



**DUNDEE**  
**WEALTH MANAGEMENT**  
**BLUE-CHIP GROWTH**

**DUNDEE WEALTH MANAGEMENT INC.**

CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2006

**DUNDEE WEALTH MANAGEMENT INC.  
CONSOLIDATED BALANCE SHEETS**

*As at September 30, 2006 and December 31, 2005  
(expressed in thousands of dollars) (unaudited)*

	September 30, 2006	December 31, 2005
<b>ASSETS</b>		
Cash and cash equivalents	\$ 210,032	\$ 235,691
Cash collateral, structured notes (note 8)	5,000	-
Securities owned	82,591	29,654
Accounts receivable	75,212	118,843
Client accounts receivable	447,323	361,861
Corporate investments	37,466	33,992
Deferred sales commissions	167,072	141,266
Capital and other assets	29,001	26,006
Goodwill and other intangible assets (note 3)	446,641	438,646
<b>TOTAL ASSETS</b>	<b>\$ 1,500,338</b>	<b>\$ 1,385,959</b>
<b>LIABILITIES</b>		
Bank indebtedness	\$ 21,025	\$ 33,169
Accounts payable and accrued liabilities	122,535	127,087
Securities sold short	38,735	6,099
Client deposits and related liabilities	398,025	349,892
Income taxes payable	7,647	23,188
Corporate debt (note 4)	25,406	12,648
Preference shares	54,537	64,537
Future income tax liabilities	64,158	56,923
	732,068	673,543
<b>NON-CONTROLLING INTEREST</b>	130,475	123,290
<b>SHAREHOLDERS' EQUITY (note 5)</b>		
Share capital		
Common and special shares	446,244	422,627
Contributed surplus	39,200	31,406
Deferred acquisition amount	(14,699)	(13,423)
Retained earnings	167,050	148,516
	637,795	589,126
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,500,338</b>	<b>\$ 1,385,959</b>

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

**Contingencies and commitments (note 8)**

**DUNDEE WEALTH MANAGEMENT INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS**

*For the three and nine months ended September 30, 2006 and 2005  
(expressed in thousands of dollars, except per share amounts) (unaudited)*

	Three Months		Nine Months	
	2006	2005	2006	2005
<b>REVENUES</b>				
Management fees	\$ 91,213	\$ 75,648	\$ 269,865	\$ 209,655
Redemption fees	2,798	2,729	9,480	8,620
Financial services	81,333	83,416	279,784	245,072
	175,344	161,793	559,129	463,347
Investment income (note 4)	1,975	1,046	8,107	2,478
	177,319	162,839	567,236	465,825
<b>EXPENSES</b>				
Selling, general and administrative	67,396	61,410	191,471	169,256
Variable compensation	53,378	54,359	183,524	162,835
Trailer service fees	26,122	20,053	75,897	55,213
Distribution fees	820	998	2,632	3,029
	147,716	136,820	453,524	390,333
<b>EARNINGS BEFORE INTEREST, TAXES AND OTHER NON-CASH ITEMS</b>				
	29,603	26,019	113,712	75,492
Amortization of deferred sales commissions	13,970	11,312	39,658	32,156
Depreciation and amortization	5,033	2,423	12,984	7,239
Interest expense (note 4)	3,886	855	5,140	1,884
Dividends on preference shares	818	818	2,454	2,454
<b>EARNINGS FROM OPERATIONS</b>	5,896	10,611	53,476	31,759
Income taxes				
Current	6,972	5,302	18,139	9,651
Future	(2,433)	(442)	4,429	6,264
	4,539	4,860	22,568	15,915
Non-controlling interest	443	1,142	5,751	3,148
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 914</b>	<b>\$ 4,609</b>	<b>\$ 25,157</b>	<b>\$ 12,696</b>
<b>NET EARNINGS PER SHARE (note 6)</b>				
Basic	\$ 0.01	\$ 0.05	\$ 0.26	\$ 0.13
Diluted	\$ 0.01	\$ 0.05	\$ 0.24	\$ 0.13

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

**DUNDEE WEALTH MANAGEMENT INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN  
SHAREHOLDERS' EQUITY**

*As at and for the nine months ended September 30, 2006 and year ended December 31, 2005  
(expressed in thousands of dollars) (unaudited)*

	<i>Common and Special Shares</i>	<i>Contributed Surplus</i>	<i>Deferred Acquisition Amount</i>	<i>Retained Earnings</i>	<i>Total</i>
Balance, December 31, 2004	\$ 349,826	\$ 27,263	\$ 1,860	\$ 130,693	\$ 509,642
Issuance of common shares for cash	54,130	-	-	-	54,130
Issue costs, net of taxes of \$721	(1,273)	-	-	-	(1,273)
Issuance of common shares on acquisition of KL Nova	13,650	-	(13,423)	-	227
Issuance of common shares for non-monetary consideration	2,548	-	-	-	2,548
Issuance of common shares in business acquisition	1,860	-	(1,860)	-	-
Issuance of common shares in settlement of preference share dividends	3,272	-	-	-	3,272
Exercise of stock options	637	-	-	-	637
Cancellation of shares under share incentive arrangements	(2)	(2)	-	(89)	(93)
Stock based compensation	-	6,635	-	-	6,635
Acquisition of common shares for cancellation	(2,021)	(2,490)	-	-	(4,511)
Common and special share dividends	-	-	-	(7,222)	(7,222)
Net earnings for the year	-	-	-	25,134	25,134
Balance, December 31, 2005	422,627	31,406	(13,423)	148,516	589,126
Issuance of common shares for cash	4,013	-	-	-	4,013
Issuance of common shares on acquisition of Harrington Lane (note 2)	3,763	-	(3,763)	-	-
Issuance of common shares for non-monetary consideration	2,880	-	-	-	2,880
Issuance of common shares in settlement of preference share dividends	2,454	-	-	-	2,454
Exercise of stock options	835	(24)	-	-	811
Cancellation of shares under share incentive arrangements	(4)	(5)	-	(589)	(598)
Stock based compensation	-	8,278	-	-	8,278
Acquisition of common shares for cancellation	(324)	(455)	-	-	(779)
Conversion of third preference shares, Series A to common shares	10,000	-	-	-	10,000
Amortization of deferred acquisition amount	-	-	2,487	-	2,487
Common and special share dividends	-	-	-	(6,034)	(6,034)
Net earnings for the period	-	-	-	25,157	25,157
<b>Balance, September 30, 2006</b>	<b>\$ 446,244</b>	<b>\$ 39,200</b>	<b>\$ (14,699)</b>	<b>\$ 167,050</b>	<b>\$ 637,795</b>

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

**DUNDEE WEALTH MANAGEMENT INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

*For the three and nine months ended September 30, 2006 and 2005  
(expressed in thousands of dollars) (unaudited)*

	Three Months		Nine Months	
	2006	2005	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net earnings for the period	\$ 914	\$ 4,609	\$ 25,157	\$ 12,696
Non-cash items in net earnings:				
Depreciation and amortization	19,003	13,735	52,642	39,395
Net investment gains	(630)	(416)	(3,978)	(472)
Future income taxes	(2,433)	(442)	4,429	6,264
Non-controlling interest	443	1,142	5,751	3,148
Other	3,188	1,965	8,923	5,142
	20,485	20,593	92,924	66,173
Changes in:				
Cash collateral, structured notes	(5,000)	-	(5,000)	-
Accounts receivable	(29,732)	5,576	43,678	12,648
Securities owned, net of securities sold short	(13,113)	(7,208)	(20,301)	(17,254)
Client accounts receivable, net of deposits and related liabilities	11,846	(9,390)	(37,329)	(1,624)
Income taxes payable	1,908	5,123	(15,609)	798
Bank indebtedness	21	199	(12,144)	14,764
Accounts payable and accrued liabilities	13,097	13,792	(3,619)	(2,702)
<b>CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES</b>	<b>(488)</b>	<b>28,685</b>	<b>42,600</b>	<b>72,803</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Sales commissions incurred on distribution of mutual funds	(17,809)	(16,998)	(65,464)	(59,605)
Acquisitions of corporate investments	(4,537)	(5,183)	(8,547)	(10,226)
Proceeds on dispositions of corporate investments	5,800	2,842	5,820	3,141
Payment on acquisition of non-controlling interest	-	-	(1,000)	(1,000)
Cash disbursed in business combinations (note 2)	(2,109)	-	(5,988)	-
Additions to capital and other assets	(8,250)	(873)	(10,894)	(4,736)
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(26,905)</b>	<b>(20,212)</b>	<b>(86,073)</b>	<b>(72,426)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Changes in corporate debt	21,378	(6,953)	16,970	(7,393)
Issuance of common shares, net of issue costs	2,489	2,069	7,255	53,960
Acquisition of common shares for cancellation	(593)	(1,458)	(779)	(4,407)
Cancellation of share incentive arrangements	(165)	(104)	(1,032)	(141)
Issuance of shares by subsidiary	198	471	1,434	10,414
Dividends paid on common and special shares	(2,017)	(1,939)	(6,034)	(5,251)
<b>CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES</b>	<b>21,290</b>	<b>(7,914)</b>	<b>17,814</b>	<b>47,182</b>
<b>NET (DECREASE) INCREASE IN CASH DURING THE PERIOD</b>	<b>(6,103)</b>	<b>559</b>	<b>(25,659)</b>	<b>47,559</b>
Cash and cash equivalents, beginning of period	216,135	197,837	235,691	150,837
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 210,032</b>	<b>\$ 198,396</b>	<b>\$ 210,032</b>	<b>\$ 198,396</b>
Cash flows from operating activities include the following:				
Interest paid	\$ 3,886	\$ 855	\$ 5,140	\$ 1,884
Taxes paid	\$ 5,738	\$ 1,064	\$ 35,795	\$ 11,444

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

# DUNDEE WEALTH MANAGEMENT INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2006  
(tabular dollar amounts in thousands of dollars, except per share amounts)  
(unaudited)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

These interim consolidated financial statements of Dundee Wealth Management Inc. (the “Company” or “Dundee Wealth”) have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). These interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in note 1 to the Company’s audited consolidated financial statements as at and for the year ended December 31, 2005 (“2005 Audited Financial Statements”). The Company’s interim consolidated financial statements do not include all disclosures required by GAAP for annual consolidated financial statements and, accordingly, should be read in conjunction with the 2005 Audited Financial Statements.

The preparation of interim consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. BUSINESS COMBINATIONS

### **B. Comm Financial MGA Inc. (“B. Comm”)**

On August 31, 2006, a subsidiary of the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares of B. Comm, a company engaged primarily in providing insurance services to insurance brokerages. The Company’s subsidiary paid cash of \$2,166,000 at closing and agreed to pay a further \$2,110,000 in cash to the former shareholders, subject to their meeting certain criteria, including revenue-related criteria, within three (3) years from the date of the transaction. The Company has assumed this contingent consideration will be payable and has reflected this in the aggregate purchase price, resulting in an allocation of \$4,095,000, together with tax thereon of \$2,017,000, to customer relationships which have been included with “goodwill and other intangible assets” (note 3) on the Company’s consolidated balance sheet. Customer relationships will be amortized over their estimated life of five (5) years.

### **Harrington Lane Inc. (“Harrington”)**

On February 28, 2006, the Company acquired all of the outstanding shares of Harrington, a professional advisory company. The Company paid cash of \$2,000,000 on closing. In addition, the Company issued 350,000 common shares with a stated value of \$3,763,000 to the former principal shareholders of Harrington, who have committed themselves to the Company under employment contracts. These common shares are being held in escrow and will be released to the former principal shareholders of Harrington, subject to certain conditions of employment, over five (5) years (note 5). The aggregate purchase price of \$5,763,000 has been deferred and will be charged as a period expense over a five (5) year period. Immediately following the acquisition, the Company’s interest in Harrington was transferred to its subsidiary, DWM Inc. (“DWM”) for aggregate consideration of \$5,763,000.

### Central Ontario Financial Group Inc. (“COFG”)

Effective January 1, 2006, a subsidiary of the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares of COFG, a company engaged in the sale of insurance-related products. The Company’s subsidiary paid cash of \$1,875,000 at closing and agreed to pay a further \$625,000 in cash to the former shareholders, subject to their meeting certain revenue-related criteria, within three (3) years from the date of the transaction. The aggregate purchase price of \$2,500,000, together with tax thereon of \$1,414,000, has been allocated to customer relationships which have been included with “goodwill and other intangible assets” (note 3) on the Company’s consolidated balance sheet. Customer relationships will be amortized over their estimated life of five (5) years.

### 3. GOODWILL AND OTHER INTANGIBLE ASSETS

	September 30, 2006			December 31, 2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Goodwill	\$ 307,138	\$ -	\$ 307,138	\$ 307,134
Investment management contracts	105,015	-	105,015	105,015
Funds under administration	30,573	5,605	24,968	26,497
Customer relationships (note 2)	10,209	689	9,520	-
	<b>\$ 452,935</b>	<b>\$ 6,294</b>	<b>\$ 446,641</b>	<b>\$ 438,646</b>

### 4. CORPORATE DEBT

	September 30, 2006	December 31, 2005
\$22.3 million revolving term credit facility with a Canadian chartered bank	\$ 21,650	\$ 3,300
Income Trusts	3,651	8,313
Other	105	1,035
	<b>\$ 25,406</b>	<b>\$ 12,648</b>

#### **\$22,300,000 – Revolving Term Credit Facility**

On May 31, 2006, the Company renewed its revolving term credit facility with a Canadian chartered bank, extending the expiry date to May 30, 2007. There were no other significant changes to the terms and conditions of the credit facility.

Subsequent to September 30, 2006, the Company entered into a committed term credit facility with a Canadian chartered bank for up to \$350,000,000. The commitment, which expires on February 15, 2007, contemplates that the Company will grant security over the assets of Goodman & Company, Investment Counsel Ltd., the Company’s investment management subsidiary. In the event this loan is completed, the existing revolving term credit facility for \$22,300,000 will be terminated.

#### **Income Trusts**

In June 2006, a subsidiary of the Company paid \$1,003,000 in full settlement of amounts owing to Multi-Fund Income Trust and realized a gain of \$3,231,000. The gain was included in investment income in the second quarter of 2006.

#### **Reimbursement of Early Redemption Premium to Dundee Corporation**

The Company and certain of its subsidiaries had entered into a support agreement with the Company’s parent, Dundee Corporation, pursuant to which the companies had agreed to comply with the covenants and provisions of a trust indenture for \$150,000,000 of debentures which were to mature on September 24, 2007 (the “Debentures”) that were issued by Dundee Corporation. The Company requested that it be released from its obligations under the support agreement and,

subsequent to this request, Dundee Corporation called the debentures for early redemption on August 8, 2006. Included as interest expense in the Company's consolidated statement of operations is an expense of \$3,254,000 to reimburse Dundee Corporation for the fee it incurred pursuant to the Company's request for the early redemption of these debentures.

## 5. SHARE CAPITAL

### Common and Special Shares Issued and Outstanding

	<i>Number of Shares</i>	<i>Amount</i>
<b>COMMON SHARES:</b>		
Outstanding December 31, 2005	97,854,984	\$ 414,434
<b>Transactions during the nine-month period ended September 30, 2006</b>		
Issuance of common shares on acquisition of Harrington	350,000	3,763
Issuance of common shares pursuant to share incentive plans	698,127	6,889
Issuance of common shares on exercise of stock options	112,442	835
Issuance of common shares in settlement of preference share dividends	227,916	2,454
Cancellation of common shares under normal course issuer bid	(73,980)	(324)
Conversion from third preference shares, Series A to common shares	1,000,000	10,000
Conversion from Series E Shares to common shares	10,000	86
Outstanding September 30, 2006	100,179,489	\$ 438,137
<b>SPECIAL SHARES:</b>		
<b>Series C:</b>		
Outstanding September 30, 2006 and December 31, 2005	508,571	\$ 5,086
<b>Series D:</b>		
Outstanding September 30, 2006 and December 31, 2005	250,000	\$ 2,500
<b>Series E:</b>		
Outstanding December 31, 2005	70,970	\$ 607
<b>Transactions during the nine-month period ended September 30, 2006</b>		
Conversion from Series E Shares to common shares	(10,000)	(86)
Outstanding September 30, 2006	60,970	\$ 521
<b>Total Common and Special Shares Issued and Outstanding September 30, 2006</b>	<b>100,999,030</b>	<b>\$ 446,244</b>

### Normal Course Issuer Bid

On May 11, 2006, the Company obtained approval from the Toronto Stock Exchange to purchase common shares in the market for cancellation pursuant to a renewed normal course issuer bid.

During the first nine months of 2006, the Company acquired 73,980 common shares for cancellation having an aggregate stated capital value of \$324,000 pursuant to its normal course issuer bid. The Company paid \$779,000 to retire these shares. The excess of the purchase price over the value of stated capital, which totalled \$455,000, has been recorded as a reduction of contributed surplus.

### Preference Shares Issued and Outstanding

In January 2006, the Company exercised its conversion right to convert the 1,000,000 Third Preference Shares, Series A previously issued as partial consideration for an acquisition completed in November 2005, to 1,000,000 common shares.

As at September 30, 2006, the Company had 5,453,668 First Preference Shares, Series X ("Series X Shares") outstanding at a stated value of \$54,537,000. Each Series X Share is convertible, at the option of the holder, at any time, into common shares of the Company on a 1.2 for 1 basis, subject to adjustment for normal anti-dilution events.

### Warrants

The Company has 1,800,000 warrants outstanding, each warrant entitling the holder to purchase one common share of the Company at \$7.75 per share at any time up to and including December 9, 2006.

### Deferred Share Unit Plan

During the first nine months of 2006, the Company granted awards of 348,787 (2005 – 24,156) deferred share units under the terms of its deferred share unit plan, increasing contributed surplus by \$4,153,000 (2005 – \$241,000). In addition, the Company paid cash of \$67,000 (2005 – nil) to settle obligations on 5,502 deferred share units previously awarded at a value of \$55,000. As at September 30, 2006, an aggregate of 501,981 deferred share units had been awarded and, subsequent to this date, the Company granted further awards of 9,565 deferred share units.

### Contributed Surplus

	2006	2005
Balance as at January 1,	\$ 31,406	\$ 27,263
<b>Transactions during the six-month period ended June 30,</b>		
Stock based compensation, future share issuances	1,061	(60)
Stock based compensation, stock option plans	1,320	1,203
Future income tax benefit on stock options	214	-
Issuances under deferred share unit plan	3,820	124
Settlement of deferred share units	(55)	-
Cancellation of common shares under normal course issuer bid	(106)	(1,613)
Cancellation of common shares under share incentive plans	(5)	(2)
Balance as at June 30,	37,655	26,915
<b>Transactions during the three-month period ended September 30,</b>		
Stock based compensation, future share issuances	614	798
Stock based compensation, stock option plans	768	558
Future income tax benefit on stock options	60	-
Issuances under deferred share unit plan	333	117
Accruals for expected issuance of deferred share units	119	-
Cancellation of common shares under normal course issuer bid	(349)	(819)
<b>Balance as at September 30,</b>	<b>\$ 39,200</b>	<b>\$ 27,569</b>

### Deferred Acquisition Amount

The deferred acquisition amount represents the unamortized value of share-based contingent consideration issued in business combinations. During the first quarter of 2006, the Company added \$3,763,000 to the deferred acquisition amount representing the stated value of the 350,000 common shares issued in the acquisition of Harrington (note 2), which shares have been placed in escrow and will be released, subject to certain conditions, over the next five (5) years. This amount will be amortized as a period expense over the vesting period.

### Stock Options

Under the terms of the Company's share incentive plans, the Company may issue options to purchase common shares to eligible participants. As at September 30, 2006, there were 8,962,063 stock options outstanding, at an average exercise price of \$8.48.

On January 16, 2004, the Company granted certain stock options in an arrangement independent of its share incentive plans to financial advisors who previously held stock options to acquire common shares of a predecessor corporation. On September 30, 2006, there were 1,384,311 stock options outstanding pursuant to this arrangement, at an average exercise price of \$10.93.

## 6. EARNINGS PER SHARE

For the three and nine months ended September 30,	2006		Three Months 2005	
			2006	
Net earnings available to common and special shareholders	\$	914	\$	4,609
Weighted average number of shares outstanding		98,996,286		96,875,504
Basic earnings per share	\$	0.01	\$	0.05
Effect of dilutive securities on weighted average number of common and special shares outstanding		4,938,872		2,676,260
Diluted earnings per share	\$	0.01	\$	0.05

## 7. STOCK BASED COMPENSATION

	Nine months ended September 30, 2006					Nine months ended September 30, 2005				
	Number of Shares	Employee Contributions	Compensation Expense			Number of Shares	Employee Contributions	Compensation Expense		
			Treasury Shares	Market Purchases	Future Issuances			Treasury Shares	Market Purchases	Future Issuances
Share purchase plans	406,254	\$ 4,009	\$ 569	\$ 3,440	\$ -	345,013	\$ 3,002	\$ 321	\$ 2,681	\$ -
Share bonus plans										
Issued for grants made prior to 2002	-	-	-	-	-	50,000	-	-	-	-
Issued for grants made after 2001	260,700	-	-	-	-	243,008	-	-	-	-
Share option plans	112,442	811	-	-	24	75,422	464	-	-	-
Stock option expense over vesting period (i) (ii)	-	-	-	-	2,143	-	-	-	-	1,761
Reserved shares										
Issued for grants made prior to 2002	-	-	-	-	-	29,573	-	-	-	-
Issued for grants made after 2001	31,173	-	-	-	-	17,059	-	-	-	-
Future share awards (iii)	-	-	-	-	3,982	-	-	-	-	2,821
Deferred share unit plan (ii)	-	-	-	-	511	-	-	-	-	241
			\$ 569	\$ 3,440	\$ 6,660		\$ 321	\$ 2,681	\$ 4,823	

	Three months ended September 30, 2006					Three months ended September 30, 2005				
	Number of Shares	Employee Contributions	Compensation Expense			Number of Shares	Employee Contributions	Compensation Expense		
			Treasury Shares	Market Purchases	Future Issuances			Treasury Shares	Market Purchases	Future Issuances
Share purchase plans	134,158	\$ 1,409	\$ 184	\$ 1,225	\$ -	128,370	\$ 1,109	\$ 133	\$ 976	\$ -
Share bonus plans										
Issued for grants made prior to 2002	-	-	-	-	-	37,500	-	-	-	-
Issued for grants made after 2001	70,300	-	-	-	-	51,800	-	-	-	-
Share option plans	37,602	285	-	-	7	24,662	150	-	-	-
Stock option expense over vesting period (i) (ii)	-	-	-	-	766	-	-	-	-	558
Reserved shares										
Issued for grants made prior to 2002	-	-	-	-	-	-	-	-	-	-
Issued for grants made after 2001	-	-	-	-	-	-	-	-	-	-
Future share awards (iii)	-	-	-	-	1,179	-	-	-	-	1,157
Deferred share unit plan	-	-	-	-	291	-	-	-	-	117
			\$ 184	\$ 1,225	\$ 2,243		\$ 133	\$ 976	\$ 1,832	

- (i) *Stock Option Expense Over Vesting Period* – The Company recognizes the fair value of stock options over the applicable vesting period as an increase to compensation expense and an increase to contributed surplus. When options are exercised, the proceeds received, together with the amount previously accrued to contributed surplus, are added to common share capital. No expense is recognized for stock options granted before January 1, 2003.
- (ii) During the first nine months of 2006, the Company paid \$960,000 and issued 2,068 common shares to retire stock options previously issued to independent financial advisors and employees. In addition, the Company paid \$67,000 in respect of the redemption of deferred share units by a former director.

- (iii) *Future Share Awards* – The Board of Directors of the Company has granted awards to employees and financial advisors under its share bonus, deferred share and reserved share arrangements, providing for the issuance of common shares conditional on these employees and financial advisors meeting certain performance-related or time-related criteria. As at September 30, 2006, a total of 1,793,239 common shares (September 30, 2005 – 1,555,014) were conditionally granted under these arrangements.

## 8. CONTINGENCIES AND COMMITMENTS

Other than as discussed below, there have been no other substantive changes to the description and nature of contingencies and commitments from those described in note 12 to the 2005 Audited Financial Statements.

### **Skeena Capital Trust (“Skeena”)**

Skeena is the special purpose vehicle through which the Company’s structured notes have been issued. It has been established for the purpose of purchasing or otherwise acquiring certain eligible assets and financing such activities wholly or partially with borrowed funds, including through the issuance of certain notes to the public by way of an offering memorandum. A subsidiary of the Company has deposited \$5,000,000 to a segregated reserve account that will be available to support, in certain circumstances, unanticipated operational expenses, increased funding costs, or other administrative costs and expenses associated with the issuance of the notes. The subsidiary has committed to increase such funding once conduit outstandings exceed \$2,000,000,000 at a rate of ten basis points per \$100,000,000 of additional notes issued, subject to a maximum of \$10,000,000. The \$5,000,000 deposit has been included as “cash collateral, structured notes” on the Company’s consolidated balance sheet.

### **Contingent Liabilities**

A subsidiary of the Company is named in claims for approximately \$9,700,000 initiated by certain former clients of a former financial advisor of a predecessor mutual fund dealer relating to activities which took place in 1996 and 1997. The Company and its subsidiaries are also defendants in various other legal actions. The Company intends to vigorously defend itself against these claims. Although the outcome of these matters cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management of the Company, based on information currently available, that these are not material liabilities, adequate financial provisions have been made for any liabilities and the resolution of these matters will not have a material adverse effect on the financial position of the Company. In the third quarter of 2006, the Company accrued \$4,000,000 related to a class action claim that was settled subsequent to September 30, 2006, and subject to court approval, for \$7,000,000. This claim was inherited by the Company on the acquisition of a predecessor corporation in December 2003 at which time \$3,000,000 was accrued.

### **Acquisition of Dundee Wealth BHC**

Subsequent to September 30, 2006, the Company completed the legal and administrative requirements necessary in order for DWM to acquire a 100% interest in Dundee Wealth BHC from Dundee Corporation. Dundee Wealth BHC holds a 100% interest in Dundee Bank of Canada (formerly Dundee Wealth Bank), a Canadian federally chartered Schedule I Bank, and a 100% interest in The Dundee Bank, a bank licensed with the Cayman Islands Monetary Authority. The aggregate purchase price is \$26,287,000. In addition, DWM contributed \$100,000,000 to Dundee Bank of Canada since June 30, 2006 to fund capital requirements.

Dundee Wealth and DWM have delivered certain commitments and support letters to various federal authorities in respect of Dundee Bank of Canada, including an undertaking to the Canada Deposit Insurance Corporation and a non-binding support letter to the Office of the Superintendent of Financial Institutions. In addition, Dundee Corporation has issued an undertaking to the Minister of Finance regarding certain investments, access to corporate records and the provision of financial and other information. The Company has agreed to abide by this undertaking as well as to indemnify Dundee Corporation in the event of non-compliance. The Company’s obligations to Dundee Corporation are secured by a general security agreement covering all of the assets of the Company and those of DWM.

In accordance with GAAP, the acquisition of Dundee Wealth BHC from Dundee Corporation resulted in the reorganization of entities under common control and will be accounted for on the continuity of interest basis in the fourth quarter of 2006. Accordingly, the Company will restate its consolidated balance sheets and its results of operations to include the accounts of Dundee Wealth BHC and its subsidiaries as if the Company had held a 100% interest in Dundee Wealth BHC since inception. Application of the continuity of interest basis of accounting is expected to decrease the Company's shareholders' equity at September 30, 2006 by approximately \$9,400,000 and is expected to decrease the Company's net earnings for the nine months ended September 30, 2006 by approximately \$4,900,000.

## 9. SEGMENTED INFORMATION

### Statements of Operations for the nine months ended September 30, 2006 and 2005

	Investment Management		Dundee Financial Group		Corporate		Intersegment		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenues	\$ 275,322	\$ 213,693	\$ 333,413	\$ 288,531	\$ 1,349	\$ 603	\$ (42,848)	\$ (37,002)	\$ 567,236	\$ 465,825
Expenses	148,449	116,760	332,041	295,244	11,890	10,201	(38,856)	(31,872)	453,524	390,333
EBITDA	126,873	96,933	1,372	(6,713)	(10,541)	(9,598)	(3,992)	(5,130)	113,712	75,492
Depreciation and amortization	45,487	36,232	9,237	5,065	934	530	(3,016)	(2,432)	52,642	39,395
Interest expense	357	1,036	1,453	752	3,330	96	-	-	5,140	1,884
Dividends on preference shares	-	-	-	-	2,454	2,454	-	-	2,454	2,454
<b>Earnings (loss) from operations</b>	<b>\$ 81,029</b>	<b>\$ 59,665</b>	<b>\$ (9,318)</b>	<b>\$ (12,530)</b>	<b>\$ (17,259)</b>	<b>\$ (12,678)</b>	<b>\$ (976)</b>	<b>\$ (2,698)</b>	<b>\$ 53,476</b>	<b>\$ 31,759</b>

### Statements of Operations for the three months ended September 30, 2006 and 2005

	Investment Management		Dundee Financial Group		Corporate		Intersegment		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenues	\$ 91,998	\$ 76,729	\$ 97,880	\$ 97,622	\$ 567	\$ 255	\$ (13,126)	\$ (11,767)	\$ 177,319	\$ 162,839
Expenses	50,191	42,328	106,061	101,741	3,852	3,230	(12,388)	(10,479)	147,716	136,820
EBITDA	41,807	34,401	(8,181)	(4,119)	(3,285)	(2,975)	(738)	(1,288)	29,603	26,019
Depreciation and amortization	16,160	12,814	3,574	1,577	300	205	(1,031)	(861)	19,003	13,735
Interest expense	119	460	501	336	3,266	59	-	-	3,886	855
Dividends on preference shares	-	-	-	-	818	818	-	-	818	818
<b>Earnings (loss) from operations</b>	<b>\$ 25,528</b>	<b>\$ 21,127</b>	<b>\$ (12,256)</b>	<b>\$ (6,032)</b>	<b>\$ (7,669)</b>	<b>\$ (4,057)</b>	<b>\$ 293</b>	<b>\$ (427)</b>	<b>\$ 5,896</b>	<b>\$ 10,611</b>

### Balance Sheets as at September 30, 2006 and December 31, 2005

	Investment Management		Dundee Financial Group		Corporate		Intersegment		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
<b>Assets</b>										
Goodwill	\$ 126,048	\$ 126,048	\$ 181,090	\$ 181,086	\$ -	\$ -	\$ -	\$ -	\$ 307,138	\$ 307,134
Intersegment	59,136	12,407	4,091	7,653	158,190	102,242	(221,417)	(122,302)	-	-
Other	399,883	406,324	699,040	590,862	94,277	81,639	-	-	1,193,200	1,078,825
	<b>\$ 585,067</b>	<b>\$ 544,779</b>	<b>\$ 884,221</b>	<b>\$ 779,601</b>	<b>\$ 252,467</b>	<b>\$ 183,881</b>	<b>\$ (221,417)</b>	<b>\$ (122,302)</b>	<b>\$ 1,500,338</b>	<b>\$ 1,385,959</b>
<b>Liabilities</b>										
Intersegment	\$ 4,091	\$ 7,653	\$ 158,190	\$ 102,242	\$ 59,136	\$ 12,407	\$ (221,417)	\$ (122,302)	\$ -	\$ -
Other	152,481	159,480	534,869	445,868	44,718	68,195	-	-	732,068	673,543
	<b>\$ 156,572</b>	<b>\$ 167,133</b>	<b>\$ 693,059</b>	<b>\$ 548,110</b>	<b>\$ 103,854</b>	<b>\$ 80,602</b>	<b>\$ (221,417)</b>	<b>\$ (122,302)</b>	<b>\$ 732,068</b>	<b>\$ 673,543</b>

## 10. SUBSEQUENT EVENTS

### **Dundee Wealth Proposed Internal Merger**

On November 1, 2006, the Company announced that its Board of Directors had approved, in principle, an amalgamation between DWM and the Company effective January 1, 2007. The transaction is subject to receipt of all necessary shareholder and regulatory approvals. A shareholders' meeting to approve the amalgamation has been called for December 29, 2006. Pursuant to the amalgamation, the non-controlling shareholder of DWM will receive common shares of the Company determined in accordance with a formula that would give it the equivalent percentage ownership in Dundee Wealth that it currently holds in DWM, being 16.3%, subject to the put option described below.

On October 2, 2002, the Company entered into a shareholders' agreement with Caisse de dépôt et placement du Québec ("Caisse"), the non-controlling shareholder of DWM, in respect of DWM. The shareholders' agreement details the circumstances pursuant to which Caisse may sell its shares to DWM. From October 2005 to September 2009, Caisse may only sell its shares in DWM to either the Company's parent, Dundee Corporation, to the Company itself, or to DWM. If Caisse exercises its right, it is entitled to receive fair market value for its shares in DWM, determined in accordance with the terms of the shareholders' agreement. Following the proposed amalgamation of Dundee Wealth and DWM, Caisse will maintain only its right to retain its ownership interest through rights of pre-emption, in addition to prospectus rights and board seats. All other rights, including the put right will terminate, although Caisse will have 20 business days following the amalgamation to notify Dundee Wealth of its intention to exercise its put. In the event that the shares are acquired by the Company, the purchase will be accounted for as a step acquisition of its interest in DWM and the purchase price, after elimination of the non-controlling interest, will be allocated to net assets acquired based on their estimated fair value. As an alternative to purchasing the shares of DWM, the Company may, in certain circumstances, elect to institute a sale process for DWM.

The Company has sufficient resources to meet this potential obligation. Subsequent to the quarter end, Dundee Wealth obtained a committed term sheet from a major Canadian bank for a secured credit facility in the amount of \$350,000,000 to be utilized for general corporate purposes.

### **Change of Control Provisions**

As a direct result of the Company's concern related to the potential actions of Caisse relative to its put decision referred to above, the Board of Directors of the Company has approved, in principle, and has instructed its compensation committee to develop, the establishment of industry standard change of control provisions for senior officers and portfolio managers.

### **Conversion of the Investment Management Division to an Income Trust**

On October 10, 2006, the Company announced that its Board of Directors had approved, in principle, a conversion of its investment management division into an income trust and offer the sale of 15% of the trust by way of an Initial Public Offering. On November 1, 2006, the Company announced that it is re-evaluating its plans in respect of this conversion in light of recent announcements by the Minister of Finance in respect of taxing distributions from income trusts and in any event, such income trust reorganization would not have been formalized until after the amalgamation is finalized and the Company has been advised by the non-controlling shareholder of DWM of its intentions.