



## **ENDEAVOUR MINING CAPITAL CORP.**

**Second Quarter Report  
February 28, 2006**

*(Expressed in Thousands of United States Dollars)*

# ENDEAVOUR MINING CAPITAL CORP.

Management's Discussion and Analysis of  
Results of Operations and Financial Condition  
Second Quarter Report – February 28, 2006

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## Introduction

This discussion and analysis should be read in conjunction with the financial information included in the accompanying 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 March 27, 2006.

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 investment advisors. The Corporation actively manages its investment capital base and earnings are generated through capital appreciation, fees, and interest.

## Overall performance highlights

- Net income for the quarter of \$31.9 million or \$1.38 per share, compared to \$3.4 million or \$0.15 per share for the restated quarter ended February 28, 2005 (previously reported as \$2.0 million or \$0.09 per share).
- Net income for the six month period of \$44.0 million or \$1.90 per share, compared to \$23.2 million or \$1.00 per share for the six months ended February 28, 2005 (previously reported as \$21.8 million or \$0.94 per share).
- Net asset value per share of \$6.14 (CDN\$6.98) at February 28, 2006 compared to \$4.15 (CDN \$5.13) at February 28, 2005 (previously reported as \$4.09 (CDN\$5.06)).
- Cash dividend of \$707,000 (CDN\$809,832) paid on February 28, 2006

## Restatement

Subsequent to filing the financial statements for the quarter ended November 30, 2005, 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
<b>Balance Sheet</b>			
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

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## Restatement (continued)

	Quarter Ended February 28, 2005		
	As Reported	Restated	Change
<u>Balance Sheet</u>			
Investments	\$ 89,858	\$ 91,600	\$ 1,742
Performance fees payable	2,693	3,042	349
Total assets	97,710	99,452	1,742
Total shareholder's equity	94,666	96,059	1,393
<u>Income Statement</u>			
Change in net unrealized appreciation of investments and foreign currencies	(371)	1,371	1,742
Net income	2,005	3,398	1,393
<u>Earnings per share</u>	<u>\$ 0.09</u>	<u>\$ 0.15</u>	<u>\$ 0.06</u>

	Six Months Ended February 28, 2005		
	As Reported	Restated	Change
<u>Income Statement</u>			
Change in net unrealized appreciation of investments and foreign currencies	10,512	12,254	1,742
Net income	21,802	23,195	1,393
<u>Earnings per share</u>	<u>\$ 0.94</u>	<u>\$ 1.00</u>	<u>\$ 0.06</u>

## Critical accounting policies and estimates

A detailed description of all the Corporation's significant accounting policies is included in Note 2 to the annual consolidated financial statements for the year ended August 31, 2005.

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.

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

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## **Critical accounting policies and estimates (continued)**

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.

### ***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.

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## **Risks and Uncertainties (continued)**

### ***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.

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## Summary of Quarterly Results

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

	Q2 2006	Q1 2006 Restated	Q4 2005 Restated	Q3 2005 Restated
Total assets	\$ 149,838	\$ 111,647	\$ 102,983	\$ 84,423
Shareholder's Equity	142,223	110,960	98,829	84,115
Total investment income	40,094	12,873	19,922	(14,248)
Net income	31,898	12,131	15,393	(11,944)
Basic earnings per share	\$ 1.38	\$ 0.52	\$ 0.67	\$ (0.52)
Diluted earnings per share	\$ 1.37	\$ 0.52	\$ 0.67	\$ (0.52)

	Q2 2005 Restated	Q1 2005	Q4 2004	Q3 2004
Total assets	\$ 99,452	\$ 95,730	\$ 75,291	\$ 80,952
Shareholder's Equity	96,059	93,318	73,521	78,137
Total investment income	5,220	22,616	(4,382)	(6,693)
Net income (loss)	3,398	19,796	(4,000)	(5,833)
Basic earnings (loss) per share	\$ 0.15	\$ 0.86	\$ (0.17)	\$ (0.25)
Diluted earnings (loss) per share	\$ 0.15	\$ 0.85	\$ (0.17)	\$ (0.25)

## Results of Operations

The Corporation marks its investments to market at each reporting period, and as highlighted in the above table, the Corporation experiences significant fluctuations in its quarterly results which are substantially driven by changes in the unrealized appreciation and depreciation 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 merchant banking investments and, in certain periods, these unrealized movements have been very dramatic. In each of the last 8 consecutive quarters described above, the Corporation has generated net realized gains on investments.

During the three month period ended February 28, 2006 investment income totaled \$40.1 million and net income totaled \$31.9 million (or \$1.38 per share), which compares to investment income of \$5.2 million and net income of \$3.4 million (or \$0.15 per share) during the three month period ended February 28, 2005. The higher earnings in the current quarter compared to the comparative quarter in the prior year is primarily due to stronger resource equity market valuations during the current quarter which resulted in a mark to market gain of \$36.1 million compared to \$1.4 million during the three month period ended February 28, 2005. Realized gains totaled \$3.7 million in both the current three month period ended February 28, 2006 and the three month period ended February 28, 2005.

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## Results of Operations (continued)

During the six month period ended February 28, 2006 investment income totaled \$53.0 million and net income totaled \$44.0 million (or \$1.90 per share), which compares to investment income of \$27.8 million and net income of \$23.2 million (or \$1.00 per share) during the six month period ended February 28, 2005. As noted above the higher earnings in the six month period compared to the comparative six month period in the prior year is primarily due to stronger resource equity market valuations during the current quarter which resulted in higher mark to market gains. The mark to market gain in the six month period ended February 28, 2006 was \$45.3 million compared to \$12.3 million during the six month period ended February 28, 2005. Realized gains totalled \$7.0 million in the six month period ended February 28, 2006 compared to realized gains of \$12.3 million for the six months ended February 28, 2005.

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.

Endeavour 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 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") has assumed the role of Equity Investment Advisor and Endeavour Securities Corporation ("ESC") has 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, 1/12<sup>th</sup> of 1.5% on the next \$50 million of net assets, and 1/12<sup>th</sup> 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 three month period ended February 28, 2006 the investment advisor received an investment advisory fee totaling \$0.5 million and a performance fee of \$7.3 million was accrued. During the comparative three month period ended February 28, 2005 the investment advisor received an investment advisory fee totaling \$0.4 million and a performance fee of \$0.9 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 increase in the performance fee accrual is primarily due to the very strong upward movements in resource related equity valuations during the current quarter which resulted in significant net income. The combined investment advisory fee and performance fee accrued represent the most significant expenses incurred during the three month period ended February 28, 2006 and February 28, 2005. Other operating expenses which consist of general administrative costs and professional fees totaled \$0.4 million in the three month period ended February 26, 2006 compared to \$0.6 million in the three month period ended February 28, 2005. The higher expense in the prior period is a result of higher promotional and shareholder relation costs incurred during the period.

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## Liquidity and Capital Resources

At February 28, 2006 the Corporation held assets totalling \$149.8 million comprised mainly of investments (91%) and cash and cash equivalents (9%) compared to assets held at August 31, 2005 of \$103 million comprised mainly of investments (90%), cash and cash equivalents (9%) and other assets (1%).

The liabilities of the Corporation totalled \$7.6 million as of February 28, 2006 of which \$7.3 million is the accrued performance fee. At August 31, 2005 total liabilities were \$4.1 million of which \$4.0 million was payable to the investment advisor, and \$0.1 million was for other accrued expenses. The Corporation had adequate cash resources as at February 28, 2006 to settle the liabilities.

The increase of \$43.4 million in Shareholders' Equity in the Corporation to \$142.2 million at February 28, 2006 from \$98.8 million as at August 31, 2005 is attributable to operations that generated \$44 million of net income. The net income was offset by the dividend payment of \$0.6 million.

The Corporation has no long term debt, capital lease obligations, operating leases, purchase obligations or other long term obligations outstanding.

## Outstanding Share Data at February 28<sup>th</sup>, 2006 and March 27<sup>th</sup>, 2006

The Corporation has 1,000,000,000 voting shares of \$0.01 par value and 1,000,000,000 undesignated shares authorized. The Corporation also had 23,153,078 issued and outstanding shares with share capital of \$51,833. Share capital includes \$51,602 (August 31, 2005 - \$51,514) of additional paid in capital. During the quarter ended February 28, 2006 32,500 options were exercised at a price of CDN\$2.55.

The Corporation has 3,625,500 outstanding and exercisable warrants with a weighted average exercise price of CDN\$5.50 and a weighted average remaining contractual life of 2.70 years. At August 31, 2005, 3,987,500 warrants were 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. 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 February 28, 2006 there were 2,315,308 options available for grant under the plan (August 31, 2005 - 1,576,286).

The following table summarizes information about the options outstanding as at February 28, 2006:

	<u>Options outstanding &amp; exercisable</u>	<u>Weighted average exercise price (CDN\$)</u>	<u>Weighted average remaining contractual life</u>
	342,500	\$ 2.55	1.53 years
	100,000	3.50	2.69 years
	100,000	4.20	2.76 years
At February 28, 2006	542,500	\$ 3.03	1.97 years



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## Outlook

The Corporation's view is that strong, positive economic growth will continue driving the natural resources sector, which is expected to benefit the Corporation's merchant banking positions and aid the creation of new opportunities. 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. Looking forward, the Corporation expects this value creation to arise from both its existing core positions as well as from the numerous early stage opportunities in which it is investing.

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, 2005 on SEDAR at [www.sedar.com](http://www.sedar.com).

# ENDEAVOUR MINING CAPITAL CORP.

## Consolidated Balance Sheets

(Expressed in Thousands of United States Dollars)

	February 28 2006 (Unaudited)	August 31, 2005 Restated (Note 4)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,209	\$ 5,702
Restricted cash	-	3,500
Investments (cost: February 28, 2006 \$55,514; August 31, 2005 \$57,213) (Note 2)	136,428	92,895
Receivables and other assets	201	886
	<u>\$ 149,838</u>	<u>\$ 102,983</u>
<b>LIABILITIES</b>		
Investment advisor fees payable	\$ 187	\$ 146
Performance fees payable	7,301	3,917
Accrued expenses and other liabilities	127	91
	<u>7,615</u>	<u>4,154</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 3)	51,833	51,745
Warrants (Note 3)	240	240
Contributed surplus (Note 3)	520	536
Retained earnings	89,630	46,308
	<u>142,223</u>	<u>98,829</u>
	<u>\$ 149,838</u>	<u>\$ 102,983</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 February 28,		Six Months Ended February 28,	
	2006 (Unaudited)	2005 Restated (Note 4) (Unaudited)	2006 (Unaudited)	2005 Restated (Note 4) (Unaudited)
<b>INVESTMENT INCOME</b>				
Net realized gain on investments	\$ 3,742	\$ 3,703	\$ 6,966	\$ 15,179
Change in net unrealized appreciation of investments and foreign currencies	36,080	1,370	45,343	12,253
Interest	247	141	558	364
Dividends, net of withholding taxes	25	6	54	11
Loan facility fees	-	-	46	27
	<u>40,094</u>	<u>5,220</u>	<u>52,967</u>	<u>27,834</u>
<b>EXPENSES</b>				
Performance fee	7,301	850	7,301	3,042
Investment advisory fee	541	409	998	813
General office and administrative	262	383	485	566
Professional fees	92	180	154	218
	<u>8,196</u>	<u>1,822</u>	<u>8,938</u>	<u>4,639</u>
<b>NET INCOME</b>	<u>31,898</u>	<u>3,398</u>	<u>44,029</u>	<u>23,195</u>
<b>RETAINED EARNINGS, BEGINNING OF PERIOD,</b>	<u>58,439</u>	<u>40,797</u>	<u>46,308</u>	<u>21,000</u>
<b>DIVIDENDS</b>	<u>707</u>	<u>657</u>	<u>707</u>	<u>657</u>
<b>RETAINED EARNINGS, END OF PERIOD</b>	<u>\$ 89,630</u>	<u>\$ 43,538</u>	<u>\$ 89,630</u>	<u>\$ 43,538</u>
<b>BASIC EARNINGS PER SHARE</b>	<u>\$ 1.38</u>	<u>\$ 0.15</u>	<u>\$ 1.90</u>	<u>\$ 1.00</u>
<b>DILUTED EARNINGS PER SHARE</b>	<u>\$ 1.37</u>	<u>\$ 0.15</u>	<u>\$ 1.89</u>	<u>\$ 1.00</u>
<b>WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING</b>	<u>23,126,356</u>	<u>23,120,578</u>	<u>23,123,451</u>	<u>23,120,578</u>
<b>DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING</b>	<u>23,353,176</u>	<u>23,209,015</u>	<u>23,307,305</u>	<u>23,202,731</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		Six Months Ended	
	February 28,		February 28,	
	2006	2005	2006	2005
	(Unaudited)	Restated (Note 4) (Unaudited)	(Unaudited)	Restated (Note 4) (Unaudited)
<b>OPERATING ACTIVITIES</b>				
Net income	\$ 31,898	\$ 3,398	\$ 44,029	\$ 23,195
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Net realized gain on investments	(3,742)	(3,703)	(6,966)	(15,179)
Change in net unrealized appreciation of investments and foreign currencies	(36,080)	(1,370)	(45,343)	(12,253)
Decrease (increase) in receivables and other assets	265	193	685	(5)
Increase in investment advisor fees payable	34	3	41	28
Decrease in performance fees payable	6,855	850	3,384	1,491
Decrease in accrued expenses and other liabilities	39	128	36	104
Decrease in restricted cash	-	-	3,500	-
Purchase of investments	(8,207)	(14,898)	(15,862)	(25,572)
Proceeds from the sale of investments	14,201	10,907	24,638	31,275
	5,263	(4,492)	8,142	3,084
<b>FINANCING ACTIVITIES</b>				
Shares issued on exercise of stock options (Note 3)	72	-	72	-
Dividends paid to shareholders	(707)	(657)	(707)	(657)
	(635)	(657)	(635)	(657)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>4,628</b>	<b>(5,149)</b>	<b>7,507</b>	<b>2,427</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>8,581</b>	<b>12,877</b>	<b>5,702</b>	<b>5,301</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 13,209</b>	<b>\$ 7,728</b>	<b>\$ 13,209</b>	<b>\$ 7,728</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**  
**February 28, 2006**  
**(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, 2005. 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.

**2. INVESTMENTS**

Investments are comprised of the following:

Investments by location	February 28, 2006		August 31, 2005 (Restated - Note 4)	
	Value	% of Investments	Value	% of Investments
Equities:				
North America	\$ 17,692	13.0%	\$ 18,441	19.8%
South America	50,931	37.3%	29,893	32.2%
Europe and Asia	35,483	26.0%	22,259	24.0%
Africa	9,844	7.2%	7,410	8.0%
Oceania	1,523	1.1%	1,099	1.2%
<b>Total equities</b>	<b>115,473</b>	<b>84.6%</b>	<b>79,102</b>	<b>85.2%</b>
Convertible Loans and Debentures				
North America	4,270	3.1%	7,442	8.0%
South America	-	0.0%	1,684	1.8%
<b>Total Convertible Loans and Debentures</b>	<b>4,270</b>	<b>3.1%</b>	<b>9,126</b>	<b>9.8%</b>
Warrants				
North America	1,462	1.1%	393	0.4%
South America	10,581	7.8%	2,818	3.0%
Europe and Asia	3,746	2.7%	984	1.1%
Africa	896	0.7%	472	0.5%
<b>Total Warrants</b>	<b>16,685</b>	<b>12.3%</b>	<b>4,667</b>	<b>5.0%</b>
<b>Total Investment Portfolio</b>	<b>\$ 136,428</b>	<b>100.0%</b>	<b>\$ 92,895</b>	<b>100.0%</b>

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**2. INVESTMENTS (continued)**

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 \$20,291 at February 28, 2006 (August 31, 2005 - \$10,323).

The carrying value of investments in privately-held companies totaled \$500 at February 28, 2006 (August 31, 2005 - \$7,890).

**3. SHARE CAPITAL**

*(a) Voting shares*

Authorized			
100,000,000,000	voting shares of \$0.01 par value		
100,000,000,000	undesignated shares		
		<b>Number of</b>	
		<b>Shares</b>	<b>Amount</b>
		<hr/>	<hr/>
Issued			
Opening balance, September 1, 2005		23,120,578	\$ 51,745
Stock options exercised		32,500	88
		<hr/>	<hr/>
Closing balance, February 28, 2006		23,153,078	\$ 51,833
		<hr/>	<hr/>

Share capital includes \$51,602 (August 31, 2005 - \$51,514) of additional paid in capital.

The following table summarizes information about the warrants outstanding as at February 28, 2006:

	<b>Warrants outstanding &amp; exercisable</b>	<b>Weighted average exercise price (CDN\$)</b>	<b>Weighted average remaining contractual life</b>
	<hr/>	<hr/>	<hr/>
At February 28, 2006	3,625,000	\$ 5.50	2.70 years
	<hr/>	<hr/>	<hr/>

At August 31, 2005, 3,987,500 warrants were issued or outstanding.

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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 February 28, 2006 there were 2,315,308 options available for grant under the plan (August 31, 2005 - 1,576,286).

During the three months ended February 28, 2006, 32,500 options were exercised at a price of CDN\$2.55 per share.

The following table summarizes information about the options outstanding as at February 28, 2006:

	<b>Options outstanding &amp; exercisable</b>	<b>Weighted average exercise price (CDN\$)</b>	<b>Weighted average remaining contractual life</b>
	342,500	\$ 2.55	1.53 years
	100,000	3.50	2.69 years
	100,000	4.20	2.76 years
<b>At February 28, 2006</b>	<b>542,500</b>	<b>\$ 3.03</b>	<b>1.97 years</b>

**4. RESTATEMENT**

Subsequent to filing the financial statements for the quarter ended November 30, 2005 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:

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4. RESTATEMENT (continued)

	Quarter Ended February 28, 2005		
	As Reported	Restated	Change
<u>Balance Sheet</u>			
Investments	\$ 89,858	\$ 91,599	\$ 1,741
Performance fees payable	2,694	3,042	348
Total assets	97,710	99,451	1,741
Total shareholder's equity	94,666	96,059	1,393
<u>Income Statement</u>			
Change in net unrealized appreciation of investments and foreign currencies	(371)	1,370	1,741
Performance fee	502	850	348
Net income	2,005	3,398	1,393
Earnings per share	\$ 0.09	\$ 0.15	\$ 0.06

	Six Months Ended February 28, 2005		
	As Reported	Restated	Change
<u>Income Statement</u>			
Change in net unrealized appreciation of investments and foreign currencies	10,512	12,253	1,741
Performance fee	2,694	3,042	348
Net income	21,802	23,195	1,393
Earnings per share	\$ 0.94	\$ 1.00	\$ 0.06

	Year Ended August 31, 2005		
	As Reported	Restated	Change
<u>Balance Sheet</u>			
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

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