



ENDEAVOUR FINANCIAL CORPORATION

**First Quarter Report
September 30, 2009**

(Expressed in Thousands of United States Dollars)

ENDEAVOUR FINANCIAL CORPORATION

Management's Discussion and Analysis of
Results of Operations and Financial Condition
First Quarter Report - September 30, 2009 and 2008

Introduction and business information

Endeavour Financial Corporation is a publicly-quoted independent merchant banking company focused on the global natural resources sector. The Corporation offers advisory services in the project, corporate and debt capital markets; equity financings; mergers and acquisitions; and strategic business development. The Corporation also provides equity and bridge loans in support of clients, transactions, and other market opportunities. Accessing its global industry networks, Endeavour creates and launches new growth companies as both an advisor and investor.

This discussion and analysis should be read in conjunction with the financial information included in the accompanying unaudited interim consolidated financial statements. The unaudited interim 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. Tabular amounts are in thousands of United States Dollars, except per share amounts. This management's discussion and analysis is prepared as of November 10, 2009. Endeavour Financial Corporation is referred to as "Endeavour" or "Corporation" throughout the management's discussion and analysis.

Performance Highlights

- Revenue of \$47.0 million for the quarter ended September 30, 2009, comprised of \$41.6 million of investment income, \$4.7 million of realized advisory fees and \$0.7 million of mark to market gains on advisory fee securities held (2008: Negative Revenue of \$125.2 million, comprised of a \$124.1 million investment loss, \$0.8 million of realized advisory fees and \$1.9 million of mark to market losses on advisory fee securities held).
- Net income of \$41.5 million, or \$0.43 per share for the quarter ended September 30, 2009 (2008: Net loss of \$130.8 million, or \$4.31 per share).
- Shareholders' equity per share¹ was CAD \$3.17 at September 30, 2009.

Business Highlights

During the quarter ended September 30, 2009, Endeavour was an advisor and earned transaction success fees on several noteworthy transactions, including;

- Arranged for Bisha Mining Share Company, a subsidiary of Nevsun Resources, a \$235 million debt package with a lending group comprised of seven institutions from Europe and South Africa to fund the Bisha Gold Project, located in Eritrea.
- Arranged for Pacific Rubiales Energy Corp additional commitments totaling \$25 million as part of the previously arranged senior secured revolving credit facility.
- Arranged for Petroamerica Oil Corp. (formerly Cantrell Capital Corp.) a \$9.5 million bridge loan to acquire certain oil and gas interests in Colombia.

Endeavour completed its strategic investment in Etruscan Resources Ltd. ("Etruscan") on October 23, 2009. Endeavour invested a total of approximately \$56 million resulting in the Corporation holding 179,438,789 common shares, representing 54% of the issued and outstanding shares of Etruscan. Endeavour regards this investment as the first of a series of strategic investments it intends to make in the junior gold sector as part of its gold focused investment strategy to create value by investing in gold producers with a plan to build an intermediate sized gold company and the subsequent realization of this investment.

¹ Shareholders' equity per share or book value per share is a non-GAAP measure. Refer to Page 6 for a reconciliation of this non-GAAP measure.

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Results of Operations

Endeavour's advisory services are focused on three primary disciplines; debt finance, mergers and acquisitions and corporate finance. Advisory fees from client mandates are comprised of monthly retainer fees and transaction success fees. Advisory work for client transactions typically extend over several quarters, however transaction success fees are only recorded in the quarter that the transaction closes despite the work undertaken in previous quarters. The majority of advisory fees are from transaction success fees and the timing of revenue recognition can materially affect Endeavour's quarterly results.

On some occasions advisory fees are paid to the Corporation with securities rather than cash. In these circumstances the Corporation records advisory fee revenue based on the fair value of the securities received. Any subsequent gains or losses on the sale of the securities and changes in the market value of the securities held at each reporting period are recorded as advisory fee revenue by the Corporation. As a result of this policy, it is possible for the Corporation to record negative advisory fee revenue in a reporting period if the mark to market loss on the securities held is greater than the realized advisory fees. The mark to market adjustment on the securities held are recorded as unrealized advisory fees in the statement of operations.

Endeavour marks its investments to market at each reporting period, and as a result can experience significant movements in its quarterly investment income. The mark to market value of the Corporation's investments is affected by many factors but the primary forces include the growth and profitability prospects of the investee company, commodity prices, and general market sentiment. As a result quarterly and yearly revenue and net income are highly correlated with the changes in the market value of the Corporation's investments.

The Corporation's capital base is deployed in a series of merchant banking transactions, most of which are sourced through the extensive industry relationships of the Corporation's management team, directors and its exclusive financial advisor, Fiore Financial Corporation, led by Frank Giustra. As a result the Corporation's capital base is deployed primarily in companies where they are actively involved in guiding its corporate development or providing a transaction-based service. As at September 30, 2009, approximately 92% of the Corporation's investments by value are held in these strategic positions. In general, these core investment positions are in publicly-traded resource companies that are implementing growth plans or other strategic initiatives. Endeavour's directors and management make the investment decisions and determine exit strategies for its strategic investments.

In addition, as at September 30, 2009 approximately 35% of the Corporation's investment portfolio is invested in the gold sector and 30% in the oil and gas sector. The Corporation also has a significant cash balance currently invested in short term government treasury securities and it is anticipated that this cash will be deployed into gold sector investments in the near term. The Etruscan investment that was completed on October 23, 2009 was the first such investment.

The Corporation has an exclusive advisory services agreement in place with Fiore Financial Corporation ("Fiore"). Fiore is a boutique investment banking firm focused on creating, financing and launching investment opportunities in the resource sector. Fiore is led by Frank Giustra, its President & Chief Executive Officer. Fiore brings invaluable global investment experience and relationships to Endeavour. The agreement with Fiore provides Endeavour with an exclusive right to provide advisory services to companies launched by Fiore and also engages Fiore to provide advisory services to Endeavour on mandates sourced through the Fiore relationship. In addition Fiore offers Endeavour the ability to invest in transactions launched by Fiore. In consideration for the exclusive

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Results of Operations (continued)

right and ongoing services Endeavour pays a monthly retainer fee to Fiore and Fiore also participates in the Corporation's bonus pool. The minimum bonus payment payable to Fiore is 20% of the Corporation's bonus pool.

Summary of Quarterly Results

The following tables summarize the Corporation's financial information of the last eight quarters.

(US dollars in thousands except per share amounts)	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Total assets	\$ 294,692	\$ 251,278	\$ 219,981	\$ 124,953
Shareholders' equity	289,655	247,539	219,245	124,239
Revenue				
Investment income (loss)	41,599	28,702	7,808	(109,760)
Advisory fees - realized	4,661	5,487	4,278	2,055
Advisory fees - unrealized	735	(113)	(1,536)	341
Total Revenue	46,995	34,076	10,550	(107,364)
Net income (loss)	41,769	27,737	6,729	(111,111)
Basic earnings (loss) per share	\$ 0.43	\$ 0.29	\$ 0.09	\$ (3.68)
Diluted earnings (loss) per share	\$ 0.43	\$ 0.29	\$ 0.09	\$ (3.68)
Adjusted EBITDA ¹	\$ 42,962	\$ 28,713	\$ 7,656	\$ (110,344)

(US dollars in thousands except per share amounts)	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Total assets	\$ 238,421	\$ 384,359	\$ 322,999	\$ 319,482
Shareholders' equity	236,205	370,151	318,631	311,193
Revenue				
Investment income	(124,066)	55,323	2,490	(71)
Advisory fees - realized	853	15,435	8,893	18,032
Advisory fees - unrealized	(1,959)	2,264	377	861
Total Revenue	(125,172)	73,022	11,760	18,822
Net (loss) income	(130,806)	53,100	2,104	1,518
Basic earnings (loss) per share	\$ (4.31)	\$ 1.79	\$ 0.07	\$ 0.05
Diluted earnings (loss) per share	\$ (4.31)	\$ 1.71	\$ 0.07	\$ 0.05
Adjusted EBITDA ¹	\$ (128,704)	\$ 60,856	\$ 4,674	\$ 6,819

¹ Adjusted earnings before interest taxes depreciation, amortization, and stock based compensation is a non-GAAP measure. Refer to Page 5 for a reconciliation of this non-GAAP measure.

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Summary of Quarterly Results (continued)

As noted earlier, the Corporation marks its investment to market at each reporting period. As a result quarterly revenue and net income are highly correlated with changes in the market value of the Corporation's investments. In addition to the volatility in revenue and net income caused by the mark to market of the Corporation's investments, advisory fees also result in variability of revenue and net income. The bulk of advisory fees are transaction based and the fee revenue is not recorded until the quarter that a transaction closes. Furthermore the transaction based fees are correlated to the size of the transaction completed. As a result the Corporation may experience some quarters with significant advisory fee revenue and others with lower revenue depending on the size and number of transactions completed.

During the first quarter of fiscal year 2010 and the third and fourth quarters of fiscal year 2009 (January 2009 to September 2009), there were signs of improvement in the resource equity markets and global economy that resulted in positive investment returns and an increase in advisory fees due to increased transactional activity in the resource sector. During the first and second quarter of fiscal year 2009 (July 2008 to December 2008), the resource equity markets experienced a sharp selloff due to the credit crisis and fears of a global recession. This resulted in substantial mark to market losses on the Corporation's investments (negative investment income). Prior to this sell off the returns in the resource equity markets were positive and transactional activity for the advisory business was strong. If resource equity markets decrease in future quarters, the Corporation may incur operating losses. This section should be read in conjunction with the section "*Risks and uncertainties associated with the Corporation's business*".

Three Month Period Ended September 30, 2009 compared to the Three Month Period Ended September 30, 2008

During the quarter ended September 30, 2009, the Corporation recorded revenue of \$47.0 million and recorded net income of \$41.5 million (\$0.43 per share – basic). The revenue for the quarter includes investment income of \$41.6 million, realized advisory fees of \$4.7 million and a mark to market gain of \$0.7 million on advisory fee securities held. The investment income is comprised of realized gains on the sale of investments of \$15.8 million, a mark to market gain on the investments of \$25.4 million and interest and dividend income of \$0.4 million. During the quarter ended September 30, 2008 the Corporation recorded negative revenue of \$125.2 million and recorded a net loss of \$130.8 million ((\$4.31) per share – basic). The revenue during the quarter was comprised of an investment loss of \$124.1 million, realized advisory fees of \$0.8 million and a mark to market loss of \$1.9 million on advisory fee securities held.

Expenses

Investment advisor fees paid to US Global Investors for the quarter ended September 30, 2009 were \$nil (September 30, 2008 - \$0.6 million). No investment advisor fee expense was incurred for the current quarter due to the resignation of US Global in November 2008.

Employee salaries totaled \$1.1 million for the quarter ended September 30, 2009 (2008 - \$1.3 million).

Performance related bonuses totaled \$1.8 million for the quarter ended September 30, 2009 (2008 - \$Nil million). The Corporation has a performance related bonus pool that is allocated to management, employees and Fiore. The bonus pool amount is variable and determined by a conventional formula that is a function of the after tax distributable net income earned from advisory services. Performance related bonuses are higher in the current fiscal quarter as a result of an increase in net income earned from advisory services.

Consulting fees totaled \$0.1 million for the quarter ended September 30, 2009 (2008 - \$0.1 million). Consulting fee expense includes monthly retainers to Fiore as well as transaction specific fees paid to consultants.

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Summary of Quarterly Results (continued)

General and administrative expenses for the quarter ended September 30, 2009 totaled \$1.0 million (2008 - \$1.5 million). This expense category includes professional fees, marketing, travel, rent, administrative costs and foreign exchange gains/losses on non cash working capital. The decrease in the current quarter expense is attributable to a reduction in travel costs, professional fees, administrative costs and a foreign exchange gain on the Corporation's non cash working capital.

Stock based compensation expense of \$0.1 million was recorded for the quarter ended September 30, 2009 (2008 - \$0.5 million). This expense relates to the amount of fair value of vested options granted to directors, officers, employees, consultants and charities.

The Corporation also recorded \$1.0 million of amortization expense for the quarter ended September 30, 2009 (2008 - \$2.1 million). This expense is the amortization of intangible assets such as customer relationships and customer contracts which were acquired as part of the EFAS acquisition, along with the amortization of capital assets. The intangibles are being amortized on a straight line basis over their expected useful lives.

Non-GAAP Measures

The Corporation has included several non-GAAP measures in this Management's Discussion and Analysis as outlined below. The Corporation believes that, in addition to conventional measures prepared in accordance with GAAP, the Corporation and certain investors use this information to evaluate the Corporation's performance. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

(i) Adjusted earnings before interest, taxes, depreciation, amortization and stock based compensation

The following table provides a reconciliation of adjusted earnings before interest, taxes, depreciation, amortization and stock based compensation to the financial statements.

Quarterly Adjusted EBITDA

	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Net income (loss) and comprehensive income	\$ 41,544	\$ 27,737	\$ 6,729	\$ (111,111)
Current income tax provision (recovery)	1	198	-	(39)
Future income tax provision (recovery)	224	(306)	(19)	(342)
Stock based compensation	163	153	13	214
Amortization	1,030	931	933	934
Adjusted earnings before interest, taxes, depreciation, amortization and stock based compensation	\$ 42,962	\$ 28,713	\$ 7,656	\$ (110,344)
Weighted-average common shares outstanding	96,048,075	55,930,974	70,994,277	30,225,275
Adjusted earnings before interest taxes, depreciation, amortization and stock based compensation per share	\$ 0.45	\$ 0.51	\$ 0.11	\$ (3.65)

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Non-GAAP Measures (continued)

Quarterly Adjusted EBITDA

	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Net (loss) income and comprehensive income	\$ (130,806)	\$ 53,100	\$ 2,104	\$ 1,518
Current income taxes	(7)	3,766	30	44
Future income taxes	(543)	568	123	308
Stock based compensation	537	669	1,206	2,839
Amortization	2,115	2,753	1,211	2,110
Adjusted earnings before interest, taxes, depreciation, amortization and stock based compensation	\$ (128,704)	\$ 60,856	\$ 4,674	\$ 6,819
Weighted-average common shares outstanding	30,342,114	30,820,128	30,623,963	29,983,285
Adjusted earnings before interest, taxes, depreciation, amortization and stock based compensation per share	\$ (4.24)	\$ 1.97	\$ 0.15	\$ 0.23

(ii) Book Value per Share

The following table calculates the book value per share of the Corporation as at September 30, 2009. The Corporation believes investors use this measure to evaluate the relative value of the common shares of the Corporation.

	September 30, 2009
Shareholders' equity	\$ 289,655
Issued and outstanding shares	97,722,902
Book value per share	\$ 2.96
Book value per share (\$CDN) ¹	\$ 3.17

¹ The exchange rate as at September 30, 2009.

Liquidity and Capital Resources

At September 30, 2009 the Corporation had cash and cash equivalents of \$132.8 million (June 30, 2009 – \$121.8 million), investments of \$101.4 million (June 30, 2009 - \$71.0 million) and a working capital position of \$235.9 million (June 30, 2009 - \$193.1 million). The Corporation has sufficient cash resources to settle outstanding liabilities and fund continuing operations.

In February 2009 the Corporation suspended the monthly dividend payment for the foreseeable future. Prior to February 2009 the Corporation had a dividend policy whereby a CAD\$0.03 monthly dividend was paid out to shareholders. During the three month period ended September 30, 2009 there were no dividends paid (September 30, 2008 - \$1.9 million).

The Corporation had a normal course issuer bid in place to repurchase its shares through the facilities of the Toronto Stock Exchange. Due to unusual market conditions and in the interests of preserving cash balances

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Liquidity and Capital Resources (continued)

the Corporation suspended the share buy-backs in mid October 2008. For the quarter ended September 30, 2009, no shares were repurchased. For the quarter ended September 30, 2008 the Corporation repurchased 757,200 of its common shares in the market at a weighted average price of \$6.12 per share (CDN\$6.37 per share). All of these shares have been returned to treasury.

The Corporation has no bank debt or banking credit facilities in place.

Contractual Obligations

The Corporation is subject to operating lease commitments in connection with rented office premises. A summary of lease commitments is provided below.

(in thousands)	Total	Less than 1			
		year	1-3 years	4-5 years	After 5 years
Operating leases	\$ 1,797	\$ 792	\$ 1,005	\$ -	\$ -

Outstanding Share Data

As at November 10, 2009 the Corporation had the following number of issued and outstanding shares:

	Number of Shares	Par Value	Additional Paid In Capital	Total
Voting shares				
Issued at June 30, 2008	33,655,908	304	110,727	111,031
Escrow shares released	-	13	5,361	5,374
Stock options & warrants exercised	85,000	1	463	464
Shares repurchased	(912,900)	(9)	(5,278)	(5,287)
Expiry of Contingent value rights	(22,167)	-	-	-
Forfeited escrow shares	(57,939)	-	-	-
Issued pursuant to the equity financing ***	64,975,000	650	83,939	84,589
Shares in escrow	(1,696,253)	-	-	-
Issued at June 30, 2009	96,026,649	959	195,212	196,171
Shares released from escrow subsequent to June 30, 2009**	678,495	6	930	936
Issued and outstanding at November 10, 2009	96,705,144	\$ 965	\$ 196,142	\$ 197,107 **

**During the quarter ended June 30, 2009 and September 30, 2009 the cumulative EBITDA target was \$24.0 million and \$27.0 million, respectively. EFAS exceeded the EBITDA targets during each of the quarters and consequently 678,493 shares were released subsequent to June 30, 2009 and have been valued at \$0.9 million. The balance of shares remaining in escrow is 1,017,758.

***On February 4, 2009 the Corporation raised gross proceeds of \$93.7 million (CAD \$115 million) from a public offering of 64,975,000 units at a price of CAD \$1.77 per unit. The units consist of one common share of the Corporation and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to purchase one common share of the Corporation at a price of CAD \$2.50 per warrant share until February 4, 2014.

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Outstanding Share Data (continued)

The Corporation also has the following outstanding stock options:

- 2,255,000 options outstanding with an exercise price of CAD\$10.00 and remaining contractual life of 3.07 years, of which 1,614,000 are exercisable.
- 150,000 options outstanding and exercisable with an exercise price of CAD\$7.35 and remaining contractual life of 3.37 years, of which 100,000 are exercisable.
- 75,000 options outstanding and exercisable with an exercise price of CAD\$5.84 and remaining contractual life of 3.93 years, of which 50,000 are exercisable.
- 50,000 options outstanding and exercisable with an exercise price of CAD\$1.75 and remaining contractual life of 4.20 years, of which 16,667 are exercisable.

On October 25, 2009 the Corporation granted 6,916,500 stock options with an exercise price of C\$1.94 and an expiry date of October 25, 2014. In addition, the Corporation re-priced 1,757,500 stock options that had exercise prices of C\$10.00, C\$7.35 and C\$5.84 to C\$1.94, the expiration dates remains unchanged.

Related Party Transactions

As noted earlier, the Corporation did not incur any related party transactions with US Global Investors, Inc ("US Global") during the three month period ended September 30, 2009 due to the resignation of US Global in November 2008. US Global, who were related to the Corporation by way of a director in common, provided investment advisory services to the Corporation until their resignation in November 2008. US Global's compensation was comprised of : (1) a monthly advisor fee, calculated and payable monthly as 1/12th of 1% of the tangible net assets, and (2) an annualized performance fee of 10% of the Corporation's net income from capital investment operations in excess of an 8% return on the weighted average Shareholders' Equity during the fiscal period. During the quarter ended September 30, 2009 \$Nil of investment advisor fees were paid to US Global, (2008 - \$0.6 million; \$0.6 million in monthly advisor fees and a \$Nil accrued annual performance fee).

The Corporation acquired EFAS, a private merchant banking firm in July 2007. The Corporation and EFAS were related by way of directors in common. The transaction was approved by the shareholders of the Corporation. See Note 3 to the audited consolidated financial statements for the year ended June 30, 2009 for further details of the acquisition.

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 June 30, 2009.

As an integrated merchant banking company the Corporation's revenue is derived from two sources (1) advisory services, and (2) investment income from its investments. The Corporation's revenue recognition and investment valuation policy are critical to the understanding of the results of operations.

Advisory fees from client mandates are comprised of monthly retainer fees and transaction success fees. Monthly advisory fees are recognized as services are rendered and collectability is reasonably assured. Transaction success fees are recorded when all the services have been rendered, the related transaction has closed and collectability is reasonably assured. On some occasions advisory fees are paid to the Corporation

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Critical Accounting Policies and Estimates (continued)

with securities rather than cash. In these circumstances the Corporation records advisory fee revenue based on the fair value of the securities received. Any subsequent gains on the sale of the securities and changes in the market value of the securities held at each reporting period are recorded as advisory fees by the Corporation.

Investment income is comprised of realized gains from the sale of investments, interest income and dividends and the change in the market value of the Corporation's investments. 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. The change in market value of investments represents the aggregate of the difference between their average cost and fair value at the balance sheet date. The valuation policies applied to investments at each balance sheet date are described below.

Securities which, includes options and warrants, 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 current bid price at the balance sheet dates. When the market for securities is not active, those securities are recorded at carrying values based on the last quoted price at the balance sheet dates.

Securities which, includes options and warrants, that are traded on a recognized securities 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 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 measured at fair value and written down to net realizable value if impaired.
- 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.
- 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 using the Black-Scholes option pricing model.
- Options 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.
- Options and warrants for private companies are valued at the difference between the exercise price and the carrying value of the underlying shares.

The investments held by the Corporation are classified as held for trading. 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

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Critical Accounting Policies and Estimates (continued)

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

Changes in Accounting Policies including Initial Adoption and Future Accounting Changes

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, and in April 2008, the AcSB issued for comment its Omnibus Exposure Draft, Adopting IFRS in Canada. Early adoption may be permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators. The Corporation is currently in the process of developing an IFRS Conversion Plan and evaluating the impact of the transition to IFRS.

Business Combinations

In January 2009, the CICA issued Section 1582, *Business Combinations* ("Section 1582"), 1601 – *Consolidated Financial Statements* ("Section 1601") and 1602 – *Non-controlling Interest* ("Section 1602") which replaces CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Corporation's business combinations with acquisition dates on or after July 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Sections 1601 and 1602 are applicable for the Corporation's interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of these sections is permitted. Adoption of these sections would require that all three sections be adopted at the same time.

Risks and Uncertainties associated with investing in Common Shares

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 associated with the Corporation's business

The Corporation depends on certain key professionals and the loss of any of their services could have a material adverse effect on the revenues and profitability.

Management believes the Corporation's performance is strongly correlated to the performance of certain key professionals and, accordingly, the retention of these individuals is crucial to the Corporation's future success. Certain of the key professionals have entered into consultancy agreements and into non-competition and non-

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Risks and Uncertainties associated with the Corporation's business (continued)

The Corporation depends on certain key professionals and the loss of any of their services could have a material adverse effect on the revenues and profitability.

solicitation agreements. The initial term of the agreements is three years from closing of the EFAS acquisition, however, there is no guarantee that these individuals will not resign or otherwise terminate their agreements. The Corporation's future earnings will also depend, among other things, on its ability to maintain intellectual capital. The Corporation's senior professionals possess experience and expertise, which may be difficult to replace and the Corporation may not be successful in its efforts to recruit additional personnel or retain current personnel.

Currency and Foreign Exchange Rate Fluctuations

The Corporation's results are reported in US dollars. It is anticipated that a substantial portion 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 profitability in any given period. In addition, the Corporation could also make investments in jurisdictions which may place restrictions on the repatriation of funds. A portion of the Corporation's business is conducted by its subsidiaries in the United Kingdom, Canada and Monaco and the associated overhead costs are denominated in UK pounds sterling, Canadian dollars and Euros, respectively. Any fluctuations in the value of these foreign currencies relative to the US dollar may result in variations in the net income of the Corporation. To date the Corporation has not entered into hedging or derivative arrangements to manage its foreign exchange risk.

Reduced Revenues during Periods of Declining Resource Prices

The Corporation's revenue is likely to be lower during a period of declining natural resource market and commodity prices. The Corporation's advisory services are particularly dependent on the debt finance, equity and mergers and acquisitions markets for companies in the natural resource sector. A prolonged period of declining natural resource prices could cause a reduction in fee revenue from advisory services. The Corporation's investment income is driven in part by natural resource and commodity prices and a decline in resource prices could also cause a decrease in investment income.

Risk of Limited Number of Investments

The Corporation intends to participate in a limited number of core merchant banking 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.

Thinly Traded Securities

Certain publicly traded investments held by the Corporation are in equities that are characterized by thin, and sometimes uneven, trading volumes, and are potentially subject to highly volatile price swings. All publicly traded investments have been valued by the Corporation based on the last current bid price at the balance sheet dates. Due to the thinly traded nature of such investments, the prices at which the Company could have sold its holdings in such equities at the period end may have differed from the recorded values.

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First Quarter Report - September 30, 2009 and 2008

Risks and Uncertainties associated with the Corporation's business (continued)

Resource Development Risks

Resource 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.

Contingency

On December 16, 2008 Endeavour was notified of a claim filed against it by Gold Reserve Inc. ("Gold Reserve") in the Ontario Superior Court of Justice. Gold Reserve's claim against Endeavour arises out of an Advisory Agreement pursuant to which Endeavour agreed to provide financial advisory services to Gold Reserve. Gold Reserve alleges that by virtue of having been retained as Gold Reserve's financial advisor, Endeavour obtained access to all of Gold Reserve's proprietary and confidential information. Gold Reserve alleges that Endeavour wrongfully shared this information with Rusoro Mining Ltd. ("Rusoro"), which is a co-defendant in the action, and further alleges that Endeavour has committed breaches of various duties owed to Gold Reserve under the advisory agreement at common law.

Endeavour provided Gold Reserve with financial advice during the period from late 2004 to early 2007. In December 2008, Rusoro made an unsolicited offer directly to Gold Reserve's shareholders using Endeavour as its advisor (the "Rusoro Offer"). The Rusoro Offer was made after: (a) Endeavour had ceased to provide any advisory services to Gold Reserve; (b) Gold Reserve had stopped paying Endeavour for advisory services; (c) Gold Reserve had severed the last debt financing opportunity for which Endeavour could have been considered an advisor to Gold Reserve; and (d) the Endeavour's mandate with Gold Reserve had ended. At the point in time that the Rusoro Offer was made: Gold Reserve was aware that Endeavour was advising Rusoro; Gold Reserve was aware that Rusoro might make an unsolicited offer to its shareholders; Gold Reserve thought of Endeavour as a "matchmaker" for Rusoro and Gold Reserve; and Gold Reserve had not objected to Endeavour advising Rusoro.

The Rusoro Offer was not made using any of Gold Reserve's non-public information. Endeavour provided no such information to Rusoro. Indeed, as a result of the extensive GRZ Public Record on SEDAR, EDGAR (the SEC's equivalent filing requirement) and the Gold Reserve website, there was no Gold Reserve information necessary for purposes of advising Rusoro that wasn't already in the public domain.

Gold Reserve claims that it has suffered and will continue to suffer damages and irreparable harm for which the Corporation is liable. Gold Reserve is seeking \$500 million in damages in addition to \$50 million in punitive damages from Endeavour and Rusoro. In connection with this action, an interim motion was granted on February 10, 2009 and Rusoro filed a statement of defense and counterclaim on March 31, 2009. Endeavour has filed a statement of defense and counterclaim on August 19, 2009. No trial date has been set. Endeavour believes the claim is without merit and intends to vigorously defend the action.

Controls and Procedures

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Chief Executive Officer

ENDEAVOUR FINANCIAL CORPORATION

Management's Discussion and Analysis of
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Controls and Procedures (continued)

Disclosure controls and procedures

(CEO) and the Chief Financial Officer (CFO), so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management evaluated the effectiveness of the Corporation's disclosure controls and procedures as required by Canadian Securities Law.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded, that as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were designed to provide reasonable assurance that information required to be disclosed in Endeavour Financial Corporation's annual and interim filings (as such terms are defined under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) and other reports filed or submitted under Canadian securities law is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management including the Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

Internal controls and procedures

The Corporation's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal controls over financial reporting. Under the supervision of the Chief Financial Officer, the Corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with GAAP.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. As at the end of the period covered by this management's discussion and analysis, management evaluated the effectiveness of the Corporation's internal control over financial reporting as required by Canadian securities laws.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There have been no material changes in the Corporation's internal controls over financial reporting during the quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Outlook

Endeavour is focused on providing advisory services and investing in companies focused on the natural resource sector. The global capital markets continue to experience market volatility due to unpredictable economic data. We may continue to experience a volatile operating environment until there is more certainty that the global economy has recovered from the recession. Despite the current economic and market conditions the Corporation continues to believe in the long term fundamentals for commodities.

Endeavour has started the implementation of its gold focused investment strategy to create value through timely strategic investments in gold producers, and a vision to ultimately create an intermediate sized gold

ENDEAVOUR FINANCIAL CORPORATION

Management's Discussion and Analysis of
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Outlook (continued)

company and the subsequent realization of this investment. The Etruscan investment was the first investment as part of this investment strategy.

The Corporation's management team believes in long term rising gold prices and sees investment opportunities in companies like Etruscan, which have quality underlying resource assets but which face short term financial challenges. The Corporation has identified additional target companies in the gold sector and is pursuing these potential investment opportunities.

Additional information relating to the Corporation is available on the Corporation's web site at www.endeavourfinancial.com and in the Corporation's Annual Information Form for the twelve month period ended June 30, 2009 on SEDAR at www.sedar.com.

ENDEAVOUR FINANCIAL CORPORATION

Consolidated Balance Sheets

(Expressed in Thousands of United States Dollars)

(Unaudited)

	September 30, 2009	June 30, 2009
ASSETS		
Cash and cash equivalents	\$ 132,741	\$ 121,814
Investments (Note 3)	101,446	71,049
Accounts receivable and other assets	6,765	3,953
	240,952	196,816
Capital assets (Note 5)	254	298
Intangible assets (Note 6)	23,763	24,749
Goodwill (Note 7)	29,723	29,314
Future income taxes (Note 9)	-	94
	\$ 294,692	\$ 251,271
LIABILITIES		
Accounts payable and accrued liabilities	\$ 4,815	\$ 3,565
Income taxes payable	92	167
Future income taxes (Note 9)	130	-
	5,037	3,732
SHAREHOLDERS' EQUITY		
Share capital (Note 8 (a))	196,580	196,171
Contributed surplus (Note 8 (b))	10,038	9,875
Retained earnings	83,037	41,493
	289,655	247,539
	\$ 294,692	\$ 251,271

CONTINGENCY (NOTE 14)

SUBSEQUENT EVENTS (NOTES 3 and 8(c))

Approved by the Board:

 "Neil Woodyer" Director "Wayne McManus" Director

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

ENDEAVOUR FINANCIAL CORPORATION
Consolidated Statements of Operations, Comprehensive
(Loss) Income and Retained Earnings

For the Three months ended September 30,

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

(Unaudited)

	<u>2009</u>	<u>2008</u>
REVENUE		
Investment income (loss) (Note 3)	\$ 41,599	\$ (124,066)
Advisory fees - realized	4,661	853
Advisory fees - unrealized (Note 4)	735	(1,959)
	<u>46,995</u>	<u>(125,172)</u>
EXPENSES		
Investment advisor fees (Note 10)	-	574
Employee salaries	1,114	1,287
Performance related bonuses	1,798	-
Consulting fees	136	190
General and administrative	985	1,481
Stock-based compensation (Note 8 (c))	163	537
Amortization	1,030	2,115
	<u>5,226</u>	<u>6,184</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>41,769</u>	<u>(131,356)</u>
(PROVISION) RECOVERY OF INCOME TAXES		
Current income tax (provision) recovery (Note 9)	(1)	7
Future income tax (provision) recovery (Note 9)	(224)	543
	<u>(225)</u>	<u>550</u>
NET INCOME (LOSS) AND		
COMPREHENSIVE INCOME (LOSS)	41,544	(130,806)
RETAINED EARNINGS, BEGINNING OF PERIOD	41,493	254,068
DIVIDENDS PAID	-	(1,921)
RETAINED EARNINGS, END OF PERIOD	\$ 83,037	\$ 121,341
BASIC EARNINGS (LOSS) PER SHARE		
	\$ 0.43	\$ (4.31)
DILUTED EARNINGS (LOSS) PER SHARE		
	\$ 0.43	\$ (4.31)
WEIGHTED-AVERAGE COMMON SHARES		
OUTSTANDING	96,048,075	30,342,114
DILUTED WEIGHTED-AVERAGE COMMON		
SHARES OUTSTANDING	96,048,075	30,342,114

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

ENDEAVOUR FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

For the Three months ended September 30,
(Expressed in Thousands of United States Dollars)
(Unaudited)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net income (loss)	\$ 41,544	\$ (130,806)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net realized gain on investments and foreign currency	(15,848)	(3,235)
Change in net unrealized (appreciation) depreciation of investments and foreign currency	(25,354)	127,677
Unrealized advisory fees (Note 4)	(735)	1,959
Amortization	1,030	2,115
Stock-based compensation (Note 8 (c))	163	537
Future income tax provision (recovery)	224	(543)
Changes in non-cash working capital (Note 11)	(1,637)	(5,442)
Purchase of investments	(14,354)	(13,923)
Proceeds from the sale of investments	25,894	18,296
	<u>10,927</u>	<u>(3,365)</u>
FINANCING ACTIVITIES		
Received from the issue of common shares (Note 8 (a))	-	366
Repurchase of common shares (Note 8 (a) (i))	-	(4,636)
Dividends paid	-	(1,921)
	<u>-</u>	<u>(6,191)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	10,927	(9,556)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		
	121,814	14,784
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 132,741</u>	<u>\$ 5,228</u>

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

ENDEAVOUR FINANCIAL CORPORATION

Notes to the Consolidated Financial Statements

September 30, 2009

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

(Unaudited)

1. NATURE OF OPERATIONS

Endeavour Financial Corporation (“Endeavour” or the “Corporation”) is a publicly-quoted independent merchant banking company focused on the global natural resources sector. The Corporation offers advisory services in project, corporate and capital debt markets; equity financings; mergers and acquisitions; and strategic business development. The Corporation also provides equity and bridge loans in support of clients, transactions, and other market opportunities. Accessing its global industry networks, Endeavour also creates and launches new growth companies, often as both an advisor and investor.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim 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 the Corporation for the year ended June 30, 2009. These unaudited interim consolidated financial statements do not include all the information and note disclosures required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the most recent annual audited consolidated financial statements.

(a) *Basis of Presentation*

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All material intercompany transactions and balances have been eliminated.

In accordance with Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline 18 (“AcG-18”), the Corporation has designated its temporary investments and its corporate investments as held-for-trading and carries them at fair value. The Corporation has also designated its receivables and payables as held-for-for trading in accordance with the Canadian Institute of Chartered Accountants Handbook (“CICA Handbook”) Section 3855. Accordingly, each of the Corporation’s financial assets and liabilities is fair valued at each reporting period.

(b) *Future Accounting Pronouncements*

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that publicly listed companies will be required to adopt International Financial Reporting Standards (“IFRS”) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, and in April 2008, the AcSB issued for comment its Omnibus Exposure Draft, Adopting IFRS in Canada. Early adoption may be

ENDEAVOUR FINANCIAL CORPORATION

Notes to the Consolidated Financial Statements

September 30, 2009

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

(Unaudited)

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) *Future Accounting Pronouncements* (continued)

International Financial Reporting Standards

permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators. The Corporation is currently in the process of developing an IFRS Conversion Plan and evaluating the impact of the transition to IFRS.

Business Combinations

In January 2009, the CICA issued Section 1582, *Business Combinations* (“Section 1582”), 1601 – *Consolidated Financial Statements* (“Section 1601”) and 1602 – *Non-controlling Interest* (“Section 1602”) which replaces CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Corporation’s business combinations with acquisition dates on or after July 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Sections 1601 and 1602 are applicable for the Corporation’s interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of these sections is permitted. Adoption of these sections would require that all three sections be adopted at the same time.

ENDEAVOUR FINANCIAL CORPORATION

Notes to the Consolidated Financial Statements

September 30, 2009

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

(Unaudited)

3. INVESTMENTS

Investments are comprised of the following:

<u>Investments by location and primary location</u>	<u>September 30, 2009</u>		<u>June 30, 2009</u>	
	<u>Value</u>	<u>% of Investments</u>	<u>Value</u>	<u>% of Investments</u>
Equities:				
Latin America	\$ 34,406	33.9%	\$ 27,620	38.9%
Eastern Europe and Asia	2,693	2.7%	2,606	3.7%
Canada and United States	10,578	10.4%	9,903	13.9%
Oceania	396	0.4%	278	0.4%
Early Stage Investment Vehicles and Other	16,509	16.3%	6,931	9.8%
Total equities	64,582	63.7%	47,338	66.7%
Convertible Loans and Debentures:				
Latin America	20,452	20.1%	12,532	17.6%
Eastern Europe and Asia	2,000	2.0%	-	0.0%
Total Convertible Loans and Debentures	22,452	22.1%	12,532	17.6%
Warrants:				
Latin America	11,197	11.0%	8,857	12.5%
Eastern Europe and Asia	222	0.2%	41	0.1%
Canada and United States	1,110	1.1%	963	1.4%
Oceania	582	0.6%	487	0.7%
Africa	-	0.0%	4	0.0%
Early Stage Investment Vehicles and Other	1,301	1.3%	827	1.0%
Total Warrants	14,412	14.2%	11,179	15.7%
Total Investment Portfolio	\$ 101,446	100.0%	\$ 71,049	100.0%

The cost of investments totaled \$152.2 million at September 30, 2009 (June 30, 2009 - \$145.7 million).

Investments held that are not listed are valued primarily based on the results of valuation techniques using observable market inputs, as established by the Corporation. These securities include non-exchange traded options, warrants and private equity positions. The current value of these securities may be estimated using valuation techniques based on assumptions that are not supported by observable market inputs. As a result of the change in fair value of these investments that are not listed, net income increased by approximately \$1.1 million for the period ended September 30, 2009 (2008 – \$1.0 million decrease).

The market value of investments in privately-held companies totaled \$nil at September 30, 2009 (June 30, 2009 - \$7.0 million) and the market value of non-exchange traded options and warrants totaled \$2.3 million at September 30, 2009 (June 30, 2009 - \$1.7 million).

ENDEAVOUR FINANCIAL CORPORATION

Notes to the Consolidated Financial Statements

September 30, 2009

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

(Unaudited)

3. INVESTMENTS (continued)

The Corporation has common directors with some of the companies in which it invests. The market value of investments in companies for which the Corporation has directors in common totaled \$22.9 million at September 30, 2009 (June 30, 2009 - \$18.0 million).

On September 23, 2009 the Corporation entered into a binding agreement with Etruscan Resources Inc. (“Etruscan”) to purchase 153,123,000 common shares of Etruscan at a price of C\$0.30 per share for a cost of \$43.0 million (the “Placement”). In addition to the Placement, the Corporation agreed to purchase in a private transaction an additional 26,315,789 common shares and 6,855,760 share purchase warrants entitling the Corporation to acquire 6,855,760 Etruscan common shares. On October 23, 2009 the Corporation completed the Placement and the private transaction with Etruscan Resources Inc. Endeavour’s total investment of \$56.0 million results in the Corporation holding 179,438,789 common shares, representing 54% of the issued and outstanding common shares of Etruscan.

The securities were acquired by Endeavour for investment purposes. Endeavour has a gold focused strategy to create value through timely strategic investments in gold producers, and a vision to ultimately create an intermediate sized gold company and the subsequent realization of that investment.

Investment income (loss) is comprised of the following for the periods ended:

	September 30, 2009	September 30, 2008
Investment income (loss):		
Net realized gain on investments and foreign currency	\$ 15,848	\$ 3,235
Change in net unrealized appreciation (depreciation) of investments and foreign currency	25,354	(127,677)
Interest and dividends	397	376
	<u>\$ 41,599</u>	<u>\$ (124,066)</u>

Included in net realized gain on investments and foreign currency is a realized gain of \$6.9M (2008 - \$0.1M) on foreign currency. In addition, an appreciation of \$2.2M (2008 - \$0.1M depreciation) in foreign currency is included in the change in the net unrealized appreciation (depreciation) of investments and foreign currency.

4. ADVISORY FEES

The unrealized advisory fees represent fees paid to the Corporation with securities rather than cash that have not been sold as of the year end. These securities are marked to market and when sold become part of the realized advisory fees.

ENDEAVOUR FINANCIAL CORPORATION

Notes to the Consolidated Financial Statements

September 30, 2009

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

(Unaudited)

5. CAPITAL ASSETS

Capital assets are comprised of the following:

	As at September 30, 2009			June 30, 2008
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	\$ 369	\$ (260)	\$ 109	\$ 140
Furniture and fixtures	67	(30)	37	40
Leasehold improvements	193	(85)	108	118
	<u>\$ 629</u>	<u>\$ (375)</u>	<u>\$ 254</u>	<u>\$ 298</u>

6. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	As at September 30, 2009			June 30, 2008
	Cost	Accumulated amortization	Net book value	Net book value
Customer relationships	\$ 25,000	\$ (3,611)	\$ 21,389	\$ 21,806
Customer contracts and other intangible assets	11,141	(8,767)	2,374	2,943
	<u>\$ 36,141</u>	<u>\$ (12,378)</u>	<u>\$ 23,763</u>	<u>\$ 24,749</u>

7. GOODWILL

The changes in the carrying amount of goodwill are as follows;

June 30, 2009	\$ 29,314
Release of 339,248 shares from escrow	409
September 30, 2009	<u>\$ 29,723</u>

In connection with the acquisition of Endeavour Financial Advisory Services Ltd (“EFAS”) on July 30, 2007 4,161,124 shares of the Corporation were placed in escrow to be released in quarterly installments based on EFAS meeting a cumulative EBITDA target of \$3.0 million per quarter during the earn-out period which commenced on August 1, 2007 and ends on June 30,

ENDEAVOUR FINANCIAL CORPORATION

Notes to the Consolidated Financial Statements

September 30, 2009

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

(Unaudited)

7. GOODWILL (continued)

2010. EFAS exceeded the cumulative EBITDA target for the period ended June 30, 2009. Consequently 339,248 shares were released from escrow during the period ended September 30, 2009 resulting in a \$0.4 million addition to goodwill.

8. SHARE CAPITAL

(a) Voting shares

Authorized

1,000,000,000 voting shares of \$0.01 par value

1,000,000,000 undesignated shares

	<u>Number of Shares</u>	<u>Par Value</u>	<u>Additional Paid In Capital</u>	<u>Total</u>
Voting shares				
Issued at June 30, 2008	33,655,908	304	110,727	111,031
Escrow shares released (iii)	-	13	5,361	5,374
Stock options & warrants exercised	85,000	1	463	464
Shares repurchased (i)	(912,900)	(9)	(5,278)	(5,287)
Expiry of contingent value rights (ii)	(22,167)	-	-	-
Forfeited escrow shares (iii)	(57,939)	-	-	-
Issued pursuant to the equity financing (iv)	64,975,000	650	83,939	84,589
Issued at June 30, 2009	97,722,902	959	195,212	196,171
Escrow shares released (iii)	-	3	406	409
Shares in escrow (iii)	(1,357,005)	-	-	-
Issued and outstanding at September 30, 2009	96,365,897	\$ 962	\$ 195,618	\$ 196,580

(i) Share buy back program

During the three months ended September 30, 2009 the Corporation did not repurchase any common shares in the market.

During the three months ended September 30, 2008 the Corporation repurchased 757,200 of its common shares in the market at a weighted average price of \$6.12 per share (CDN \$6.37 per share). All of these shares were returned to treasury.

ENDEAVOUR FINANCIAL CORPORATION

Notes to the Consolidated Financial Statements

September 30, 2009

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

(Unaudited)

8. SHARE CAPITAL (continued)

(ii) *Contingent Value Rights*

The contingent value rights (“CVR’s”) were issued in connection with the Welcome Opportunities Ltd. (“Welcome”) acquisition completed in September 2002. The CVR’s were issued to former Welcome shareholders to compensate them for any future value realized on certain securities held by Welcome as at August 31, 2003. Based on the valuation of the Welcome securities as at August 31, 2003 the Corporation issued 87,727 shares into trust to satisfy the obligation to exchange its shares for CVR’s. The CVR’s expired during the year ended June 30, 2009 and as a result of unexercised CVR’s, 22,167 common shares previously issued into trust were cancelled.

(iii) *Shares in escrow*

In connection with the acquisition of EFAS, the Company placed 4,161,124 common shares in escrow subject to an earn-out agreement. The earn-out agreement provides for the escrowed shares to be released in equal quarterly installments contingent on EFAS meeting a cumulative earnings (before interest, income taxes, depreciation and amortization charges) (“EBITDA”) target of \$3.0 million per quarter. The earn-out periods commenced on August 1, 2007 and end on June 30, 2010.

Upon release from escrow, the shares will be valued at the fair value of the Corporation’s shares on the date the contingency is resolved and the additional consideration is released. The additional consideration results in an increase to the goodwill related to the acquisition of EFAS (Note 7).

During the year ended June 30, 2009 57,939 common shares held in escrow pursuant to the earn-out agreements with former employees of the Corporation were cancelled on the employees’ resignation in accordance with the terms of those agreements.

As at September 30, 2009, EFAS has met the cumulative EBITDA target for each earn-out period completed and 2,746,180 common shares valued at \$14.3 million have been released from escrow and 1,357,005 common shares remain in escrow. Subsequent to September 30, 2009, 339,247 common shares valued at \$0.5 million were released from escrow.

(iv) *Equity Financing*

On February 4, 2009 the Corporation raised gross proceeds of \$93.7 million (CDN \$115.0 million) from a public offering of 64,975,000 units at a price of CDN \$1.77 per unit. The units consist of one common share of the Corporation and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to

ENDEAVOUR FINANCIAL CORPORATION

Notes to the Consolidated Financial Statements

September 30, 2009

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

(Unaudited)

8. SHARE CAPITAL (continued)

(iv) Equity Financing

purchase one common share of the Corporation at a price of CDN \$2.50 per warrant share until February 4, 2014. Share issue costs totalling \$5.1 million were incurred as part of this offering.

The warrants have been valued using the Black-Scholes pricing model, with an amount of \$4.0 million included in contributed surplus based on the relative fair values of the shares and warrants issued, using the following weighted average assumptions

Risk-free interest rate	2.0%
Expected life	5 years
Annualized volatility	25.0%
Dividend rate	0.0%

(b) Contributed Surplus

A summary of changes in contributed surplus is presented below:

June 30, 2008	\$	5,052
Stock options exercised		(98)
Stock-based compensation (Note 8 (c))		917
Warrants Issued pursuant to the equity financing (Note 8 (a) (iv))		4,004
June 30, 2009		9,875
Stock-based compensation (Note 8 (c))		163
September 30, 2009	\$	10,038

(c) Stock-based compensation

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 ten years. The exercise price of an option is not less than the volume weighted average trading price of the shares traded on the exchange for the five trading days immediately preceding the grant date. At September 30, 2009 there were 9,772,290 options available for grant under the plan (June 30, 2009 – 9,772,290).

ENDEAVOUR FINANCIAL CORPORATION

Notes to the Consolidated Financial Statements

September 30, 2009

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

(Unaudited)

8. SHARE CAPITAL (continued)

(c) Stock-based compensation (continued)

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

	<u>Options outstanding</u>	<u>Weighted average exercise price (CDN\$)</u>
At June 30, 2008	2,827,500	9.73
Granted	125,000	4.20
Exercised	(65,000)	4.20
Forfeited	(357,500)	10.00
At September and June 30, 2009	2,530,000	\$ 9.56

During the three month period ended September 30, 2009, stock-based compensation of \$0.2 million (September 30, 2008 - \$0.5 million) was recorded.

The options vest over a two year period from the date of grant. There were no options granted during the three month period ended September 30, 2009, however the weighted average fair value of the options granted during the three month period ended September 30, 2008 was \$1.20 per share.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options:

	<u>September 30, 2008</u>
Risk-free interest rate	2.7%
Expected life	3.0 years
Annualized volatility	44.6%
Dividend rate	6.3%

The following table summarizes information about the stock options outstanding as at September 30, 2009:

<u>Outstanding</u>	<u>Exercisable</u>	<u>Weighted average exercise price (CDN\$)</u>	<u>Weighted average remaining contractual life</u>
2,255,000	1,614,000	\$ 10.00	3.07 years
150,000	100,000	7.35	3.37 years
75,000	50,000	5.84	3.93 years
50,000	16,667	1.75	4.20 years
2,530,000	1,780,667		

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8. SHARE CAPITAL (continued)

(c) Stock-based compensation (continued)

On October 25, 2009 the Corporation granted 6,916,500 stock options with an exercise price of C\$1.94 and an expiry date of October 25, 2014. In addition, the Corporation repriced 1,757,500 stock options that had exercise prices of C\$10.00, C\$7.35 and C\$5.84 to C\$1.94, the respective expiration dates remain unchanged.

(d) Warrants

The following table summarizes the changes and information about the warrants outstanding as at September 30, 2009:

	<u>Warrants outstanding & exercisable</u>	<u>Weighted average exercise price (CDN\$)</u>	<u>Weighted average remaining contractual life</u>
June 30, 2008	3,409,000	\$ 5.50	1.37 years
Warrants exercised	(20,000)	5.50	
Warrants expired	(3,389,000)	5.50	
Warrants issued	32,487,501	2.50	4.35 years
September and June 30, 2009	32,487,501	\$ 2.50	4.35 years

9. INCOME TAXES

The components of future income tax assets and liabilities are as follows:

	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Income (Loss) before income taxes	\$ 41,769	\$ (131,356)
Statutory tax rate	0%	0%
Income tax expense based on above rates	-	-
Future income tax provision (recovery) on unrealized gains (losses) on investments held by subsidiaries in taxable jurisdictions	224	(543)
Income tax provision (recovery) on earnings (losses) of subsidiaries in taxable jurisdictions	1	(7)
Income tax provision (recovery)	\$ 225	\$ (550)

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9. INCOME TAXES (continued)

Income taxes (recovery) are comprised of the following:

	<u>September 30,</u> <u>2009</u>	<u>June 30,</u> <u>2009</u>
Future income tax assets		
Property, plant and equipment	\$ (31)	\$ (31)
Tax losses	(235)	(235)
	<u>\$ (266)</u>	<u>\$ (266)</u>
Future income tax liability		
Investments	396	172
Future income tax liabilities (assets) net	<u>\$ 130</u>	<u>\$ (94)</u>

The Corporation's Canadian subsidiary, Endeavour Financial Ltd., is currently undergoing an audit by the Canada Revenue Agency ("CRA") of its Fiscal 2006, 2007 and 2008 taxation years. The CRA audit is ongoing and no reassessments have yet been issued.

10. RELATED PARTY TRANSACTIONS

On November 6, 2008 the Corporation's investment advisory agreement with US Global Investors, Inc. ("US Global") ended. The Corporation had an investment advisor agreement with US Global which was related to the Corporation by way of a director in common. In support of the Corporation's merchant banking business plan US Global's mandate was to identify and implement market trading opportunities to enhance the profitability of the Corporation. US Global was paid: (1) a monthly advisory fee, calculated and payable as 1/12th of 1% of net assets, and (2) an annualized performance fee of 10% of the Corporation's income from operations in excess of an 8% return on the weighted average Shareholders' Equity during the fiscal period. During the three month period ended September 30, 2008, the Corporation paid \$0.6 million of investment advisor fees to US Global, comprised of \$0.6 million in monthly advisor fees and \$Nil accrued annual performance fees.

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11. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>September 30,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable and other assets	\$ (2,812)	\$ 6,006
Decrease in investment advisor fees payable	-	(2,803)
(Decrease) in accounts payable and accrued liabilities	1,250	(4,994)
Decrease in income taxes payable	(75)	(3,651)
	<u>\$ (1,637)</u>	<u>\$ (5,442)</u>
Cash and cash equivalents is comprised of:		
Cash at bank	\$ 8,153	\$ 5,228
Short-term money-market instruments	\$ 124,588	-
	<u>\$ 132,741</u>	<u>\$ 5,228</u>

The significant non-cash financing and investing transactions for the three month period ended September 30, 2009 consisted of the following;

- a) Release of 339,248 (September 30, 2008 – 346,757) common shares from escrow in connection with the acquisition of EFAS, refer to (Notes 7 and 8(a)(iii)).

The Corporation recovered \$Nil million in income taxes during the year ended September 30, 2009 (September 30, 2008 - \$0.07 million).

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12. CAPITAL MANAGEMENT

The Corporation requires capital for operating purposes to fund current and future operations. The Corporation defines capital as consisting of share capital, contributed surplus and retained earnings.

The Corporation's objectives when managing capital are to maintain the level of capital that will:

- Fund current and future operations, including the purchase of new investments
- Ensure the Corporation is able to meet its financial obligations as they come due
- Support the creation of shareholder value

A significant portion of the Corporation's capital is allocated to investments. The Corporation manages its capital and makes adjustments to it based on management's views of the companies it is invested in and the capital requirements to invest in new transactions. The Corporation may realize funds from the sale of existing investments to purchase new investments and fund operations.

The Corporation is not subject to any capital requirements imposed by a regulator. The Corporation expects its current capital resources will be sufficient to discharge its liabilities as at September 30, 2009. The Corporation's overall strategy for managing capital remains unchanged from the previous years.

13. FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash and cash equivalents, investments, accounts receivable, investment advisor fees payable and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

The Corporation's activities expose it to a variety of risks that may include currency risk, credit risk, liquidity risk, interest rate risk and other price risks, including equity price risk. The Corporation examines the various financial instrument risks to which it is exposed and assesses any impact and likelihood of those risks.

(i) *Currency risk*

Currency risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The most significant impact of foreign currency on the Corporation's net earnings and

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13. FINANCIAL INSTRUMENTS (continued)

(i) *Currency risk* (continued)

other comprehensive income is the translation of investments and cash and cash equivalents denominated in foreign currencies into US dollars.

Other financial instruments that impact the Corporation's net earnings as a result of fluctuations in foreign currencies are accounts receivable and other assets, accounts payable and accrued liabilities, and income taxes payable.

The Corporation has not hedged its exposure to foreign currency exchange risk.

The table below highlights the net assets held in foreign currencies:

	September 30, 2009	June 30, 2009
Canadian dollar	\$ 170,242	\$ 168,984
Other currencies	5,235	3,276
	<u>\$ 175,477</u>	<u>\$ 172,260</u>

The effect on earnings and other comprehensive income after tax as at September 30, 2009 of a 10% appreciation or depreciation in the foreign currencies against the US dollar on the above mentioned financial and non-financial assets and liabilities of the Corporation is estimated to be \$17.0 million (June 30, 2009 – \$17.0 million) assuming that all other variables remained constant. This calculation is based on the Corporation's balance sheet exposure as at September 30, 2009.

(ii) *Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Credit risk arises from cash and cash equivalents, investments held with investment dealers, investments made in the form of a loan, accounts receivables and other assets. 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 Corporation is primarily exposed to credit risk that counterparties to transactions will not fulfill their obligations. Counterparties primarily include investment dealers, clearing agencies, banks, and companies that the Corporation has entered into loan agreements with. The Corporation does not rely entirely on ratings issued by credit rating agencies in

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13. FINANCIAL INSTRUMENTS (continued)

(ii) *Credit risk* (continued)

evaluating counterparties' related credit risk. The Corporation manages risk by monitoring individual and aggregate position limits for each counterparty and conducting credit reviews to assess creditworthiness. Management monitors the collectibility of receivables and estimates an allowance for doubtful accounts.

All transactions executed by the Corporation in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Corporation monitors its financial assets and does not have any significant concentration of credit risk.

The Corporation's maximum exposure to credit risk before taking into account any collateral held or other credit enhancements is the carrying amount of the financial instruments at the balance sheet date as follows:

	September 30, 2009	June 30, 2009
Convertible loans and debentures	\$ 22,452	\$ 12,532
Accounts receivable and other assets	6,765	3,953
	<u>\$ 29,217</u>	<u>\$ 16,485</u>

(iii) *Liquidity risk*

Liquidity risk is the risk that the Corporation cannot meet a demand for cash or fund its obligations as they come due. The Corporation has a planning and budgeting process in place to help determine the funds required to support the Corporation's normal operating requirements.

The Corporation's objective in managing liquidity risk is to maintain sufficient liquidity in order to meet operational and investing requirements at any point in time. The Corporation's liquidity and operating results may be adversely affected if the value of the Corporation's investments decline, resulting in losses upon disposition. The Company generates cash flow primarily from its advisory activities and proceeds from disposition

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13. FINANCIAL INSTRUMENTS (continued)

(iii) *Liquidity risk* (continued)

of its investments. The Corporation has sufficient cash and cash equivalents and investments which are freely tradable and relatively liquid to fund its obligations as they become due under normal operating conditions.

(iv) *Interest rate risk*

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Corporation is exposed to interest rate risk on its excess cash and cash equivalents held with banks and other financial institutions. The Corporation does not typically maintain significant cash balances for operating purposes since funds are typically deployed into investments, however at September 30, 2009 the proceeds from the equity financing have not been deployed resulting temporarily in a larger than normal balance held in cash and cash equivalents. Furthermore, the Corporation has no debt or short term borrowing. The Corporation is not exposed to significant interest rate risk.

The Corporation holds convertible loans, debentures and short term government treasury securities that have the potential to be affected by changes in interest rates. There is minimal fair value sensitivity to changes in interest rates, since convertible loans and debentures are short term in nature and are usually held to maturity.

(v) *Other price risk*

Other price risk is the risk that the fair value of, or future cash flows from the Corporation's financial instruments will significantly fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

The Corporation is exposed to other price risk or equity price risk in trading its investments and unfavorable market conditions could result in dispositions of investments at less than favorable prices. Additionally, the Corporation marks its investments to market at each reporting period. This process could result in significant write downs of the Corporation's investments over one or more reporting periods, particularly during periods of declining resource equity markets.

The Corporation intends to participate in a limited number of core merchant banking investments and, as a consequence, the aggregate return of the Corporation may be adversely affected by the unfavorable performance of even a single investment. In addition, as the Corporation's investments are concentrated in the resource sector, their

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13. FINANCIAL INSTRUMENTS (continued)

(v) *Other price risk* (continued)

performance will be disproportionately subject to adverse developments in the resource sector and commodity prices.

The effect on earnings and other comprehensive income after tax as at September 30, 2009 of a 10% appreciation or depreciation in the investment portfolio on the above mentioned financial and non-financial assets and liabilities of the Corporation is estimated to be \$10.1 million (2008 - \$17.7 million), assuming that all other variables remained constant. This calculation is based on the Corporation's balance sheet exposure as at September 30, 2009. The Corporation also holds options and warrants which are leveraged instruments, therefore the effect on earnings and other comprehensive income could be less than or greater than simply the change in the market value of the underlying security.

14. CONTINGENCY

On December 16, 2008 the Corporation was notified of a claim filed against it by Gold Reserve Inc. ("Gold Reserve") in the Ontario Superior Court of Justice. Gold Reserve's claim against the Corporation arises out of an Advisory Agreement pursuant to which the Corporation agreed to provide financial advisory services to Gold Reserve. Gold Reserve alleges that by virtue of having been retained as Gold Reserve's financial advisor, the Corporation obtained access to all of Gold Reserve's proprietary and confidential information. Gold Reserve alleges that the Corporation wrongfully shared this information with a third party, which is a co-defendant in the action, and further alleges that the Corporation has committed breaches of various duties owed to Gold Reserve under the Advisory Agreement and at common law. Gold Reserve claims that it has suffered and will continue to suffer damages and irreparable harm for which the Corporation is liable. Gold Reserve is seeking \$500 million in damages in addition to \$50 million in punitive damages from the Corporation and the co-defendant. In connection with this action, an interim motion was granted on February 10, 2009 and the co-defendant filed a statement of defence and counterclaim on March 31, 2009. The Corporation filed a statement of defence and counterclaim on August 19, 2009. No trial date has been set. The Corporation believes the claim is without merit and intends to vigorously defend the action. No accrual for this contingency has been made in the financial statements.