Introduction

This discussion and analysis should be read in conjunction with financial information included in the consolidated financial statements. The 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 thousands of United States Dollars, unless otherwise indicated. The Corporation has changed its year end date to June 30th. Consequently the current period results are for a ten month period. This discussion and analysis was prepared as of August 10, 2006.

Endeavour Mining Capital Corp. ("Endeavour" or "Corporation") is a merchant banking company focused on the global natural resources sector. As a venture-capitalist for resource based companies, 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 investment advisors. The Corporation actively manages its investment capital base and earnings are generated through capital appreciation, fees, and interest.

Year end highlights

- Net income of $73.6 million or $3.18 per share (basic) for the ten month period ended June 30, 2006, compared to net income of $26.6 million or $1.15 per share (basic) for the year ended August 31, 2005
- Book value per share of $7.40 (CDN$8.26) at June 30, 2006 compared to $4.27 (CDN $5.07) at August 31, 2005, an increase of 73%
- Cash dividends of CDN$0.035 paid per share

Restatement

In January 2006, it was ascertained that two security holdings, both of which are exchange traded warrants, were undervalued by the Corporation. The undervaluation was the result of an incorrect consolidation of two warrant positions where the underlying company's common shares were consolidated but its exchange-traded warrants were not. The financials statements have been restated and the impact of the restatement is summarized in the following tables:

	Year Ended August 31, 2005		
	As Reported	Restated	Change
Balance Sheet			
Investments	$ 90,664	$ 92,895	$ 2,231
Performance fees payable	3,470	3,917	447
Total assets	100,752	102,983	2,231
Total shareholder's equity	97,045	98,829	1,784

Critical accounting policies

A detailed description of all the Corporation's significant accounting policies is included in Note 2 to the annual consolidated financial statements for the ten month period ended June 30, 2006.

The Corporation's investment valuation policy is critical to the understanding of results described below. For portfolio investments, securities, held in long or short positions, that are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at carrying values based on the last quoted sales price at the balance sheet dates or the closing price on the last day the security traded if there were no trades at the balance sheet dates.

Critical accounting policies (continued)

Securities that are traded on a recognized exchange but that are escrowed or otherwise restricted as to sale or transfer are recorded at amounts discounted from market value. In determining the discount for such investments, the Corporation considers the nature and length of the restriction, business risk of the investee company, its stage of development, market potential, relative trading volume and price volatility and any other factors that may be relevant to the ongoing and realizable value of the investments.

Securities in privately-held companies are recorded at cost unless an upward adjustment is considered appropriate and supported by persuasive and objective evidence such as a significant subsequent equity financing by an unrelated, professional investor at a transaction price higher than the Corporation's carrying value. Downward adjustments to carrying value are made when there is evidence of a decline in value as indicated by the assessment of the financial condition of the investment based on operational results, forecasts, financing and other developments since acquisition.

Included in the Corporation's investments are certain instruments that are accounted for as follows:

- Loans are valued at the lesser of the loan value amount plus accrued interest or the amount of the loan deemed to be recoverable.
- Convertible loans and debentures are valued at the greater of their loan value amount as described above or as though converted to the underlying securities.
- Options and warrants for public companies which are not listed or traded on a national exchange are valued at the difference between the exercise price and the quoted market price of the underlying shares, plus an adjustment for time value.
- Options and warrants for private companies are valued at the difference between the exercise price and the carrying value of the underlying shares.

At each quarterly financial reporting period, the Corporation's management determines the valuation of investments based on the criteria above and reflects such valuations as corporate investments in the consolidated financial statements. The resulting values may differ from values that would be realized had a ready market existed. The amounts at which the Corporation's privately-held investments could be disposed of currently may differ from the carrying value assigned due to changes in valuation assumptions resulting from current market conditions. The amounts at which the Corporation's publicly-traded investments could be disposed of currently may differ from the carrying value based on market quotes as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity.

Risks and Uncertainties

Management is unaware of any trends, commitments, events or uncertainties that can reasonably be expected to have a material effect on the Corporation's business, except the general risk factors and investment considerations relating to investments in Common Shares disclosed below:

Speculative Nature of Common Shares

The Corporation's Common Shares are speculative in nature and suitable only for investors able to sustain a total loss of their investment. Shareholders should not rely upon realizing any significant returns from Common Shares and should be aware that the value of Common Shares and the income from them could, in common with other shares and bonds, fluctuate. There is no assurance that the investment objectives of the Corporation will actually be achieved.

Risks and Uncertainties (continued)

Risk of Limited Number of Investments

The Corporation intends to participate in a limited number of investments and, as a consequence, the aggregate return of the Corporation may be adversely affected by the unfavourable performance of even a single investment. In addition, as the Corporation's investments are concentrated in the resource sector, their performance will be disproportionately subject to adverse developments in the resource sector.

Mining Development Risks

Mining development involves a high degree of risk which cannot be avoided, even with a combination of careful evaluation, experience and knowledge. Although the Corporation will typically be investing in projects, or companies having projects, in later stages of development, 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 the Corporation may be invested will be brought into, or continue to be in, commercial production. Investee companies are also subject to government and political risk as well as volatility in commodity prices that can affect the economic feasibility of projects.

Currency and Foreign Exchange Rate Risks

It is anticipated that a substantial proportion of the Corporation's investments will be made in securities denominated or quoted in foreign currencies. Therefore, changes in currency exchange rates as well as associated transaction costs could adversely affect the value of the Common Shares during any period. In addition, the Corporation could also make investments in jurisdictions which may place restrictions on the repatriation of funds. The Corporation does not enter into hedging or derivative arrangements to manage its foreign exchange risk.

Results from Operations

Expressed in Thousands of United States Dollars, except per share amounts

	Ten Month Period Ended June 30, 2006	Year Ended August 31, 2005	2004
Total Assets	$ 187,758	$ 102,983	$ 75,291
Net Assets	$ 172,032	$ 98,829	$ 73,521
Investment Income	$ 92,038	$ 33,510	$ 19,101
Net Income	$ 73,582	$ 26,644	$ 14,669
Basic earnings per share	$ 3.18	$ 1.15	$ 0.68
Diluted earnings per share	$ 3.11	$ 1.15	$ 0.67
Dividends per share (CDN$)	$ 0.04	$ 0.07	$ 0.07
Return on equity (annualized)	96%	36%	26%

The annualized return on equity highlighted in the results of operation table is a non-GAAP financial measure that does not have any standardized meaning prescribed by GAAP. The Corporation provides this measure to allow a comparison of its results to other major mining and commodity equity indices.

Results from Operations (continued)

During the ten month period ended June 30, 2006, investment income totaled $92.0 million and net income totaled $73.6 million (or $3.18 per share - basic), compared to investment income of $33.5 million and net income of $26.6 million (or $1.15 per share - basic) during the year ended August 31, 2005. The Corporation's performance during the ten month period ended June 30, 2006 continues to build on the strong results of our previous five fiscal years and demonstrates our ability to effectively deploy an expanding investment capital base to generate strong investment returns. The Corporation's merchant banking business strategy remains highly profitable and generated a significant level of investment income. The Corporation generated an annualized return on shareholder's equity of 96% during the ten month period ended June 30, 2006, which compares to 36% during the year ended August 31, 2005 and 26% during the year ended August 31, 2004. The continued strong price environment for many resource commodities during the period contributed to the robust performance of the Corporation's merchant banking positions.

The Corporation marks its investments to market at each reporting period, and as highlighted in the table below, the Corporation experiences significant movements in its quarterly results which are substantially driven by changes in the unrealized appreciation and deprecation of its investments. The mark 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. This is demonstrated in the chart on the following page. The realized gains totaled $70.4 million during the ten month period ended June 30, 2006 and a significant amount of these gains were realized in the third quarter when several of the core merchant banking positions reached record highs. The liquidation of several investments in March and April resulted in the Corporation increasing its cash balance to over 30% of the total assets.

The following table summarizes the Corporation's results of the last eight quarters.

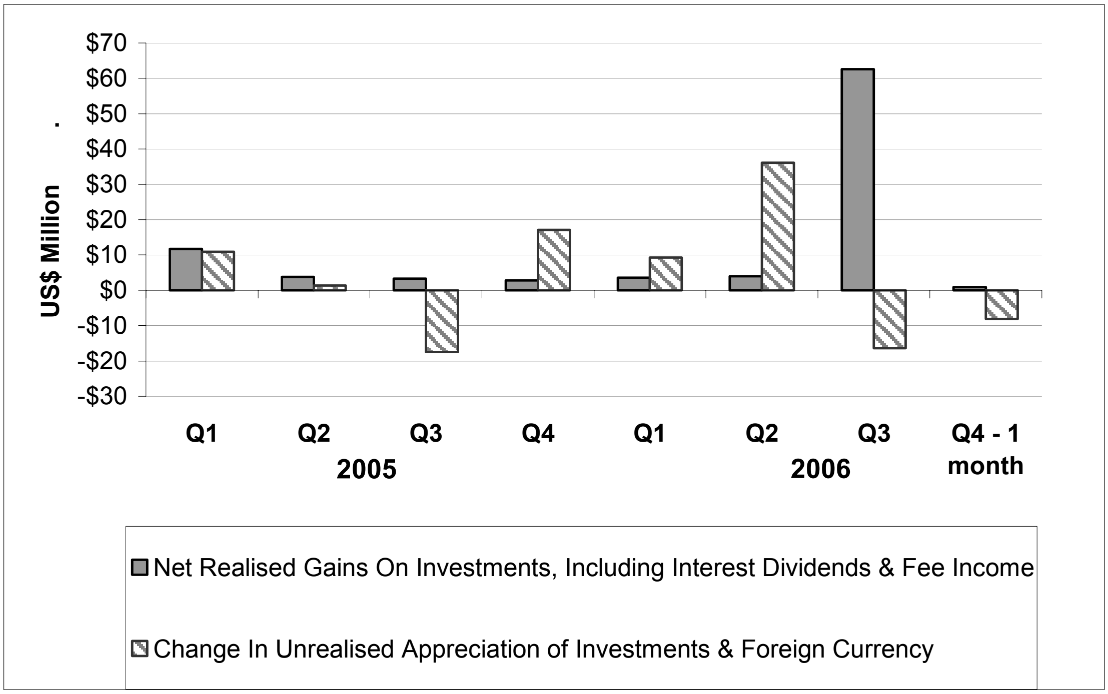
	June 2006	Q3 2006	Q2 2006	Q1 2006 Restated
Total assets	$ 187,758	$ 195,210	$ 149,838	$ 111,647
Shareholder's Equity	172,032	178,073	142,223	110,960
Total investment income	(7,115)	46,186	40,094	12,873
Net income	(6,046)	35,599	31,898	12,131
Basic earnings per share	$ (0.25)	$ 1.53	$ 1.38	$ 0.52
Diluted earnings per share	$ (0.23)	$ 1.45	$ 1.37	$ 0.52

	Q4 2005 Restated	Q3 2005 Restated	Q2 2005 Restated	Q1 2005
Total assets	$ 102,983	$ 84,423	$ 99,452	$ 95,730
Shareholder's Equity	98,829	84,115	96,059	93,318
Total investment income	19,922	(14,248)	5,220	22,616
Net income (loss)	15,393	(11,944)	3,398	19,796
Basic earnings (loss) per share	$ 0.67	$ (0.52)	$ 0.15	$ 0.86
Diluted earnings (loss) per share	$ 0.67	$ (0.52)	$ 0.15	$ 0.85

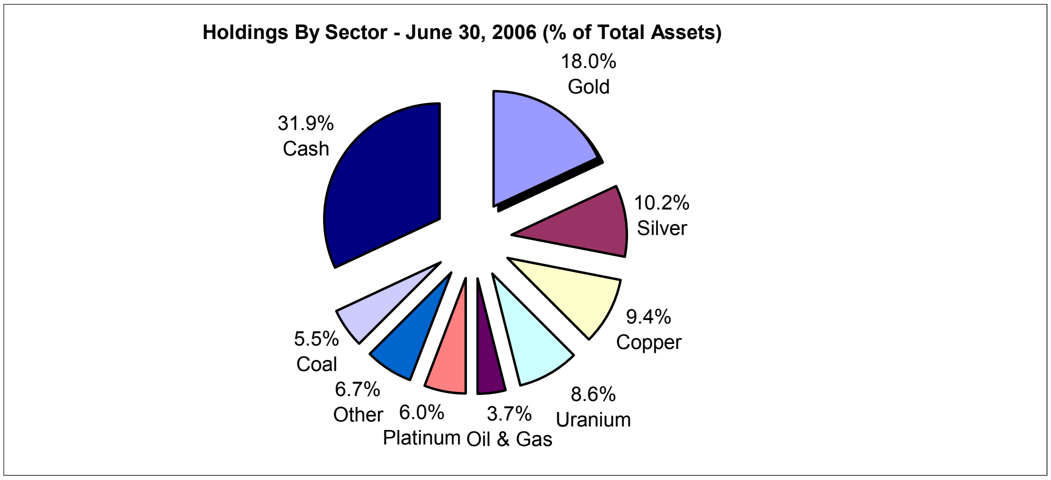
Results from Operations (continued)

The results in the fourth quarter of 2006 are for a one month period as a result of the change in the Corporations year end to June 30. During the month of June the Corporation realized gains on investments sold of $1.0 million and recorded an unrealized loss on the mark to market of the portfolio of $8.1 million, resulting in an investment loss of $7.1 million.

This chart demonstrates the composition of investment income in each of the last eight quarters.



Although the Corporation's earnings are affected by the changes in the market valuation of its investments, the deal flow generated by the management, directors and investment advisors results in significant capital appreciation through early access to high quality transactions. The Corporation's strong performance in fiscal 2006 reflects the solid performance of its core and new merchant banking positions and its investment in several early stage opportunities. The Corporation maintains a flexible investment approach which allows it to prosper in changing market conditions. This flexible approach allowed the Corporation to take advantage of opportunities in a broader range of resources during the period such as oil and gas, uranium and coal. Our results to date demonstrate that the Corporation's core strengths and investment strategies are well suited to capitalizing on emerging opportunities. Highlighted in the chart below is a sector breakdown of the Corporation's portfolio holdings as of June 30, 2006.



Results from Operations (continued)

The Corporation 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.

The Corporation operates in a highly competitive financial marketplace that demands the utmost discretion and confidentiality. Accordingly, its 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.

The Corporation relies on its investment advisors for new business recommendations, analytical support and guidance for the optimal realization of existing investments. As such, the Corporation has material agreements with the investment advisors that define the services to be rendered and the compensation due.

Endeavour Securities Corporation ("ESC") performed the role of investment advisor during the year ended August 31, 2005 and for the six month period ended February 28, 2006. Commencing in March 2006 US Global Investors Inc. ("US Global") assumed the role of Equity Investment Advisor and ESC assumed the role of Manager. US Global's investment mandate is focused on overall portfolio management and equity investment opportunities while ESC will focus on their area of expertise including debt and structured investment opportunities.

The aggregate fees payable to investment advisors are: (1) an investment advisory fee, calculated and payable monthly as 1/12th of 2% on the first $50 million of net assets, 1/12th of 1.5% on the next $50 million of net assets, and 1/12th of 1% on net assets in excess of $100 million, and (2) 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 ten month period ended June 30, 2006 the investment advisors received investment advisory fees of $1.9 million and the performance fee was $15.3 million. During the year ended August 31, 2005, ESC received an investment advisory fee totaling $1.6 million and the performance fee was $3.9 million. The increase in the investment advisory fees paid to the investment advisors during the period is a direct result of the growth of the net assets of the Corporation. The increase in the performance fee for the year is the result of the significant amount of earnings generated by the Corporation during the ten month period ended June 30, 2006.

Other operating expenses which include professional fees, marketing and administrative expenses totaled $1.3 million for the ten month period ended June 30, 2006 and the year ended August 31, 2005.

Included in other operating expenses are amounts paid to ESC and other related companies with whom the Corporation shares its premises and resources. In conducting its day-to-day operations, the Corporation incurs costs benefiting specifically the Corporation ("specific costs") and costs benefiting both the Corporation, ESC and other related companies ("general costs"). Under the cost share agreement, specific costs are recovered in full from the Corporation. General costs are shared among the respective beneficiaries in accordance with a ratio, based on a use of premises and resources estimate, which is agreed in writing by representatives of all parties and may be amended from time to time in accordance with the cost share agreement. Amounts paid to ESC during the ten month period ended June 30, 2006 totaled $0.3 million compared to $0.4 million during the year ended August 31, 2005.

Effective July 1, 2006 the fees payable to the investment advisors have been amended to (1) an investment advisory fee, calculated and payable monthly as 1/12th of 2% of net assets, and (2) an annualized performance fee of 20% of the Corporation's net income from operations in excess of a 8% return on the weighted average Shareholders' Equity during the fiscal period.

Liquidity and Capital Resources

At June 30, 2006 the Corporation held assets totaling $187.8 million comprised of investments (68%) and cash and cash equivalents (32%), compared to assets held at August 31, 2005 of $103.0 million comprised mainly of investments (90%), cash and cash equivalents (9%) and receivables and other assets of $0.1 million (1%).

The liabilities of the Corporation totaled $15.7 million as of June 30, 2006 of which $15.3 million was the performance fee payable, $0.2 million was payable to the investment advisors, and $0.2 million was for other accrued expenses. At August 31, 2005 total liabilities were $4.2 million of which $3.9 million was the performance fee payable, $0.2 million was payable to ESC, and $0.1 million was for other accrued expenses. The Corporation has adequate cash resources to settle outstanding liabilities as they become due.

The increase of $73.2 million in Shareholders' Equity in the Corporation to $172.0 million at June 30, 2006 from $98.8 million as at August 31, 2005 is attributable to operations that generated $73.6 million of net income. The income was offset by an increase in cash from net financing activities (proceeds from exercise of stock options, less dividends paid) of $0.4 million.

On February 28, 2006 the Corporation paid a regular semi-annual cash dividend of CDN$0.035 per share.

Contractual Obligations

There are no contractual obligations outstanding.

Outstanding Share Data

Voting shares

Authorized
1,000,000,000 voting shares of $0.01 par value
1,000,000,000 undesignated shares

	Number of Shares	Par Value	Additional Paid In Capital	Total
Issued - voting shares				
September 1, 2004 & August 31, 2005	23,120,578	$ 231	$ 51,514	$ 51,745
Stock options & warrants exercised	122,300	1	423	424
June 30, 2006	23,242,878	$ 232	$ 51,937	$ 52,169

The following table summarizes information about the warrants outstanding as at June 30, 2006:

	Warrants outstanding & exercisable	Weighted average exercise price (CDN$)	Weighted average remaining contractual life
At June 30, 2006	3,624,000	$ 5.50	2.37 years

Outstanding Share Data (continued)

During the ten months ended June 30, 2006, 362,500 warrants exercisable into common shares at a price of CDN$4.50 expired and 1,000 warrants exercisable into common shares at a price of CDN$5.50 were exercised. At August 31, 2005, 3,987,500 warrants with a weighted average exercise price of CDN$5.41 were issued and outstanding.

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 August 31, 2005 there were 1,576,286 options available for grant under the plan (August 31, 2004 - 1,576,286).

The following table summarizes information about the options outstanding as at June 30, 2006:

	Options outstanding & exercisable	Weighted average exercise price (CDN$)	Weighted average remaining contractual life
	295,500	$ 2.55	1.19 years
	93,200	3.50	2.35 years
	65,000	4.20	2.42 years
At June 30, 2006	453,700	$ 2.98	1.61 years

Controls and Procedures Certification

As a reporting issuer, the Corporation is required to comply with the requirements of Multilateral Instrument 52-109, "Certification of Disclosure in Annual and Interim Filings ("MI 52-109") issued by the Canadian Securities regulatory authorities (often referred to as Bill 198). The Corporation's senior management team monitors the disclosure and internal controls over financial reporting. The Corporation believes it has adequate human and financial resources in place in order to be able to meet all certification requirements required by the regulators.

In compliance with the requirements of MI 52-109, the Corporation's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have certified as to the fair presentation of the Corporations MD&A and financial statements on a quarterly basis throughout fiscal 2005 and 2006. The Certifying officers have conducted an evaluation of the disclosure controls and procedures and are of the opinion that these controls and procedures provide reasonable assurance that all information considered necessary for appropriate disclosure has been accumulated and disclosed in the annual and quarterly filings and other reports submitted under applicable securities legislation.

Outlook

Our view is that strong, positive forces will continue driving the natural resources sector, which is expected to benefit the Corporation's core merchant banking positions and aide the creation of new opportunities within specific commodity and resource sectors, and certain geographic regions, where we can add value through our unique business approach and expertise. The strong economic performance of the capital intensive resource sector has and is expected to continue attracting capital from multiple sources. In this increasingly competitive environment, the Corporation is focused on opportunities where it sees a path to value creation.

Outlook (continued)

Looking forward, the Corporation intends to add a venture-capital element to its merchant banking business plan whereby it may take direct project ownership or invest in private equity, royalties or commodity-specific revenue streams in addition to the value creation that will arise from its existing core merchant banking positions.

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 Corporations web site at www.endeavourminingcapital.com and in the Corporation's Annual Information Form for the period ending August 31, 2005 on SEDAR at www.sedar.com.

Auditors' Report and Consolidated Financial Statements of

ENDEAVOUR MINING CAPITAL CORP.

Ten Months ended June 30, 2006 and Year Ended August 31, 2005
(Expressed in Thousands of United States Dollars)

Deloitte & Touche LLP
2800 - 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada

Tel: (604) 669-4466
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Auditors' Report

To the Shareholders of
Endeavour Mining Capital Corp.

We have audited the consolidated balance sheets of Endeavour Mining Capital Corp. as at June 30, 2006 and August 31, 2005 and the consolidated statements of operations and retained earnings and cash flows for the ten month period ended June 30, 2006 and the year ended August 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2006 and August 31, 2005 and the results of its operations and its cash flows for the ten month period ended June 30, 2006 and the year ended August 31, 2005 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, Canada
August 10, 2006

ENDEAVOUR MINING CAPITAL CORP.
Consolidated Balance Sheets
(Expressed in Thousands of United States Dollars)

		June 30, 2006		August 31, 2005 Restated
ASSETS				
Cash and cash equivalents	$	59,791	$	5,702
Restricted cash (Note 3)		-		3,500
Investments (cost: $71,957; Aug 31, 2005 $57,213) (Note 4)		127,938		92,895
Receivables and other assets		29		886
	$	187,758	$	102,983
LIABILITIES				
Investment advisor fees payable	$	219	$	146
Performance fees payable		15,313		3,917
Accrued expenses and other liabilities		194		91
		15,726		4,154
SHAREHOLDERS' EQUITY				
Share capital (Note 5)		52,169		51,745
Warrants (Note 5)		-		240
Contributed surplus (Note 5)		680		536
Retained earnings		119,183		46,308
		172,032		98,829
	$	187,758	$	102,983

Approved by the Board:

"Neil Woodyer" Director   "Wayne McManus" Director

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

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

	Ten Months Ended, June 30, 2006	Year Ended, August 31, 2005 (Restated - Note 8)
INVESTMENT INCOME		
Net realized gain on investments	$ 70,389	$ 20,032
Change in net unrealized appreciation of investments and foreign currencies	20,840	11,884
Interest	685	809
Dividends, net of withholding taxes	78	89
Loan facility fees	46	696
	92,038	33,510
EXPENSES		
Performance fee (Note 6(b))	15,313	3,917
Investment advisory fee (Note 6(b))	1,885	1,618
General office and administrative	813	991
Professional fees	445	340
	18,456	6,866
NET INCOME	73,582	26,644
RETAINED EARNINGS, BEGINNING OF PERIOD	46,308	21,000
DIVIDENDS	(707)	(1,336)
RETAINED EARNINGS, END OF PERIOD	$ 119,183	$ 46,308
BASIC EARNINGS PER SHARE	$ 3.18	$ 1.15
DILUTED EARNINGS PER SHARE	$ 3.11	$ 1.15
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	23,160,426	23,120,578
DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	23,638,383	23,190,558

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

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

	Ten Months Ended, June 30, 2006	Year Ended, August 31, 2005 (Restated - Note 8)
OPERATING ACTIVITIES		
Net income	73,582	$ 26,644
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized gain on investments	(70,389)	(20,032)
Change in net unrealized appreciation of investments and foreign currencies	(20,840)	(11,884)
Decrease (increase) in receivables and other assets	857	(767)
Increase in investment advisor fees payable	73	31
Increase in performance fees payable	11,396	2,366
Increase (decrease) in accrued expenses and other liabilities	103	(13)
Restricted cash	3,500	(3,500)
Purchase of investments	(57,975)	(36,574)
Proceeds from the sale of investments	114,161	45,466
	54,468	1,737
FINANCING ACTIVITIES		
Received from the issue of common shares	328	-
Dividends paid to shareholders	(707)	(1,336)
	(379)	(1,336)
NET INCREASE IN CASH AND CASH EQUIVALENTS	54,089	401
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,702	5,301
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 59,791	$ 5,702
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash in Bank	$ 38,396	$ 3,909
Short Term Money Market Instruments	$ 21,395	$ 1,793
	$ 59,791	$ 5,702

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

1. NATURE OF OPERATIONS AND CHANGE OF YEAR END

Endeavour Mining Capital Corp. ("EMCC" or the "Corporation") is a publicly traded merchant banking company focused on the global natural resources sector and is incorporated in the Cayman Islands. The Corporation, which operates in only one business segment, seeks mutually beneficial investments with companies in the global natural resource sector to further their strategic initiatives. Types of transactions undertaken include equity investments, equity linked investments and debt financing. The Corporation actively manages its investment capital base and earnings are generated through capital appreciation, interest, dividends and fees. The Corporation has changed its year end to June 30. Consequently, the current period results are for a ten month period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

(a) *Principles of consolidation*

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Endeavour Capital Corporation. All material intercompany transactions and balances have been eliminated.

(b) *Investments*

(i) Portfolio investments

Securities, held in long or short positions, that are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at carrying values based on the last quoted sales price at the balance sheet dates or the closing price on the last day the security traded if there were no trades at the balance sheet dates.

Securities that are traded on a recognized exchange but that are escrowed or otherwise restricted as to sale or transfer are recorded at amounts discounted from market value. In determining the discount for such investments, the Corporation considers the nature and length of the restriction, business risk of the investee company, its stage of development, market potential, relative trading volume and price volatility and any other factors that may be relevant to the ongoing and realizable value of the investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Investments (continued)

(ii) Privately-held investments

Securities in privately-held companies are recorded at cost unless an upward adjustment is considered appropriate and supported by persuasive and objective evidence such as a significant subsequent equity financing by an unrelated, professional investor at a transaction price higher than the Corporation's carrying value. Downward adjustments to carrying value are made when there is evidence of a decline in value as indicated by the assessment of the financial condition of the investment based on operational results, forecasts, financing and other developments since acquisition.

(iii) Other forms of investment instruments

Included in the Corporation's investments are certain instruments that are accounted for as follows:

- Loans are valued at the lesser of the loan value amount plus accrued interest or the amount of the loan deemed to be recoverable.
- Convertible loans and debentures are valued at the greater of their loan value amount as described above or as though converted to the underlying securities.
- Options and warrants for public companies which are not listed or traded on a national exchange are valued at the difference between the exercise price and the quoted market price of the underlying shares, plus an adjustment for time value.
- Options and warrants for private companies are valued at the difference between the exercise price and the carrying value of the underlying shares.

At each quarterly financial reporting period, the Corporation's management determines the valuation of investments based on the criteria above and reflects such valuations as corporate investments in the consolidated financial statements. The resulting values may differ from values that would be realized had a ready market existed. The amounts at which the Corporation's privately-held investments could be disposed of currently may differ from the carrying value assigned due to changes in valuation assumptions resulting from current market conditions. The amounts at which the Corporation's publicly-traded investments could be disposed of currently may differ from the carrying value based on market quotes as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investment transactions and income

Investment transactions are accounted for on the day that a buy or sell order is executed. Dividend income, including stock dividends, is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Realized gains and losses on investment income are recorded on the accrual basis. Realized gains and losses on the investment transactions and the unrealized appreciation or depreciation of investments are computed on an average cost basis.

(d) Translation of foreign currencies

Where applicable, foreign currency assets and liabilities are translated into United States dollars at the rate of exchange prevailing on the balance sheet date except for the historical costs of investments which are translated at the rate of exchange prevailing on the date of purchase. The proceeds from sale of investments and investment income in foreign currencies are translated into United States dollars at the approximate rate of exchange prevailing on the date of such transactions.

(e) Unrealized appreciation or depreciation of investments

The unrealized appreciation or depreciation of investments represents the aggregate of the difference between their average cost and market value at the balance sheet date.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances held with banks and brokers and treasury bills with maturities of less than 90 days.

(g) Financial instruments and associated risks

(i) Credit risk

Financial assets which potentially expose the Corporation to credit risk consist primarily of cash and cash equivalents, interest, dividends and convertible loans and debentures. The extent of the Corporation's exposure to credit risk in respect of these financial assets approximates their carrying value as recorded in the Corporation's balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments and associated risks (continued)

(ii) Currency risk

The Corporation may invest in securities denominated in currencies other than its reporting currency. Consequently, the Corporation is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner which has an adverse effect on the value of that portion of the Corporation's assets which are denominated in currencies other than its own currency. In addition, the Corporation may make investments which could result in restrictions on the repatriation of funds.

(iii) Short sales

The Corporation may engage in selling securities short, which creates an obligation of the Corporation to buy the security back at a future date or make future delivery of the specific security. The Corporation generally will only short securities for which it holds a long position that is restricted for resale until a later date. This practice allows the Corporation to shelter unrealized gains on particular securities.

(iv) Mining development risk

Mining development involves a high degree of risk which cannot be avoided, even with a combination of careful evaluation, experience and knowledge. Although the Corporation will typically be investing in projects in later stages of development, there is no assurance that such projects will prove to be economically feasible and there is also no assurance that the properties owned by companies in which the funds of the Corporation will be invested will be brought into, or continue to be in, commercial production.

(v) Security interests

Although it is intended that the investments the Corporation makes in the form of loans will normally be secured, there can be no assurance that such security will completely protect the value of the Corporation's investments. As the assets securing the Corporation's loans will occasionally be subject to senior indebtedness, the Corporation's security may have second or third priority. The equity investments which the Corporation may make will generally be unsecured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments and associated risks (continued)

(vi) Fair values

The carrying amounts of the Corporation's financial assets and liabilities approximate their fair values.

(vii) Written options

The Corporation may write call or put options, for which premiums are received. Premiums received for written covered calls are recorded as income. Expired covered call premiums are recorded as realized gains and premiums received for outstanding covered calls are recorded as unrealized gains. Premiums received for written uncovered calls or puts are recorded as liabilities. The Corporation, as writer of an option, has no control over whether the underlying securities are subsequently sold (called) or purchased (put) and, as a result, bears the market risk of an unfavourable change in price of the security underlying the written option. No uncovered calls were written during the year.

(h) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Earnings per share

The Corporation uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

3. RESTRICTED CASH

Restricted cash consisted of $3.5 million invested in a money market fund. The Corporation arranged a standby Letter of Credit ("LOC") for a merchant banking client in the amount of $3.5 million. As a condition of the LOC, the Corporation's bank required the funds to be segregated and held in a separate account. The LOC expired on September 30th, 2005, and the funds became available to the Corporation.

(Expressed in Thousands of United States Dollars, except per share amounts)

4. INVESTMENTS

Investments are comprised of the following:

Investments by location	June 30, 2006 Value	June 30, 2006 % of Investments	August 31, 2005 (Restated - Note 8) Value	August 31, 2005 (Restated - Note 8) % of Investments
Equities:				
North America	**$ 27,824**	**21.8%**	$ 18,441	19.8%
South America	**21,618**	**16.9%**	29,893	32.2%
Europe and Asia	**23,855**	**18.6%**	22,259	24.0%
Africa	**15,235**	**11.9%**	7,410	8.0%
Oceania	**1,134**	**0.9%**	1,099	1.2%
Total equities	**89,666**	**70.1%**	79,102	85.2%
Convertible Loans and Debentures				
North America	**1,793**	**1.4%**	7,442	8.0%
South America	**-**	**0.0%**	1,684	1.8%
Africa	**-**	**0.0%**	-	0.0%
Total Convertible Loans and Debentures	**1,793**	**1.4%**	9,126	9.8%
Warrants				
North America	**7,202**	**5.6%**	393	0.4%
South America	**21,103**	**16.5%**	2,818	3.0%
Europe and Asia	**6,488**	**5.1%**	984	1.1%
Africa	**1,501**	**1.2%**	472	0.5%
Oceania	**186**	**0.1%**	-	0.0%
Total Warrants	**36,480**	**28.5%**	4,667	5.0%
Total Investment Portfolio	**$ 127,938**	**100.0%**	$ 92,895	100.0%

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 $57,043 at June 30, 2006 (August 31, 2005 - $10,323).

The carrying value of investments in privately-held companies totaled $1,999 at June 30, 2006 (August 31, 2005 - $7,890).

(Expressed in Thousands of United States Dollars, except per share amounts)

5. SHARE CAPITAL

(a) Voting shares

Authorized
1,000,000,000 voting shares of $0.01 par value
1,000,000,000 undesignated shares

	Number of Shares		Par Value		Additional Paid In Capital		Total
Issued - voting shares							
September 1, 2004 & August 31, 2005	23,120,578	$	231	$	51,514	$	51,745
Stock options & warrants exercised	122,300		1		423		424
June 30, 2006	23,242,878	$	232	$	51,937	$	52,169

		Warrants		Contributed Surplus
September 1, 2004	$	240	$	84
Stock-based compensation		-		452
August 31, 2005		240		536
Agent warrants expired		(240)		240
Stock options exercised		-		(96)
June 30, 2006	$	-	$	680

The following table summarizes information about the warrants outstanding as at June 30, 2006:

	Warrants outstanding & exercisable		Weighted average exercise price (CDN$)	Weighted average remaining contractual life
At June 30, 2006	3,624,000	$	5.50	2.37 years

During the ten months ended June 30, 2006, 362,500 warrants exercisable into common shares at a price of CDN$4.50 expired and 1,000 warrants exercisable into common shares at a price of CDN$5.50 were exercised. At August 31, 2005, 3,987,500 warrants with a weighted average exercise price of CDN$5.41 were issued or outstanding.

(Expressed in Thousands of United States Dollars, except per share amounts)

5. 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 June 30, 2006 there were 2,324,288 options available for grant under the plan (August 31, 2005 - 1,576,286).

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

	Options outstanding & exercisable	Weighted average exercise price (CDN$)
At August 31, 2005	575,000	3.00
Exercised	(121,300)	3.08
At June 30, 2006	453,700	$ 2.98

The following table summarizes information about the options outstanding as at June 30, 2006:

	Options outstanding & exercisable	Weighted average exercise price (CDN$)	Weighted average remaining contractual life
	295,500	$ 2.55	1.19 years
	93,200	3.50	2.35 years
	65,000	4.20	2.42 years
At June 30, 2006	453,700	$ 2.98	1.61 years

6. RELATED PARTY TRANSACTIONS

The Company incurred the following expenses, on a cost recovery basis, with companies and individuals related by way of directors and/or officers in common:

	Ten Months Ended June 30, 2006	Year ended August 31, 2005
Operating expenses (a)	$ 299	$ 402

6. RELATED PARTY TRANSACTIONS (continued)

(a) Operating expenses

The Corporation has a Cost Share Agreement (the "Cost Share Agreement"), with Endeavour Securities Corporation (the "Investment Advisor") (Note 6(b)) and other related companies with whom the Corporation shares its premises and resources. In conducting its day-to-day operations, the Corporation incurs costs benefiting specifically the Corporation ("specific costs") and costs benefiting both the Corporation, the Investment Advisor and other related companies ("general costs"). Under the Cost Share Agreement, specific costs are recovered in full from the Corporation. General costs are shared among the respective beneficiaries in accordance with a ratio, based on a use of premises and resources estimate, which is agreed in writing by representatives of all parties and may be amended from time to time in accordance with the Cost Share Agreement. The ratio for fiscal 2005 and 2006 has been set at 66.67/33.33 whereby 66.67% of general costs are charged to the Corporation and 33.33% to the investment advisor and other related companies. Under the Cost Share Agreement, the Corporation expensed $299 in general shared costs during the ten months ended June 30, 2006 (year ended August 31, 2005 - $402). The amount of $32 remains payable under the Cost Share Agreement to the Investment Advisor and other related companies at June 30, 2006 (August 31, 2005 - $24).

(b) Investment Advisor Agreement

Endeavour Securities Corporation ("ESC") performed the role of investment advisor for the six month period ended February 28, 2006. Commencing in March 2006 US Global Investors Inc. ("US Global") assumed the role of Equity Investment Advisor and ESC assumed the role of Manager. US Global's mandate is to handle the overall portfolio management and equity investment opportunities while ESC will focus on their area of expertise including debt and structured investment opportunities.

The aggregate fees payable to investment advisors are: (1) an investment advisory fee, calculated and payable monthly as 1/12th of 2% on the first $50 million of net assets, 1/12th of 1.5% on the next $50 million of net assets, and 1/12th of 1% on net assets in excess of $100 million, and (2) 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. The investment advisory fee payable at June 30, 2006 is $219 (August 31, 2005 - $146) and the performance fee payable as at June 30, 2006 is $15,313 (August 31, 2005 - $3,917).

(Expressed in Thousands of United States Dollars, except per share amounts)

7. TAXATION

There is presently no taxation imposed by the Government of the Cayman Islands on income or capital gains. If any form of taxation were to be enacted, the Corporation has been granted an exemption therefrom until August 6, 2022. The Corporation is subject to foreign withholding taxes on dividend and interest income.

8. RESTATEMENT

In January 2006 it was ascertained that two security holdings, both of which are exchange traded warrants, were undervalued by the Corporation. The undervaluation was the result of an incorrect consolidation of two warrant positions where the underlying company's common shares were consolidated but its exchange-traded warrants were not. The financials statements have been restated and the impact of the restatement is summarized in the following table:

	Year Ended August 31, 2005		
	As Reported	Restated	Change
Balance Sheet			
Investments	$ 90,664	$ 92,895	$ 2,231
Performance fees payable	3,470	3,917	447
Total assets	100,752	102,983	2,231
Total shareholder's equity	97,045	98,829	1,784
Income Statement			
Change in net unrealized appreciation of investments and foreign currencies	9,653	11,884	2,231
Performance fees	3,470	3,917	447
Net income	24,860	26,644	1,784
Earnings per share	$ 1.08	$ 1.15	$ 0.07