

**49 NORTH RESOURCE FLOW-THROUGH**  
**LIMITED PARTNERSHIP**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

# HERGOTT DUVAL STACK & PARTNERS LLP

CHARTERED ACCOUNTANTS

## PARTNERS

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## AUDITORS' REPORT

To the Board of Directors of  
49 North Resource Fund Inc., the General Partner of  
**49 North Resource Flow-Through Limited Partnership**

We have audited the statements of net assets and investment portfolio of 49 North Resource Flow-Through Limited Partnership as at December 31, 2005 the statements of operations, changes in net assets and cash flows for the period from July 20, 2005, to December 31, 2005. These financial statements are the responsibility of the partnership'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 partnership and its investments held as at December 31, 2005, the changes in its net assets and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.



SASKATOON, SASKATCHEWAN

March 15, 2006

Chartered Accountants

**49 NORTH RESOURCE FLOW-THROUGH LIMITED PARTNERSHIP**

**STATEMENT OF NET ASSETS**

**DECEMBER 31, 2005**

**ASSETS**

Investments **\$ 6,308,286**

**LIABILITIES**

|                                 |                       |
|---------------------------------|-----------------------|
| Accounts payable                | \$ 17,159             |
| Issuance costs payable          | 23,241                |
| Due to general partner (Note 3) | 128,644               |
| Loan payable (Note 4)           | <u>422,000</u>        |
|                                 | <b><u>591,044</u></b> |

**PARTNERS' EQUITY**

|  |                            |
|--|----------------------------|
| Net assets, representing partners' equity      | <b><u>\$ 5,717,242</u></b> |
| Limited partnership units outstanding (Note 5) | <u>1,200,000</u>           |
| Net asset value per unit                       | <b><u>\$ 4.76</u></b>      |

Approved on behalf of 49 North Resource Flow-Through Limited Partnership by the Board of Directors of its General Partner, 49 North Resource Fund Inc.

“Harvey Bay”

Director

“James Engdahl”

Director

**49 NORTH RESOURCE FLOW-THROUGH LIMITED PARTNERSHIP**

**STATEMENT OF INVESTMENT PORTFOLIO**

**DECEMBER 31, 2005**

|  | <u>Shares/Warrants</u> | <u>Cost</u>                | <u>Fair Value</u>          |
|--|------------------------|----------------------------|----------------------------|
| <b>Mineral exploration</b>                   |                        |                            |                            |
| Allyn Resources Inc.                         | 1,993,333              | \$ 299,000                 | \$ 249,250                 |
| Allyn Resources Inc. (warrants)              | 996,667                | -                          | -                          |
| Claude Resources Inc.                        | 476,190                | 500,000                    | 547,619                    |
| ESO Uranium Corp.                            | 444,444                | 400,000                    | 373,333                    |
| ESO Uranium Corp. (warrants)                 | 222,222                | -                          | -                          |
| Golden Band Resources Inc.                   | 1,718,750              | 550,000                    | 532,813                    |
| Goldsource Mines Inc.                        | 571,430                | 400,000                    | 571,429                    |
| Great Western Diamonds Corp.                 | 1,200,000              | 600,000                    | 552,000                    |
| Great Western Diamonds Corp. (warrants)      | 1,200,000              | -                          | -                          |
| Great Western Minerals Group Ltd.            | 1,111,111              | 500,000                    | 555,556                    |
| Great Western Minerals Group Ltd. (warrants) | 1,111,111              | -                          | -                          |
| Santoy Resources Ltd.                        | 1,111,111              | 500,000                    | 544,444                    |
| Titan Uranium Inc.                           | 200,000                | 300,000                    | 260,000                    |
| Wescan Goldfields Inc.                       | 694,444                | 500,000                    | 687,500                    |
| <b>Oil and gas</b>                           |                        |                            |                            |
| Arsenal Energy Inc.                          | 285,714                | 500,000                    | 485,714                    |
| Nordic Oil & Gas Ltd.                        | 502,500                | 201,000                    | 185,925                    |
| Nordic Oil & Gas Ltd. (warrants)             | 251,250                | -                          | -                          |
| Magnus Energy Inc.                           | 135,135                | 250,000                    | 202,703                    |
| Panterra Resources Corp.                     | 2,000,000              | <u>500,000</u>             | <u>560,000</u>             |
| <b>Total investments</b>                     |                        | <b><u>\$ 6,000,000</u></b> | <b><u>\$ 6,308,286</u></b> |

**49 NORTH RESOURCE FLOW-THROUGH LIMITED PARTNERSHIP**

**STATEMENT OF OPERATIONS**

**FOR THE PERIOD FROM JULY 20, 2005 TO DECEMBER 31, 2005**

|   |                          |
|---|--------------------------|
| <b>Expenses</b>   |                          |
| Audit   | \$ 10,000                |
| Interest  | 2,159                    |
| Management fee  | 8,324                    |
| Administration  | <u>5,000</u>             |
| <b>Net loss from investment operations</b>                  | <b>25,483</b>            |
| Unrealized appreciation of investments                      | <u>308,286</u>           |
| <b>Net increase in net assets resulting from operations</b> | <b><u>\$ 282,803</u></b> |

**49 NORTH RESOURCE FLOW-THROUGH LIMITED PARTNERSHIP**

**STATEMENT OF CHANGES IN NET ASSETS**

**FOR THE PERIOD FROM JULY 20, 2005 TO DECEMBER 31, 2005**

**Operations**

Net increase in net assets resulting from operations \$ 282,803

**Partner transactions**

Proceeds of issuance of partnership units 6,000,005

Agent's fees (420,000)

Other issuance costs (145,566)

**Net asset, end of period \$ 5,717,242**

**49 NORTH RESOURCE FLOW-THROUGH LIMITED PARTNERSHIP**

**STATEMENT OF CASH FLOWS**

**FOR THE PERIOD FROM JULY 20, 2005 TO DECEMBER 31, 2005**

|   |                    |
|---|--------------------|
| <b>Cash flows from operating activities</b>                           |                    |
| Net increase in net assets resulting from operations                  | \$ 282,803         |
| Unrealized appreciation of investments, not affecting cash            | (308,286)          |
| Net changes in non-cash working capital items                         | <u>25,483</u>      |
|   | <u>-</u>           |
| <br>  |                    |
| <b>Cash flows from investing activities</b>                           |                    |
| Investments purchased   | <u>(6,000,000)</u> |
| <br>  |                    |
| <b>Cash flows from financing activities</b>                           |                    |
| Proceeds of issuance of partnership units                             | 6,000,005          |
| Payment of agent's fees   | (420,000)          |
| Payment of other issuance costs                                       | (122,325)          |
| Advance from general partner  | 120,320            |
| Issuance of loan payable  | <u>422,000</u>     |
|   | <u>6,000,000</u>   |
| <br>  |                    |
| <b>Net increase in cash during the period and cash, end of period</b> | <b><u>\$ -</u></b> |

# 49 NORTH RESOURCE FLOW-THROUGH LIMITED PARTNERSHIP

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2005

**1. Formation of partnership**

49 North Resource Flow-Through Limited Partnership (the "Partnership") was formed under a limited partnership agreement (the "Partnership Agreement") made July 19, 2005 as amended and restated September 30, 2005, between 49 North Resource Fund Inc., as general partner (the "General Partner") and T&N Holdings Inc., as initial limited partner (the "Initial Limited Partner"), and was constituted a limited partnership pursuant to The Partnership Act (Saskatchewan) and The Business Names Registration Act (Saskatchewan), effective July 20, 2005.

The Partnership has been formed to invest in a diversified portfolio of flow-through shares of resource issuers including, without limitation, resource issues engaged in mineral or oil and gas exploration and development, with the focus on resource issuers with exploration programs in Saskatchewan; and with a view to achieving capital appreciation of the portfolio and maximizing the tax benefits for investors who become Limited Partners of the Partnership.

Subject to certain exceptions as provided in the Partnership Agreement, the Partnership will be dissolved effective March 31, 2007.

**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 are recorded in the financial statements at their fair value at the end of the period, determined as follows:

Public companies

The fair value of any security which is listed or traded upon a stock exchange shall be estimated by taking the latest available sale price, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price. The quoted market value of securities that are subject to a hold period will be valued with an appropriate discount as determined by the General Partner.

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 Partnership could realized 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 FLOW-THROUGH LIMITED PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

**2. Significant accounting policies (continued)**

**Valuation of investments (continued)**

**Warrants**

The fair value of share purchase warrants is determined by the excess, if any, of the quoted market value of the underlying security over exercise price.

Any difference between the estimated fair value and the cost of the investments is treated as unrealized appreciation or depreciation.

**Investment transactions and income recognition**

All investment transactions are accounted for on the business day the order to buy or sell is executed. Realized gains or losses from investment transactions and unrealized appreciation and depreciation of investments are calculated on an average cost basis.

Income from investment transactions is recognized on an accrual basis.

**Issuance costs**

Expenses related to the initial public offering of the Partnership units have been accounted for as a reduction of partners' equity.

**Allocation of income and loss**

Pursuant to the Partnership Agreement, 99.99% of the net income or loss of the Partnership in each fiscal year, and 100% of Canadian exploration expenses renounced or otherwise allocated to the Partnership with an effective date in that fiscal year, will be allocated pro rata among the Limited Partners who were Limited Partners of the Partnership on the last day of such fiscal year, and 0.01% of such income or loss will be allocated to the General Partner.

**Net asset value of the Partnership and net asset value per unit**

The net asset value of the Partnership is the total assets of the Partnership less the liabilities of the Partnership. The net asset value per Unit of the Partnership is determined by dividing the net asset value of the Partnership by the total number of units outstanding on that date.

**Income taxes**

No provision for income tax has been provided in the accompanying financial statements and the Partnership does not include the personal assets of the partners, nor is the Partnership liable for any income taxes. The Limited Partners are allocated their proportionate share of any Partnership income or loss and are entitled to a tax deductions permitted under the Canadian Income Tax Act.

For income tax purposes, the adjusted cost base of flow-through shares is nil. Upon disposition of such shares, a capital gain will result and be allocated to the limited partners based upon their proportionate share of the Partnership.

**Financial instruments**

The fair value of the Partnership's financial assets and liabilities approximate their carrying values unless otherwise disclosed.

**49 NORTH RESOURCE FLOW-THROUGH LIMITED PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

**3. Expenses of the Partnership**

The General Partner will be responsible for the management of the Partnership in accordance with the terms and conditions of the Partnership Agreement. The General Partner will be entitled to 0.01% of the net income of the Partnership.

Additionally, pursuant to the Partnership Agreement, for each fiscal quarter the General Partner (and/or such investment manager as may be engaged by the General Partner on behalf of the Partnership) will be paid management fees, in aggregate, equal to 0.5% of the net asset value of the Partnership calculated as of the last business day of the relevant fiscal quarter; and may be paid a performance bonus, calculated effective as of the earlier of the business day prior to the implementation of a reorganization transaction and the date the Partnership is dissolved, in an amount in respect of each unit then outstanding equal to 20% of the amount; if any, by which the sum of the net asset value per unit as of that date and all distributions per unit on or prior to that date exceeds \$5.50.

The Partnership will pay for all expenses incurred in connection with the operation and administration of the Partnership. All amounts due to the General Partner are unsecured and bear no interest.

**4. Loan payable**

The Partnership established a demand loan facility with the owner of the General Partner (the "Lender") for the payment of issuance costs and has provided the Lender with a general security agreement in all of the assets of the Partnership and a pledge of all investments. Interest is charged on the loan at a rate of the Royal Bank of Canada prime plus 2%. The loan is payable on the earlier of demand, the date preceding the date of the reorganization transaction, the date of dissolution of the Partnership, or March 31, 2007.

**5. Partners' equity**

The authorized capital of the Partnership is limited to 1,200,000 Partnership units. All Partnership units are of the same class with equal rights and privileges, including equal participation in any distribution made by the Partnership and the right to one vote at any meeting of the Limited Partners.

During the period, the Partnership completed an initial public offering of 1,200,000 limited partnership units at \$5 per unit for gross proceeds of \$6,000,000. Issuance costs related to the issue of the limited partnership units were \$565,566.

**49 NORTH RESOURCE FLOW-THROUGH LIMITED PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

**6. Related party transactions**

During the period, the Partnership accrued \$8,324 of management fees to the General Partner and accrued \$2,159 of interest expense to the Lender.

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.

**7. Financial instruments**

**Interest rate risk**

The Partnership is exposed to cash flow risk on its floating rate debt as fluctuations in interest rates affect the amount to be repaid.

**8. Tax shelter identification number**

The identification number issued for this tax shelter shall be included in any income tax return filed by the investor. Issuance of the identification number is for administrative purposes only and does not in any way confirm the entitlement of an investor to claim any tax benefits associated with this Partnership. The tax shelter number for the Partnership is TS070789.

**9. Comparative figures**

The Partnership was formed on July 20, 2005, and closed its initial issuance on December 6, 2005. Accordingly, there are no comparative figures on the statements of net assets, operations, changes in net assets and cash flows.