



AUDITED FINANCIAL STATEMENTS
BLUMONT AUGEN RESOURCE STRATEGY FUND

DECEMBER 2007



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AUDITORS' REPORT

TO THE SHAREHOLDERS' OF BLUMONT AUGEN RESOURCE STRATEGY FUND INC. (THE FUND)

We have audited the statements of net assets and investment portfolio of the Fund as at December 31, 2007 and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Manager. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and the results of its operations and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 24, 2008

BLUMONT AUGEN RESOURCE STRATEGY FUND INC.**Statement of Net Assets**

As at December 31

	2007	2006
ASSETS		
Investments at fair value (Cost \$4,147,817; 2006 - \$4,257,316) (note 2)	\$ 3,551,753	\$ 5,042,938
Cash and equivalents	745,119	262,874
Sundry receivables	3,600	3,924
Due from Limited Partnerships (note 9)	14,181,674	-
	<u>18,482,146</u>	<u>5,309,736</u>
LIABILITIES		
Accounts payable and accrued liabilities	9,856	51,441
Redemptions payable	269,699	337,647
Due to Manager (note 5)	52,583	345,007
	<u>332,138</u>	<u>734,095</u>
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY (note 2)	\$ 18,150,008	\$ 4,575,641
Shares issued and outstanding (note 4)		
Class A	262,265	408,491
Class B	289,309	-
Class C	1,379,621	-
Class D	521,000	-
Net Asset Value per share (note 2)		
Class A	\$ 7.31	\$ 11.20
Class B	\$ 7.09	-
Class C	\$ 7.46	-
Class D	\$ 7.46	-

Approved by the Board of Directors

"Michael Staresinic"

Michael Staresinic
Director

"David Scobie"

David Scobie
Director

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

BLUMONT AUGEN RESOURCE STRATEGY FUND INC.**Statement of Operations**

For the year ended December 31, 2007 and for the period from February 20, 2006 to December 31, 2006

	2007	2006
INVESTMENT INCOME		
Interest	\$ 61,338	\$ 170,458
Dividends	3,871	5,190
	<u>65,209</u>	<u>175,648</u>
EXPENSES (note 5)		
Management fees	237,905	201,972
Performance fees	-	44,696
Securityholder reporting costs	65,366	151,690
Audit fees	25,000	35,000
GST expense	19,792	29,680
Dealer compensation	16,844	12,479
Legal fees	-	97,211
	<u>364,907</u>	<u>572,728</u>
Net investment loss	<u>(299,698)</u>	<u>(397,080)</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Cost of investments, beginning of period	4,257,316	-
Investments purchased during the period	12,062,378	9,375,664
	<u>16,319,694</u>	<u>9,375,664</u>
Cost of investments, end of period	4,147,817	4,257,316
Cost of investments sold	12,171,877	5,118,348
Proceeds on sale of investments	12,650,154	4,323,071
Net realized gain (loss) on sale of investments	478,277	(795,277)
Transaction costs (note 2)	(132,403)	-
Net change in unrealized appreciation (depreciation) of investments	<u>(1,140,280)</u>	<u>785,622</u>
Net loss on investments	<u>(794,406)</u>	<u>(9,655)</u>
Net decrease in Net Assets from operations	<u>\$ (1,094,104)</u>	<u>\$ (406,735)</u>
Net decrease in Net Assets from operations per share		
Class A	\$ (3.73)	\$ (1.00)
Class B	\$ (2.18)	\$ -
Class C	\$ -	\$ -
Class D	\$ -	\$ -

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

BLUMONT AUGEN RESOURCE STRATEGY FUND INC.**Statement of Changes in Net Assets**

For the year ended December 31, 2007 and for the period from February 20, 2006 to December 31, 2006

	2007	2006
Net Assets at beginning of period (note 2)	\$ 4,575,641	\$ -
Transitional adjustment on adoption of new accounting policy (note 2)	<u>(109,003)</u>	<u>-</u>
Net Assets at beginning of period (note 2)	<u>4,466,638</u>	<u>-</u>
OPERATIONS		
Net decrease in Net Assets from operations	<u>(1,094,104)</u>	<u>(406,735)</u>
UNITHOLDER TRANSACTIONS		
Acquisition of net assets of:		
Augen Limited Partnership 2003	-	6,327,084
Augen Limited Partnership 2004-1	-	10,324,234
Augen Limited Partnership 2005 (note 1)	12,702,544	-
Augen Limited Partnership 2006 (note 9)	10,294,180	-
Augen Limited Partnership 2006-1 (note 9)	3,887,494	-
Consideration paid for redemption of shares	<u>(12,106,744)</u>	<u>(11,668,942)</u>
	<u>14,777,474</u>	<u>4,982,376</u>
Net Assets at end of period (note 2)	<u>\$ 18,150,008</u>	<u>\$ 4,575,641</u>

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

BLUMONT AUGEN RESOURCE STRATEGY FUND INC.

Statement of Investment Portfolio

As at December 31, 2007	No. of Shares	Cost \$	Fair Value \$	% of Total Net Asset Value
COMMON SHARES				
Petrobank Energy and Resources Ltd.	5,600	197,927	326,032	1.8
Radisson Mining Resources Inc.	898,375	377,318	238,069	1.3
Uravan Minerals Inc.	369,000	394,440	221,400	1.2
Global Minerals Ltd.	764,000	243,585	175,720	1.0
Labrador Iron Ore Royalty Income Fund	3,400	145,867	160,786	0.9
Eastern Platinum Limited	54,800	99,626	156,728	0.9
Redcorp Ventures Ltd.	547,000	180,510	144,955	0.8
Taseko Mines Ltd.	25,000	130,000	126,000	0.7
Marum Resources Inc.	1,000,000	120,000	120,000	0.7
Andina Minerals Inc.	26,000	125,587	119,080	0.7
Tri-Gold Resources Corp.	1,143,500	188,678	102,915	0.6
Thundermin Resources Inc.	341,000	43,699	88,660	0.5
Sino-Forest Corporation	3,900	91,872	83,460	0.5
Grande Portage Resources Ltd.	424,500	233,475	80,655	0.4
Equinox Minerals Limited	14,000	49,207	76,440	0.4
First Narrows Resources Corp.	221,500	44,300	74,203	0.4
Fort Chimo Minerals Inc.	2,100,070	210,007	42,001	0.2
Detour Gold Corp.	6,000	53,940	72,900	0.4
Mercator Minerals Ltd.	8,000	78,303	72,400	0.4
Breakwater Resources Ltd.	40,000	71,972	68,400	0.4
Thompson Creek Metals Co. Inc.	4,000	97,160	67,880	0.4
Aurelian Resources Inc.	8,000	73,920	61,280	0.3
Goldcorp Inc.	1,800	56,412	60,750	0.3
Uranium World Energy Inc.	400,000	60,000	60,000	0.3
Chariot Resources Ltd.	65,000	71,559	57,850	0.3
Major Drilling Group International Inc.	900	24,003	56,340	0.3
Red Back Mining Inc.	8,000	56,040	55,840	0.3
Imperial Metals Corp.	4,800	69,336	54,144	0.3
Oilexco Inc.	4,000	69,080	52,720	0.3
Continental Minerals Corp.	33,500	54,813	50,920	0.3
TriStar Oil & Gas Ltd.	4,000	46,912	50,080	0.3
Mustang Minerals Corp.	74,389	37,938	41,658	0.2
Gold Reach Resources Limited	371,000	57,505	40,810	0.2
Common Shares Con't				

BLUMONT AUGEN RESOURCE STRATEGY FUND INC.

Statement of Investment Portfolio

As at December 31, 2007	No. of Shares	Cost \$	Fair Value \$	% of Total Net Asset Value
Consolidated Thompson Iron Mines Ltd.	6,000	39,911	38,160	0.2
Solana Resources Ltd.	14,000	36,130	32,480	0.2
Centamin Egypt Ltd.	26,000	33,314	31,200	0.2
Paladin Energy Ltd.	5,000	37,375	28,950	0.2
Noront Resources Ltd.	5,000	29,875	19,950	0.1
Adanac Moly Corp.	20,000	31,000	19,400	0.1
FNX Mining Corp.	600	20,663	18,078	0.1
Baltic Resources Inc.	10,000	16,100	17,200	0.1
Bankers Petroleum Ltd.	20,000	17,400	17,000	0.1
VMS Ventures Inc.	15,000	24,000	16,200	0.1
Erdene Gold Inc.	10,000	13,300	11,000	0.1
TOTAL COMMON SHARES		4,154,059	3,510,694	19.3
WARRANTS				
Paragon Mineral Corp. (expiring Sep 11, 2008)	200,000	-	32,178	0.1
Donner Metals Ltd. (expiring Sep 29, 2008)	250,000	-	4,570	-
Valgold Resources Ltd. (expiring Aug 31, 2008)	200,000	-	2,204	-
Redcorp Ventures Ltd. (expiring Sep 8, 2008)	455,000	-	2,107	-
Adroit Resources Inc. (expiring Dec 30, 2008)	250,000	-	-	-
TOTAL WARRANTS		-	41,059	0.1
Transaction costs (note 2)		(6,242)		
Total Investment Portfolio		\$ 4,147,817	3,551,753	19.6
Other assets and liabilities, net				
Cash and equivalents			745,119	4.0
Other assets and liabilities, net*			13,853,136	76.4
			14,598,254	80.4
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY		\$	18,150,008	100.0

*This amount is comprised of sundry receivables plus amounts due from Limited Partnerships less liabilities.

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

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

1. Organization

BluMont Augen Resource Strategy Fund Inc. (the "Fund") is a mutual fund corporation incorporated under the laws of the Province of Ontario on February 20, 2006. The Fund is managed by BluMont Capital Corporation (the "Manager"). Augen Capital Corp. was the Manager until October 11, 2007. On October 11, 2007, the Fund name was changed to BluMont Augen Resource Strategy Fund Inc. (Formerly Augen Resource Strategy Fund Inc.)

The Fund invests in a portfolio consisting primarily of securities of Canadian resource companies whose principal business is resource exploration and development upon liquidation of the resource holdings of the former Limited Partnerships. The portfolio also includes common shares in other senior listed companies and from time to time, may include debt securities issued by either a federal or provincial government or short-term commercial paper issued by a Canadian commercial bank.

Each year, the Manager offers for sale a limited number of units in one or more limited partnerships ("Partnerships"). The objective of the Partnerships is to invest in the flow-through securities of resource companies. Investors in the Partnerships are entitled to claim certain deductions and credits for income tax purposes. On or about January in the second year following its establishment, the Partnership transfers its net assets to the Fund and the Partnership is dissolved. The Partnership investors receive shares in the Fund in exchange for their Partnership units on a pro-rata basis on the date of the transfer.

The Fund commenced operations in Class A shares on May 1, 2006, at a net asset value of \$10.00, and subsequently issued Class B shares upon the transfer of net assets of the following Partnerships:

Closing Date	Partnership	Net Assets Transferred	Issued Shares	Ratio of Shares Received
May 1, 2006	Augen Limited Partnership 2003	\$6,327,084	Class A	8.659
May 1, 2006	Augen Limited Partnership 2004-1	\$10,324,234	Class A	12.470
January 31, 2007	Augen Limited Partnership 2005	\$12,702,544	Class B	13.466

Upon the above transfers, the partnerships were dissolved at which time the net assets were allocated 99.99% to the Limited Partners and 0.01% to the General Partner of the Partnerships. Also see note 9 for issuance of shares in respect of Augen Limited Partnership 2006 and Augen Limited Partnership 2006-1.

2. Change in accounting policy

On January 1, 2007, the Fund adopted the CICA Handbook *Section 3855 Financial Instruments – Recognition and Measurement* ("Section 3855"), which established standards for the fair valuation and recognition of portfolio investments. These standards require that securities be valued at fair value, which in an active market will commonly be measured based on the last bid price for the security. Prior to January 1, 2007, fair value was most commonly based on the last traded price of a security for the day. The resulting net asset value reported in the financial statements is referred to as the "GAAP NAV". For all other purposes, including the processing of shareholder transactions, the Fund continues to value its investments at closing prices. The resulting net asset value is referred to as the "Trading NAV." A reconciliation of the GAAP NAV to the Trading NAV at December 31, 2007 is presented herein.

As required, a transitional adjustment has been recognized in the opening balance of shareholders' equity as at January 1, 2007 reflecting the use of bid prices under Section 3855. Prior-period balances have not been restated. The impact of adopting these standards as at January 1, 2007 was as follows:

	As at December 31, 2006	Adjustment upon adoption of Section 3855	As at January 1, 2007
Net assets representing shareholders' equity	\$4,575,641	\$109,003	\$4,466,638

Reconciliation of GAAP NAV To Trading NAV									
	Class A		Class B		Class C		Class D		Total
	\$	\$ Per Share	\$	\$ Per Share	\$	\$ Per Share	\$	\$ Per Share	Total \$
GAAP NAV	1,916,962	7.31	2,051,372	7.09	10,294,180	7.46	3,887,494	7.46	18,150,008
Difference In Fair Value	24,750	0.09	27,948	0.09	-	-	-	-	52,698
Trading NAV	1,941,712	7.40	2,079,320	7.18	10,294,180	7.46	3,887,494	7.46	18,097,310

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund are recognized in the "Net increase (decrease) in Net Assets from operations" in the Statement of Operations for the current year. Prior to January 1, 2007, the Fund's policy has been to add these expenses to the cost of the securities purchased or deducted from the proceeds of sale. The Section 3855 standards related to transaction costs have been adopted on a prospective basis. The transitional adjustment for prior periods has been charged against the current period's "Net realized gain (loss) on sale of investments" with a corresponding direct offset to "Net change in unrealized appreciation (depreciation) of investments". Adoption of this policy does not impact the daily price of the Fund's shares for subscription and redemption purposes, nor for the calculation of GAAP NAV.

3. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that may affect the reported amounts. Actual amounts could differ from those estimates. The significant accounting policies used in the preparation of the financial statements are as follows:

Cash and equivalents, and other monetary balances

The carrying values of cash and equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their fair value given the short periods to maturity of the instruments. Short-term deposits with maturities of one year or less are included in cash and cash equivalents.

Valuation of investments

Investments are recorded at fair value with the difference between fair value and cost being recorded as unrealized appreciation or depreciation in value of investments. In the case of securities listed on stock exchanges, the fair value means the latest bid price. For money market instruments the fair value means the bid price provided by independent security pricing services. Investments for which reliable quotations are not readily available are valued at their fair value as determined by the Manager on readily available market data.

The fair value of purchase warrants is calculated using the Black-Scholes valuation model. The following weighted average assumptions are used when determining fair value using the Black-Scholes valuation model:

Risk free rate	4.0 - 5.0%
Expected life	Determined by the terms and conditions of each instrument.
Expected volatility	Determined by the closing sale price for the company for a historical time interval equal to the expected life of the instrument or the period that the stock has been trading if less than the expected life, adjusted to reflect various factors including non-recurring price volatility, the Exchange hold periods on

the instruments, and the liquidity of flow-through shares of Canadian resource companies.

Expected dividend yield Determined by the terms and conditions of each investment.

Investment transactions, income recognition and transaction costs

Investment transactions are accounted for on the trade date. Interest income is recognized on the accrual basis. Realized gains and losses from the sale of investments and unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments which exclude brokerage commissions and other trading expenses.

4. Subscription and redemption of shares

The Fund is authorized to issue an unlimited number of voting common shares. There are 100 common shares issued and outstanding, all of which are owned by the Manager.

The Fund is also authorized to issue an unlimited number of non-voting Class A through E shares, issuable in Series ("Class shares"). Class shares of the Fund may be subscribed or redeemed at the trading NAV per share on the next valuation day following receipt of a subscription or redemption request at the registered office of the Fund. Requests received before 4 p.m. EST on a valuation day will receive the net asset value per share on that valuation day. Subscription or redemption requests may be provided electronically or in written form, provided that all documentation is in good order including signature guarantees, as necessary. Appropriate signature guarantors include Canadian chartered banks and trust companies, a dealer, a member of a recognized stock exchange in Canada or any guarantor acceptable to the Fund.

	Class A Shares	
	2007	2006
Balance at beginning of year	408,491	-
Shares issued on rollover	-	1,665,132
Shares redeemed	<u>(146,226)</u>	<u>(1,256,641)</u>
Shares issued and outstanding as at December 31	<u>262,265</u>	<u>408,491</u>

	Class B Shares	
	2007	2006
Balance at beginning of year	-	-
Shares issued on rollover	1,134,019	-
Shares redeemed	<u>(844,710)</u>	<u>-</u>
Shares issued and outstanding as at December 31	<u>289,309</u>	<u>-</u>

	Class C Shares	
	2007	2006
Balance at beginning of year	-	-
Shares issued on rollover	1,379,621	-
Shares redeemed	<u>-</u>	<u>-</u>
Shares issued and outstanding as at December 31	<u>1,379,621</u>	<u>-</u>

	Class D Shares	
	2007	2006
Balance at beginning of year	-	-
Shares issued on rollover	521,000	-
Shares redeemed	<u>-</u>	<u>-</u>
Shares issued and outstanding as at December 31	<u>521,000</u>	<u>-</u>

5. Due to Manager

The Manager is responsible for the management of the Fund and is entitled to an annual management fee equal to 2.5% of the net assets of the Fund, calculated monthly in arrears, plus goods and services taxes. Management fees were \$252,179 (2006 - \$215,100) including GST, during the year ended December 31, 2007.

An amount of \$52,583 (2006 - \$345,007) related to management fees and operating expenses remains payable at the end of the year.

The Manager may be entitled to a performance fee ("Performance Fee") payable annually. The Performance Fee is 20% of the amount by which the Class Net Asset Value ("Class NAV") per share exceeds a threshold annualized increase of 12%, calculated on each valuation date based on the cumulative increase in Class NAV per share, excluding the effect of any distributions to shareholders. To the extent that the increase in the Class NAV per Share in any given month does not exceed the 12% annualized threshold, then the amount by which such increase falls below the threshold is carried forward and deducted from the amount of any increase in the Class NAV per share based on which the performance incentive fee is calculated in subsequent months. Performance fees of \$NIL (2006 - \$44,696) were charged during the year.

6. Income taxes

The Fund is a *mutual fund corporation* under the *Income Tax Act (Canada)*. The Fund is subject to tax at the full corporate rate on its taxable income. Dividends received from taxable Canadian corporations are generally not included in the taxable income of the Fund but are subject to a special tax, refundable at a rate of 33 1/3% of taxable dividends distributed by the Fund to its shareholders. The Fund is eligible for a refund calculated on a formula basis when mutual fund shares are redeemed or when capital gains dividends are paid to shareholders. The Fund intends to pay out sufficient net income and net capital gains so that it will not be subject to income taxes. Accordingly, no provision for income taxes has been made in these financial statements.

7. Financial instruments

The estimated fair values of financial instruments as at December 31, 2007 are based on relevant market prices and information available at those dates. The carrying values of cash and equivalents, sundry receivables, due from Limited Partnerships, accounts payable and accrued liabilities approximate the fair values of these financial instruments.

8. Brokerage commissions

The Fund paid brokerage commissions of \$132,403 (February 20, 2006 to December 31, 2006 - \$71,184) for the year ended December 31, 2007.

9. Subsequent events

Effective December 31, 2007, Augen Limited Partnership 2006 and Augen Limited Partnership 2006-1 subscribed for newly created Class C and Class D shares of the Fund, respectively. The number of shares subscribed was determined based on the net asset value of each of these partnerships at December 31, 2007. The specific assets to be transferred by these two partnerships were to be determined prior to the transaction settlement date.

On January 22, 2007, the Fund settled the \$10,294,180 transfer of the net assets of Augen Limited Partnership 2006 ("LP2006") and the \$3,887,494 transfer of the net assets of Augen Limited Partnership 2006-1 ("LP2006-1") on a tax-deferred basis with a value date of December 31, 2007. The limited partners of LP2006 received 12.1503297 of Class C shares for each unit formerly held in LP2006. The limited partners of LP2006-1 received 14.9872011 of Class D shares for each unit formerly held in LP2006-1.

On January 1, 2007, the remaining Class B shares were consolidated into Class A shares.

10. Filing exemption

The Fund is a non-reporting issuer under National Instrument 81-106. There is an exemption in Section 2.11 of National Instrument 81-106 for non-reporting issuers from filing their financial statements with the applicable securities commissions. The Fund is relying on this exemption.

FUND INFORMATION

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