



# **ENDEAVOUR FINANCIAL CORPORATION**

**Third Quarter Report  
March 31, 2010**

*(Expressed in Thousands of United States Dollars)*

# ENDEAVOUR FINANCIAL CORPORATION

Management's Discussion and Analysis of  
Results of Operations and Financial Condition  
Third Quarter Report – March 31, 2010 and 2009

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## Introduction and business information

Endeavour Financial Corporation is a gold investment company with active, strategic investments in gold producing companies. Endeavour also has a merchant banking business that adds the manpower, skills and market & industry intelligence to drive the primary gold investment business. The merchant banking business offers financial advice (debt, equity, M&A and strategic business development) and financings to natural resource clients. Accessing its global industry networks, Endeavour creates and launches new growth companies as both an advisor and investor.

Endeavour Financial Corporation is listed on the Toronto Stock Exchange, symbol EDV. Warrants are listed on the Toronto Stock Exchange, symbol EDV.WT.A.

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 May 11, 2010. Endeavour Financial Corporation is referred to as "Endeavour" or "Corporation" throughout the management's discussion and analysis.

## Performance & Business Highlights

- Endeavour has completed two gold strategy investments and currently own 55% of Etruscan Resources Inc., & 43% of Crew Gold Corporation.
- The value of the gold strategy investments at March 31, 2010 is \$454 million, representing 88% of Endeavour's investment portfolio (cost of the gold strategy investment is \$197 million).
- Revenue of \$241.0 million for the quarter ended March 31, 2010, comprised of \$239.2 million of investment income and \$1.8 million of advisory fees (March 31, 2009: \$10.5 million, comprised of investment income of \$7.8 million and advisory fees of \$2.7 million).
- Net income of \$213.5 million, or \$2.20 per share for the quarter ended March 31, 2010 (2009: \$6.7 million, or \$0.09 per share).
- Shareholders' equity per share<sup>1</sup> was CDN \$5.54 at March 31, 2010.

## Gold Strategy Investments

In October 2009 Endeavour completed the first phase of its gold focused investment strategy by making a \$58.3 million strategic investment in Etruscan Resources Inc. ("Etruscan"). During the quarter ended March 31, 2010 Endeavour invested an additional \$5.5 million in Etruscan common shares. As of March 31, 2010 Endeavour has invested a total of \$63.8 million resulting in the Corporation holding 201,902,657 common shares, representing 55% of the issued and outstanding shares of Etruscan. The value of the investment at March 31, 2010 is \$82.0 million.

In January 2010 Endeavour completed a strategic investment in Crew Gold Corporation ("Crew"), acquiring 38% of the issued and outstanding shares of Crew. Between January 28, 2010 and March 31, 2010 Endeavour increased its ownership stake in Crew from 38% to 43%, representing 920,195,430 common shares of Crew. As of March 31, 2010 Endeavour invested a total of \$132.8 million and the value of the investment is \$371.7 million. Subsequent to March 31, 2010 Endeavour purchased additional Crew common shares and it currently holds 924,068,078 common shares of Crew, representing 43% of the issued and

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<sup>1</sup> Shareholders' equity per share or book value per share is a non-GAAP measure. Refer to Page 9 for a reconciliation of this non-GAAP measure.

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## **Gold Strategy Investments** (continued)

outstanding common shares of Crew. The total investment by Endeavour in Crew, including the acquisitions made subsequent to March 31, 2010 is \$134.5 million. The value of the investment at March 31, 2010 is \$372 million. Endeavour regards this investment as the second phase of its gold investment strategy.

The value of the gold strategy investments and investment income pertaining to the gold strategy has been segregated in the financial statements of the Corporation under the heading of gold strategy investments.

The gold strategy investments are being driven by the Corporation's management team and its exclusive financial advisor, Fiore Financial Corporation, led by Frank Giustra.

## **General Merchant Banking Investments**

At March 31, 2010 Endeavour held \$59 million of general merchant banking investments. The general merchant banking investments are comprised of 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. As a result the general merchant banking investments are primarily in companies where Endeavour is actively involved in guiding the investee company corporate development or providing a transaction-based service. In general, these core investment positions are in publicly-traded resource companies that are implementing growth plans or other strategic initiatives.

## **Advisory Services**

Endeavour's advisory services are focused on three primary disciplines; debt finance, mergers and acquisitions and corporate finance. During the quarter ended March 31, 2010, Endeavour was an advisor and earned milestone fees and success fees on several transactions.

Success fees were earned on the following transactions;

- Arranging a CDN \$25 million private placement financing for Petromanas Energy Inc to acquire certain oil and gas interests in Albania.
- Advising Petromanas Energy Inc on its acquisition of Albania oil and gas interests from Manas Petroleum Corporation.
- Arranging a CDN \$10 million private placement financing for Catalyst Copper Corp. to acquire an option in the La Verde property in Mexico.

Milestone fees were earned on the following transactions (success fees are to be earned on the closing of these transactions);

- Advising Augusta Resource Corporation on its US\$230 million definitive agreement with Silver Wheaton Corporation to sell to Silver Wheaton 100% of the payable gold and silver to be produced at Augusta's Rosemont Copper Project.
- Advising European Nickel PLC on its merger with Rusina Mining NL.

Endeavour's subsidiary, Endeavour Financial International Corporation was appointed financial adviser with respect to the project financing and development of Canada Lithium Corp's Quebec Lithium Project.

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### Management Team

The Corporation has a committed management team to drive its gold investment business and merchant banking business. Neil Woodyer, the Corporation's Chief Executive Officer has signed on for a minimum of three additional years. In addition to securing the services of the CEO for an additional three year term, the Corporation's professional staff are also locked in due to the deferred bonuses payable attributable to the gold strategy. However, in order to continue to attract, motivate and retain professional staff, the Corporation has implemented measures to ensure the eligible bonus recipients' entitlement to bonuses is not impacted by an event such as a change of control of the Corporation. *See discussion on page 5, Expenses - performance related bonuses.*

### Exclusive Advisory Agreement with Fiore Financial Corporation

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. Fiore is also assisting Endeavour with the implementation of the gold strategy. In consideration for the exclusive 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. The exclusive advisory services agreement with Fiore was extended for an additional minimum term of three years and now expires in April 2013.

### 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)	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Total assets	\$ 581,055	\$ 324,170	\$ 294,692	\$ 251,278
Shareholders' equity	532,005	316,515	289,655	247,539
Revenue				
Investment income - gold strategy	244,126	12,573	-	-
Investment income (loss) - general merchant banking	(4,972)	19,034	41,599	28,702
Total investment income	239,154	31,607	41,599	28,702
Advisory fees earned <sup>1</sup>	646	1,468	4,661	5,487
Advisory related revenue - income (loss) <sup>1</sup> on securities received for advisory services	1,161	2,557	735	(113)
Total advisory fees	1,807	4,025	5,396	5,374
Total Revenue	240,961	35,632	46,995	34,076
Net income (loss)	213,471	22,553	41,544	27,737
Basic earnings (loss) per share	\$ 2.20	\$ 0.23	\$ 0.43	\$ 0.29
Diluted earnings (loss) per share	\$ 2.16	\$ 0.23	\$ 0.43	\$ 0.29
Adjusted EBITDA <sup>2</sup>	\$ 216,400	\$ 27,919	\$ 42,962	\$ 28,713

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### Summary of Quarterly Results (continued)

(US dollars in thousands except per share amounts)	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Total assets	\$ 219,981	\$ 124,953	\$ 238,421	\$ 384,359
Shareholders' equity	219,245	124,239	236,205	370,151
Revenue				
Investment income - gold strategy	-	-	-	-
Investment income (loss) - general merchant banking	7,809	(109,760)	(124,068)	55,323
Total investment income	7,809	(109,760)	(124,068)	55,323
Advisory fees earned <sup>1</sup>	2,454	2,055	853	12,363
Advisory related revenue - income (loss) <sup>1</sup> on securities received for advisory services	288	341	(1,959)	5,336
Total advisory fees	2,742	2,396	(1,106)	17,699
Total Revenue	10,551	(107,364)	(125,174)	73,022
Net (loss) income	6,729	(111,111)	(130,806)	53,100
Basic earnings (loss) per share	\$ 0.09	\$ (3.68)	\$ (4.31)	\$ 1.79
Diluted earnings (loss) per share	\$ 0.09	\$ (3.68)	\$ (4.31)	\$ 1.71
Adjusted EBITDA <sup>2</sup>	\$ 7,656	\$ (110,344)	\$ (128,704)	\$ 60,856

<sup>1</sup> The tables above present the restated advisory fee income, refer to the "Changes in Comparatives – Advisory fee income" section for a detailed analysis of the restated and previously stated advisory fee income figures.

<sup>2</sup> Adjusted earnings before interest taxes depreciation, amortization, and stock based compensation is a non-GAAP measure. Refer to Page 8 for a reconciliation of this non-GAAP measure.

Endeavour marks its gold strategy investments and general merchant banking 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. 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. On a go-forward basis Endeavour expects the active gold strategy to have the most substantial impact on the quarterly results.

Since the beginning of the third quarter of fiscal year 2009 (January 2009) to present, there has been an improvement in the resource equity markets and global economy that has resulted in positive investment returns and an improvement in advisory fee revenue due to increased transactional activity in the resource sector. In particular, during Q3 2010 (March 2010 quarter) investment income from the gold strategy investments was extremely high due to the increase in the market value of the Crew investment.

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

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## Summary of Quarterly Results (continued)

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 March 31, 2010 compared to the Three Month Period Ended March 31, 2009***

During the quarter ended March 31, 2010, the Corporation recorded revenue of \$241.0 million and recorded net income of \$213.5 million (\$2.20 per share – basic). The revenue for the quarter includes investment income of \$239.2 million and advisory fees of \$1.8 million. Investment income is comprised of \$244.1 million from the gold strategy investments comprised of the mark to market gains on Crew & Etruscan; and an investment loss of \$4.9 million from the general merchant banking investments. The advisory fees of \$1.8 million include \$1.2 million of advisory related revenue. The investment loss from the general merchant banking investments includes realized losses on the sale of investments and foreign currency of \$9.6 million, a mark to market gain on investments and currency of \$4.2 million and interest and dividend income of \$0.5 million.

During the quarter ended March 31, 2009 the Corporation recorded revenue of \$10.5 million and recorded net income of \$6.7 million (\$0.07 per share – basic). The revenue during the quarter includes investment income of \$7.8 million and advisory fees of \$2.7 million. The investment income during this quarter was comprised entirely of investment income from the general merchant banking portfolio since the gold focused investment strategy had yet to be launched. The investment income includes realized losses on the sale of investments and foreign currency of \$5.1 million, a mark to market gain on investments and currency of \$12.5 million and interest and dividend income of \$0.4 million. The advisory fees of \$2.7 million include \$0.3 million of advisory related revenue.

### *Expenses*

Employee salaries totaled \$1.1 million for the quarter ended March 31, 2010 (2009 - \$1.0 million).

Performance related bonuses totaled \$21.6 million for the quarter ended March 31, 2010 (2009 - \$Nil million). Performance related bonuses are higher in the current fiscal quarter as a result of an increase in profits, in particular profits associated with Endeavour’s gold strategy. In the comparative fiscal quarter, there were no profits resulting in no performance related bonuses being paid or accrued. The Corporation has a performance related bonus pool that is allocated to management, employees and Fiore. The bonus pool amount is variable and is determined based on the income from advisory services and income from the performance of the Corporation’s general merchant banking investments and gold strategy investments. Due to the nature of the Corporation’s business and the inter relationships between the income streams it is not possible to precisely align overhead costs against each income stream; therefore in determining the income available for bonuses, overhead costs are applied against the total combined income streams. Performance related bonuses are accrued quarterly and paid at least annually. However given the longer term nature of the income associated with the Corporation’s gold strategy and the likely volatility as a result of the concentration in a small number of investments, in the interests of being equitable the pro rata income associated with the Corporation’s gold strategy will only be paid on a realized basis. The performance related bonus expense attributable to the gold strategy totaled \$20.8 million for the quarter. The balance of \$0.8 million is attributable to income earned from advisory services and the income from the performance of the general merchant banking investments. In the interest of continuing to motivate eligible bonus recipients, Endeavour has implemented measures to ensure that the entitlement of eligible bonus recipients to receive a bonus will not be impacted by a change of control of Endeavour prior to realization of the gold strategy investments. Endeavour has secured the deferred bonuses payable related to the gold strategy by creating a trust and delivering assets into the trust.

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## *Three Month Period Ended March 31, 2010 compared to the Three Month Period Ended March 31, 2009* (continued)

Endeavour will continue to deliver assets into the trust as and when necessary to ensure there are sufficient assets available to settle the deferred bonuses payable. If a change of control occurs that is deemed to be a hostile change of control, the deferred bonuses attributable to the gold strategy will be crystallized and paid out to the eligible bonus recipients.

Consulting fees totaled \$0.1 million for the quarter ended March 31, 2010 (2009 - \$0.1 million). Consulting fee expense includes monthly retainers to Fiore as well as transaction specific fees paid to consultants.

General and administrative expenses for the quarter ended March 31, 2010 totaled \$1.7 million (2009 - \$1.8 million). This expense category includes professional fees, marketing, travel, rent, administrative costs and foreign exchange gains/losses on non cash working capital.

Stock based compensation expense of \$1.2 million was recorded for the quarter ended March 31, 2010 (2009 - \$0.01 million). This expense relates to the amount of fair value of vested options granted to directors, officers, employees, consultants and charities. The increase in the current quarter expense is attributable to the granting of 6,916,500 stock options and the charge for the incremental value associated with the repricing of 1,757,500 stock options from the exercise prices of C\$10.00, C\$7.35 and C\$5.84 to C\$1.94.

The Corporation also recorded \$0.9 million of amortization expense for the quarter ended March 31, 2010 (2009 - \$0.9 million). This expense is the amortization of intangible assets such as customer relationships and customer contracts which were acquired as part of the Endeavour Financial Advisory Services ("EFAS") acquisition, along with the amortization of capital assets. The intangibles are being amortized on a straight line basis over their expected useful lives.

## *Nine Month Period Ended March 31, 2010 compared to the Nine Month Period Ended March 31, 2009*

During the nine month period ended March 31, 2010, the Corporation recorded revenue of \$323.6 million and recorded net income of \$277.6 million (\$2.88 per share – basic). The revenue for the quarter includes investment income of \$312.4 million and advisory fees of \$11.2 million. Investment income is comprised of \$256.7 million from the gold strategy investments comprised of the mark to market gains on Crew and Etruscan; and \$55.7 million from the general merchant banking investments. The advisory fees of \$11.2 million include \$4.4 million of advisory related revenue. The investment income from the general merchant banking investments includes realized gains on the sale of investments and foreign currency of \$11.7 million, a mark to market gain on investments and currency of \$42.7 million and interest and dividend income of \$1.3 million.

During the nine month period ended March 31, 2009 the Corporation recorded negative revenue of \$222.0 million and recorded a net loss of \$235.2 million ((\$5.47) per share – basic). The negative revenue during the quarter includes an investment loss of \$226.0 million and advisory fees of \$4.0 million. The investment loss during this quarter was comprised entirely of losses from the general merchant banking portfolio since the gold focused investment strategy had yet to be launched. The investment loss includes realized losses on the sale of investments and foreign currency of \$29.8 million, a mark to market loss on investments and currency of \$197.2 million and interest and dividend income of \$1.0 million. The advisory fees of \$4.0 million include a loss of \$1.3 million from advisory related revenue.

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*Nine Month Period Ended March 31, 2010 compared to the Six Month Period Ended March 31, 2009*  
(continued)

## *Expenses*

Investment advisor fees paid to US Global Investors for the nine month period ended March 31, 2010 were \$Nil (March 31, 2009 - \$0.7 million). No investment advisor fee expense was incurred for the current nine month period due to the resignation of US Global in November 2008.

Employee salaries totaled \$3.4 million for the nine month period ended March 31, 2010 (2009 - \$3.5 million).

Performance related bonuses totaled \$28.2 million for the nine month period ended March 31, 2010 (2009 - \$Nil million). Included in the \$28.2 million are \$6.6 million of performance related bonuses attributable to income earned from advisory services and income related to the performance of the general merchant banking investments; and \$21.6 million of performance related bonuses attributable to the income from the performance of the gold strategy investment portfolio. Performance related bonuses are higher in the current nine month period as a result of an increase in profits. In the comparative six month period there were no profits resulting in no performance related bonuses being paid or accrued.

Consulting fees totaled \$0.5 million for the nine month period ended March 31, 2010 (2009 - \$0.4 million). Consulting fee expense includes monthly retainers to Fiore as well as transaction specific fees paid to consultants.

General and administrative expenses for the nine month period ended March 31, 2010 totaled \$4.2 million (2009 - \$4.8 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 nine month period 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 \$5.2 million was recorded for the nine month period ended March 31, 2010 (2009 - \$0.8 million). This expense relates to the amount of fair value of vested options granted to directors, officers, employees, consultants and charities. The increase nine month period expense is attributable to the granting of 6,916,500 stock options and the charge for the incremental value associated with the re-pricing of 1,757,500 stock options from the exercise prices of C\$10.00, C\$7.35 and C\$5.84 to C\$1.94.

The Corporation also recorded \$2.9 million of amortization expense for the nine month period ended March 31, 2010 (2009 - \$4.0 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.

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## 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

	Q3 2010	Q2 2010	Q1 2010	Q4 2009
<b>Net income and comprehensive income</b>	\$ 213,471	\$ 22,553	\$ 41,544	\$ 27,737
Current income tax provision (recovery)	468	243	1	198
Future income tax provision (recovery)	293	411	224	(306)
Stock based compensation	1,237	3,781	163	153
Amortization	931	931	1,030	931
<b>Adjusted earnings before interest, taxes, depreciation, amortization and stock based compensation</b>	<b>\$ 216,400</b>	<b>\$ 27,919</b>	<b>\$ 42,962</b>	<b>\$ 28,713</b>
Weighted-average common shares outstanding	96,906,136	96,557,645	96,048,075	95,989,369
<b>Adjusted earnings before interest taxes, depreciation, amortization and stock based compensation per share</b>	<b>\$ 2.23</b>	<b>\$ 0.29</b>	<b>\$ 0.45</b>	<b>\$ 0.30</b>
	Q3 2009	Q2 2009	Q1 2009	Q4 2008
<b>Net (loss) income and comprehensive income (loss)</b>	\$ 6,729	\$ (111,111)	\$ (130,806)	\$ 53,100
Current income taxes	-	(39)	(7)	3,766
Future income taxes	(19)	(342)	(543)	568
Stock based compensation	13	214	537	669
Amortization	933	934	2,115	2,753
<b>Adjusted earnings (loss) before interest, taxes, depreciation, amortization and stock based compensation</b>	<b>\$ 7,656</b>	<b>\$ (110,344)</b>	<b>\$ (128,704)</b>	<b>\$ 60,856</b>
Weighted-average common shares outstanding	70,994,277	30,225,275	30,342,114	30,820,128
<b>Adjusted earnings (loss) before interest, taxes, depreciation, amortization and stock based compensation per share</b>	<b>\$ 0.11</b>	<b>\$ (3.65)</b>	<b>\$ (4.24)</b>	<b>\$ 1.97</b>

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### Non-GAAP Measures (continued)

#### (ii) Book Value per Share

The following table calculates the book value per share of the Corporation as at March 31, 2010. The Corporation believes investors use this measure to evaluate the relative value of the common shares of the Corporation.

		March 31, 2010
Shareholders' equity	\$	532,005
Issued and outstanding shares		97,498,213
Book value per share	\$	5.46
Book value per share (\$CDN) <sup>1</sup>	\$	5.54

<sup>1</sup> The exchange rate as at March 31, 2010.

#### Liquidity and Capital Resources

At March 31, 2010 the Corporation had cash and cash equivalents of \$14.0 million (June 30, 2009 – \$121.8 million), gold strategy investments of \$453.7 million (June 30, 2009 - \$Nil), general merchant banking investment of \$59.0 million (June 30, 2009 - \$71.0 million) and a working capital position of \$479.0 million (June 30, 2009 - \$193.1 million). The Corporation has sufficient 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 and nine months ended March 31, 2010 there were no dividends paid (\$0.8 million and \$5.1 million for the three and nine month periods ended March 31, 2009).

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 the Corporation suspended the share buy-backs in mid October 2008. For the three and nine months ended March 31, 2010, no shares were repurchased. During the three and nine months ended March 31, 2009 the Corporation repurchased nil and 912,900 of its common shares in the market at a weighted average price of \$5.79 per share (CDN \$6.52) respectively. 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	\$ 1,438	\$ 733	\$ 705	\$ -	\$ -

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## Outstanding Share Data

As at May 11, 2010 the Corporation had the following number of issued and outstanding shares:

	<b>Number of Shares</b>	<b>Par Value</b>	<b>Additional Paid In Capital</b>	<b>Total</b>
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 and outstanding at June 30, 2009	96,026,649	959	195,212	196,171
Stock options exercised	115,100	1	219	220
Shares released from escrow subsequent to June 30, 2009**	1,356,464	14	2,438	2,452
Issued and outstanding at May 11, 2010	97,498,213	\$ 974	\$ 197,869	\$ 198,843

\*\*During the quarters ended June 30, 2009, September 30, 2009, December 31, 2009 and March 31, 2010 the cumulative EBITDA targets were \$24.0 million, \$27.0 million, \$30.0 million and \$33.0 million, respectively. EFAS exceeded the EBITDA targets during each of the quarters and consequently 1,356,464 shares were released subsequent to June 30, 2009 and have been valued at \$2.5 million. The balance of shares remaining in escrow is 339,789.

\*\*\*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.

The Corporation also has the following outstanding stock options:

- 600,000 options outstanding with an exercise price of CAD\$10.00 and remaining contractual life of 2.57 years, of which 600,000 are exercisable.
- 50,000 options outstanding and exercisable with an exercise price of CAD\$1.75 and remaining contractual life of 3.70 years, of which 33,333 are exercisable
- 8,521,400 options outstanding and exercisable with an exercise price of CAD\$1.94 and remaining contractual life of 3.93 years, of which 5,071,900 are exercisable
- 250,000 options outstanding and exercisable with an exercise price of CAD \$2.45 and remaining contractual life of 5.00 years, of which 125,000 are exercisable.

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## **Outstanding Share Data** (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 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. The re-priced options are held by employees and consultants; director options were not re-priced.

## **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 and nine months ended March 31, 2010 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 1/12<sup>th</sup> 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 March 31, 2010 \$Nil of investment advisor fees were paid to US Global, (2009 - \$Nil).

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.

The Corporation's revenue is derived from three sources (1) investment income from its gold strategy investments, (2) investment income from its general merchant banking investments, and (3) advisory services. The Corporation's revenue recognition and investment valuation policy are critical to the understanding of the results of operations.

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.

# ENDEAVOUR FINANCIAL CORPORATION

Management's Discussion and Analysis of  
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## **Critical Accounting Policies and Estimates** (continued)

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 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

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 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 by the Corporation as advisory related revenue – income (loss) on securities received for advisory services.

## **Changes in Accounting Policies including Initial Adoption and Future Accounting Changes**

### *Goodwill and Intangible Assets*

Effective July 1, 2009 the Corporation adopted the provisions of sections 3064, *Goodwill and Intangible Assets*, which established standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The standard did not have a material impact on the Corporation's consolidated financial statements.

# ENDEAVOUR FINANCIAL CORPORATION

## Management's Discussion and Analysis of Results of Operations and Financial Condition Third Quarter Report – March 31, 2010 and 2009

### Changes in Accounting Policies including Initial Adoption and Future Accounting Changes (continued)

#### *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.

### Changes in Comparatives - Advisory Fee Income

The Corporation has changed the presentation of advisory fee income in order to provide further details of the composition of advisory fees. Prior to the change, Advisory fees – realized included cash received from advisory services and realized gains and losses upon disposition of securities received in lieu of cash as well as those securities that were received as part of the initial signing of client advisory services agreements. Advisory fees – unrealized included mark to market changes of the securities received in lieu of cash as well as those securities that were received as part of the initial signing of client advisory services agreements.

The following tables illustrate the restated and previously stated figures for advisory fees;

(US dollars in thousands except per share amounts)	Restated		Previously Disclosed	
	Q2 2010	Q1 2010	Q2 2010	Q1 2010
Advisory fees earned	1,468	4,661	1,610	4,661
Advisory related revenue - income (loss)				
on securities received for advisory services	2,557	735	2,415	735
Total advisory fees	4,025	5,396	4,025	5,396
	Q2 2009	Q1 2009	Q2 2009	Q1 2009
Advisory fees earned	2,055	853	2,055	853
Advisory related revenue - income (loss)				
on securities received for advisory services	341	(1,959)	341	(1,959)
Total advisory fees	2,396	(1,106)	2,396	(1,106)

# ENDEAVOUR FINANCIAL CORPORATION

Management's Discussion and Analysis of  
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## **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-solicitation agreements. The consultancy and non-competition and non-solicitation agreements expire in March 2013, 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 unfavorable

# ENDEAVOUR FINANCIAL CORPORATION

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## *Risk of Limited Number of Investments* (continued)

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.

## *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

# ENDEAVOUR FINANCIAL CORPORATION

## Management's Discussion and Analysis of Results of Operations and Financial Condition Third Quarter Report – March 31, 2010 and 2009

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### **Contingency** (continued)

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.

After being relatively dormant since April 2009, Gold Reserve has changed counsel and recently proposed an amendment to the Statement of Claim which in part (i) reduces the damages claimed against Endeavour from \$500 million to \$150 million (including damages that Gold Reserve alleges to have suffered as a result of being unable to complete an unnamed transaction) and \$50 million in punitive damages, and (ii) adds Frank Giustra and Gordon Keep as individual defendants. The Corporation expects these amendments to be made in the near future. 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 (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.

# ENDEAVOUR FINANCIAL CORPORATION

Management's Discussion and Analysis of  
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Third Quarter Report – March 31, 2010 and 2009

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## Controls and Procedures (continued)

### *Internal controls and procedures* (continued)

There have been no material changes in the Corporation's internal controls over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

## Outlook

Endeavour is focused on 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 company and the subsequent realization of this investment. The Etruscan and Crew investments were the first two strategic investments as part of this gold focused investment strategy.

The Corporation's management team believes in long term rising gold prices and sees investment opportunities in companies like Etruscan and Crew, which have quality underlying resource assets but which face short term financial and/or operational challenges. The Corporation has identified additional opportunities to implement its gold focused investment strategy and is pursuing these opportunities.

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.

Additional information relating to the Corporation is available on the Corporation's web site at [www.endeavourfinancial.com](http://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](http://www.sedar.com).

# ENDEAVOUR FINANCIAL CORPORATION

## Consolidated Balance Sheets

(Expressed in Thousands of United States Dollars)

(Unaudited)

	<b>March 31, 2010</b>	June 30, 2009
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 13,995	\$ 121,814
Investments - gold strategy (Note 3 (a))	453,681	-
Investments - general merchant banking (Note 3 (b))	58,997	71,049
Accounts receivable and other assets	1,388	3,953
	<u>528,061</u>	<u>196,816</u>
Capital assets (Note 6)	189	298
Intangible assets (Note 7)	21,989	24,749
Goodwill (Note 8)	30,816	29,314
Future income taxes (Note 10)	-	94
	<u>\$ 581,055</u>	<u>\$ 251,271</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 3 (c))	\$ 26,048	\$ 3,565
Deferred bonuses payable - gold strategy (Note 5)	21,564	-
Income taxes payable	604	167
Future income taxes (Note 10)	834	-
	<u>49,050</u>	<u>3,732</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9 (a))	197,888	196,171
Contributed surplus (Note 9 (b))	15,056	9,875
Retained earnings	319,061	41,493
	<u>532,005</u>	<u>247,539</u>
	<u>\$ 581,055</u>	<u>\$ 251,271</u>

SUBSEQUENT EVENT (NOTE 5)

CONTINGENCY (NOTE 15)

**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**  
**Income (Loss) and Retained Earnings**

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

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2010	2009	2010	2009
<b>REVENUE</b>				
Investment income - gold strategy (Note 3 (a))	\$ 244,126	\$ -	\$ 256,699	\$ -
Investment income (loss) - general merchant banking (Note 3 (b))	(4,972)	7,809	55,661	(226,019)
<b>Total investment income</b>	<b>239,154</b>	<b>7,809</b>	<b>312,360</b>	<b>(226,019)</b>
Advisory fees earned (Note 4)	646	2,454	6,775	5,362
Advisory related revenue - income (loss) on securities received for advisory services (Note 4)	1,161	288	4,453	(1,330)
<b>Total advisory fees</b>	<b>1,807</b>	<b>2,742</b>	<b>11,228</b>	<b>4,032</b>
	<b>240,961</b>	<b>10,551</b>	<b>323,588</b>	<b>(221,987)</b>
<b>EXPENSES</b>				
Investment advisor fees	-	-	-	674
Employee salaries	1,136	1,013	3,448	3,472
Performance related bonuses (Note 5)	795	-	6,610	-
Performance related bonuses - gold strategy (Note 5)	20,798	-	21,564	-
Consulting fees	156	122	460	448
General and administrative	1,676	1,760	4,225	4,811
Stock-based compensation (Note 9 (c))	1,237	13	5,181	764
Amortization	931	933	2,892	3,982
	<b>26,729</b>	<b>3,841</b>	<b>44,380</b>	<b>14,151</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>214,232</b>	<b>6,710</b>	<b>279,208</b>	<b>(236,138)</b>
<b>(PROVISION) RECOVERY OF INCOME TAXES</b>				
Current income tax (provision) recovery (Note 10)	(468)	-	(712)	46
Future income tax (provision) recovery (Note 10)	(293)	19	(928)	904
	<b>(761)</b>	<b>19</b>	<b>(1,640)</b>	<b>950</b>
<b>NET INCOME (LOSS) AND</b>				
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>213,471</b>	<b>6,729</b>	<b>277,568</b>	<b>(235,188)</b>
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>105,590</b>	<b>7,832</b>	<b>41,493</b>	<b>254,068</b>
<b>DIVIDENDS PAID</b>	<b>-</b>	<b>(805)</b>	<b>-</b>	<b>(5,124)</b>
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$ 319,061</b>	<b>\$ 13,756</b>	<b>\$ 319,061</b>	<b>\$ 13,756</b>
<b>BASIC EARNINGS (LOSS) PER SHARE</b>	<b>\$ 2.20</b>	<b>\$ 0.09</b>	<b>\$ 2.88</b>	<b>\$ (5.47)</b>
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>	<b>\$ 2.18</b>	<b>\$ 0.09</b>	<b>\$ 2.87</b>	<b>\$ (5.47)</b>
<b>WEIGHTED-AVERAGE COMMON SHARES</b>				
<b>OUTSTANDING</b>	<b>96,906,136</b>	<b>70,994,277</b>	<b>96,496,111</b>	<b>43,006,563</b>
<b>DILUTED WEIGHTED-AVERAGE COMMON</b>				
<b>SHARES OUTSTANDING</b>	<b>98,042,166</b>	<b>70,994,277</b>	<b>96,652,207</b>	<b>43,006,563</b>

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

# ENDEAVOUR FINANCIAL CORPORATION

## Consolidated Statements of Cash Flows

(Expressed in Thousands of United States Dollars)

(Unaudited)

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2010	2009	2010	2009
<b>OPERATING ACTIVITIES</b>				
Net income (loss)	\$ 213,471	\$ 6,729	\$ 277,568	\$ (235,188)
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Net realized loss (gain) on investments and foreign currency	9,657	5,057	(11,686)	29,842
Change in net unrealized (appreciation) depreciation of investments and foreign currency	(248,310)	(12,510)	(299,346)	197,266
Unrealized advisory fees (Note 4)	(726)	1,536	(3,876)	3,154
Write-off of capital assets	-	32	-	32
Amortization	931	933	2,892	3,982
Stock-based compensation (Note 9 (c))	1,237	13	5,181	764
Future income tax provision (recovery)	293	(19)	928	(904)
Changes in non-cash working capital (Note 12)	44,476	(2,272)	47,049	(8,529)
Purchase of investments	(145,531)	(1,963)	(233,912)	(19,645)
Proceeds from the sale of investments	53,666	1,144	107,191	27,171
	(70,836)	(1,320)	(108,011)	(2,055)
<b>FINANCING ACTIVITIES</b>				
Purchase of capital assets	(23)	-	(23)	-
Received from the issue of common shares (Note 9 (a) (iv))	215	88,593	215	88,959
Repurchase of common shares (Note 9 (a) (i))	-	-	-	(5,288)
Dividends paid	-	(805)	-	(5,124)
	192	87,788	192	78,547
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>				
	(70,644)	86,468	(107,819)	76,492
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>				
	84,639	4,808	121,814	14,784
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>				
	\$ 13,995	\$ 91,276	\$ 13,995	\$ 91,276

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

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

March 31, 2010

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

(Unaudited)

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### 1. NATURE OF OPERATIONS

Endeavour Financial Corporation (“Endeavour or the “Corporation”) is a gold investment company with active, strategic investments in gold producing companies. Endeavour also has a merchant banking business that adds the manpower, skills and market & industry intelligence to drive the primary gold investment business. The merchant banking business offers financial advice (debt, equity & M&A and strategic business development) and financings to natural resource clients. Accessing its global industry networks, Endeavour creates and launches new growth companies as both an advisor and investor.

Endeavour Financial Corporation is listed on the Toronto Stock Exchange, symbol EDV. Warrants are listed on the Toronto Stock Exchange, symbol EDV.WT.A

### 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) *Adoption of new standards*

##### Goodwill and Intangible Assets

Effective July 1, 2009 the Corporation adopted the provisions of section 3064, *Goodwill and Intangible Assets*, which established standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The standard did not have a material impact on the Corporation’s consolidated financial statements.

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

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

(Unaudited)

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

#### (c) *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 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. 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

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### 3. INVESTMENTS

#### (a) Gold strategy investments

Endeavour has a gold focused investment strategy to create value through timely strategic investments in junior gold producers, and a vision to ultimately create an intermediate sized gold company and the subsequent realization of that investment.

Gold strategy investments are comprised of the following;

Company	March 31, 2010		June 30, 2009	
	Value	% of Investments	Value	% of Investments
Crew Gold Corporation	\$ 371,665	81.9%	-	0.0%
Etruscan Resources Inc.	82,016	18.1%	-	0.0%
Total Gold strategy Portfolio	\$ 453,681	100.0%	-	0.0%

The cost of gold strategy investments totaled \$196.7 million at March 31, 2010 (June 30, 2009 - \$Nil).

Investment income from the gold strategy investments is comprised of the following for the periods ended:

	Three months ended		Nine months ended	
	March 31, 2010	2009	March 31, 2010	2009
Investment income:				
Change in net unrealized appreciation of investment and foreign currency				
Crew Gold Corporation	\$ 238,730	\$ -	\$ 238,730	\$ -
Etruscan Resources Inc.	5,396	-	17,969	-
	\$ 244,126	\$ -	\$ 256,699	\$ -

# ENDEAVOUR FINANCIAL CORPORATION

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### 3. INVESTMENTS (continued)

#### (b) General merchant banking investments

General merchant banking investments are comprised of the following:

Investments by location and primary location	March 31, 2010		June 30, 2009	
	Value	% of Investments	Value	% of Investments
Equities:				
Latin America	\$ 16,321	27.7%	\$ 27,620	38.9%
Eastern Europe and Asia	6,242	10.6%	2,606	3.7%
Canada and United States	20	0.0%	9,903	13.9%
Oceania	-	0.0%	278	0.4%
Early Stage Investment Vehicles and Other	18,336	31.1%	6,931	9.8%
<b>Total equities</b>	<b>40,919</b>	<b>69.4%</b>	<b>47,338</b>	<b>66.7%</b>
Convertible Loans and Debentures:				
Latin America	12,000	20.3%	12,532	17.6%
Canada and United States	1,970	3.3%	-	0.0%
<b>Total Convertible Loans and Debentures</b>	<b>13,970</b>	<b>23.6%</b>	<b>12,532</b>	<b>17.6%</b>
Warrants:				
Latin America	1,318	2.2%	8,857	12.5%
Eastern Europe and Asia	942	1.6%	41	0.1%
Canada and United States	155	0.3%	963	1.4%
Oceania	-	0.0%	487	0.7%
Africa	-	0.0%	4	0.0%
Early Stage Investment Vehicles and Other	1,693	2.9%	827	1.0%
<b>Total Warrants</b>	<b>4,108</b>	<b>7.0%</b>	<b>11,179</b>	<b>15.7%</b>
<b>Total Investment Portfolio</b>	<b>\$ 58,997</b>	<b>100.0%</b>	<b>\$ 71,049</b>	<b>100.0%</b>

The cost of general merchant banking investments totaled \$87.0 million at March 31, 2010 (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 \$3.6 million for the nine month period ended March 31, 2010 (March 31, 2009 - \$4.2 million decrease).

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

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### 3. INVESTMENTS (continued)

#### (b) General merchant banking investments (continued)

The market value of investments in privately-held companies totaled \$0.7 million at March 31, 2010 (June 30, 2009 - \$7.0 million) and the market value of non-exchange traded options and warrants totaled \$3.9 million at March 31, 2010 (June 30, 2009 - \$1.7 million).

Investment income (loss) from general merchant banking investments is comprised of the following for the periods ended:

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Investment income (loss):				
Net realized (loss) gain on investments and foreign currency	\$ (9,657)	\$ (5,057)	\$ 11,686	\$ (29,842)
Change in net unrealized appreciation (depreciation) of investments and foreign currency	4,184	12,510	42,647	(197,266)
Interest and dividends	501	356	1,328	1,089
	<u>\$ (4,972)</u>	<u>\$ 7,809</u>	<u>\$ 55,661</u>	<u>\$ (226,019)</u>

Included in investment income is realized and unrealized foreign currency gains of \$0.9 million and \$10.0 million for the three and nine month periods ended March 31, 2010, respectively (March 31, 2009 – loss \$2.4 million and \$2.7 million).

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 \$463.1 million at March 31, 2010 (June 30, 2009 - \$18.0 million).

#### (c) Unsettled trades

At March 31, 2010 the Corporation had unsettled trades totaling \$19.2 million that are included in accounts payable and accrued liabilities.

### 4. ADVISORY FEES

Advisory fees earned includes cash and the fair value of securities received in lieu of cash as a result of providing advisory services.

The advisory related revenue – income (loss) on securities received for advisory services represents the mark to market change of securities that were received by the Corporation in lieu of cash as well as those securities received as part of the initial signing of client advisory services

# ENDEAVOUR FINANCIAL CORPORATION

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### 4. ADVISORY FEES (continued)

agreements. In addition, it also includes the gains and losses realized upon the disposition of those securities.

The Corporation has changed the presentation of advisory fee income in order to provide further details of the composition of advisory fees. Prior to the change, Advisory fees – realized included cash received from advisory services, the fair value of securities received in lieu of cash and the realized gains and losses upon disposition of these securities as well as those securities that were received as part of the initial signing of client advisory services agreements. Advisory fees – unrealized included the mark to market changes of the securities received in lieu of cash as well as those securities that were received as part of the initial signing of client advisory services agreements.

Advisory fee income is comprised of the following for the periods ended;

	Three Months Ended September 30, 2009	Three Months Ended December 31, 2009	Three Months Ended March 31, 2010	Nine Months Ended March 31, 2010
Advisory fees - earned	\$ 4,661	\$ 1,468	\$ 646	\$ 6,775
Advisory related revenue - income (loss) on investments received for advisory services				
Net realized gain on investments and foreign currency	-	142	435	577
Change in net unrealized appreciation (depreciation) of investments and foreign currency	735	2,415	726	3,876
	<u>\$ 735</u>	<u>\$ 2,557</u>	<u>\$ 1,161</u>	<u>\$ 4,453</u>
	<u>\$ 5,396</u>	<u>\$ 4,025</u>	<u>\$ 1,807</u>	<u>\$ 11,228</u>

The comparative figures for the three and nine month periods ended March 31, 2009 have been restated and the changes in the presentation do not have a material impact on the financial statements.

The following table presents the advisory fee income comparatives for the restated and previously stated figures for the three and nine month periods ended March 31, 2009;

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

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### 4. ADVISORY FEES (continued)

	Three months ended March 31, 2009		Nine months ended March 31, 2009	
	2009 Restated	Previously Stated	2009 Restated	Previously Stated
Advisory fees - earned	\$ 2,454	\$ 4,278	\$ 5,362	\$ 7,186
Advisory related revenue - income (loss) on investments received for advisory services				
Net realized gain on investments and foreign currency	1,824	-	1,824	-
Change in net unrealized appreciation (depreciation) of investments and foreign currency	(1,536)	(1,536)	(3,154)	(3,154)
	<u>\$ 288</u>	<u>\$ (1,536)</u>	<u>\$ (1,330)</u>	<u>\$ (3,154)</u>
	<u>\$ 2,742</u>	<u>\$ 2,742</u>	<u>\$ 4,032</u>	<u>\$ 4,032</u>

### 5. PERFORMANCE RELATED BONUSES

The Corporation has a performance related bonus pool that is allocated to management, employees and Fiore Financial Corporation, an exclusive advisor to the Corporation. The bonus pool amount is variable and is determined based on the income from advisory services and income from the performance of the Corporation's general merchant banking investments and gold strategy investments. Due to the nature of the Corporation's business and the inter relationships between the income streams it is not possible to precisely align overhead costs against each income stream; therefore in determining the income available for bonuses, overhead costs are applied against the total combined income streams. Performance related bonuses are accrued quarterly and paid at least annually. However, given the longer term nature of the income associated with the Corporation's gold strategy and the likely concentration in a small number of investments, in the interests of being equitable the pro rata bonus associated with the Corporation's gold strategy will only be paid on a realized basis.

Subsequent to March 31, 2010, in the interest of continuing to motivate eligible bonus recipients, the Corporation has implemented measures to ensure that the entitlement of eligible bonus recipients to receive a bonus will not be impacted by a change of control of Endeavour prior to realization of the gold strategy investments. Endeavour has secured the deferred bonuses payable related to the gold strategy by creating a trust and delivering assets into the trust. Endeavour will continue to deliver assets into the trust as and when necessary to ensure there are sufficient assets available to settle the deferred bonuses payable. If a change of control occurs that is deemed to be a hostile change of control, the deferred bonuses attributable to the gold strategy will be crystallized and paid out to the eligible bonus recipients.

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

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### 6. CAPITAL ASSETS

Capital assets are comprised of the following:

	As at March 31, 2010			June 30, 2009
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	\$ 392	\$ (321)	\$ 71	\$ 140
Furniture and fixtures	67	(37)	30	40
Leasehold improvements	193	(105)	88	118
	<u>\$ 652</u>	<u>\$ (463)</u>	<u>\$ 189</u>	<u>\$ 298</u>

### 7. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	As at March 31, 2010			June 30, 2009
	Cost	Accumulated amortization	Net book value	Net book value
Customer relationships	\$ 25,000	\$ (4,444)	\$ 20,556	\$ 21,806
Customer contracts and other intangible assets	11,141	(9,708)	1,433	2,943
	<u>\$ 36,141</u>	<u>\$ (14,152)</u>	<u>\$ 21,989</u>	<u>\$ 24,749</u>

### 8. GOODWILL

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

June 30, 2009	\$ 29,314
Release of 1,017,746 shares from escrow	1,502
March 31, 2010	<u>\$ 30,816</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 instalments 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, 2010. EFAS exceeded the cumulative EBITDA target for the period ended June 30, 2009, September 30, 2009 and December 31, 2009. Consequently 1,017,746 shares were released from escrow during the nine month period ended March 31, 2010 resulting in a \$1.5 million addition to goodwill.

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

March 31, 2010

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### 9. 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)	-	10	1,492	1,502
Forfeited escrow shares (iii)	(1,073)	-	-	-
Stock options exercised	112,500	1	214	215
Shares in escrow (iii)	(677,434)	-	-	-
Issued and outstanding at March 31, 2010	97,156,895	\$ 970	\$ 196,918	\$ 197,888

#### (i) Share buyback program

During the three and nine month periods ended March 31, 2010 the Corporation did not repurchase any common shares in the market.

During the three and nine month periods ended March 31, 2009 the Corporation repurchased nil and 912,900 of its common shares in the market at a weighted average price of \$nil per share (CDN \$Nil per share) and \$5.79 per share (CDN\$6.52 per share) respectively. All of these shares were returned to treasury.

#### (ii) Contingent Value Rights escrow

The contingent value rights ("CVR's") were issued in connection with the Welcome Opportunities Ltd. ("Welcome") acquisition completed in September 2002. The CVR's

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

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### 9. SHARE CAPITAL (continued)

#### (a) Voting shares (continued)

##### (ii) *Contingent Value Rights escrow* (continued)

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 8).

As at March 31, 2010 59,012 (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 March 31, 2010, EFAS has met the cumulative EBITDA target for each earn-out period completed and 3,424,678 common shares valued at \$15.4 million have been released from escrow and 677,434 common shares remain in escrow. Subsequent to March 31, 2010, 338,718 common shares valued at \$0.8 million were released from escrow.

##### (iv) *Equity Financings*

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

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

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### 9. SHARE CAPITAL (continued)

#### (a) Voting shares (continued)

##### (iii) *Equity Financings* (continued)

purchase warrant. Each whole share purchase warrant will entitle the holder to purchase one common share of the Corporation at a price of CDN \$2.50 per warrant share until February 4, 2014. Share issuance costs totaling \$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 9 (c))		917
Warrants Issued pursuant to the equity financing (Note 9 (a) (iv))		4,004
June 30, 2009		9,875
Stock-based compensation (Note 9 (c))		5,181
March 31, 2010	\$	15,056

#### (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 March 31, 2010 there were 9,783,540 options available for grant under the plan (June 30, 2009 – 9,772,290).

# ENDEAVOUR FINANCIAL CORPORATION

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### 9. SHARE CAPITAL (continued)

#### (c) Stock-based compensation (continued)

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

	<u>Options outs tanding</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 June 30, 2009	2,530,000	9.56
Granted	6,916,500	1.94
Exercised	(112,500)	1.94
Forfeited	(160,000)	9.47
At March 31, 2010	9,174,000	\$ 2.47

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 respective expiration dates remain unchanged. The re-priced options are held by employees and consultants; director options were not re-priced.

The 6,916,500 options granted vest over a one year period from the date of grant. The re-priced options have fully vested.

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

	<u>March 31, 2010</u>
Risk-free interest rate	1.5%
Expected life	2.8 years
Annualized volatility	58.1%
Dividend rate	0.0%

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

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### 9. SHARE CAPITAL (continued)

#### (c) Stock compensation (continued)

The following table summarizes information about the stock options outstanding as at March 31, 2010:

<u>Outstanding</u>	<u>Exercisable</u>	<u>Weighted average exercise price (CDN\$)</u>	<u>Weighted average remaining contractual life</u>
600,000	600,000	\$ 10.00	2.57 years
50,000	33,333	1.75	3.70 years
8,524,000	5,074,500	1.94	3.93 years
9,174,000	5,707,833	\$ 2.78	3.78 years

During the three and nine month periods ended March 31, 2010, stock-based compensation of \$1.2 million and \$5.2 million, respectively was recorded (March 31, 2009 - \$0.01 million and \$0.1 million).

In accordance with CICA Section 3870 "Stock-based Compensation and other stock-based payments", any modifications to the terms of a stock option grant that makes it more valuable should be treated as if it were an exchange of the original stock option grant for a new stock option grant. As a result of re-pricing the 1,757,500 stock options, the incremental value of \$0.9 million has been included as an additional cost included in the stock-based compensation.

#### (d) Warrants

The following table summarizes the changes and information about the warrants outstanding as at March 31, 2010:

	<u>Warrants outstanding &amp; 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	3.85 years
June 30, 2009 and March 31, 2010	32,487,501	\$ 2.50	3.85 years

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

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### 10. INCOME TAXES

Income taxes (recovery) are comprised of the following:

	Three months Ended March 31		Nine months Ended March 31	
	2010	2009	2010	2009
Income (Loss) before income taxes	\$ 214,233	\$ 6,710	\$ 279,208	\$ (236,138)
Statutory tax rate	0%	0%	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	293	(19)	928	(904)
Income tax provision (recovery) on earnings losses of subsidiaries in taxable jurisdictions	468	-	712	(46)
Income tax provision (recovery)	\$ 761	\$ (19)	\$ 1,640	\$ (950)

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

	March 31, 2010	June 30, 2009
Future income tax assets		
Property, plant and equipment	\$ (31)	\$ (31)
Tax losses	(235)	(235)
	\$ (266)	\$ (266)
Future income tax liability		
Investments	1,100	172
Future income tax liabilities (assets) net	\$ 834	\$ (94)

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.

### 11. 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

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

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### 11. RELATED PARTY TRANSACTIONS (continued)

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 and nine month period ended March 31, 2009, the Corporation paid \$nil million and \$0.6 million of monthly investment advisor fees to US Global, comprised and \$Nil accrued annual performance fees.

### 12. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2010	2009	2010	2009
Changes in non-cash working capital:				
Decrease (increase) in accounts receivable and other assets	\$ 3,374	\$ (2,313)	\$ 2,565	\$ 4,039
Decrease in investment advisor fees payable	-	-	-	(2,951)
Decrease (increase) in accounts payable and accrued liabilities	19,865	41	22,483	(5,793)
Decrease (increase) in income taxes payable	438	-	437	(3,824)
(Increase) in deferred performance bonus - gold strategy	20,799	-	21,564	-
	<u>\$ 44,476</u>	<u>\$ (2,272)</u>	<u>\$ 47,049</u>	<u>\$ (8,529)</u>
Cash and cash equivalents is comprised of:				
Cash at bank	\$ 13,995	\$ 2,958	\$ 13,995	\$ 2,958
Short-term money-market instruments	-	88,318	-	88,318
	<u>\$ 13,995</u>	<u>\$ 91,276</u>	<u>\$ 13,995</u>	<u>\$ 91,276</u>

The significant non-cash financing and investing transactions for the three and nine month periods ended March 31, 2010 consisted of the following;

- Release of 339,251 and 1,017,746 (March 31, 2009 – 339,253 and 1,027,400) common shares from escrow in connection with the acquisition of EFAS, refer to (Notes 8 and 9(a)(iii)).

The Corporation recovered \$Nil in income taxes during three month and nine month period ended March 31, 2010 (March 31, 2009 - \$0.04 million)

# ENDEAVOUR FINANCIAL CORPORATION

## Notes to the Consolidated Financial Statements

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### 13. 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 March 31, 2010. The Corporation's overall strategy for managing capital remains unchanged from the previous years.

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

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

(Unaudited)

### 14. FINANCIAL INSTRUMENTS (continued)

#### (i) *Currency risk* (continued)

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:

	<b>March 31, 2010</b>	June 30, 2009
Norwegian krone	\$ 371,639	\$ -
Canadian dollar	127,416	168,984
Other currencies	3,372	3,276
	<b>\$ 502,427</b>	<b>\$ 172,260</b>

The effect on earnings and other comprehensive income after tax as at March 31, 2010 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 \$35.2 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 March 31, 2010.

#### (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 evaluating counterparties' related credit risk. The Corporation manages risk by monitoring individual and aggregate position limits for each counterparty and conducting

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### 14. FINANCIAL INSTRUMENTS (continued)

#### (ii) *Credit risk* (continued)

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:

	<u>March 31,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
Convertible loans and debentures	\$ 13,970	\$ 12,532
Accounts receivable and other assets	1,388	3,953
	<u>\$ 15,358</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 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.

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.

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### 14. FINANCIAL INSTRUMENTS (continued)

#### (iv) *Interest rate risk*

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. 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 gold strategy investments and 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 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 March 31, 2010 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 \$51.3 million (2009 - \$7.1 million), assuming that all other variables remained constant. This calculation is based on the Corporation's balance sheet exposure as at March 31, 2010. 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.

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(Unaudited)

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### 15. 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.

After being relatively dormant since April 2009, Gold Reserve has changed counsel and recently proposed an amendment to the Statement of Claim which in part (i) reduces the damages claimed against the Corporation from \$500 million to \$150 million (including damages that Gold Reserve alleges to have suffered as a result of being unable to complete an unnamed transaction) and \$50 million in punitive damages, and (ii) adds Frank Giustra and Gordon Keep as individual defendants. The Corporation expects these amendments to be made in the near future. 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.