

## **GC-Global Capital Corp.**

### **Management Discussion & Analysis**

**Dated: May 29, 2007**

#### **Description of Business**

The following information should be read in conjunction with the GC-Global Capital Corp. ("Global Capital" or "the Company") Interim Consolidated Financial Statements dated March 31, 2007, which are prepared in accordance with Canadian generally accepted accounting principles. All figures are expressed in Canadian dollars unless otherwise indicated.

Global Capital is a merchant bank which provides bridge loan services (asset back/collateralized financing), ranging from \$200,000 to \$3,000,000 to companies across many industries such as oil & gas, mining, real estate, manufacturing, retail, financial services, technology and biotechnology. Global Capital takes a disciplined and systematic approach to investment and is guided by four core principles: Capital Preservation, Shareholder Value, Secure Generation of Income and Risk Management. Global Capital also invests in emerging North American companies across all industries. Global Capital's investments are made through equity financings and Global Capital works with management of operating companies in order to create value for businesses in which Global Capital assumes a position. These services can include additional equity financing, developing mergers and acquisitions, providing operational management support and structuring and negotiating debt and equity placements.

#### **Overall Performance**

During the first quarter of 2007, Global Capital declared a cash dividend of \$0.05 per share payable to shareholders of Global Capital's subordinate voting and multiple voting shares. This marked the third year in a row that Global Capital had paid a cash dividend to its shareholders, with this year's payment being an increase of 25% over the previous year's cash dividend. It is the intention of the Company to pay out a portion of its future annual earnings to shareholders in the form of a dividend.

On March 16, 2007, the Company announced that it had completed an equity offering, for gross proceeds of approximately \$5.5 million through the issuance of 4,782,609 units at a price of \$1.15 per unit. The offering included a full exercise of the green shoe option by the underwriters for \$500,000. Each unit was comprised of one subordinate voting share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase an additional subordinate voting share at a price of \$1.50 per share at any time and from time to time until September 16, 2008. The underwriting syndicate was led by Laurentian Bank Securities Inc. and included Research Capital Corp. Net proceeds from the offering will be used to fund Global Capital's merchant banking activities.

As at March 31, 2007 Global Capital had net assets totaling \$22.2 million compared to \$18.7 million as at December 31, 2006 or \$1.09 (December 31, 2006 - \$1.19) per share. The decrease in the net asset value per share is primarily due to the \$5.5 million equity issue which was issued at a price of \$1.15 per share less \$0.11 in issue costs per share. Also associated with this decrease was the US\$0.30 closing share price of Global Development Resources, Inc. at the end of the quarter, which was down from its closing price at December 31, 2006 of US\$0.42. Global Capital has a 14% ownership in Global Development Resources, Inc. and due to the new Financial Instrument accounting rule, the Company is required to record any gains and losses in its investments as other comprehensive income (losses).

For the quarter ended March 31, 2007, Global Capital had net income before taxes of \$353,898 or \$0.02 per share compared to an income of \$601,249 or \$0.04 per share for the same period in 2006. The above net income per share has been calculated using the weighted average number of multiple and subordinate voting shares during each period. Net income for the period ended March 31, 2007 was \$310,365 as compared to \$572,973 for the same period in 2006.

Total assets as at March 31, 2007 were \$22.7 million compared to \$20.0 million as at December 31, 2006. Included in total assets are \$6.7 million in cash and short term investments (December 31, 2006 - \$1.5 million), \$10.6 million in notes receivable, bridge loans and convertible debentures (December 31, 2006 - \$11.6 million), \$3.0 million in portfolio investments (December 31, 2006 - \$4.6 million), \$0.9 million in other receivables (December 31, 2006 - \$0.9 million) and \$1.3 million in future income taxes (December 31, 2006 - \$1.4 million).

## Summary of Quarterly Results

The following table sets out selected financial information and other data of Global Capital, which should be read in conjunction with the unaudited interim consolidated financial statements for the quarter ending March 31, 2007.

| <b>For the three months ended March 31</b> | <b>2007</b> |         | <b>2006</b> |           |
|--|-------------|---------|-------------|-----------|
| Total Revenue                              | \$          | 695,603 | \$          | 1,110,843 |
| Net income for the period                  |             | 310,365 |             | 572,973   |
| Net income per share <sup>(1)</sup>        | \$          | 0.02    | \$          | 0.04      |

(1) Net income per share has been calculated using the weighted average number of multiple and subordinate voting shares during each year. Diluted income per share were not calculated as they would be anti-dilutive.

## First Quarter of 2007 Operating Results

Interest and dividend income was \$332,116 for the first quarter of 2007 as compared to \$206,463 for the same period in 2006. The increase is due to an increase in the amount of loans earning interest over the previous period. Structuring fees and bonuses were \$259,354 for the period as compared to \$311,393 for the same period in 2006. Sales of investments and securities for the first quarter of 2007 have resulted in Global Capital recording a gain of \$150,861 versus \$577,406 for the corresponding period in 2006.

Global Capital's expenses for the first quarter of 2007 were \$341,705 compared to \$509,593 for the same period in 2006. Expenses decreased due to a \$66,148 stock based compensation expense in 2006, a decrease of \$81,978 in management and consulting fees and a decrease in interest of \$30,183.

Net income for the first quarter of 2007 was \$310,365 or \$0.02 per share compared to income of \$572,973 or \$0.04 per share in 2006.

## Comprehensive Income

The Company is reporting comprehensive income for the first time, having adopted the new accounting standards for financial reporting which were effective for Canadian companies on January 1, 2007. The most significant component of other comprehensive income was the unrealized mark-to-market gains and losses on the Company's investments in the available-for-sale investment category.

## Liquidity

As at March 31, 2007, Global Capital had \$6.7 million in cash, \$0.1 million in short term investments, \$10.6 million in notes receivable, bridge loans and convertible debentures and \$3.0 million in portfolio investments.

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. The Company believes that cash flow from continuing operations and existing cash resources will be sufficient to meet the Company's short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support the Company's business. However, the Company assumes short-term debt from time to time to fund its loan operations.

## Hedging of US Cash Flows

In September 2006, the Company began a forward contract hedging program with a Canadian banking institution. In the first quarter of 2007, the Company hedged \$5.6 million of its United States based currency exposure with short-term forward contracts.

## Critical Accounting Policies And Estimates

The Company's accounting policies are described in Note 3 of its audited consolidated financial statements for the years ended December 31, 2006 and 2005. Management considers the following policies to be the most critical in understanding the judgments and estimates that are involved in the preparation of its consolidated financial statements and the uncertainties which could materially impact its results, financial condition and cash flows.

Management continually evaluates its assumptions and estimates; however, actual results could differ materially from these assumptions and estimates.

#### *Provision for Loan Losses*

Loans are stated net of an allowance for credit losses on impaired loans. Such allowances reflect management's best estimate of the credit losses in the Company's loan portfolio and judgments about economic conditions. The evaluation process involves estimates and judgments, which could change in the near term, and result in a significant change to a recognized allowance. In determining the provision for possible loan losses, the Company considers the following:

- length of time the loans have been in arrears;
- the overall financial strength of the borrowers;
- the nature and quality of collateral and, if applicable, guarantees;
- secondary market value of the loans and the collateral; and
- the borrower's plan, if any, with respect to restructuring the loans.

#### *Valuation of Investments*

The Company's investments are primarily held in public companies. Effective January 1, 2007, investments are recorded on the balance sheet at their fair value. Fair value is determined directly by reference to quoted market price in an active market.

#### *Future Tax Asset*

The Company has recognized a future tax asset based on the likely realization of tax losses which are to be utilized against future earnings. The Company will reassess at each balance sheet date its existing future income tax assets, as well as potential future income tax assets that have not been previously recognized. In determining whether an additional future income tax asset is to be recognized, the Company will assess its ability to continue to generate future earnings based on its current loan portfolio, expected rate of return, the quality of the collateral security and ability to reinvest the funds. If an asset has been recorded and the Company assesses that the realization of the asset is no longer viable, the asset will be written down. Conversely, if the Company determines that there is an unrecognized future income tax asset which is more-likely-than-not to be realized, it will be recorded in the balance sheet and statement of earnings.

#### **Change in Accounting Policies**

Effective January 1, 2007, the Company has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 Financial Instruments – Recognition and Measurement, Section 3865 Hedges and Section 1530 Comprehensive Income (the "Financial Instrument Standards"). Prior to January 1, 2007, the principal accounting policies affecting the Company's financial instruments were: marketable securities were valued at the lower of average cost and market value, investments were valued at cost or at cost less amounts written off to reflect any impairment in value that is considered to be other than temporary, loans were stated net of an allowance for credit losses on impaired loans and other assets were valued at their net realizable value.

The adoption of the Financial Instrument Standards requires the presentation of a separate statement of comprehensive income. Loans are recorded at amortized cost, subject to impairment reviews. Fees received for originating the loans are netted against the loans' cost and are recognized in net earnings using the effective interest rate method. Investments are recorded in the consolidated balance sheet at fair value. Fair value is determined directly by reference to quoted market prices in an active market. Changes in fair value of investments have been reported in other comprehensive income. The transitional adjustments in respect of these standards have been made to opening investments and loan balances and adjusted through retained earnings and accumulated other comprehensive income as at January 1, 2007. As a consequence of adopting the Financial Instrument Standards at January 1, 2007 accumulated other comprehensive income increased by \$0.2 million. This movement reflects an increase of \$0.2 million in investments, a decrease in customer advances of \$0.3 million and a decrease in notes receivables, bridge loans and convertible debentures of \$0.3 million. These adjustments represent the net gain on measuring the fair value of available for sale portfolio investments, which had not been recognized on a fair value basis prior to January 1, 2007.

## Transactions with Related Parties

The Company often receives the right to nominate a member to the Board of Directors of companies to which it provides a bridge loan. The nominees may be an employee, Officer or Director of the Company, and accordingly, the borrower may become related to the Company.

Notes receivable, bridge loans and convertible debentures include a balance due from companies having a current Director or Officer in common with the Company, with a cost of \$1,079,085 (December 31, 2006 - \$1,050,003). Notes receivable, bridge loans and convertible debentures include syndicated loans through Global Development Resources, Inc., a company with common directors and officers of the Company. Syndicated loans outstanding at March 31, 2007 from the Company are \$4,685,778 (December 31, 2006 - \$5,409,303). Notes receivable, bridge loans and convertible debentures include notes to two Directors of the Company for US\$2,128,000, of which US\$1,128,000 is due on July 1, 2007 and US\$1,000,000 is due on December 29, 2007. The notes relate to certain real estate property that was sold to the two Directors. In 2005, the Company provided a bridge loan of which 3.9% was syndicated to a Director and 7.8% was syndicated to the spouse of a Director. The total interest and principal payable to the Director and to spouse of a Director at March 31, 2007 was \$149,140 (December 31, 2006 - \$224,139). Portfolio investments include shares of companies and partnerships having a current Director or Officer in common with the Company, with a cost of \$1,664,158 (December 31, 2006 - \$1,644,297) and a fair value of \$1,659,712 (December 31, 2006 - \$2,411,810).

Interest and dividend income include interest earned on loans with current Directors and Officers in common with the Company, in the amount of \$34,145 (2006 - \$11,736). Structuring fees income includes \$9,533 (2006 - \$nil) received from companies with current Directors and Officers in common with the Company. Management and consulting fees and travel and promotion expenses include \$67,593 (2006 - \$60,990) paid to companies controlled by current Directors and Officers of the Company.

## Risks and Uncertainties

### Currency Risk

The Company is exposed to certain currency risks that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. From time to time the Company takes advantage of foreign exchange contracts to manage the risk of currency fluctuations. As at March 31, 2007, the Company had purchased for settlement from its banker US\$2,470,000 at \$1.1732 maturing April 9, 2007 and US\$3,150,000 at \$1.1515 maturing April 30, 2007. Gains and losses on foreign exchange contracts are included in income in the corresponding reporting period.

### Credit Risk

Concentration of credit risk may arise from exposures to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their current obligations is expected to be affected similarly by changes in economic or other conditions.

### Market Risk

The Company is exposed to certain market risk that the value of a financial instrument will fluctuate due to changes in market prices whether those changes are caused by factors specific to an individual security or its issuer or factors affecting all securities traded in the market.

### Fair Values

The Company's financial instruments consist of cash, accounts receivable and sundry assets, short term investments, interest and dividends receivable, notes receivable, bridge loans and convertible debentures, portfolio investments, accounts payable, dividends payable, loans and interest payable and convertible debentures. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

## Share Data

### Outstanding Shares

|                           |                  |
|---------------------------|------------------|
| Subordinate Voting Shares | 19,301,170       |
| Multiple Voting Shares    | <u>1,062,662</u> |
|                           | 20,363,832       |

### Outstanding Options and Warrants

| Type                  | Amount Outstanding | Exercise Price | Expiry Date        |
|-----------------------|--------------------|----------------|--------------------|
| Stock option          | 1,080,000          | \$0.87         | May 5, 2009        |
| Stock option          | 150,000            | \$0.87         | November 24, 2009  |
| Stock option          | 220,000            | \$0.87         | February 7, 2011   |
| Compensation warrants | 347,826            | \$1.15         | September 16, 2008 |
| Warrants              | 2,391,304          | \$1.50         | September 16, 2008 |

### Forward-Looking Information

These materials include certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Other than statement of historical fact, all statements in this material, including, without limitation, statements regarding fair values of marketable securities, investments, bridge loans, convertible debentures, estimated asset retirement obligations, and future plans and objectives of the Company, are forward-looking statements that involve various known and unknown risks, uncertainties and other factors. There can be no assurance that such statements will prove accurate. Actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date of these materials. Important factors that could cause actual results to differ materially from the Company’s expectations include, without limitation, the level of bridge loans completed, the nature and credit quality of the collateral security, the sufficiency of cost estimates for remaining reclamation obligations as well as those factors discussed in the Company’s documents filed from time to time with the TSX Venture Exchange, Canadian securities regulators and other regulatory authorities. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this notice.



**GC - GLOBAL CAPITAL CORP.**

**Consolidated Financial Statements**

**March 31, 2007**

**(Unaudited)**

## **Management's Responsibility for Financial Reporting**

The accompanying consolidated interim financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. These consolidated interim financial statements contain estimates based on management's judgement. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors, which is composed of a majority of independent Directors, reviews the results of the consolidated interim financial statements prior to submitting the consolidated interim financial statements to the Board for approval.

"signed Jason Ewart"

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Jason Ewart  
Chief Executive Officer

"signed Chris Carmichael"

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Chris Carmichael  
Chief Financial Officer

May 29, 2007  
Toronto, Ontario

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of the company have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed a review of these consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of consolidated interim financial statements by an entity's auditor.

"signed Jason Ewart"  
Jason Ewart  
Chief Executive Officer

"signed Chris Carmichael"  
Chris Carmichael  
Chief Financial Officer

May 29, 2007  
Toronto, Ontario



**GC-Global Capital Corp.**  
Consolidated Balance Sheets

|  | <b>March 31</b>      | <b>December 31</b>   |
|--|----------------------|----------------------|
|  | <b>2007</b>          | <b>2006</b>          |
|  | (unaudited)          | (audited)            |
| <b>Assets</b>  |                      |                      |
| Cash   | \$ 6,656,103         | \$ 457,002           |
| Short term investments   | 95,996               | 1,075,996            |
| Accounts receivable and sundry assets                                    | 567,366              | 581,977              |
| Prepaid expenses   | 12,628               | 10,144               |
| Interest and dividends receivable  | 355,739              | 258,848              |
| Notes receivable, bridge loans and convertible debentures (notes 5 & 12) | 10,637,867           | 11,621,283           |
| Portfolio investments (note 12)  | 3,027,706            | 4,559,540            |
| Property, plant and equipment  | 27,576               | 29,615               |
| Future income taxes  | 1,319,924            | 1,363,457            |
|  | <u>\$ 22,700,905</u> | <u>\$ 19,957,862</u> |
| <b>Liabilities</b>   |                      |                      |
| Bank indebtedness (note 6)   | \$ -                 | \$ 600,000           |
| Accounts payable   | 480,434              | 568,690              |
| Customer advances and deferred revenue                                   | -                    | 290,685              |
|  | <u>480,434</u>       | <u>1,459,375</u>     |
| <b>Shareholders' Equity</b>  |                      |                      |
| Share capital (note 7)   | 19,006,347           | 14,075,646           |
| Contributed surplus (note 9)   | 2,546,616            | 2,552,362            |
| Accumulated other comprehensive income                                   | (734,275)            | -                    |
| Retained earnings  | 1,401,783            | 1,870,479            |
|  | <u>22,220,471</u>    | <u>18,498,487</u>    |
|  | <u>\$ 22,700,905</u> | <u>\$ 19,957,862</u> |

On Behalf of the Board

(signed Gordon Ewart) \_\_\_\_\_, Director

(signed Jason Ewart) \_\_\_\_\_, Director

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

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**GC-Global Capital Corp.**  
Consolidated Statements of Retained Earnings  
**For the three months ended March 31, 2007 and 2006**  
(unaudited)

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|  | <b>2007</b>         | <b>2006</b>       |
|--|---------------------|-------------------|
| <b>Retained earnings – beginning of period</b> | \$ 1,870,479        | \$ 222,467        |
| Net income for the period                      | 310,365             | 572,973           |
| Dividends                                      | (779,061)           | -                 |
| <b>Retained earnings – end of period</b>       | <u>\$ 1,401,783</u> | <u>\$ 795,440</u> |

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

**GC-Global Capital Corp.**  
Consolidated Statements of Income  
**For the three months ended March 31, 2007 and 2006**  
(unaudited)

|  | <b>2007</b>       | <b>2006</b>       |
|--|-------------------|-------------------|
| <b>Revenue</b>                                       |                   |                   |
| Gain on sale of portfolio investments                | \$ 150,861        | \$ 577,406        |
| Interest and dividend income (note 12)               | 332,116           | 206,463           |
| Structuring fees and bonuses (note 12)               | 259,354           | 311,393           |
| Foreign exchange gain (loss)                         | (46,728)          | 15,581            |
|  | <u>695,603</u>    | <u>1,110,843</u>  |
| <b>Expenses</b>                                      |                   |                   |
| Management and consulting fees (note 12)             | 238,936           | 320,914           |
| Filing and listing fees                              | 20,385            | 18,010            |
| Audit and legal fees                                 | 17,183            | 15,271            |
| Interest   | 14,506            | 44,689            |
| Office and general                                   | 19,022            | 13,781            |
| Travel and promotion                                 | 13,437            | 15,672            |
| Rent   | 15,959            | 14,396            |
| Amortization   | 2,277             | 712               |
| Share compensation expense                           | -                 | 66,148            |
|  | <u>341,705</u>    | <u>509,593</u>    |
| <b>Income before income taxes</b>                    | <u>353,898</u>    | <u>601,249</u>    |
| <b>Income taxes (note 11)</b>                        |                   |                   |
| Future   | 43,533            | 28,276            |
|  | <u>43,533</u>     | <u>28,276</u>     |
| <b>Net income for the period</b>                     | <u>\$ 310,365</u> | <u>\$ 572,973</u> |
| <b>Net income per share (note 15)</b>                | <u>\$ 0.02</u>    | <u>\$ 0.04</u>    |
| <b>Weighted average number of shares outstanding</b> | <u>16,431,465</u> | <u>14,119,456</u> |

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

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**GC-Global Capital Corp.**  
Consolidated Statement of Comprehensive Income  
**For the three months ended March 31, 2007**  
(unaudited)

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|   | <b>2007</b>         |
|---|---------------------|
| <b>Net earnings for the period</b>  | \$ 310,365          |
| <b>Other comprehensive income, net of tax</b>                                     |                     |
| Unrealized gains on available-for-sale financial assets arising during the period | <u>(953,710)</u>    |
| <b>Other comprehensive income</b>   | <u>(953,710)</u>    |
| <b>Comprehensive income</b>   | <u>(643,345)</u>    |
| <b>Accumulated and other comprehensive income – beginning of period</b>           | -                   |
| Adoption of financial instruments standard (note 4)                               | 219,435             |
| Other comprehensive income for the period   | <u>(953,710)</u>    |
| <b>Accumulated and other comprehensive income – end of period</b>                 | <u>\$ (734,275)</u> |

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

**GC-Global Capital Corp.**  
Consolidated Statements of Cash Flows  
**For the three months ended March 31, 2007 and 2006**  
(unaudited)

|  | <b>2007</b>         | <b>2006</b>         |
|--|---------------------|---------------------|
| <b>Operating activities</b>                                    |                     |                     |
| Net income   | \$ 310,365          | \$ 572,973          |
| Items not affecting cash:                                      |                     |                     |
| Gain on sale of investments                                    | (150,861)           | (577,406)           |
| Amortization   | 2,277               | 712                 |
| Share compensation expense                                     | -                   | 66,148              |
| Future income taxes  | 43,533              | 28,276              |
|  | <u>205,314</u>      | <u>90,704</u>       |
| Net changes in non-cash working capital balances (note 14)     | <u>(463,705)</u>    | <u>207,756</u>      |
|  | <u>(258,391)</u>    | <u>298,460</u>      |
| <b>Investing activities</b>                                    |                     |                     |
| Decrease (increase) in bridge loans and convertible debentures | 983,416             | (432,451)           |
| Purchase of portfolio investments                              | (22,311)            | (2,292,407)         |
| Proceeds from sale of investments                              | 970,731             | 2,620,729           |
| Additions to property, plant and equipment                     | (238)               | (9,607)             |
|  | <u>1,931,598</u>    | <u>(113,736)</u>    |
| <b>Financing activities</b>                                    |                     |                     |
| Proceeds from shares issued                                    | 5,500,000           | -                   |
| Share issue costs  | (540,441)           | -                   |
| Repayment (increase) of loans and interest payable             | -                   | (373,867)           |
| Increase (decrease) in bank indebtedness                       | (600,000)           | 3,220,013           |
| Increase in contributed surplus                                | (5,746)             | -                   |
| Purchase of treasury shares                                    | (28,858)            | -                   |
| Dividends paid   | (779,061)           | -                   |
|  | <u>3,545,894</u>    | <u>2,846,146</u>    |
| <b>Increase (decrease) in cash flow</b>                        | <b>5,359,101</b>    | <b>3,030,870</b>    |
| <b>Cash, beginning of year</b>                                 | <u>1,532,998</u>    | <u>2,776,813</u>    |
| <b>Cash, end of year</b>                                       | <u>\$ 6,752,099</u> | <u>\$ 5,807,683</u> |
| <b>Cash consists of:</b>                                       |                     |                     |
| Cash   | \$ 6,656,103        | \$ 2,482,683        |
| Short term investments   | 95,996              | 3,325,000           |
|  | <u>\$ 6,892,099</u> | <u>\$ 5,807,683</u> |

Supplemental cash flow information (note 14)

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

**1. Nature of Business**

GC-Global Capital Corp. (the "Company") provides a range of merchant banking services to small and mid-size cap companies in North America in both the public and private markets. The Company provides bridge loan services (asset backed/collateralized financing) ranging from \$200,000 to \$3,000,000 to companies across many industries such as oil and gas, mining, real estate, manufacturing, retail, financial services, technology and biotechnology. The Company also has a diversified investment division engaged in investing in emerging growth companies.

**2. Basis of Presentation**

The accompanying financial information does not include all disclosure required under generally accepted accounting principles for annual financial statements. The accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These consolidated financial statements should be read in conjunction with the Company's 2006 audited annual financial statements and notes.

**3. Summary of Significant Accounting Policies**

These interim consolidated financial statements follow the same accounting policies and methods of application as the Company's annual financial statements, except as noted below. These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the Company's accounts and those of its wholly-owned subsidiaries, Newborn Realty Corp., Laurel Development Corporation and Foothills Development Corp.

**4. Change in Accounting Policies**

Effective January 1, 2007, the Company has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 Financial Instruments – Recognition and Measurement, Section 3865 Hedges and Section 1530 Comprehensive Income (the "Financial Instrument Standards"). Prior to January 1, 2007, the principal accounting policies affecting the Company's financial instruments were: marketable securities were valued at the lower of average cost and market value, investments were valued at cost or at cost less amounts written off to reflect any impairment in value that is considered to be other than temporary, loans were stated net of an allowance for credit losses on impaired loans and other assets were valued at their net realizable value.

The adoption of the Financial Instrument Standards requires the presentation of a separate statement of comprehensive income. Loans are recorded at amortized cost, subject to impairment reviews. Fees received for originating the loans are netted against the loans' cost and are recognized in net earnings using the effective interest rate method. Investments are recorded in the consolidated balance sheet at fair value. Fair value is determined directly by reference to quoted market prices in an active market. Changes in fair value of investments have been reported in other comprehensive income. The transitional adjustments in respect of these standards have been made to opening investments and loan balances and adjusted through retained earnings and accumulated other comprehensive income as at January 1, 2007. As a consequence of adopting the Financial Instrument Standards at January 1, 2007 accumulated other comprehensive income increased by \$0.2 million. This movement reflects an increase of \$0.2 million in investments, a decrease in customer advances of \$0.3 million and a decrease in notes receivables, bridge loans and convertible debentures of \$0.3 million. These adjustments represent the net gain on measuring the fair value of available for sale portfolio investments, which had not been recognized on a fair value basis prior to January 1, 2007.

**5. Notes Receivable, Bridge Loans and Convertible Debentures**

Loans are repayable over various terms up to nine months from March 31, 2007, and bear interest at a fixed rate of between 12% and 15%. Marketable securities, real property, real estate, corporate or personal guarantees generally are pledged as security.

As at March 31, 2007, 100% of the Company's loan portfolio is due within a year. The Company had approximately \$0.3 million of loans impaired as a result of certain principal and/or interest payments being in arrears as at March 31, 2007. The Company does not have a provision for loan losses. The Company monitors the repayment ability of borrowers and the value of underlying security. In determining the provision for possible loan losses, management considers the length of time the loans have been in arrears, the overall financial strength of borrowers and the residual value of security pledged. The Company expects to collect the full carrying value of its loan portfolio. As at March 31, 2007, the Company had one impaired loan.

**6. Bank Indebtedness**

As at March 31, 2007, the Company had available a demand loan operating facility to a maximum of \$6,000,000 (or the US dollar equivalent) from a Canadian lending institution which is secured by a first ranking General Security Agreement, the assignment of term deposits and the Company's investment in common shares of Global Development Resources, Inc. The interest rate on the facility is prime plus 1% for advances of up to \$600,000 CDN, and prime for borrowings in excess of \$600,000, payable monthly.

**GC-Global Capital Corp.** (formerly Global (GMPC) Holdings Inc. and E & E Capital Funding Inc.)  
Notes to Consolidated Financial Statements  
**Three months ended March 31, 2007**  
(unaudited)

**7. Share Capital**

- a) Authorized:  
Unlimited multiple voting shares  
Unlimited subordinate voting shares  
Unlimited preferred shares
- b) Shares issued and outstanding

|  |                      |
|--|----------------------|
| <b>Issued and outstanding:</b>                           | <b>2007</b>          |
| 1,062,662 (2006 - 1,062,662) multiple voting shares      | \$ 1,937,651         |
| 19,301,170 (2006 – 14,553,161) subordinate voting shares | 17,068,696           |
|  | <u>\$ 19,006,347</u> |

|                                   | <b>Number of<br/>Shares</b> | <b>Amount</b>     |
|-----------------------------------|-----------------------------|-------------------|
| <b>Multiple voting shares</b>     |                             |                   |
| Opening balance – January 1, 2007 | 1,062,662                   | \$ 1,937,651      |
| Closing balance – March 31, 2007  | 1,062,662                   | 1,937,651         |
| <b>Subordinate voting shares</b>  |                             |                   |
| Opening balance                   | 14,553,161                  | 12,137,995        |
| Shares cancelled                  | (34,600)                    | (28,858)          |
| Issued from equity offering       | 4,782,609                   | 5,500,000         |
| Share issue costs                 | -                           | (540,441)         |
|                                   | <u>19,301,170</u>           | <u>17,068,696</u> |

On March 16, 2007, the Company completed an equity offering for gross proceeds of \$5,500,000 through the issuance of 4,782,609 units at a price of \$1.15 per unit. Each unit was comprised of one subordinate voting share and one-half share purchase warrant. Each share purchase warrant entitles the holder to purchase an additional subordinate voting share at a price of \$1.50 per share at any time and from time to time until September 16, 2008.

During the three months ended March 31, 2007, the Company completed treasury purchases for cancellation under a normal course issuer bid of 34,600 subordinate voting shares with a stated capital of \$28,858 for \$34,604 resulting in a decrease in contributed surplus of \$5,746.

- c) Warrants issued and outstanding

|   | <b>Number of<br/>warrants</b> | <b>Exercise<br/>price per<br/>warrant</b> | <b>Expiry date</b> |
|---|-------------------------------|---|--------------------|
| <b>Subordinate voting shares warrants</b>         |                               |   |                    |
| Opening balance                                   | -                             |   |                    |
| Compensation warrants issued from equity offering | 347,826                       | \$ 1.15                                   | Sept. 16, 2008     |
| Issued from equity offering                       | <u>2,391,304</u>              | \$ 1.50                                   | Sept. 16, 2008     |
|   | 2,739,130                     |   |                    |



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Notes to Consolidated Financial Statements  
**Three months ended March 31, 2007**  
(unaudited)

**8. Stock-Based Compensation Plan**

As at March 31, 2007, the Company had outstanding 1,450,000 options with an exercise price of \$0.87 of which 1,080,000, 150,000 and 220,000 options are exercisable in whole or in part at any time prior to May 5, 2009, November 24, 2009 and February 7, 2011, respectively.

**9. Contributed Surplus**

During 2007, Company completed treasury purchases for cancellation under a normal course issuer bid of 34,600 subordinate voting shares with a stated capital of \$28,858 for \$34,604 resulting in a decrease in contributed surplus of \$5,746.

**10. Dividends Paid**

On February 1, 2007, the Company declared a cash dividend of \$0.05 per share payable to shareholders of the Company's subordinate voting and multiple voting shares. The dividend was paid on March 30, 2007, to shareholders on record on February 9, 2007.

**11. Income Taxes**

The Company has utilized tax losses in certain of its entities to reduce its taxable income. The Company has recognized a future tax asset to the extent that the amount is more likely than not to be realized from future earnings.

|                                  | 2007             | 2006             |
|----------------------------------|------------------|------------------|
| Current                          | \$ -             | \$ -             |
| Future income taxes              | 43,533           | 28,276           |
| Total provision for income taxes | <u>\$ 43,533</u> | <u>\$ 28,276</u> |

**12. Related Party Transactions**

The Company often receives the right to nominate a member to the board of directors of companies to which it provides a bridge loan. The nominees may be an employee, Officer or Director of the Company, and accordingly, the borrower may become related to the Company.

- a) Notes receivable, bridge loans and convertible debentures include a balance due from companies having a current Director or Officer in common with the Company, with a cost of \$1,079,085 (December 31, 2006 - \$1,050,003).
- b) Notes receivable, bridge loans and convertible debentures include syndicated loans through Global Development Resources, Inc., a company with common directors and officers of the Company. Syndicated loans outstanding are \$4,685,778 (December 31, 2006 - \$5,409,303).
- c) Notes receivable, bridge loans and convertible debentures include notes to two Directors of the Company for US\$2,128,000 (December 31, 2006 – US\$2,128,000), of which US\$1,128,000 (December 31, 2006 – US\$1,128,000) is due on July 1, 2007 and US\$1,000,000 (December 31, 2006 – US\$1,000,000) is due on December 29, 2007. The notes relate to certain real estate property that was sold to the two Directors.
- d) In 2005, the Company provided a bridge loan of which 3.9% was syndicated to a Director and 7.8% was syndicated to the spouse of a Director. The total interest and principal payable to the Director and to spouse of a Director at March 31, 2007 was \$149,140 (2006 - \$224,139)
- e) Portfolio investments include \$1,664,158 (December 31, 2006 - \$1,644,297) of shares of companies and partnerships having a current Director or Officer in common with the Company.

**GC-Global Capital Corp.** (formerly Global (GMPC) Holdings Inc. and E & E Capital Funding Inc.)  
Notes to Consolidated Financial Statements  
**Three months ended March 31, 2007**  
(unaudited)

- f) Interest and dividend income includes interest earned on loans with current Directors and Officers in common with the Company, in the amount of \$34,145 (March 31, 2006 - \$11,736).
- g) Structuring fees income includes \$9,533 (March 31, 2006 - \$nil) received from companies with current Directors and Officers in common with the Company.
- h) Management and consulting fees and travel and promotion expenses include \$67,593 (March 31, 2006 - \$60,990) paid to companies controlled by current Directors and Officers of the Company.

**13. Commitments**

The Company has entered into an operating lease for office premises. Minimum annual lease payments required for the next five years are approximately as follows:

|      |    |        |
|------|----|--------|
| 2007 | \$ | 19,500 |
| 2008 |    | 26,000 |
| 2009 |    | 26,000 |
| 2010 |    | 26,000 |
| 2011 |    | 15,200 |

**14. Cash Flows Supplementary Information**

|  | 2007                | 2006              |
|--|---------------------|-------------------|
| <b>Net change in non-cash working capital balances</b> |                     |                   |
| Accounts receivable and sundry assets                  | \$ 14,611           | \$ (46,683)       |
| Prepaid expenses                                       | (2,485)             | (29,111)          |
| Interest and dividends receivable                      | (96,891)            | (4,958)           |
| Customer advances                                      | (290,685)           | -                 |
| Accounts payable and accrued liabilities               | (88,255)            | 288,508           |
|  | <u>\$ (463,705)</u> | <u>\$ 207,756</u> |
| <b>Interest paid</b>                                   | <u>\$ 13,396</u>    | <u>\$ 43,572</u>  |
| <b>Supplementary non-cash financial information</b>    |                     |                   |
| <b>Portfolio investments</b>                           |                     |                   |
| Structuring fees and bonuses received as shares        | \$ -                | \$ 24,000         |
|  | <u>\$ -</u>         | <u>\$ 24,000</u>  |

**15. Income Per Share**

Net income per share has been calculated using the weighted average number of multiple and subordinate voting shares outstanding during the year. Diluted income per share is calculated in a similar manner, except that the weighted average number of multiple and subordinate voting shares outstanding is increased to include potentially issuable subordinate voting shares from the assumed exercise of stock options, if dilutive. The conversion of the stock options would be anti-dilutive.

**16. Contingent Liabilities**

- a) On March 22, 2002, the Company and other parties were named as defendants in a lawsuit filed in the Supreme Court of British Columbia. The plaintiff has claimed approximately \$87,000 for unpaid consulting services plus interest at a rate which at this time cannot be determined. Management intends to fully defend this claim. Accordingly, no provision has been made for this claim in the consolidated financial statements.

In March 2004, the Company and a Director was named in an action of which the plaintiff has claimed \$130,000, or in the alternative the return of shares. The Company and the Director have defended and counterclaimed rescission of the agreement by which the Company agreed to purchase shares from the plaintiff. Affidavit of Documents have yet to be exchanged and the plaintiff has taken no steps to move the action forward. Accordingly, no provision has been made for this claim in the consolidated financial statements.

The outcome of these claims are not determinable at the time of issue of these consolidated financial statements and the costs, if any, will be charged to income in the period(s) in which they are finally determined.

- b) In 1998, the Company and other parties were named as defendants in a lawsuit filed in the Supreme Court of Newfoundland alleging that the common shares which they hold in the Company were sold to them without their knowledge by an administrator. In 2001, the Company was named in a second action against the Company, by the same plaintiffs, alleging that the Company failed to comply with the applicable provisions of the Canada Business Corporations Act giving Shareholders the right of dissent with respect to certain transactions and to be paid the fair market value for these shares. Management has filed statements of defense for each action. No provision has been made for these claims in the consolidated financial statements.

The ultimate outcome of these claims is not determinable at the time of issue of these consolidated financial statements and the costs, if any, will be charged to income in the period(s) in which they are finally determined.

- c) In 1997, the Company's wholly owned subsidiary, Global Benefit Plan Consultants Inc. ("GBPC"), had two divisions. The Company sold the assets of one of the divisions ("GBPC Division") to companies controlled by the then current management of that specific division (the "Former Management"). Pursuant to the sale agreement, the Company received an indemnity from the Former Management in respect of any reassessments by Revenue Canada for taxes related to the GBPC Division.

Revenue Canada recently reassessed the tax returns for GBPC for the tax years 1996 and 1997. The reassessment concluded that the GBPC reported false travel and promotion expenses for two former members of GBPC's management in the amounts of \$206,814 and \$19,641. The reassessment further concluded that GBPC made false ITC claims in the amounts of \$14,083 and \$1,370 attributed to the false travel and promotion expenses. Total taxes payable on the reassessment amounted to \$101,409 plus interest and penalty of approximately \$215,000.

The Company will take all legal steps necessary to ensure the taxes are paid by the indemnifying parties.

In 2003, the Company sold GBPC and provided an indemnity to the purchaser for claims related to the previous years.

In 2005 and 2006, the Company paid \$122,000 to Canada Revenue Agency in relation to the contingency. The Company expects the \$122,000 to be fully recoverable. The amount is included in accounts receivable and sundry assets.