business recommendations, analytical support and guidance for the optimal realization of existing investments. As such, the Corporation has a material agreement with the investment advisor that defines the services to be rendered and the compensation due.

The investment advisory agreement has a term of 3 years to August 31, 2005 and the agreement is renewable by mutual consent. The investment advisor is due an investment advisory fee, calculated as 1/12th of 2% on the first \$50 million of net assets, 1.5% on the next \$50 million of net assets, and 1% on net assets in excess of \$100 million payable monthly. The investment advisor also receives an annualized performance fee of 20% of the Corporation's net income from operations in excess of a 15% return on the weighted average Shareholders' Equity during the fiscal period.

During the three month period ended November 30, 2004, the investment advisor received an investment advisory fee totaling \$0.4 million and a performance fee of \$2.2 million was accrued. During the comparative three month period ended November 30, 2003, the investment advisor received an investment advisory fee totaling \$0.3 million and a performance fee of \$5.0 million was accrued. The increase in the investment advisory fee paid to the investment advisor is a direct result of the growth of the net assets of the Corporation. The higher accrued performance fee at November 30, 2003 was primarily due to the very strong upward movements in mining related equity valuations during that quarter which resulted in significant net income. The combined investment advisory fee and performance fee accrued represent the significant expenses incurred during the three month period ended November 30, 2004. Other operating expenses which consist of general administrative costs and professional fees were consistent with the comparative quarter in the prior year.

### **Liquidity and Capital Resources**

At November 30, 2004 the Corporation held assets totalling \$95.7 million comprised mainly of investments (86%) and cash and cash equivalents (14%) compared to assets held at August 31, 2004 of \$75.3 million comprised mainly of investments (93%) and cash and cash equivalents (7%). The increase in the cash and cash equivalents balance at November 30, 2004 is a result of the strong mining resource markets during the quarter which allowed the Corporation to realize gains on some of their merchant banking investments.

The liabilities of the Corporation totalled \$2.4 million as of November 30, 2004 of which \$2.2 million was the performance fee accrual, \$0.1 million was payable to the investment advisor, and \$0.1 million was for other accrued expenses. At August 31, 2004 total liabilities were \$1.8 million of which \$1.7 million was payable to the investment advisor, and \$0.1 million was for other accrued expenses. The Corporation had adequate cash resources as at November 30, 2004 and August 31, 2004 to settle the liabilities.

The increase of \$19.8 million in Shareholders' Equity in the Corporation to \$93.3 million at November 30, 2004 from \$73.5 million as at August 31, 2004 is attributable to operations that generated \$19.8 million of net income.

# ENDEAVOUR MINING CAPITAL CORP.

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## Outstanding Share Data

Authorized

100,000,000 voting shares of \$0.01 par value

100,000,000 undesignated shares

	Three month period ended November 30, 2004		Year ended August 31, 2004	
	Number of Shares	Amount	Number of Shares	Amount
Issued				
Opening balance	23,120,578	\$ 51,745	15,592,868	\$ 33,623
Issued, for cash	-	-	7,250,000	19,071
Share issue costs	-	-	-	(1,504)
Contingent Value Rights exercised	-	-	87,710	235
Stock options exercised for cash	-	-	190,000	320
Closing balance	23,120,578	\$ 51,745	23,120,578	\$ 51,745

## Outlook

Our continued financial achievements confirm the effectiveness of our merchant banking business strategy. They also give us the confidence and the financial resources to augment our strategy to take advantage of growth opportunities in a broader range of natural resource sectors

Our view is that strong, positive forces will continue driving the natural resources sector, sustaining and possibly increasing high commodity prices. We see the sector's favourable economic drivers creating opportunities in a broader range of minerals and in energy, and we are confident that Endeavour Mining's core strengths are well suited to capitalizing on these emerging opportunities.

Endeavour Mining will remain focused on metals and mining. But we are well positioned to apply our business approach and investment strategies to other facets of the natural resources sector, which also depend on capital markets for growth. Our growing reputation as a capable investor and our international network across financial markets provide us with an expanding flow of transactions. All indicators suggest that the time is right for us to evolve our growth strategy by deploying our investment capital base into other natural resource sectors while continuing to be highly selective in our investment decisions.

While earnings volatility should be anticipated, management believes that its superior deal flow and access to potentially high return transactions will result in the continued growth of the Corporation's investment capital base.

Additional information relating to the Corporation is available on the Corporation's web site at [www.endeavourminingcapital.com](http://www.endeavourminingcapital.com) and in the Corporation's Annual Information Form for the period ending August 31, 2004 on SEDAR at [www.sedar.com](http://www.sedar.com).

# ENDEAVOUR MINING CAPITAL CORP.

## Consolidated Balance Sheets

(Expressed in Thousands of United States Dollars)

	November 30, 2004 (Unaudited)	August 31, 2004
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,877	\$ 5,301
Investments (cost: Nov.30, 2004 \$48,107- Aug.31, 2004 - \$45,995) (Note 2)	82,536	69,871
Receivables and other assets	317	119
	<u>\$ 95,730</u>	<u>\$ 75,291</u>
<b>LIABILITIES</b>		
Investment advisor fees payable	\$ 140	\$ 115
Performance fees accrued	2,192	1,551
Accrued expenses and other liabilities	80	104
	<u>2,412</u>	<u>1,770</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 3)	51,745	51,745
Warrants (Note 3)	240	240
Contributed surplus	536	84
Retained earnings	40,797	21,452
	<u>93,318</u>	<u>73,521</u>
	<u>\$ 95,730</u>	<u>\$ 75,291</u>

Approved by the Board:

"Neil Woodyer" Director      "Wayne McManus" Director

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

**ENDEAVOUR MINING CAPITAL CORP.**  
**Consolidated Statements of Operations & Retained Earnings**  
(Expressed in Thousands of United States Dollars, except per share amounts)

	Three months ended November 30,	
	2004 (Unaudited)	2003 (Unaudited)
<b>INVESTMENT INCOME</b>		
Net realized gain on investments	\$ 11,476	\$ 5,864
Change in net unrealized appreciation/depreciation of investments and foreign currencies	10,883	26,609
Interest	225	19
Dividends, net of withholding taxes	5	-
Loan facility fees	27	-
	<u>22,616</u>	<u>32,492</u>
<b>EXPENSES</b>		
Performance fee	2,192	5,001
Investment advisory fee	405	312
General office and administrative	183	200
Professional fees	39	43
	<u>2,819</u>	<u>5,556</u>
<b>NET INCOME</b>	19,797	26,936
<b>RETAINED EARNINGS, BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED</b>	21,452	8,003
<b>ADJUSTMENT FOR STOCK-BASED COMPENSATION (Note 1(a))</b>	(452)	-
<b>RETAINED EARNINGS, END OF PERIOD</b>	<u>\$ 40,797</u>	<u>\$ 34,939</u>
<b>BASIC EARNINGS PER SHARE</b>	\$ 0.86	\$ 1.54
<b>DILUTED EARNINGS PER SHARE</b>	\$ 0.85	\$ 1.54
<b>WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING</b>	23,120,578	17,445,945
<b>DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING</b>	<u>23,193,883</u>	<u>17,531,925</u>

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

**ENDEAVOUR MINING CAPITAL CORP.**  
**Consolidated Statements of Cash Flows**  
(Expressed in Thousands of United States Dollars)

	Three months ended November 30,	
	2004 (Unaudited)	2003 (Unaudited)
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 19,797	\$ 26,936
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized gain on investments	(11,476)	(5,864)
Change in net unrealized appreciation/depreciation of investments and foreign currencies	(10,883)	(26,609)
Increase in receivables and other assets	(198)	(213)
Increase in investment advisor fees payable	25	61
Increase in accrued performance fees	641	1,564
(Decrease) increase in accrued expenses and other liabilities	(24)	676
Purchase of investments	(10,674)	(18,984)
Proceeds from the sale of investments	20,368	17,157
	<u>7,576</u>	<u>(5,276)</u>
<b>FINANCING ACTIVITIES</b>		
Received from the issue of common shares	-	19,626
Share issue costs	-	(1,250)
	<u>-</u>	<u>18,376</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>7,576</b>	<b>13,100</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>5,301</b>	<b>5,840</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 12,877</b>	<b>\$ 18,940</b>

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

**ENDEAVOUR MINING CAPITAL CORP.**  
**Notes to the Unaudited Consolidated Financial Statements**  
November 30, 2004  
(Expressed in Thousands of United States Dollars, except per share amounts)

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**1. BASIS OF PRESENTATION**

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. They follow the same accounting policies and methods of application as the audited consolidated financial statements of Endeavour Mining Capital Corp. (the "Corporation") for the year ended August 31, 2004 except as noted below. These unaudited interim consolidated financial statements do not include all the information and note disclosures required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the most recent annual audited consolidated financial statements.

*(a) Stock-based compensation*

Effective September 1, 2004, the Company adopted the amended recommendations of the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". Under the amended standards of this Section, the fair value of all stock-based awards granted are estimated using the Black-Scholes model and are recorded in operations over the vesting periods. The compensation cost related to stock options granted after September 1, 2004 is recorded in operations.

Previously, the Company provided note disclosure of pro forma net earnings per share as if the fair value based method had been used to account for share purchase options granted to employees, directors and officers after September 1, 2002. The amended recommendations have been applied retroactively from September 1, 2002 without restatement of prior periods. As a result, as of September 1, 2004, retained earnings decreased by \$452 and contributed surplus increased by \$452.

There were no options granted by the Company in the three months ended November 30, 2004 and therefore no compensation expense for share purchase options is included in the statement of operations. Had the same basis been applied to 2003 share purchase options granted, net income for the three months ended November 30, 2003 would have been as follows:

(in thousands, except per share amounts)	<u>November 30, 2003</u>	
Net income	\$	26,936
Additional compensation expense for options		<u>(150)</u>
Pro forma net income	\$	<u>26,786</u>
Pro forma basic earnings per share	\$	<u>1.54</u>
Pro forma diluted earnings per share	\$	<u>1.53</u>

Compensation expense was determined using an option pricing model assuming no dividends were to be paid, a weighted average volatility of the Corporation's share price of 61.2%, an annual risk free interest rate of 4.3% and expected lives of five years.

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**ENDEAVOUR MINING CAPITAL CORP.**  
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**2. INVESTMENTS**

Investments are comprised of the following:

Investments by location	November 30, 2004		August 31, 2004	
	Value	% of Investments	Value	% of Investments
Equities:				
North America	\$ 12,856	15.5%	\$ 17,529	25.0%
South America	30,506	37.0%	19,751	28.3%
Europe and Asia	12,234	14.8%	9,383	13.4%
Africa	7,027	8.5%	2,559	3.7%
Oceania	2,027	2.5%	2,074	3.0%
<b>Total equities</b>	<b>64,650</b>	<b>78.3%</b>	<b>51,296</b>	<b>73.4%</b>
Convertible Loans and Debentures				
North America	6,821	8.3%	6,130	8.8%
South America	1,684	2.0%	1,592	2.3%
Africa	-	0.0%	2,500	3.5%
<b>Total Convertible Loans and Debentures</b>	<b>8,505</b>	<b>10.3%</b>	<b>10,222</b>	<b>14.6%</b>
Warrants				
North America	147	0.2%	1,334	1.9%
South America	6,542	7.9%	5,497	7.9%
Europe and Asia	2,121	2.6%	1,125	1.6%
Africa	571	0.7%	50	0.1%
Oceania	-	0.0%	347	0.5%
<b>Total Warrants</b>	<b>9,381</b>	<b>11.4%</b>	<b>8,353</b>	<b>12.0%</b>
<b>Total Investment Portfolio</b>	<b>\$ 82,536</b>	<b>100.0%</b>	<b>\$ 69,871</b>	<b>100.0%</b>

Consistent with the Corporation's merchant banking business plan, the Corporation appoints directors to some of the companies in which it invests.

The market value of investments in companies for which the Corporation has directors in common totaled \$8,933 at November 30, 2004 (August 31, 2004 - \$15,609).

\* Included in equities are written covered call options. As at November 30, 2004, the market value of these options totaled \$43 (August 31, 2004 - \$Nil).

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**ENDEAVOUR MINING CAPITAL CORP.**  
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**3. SHARE CAPITAL**

(a) *Voting shares*

Authorized

100,000,000 voting shares of \$0.01 par value

100,000,000 undesignated shares

	Three month period ended November 30, 2004		Year ended August 31, 2004	
	Number of Shares	Amount	Number of Shares	Amount
Issued				
Opening balance	23,120,578	\$ 51,745	15,592,868	\$ 33,623
Issued, for cash	-	-	7,250,000	19,071
Share issue costs	-	-	-	(1,504)
Contingent Value Rights exercised	-	-	87,710	235
Stock options exercised for cash	-	-	190,000	320
Closing balance	23,120,578	\$ 51,745	23,120,578	\$ 51,745

Share capital includes \$51,514 (August 31, 2004 - \$51,514) of additional paid in capital.

The following table summarizes information about the warrants outstanding as at November 30, 2004:

	Warrants outstanding & exercisable	Weighted average exercise price (CDN\$)	Weighted average remaining contractual life
	362,500	\$ 4.50	0.95 years
	3,625,000	5.50	3.95 years
At November 30, 2004	3,987,500	\$ 5.41	3.67 years

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**3. SHARE CAPITAL (continued)**

(b) *Stock option plan*

The Corporation has established a stock option plan whereby the Corporation's directors may from time to time grant options to directors, employees or consultants. The maximum term of any option is five years, but generally options are granted for five years or less. The exercise price of an option is not less than the closing price on the exchange on the last trading day preceding the grant date. At November 30, 2004 there were 1,576,286 options available for grant under the plan (August 31, 2004 - 1,576,286).

In accordance with the Corporation's stock option plan, the Corporation issued 200,000 stock options to directors during the year ended August 31, 2004. Of the 200,000 stock options issued, 100,000 are exercisable into common shares at a price of CDN\$3.50 (\$2.67) per share expiring November 6, 2008 and 100,000 are exercisable into common shares at a price of CDN\$4.20 (\$3.20) per share expiring December 1, 2008.

A summary of the changes in stock options is presented below:

	<b>Options outstanding &amp; exercisable</b>	<b>Weighted average exercise price (CDN\$)</b>
At August 31, 2003	575,000	2.46
Granted	200,000	3.85
Exercised	(190,000)	2.30
Expired	(10,000)	2.30
<hr/>		
At November 30 and August 31, 2004	575,000	\$ 3.00

The following table summarizes information about the options outstanding as at November 30, 2004:

	<b>Options outstanding</b>	<b>Weighted average exercise price (CDN\$)</b>	<b>Weighted average remaining contractual life</b>
	375,000	\$ 2.55	2.78 years
	100,000	3.50	3.93 years
	100,000	4.20	4.01 years
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At November 30, 2004	575,000	\$ 3.00	3.19 years

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