



FINANCIAL STATEMENTS

DECEMBER 31, 2008

Management's Responsibility for Financial Statements

The accompanying financial statements of 49 North Resource Fund Inc. are the responsibility of management and have been approved by the Board of Directors.

Management, in conformity with Canadian generally accepted accounting principles, has prepared the financial statements. The financial statements include some amounts that are based on best estimates and judgments.

The management of the Corporation, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls. Management believes the internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of the financial statements, and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies that govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements principally through its audit committee. The audit committee reviewed the Corporation's annual financial statements and recommended their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with or without management being present.

The shareholders' auditors, Hergott Duval Stack LLP, Chartered Accountants, in accordance with Canadian generally accepted audit standards, have examined these financial statements and their independent professional opinion on the fairness of the financial statements is attached.

"Sandip Rana, CA"
Chief Financial Officer

Saskatoon, Saskatchewan

April 24, 2009



Partners

R. Joe Parker
Thomas Stack*
Barry Frank*
Blair Davidson*
Bernie Broughton*
David Ballantyne
Craig Hermann*
Carol Mailloux*
Evan Shoforost*
Orlo Drewitz*
Greg Keller*
Irene Boychuck*
Ryan Ball*
Timothy R. Timmerman
Wes Unger*
Lane Wallace

Senior Counsel

Lee Hergott
Maurice Duval
Lyle Zdunich*

AUDITORS' REPORT

To the Shareholders of
49 North Resource Fund Inc.

We have audited the balance sheet of 49 North Resource Fund Inc. as at December 31, 2008 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 management, 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 Corporation as at December 31, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

SASKATOON, SASKATCHEWAN

April 24, 2009

Chartered Accountants

*Professional
Corporation

49 NORTH RESOURCE FUND INC.

BALANCE SHEETS

	<u>December 31</u> 2008	<u>December 31</u> 2007
Cash and cash equivalents	\$ 252,947	\$ -
Equity investments, at fair value (Note 3)	7,672,171	26,156,667
Loans and advances receivable (Note 4)	423,529	-
Capital assets (Note 5)	204,795	-
Future income tax asset (Note 12)	125,942	-
	<u>\$ 8,679,384</u>	<u>\$ 26,156,667</u>

LIABILITIES

Bank indebtedness (Note 6)	\$ -	\$ 215,880
Accounts payable and accrued liabilities	543,202	7,179
Due to related party (Note 7)	44,511	-
Management fees and reimbursements payable (Note 8 and 11)	160,288	-
Contingent performance bonus (Note 8)	-	1,637,593
Convertible debentures (Note 9)	4,212,081	1,950,000
	<u>4,960,082</u>	<u>3,810,652</u>

SHAREHOLDERS' EQUITY

Common shares/units (Note 10)	24,314,966	12,031,070
Contributed surplus (Note 10)	635,818	-
Equity portion of convertible debentures (Note 9)	734,500	50,000
(Deficit) retained earnings	(21,965,982)	10,264,945
	<u>3,719,302</u>	<u>22,346,015</u>
	<u>\$ 8,679,384</u>	<u>\$ 26,156,667</u>

Approved by the Board

"Tom MacNeill"
Tom MacNeill

"Harvey Bay"
Harvey Bay

49 NORTH RESOURCE FUND INC.

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31

	<u>2008</u>	<u>2007</u>
Net investment (losses) gains		
Realized (losses) gains	\$ (4,451,195)	\$ 999,401
Unrealized (losses) gains	(18,961,855)	11,876,575
Dividend income	229,249	-
Interest income	2,497	3,054
	<u>\$ (23,181,304)</u>	<u>\$ 12,879,030</u>
Expenses		
Business development and investor relations	644,419	-
Interest	590,036	177,949
Management fees (Note 8)	362,144	337,882
Management performance bonus	-	1,926,593
Office and administration	134,869	26,873
Professional fees	254,086	105,652
Stock-based compensation (Note 10)	635,818	-
Transaction costs	140,977	183,162
Wages and benefits	84,878	-
	<u>2,847,227</u>	<u>2,758,111</u>
(Loss) income before income taxes	(26,028,531)	10,120,919
Future income tax (recovery) (Note 12)	(4,062,549)	-
Net (loss) income	(21,965,982)	10,120,919
Retained earnings, beginning of year	-	144,026
(Deficit) retained earnings, end of year	<u>\$ (21,965,982)</u>	<u>\$ 10,264,945</u>
Basic (loss) income per share/unit	<u>\$ (12.14)</u>	<u>\$ 3.85</u>
Diluted (loss) income per share/unit	<u>\$ (12.14)</u>	<u>\$ 3.58</u>
Weighted average number of shares/units outstanding	<u>1,809,610</u>	<u>2,570,609</u>

49 NORTH RESOURCE FUND INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

	<u>2008</u>	<u>2007</u>
Cash flows from Operating Activities		
Net (loss) income	\$ (21,965,982)	\$ 10,120,919
Items not affecting cash		
Realized loss (gain)	4,451,195	(999,401)
Amortization	27,836	-
Stock-based compensation	635,818	-
Future income taxes (recovery)	(4,062,549)	-
Unrealized losses (gains) of investments	18,961,855	(11,876,575)
Net changes in non-cash working capital items related to operations:	(802,893)	1,386,528
	<u>(2,754,720)</u>	<u>(1,368,529)</u>
Cash flows from Investing Activities		
Purchase of capital assets	(232,631)	-
Purchase of investments	(8,345,717)	(12,264,645)
Proceeds from disposal of investments	10,429,253	12,497,578
Advances for loans	(650,000)	-
Cash received on reorganization transactions	817,586	484,704
	<u>2,018,491</u>	<u>717,637</u>
Cash flows from Financing Activities		
Advances from related party	44,511	-
Repayment of loan payable	(965,000)	(1,350,000)
Issuance of convertible debenture	5,000,000	2,000,000
Redemption of preferred shares	(2,000,000)	-
Debt issue costs	(160,000)	-
Repurchase of common shares	(733,945)	-
Share issue costs	(196,390)	(283,678)
	<u>989,176</u>	<u>366,322</u>
Net increase (decrease) in cash during the year	252,947	(284,570)
Cash, beginning of year	-	68,690
Cash, end of year	<u>\$ 252,947</u>	<u>\$ (215,880)</u>
Supplemental cash flow information		
Cash interest paid in the year	<u>\$ 182,803</u>	<u>\$ 227,363</u>

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

1. Organization and business description

49 North Resource Fund Inc. (the "Corporation") was continued as a corporation under the laws of Saskatchewan pursuant to Articles of Amalgamation, as amended by Article of Amendment, registered under *The Business Corporations Act* (Saskatchewan) (the "SBCA") on January 1, 2008, and is currently governed by amended and restated articles registered under the SBCA on January 17, 2008. The companies that amalgamated to form the Corporation included 49 North Resource Fund Inc., which was incorporated pursuant to the SBCA on October 13, 2004 under the name 101062093 Saskatchewan Ltd. and amended its articles effective May 11, 2005 to change its name to 49 North Resource Fund Inc. and which, prior to the Conversion Transaction discussed below, was the general partner of the Former Partnership (as defined below); and 101110207 Saskatchewan Ltd. which was incorporated pursuant to the SBCA on October 30, 2007 for the sole purpose of facilitating the reorganization of the Corporation from its former structure as a limited partnership to its current structure as a corporation pursuant to the Conversion Transaction.

The Corporation is a resource investment, financial and managerial advisory, and merchant banking company which, as its principal business, invests in a diversified portfolio of shares and other securities of resource issuers including, without limitation, resource issuers engaged in mineral or oil and gas exploration and development, with a view to achieving capital appreciation of the portfolio.

The Corporation is the successor by reorganization to 49 North Resource Fund Limited Partnership (the "Former Partnership") which was formed July 19, 2005 (originally under the name 49 North Resource Flow Through Limited Partnership) and is constituted a limited partnership under the laws of Saskatchewan upon the filing of a declaration of limited partnership pursuant to *The Partnership Act* (Saskatchewan) and *The Business Names Registration Act* (Saskatchewan), effective July 20, 2005. As of December 31, 2007, the Former Partnership was governed by an amended and restated limited partnership agreement made effective October 26, 2006 (the "Partnership Agreement") between 49 North Resource Fund Inc., as general partner (the "General Partner"), and each person who was a limited partner in accordance with the terms of the Partnership Agreement (the "Limited Partners").

Conversion to Corporate Structure

Effective January 1, 2008, the Former Partnership and the Corporation completed a series of transactions (collectively the "Conversion Transaction") pursuant to which the Former Partnership converted from its limited partnership structure into its current corporate structure and, at the same time, all of the 2,798,314 limited partnership units ("Units") of the Former Partnership that were outstanding as of the end of the 2007 fiscal year were consolidated and exchanged for common shares of the Corporation on the basis of one common share for every two Units. As part of the Conversion Transaction, amongst other things: (a) the holder of a \$2,000,000 convertible secured debenture converted the debenture into 400,000 Units; (b) the Former Partnership transferred all of its assets to 101102207 Saskatchewan Ltd. ("AcquisitionCo") in exchange for common shares and preferred shares of AcquisitionCo; (c) the Former Partnership was wound-up and dissolved and, in connection therewith, distributed 200,000 preferred shares to the (former) debenture holder and a total of 1,399,157 common shares to the other (former) Limited Partners; and (d) AcquisitionCo and the General Partner amalgamated pursuant to SBCA under the name 101102207 Saskatchewan Ltd. and then immediately amended the Corporation's articles to change its name to 49 North Resource Fund Inc.

The common shares of the Corporation were listed on the TSX Venture Exchange ("TSXV") (trading symbol FNR) at the opening of the market on Wednesday, January 2, 2008, in substitution for the previously listed Units which were cancelled as a result of the Conversion Transaction.

2007 Fund Roll-over Transaction

During 2007, 49 North 2007 Resource Flow-Through Limited Partnership (the "2007 Fund") raised \$9,327,700 on the issuance of 932,770 limited partnership units (the "2007 Units") in an initial public offering and related private placements and, prior to December 31, 2007, invested a substantially equal amount in a portfolio of flow-through shares. In February 2008, the Corporation and the 2007 Fund completed a series of transactions (the "2007 Fund Roll-over Transaction") by which the 2007 Fund

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

1. Organization and business description (continued)

2007 Fund Roll-over Transaction (continued)

was effectively merged into the Corporation. As part of the 2007 Fund Roll-over Transaction, amongst other things: (a) the 2007 Fund transferred all of its assets on a tax deferred basis to, and in exchange for a total of 497,520 common shares in the capital stock of the Corporation (with the number of common shares so issued reflecting the respective tax adjusted net asset values of the Corporation and the 2007 Fund as of February 14, 2008); and (b) effective February 15, 2008, the 2007 Fund was wound-up and dissolved and, in connection therewith, these shares were distributed by the 2007 Fund amongst its (former) partners, resulting in each (former) limited partner of the 2007 Fund receiving 0.533325741 common shares of the Corporation for each 2007 Unit they previously held. As a result of the 2007 Fund Roll-over Transaction, the number of outstanding common shares of the Corporation increased from 1,399,157 shares to a total of 1,896,677 shares.

Change in Classification for Securities Law Purposes

Until June 4, 2008, the Corporation and the Former Partnership (collectively “49 North”) were classified as an “investment fund” for the purposes of applicable securities legislation and, more specifically, as a “non-redeemable investment fund” or what is more commonly referred to as a “closed-end fund”. On June 4, 2008, the directors of the Corporation amended the Corporation’s investment policies and guidelines to remove so-called “non-control provisions” which had generally prevented 49 North from investing for the purpose of exercising control of or being actively involved in the management of the resource companies in which it invests. As a consequence of these amendments the Corporation ceased to be classified as an “investment fund” for the purposes of securities legislation. As an investment fund, 49 North’s public reporting requirements and “continuous disclosure obligations” had generally been governed by a set of regulatory rules known as National Instrument 81-106, *Investment Fund Continuous Disclosure* and National Instrument 81-107, *Independent Review Committee for Investment Funds*. Since ceasing to be an investment fund the Corporation has been subject to the reporting requirements and continuous disclosure obligations that apply to most other public companies that are not investment funds, including National Instrument 51-102, *Continuous Disclosure Obligations* and related rules.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of appreciation (depreciation) of investments and expenses during the reporting period. Actual results could differ from these estimates.

Valuation of investments

Investments (which are designated as held for trading) are recorded in the financial statements at their fair value at the end of the period, determined as follows:

Public traded companies

The fair value of any security which is listed or traded upon a stock exchange is estimated by taking the latest bid price. The quoted bid price value of securities that are subject to a hold period will be valued with an appropriate discount.

The market values can be impacted by trading volumes, restrictions and market price fluctuations, and the quoted market price may not be indicative of what the Corporation could realize on the immediate sale as it may take an extended period of time to liquidate positions without causing a significant negative impact on the market price.

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

2. Significant accounting policies (continued)

Privately held companies

The fair value of any shares which are not listed or traded upon a stock exchange are originally recorded at cost, unless the shares are flow-through shares, in which case they are originally recorded either on an assessment of the most recent price at which the investee company issued common equity without flow-through characteristics or the cost reduced by a typical premium being paid by the Corporation for similar flow-through securities. After the initial transaction, adjustments are made to reflect any changes in value as a result of an independent third party transaction. Downward adjustments to the carrying values are also made when there is evidence of a decline in value, as indicated by an assessment of the financial condition of the investment based on operational results, forecasts and other developments.

Warrants

Warrants are valued at nil during the period in which they are not exercisable and valued based on either quoted market values if traded or the amount by which the warrant is in the money (less an appropriate risk discount) when they become exercisable. A warrant is in the money when the stock price is greater than the exercise price of the warrant.

Any difference between the estimated fair value and the cost of the investments is treated as unrealized gains or losses in the statement of operations.

Capital assets

Capital assets are recorded at cost. Furniture and equipment are amortized using the declining balance method. On acquisitions during the year, amortization is calculated at one-half the annual rate. Annual amortization rates are as follows:

Furniture and equipment	30%
Leasehold improvements	20%

Deferred financing costs

Deferred financing costs represent the costs of negotiating and securing the Corporation's long-term debt facilities. The Corporation records all transaction costs for financial assets and financial liabilities as a reduction of the related asset or liability and the effective interest rate method is used to amortize these costs to operations.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences), and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment.

Earnings per share

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds received on exercise of options, or conversion of debentures would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

2. Significant accounting policies (continued)

Revenue recognition

Security transactions are recorded on a settlement basis. Realized gains and losses on the disposal of investments and unrealized gains and losses in the value of investments are reflected in the statement of operations and are calculated on an average cost basis. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. All transaction costs are expensed as incurred. Interest income is recorded on the accrual basis.

3. Equity investments

As at December 31, 2008, the Corporation's investments consist of the following:

	<u>Shares/Warrants</u>		<u>Cost</u>		<u>Fair Value</u>
Mineral Exploration					
Alix Resources-Warrants	250,000	\$	-	\$	-
Athabasca Potash Inc. (2)	2,231,500		2,139,562		2,476,965
Bending Lake Iron Group Ltd. (3)	100,000		100,000		100,000
Blue Sky Uranium Corp.-Warrants	120,000		-		-
Canalaska Uranium Ltd. (1)	500,911		215,890		57,605
Claude Resources Inc. (2)	100,000		174,892		42,000
Copper Canyon Resources Ltd. (1)	35		16		4
Copper Canyon Resources Ltd.-Warrants	294,117		-		-
Copper Reef Mines Ltd. (4)	2,405,000		717,995		96,200
Copper Reef Mines Ltd.-Warrants	250,000		-		-
Dumont Nickel Inc.	630,000		9,575		9,450
Eagle Plains Resources Ltd.-Warrants	500,000		-		-
El Nino Ventures Inc. (1)	540		484		54
ESO Uranium Corp. (1)	590,000		485,180		14,750
G2 Resources Inc.-Warrants	175,000		-		-
Goldsource Mines Inc. (1)	552,500		713,778		1,066,325
Great Western Minerals Group Ltd.(1)	2,688,000		1,130,275		120,960
Halo Resources Ltd.(1)	981,915		454,472		14,729
Halo Resources Ltd.-Warrants	300,000		-		-
J-Pacific Gold Inc.(1)	391,000		156,400		27,370
Lakota Resources Inc.(1)	250,500		47,727		15,030
Laurion Mineral Exploration Inc.(1)	2,077,665		230,768		31,165
Laurion Mineral Exploration Inc.-Warrants	1,063,832		-		-
Northern Continental Resources Inc.(1)	415,500		164,153		33,240
Northern Continental Resources Inc.- Warrants	250,000		-		-
Northern Freegold Resources (1)	1,416,552		1,209,434		226,648
Northern Freegold Resources-Warrants	312,500		-		-
NuCoal Energy Corp. (3)	400,000		100,000		100,000
Panwestern Energy Inc.(1)	1,779,322		779,390		266,898
Petro Uno Resources-Warrants	312,500		-		-
Raytec Metals Corp.(1)	50,000		18,496		8,500
Raytec Metals Corp.-Warrants	454,500		-		-

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

3. Equity Investments (continued)

	<u>Shares/Warrants</u>	<u>Cost</u>	<u>Fair Value</u>
Red Rock Energy Inc. (1)	1,965,856	1,107,591	137,610
Renegade Oil & Gas Ltd. (3)	80,000	200,000	200,000
Rochester Resources (1)	24,000	21,785	5,270
Rockport Mining Corp (3)	486,274	364,720	364,720
Roxgold Inc. (1)	740,000	316,750	14,800
Roxgold Inc.-Warrants	360,000	-	-
Royal Roads Corp. (1)	668,050	249,980	13,360
Skeena Resources Ltd. (1)	346,500	111,498	10,395
Skeena Resources Ltd.-Warrants	100,000	-	-
Stikine Gold Corporation (1)	1,336,667	401,000	40,100
Titan Uranium Ltd. (1)	98,000	145,894	20,090
Troy Energy Corp. (1)	242,800	182,000	7,284
Vaaldiam Resources (1)	191,000	215,807	1,910
Valgold Resources Inc. (1)	334	100	7
Vena Resources Inc.-Warrants	430,000	-	-
Virginia Uranium (3)	73,333	100,000	34,091
Wescan Goldfields Inc. (1)	2,000,500	990,961	330,083
Western Potash Corporation-Warrants	100,000	-	-
Xiterra Resources Limited-Warrants	35,000	-	-
Oil & Gas			
Blackdog Resources Ltd. (1)	250,710	137,890	67,692
Cheyenne Energy Corp. (1)	714,280	249,998	-
Enhanced Oil Resources-Warrants (1)	125,000	-	-
Fair Sky Resources Inc. (1)	65,570	199,989	-
Ivory Energy Inc. (1)	230,117	195,599	9,205
Nordic Oil & Gas Ltd. (1)	423,000	115,413	16,920
Nordic Oil & Gas Ltd.-Warrants	512,500	-	-
Prairie Hunter Energy Corp (3)	1,135,697	1,128,265	1,135,697
Renegade Oil & Gas Ltd. (3)	80,000	200,000	200,000
Renegade Oil & Gas Ltd.-Warrants	80,000	-	-
Ruby Energy Inc. (3)	916,996	550,198	484,174
Trivello Energy Corp. (1)	265,000	53,000	14,575
Welton Energy Corporation (2)	147,059	100,000	735
Wildcat Exploration Ltd. (1)	1,852,000	507,755	55,560
	37,849,632	\$ 16,494,681	\$ 7,672,171

(1) Listed on TSX Venture Exchange

(2) Listed on TSX

(3) Private

(4) Listed on CNQ Exchange

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

3. Equity investments (continued)

As at December 31, 2007, the Former Partnership's investments consisted of the following:

	<u>Shares/Warrants</u>	<u>Cost</u>	<u>Fair Value</u>
Mineral Exploration			
Allyn Resources Inc. (1)	1,994,000	\$ 299,000	\$ 79,760
Anglo Minerals Ltd. (1)	167,900	194,133	906,660
Athabasca Potash Inc. (2)	2,155,325	1,890,967	16,811,535
Blue Sky Uranium Corp. (1) (warrants)	120,000	-	-
Brett Resources Inc. (1)	88,000	63,360	23,200
CanAlaska Uranium Ltd. (1) (warrants)	208,900	-	-
Claude Resources Inc. (2)	334,900	535,000	452,115
Copper Canyon Resources Ltd. (1)	588,235	474,343	223,529
Copper Canyon Resources (warrants)	294,117	-	-
Copper Reef Mines Ltd. (3)	2,000,000	600,000	533,556
Copper Reef Mines Ltd. (warrants)	750,000	-	-
Eagle Plains Resources Ltd. (1)	541,500	385,226	297,825
Eagle Plains Resources (warrants)	230,769	-	-
ESO Uranium Corp. (1)	600,000	493,400	234,000
ESO Uranium Corp. (warrants)	250,000	-	-
Golden Band Resources Inc. (1)	916,000	369,951	412,200
Goldsource Mines Inc. (1)	760,000	452,099	121,600
Great Western Diamonds Corp. (1)	2,052,000	1,041,954	471,960
Great Western Minerals Group Inc. (1)	1,609,000	724,050	579,240
Halo Resources Ltd. (1)	600,000	273,922	222,000
Halo Resources Ltd. (warrants)	577,778	-	-
J-Pacific Gold Inc. (1)	451,000	180,400	211,970
J-Pacific Gold Inc. (warrants)	625,000	-	-
Laurion Mineral Exploration Inc. (3)	557,400	55,740	89,184
Laurion Mineral Exploration Inc. (warrants)	278,700	-	-
Northern Freegold Resources Ltd. (1)	202,000	171,270	147,460
Northern Freegold Resources Ltd. (warrants)	180,000	-	-
Raytec Metals Corp. (1)	640,000	160,000	142,222
Red Rock Energy Inc. (3)	1,968,856	1,117,509	689,100
Red Rock Energy Inc. (warrants)	833,000	-	-
Rockport Mining Corp. (3)	133,333	100,000	100,000
Roxgold Inc. (1)	20,000	7,150	6,700
Santoy Resources Ltd. (1)	149,000	172,836	71,520
Santoy Resources Ltd. (warrants)	75,000	-	-
Skeena Resources Corp. (1)	346,500	111,498	79,695
Skeena Resources Corp. (warrants)	100,000	-	-
Soltoro Ltd. (1)	280,000	124,900	173,600
Stikine Gold Corp. (1)	1,666,667	500,000	183,333
Tagish Lake Gold Corp. (1)	1,423,846	320,883	199,338
Tagish Lake Gold Corp. (warrants)	1,132,423	-	-
Titan Uranium Inc. (1)	98,000	145,894	68,600
Titan Uranium Inc. (warrants)	81,000	-	-
Valgold Resources Ltd. (1)	440,334	132,100	116,689
Valgold Resources Ltd. (warrants)	833,334	-	-
Vena Resources Inc. (warrants)	430,000	-	-

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

3. Equity investments (continued)

	<u>Shares/Warrants</u>	<u>Cost</u>	<u>Fair Value</u>
Virginia Uranium (warrants) (3)	66,667	100,000	100,000
Wescan Goldfields Inc. (1)	1,711,086	874,226	376,439
Wescan Goldfields Inc. (warrants)	428,571	-	-
Western Potash Corporation (3)	500,000	250,000	250,000
Western Potash Corporation (warrants)	250,000	-	-
Oil and Gas			
Arsenal Energy Inc. (1)	35,000	60,383	14,000
Berkeley Resources Inc. (1)	166,660	149,994	29,166
Blackdog Resources Ltd. (1)	272,710	149,990	81,813
Cheyenne Energy Inc. (1)	714,280	249,998	28,571
Enhanced Oil Resources (warrants) (1)	125,000	-	-
Fair Sky Resources Inc. (1)	65,570	199,989	7,868
G2 Resources Inc. (1) (warrants)	175,000	-	-
Ivory Energy Inc. (1)	230,117	195,599	147,275
Nordic Oil & Gas Ltd. (1)	291,000	116,400	212,430
Panterra Resources Corp. (1)	62,000	15,500	11,780
Prairie Hunter Energy Corp. (3)	208,333	250,000	220,000
Ruby Energy Inc. (3)	916,996	550,198	484,176
Southern Pacific Resource Corp. (1)	248,150	548,411	394,559
Trivello Energy Corp. (1)	1,000,000	200,000	50,000
Trivello Energy Corp. (warrants)	500,000	-	-
	<u>37,940,957</u>	<u>\$ 15,008,273</u>	<u>\$ 26,156,667</u>

(1) Listed on TSX Venture Exchange

(2) Listed on TSX

(3) Private

4. Loans and advances receivable

In 2008, the Corporation entered into two short-term loan agreements, one with Lakota Resources Inc. for \$350,000 and the other with How2Energy Inc. for \$300,000. Both loans are due on demand and bear interest at a rate of prime plus two percent. No interest has been accrued on the loans due to the uncertainty of collectability. At year end, the loans have been written down to their estimated fair value.

5. Capital assets

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Furniture and equipment	\$ 91,454	\$ 13,718	\$ 77,736	\$ -
Leasehold improvements	141,177	14,118	127,059	-
	<u>\$ 232,631</u>	<u>\$ 27,836</u>	<u>204,795</u>	<u>\$ -</u>

6. Bank indebtedness

The Corporation has a line of credit facility with the HSBC Bank Canada (the "Bank") and has provided the Bank with a general security interest in all of the assets of the Corporation and a pledge of all investments. Interest is charged at a rate of prime plus 2% for any amount up to \$200,000 and 21% for any amount over \$200,000. As at December 31, 2008 the Corporation's indebtedness to the Bank under this facility was \$192,617 (2007 – \$7,788). This amount has been netted against cash on the balance sheet.

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

7. Due to related party

Amounts due to a related party are owed to 49 North 2008 Resource Flow Through Limited Partnership, a company under common control. Amounts are unsecured, non-interest bearing and have no specific terms of repayment.

8. Management fees and performance bonus

TMM Portfolio Management Inc. ("TMM") is responsible for the management of the Corporation's investment portfolio in accordance with the terms of a portfolio management agreement made January 1, 2008 (the "Management Agreement") and is to be reimbursed by the Corporation for all expenses reasonably and properly incurred in conducting the Corporation's business and in performing its duties and obligations under the Management Agreement. Additionally, pursuant to the Management Agreement, TMM: (a) is entitled to a quarterly management fee equal to 0.5% of the net asset value of the Corporation calculated as of the last business day of the relevant fiscal quarter of which, \$160,288 is payable at year-end; and (b) starting with the Corporation's fiscal year ended December 31, 2008, may be entitled to an annual performance bonus, calculated as of the last business day of the applicable fiscal year, in an amount in respect of each common share that is outstanding as of such day, equal to 20% of the amount, if any, by which the sum of the net asset value per common share as of that date, plus all dividends per common share during that fiscal year, exceeds the greater of \$16.34 and the net asset value per Common share as of the last business day of the preceding fiscal year.

9. Convertible debentures

The Former Partnership completed the issue and sale of a \$2,000,000 convertible secured debenture on a private placement basis on June 28, 2007; which debenture was converted into 400,000 Units effective January 1, 2008 and then exchanged for 200,000 preferred shares of the corporation that resulted from a reorganization of the Former Partnership into a corporate structure that occurred January 1, 2008. Prior to its conversion, the debentures accrued interest at 9% per annum. The \$1,950,000 carrying amount of the debenture for the purposes of the financial statements as at December 31, 2007 approximated its fair value as determined by reference to current market conditions, less the equity component which had a fair market value at issue date of \$50,000.

On July 24, 2008, the Corporation raised proceeds of \$5,000,000 on the private placement of 9% convertible unsecured subordinate debentures. The debentures have a three-year term, maturing July 24, 2011, and bear interest from the date of issue at 9% per annum which, unless the debentures are earlier converted or redeemed in accordance with their terms, will be paid on July 24 in each of 2009 and 2010 and on maturity.

The debentures are convertible, at the option of the respective holders, at any time or from time to time prior to 5:00 p.m. (Toronto time) on July 23, 2011, into fully paid, non-assessable common shares of the Corporation at a conversion price of (i) \$11.00 per share if converted prior to July 24, 2009, (ii) \$11.75 per share if converted on or after July 24, 2009 and before July 24, 2010, and (iii) \$12.50 per share if converted on or after July 24, 2010 and prior to the conversion expiry time.

Subject to certain conditions precedent, the Corporation may redeem the debentures prior to maturity at a redemption price equal to their principal amount plus interest accruing to but otherwise unpaid to the date preceding the redemption date plus a premium equal to 6% of the outstanding principal amount if redeemed prior to July 24, 2009, 4% of the outstanding principal amount if redeemed on or after July 24, 2009 but before July 24, 2010, or 2% of the outstanding principal amount if redeemed on or after July 24, 2010 and prior to maturity.

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

9. Convertible debentures (continued)

These conditions precedent include the requirement that (i) the Corporation send notice of its intent to redeem the debentures and of the proposed redemption date to all debenture holders at least 60 days and not more than 90 days prior to such redemption date, (ii) at the time of sending such notice, the weighted average trading price of the company's common shares for the 60 days preceding the date of the notice is equal to or exceeds the then applicable conversion price of the debentures, and (iii) on the redemption date, the Corporation must redeem all of the outstanding debentures that have not then been converted into common shares.

Of the aggregate principal amount of the debentures, \$2,000,000 was issued to the holder of 200,000 second preferred, series 1 shares of the company that were repurchased and redeemed by the Corporation concurrent with the closing at a price of approximately \$2,100,000, representing the \$2,000,000 issue price of such shares plus dividends that accrued thereon from January 1, 2008 to June 23, 2008. As a result, the Corporation no longer has any preferred shares outstanding.

For accounting purposes, the debentures contain both a liability component and an equity component, being the holders' conversion rights, which have been separately presented on the balance sheet. The Corporation allocated the face value of the debentures to the liability and equity components. At issuance, the Corporation estimated the fair value of the conversion option by deducting the present value of the future cash outflows of the debentures, if no conversion rights are attached, from the face value of the principal of the debentures. The fair value of the liability component was determined by discounting the stream of future payments of loan principal and interest at the estimated prevailing market rate of 15.74% for a comparable debt instrument that excluded any conversion privilege by the holders. The residual carrying value of the debentures are to be accreted to the redemption value of the debenture to the redemption date of the debenture based on an effective annual interest rate.

Face value of convertible debentures	\$5,000,000
Plus: accretion	106,581
Less: debt issue costs	(160,000)
Equity portion of convertible debentures	<u>(734,500)</u>

Balance, December 31, 2008 **\$4,212,081**

10. Common shares

Authorized an unlimited number of common shares without par value.

Common shares issued

	<u>Common Shares</u>	<u>Share Capital</u>
Balance, December 31, 2007	<u>-</u>	<u>\$ -</u>
Exchanged for units of the Former Partnership	1,399,157	\$ 19,415,209
Exchanged for units of the 2007 Fund	497,520	5,830,092
Shares repurchased and cancelled	(92,600)	(733,945)
Share issue costs	-	<u>(196,390)</u>
Balance, December 31, 2008	<u><u>1,804,077</u></u>	<u><u>\$ 24,314,966</u></u>

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

10. Common shares (continued)

Stock option plan

The directors of the Corporation have adopted, and the shareholders have approved, a stock option plan (the "Option Plan"), pursuant to which the directors may from time to time grant options for up to 10% of its issued and outstanding shares. The purpose of the Option Plan is to attract, retain and motivate directors, employees and consultants of the Corporation and its subsidiaries and to advance the interests of the Corporation by providing such persons with the opportunity, through stock options, to acquire an equity interest in the Corporation.

A summary of the status of the Corporation's stock option plan and changes during the year ended December 31, 2008 is presented below.

	<u>Options</u>	<u>Price</u>	<u>Average Life</u>
Outstanding, December 31, 2007	-	-	-
Options granted	75,000	10.00	9.5
Outstanding, December 31, 2008	75,000	\$ 10.00	9.5

The fair value of stock options issued is estimated using the Black-Scholes option-pricing model, with the following assumptions: risk free rate, volatility, dividend yield and weighted average expected option life and expected forfeiture rate. During the year, the Corporation granted 75,000 stock options to directors, officers, employees and consultants. The exercise price for the options granted is \$10.00 and the options expire July 16, 2018 (subject to earlier termination in certain circumstances in accordance with the Option Plan). The value of these options, using the Black-Scholes option-pricing model, was \$635,818 which was allocated to the stock-based compensation expense with a corresponding increase in contributed surplus. Assumptions used in the pricing model for the year are as follows: risk-free interest rate 4.21%, expected life of options 10 years, annualized volatility 83% and dividend rate of nil.

Contributed surplus

The fair values of certain stock options have been valued using the Black-Scholes option-pricing model. The fair value on the grant of these securities is added to contributed surplus. Upon exercise, the corresponding amount of contributed surplus related to the security is removed from contributed surplus and added to share capital. A summary of the contributed surplus activity is as follows:

Balance, December 31, 2007	\$ -
Fair value of stock options granted	<u>635,818</u>
Balance, December 31, 2008	<u>\$ 635,818</u>

Shareholder rights plan

The directors of the Corporation have approved a shareholder rights plan ("Rights Plan"). In the event a bid to acquire control of the Corporation is made, the Rights Plan is designed to give the directors of the Corporation time to consider alternatives to allow shareholders to receive full and fair value for their shares. In the event that a bid, other than a permitted bid, is made, shareholders become entitled to exercise rights to acquire common shares of the Corporation at a significant discount to the market price.

Normal course issuer bid ("NCIB")

The Former Partnership announced in July of 2007 its intention to purchase up to 276,041 Units (approximately 138,020 common shares after adjusting for the conversion of 49 North from its former partnership structure to its current corporate structure and the 2 for 1 consolidation that occurred in the January 1, 2008 Conversion Transaction) in a normal course issuer bid ("NCIB") during the period commencing July 23, 2007 and ending July 23, 2008. Following the expiry of that NCIB, the Corporation, in

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

10. Common shares (continued)

Normal course issuer bid (“NCIB”) (continued)

August 2008, announced its intention to commence a new NCIB pursuant to which it may repurchase up to 185,865 common shares during the period commencing August 6, 2008 and ending on the earlier of August 6, 2009 and the date that the maximum of 185,865 common shares have been repurchased. Purchases under the bids are to be made in open market transactions through the facilities and in accordance with the rules of the TSX Venture Exchange at market prices prevailing at the time of acquisition. All common shares purchased under the bids are cancelled. The Corporation purchased 92,600 common shares pursuant to these NCIBs during the year ended December 31, 2008.

11. Related party transactions

During the year, management fees of \$362,144 were accrued or paid and \$88,195 of expenses were reimbursed to TMM, a company controlled by the CEO of the Corporation. Of these amount \$160,288 is payable at year end. These transactions are in the normal course of operations and are measured at the exchange amount and is the amount of consideration established and agreed to by the related parties.

12. Income taxes

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation’s future assets and liabilities are as follows:

	<u>2008</u>	<u>2007</u>
Future income tax asset (liability)		
Non-capital loss carryforwards	\$ 699,766	\$ -
Deferred share issue costs	88,365	-
Investments	<u>(662,189)</u>	<u>-</u>
	<u><u>\$ 125,942</u></u>	<u><u>\$ -</u></u>

A reconciliation of income taxes at Canadian statutory rates with the reported income tax is as follows:

	<u>2008</u>	<u>2007</u>
Loss for the year before taxes	<u>\$ (26,028,531)</u>	<u>-</u>
Expected income tax recovery	(8,329,130)	-
Non-taxable portion of capital gains	(1,330,002)	-
Non-taxable portion of stock-based compensation	203,462	-
Non-taxable portion of unrealized losses	5,349,561	-
Tax rate differential	22,293	-
Other differences	<u>21,267</u>	<u>-</u>
	<u><u>\$ (4,062,549)</u></u>	<u><u>\$ -</u></u>

At December 31, 2008, the Corporation had non-capital losses for tax purposes of \$2,257,000, which may be carried forward to reduce income for tax purposes in future periods. The non-capital loss will begin to expire in 2028.

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

13. Capital management

The Corporation's objectives when managing capital are:

- (a) to ensure that the Corporation maintains the level of capital necessary to meet the requirements of its brokers and bank;
- (b) to allow the Corporation to respond to changes in economic and/or marketplace conditions by maintaining the Corporation's ability to purchase new investments;
- (c) to give shareholders sustained growth in shareholder value by increasing shareholders' equity; and,
- (d) to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

The Corporation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Corporation maintains or adjusts its capital level to enable it to meet its objectives by:

- (a) realizing proceeds from the disposition of its investments;
- (b) utilizing leverage in the form of margin (due from brokers) and the Corporation's bank credit line (bank indebtedness);
- (c) raising capital through equity financings;
- (d) borrowing funds in the form of advances from related parties; and,
- (e) purchasing the Corporation's own shares for cancellation pursuant to its normal course issuer bid.

The Corporation is not subject to any capital requirements imposed by a regulator. There were no changes in the Corporation's approach to capital management during the period. To date, the Corporation has not declared any cash dividends to its common shareholders as part of its capital management program. The Corporation's management is responsible for the management of capital and monitors the Corporation's use of various forms of leverage on a daily basis. The Corporation expects that its current capital resources will be sufficient to discharge its liabilities as at December 31, 2008.

14. Financial instruments

The investment operations of the Corporation's business involve the purchase and sale of securities and, accordingly, the majority of the Corporation's assets are currently comprised of financial instruments. The use of financial instruments can expose the Corporation to several risks, including market, credit and liquidity risks. A discussion of the Corporation's use of financial instruments and their associated risks is provided below.

(a) Liquidity risk:

Liquidity risk is the risk that the Corporation will have insufficient cash resources to meet its financial obligations as they come due. The Corporation's liquidity and operating results may be adversely affected if the Corporation's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions, generally or related to matters specific to the Corporation, or if the value of the Corporation's investment's declines, resulting in losses upon disposition. The Corporation generates cash flow primarily from its financing activities and proceeds from the disposition of its investments, in addition to interest and dividend income earned on its investments. The Corporation has sufficient marketable securities which are freely tradable and relatively liquid to fund its obligations as they become due under normal operating conditions.

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

14. Financial instruments (continued)

(a) Liquidity risk: (continued)

The Corporation uses financial leverage (or “margin”) when purchasing investments. Trading on margin allows the Corporation to borrow part of the purchase price of the investments (using marginable investments as collateral), rather than pay for them in full. Buying on margin allows the Corporation to increase its portfolio size by increasing the number and amount of investments through leverage. However, if the market moves against the Corporation’s positions and the Corporation’s investments decline in value, the Corporation may be required to provide additional funds to its brokers. Given the nature of the Corporation’s business, the Corporation may not have sufficient cash on hand to meet margin calls and may be required to liquidate investments prematurely and/or at a loss, in order to generate funds needed to satisfy the Corporation’s obligations.

The Corporation has at times borrowed funds from other sources to meet its obligations, but there can be no assurances that such funds will be available in the future, or available on reasonable terms, and the absence of available funding and/or the sale of the Corporation’s investments in order to meet margin calls could have a materially adverse impact on the Corporation’s operating results.

The Corporation manages liquidity risk by reviewing the amount of margin available, and managing its cash flow. The Corporation holds investments which can be readily converted into cash when required. During 2008, the Corporation reduced its reliance on margin relative to prior years and management expects to maintain a minimal margin borrowing balance in the near term future.

(b) Market risk:

Market risk is the risk that the fair value of, or future cash flows from, the Corporation’s financial instruments will significantly fluctuate because of changes in market prices. The value of the financial instruments can be affected by changes in interest rates, equity and commodity prices. The Corporation is exposed to market risk in trading its investments and unfavorable market conditions could result in dispositions of investments at less than favorable prices.

The Corporation manages market risk by having a portfolio which is not singularly exposed to any one issuer or class of issuers. The Corporation’s investment activities are currently concentrated primarily across several sectors in the natural resource industry, including potash, oil and gas, coal, precious metals, base metals, uranium, diamonds and other commodities.

(c) Interest rate risk:

Interest rate risk is the impact that changes in interest rates could have on the Corporation’s earnings and liabilities. As at December 31, 2008, the Corporation had liabilities payable (collectively “interest risk liabilities”), which bear interest at rates fluctuating with the prime rate. All of the interest rate risk liabilities can be repaid by the Corporation at any time, without notice or penalty, which provides the Corporation with some ability to manage and mitigate its interest rate risk.

(d) Credit risk:

Credit risk is the risk associated with the inability of a third party to fulfill its payment obligations. The Corporation is exposed to the risk that third parties that owe it money or securities (in connection with its loans receivable, for example) will not perform their underlying obligations.

At December 31, 2008 the Corporation had loans and advances receivable from two companies, totaling \$423,529 (\$650,000 before fair value adjustment) which represents approximately 4.9% of the Corporation’s total assets. The Corporation is working with the third party companies to convert the loans receivable to equity positions in each separate company.

49 NORTH RESOURCE FUND INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

14. Financial instruments (continued)

(e) Fair value:

The fair value of the Corporation's financial assets and liabilities approximate their carrying values unless otherwise disclosed in the accounting policies.

15. Future accounting changes

Recent accounting pronouncements:

- (a) The CICA issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset. As a result, start-up costs must be expensed as incurred. Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. These new standards are effective for years beginning on or after October 1, 2008. The Corporation is currently assessing the impact of these standards on its financial statements.
- (b) In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies are to converge with International Financial Reporting Standards ("IFRS") effective for fiscal periods beginning on or after January 1, 2011. The Corporation continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

16. Subsequent events

- (a) Effective February 2, 2009, 49 North 2008 Resource Flow-Through Limited Partnership (the "2008-I Fund") and 49 North 2008-II Resource Flow-Through Limited Partnership (the "2008-II Fund") transferred substantially all of their respective assets - valued at \$4,016,711 in the case of the 2008-I Fund and \$1,820,069 in the case of the 2008-II Fund, respectively, - on a tax deferred "roll-over" basis to the Corporation in exchange for common shares of the Corporation, including 1,656,376 shares issued to the 2008-I Fund and 750,544 shares issued to the 2008-II Fund. Following these transfers, the two Funds were wound up and dissolved and the Corporation's shares of the Funds were distributed to their respective partners. As a result, each (former) limited partner of the 2008-I Fund received approximately 1.809 shares of the Corporation for each limited partnership unit they formerly held in the 2008-I Fund and each (former) limited partner of the 2008-II Fund received approximately 3.425 shares of the Corporation for each limited partnership unit they formerly held in the 2008-II Fund. The transactions also resulted in the number of outstanding shares of the Corporation increasing from 1,803,777 common shares that were outstanding immediately before the transactions to 4,210,697 common shares immediately after the transactions.
- (b) On April 2, 2009, the board of directors of the Corporation approved the grant of 295,000 stock options pursuant to the Corporation's 2008 Stock Option Plan. 140,000 of the options were granted to directors and executive officers with the balance granted to employees and consultants. The options are exercisable at \$2.00 per share and, if not exercised, expire April 2, 2019, subject to earlier expiration in accordance with the Plan and applicable policies of the TSX Venture Exchange. At the same time, options for 75,000 common shares that were originally granted in July 2008 were cancelled.

17. Comparative figures

The audited comparative figures are those of the Former Partnership, as the Corporation has continued on the operations of the Former Partnership.