

**49 NORTH RESOURCE FUND INC.**  
**INTERIM FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Unaudited – Prepared by Management)**

**NOTICE OF NO AUDITOR REVIEW**

The accompanying unaudited interim financial statements have been prepared by management.

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

**49 NORTH RESOURCE FUND INC.**

**BALANCE SHEET**  
(unaudited)

**ASSETS**

	June 30 <u>2008</u>	December 31 <u>2007</u>
Equity investments, at fair value (Note 3)	\$ 50,693,747	\$ 26,156,667
Loans and advances receivable (Note 4)	468,079	-
Capital assets (Note 5)	194,169	-
	<u>\$ 51,355,995</u>	<u>\$ 26,156,667</u>

**LIABILITIES**

Bank indebtedness (Note 6)	\$ 1,482,851	\$ 215,880
Accounts payable	310,350	7,179
Management fees payable (Note 7)	295,652	-
Performance bonus payable (Note 7)	949,093	-
Contingent performance bonus (Note 7)	1,934,630	1,637,593
Loan payable (Note 8)	814,000	-
Future income taxes	5,175,971	-
Convertible debenture	-	1,950,000
Preferred shares (Note 9)	1,950,000	-
	<u>12,912,547</u>	<u>3,810,652</u>

**SHAREHOLDERS' EQUITY**

Common shares/units (Note 10)	24,815,853	12,031,070
Equity portion of preferred shares/debenture (Note 9)	50,000	50,000
Retained earnings	13,577,595	10,264,945
	<u>38,443,448</u>	<u>22,346,015</u>
	<u>\$ 51,355,995</u>	<u>\$ 26,156,667</u>

**Approved by the Board**

signed "Tom MacNeill"  
Director

signed "Harvey Bay"  
Director

**49 NORTH RESOURCE FUND INC.****STATEMENT OF OPERATIONS AND RETAINED EARNINGS**

(unaudited)

**FOR THE SIX MONTHS ENDED**

	For the three months ended June 30		For the six months ended June 30	
	2008	2007	2008	2007
<b>Net investment gains</b>				
Realized gains	103,864	583,678	241,079	1,479,592
Unrealized gains (losses)	15,584,039	624,795	17,546,280	(244,609)
Interest income	5,719	-	8,585	3,054
	<u>\$ 15,693,622</u>	<u>\$ 1,208,473</u>	<u>\$ 17,795,944</u>	<u>\$ 1,238,037</u>
<b>Expenses</b>				
Business development and investor relations	218,855	-	316,177	-
Interest	97,820	19,881	213,055	35,551
Management fees	198,786	66,781	295,652	139,322
Management performance bonus	1,934,630	-	1,934,630	-
Wages and benefits	26,312	-	28,179	-
Office and administration	29,895	-	31,153	-
Professional fees	51,396	9,190	63,396	18,380
Transaction costs	42,400	61,090	80,335	122,181
	<u>2,600,094</u>	<u>156,942</u>	<u>2,962,577</u>	<u>315,434</u>
<b>Income before income taxes</b>	<b>13,093,528</b>	<b>1,051,531</b>	<b>14,833,367</b>	<b>922,603</b>
Future income tax	1,255,772	-	1,255,772	-
<b>Net income</b>	<b>11,837,756</b>	<b>1,051,531</b>	<b>13,577,595</b>	<b>922,603</b>
Retained earnings, beginning of period	1,739,839	76,135	-	205,063
<b>Retained earnings, end of period</b>	<b>\$ 13,577,595</b>	<b>\$ 1,127,666</b>	<b>\$ 13,577,595</b>	<b>\$ 1,127,666</b>
<b>Basic earnings per share</b>	<b>\$ 6.40</b>	<b>\$ 0.37</b>	<b>\$ 7.68</b>	<b>\$ 0.33</b>
<b>Diluted earnings per share</b>	<b>\$ 6.01</b>	<b>\$ 0.37</b>	<b>\$ 6.63</b>	<b>\$ 0.33</b>

**49 NORTH RESOURCE FUND INC.****STATEMENT OF CASH FLOWS**  
(unaudited)  
**FOR THE SIX MONTHS ENDED**

	For the three months ended June 30		For the six months ended June 30	
	2008	2007	2008	2007
<b>Cash flows from Operating Activities</b>				
Net income	\$ 11,837,756	\$ 1,051,531	\$ 13,577,595	\$ 922,603
Items not affecting cash				
Realized gains	(103,864)	(583,678)	(241,079)	(1,479,592)
Amortization	7,245	-	7,245	-
Performance bonus	1,934,630	-	1,934,630	-
Future income taxes	1,255,772	-	1,255,772	-
Unrealized gains (losses)	(15,584,039)	(624,795)	(17,546,280)	244,609
Net changes in non-cash working capital items related to operations:	293,655	(48,951)	563,502	295,951
	<b>(358,845)</b>	<b>(205,893)</b>	<b>(448,615)</b>	<b>(16,429)</b>
<b>Cash flows from Investing Activities</b>				
Purchase of capital assets	(198,401)	-	(201,415)	-
Purchase of investments	(2,577,624)	(5,330,141)	(6,730,442)	(8,123,599)
Proceeds from disposal of investments	3,631,019	2,676,241	6,649,293	6,395,369
Loans receivable	(115,212)	-	(468,709)	-
Cash received on reorganization transactions	-	-	817,586	-
	<b>739,782</b>	<b>(2,653,900)</b>	<b>66,313</b>	<b>(1,728,230)</b>
<b>Cash flows from Financing Activities</b>				
Payment of performance bonus	(200,000)	-	(450,000)	-
Repayment of loan payable	(125,000)	-	(150,000)	(500,000)
Issuance of convertible debenture	-	2,000,000	-	2,000,000
Repurchase of common shares	(287,969)	-	(304,159)	-
Share issue costs	(196,390)	-	(196,390)	-
	<b>(809,359)</b>	<b>2,000,000</b>	<b>(1,100,549)</b>	<b>1,500,000</b>
<b>Net decrease in cash during the period</b>	<b>(428,422)</b>	<b>(859,793)</b>	<b>(1,482,851)</b>	<b>(244,659)</b>
Cash, beginning of period	(1,054,429)	683,824	-	68,690
Cash, end of period	<b>\$ (1,482,851)</b>	<b>\$ (175,969)</b>	<b>\$ (1,482,851)</b>	<b>\$ (175,969)</b>

## **49 NORTH RESOURCE FUND INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

(unaudited)

**JUNE 30, 2008**

#### **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 was 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 *The Business Corporations Act* (Saskatchewan) 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 was

## **49 NORTH RESOURCE FUND INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

(unaudited)

**JUNE 30, 2008**

**1. Organization and business description** (continued)

**2007 Fund Roll-over Transaction** (continued)

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**

(unaudited)

**JUNE 30, 2008**

**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%

**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 difference 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 warrants 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.

**Revenue recognition**

Security transactions are recorded on a settlement basis. Realized gain 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.

**49 NORTH RESOURCE FUND INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

(unaudited)

**JUNE 30, 2008**

**3. Equity investments**

The Corporation's investments consist of the following

	<u>Shares/Warrants</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Mineral Exploration:</b>			
Alix Resources (1)	500,000.00	100,000	197,500
Alix Resources-Warrants	250,000.00	-	-
Amador Gold Corp.(1)	46,000	20,922	9,660
Athabasca Potash Inc. (2)	2,156,325	1,900,202	16,495,886
Blue Sky Uranium Corp. (1)	200,000	96,915	54,000
Blue Sky Uranium Corp.-Warrants	120,000	-	-
Buchans River Ltd. (1)	431,000	249,980	51,720
Canalaska Uranium Ltd. (1)	1,043,911	450,466	323,612
Canalaska Uranium Ltd.-Warrants	688,055	-	-
Claude Resources Inc. (2)	465,468	813,365	418,921
Copper Canyon Resources Ltd. (1)	2,126,235	1,002,883	786,707
Copper Canyon Resources Ltd.-Warrants	294,117	-	-
Copper Reef Mines Ltd. (4)	2,375,000	712,515	403,750
Copper Reef Mines Ltd.-Warrants	750,000	-	-
Eagle Plains Resources Ltd. (1)	1,041,500	735,226	312,450
Eagle Plains Resources Ltd.-Warrants	500,000	-	-
El Nino Ventures Inc. (1)	185,540	167,989	34,325
Enhanced Oil Resources-Warrants (1)	125,000	-	-
Erdene Gold (2)	140,000	196,000	126,000
ESO Uranium Corp. (1)	590,000	485,180	97,350
ESO Uranium Corp.-Warrants	250,000	-	-
G2 Resources Inc.-Warrants	175,000	-	-
Golden Band Resources Inc. (1)	50,000	20,115	17,750
Goldsource Mines Inc. (1)	852,107	1,100,870	15,636,163
Great Western Minerals Group Ltd.(1)	2,748,000	1,155,535	810,660
Halo Resources Ltd.(1)	1,131,915	523,922	181,106
Halo Resources Ltd.-Warrants	300,000	-	-
J-Pacific Gold Inc.(1)	391,000	156,400	95,795
J-Pacific Gold Inc.-Warrants	625,000	-	-
Lakota Resources Inc.(1)	1,815,500	349,772	335,868
Laurion Mineral Exploration Inc.(1)	2,077,665	230,767	155,825
Laurion Mineral Exploration Inc.-Warrants	1,063,832	-	-
Northern Continental Resources Inc.(1)	515,500	203,653	90,213
Northern Continental Resources Inc.- Warrants	250,000	-	-
Northern Freegold Resources (1)	1,441,552	1,230,784	1,196,488
Northern Freegold Resources-Warrants	523,026	-	-
NuCoal Energy Corp. (3)	400,000	100,000	100,000
Orca Minerals Ltd.(3)	70,000	35,000	35,000
Panwestern Energy Inc.(1)	1,559,322	701,696	1,637,288
Petro Uno Resources (1)	625,000	243,750	343,750
Petro Uno Resources-Warrants	312,500	-	-
Raytec Metals Corp.(1)	50,000	18,496	85,000
Raytec Metals Corp.-Warrants	454,500	-	-

## 49 NORTH RESOURCE FUND INC.

### NOTES TO THE FINANCIAL STATEMENTS

(unaudited)

JUNE 30, 2008

#### 3. Equity investments (continued)

	<u>Shares/Warrants</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Mineral Exploration</b> (continued):			
Red Rock Energy Inc. (1)	1,965,856	1,107,591	589,757
Rochester Resources (1)	10,000	17,705	10,400
Rockport Mining Corp. (3)	486,274	364,721	364,721
Roxgold Inc. (1)	740,000	316,750	133,200
Roxgold Inc.-Warrants	360,000	-	-
Santoy Resources Ltd. (1)	400,000	260,000	102,000
Santoy Resources Ltd.-Warrants	75,000	-	-
Shore Gold Inc. (2)	109,000	361,002	291,030
Skeena Resources Ltd. (1)	346,500	111,498	72,765
Skeena Resources Ltd.-Warrants	100,000	-	-
Soltoro Ltd. (1)	380,000	175,415	136,800
Stikine Gold Corporation (1)	1,666,667	500,000	175,000
Tagish Lake Gold Corp. (1)	1,423,846	320,883	49,835
Tagish Lake Gold Corp.-Warrants	576,923	-	-
Titan Uranium Ltd. (1)	98,000	145,894	49,980
Titan Uranium Ltd.-Warrants	81,000	-	-
Troy Energy Corp. (1)	398,800	299,000	63,808
UEX Corp. (1)	10,000	34,350	44,600
Vaaldiam Resources (1)	191,000	215,807	57,300
Valgold Resources Inc. (1)	334	100	35
Valgold Resources Inc.-Warrants	833,334	-	-
Vena Resources Inc. (1)	135,000	103,244	78,300
Vena Resources Inc.-Warrants	430,000	-	-
Virginia Uranium (3)	73,333	100,000	136,364
Wescan Goldfields Inc. (1)	3,060,500	1,511,951	3,488,970
Western Potash Corporation (1)	1,250,000	675,009	2,062,500
Western Potash Corporation-Warrants	300,000	-	-
Weststar Resources Corp. (1)	50,000	39,763	49,000
<b>Oil &amp; Gas:</b>			
Berkley Resources Inc. (1)	116,660	104,994	21,582
Blackdog Resources Ltd. (1)	250,710	137,890	71,452
Cheyenne Energy Corp. (1)	714,280	249,998	-
Fair Sky Resources Inc. (1)	65,570	199,989	-
Ivory Energy Inc. (1)	230,117	195,599	60,981
Nordic Oil & Gas Ltd. (1)	551,000	150,357	319,580
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	484,176
Southern Pacific Resource Corp. (1)	900	1,987	630

## 49 NORTH RESOURCE FUND INC.

### NOTES TO THE FINANCIAL STATEMENTS

(unaudited)

JUNE 30, 2008

#### 3. Equity investments (continued)

Oil & Gas (continued):	<u>Shares/Warrants</u>	<u>Cost</u>	<u>Fair Value</u>
Trivello Energy Corp. (1)	300,000	60,000	33,000
Trivello Energy Corp.-Warrants	500,000	-	-
Welton Energy Corporation (2)	147,059	100,000	41,177
Wildcat Exploration Ltd. (3)	2,102,000	520,105	336,320
	<u>54,964,426</u>	<u>23,262,469</u>	<u>50,693,747</u>

(1) Listed on TSX Venture Exchange

(2) Listed on TSX

(3) Private

(4) Listed on CNQ Exchange

#### 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 \$100,000. Both loans are due on demand and bear interest at a rate of prime plus two percent. To date \$8,079 of interest has accrued on the loans.

#### 5. Capital assets

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Furniture and equipment	\$ 75,548	\$ 4,099	\$ 71,449
Leasehold improvements	125,867	3,147	122,720
	<u>\$ 201,415</u>	<u>\$ 7,246</u>	<u>\$ 194,169</u>

#### 6. Bank indebtedness

The Corporation has a line of credit facility with the HSBC Bank of Canada (the "Bank") and has provided the Bank with a general security interest in all of the assets of the Corporation, a pledge of all investments and a personal guarantee by the CEO of the Corporation. 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 June 30, 2008 the Corporation's indebtedness to the Bank under this facility was \$260,856.

The Corporation has a margin account with Union Securities Ltd., which bears interest at a rate of prime plus 1%. As at June 30, 2008 the indebtedness to Union Securities Ltd. under this facility was \$1,235,706.

#### 7. Expenses of the corporation

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; 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.

**49 NORTH RESOURCE FUND INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

(unaudited)

**JUNE 30, 2008**

**8. Loan payable**

As part of the 2007 Fund Reorganization transaction (see Note 1), the Corporation assumed indebtedness then owing by the 2007 Fund to the CEO of the Corporation (the "Lender") in respect of monies loaned for the payment of issuance costs incurred in 2007 by the 2007 Fund. This loan, together with interest thereon at the prime plus 2%, is payable on demand.

**9. Preferred shares**

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 debenture accrued interest at 9% per annum. The \$1,950,000 carrying amount of the preferred shares for the purposes of the financial statements approximates 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. Dividends payable of \$89,753 have been accrued and recorded as interest expense in the statement of operations.

**10. Common shares**

Authorized: an unlimited number of common shares without par value.

**Common shares issued**

	<u>Common Shares</u>	<u>Share Capital</u>
<b>Balance, December 31, 2007</b>	<b>-</b>	<b>\$ -</b>
Exchanged for units of the Former Partnership	1,399,157	\$ 19,486,310
Exchanged for units of the 2007 Fund	497,520	5,830,092
Shares repurchased and cancelled	(31,800)	(304,159)
Share issue costs	-	(196,390)
<b>Balance, June 30, 2008</b>	<b><u>1,864,877</u></b>	<b><u>\$ 24,815,853</u></b>

**Shareholder rights plan**

The directors of the Corporation have adopted and the shareholders 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.

**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 the Corporation's 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.

## **49 NORTH RESOURCE FUND INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

(unaudited)

**JUNE 30, 2008**

#### **10. Common shares (continued)**

##### **Normal course issuer bid (“NCIB”)**

In July 2007 the Former Partnership announced that it was implementing a normal course issuer bid to acquire, between July 23, 2007 and July 23, 2008 up to 276,041 Units, representing approximately 9.86% of the total Units of the Former Partnership that were then outstanding (138,200 common shares of the Corporation after adjusting for the January 1, 2008 Conversion Transaction and 2 for 1 consolidation of 49 North’s securities that occurred as part of that transaction). The Corporation purchased 31,800 common shares during the six months ended June 30, 2008 pursuant to this NCIB, all of which purchases were made in open market transactions through the facilities of the TSXV. All common shares purchased pursuant to the NCIB have been canceled.

#### **11. Related party transactions**

During the period, management fees of \$295,652, interest of \$47,221 and a contingent performance bonus of \$1,934,630 were accrued, to TMM, a company controlled by the CEO of the Corporation. In addition, \$36,989 of interest was paid to the CEO of the Corporation.

Also during the period, 49 North 2008 Resource Flow-Through Limited Pursuant (the “2008 Fund”), an investment fund that shares common management with the Corporation, completed an initial public offering of limited partnership units pursuant to a prospectus filed with securities regulators in all provinces and territories of Canada, raising gross proceeds of \$9,156,550 on the issuance of 915,655 units at \$10 per unit. The Corporation is party to a transfer agreement with the 2008 Fund, pursuant to which it is expected that on or about February 15, 2009 substantially all of the 2008 Fund’s assets will be transferred to, and in exchange for common shares of, the Corporation; which common shares will then be distributed to the 2008 Fund partners upon the winding up of the 2008 Fund which is expected to occur immediately thereafter (the “Proposed Roll-over Transaction”). The Corporation is also party to a loan agreement with the 2008 Fund pursuant to which the Corporation has agreed to lend to the 2008 Fund an amount up to but not exceeding the actual agent fees and offering costs incurred by the 2008 Fund in connection with its public offering as well as to provide a revolving credit facility to fund or reimburse the 2008 Fund for certain other operating and administrative expenses in 2008 and/or 2009 (the “Loan Facility”). As of June 30, 2008, commitments under this Loan Facility totaled \$1,030,240. All advances bear interest at prime plus 2%, are payable on demand and are secured by all present and after acquired property of the 2008 Fund, including a pledge and hypothecation of all of the 2008 Fund’s portfolio investments. Pending demand, interest is payable monthly and, regardless of demand, the Loan Facility is repayable in full on the early of the day preceding implementation of the Proposed Roll-over Transaction, the date of dissolution of the 2008 Fund, and March 31, 2010.

These transactions are in the normal course of operations and are measured at the exchange amount, which approximates fair value and is the amount of consideration established and agreed to by the related parties.

#### **12. 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;
- (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;

## **49 NORTH RESOURCE FUND INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

(unaudited)

**JUNE 30, 2008**

#### **12. Capital management** (continued)

- (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;
- (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 June 30, 2008.

#### **13. Financial instruments**

The investment operations of 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 investments 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.

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 pre-maturely 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.

## **49 NORTH RESOURCE FUND INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

(unaudited)

**JUNE 30, 2008**

#### **13. Financial instruments (continued)**

(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: uranium, oil and gas, precious metals, potash, rare earths, and base metals.

(c) Interest risk:

Interest risk is the impact that changes in interest rates could have on the Corporation's earnings and liabilities. As at June 30, 2008, the Corporation had liabilities comprised of bank indebtedness, management fees payable, performance bonus payable and loan payable (collectively "interest risk liabilities"), which bear interest at rates fluctuating with the prime rate.

All of the interest 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 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.

The Corporation's investments in the loans receivable total \$450,000. The Corporation believes it is not significantly exposed to credit risk as these investments comprise less than 1% of the corporation's total investments.

(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.

#### **14. 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.

#### **15. Comparative figures**

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

**49 NORTH RESOURCE FUND INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

(unaudited)

**JUNE 30, 2008**

**16. Subsequent events**

- a) Effective July 16, 2008, the Corporation granted 75,000 stock options to directors, officers, employees and consultants of the Corporation. The options are exercisable at \$10.00 per share and expire July 16, 2018.
- b) 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.

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 company must redeem all of the outstanding debentures that have not then been converted into common shares.

The debentures are unsecured and are subordinated to substantially all other present and future indebtedness of the company. Trading of the debentures and common shares issued upon their conversion is subject to a hold period that expires November 25, 2008.

\$2,000,000 aggregate principal amount of the debentures were 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.

- c) Subsequent to June 30, the Corporation purchased for cancellation a further 24,200 common shares pursuant to the NCIB discussed in Note 10. On August 5, 2008, the Corporation announced its intent, and the receipt of all required regulatory approvals, to commence another normal course issuer bid. Pursuant to the terms of the new bid, and in accordance with the rules of the TSXV, during the period commencing August 6, 2008 and ending August 6, 2009, the Corporation may purchase up to 180,865 common shares, representing approximately 10% of the common shares outstanding as at August 5, 2008 (exclusive of holdings by insiders). Purchases will be made in open market transactions through the facilities of the TSX at market prices prevailing at the time of acquisition.