



ENDEAVOUR MINING CAPITAL CORP.

**Third Quarter Report
May 31, 2004**

(Expressed in United States Dollars)

ENDEAVOUR MINING CAPITAL CORP.

Management's Discussion and Analysis of
Results of Operations and Financial Condition
Third Quarter Report – May 31, 2004

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 July 13, 2004.

Endeavour Mining Capital Corp. ("Endeavour" or "Corporation") is a mining merchant banking company. It seeks to generate superior earnings by originating and investing in mining transactions and companies where it uses the experience of its management, directors and investment advisor to add value. 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, fees, and interest.

Third quarter highlights

- Net loss of \$5.8 million or \$0.25 per share for the quarter
- Net income of \$18.7 million or \$0.88 per share for the nine month period
- Net asset value per share of CDN\$4.60 at May 31, 2004
- Share purchase warrants listed for trading on the Toronto Stock Exchange

Results from Operations

For the nine month period ended May 31,	2004	2003	2002
Total Assets	\$ 80,951,835	\$ 30,087,593	\$ 32,620,738
Total Investment Income	23,482,693	6,684,679	23,318,928
Net Income	18,668,511	5,276,374	18,734,078
Basic earnings per share	0.88	0.34	1.49
Diluted earnings per share	\$ 0.87	\$ 0.33	\$ 1.49
Dividends per share	\$ 0.035	\$ -	\$ -

During the nine month period ended May 31, 2004, investment income totaled \$23.5 million and net income totaled \$18.7 million (or \$0.88 per share), which compares to investment income of \$6.7 million and net income of \$5.3 million (or \$0.34 per share) during the nine month period ended May 31, 2003. The increase in the investment income earned reflects the longer term upward trends in the metals markets and the effective implementation of the Corporation's business strategy. The increase in the investment income earned also reflects the benefits of an increased investment capital base which has expanded the Corporation's investment capabilities.

The Corporation is highly leveraged to its core merchant banking investments and consequently experiences earnings volatility. The Corporation marks its investments to market at each reporting period. Investment income and earnings vary relative to the performance of the investments made by the Corporation. The value of these investments may be affected by factors such as investor demand and general market trends. These market trends include long term upward movement in metals prices and increased consolidation in the equities market as

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producers search for acquisition targets to increase depleting reserves and strengthen cash flows. During the nine month period ended May 31, 2004, metal prices, in particular gold prices, have been strongly correlated to movements in the US Dollar. Increasing budgetary and current account deficits in the United States, along with a sluggish economic recovery and the specter of inflation and higher interest rates stalling the recovery, imply that the outlook for the US dollar remains bearish.

	Q3		Q2		Q1		Q4	
	2004		2004		2004		2003	
Total investment income	\$	(6,692,901)	\$	(2,316,518)	\$	32,492,112	\$	15,531,706
Net income (loss)		(5,832,567)		(2,435,084)		26,936,162		12,132,792
Basic earnings (loss) per share*	\$	(0.25)	\$	(0.11)	\$	1.54	\$	0.78
Diluted earnings (loss) per share*	\$	(0.25)	\$	(0.10)	\$	1.54	\$	0.78

	Q3		Q2		Q1		Q4	
	2003		2003		2003		2002	
Total investment income	\$	2,044,790	\$	8,253,715	\$	(3,613,827)		N/A
Net income (loss)		1,406,161		7,886,991		(4,016,778)		N/A
Basic earnings (loss) per share*	\$	0.09	\$	0.51	\$	(0.26)		
Diluted earnings (loss) per share*	\$	0.09	\$	0.49	\$	(0.26)		

* Due to the increase in shares outstanding resulting from the private placement of 7.25 million units in November 2003, quarterly weighted average earnings per share will not sum to the weighted average earning per share for the respective nine month period ended May 31, 2004.

The earnings volatility during the previous seven quarters is a result of volatility in the metals markets during each respective quarter. In the third quarter of 2004, precious metals experienced significant declines with gold, platinum and silver prices decreasing 0.7%, 5.1%, and 6.3%, respectively. This compares to an increase of 4% in the price of gold on the London Fix for the same period 2003. Concomitantly, the Corporation experienced a loss per share of \$0.25 and earnings per share of \$0.09, respectively. This relationship between metals prices and the Corporation's earnings is further demonstrated in earlier quarters. In the second quarter of 2004, the company had a loss of \$0.11 per share (undiluted) while the gold price fell 0.6%. However, silver and platinum experienced gains of 23% and 14.6% offsetting the impact of lower gold prices. During the same period in 2003, precious metals prices experienced significant strength. Gold, silver and platinum increased 8.9%, 3.7% and 15%, respectively. The Corporation earned \$0.51 per share (undiluted) during this rally in metal prices.

While the Corporation's earnings are subject to the volatility of the metals markets, the deal flow generated by the experienced management, directors and investment advisor in transactions such as private placements, convertible debentures, bridge loans and other forms of mine finance provide a significant and reliable income stream from interest earned and fees charged as well as capital appreciation through early access to high quality transactions.

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The Corporation relies on the investment advisor for new business recommendations, analytical support and guidance for the optimal realization of existing investments. The Corporation's investment committee is responsible for all investment decisions. The Corporation and the investment advisor are related parties due to the fact that they have common directors.

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 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 as to 1/12th 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 May 31, 2004 the investment advisor received an investment advisory fee totaling \$0.4 million and the performance fee accrued decreased by \$1.5 million. During the comparative three month period ended May 31, 2003, the investment advisor received an investment advisory fee totaling \$0.1 million and a performance fee of \$0.3 million was accrued. The increase in the investment advisory fee paid to the investment advisor during the current period is a direct result of the growth of the net assets of the Corporation. The decrease in the accrued performance fee during the current period is the result of the net loss during the period.

During the nine month period ended May 31, 2004 the investment advisor received an investment advisory fee of \$1.1 million and the accrued performance fee was \$2.6 million. During the comparative nine month period ended May 31, 2003, the investment advisor received an investment advisory fee totaling \$0.4 million and the accrued performance fee was \$0.4 million. The increase in the investment advisory fee paid to the investment advisor during the nine month period is a direct result of the growth of the net assets of the Corporation. The increase in the accrued performance fee for the nine month period is the result of the higher net income during the period.

Other operating expenses increased in aggregate by \$0.1 million during the three month period ended May 31, 2004 and by \$0.5 million for the nine month period ended May 31, 2004 when compared to the same periods in the prior year. The increases are attributable to increases in shareholder and public relations costs.

Included in other operating expenses are amounts paid to the investment advisor 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. During the three months ended May 31, 2004 \$0.06 million (2003: \$0.06 million) was paid under the cost share agreement. Amounts paid during the nine month period ended May 31, 2004 totaled \$0.18 million (2003: \$0.18 million).

Liquidity and Capital Resources

At May 31, 2004 the Corporation held assets totalling \$81.0 million comprised mainly of investments (87%) and cash and cash equivalents (13%) compared to assets held at August 31, 2003 of \$46.5 million comprised mainly of investments (87%) and cash and cash equivalents (13%).

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The liabilities of the Corporation totalled \$2.8 million as of May 31, 2004 of which \$2.6 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, 2003 total liabilities were \$4.8 million of which \$3.5 million was payable to the investment advisor, \$1.0 million was an unsettled trade and \$0.3 million was for other accrued expenses. The Corporation had adequate cash resources to settle the liabilities.

The increase of \$36.4 million in Shareholders' Equity in the Corporation to \$78.1 million at May 31, 2004 from \$41.7 million as at August 31, 2003 is attributable to operations that generated \$18.7 million of net income or 51% of the increase, and net financing activities that generated \$17.7 million in Shareholders' Equity or 49% of the increase.

During the nine month period ended May 31, 2004 the Corporation received net proceeds of CDN\$23.5 million (\$18.1 million) from a private placement of 7.25 million units at CDN\$3.45 per unit. Each unit consisted of one common share and one-half of a common share purchase warrant. Each whole common share purchase warrant entitles its holder to acquire one common share of Endeavour at a price of CDN\$5.50 per common share on or before November 10, 2008. On March 23, 2004, the purchase warrants were listed for trading on the Toronto Stock Exchange.

On February 27, 2004, the Corporation paid its first regular semi-annual cash dividend of CDN\$0.035 per share.

Outstanding Share Data

Authorized

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

100,000,000 undesignated shares

	Nine months ended May 31, 2004		Year ended August 31, 2003	
	Number of Shares	Amount	Number of Shares	Amount
Issued				
Opening balance	15,592,868	\$ 33,623,561	13,028,129	\$ 29,411,370
Issued, for cash	7,250,000	19,070,990	-	-
Share issue costs	-	(1,504,719)	-	-
Contingent Value Rights exercised	87,710	234,778	-	-
Stock options exercised for cash	190,000	320,458	-	-
Issued in connection with acquisition of Welcome	-	-	4,466,748	7,140,172
Issued, for shares	-	-	1,348,966	2,072,019
Redeemed, for cash	-	-	(3,250,975)	(5,000,000)
Closing balance	23,120,578	\$ 51,745,068	15,592,868	\$ 33,623,561

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Outlook

The Corporation will continue with its strategy of originating and investing in potentially high-return merchant banking and investment transactions focused on the resource industry.

As shown by the Corporation's fiscal 2002, fiscal 2003 and nine-months to May 31, 2004 financial performance, Endeavour has produced strong results. While earnings volatility should be anticipated, management believes that the long-term upwards trends in the metal and commodity markets remain favorable and 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 and in the Corporation's Annual Information Form for the period ending August 31, 2003 on SEDAR at www.sedar.com.

ENDEAVOUR MINING CAPITAL CORP.

Consolidated Balance Sheets

(Expressed in United States Dollars)

	May 31, 2004 (Unaudited)	August 31, 2003 (Audited)
ASSETS		
Cash and cash equivalents	\$ 10,148,594	\$ 5,840,737
Investments (cost: May/04 - \$40,475,840, Aug/03 - \$21,521,557) (Note 2)	70,423,411	40,599,598
Receivables and other assets	379,830	62,078
	<u>\$ 80,951,835</u>	<u>\$ 46,502,413</u>
LIABILITIES		
Investment advisor fees payable	\$ 121,896	\$ 75,415
Performance fees accrued	2,591,367	3,437,313
Accrued expenses and other liabilities	101,608	1,253,396
	<u>2,814,871</u>	<u>4,766,124</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 3)	51,745,068	33,623,561
Warrants (Note 3)	240,234	-
Contributed surplus (Note 3)	83,844	83,844
Accumulated earnings	26,067,818	8,003,203
Currency translation reserve	-	25,681
	<u>78,136,964</u>	<u>41,736,289</u>
	<u>\$ 80,951,835</u>	<u>\$ 46,502,413</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 & Accumulated Earnings (Deficit)****(Expressed in United States Dollars)**

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
INVESTMENT INCOME				
Net realized gain on investments	\$ 2,979,121	\$ 1,053,339	\$ 11,735,406	\$ 5,223,377
Change in net unrealized appreciation/depreciation of investments and foreign currencies	(10,113,461)	853,482	10,899,148	828,691
Interest	282,041	48,583	455,587	184,455
Dividends, net of withholding taxes	9,398	14,386	17,552	23,155
Loan facility fees	150,000	75,000	375,000	425,000
	(6,692,901)	2,044,790	23,482,693	6,684,678
EXPENSES				
Performance fee accrual	(1,538,463)	345,289	2,591,367	416,624
Investment advisory fee	381,865	138,104	1,087,579	379,912
General office and administrative	195,544	108,072	883,627	315,067
Professional fees	100,720	47,164	251,609	296,701
	(860,334)	638,629	4,814,182	1,408,304
NET (LOSS) INCOME	(5,832,567)	1,406,161	18,668,511	5,276,374
ACCUMULATED EARNINGS (DEFICIT), BEGINNING OF PERIOD	31,900,385	(5,535,750)	8,003,203	(9,405,963)
DIVIDENDS PAID	-	-	603,896	-
ACCUMULATED EARNINGS (DEFICIT), END OF PERIOD	\$ 26,067,818	\$ (4,129,589)	\$ 26,067,818	\$ (4,129,589)
BASIC (LOSS) EARNINGS PER SHARE				
	\$ (0.25)	\$ 0.09	\$ 0.88	\$ 0.34
DILUTED (LOSS) EARNINGS PER SHARE				
	\$ (0.25)	\$ 0.09	\$ 0.87	\$ 0.33
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	23,120,578	15,592,868	21,235,937	15,587,312
DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	23,219,316	16,167,868	21,342,077	16,206,757

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

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES				
Net (loss) income	\$ (5,832,567)	\$ 1,406,161	\$ 18,668,511	\$ 5,276,374
Items not affecting cash:				
Non-cash stock-based compensation (Note 3 (b))	-	20,961	-	62,883
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Net realized gain on investments	(2,979,121)	(1,053,339)	(11,735,406)	(5,223,377)
Change in net unrealized appreciation/depreciation of investments and foreign currencies	10,113,461	(853,482)	(10,899,148)	(828,691)
Increase in receivables and other assets	(32,854)	895,777	(317,751)	(333,420)
(Decrease) increase in investment advisor fees payable	(9,225)	2,967	46,481	868,521
(Decrease) increase in accrued performance fees	(1,538,464)	345,289	(845,946)	(1,615,571)
Decrease in accrued expenses and other liabilities	(7,855)	(499,741)	(1,151,788)	(830,101)
Purchase of investments	(12,957,456)	(9,685,822)	(45,813,090)	(19,759,153)
Sale of investments	14,424,173	5,330,718	38,598,149	19,904,519
	1,180,092	(4,090,511)	(13,449,988)	(2,478,016)
INVESTING ACTIVITIES				
Deferred acquisition costs	-	-	-	30,000
Cash acquired on the acquisition of Welcome Opportunities Ltd.	-	-	-	1,962,042
	-	-	-	1,992,042
FINANCING ACTIVITIES				
Received from the issue of common shares (Note 3 (a))	-	-	19,626,226	-
Share issue costs (Note 3 (a))	-	-	(1,264,485)	-
Dividends paid to shareholders	-	-	(603,896)	-
Paid on redemption of shares	-	-	-	(5,000,000)
	-	-	17,757,845	(5,000,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,180,092	(4,090,511)	4,307,857	(5,485,974)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,968,502	7,150,019	5,840,737	8,545,482
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 10,148,594	\$ 3,059,508	\$ 10,148,594	\$ 3,059,508

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

ENDEAVOUR MINING CAPITAL CORP.

Notes to the Unaudited Consolidated Financial Statements

May 31, 2004 and August 31, 2003

(Expressed in United States Dollars)

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 and 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, 2003. 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 and the notes below.

2. INVESTMENTS

Investments are comprised of the following:

Investments by location	May 31, 2004		August 31, 2003	
	Market Value	% of Investments	Market Value	% of Investments
Equities:				
North America *	\$ 14,739,442	20.93%	\$ 7,353,573	18.11%
South America	19,345,160	27.47%	13,684,095	33.71%
Europe and Asia	14,840,781	21.07%	6,712,856	16.53%
Africa	3,354,202	4.76%	4,632,729	11.41%
Oceania	2,206,945	3.13%	1,640,796	4.04%
Total equities	54,486,530	77.36%	34,024,049	83.80%
Convertible Loans and Debentures				
North America	1,356,916	1.93%	458,325	1.13%
South America	1,467,890	2.08%	1,000,000	2.46%
Europe and Asia	2,500,000	3.55%	-	-
Total Convertible Loans and Debentures	5,324,806	7.56%	1,458,325	3.59%
Warrants				
North America	1,517,912	2.16%	822,332	2.02%
South America	6,153,608	8.74%	2,186,346	5.39%
Europe and Asia	2,300,755	3.27%	884,113	2.18%
Africa	251,405	0.36%	1,089,096	2.69%
Oceania	388,395	0.55%	135,337	0.33%
Total Warrants	10,612,075	15.08%	5,117,224	12.61%
Total Investment Portfolio	\$ 70,423,411	100.00%	\$ 40,599,598	100.00%

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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 \$35,124,684 at May 31, 2004 (August 31, 2003 - \$18,678,000).

* Included in equities are written covered call options. As at May 31, 2004, the market value of these options totaled \$5,343 (August 31, 2003 - \$96,460).

3. SHARE CAPITAL

(a) Voting shares

Authorized

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

100,000,000 undesignated shares

	Nine months ended		Year ended	
	May 31,		August 31,	
	2004		2003	
	Number of		Number of	
	Shares	Amount	Shares	Amount
Issued				
Opening balance	15,592,868	\$ 33,623,561	13,028,129	\$ 29,411,370
Issued, for cash	7,250,000	19,070,990	-	-
Share issue costs	-	(1,504,719)	-	-
Contingent Value Rights exercised	87,710	234,778	-	-
Stock options exercised for cash	190,000	320,458	-	-
Issued in connection with acquisition of Welcome	-	-	4,466,748	7,140,172
Issued, for shares	-	-	1,348,966	2,072,019
Redeemed, for cash	-	-	(3,250,975)	(5,000,000)
Closing balance	23,120,578	\$ 51,745,068	15,592,868	\$ 33,623,561

In November, 2003, the Corporation completed a unit private placement consisting of 7,250,000 units at a price of CDN\$3.45 per unit for gross proceeds of CDN\$25,012,500; (\$19,070,990). Each unit consisted of one common share and one half of one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of CDN\$5.50 per share on or before November 10, 2008. As part of this offering, the Corporation paid the agent a commission equal to 6% of the gross proceeds raised,

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3. SHARE CAPITAL (continued)

(a) Voting shares (continued)

and issued the agent 362,500 warrants exercisable into common shares at a price of CDN\$4.50 per share expiring November 10, 2005. The fair value of the warrants was \$240,234, which has been recorded as a credit to Warrants as a component of Shareholders' Equity.

(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. 1,576,286 options were available for grant under the plan at May 31, 2004 (August 31, 2003 - 1,559,000).

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

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

	Options outstanding & exercisable	Weighted average exercise price (CDNS)
At September 1, 2002	-	\$ -
Granted	675,000	2.44
Expired	(100,000)	2.30
At August 31, 2003	575,000	\$ 2.46
Granted	200,000	3.85
Exercised	(190,000)	2.30
Expired	(10,000)	2.30
At May 31, 2004	575,000	\$ 3.00

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3. SHARE CAPITAL (continued)

(b) Stock option plan (continued)

The following tables summarize information about the options and warrants outstanding as at May 31, 2004:

	<u>Options outstanding</u>	<u>Weighted average exercise price (CDN\$)</u>	<u>Weighted average remaining contractual life</u>
	200,000	\$ 2.30	0.04 years
	375,000	2.55	4.02 years
At August 31, 2003	575,000	\$ 2.46	2.64 years
	375,000	2.55	3.28 years
	100,000	3.50	4.44 years
	100,000	4.20	4.51 years
At May 31, 2004	575,000	\$ 3.00	3.69 years

	<u>Warrants outstanding & exercisable</u>	<u>Weighted average exercise price (CDN\$)</u>	<u>Weighted average remaining contractual life</u>
	362,500	\$ 4.50	1.45 years
	3,625,000	5.50	4.45 years
At May 31, 2004	3,987,500	\$ 5.41	4.18 years

At August 31, 2003, no warrants were issued or outstanding.

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3. SHARE CAPITAL (continued)

(b) *Stock option plan (continued)*

Pro forma compensation expense

If the Corporation had included stock options granted to directors in the calculation of compensation expense, net earnings would be as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2004	May 31, 2003	May 31, 2004	May 31, 2003
Net (loss) income for the period ended	\$ (5,832,567)	\$ 1,406,161	\$ 18,668,511	\$ 5,276,374
Pro forma compensation expense related to directors' options	-	-	(300,904)	(150,926)
Pro forma income for the period	\$ (5,832,567)	\$ 1,406,161	\$ 18,367,607	\$ 5,125,448
Pro forma basic earnings per share	\$ (0.25)	\$ 0.09	\$ 0.86	\$ 0.33
Pro forma diluted earnings per share	\$ (0.25)	\$ 0.09	\$ 0.86	\$ 0.32

Compensation expense is determined using an option pricing model assuming no dividends are 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 (2003 - weighted average volatility of 48%, an annual risk free interest rate of 3.5% and expected lives of five years).

During the nine month period ended May 31, 2003, stock options with a fair value of \$83,844 were granted to non-employees. The non-cash compensation was amortized over the one year life of the service contract. Accordingly during the period ended May 31, 2003, \$62,883 of compensation expense has been recorded in the statement of operations as professional fees.
