

**TriNorth Capital Inc.**

**Financial Statements**

**December 31, 2009**

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## AUDITORS' REPORT

To the Shareholders of  
**TriNorth Capital Inc.**

We have audited the balance sheets of **TriNorth Capital Inc.** as at December 31, 2009 and 2008, and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
June 23, 2010.

*Ernst + Young LLP*

Chartered Accountants  
Licensed Public Accountants

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**TriNorth Capital Inc.**

**Balance Sheets**

(see Note 1)

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As at December 31	2009	2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 328,912	\$ 3,891,916
Marketable securities (Note 7)	462,420	2,333,851
Prepaid expenses and other assets	41,294	40,980
Loan receivable (Note 3)	—	1,440,607
Investments (Note 3)	5,837,179	5,191,068
	<b>\$ 6,669,805</b>	<b>\$ 12,898,422</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 320,365	\$ 831,545
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 4)	55,518,529	55,518,529
Contributed surplus	34,048,593	34,048,593
Share purchase warrants (Note 5)	7,041,980	7,041,980
Deficit	(90,259,662)	(84,542,225)
	<b>6,349,440</b>	<b>12,066,877</b>
	<b>\$ 6,669,805</b>	<b>\$ 12,898,422</b>

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*See accompanying notes.*

**Approved on behalf of the Board:**

*John Pennal*  
Director

*John Crow*  
Director

## TriNorth Capital Inc.

### Statements of Operations and Deficit

(see Note 1)

For the years ended December 31	2009	2008
<b>Net investment gain (loss) from:</b>		
<b>Marketable securities</b>		
Realized gain (loss) on disposal of marketable securities	\$ (1,661,764)	\$ 197,500
Change in unrealized gain (loss) on marketable securities	1,809,225	(2,279,948)
<b>Investments designated as available-for-sale</b>		
Realized loss on disposal of investments designated as available-for-sale	(220,000)	(2,542,458)
Impairment of investments designated as available-for-sale	(2,648,953)	(4,773,108)
<b>Equity accounted investments</b>		
Realized gain on disposal of equity accounted investments	—	2,546,150
Share of loss in equity accounted investments	(459,607)	(1,305,565)
Impairment of equity accounted investments	—	(504,000)
Dilution gain on investment in Feronia Inc. (Note 3)	1,909,379	—
<b>Gain (loss) subsequent to change in status to an Investment Company</b>		
Loss on loan receivable and accounts receivable	(1,630,153)	—
Change in unrealized gain on investments	190,617	—
	<b>(2,711,256)</b>	<b>(8,661,429)</b>
<b>Other revenue</b>		
Interest on cash and cash equivalents	8,659	293,555
Interest on loan receivable	—	69,585
Foreign exchange gain (loss)	(248,059)	261,297
	<b>(239,400)</b>	<b>624,437</b>
<b>Expenses</b>		
Management fee (Note 8)	213,477	508,880
Operating, general and administrative	1,611,823	939,291
Project development	923,958	2,115,692
Transaction costs	89,324	—
	<b>2,838,582</b>	<b>3,563,863</b>
<b>Non-controlling interest in Feronia Inc.</b>	<b>71,801</b>	<b>—</b>
<b>Net loss for the year</b>	<b>(5,717,437)</b>	<b>(11,600,855)</b>
<b>Deficit, beginning of year</b>	<b>(84,542,225)</b>	<b>(72,941,370)</b>
<b>Deficit, end of year</b>	<b>\$ (90,259,662)</b>	<b>\$ (84,542,225)</b>
<b>Basic and diluted loss per share</b>	<b>(\$0.038)</b>	<b>(\$0.077)</b>

See accompanying notes.

## TriNorth Capital Inc.

### Statements of Cash Flows

(see Note 1)

For the years ended December 31	2009	2008
<b>Operating activities</b>		
Net loss for the period	\$ (5,717,437)	\$ (11,600,855)
Items not affecting cash:		
Realized gain (loss) on disposal of marketable securities	1,661,764	(197,500)
Change in unrealized gain (loss) on marketable securities	(1,809,225)	2,279,948
Realized loss on disposal of investments designated as available-for-sale	220,000	2,542,458
Impairment of investments designated as available-for-sale	2,648,953	4,773,108
Realized gain on disposal of equity accounted investments	—	(2,546,150)
Share of loss in equity accounted investments	459,607	1,305,565
Impairment of equity accounted investments	—	504,000
Dilution gain on investment in Feronia Inc.	(1,909,379)	—
Loss on loan receivable and accounts receivable	1,630,153	—
Change in unrealized gain on investments	(190,617)	—
Stock based compensation	—	100,250
Foreign exchange gain (loss)	248,059	—
Non-controlling interest in Feronia Inc.	(71,801)	—
Net change in non-cash working capital balances	(334,030)	649,758
<b>Cash used in operating activities</b>	<b>(3,163,953)</b>	<b>(2,189,418)</b>
<b>Investing activities</b>		
Proceeds from disposal of marketable securities	3,085,144	4,143,000
Purchase of marketable securities	(1,066,252)	(7,928,177)
Proceeds from disposal of equity accounted investments	—	6,246,750
Purchase of equity accounted investments	(1,950,338)	(1,500,000)
Proceeds from disposal of investments designated as available-for sale	220,000	—
Purchase of investments designated as available-for-sale	(250,000)	(7,232,500)
Loan to equity accounted investments	(437,605)	(998,612)
<b>Cash used in investing activities</b>	<b>(399,051)</b>	<b>(7,269,539)</b>
Net decrease in cash and cash equivalents during the year	(3,563,004)	(9,458,957)
Cash and cash equivalents, beginning of year	3,891,916	13,350,873
<b>Cash and cash equivalents, end of year</b>	<b>\$ 328,912</b>	<b>\$ 3,891,916</b>

*See accompanying notes.*

## **1. DESCRIPTION OF BUSINESS, GOING CONCERN AND BASIS OF ACCOUNTING**

TriNorth Capital Inc. (“TriNorth” or the “Company”) is an investment company with investments in a portfolio of commodity based companies. TriNorth’s investment strategy includes structuring and initiating deals focused on particular resources, themes or regions. TriNorth may also invest in publicly traded companies.

The Company is managed by Navina Asset Management Inc. (formerly Lawrence Asset Management Inc.) (the “Manager”). The Manager is responsible for providing or arranging for investment and advisory services as well as administrative and accounting services.

### **Going concern assumption**

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future.

The Company has sufficient liquidity in the form of cash and a marketable security to meet its financial obligations over the next twelve months, subject to its marketable security maintaining at least its current value. Beyond twelve months, the Company is subject to liquidity risk. The Company’s ability to meet its financial obligations is dependent upon the Company raising additional capital and/or the sale of some or all of its investments. The current value of the Company’s investments is based on an expected net realizable value if the investments were disposed of in an orderly manner over a reasonable period of time. A rapid or untimely disposition of these investments, which are illiquid, may result in the Company receiving less than fair value for its investments. There can be no assurance that the steps the Company is taking will be successful.

The financial statements do not reflect adjustments relating to the carrying value of the Company’s assets and liabilities or to the reported results of operations that would be necessary if the Company was not able to realize its assets and settle its liabilities as a going concern in the normal course of business. Such adjustments could be material.

### **Change in status to an Investment Company**

During the fourth quarter of fiscal 2009, the Company ceased to be involved in the day-to-day management of its investments. As a result, the Company met the definition of an Investment Company under Accounting Guideline 18, *Investment Companies* (“AcG-18”). In accordance with AcG-18, the Company commenced accounting for its investments at fair value effective on the date of change in status, with changes in fair value recognized as a change in unrealized gain (loss) on investments in the Statements of Operations.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

The following are the significant accounting policies used in the preparation of the financial statements:

***Basis of consolidation***

These financial statements include the accounts of the Company and its subsidiaries prior to the Company's change in status to an Investment Company under AcG-18 in the fourth quarter of 2009. All intercompany transactions have been eliminated.

***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand and highly liquid investments, including bankers' acceptances or money market funds, with maturities of less than 90 days from the date of purchase.

***Investments***

The following accounting policies for investments are prior to the change in status to an Investment Company under AcG-18:

Privately-held equity investments over which the Company did not have the ability to exercise significant influence were designated as available-for-sale and were carried at cost. If there was pervasive evidence that such an investment was impaired (decline in value other than temporary), the investment was written down to its estimated fair value to recognize its impairment. Any difference between the fair value and the cost of the investments, as a result of a write-down, was recorded as an impairment of investments designated as available-for-sale.

Investments in shares of investee companies in which the Company's ownership was greater than 20% but not more than 50% and over which the Company had the ability to exercise significant influence, were accounted for using the equity method. Under the equity method, the investment was initially recorded at cost. The carrying value was subsequently adjusted for the Company's proportionate share of the net income or loss of the equity accounted investment and any write-downs due to impairment. The Company's share of net income or loss of such investment was recorded in the Statements of Operations.

Subsequent to the change in status to an Investment Company under AcG-18 in the fourth quarter of 2009, investments are carried at their estimated fair value. Any changes in the fair value are recognized in the Statements of Operations as a change in unrealized gain (loss) on investments.

Estimated fair value is determined on the basis of the expected realizable value of the investments if they were disposed of in an orderly manner over a reasonable period of time. The Company uses estimation techniques to determine fair value, which may include arm's length transactions, discounted cash flows, multiples of earnings or production, the movement in economic and sector indicators such as market indices and comparison with other securities of similar companies. Specific techniques listed above or a combination of these techniques maybe be employed by the Company based on its best estimate and judgment under the applicable circumstance.

The process of valuing investments for which no published market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. These differences could be material to the fair value of investments in the portfolio.

***Marketable securities***

Publicly-traded investments are carried at fair value based on quoted bid prices at the balance sheet date. Any changes in the fair value are recognized in the Statements of Operations as a change in unrealized gain (loss) on marketable securities.

***Foreign currency translation***

Monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the average rate of exchange for the year. Exchange gains and losses are included in the Statements of Operations.

Prior to becoming an Investment Company under AcG-18, the Company's subsidiaries were considered to be integrated foreign operations. Assets and liabilities were translated at exchange rates in effect at the balance sheet date. Revenues and expenses were translated at average exchange rates prevailing during the year. The resulting translation adjustment was recorded in the Statements of Operations.

***Investment transactions and income recognition***

Investment transactions are accounted for on a trade date basis. Realized gain or loss on the sale of investments and unrealized gain or loss on investments are determined based on an average adjusted cost.

Prior to becoming an Investment Company under AcG-18, the Company's proportionate share of income or loss from an equity accounted investment was recorded in the Statements of Operations.

Interest income is recorded on an accrual basis.

***Use of estimates***

The preparation of the Company's 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 and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. In determining the carrying value of certain investments, management has made significant estimates and assumptions. Actual results could differ from these estimates.

***Income taxes***

The Company records income tax expense using the liability method of income tax allocation. Under this method, income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are determined for each temporary difference based on the income tax rates that are expected to be in effect when the asset or liability is settled.

***Loss per share***

Loss per share is calculated based on the weighted average number of shares outstanding.

***Classification of financial instruments***

The following is a summary of the Company's significant categories of financial instruments outstanding prior to the change in status to an Investment Company under AcG-18:

*Held for trading*

Cash and cash equivalents and marketable securities were designated as held for trading. These assets had been acquired principally for the purpose of selling or repurchasing in the near term. They were measured at fair value on the Balance Sheets, with realized and unrealized gains and losses reported in the Statements of Operations.

*Available-for-sale*

Investments in privately-held equity securities without quoted values were designated as held for trading. These assets were generally carried at cost except where there had been impairment from a decline in value that was other than temporary, in which case the investments were written down to their estimated fair value to recognize the impairment loss.

*Loans and receivables*

Loan receivable was designated as loans and receivables. These assets were non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to pay on a specified date or dates, or on demand, usually with interest. Loans and receivables were initially recognized at fair value and were subsequently measured at amortized cost using the effective interest method, net of any impairment recognized.

*Other liabilities*

Accounts payable and accrued liabilities were classified as "other liabilities". Other liabilities were initially recognized at fair value and were subsequently measured at amortized cost using the effective interest method.

The following is a summary of the Company's significant categories of financial instruments outstanding after the change in status to an Investment Company under AcG-18:

*Held for trading*

Cash and cash equivalents, marketable securities, investments in privately-held equity securities and loan receivable are deemed to be held for trading. They are measured at fair value on the Balance Sheets, with realized and unrealized gains and losses reported in the Statements of Operations.

*Other liabilities*

Accounts payable and accrued liabilities are classified as "other liabilities". Other liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

***Transaction costs***

All transaction costs associated with the acquisition and disposition of investments are expensed in the Statements of Operations as incurred.

***Stock-based compensation plan***

The Company has a stock-based compensation plan for directors as described in Note 10. Any consideration received on the exercise of stock options or sale of stock is credited to share capital. The Company records compensation expense and credits contributed surplus for the value of the stock options. The fair value for these options is estimated at the date of the grant using the Black-Scholes option pricing model.

***Adoption of new accounting policies***

In June 2009, the Canadian Institute of Chartered Accountants (“CICA”) issued amendments to Handbook Section 3862, *Financial Instruments — Disclosures* (“Section 3862”) requiring enhanced disclosure around the classification of fair value measurements and liquidity risk. The classifications use a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy has the following levels: quoted prices in an active market (Level 1 — unadjusted inputs); inputs other than quoted prices (Level 2 — directly or indirectly derived from observational market data); and inputs not based on observable market data (Level 3 — unobservable inputs). In addition to the above disclosure requirements, Section 3862 requires disclosure of significant transfers between Levels 1 and 2 since the prior reporting period, as well as a reconciliation of Level 3 assets, disclosing separately changes during the reporting period attributable to i) total gains or losses recognized in net income, and a description of where they are presented in the income statement, ii) purchases, sales, issues and settlements, iii) transfers into or out of Level 3 and the reasons for those transfers. Any significant transfers between Level 1 and Level 2 are disclosed. Further, for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose both the effect of those changes and how the effect was calculated. The new disclosures are required for annual financial statements for fiscal years ending after September 30, 2009. The adoption of these new standards resulted in increased disclosures but did not affect the Company’s results of operations.

Effective January 1, 2009, the Company adopted retrospectively without restatement, the CICA Emerging Issues Committee Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*. EIC-173 requires the Company’s own credit risk and the credit risk of the counterparty to be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. The adoption of EIC-173 did not have a material impact on the financial position or results of operations of the Company.

### 3. INVESTMENTS

The Company's investments as at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
	(see Note 1)	
<b>Feronia Inc.</b>		
Investment in common shares	\$ 3,121,229	\$ —
Net loss prior to loss in control	(1,348,353)	—
Non-controlling interest	71,801	—
Gain on dilution	1,909,379	—
Less: TriNorth share of loss	(96,857)	—
Unrealized gain on investment recognized on change in status to an Investment Company	805,301	—
Balance as at December 31	<u>4,462,500</u>	<u>—</u>
<b>Russo-Forest Corporation</b>		
Opening balance	977,435	525,000
Additional investment in 2008	—	1,500,000
Less: TriNorth share of loss	(362,750)	(543,565)
Charge for impairment	—	(504,000)
Unrealized loss on investment	(614,685)	—
Balance as at December 31	<u>—</u>	<u>977,435</u>
<b>Buchanan Renewable Energies Inc.</b>		
Opening balance	—	4,462,600
Less: TriNorth share of loss	—	(762,000)
Cost on disposal of investment	—	(3,700,600)
Balance as at December 31	<u>—</u>	<u>—</u>
<b>Chevalier Resources Inc.</b>		
	—	440,000
<b>Saber Energy Corporation</b>		
	357,042	1,699,133
<b>Wild Horse Farms &amp; Bio Energy Corporation</b>		
	1,017,637	2,002,500
<b>C3 Resources</b>		
	—	72,000
	<u>1,374,679</u>	<u>4,213,633</u>
<b>Total investments as at December 31</b>	<b>\$ 5,837,179</b>	<b>\$ 5,191,068</b>

Prior to the Company's change in status to an Investment Company under AcG-18, the investments were accounted for as follows:

- Feronia Inc. was a subsidiary of the Company and was consolidated prior to loss in control in September 2009. Subsequent to the loss in control, the investment was an equity accounted investment.
- Russo-Forest Corporation was an equity accounted investment.
- Chevalier Resources Inc., Saber Energy Corporation, Wild Horse Farms & Bio Energy Corporation and C3 Resources were designated as available-for-sale investments.

***Feronia Inc. (“Feronia”)***

The Company created Feronia as a wholly owned subsidiary and capitalized it with \$1 million in 2008. In April 2009, the Company invested an additional \$170,892 in Feronia in addition to other investors, which diluted the Company’s investment to 88.96%. Feronia was consolidated in fiscal 2008 and for the first eight months of 2009.

In September 2009, Feronia issued common shares to TriNorth and other investors. The Company paid \$1,950,337 (the equivalent of US\$ 0.25 per share) for its additional shares. As a result of the September Feronia capital raise, TriNorth’s ownership in Feronia was diluted to 48.25% and the Company recorded a gain on dilution of \$1,909,379. Upon dilution, the Company ceased to consolidate Feronia and adopted equity accounting for its investment up to the end of the third quarter.

During the month of September, Feronia continued to hire its own personnel and by the end of September TriNorth no longer had any involvement with Feronia’s operations. In the fourth quarter of 2009, the Company became eligible to follow AcG-18 to fair value all its investments, including Feronia, and \$805,301 was recognized as an unrealized gain on investment. This brings TriNorth’s 17 million shares to a fair value of US\$ 0.25 per share, being the amount recorded in the third party financing referred to above.

Subsequent to the year end, Feronia entered into a number of transactions and pending transactions with other parties impacting its capital structure as described below.

On March 1, 2010, Feronia issued 347,132 shares at a subscription price of US\$ 0.25 per share for gross proceeds of US\$ 86,783.

On April 13, 2010, Feronia issued 8,894,344 shares in consideration for the 20% interest in its subsidiary, Feronia JCA Ltd., which it previously did not own.

On May 25, 2010, Feronia agreed to convert a loan of US\$ 1,000,000 from another fund managed by the Manager into 2,500,000 shares of Feronia and 1,250,000 warrants, upon the satisfaction of the release conditions of the brokered financing described below.

On May 25, 2010 and June 4, 2010, Feronia completed a brokered financing pursuant to which Feronia issued an aggregate of 51,945,024 subscription receipts at an issuance price of \$0.40 per subscription receipt for aggregate gross proceeds of \$20,778,010, consisting of cash proceeds of \$17,378,010 and the conversion of \$3,400,000 of loans from two other funds managed by the Manager. Each subscription receipt is convertible into one share of Feronia and one half of one share purchase warrant. Each whole warrant will entitle the holder to acquire one share at a price of \$0.60 for a period of three years. The cash proceeds of \$17,378,010 were placed in escrow with a third party escrow agent pending satisfaction of certain release conditions relating to the reverse takeover by Feronia of G.T.M. Capital Corporation and the subsequent listing of its shares on the TSX Venture Exchange. Upon satisfaction of the release conditions and the release of the cash proceeds from escrow, the agents are entitled to receive a cash commission of 6% of the gross proceeds and broker warrants representing 6% of the number of shares issuable upon conversion of the securities sold under the offering at a price of \$0.40 per share for a period of three years. The financing will be used to fund future growth of

Feronia's palm oil plantations and other agricultural interests in the Democratic Republic of Congo and other countries in Africa.

TriNorth has not participated in the financing. If the transaction is completed TriNorth's ownership position will be diluted to 17.12% before the impact from warrants being exercised. In addition, there will be certain restrictions on the Company's ability to sell some or all of its shares in Feronia for a period of time after the transaction is completed.

***Russo-Forest Corporation ("Russo")***

In December 2007, the Company made a \$525,000 equity investment at \$0.10 per share for a 25% interest in Russo-Forest Corporation ("Russo"), a Russian forest company harvesting wood in Russia's northwest and Far East under long-term leases. In January 2008, the Company invested an additional \$1.5 million for 3,000,000 units of Russo at a price of \$0.50 per unit, as part of a \$5 million private placement. Each unit was comprised of one common share and one share purchase warrant. At the close of this round of financing, TriNorth had an interest in Russo of approximately 26.6%.

In February 2009, Nyah Resources Corp. ("Nyah") announced a proposal to acquire all of the shares of Russo through a proposed reverse takeover. On October 13, 2009, the shareholders of Nyah approved the transaction subject to the required regulatory approvals, including the approval of the TSX Venture Exchange. On December 18, 2009, Nyah announced that it has decided not to proceed with the proposed transaction. Pursuant to the original exchange agreement between Nyah and Russo, Nyah notified Russo that it was exercising its right to terminate the share agreement as the proposed transaction was not completed prior to the set date of October 31, 2009. Following the failed transaction with Nyah, the board of Russo resigned.

In light of the above, TriNorth has chosen to write off its remaining investment in Russo believing there is no remaining value in this investment. The result of this decision is an unrealized loss on investment charge of \$614,685.

In addition to the Company's equity investment, the Company had loaned Russo \$1,534,786 (including accrued interest), which was secured by the assets of Russo (which assets are mainly in Russia), due on October 18, 2009 and bore interest at 15% per annum. The loan and accrued interest was not paid on the due date as well as approximately \$95,000 of expenses that TriNorth had paid on Russo's behalf. It has been determined that any attempt to act on the Company's security would entail the outlay of significant funds and would most likely result in failure. Since management believes that Russo does not have sufficient assets to repay this loan in whole or in part, the accrued interest and the unpaid expenses, the carrying value of these balances have also been written off in the accounts for a total charge to the Statements of Operations of \$1,630,153.

***Buchanan Renewable Energies Inc. ("Buchanan")***

The Company acquired an approximately 23.3% ownership stake in Buchanan, a Liberian-based alternative-energy company, in October 2007 for \$4,997,500.

The Company disposed of its investment in Buchanan in May 2008 for proceeds of \$6,246,750. Prior to the disposition, the Company recorded \$762,000 as its proportionate share of Buchanan's loss in 2008.

***Chevalier Resources Inc. (“Chevalier”)***

In March 2009, TriNorth disposed of its investment in Chevalier for \$220,000 and recorded a realized loss on disposition of \$220,000.

***Saber Energy Corporation (“Saber”)***

In November 2007, the Company made a \$4,754,421 common share investment at US\$ 0.90 per share in Saber, a Botswana-based early stage private company focused on coal bed methane exploration. This represents an approximately 3.7 % ownership stake in Saber. The Company wrote down its investment in Saber in December 2008 and September 2009 by \$3,055,107 and \$1,342,091, respectively. The write down in September reflected a third party round of financing (in which the Company did not participate) at US\$ 0.06 per share (being the fair value used in the year end valuation).

In March 2010, Saber merged with Talon Metals Corp. (“Talon”) so that the Company owns 981,518 common shares of Talon, a TSX listed company (“TLO”). In April 2010, the Company sold 950,000 shares of its investment in Talon for \$370,500.

***Wild Horse Farms & Bio Energy Corporation (“Wild Horse”)***

In May 2008, the Company invested \$2,002,500 (or \$0.75 per share), for an 8.8% ownership interest in Wild Horse, a start up company planning to establish one of Canada’s largest corporate farms. The Company’s ownership increased to 9.6% at no additional cost when Wild Horse issued additional shares to investors in a private placement after it was unable to list its shares on a recognized stock exchange by December 31, 2008. Wild Horse is focused on higher yield, lower risk irrigated farmland in the Lake Diefenbaker area of Saskatchewan.

Early in the third quarter, the Company participated in Wild Horse’s round of financing for \$1 million by purchasing 1 million convertible preferred shares at \$0.25 for a total consideration of \$250,000. In the second quarter of 2009, based on the knowledge of the aforementioned financing, the company wrote down its original investment in Wild Horse common shares by \$1,234,863 to its fair value of \$767,637 (\$0.25 per share).

***C3 Resources (“C3”)***

In July 2008, the Company invested \$150,000 in C3; a Nevada based gold exploration company. In 2008, the Company wrote down its investment in C3 by \$78,000. In September 2009, the Company wrote off the remaining carrying value of its investment (\$72,000) in C3.

#### **4. SHARE CAPITAL**

The Company has two authorized classes of shares: an unlimited number of common shares and an unlimited number of preference shares, issuable in series. The Company’s common shares are traded on the Toronto Venture Exchange, stock symbol “TRT”. As at December 31, 2009 and 2008, there were 150,747,317 outstanding common shares with a stated capital of \$55,518,529. There are no outstanding preference shares.

## 5. SHARE PURCHASE WARRANTS

At the effective date of exercise of 132,021,000 special warrants (October 10, 2007) and the resulting issuance of the common share purchase warrants, the latter warrants as well as 6,601,050 warrants issued to the Company's underwriters were assigned a value of \$7,041,980 by applying the Black-Scholes valuation model using the following assumptions:

Number of warrants	132,021,000	6,601,050
Price	\$0.24	\$0.20
Volatility	40%	
Risk-free interest rate	4.25%	
Expected dividend yield	Nil	
Expiry date	October 10, 2010*	

\* In accordance with the terms of the private placement and following the date which is 12 months after the closing date of the Reorganization, in the event that the Common Shares trade on the Toronto Stock Exchange (or such other Canadian stock exchange on which the Common Shares may then be listed) at a weighted-average closing price of not less than \$0.40 for a period of at least 20 consecutive trading days, the Company shall be entitled to accelerate the exercise period of the Warrants to a period ending at least 30 days from the date notice of such acceleration is provided to the holders of Warrants.

## 6. INCOME TAXES

The Company has capital losses of approximately \$144,365,672 and non-capital losses of \$11,490,185 that may be carried forward to reduce income taxes in future years. If not utilized, the non-capital losses will expire as follows:

2010	3,711,841
2014	442,399
2015	367,041
2026	801,603
2027	1,673,226
2028	2,982,447
2029	1,511,628
	<u>\$ 11,490,185</u>

The Company has recorded a valuation allowance for the full amount of its future income tax assets related to capital and non-capital losses carried forward because it is uncertain that these tax losses will be utilized in the foreseeable future, and accordingly, the Company has not recognized any tax recoveries in its financial statements. The value of unused tax losses and deductible temporary differences for which no future income tax assets have been recognized, is approximately \$22.2 million.

## 7. FINANCIAL INSTRUMENTS

The Company is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. These risks and related risk management practices employed by the Company are discussed below:

### *Interest rate risk*

As at December 31, 2008 and 2009, the Company is not exposed to significant interest rate risk that arises from fluctuations in interest rates on its financial instruments.

### *Currency risk*

As at December 31, 2009, the Company is exposed to foreign exchange through its investment in Feronia (\$4,462,500) whose fair value is determined in U.S. dollars. As at December 31, 2008, the Company had U.S. dollar denominated cash and loan receivable of \$1,386,386 and cash of 167,970 pounds sterling. The Company does not hedge its foreign currency exposure.

### *Market risk*

The Company is exposed to market risk with respect to its cash and cash equivalents, marketable securities, loan receivable and investments. The fair value of these financial instruments will fluctuate due to changes in market prices. A description of investments and loan receivable is provided in Note 3. Marketable securities owned by the Company as at December 31, 2009 and 2008 are as follows:

	2009	2008
	Fair Value	Fair Value
	\$	\$
Homeland Energy Group Ltd.	-	235,339
CIC Energy Corp.	462,420	770,970
Day 4 Energy Inc.	-	870,000
MagIndustries Corp.	-	457,542
	462,420	2,333,851

### *Credit risk*

The Company is exposed to credit risk associated with its cash and cash equivalents, loan receivable and other assets. Credit risk is substantially minimized by ensuring that such cash and cash equivalents are limited, where possible to government securities, well capitalized financial institutions and other creditworthy entities. As the Company has investments in Africa, the Company is exposed to credit risk for deposits in African banks, for which the Company has limited financial information. As at December 31, 2009, the Company had a minimal amount of cash with a bank in Africa (US\$ 105,677 at December 31, 2008). See Note 3 for discussion on loan and amounts due from Russo, such amounts having been written off in 2009.

### *Classification of fair values*

The Company has determined that under the criteria set out in Section 3862 of the Handbook, the marketable securities of \$462,420 would be considered Level 1. In addition, all of the investments described in Note 3, which total \$5,837,179, would be considered Level 3. Details concerning changes in the Level 3 investments and their range of reasonable estimates are disclosed in Note 3.

## **8. RELATED PARTY TRANSACTION**

The Company entered into a management contract with the Manager to manage the undertakings of the Company. The Company has agreed to pay the Manager a 2% management fee per annum, based on the Company's net asset value, and a performance fee, based upon the increase in the Company's net asset value above a benchmark. For the year ended December 31, 2009, a management fee of \$213,477 (\$508,880 for the year ended December 31, 2008) was recorded. As at December 31, 2009 the amount accrued and payable to the Manager was \$57,591 (\$19,060 at December 31, 2008).

Two investment funds managed by the Manager subscribed to US\$ 3,121,183 of the shares issued by Feronia in 2009.

These transactions occurring in the normal course of operations are recorded at the exchange amount which has been established and agreed to by the related parties.

A director of TriNorth is also a director of Feronia and Wild Horse. The same director resigned his board seat on Russo and Chevalier.

## **9. CAPITAL AND RISK MANAGEMENT**

The Company's capital is comprised of shareholders' equity. The Company's objective for its capital is to maximize shareholder value. In this regard, TriNorth invests in companies that have the potential of providing TriNorth with an above average return on investment. Capital is allocated to different industries and geographic areas to maintain a balanced portfolio and to mitigate risk. The Company's investment strategy focuses on opportunities in agriculture, natural resources and energy.

The Company relies on the Manager's experience as a portfolio manager in managing risk. Prior to making an investment, the Manager will engage in due diligence activities, which would include site visits and the engagement of consultants with industry and sector experience. In the case of investments in private companies, the Manager will, to the extent possible, structure the investment transaction to facilitate the disposition of the Company's investment at a time that would maximize the Company's returns.

The Company does not have any externally imposed capital requirements and believes that it has sufficient working capital for ongoing operations (see Note 1).

## **10. STOCK OPTION PLAN**

The Company has implemented a stock option plan which permits the Company to issue stock options to employees, directors and consultants of the Company. Each option granted under the plan is for a maximum term of seven years with an exercise price equal to the greater of the Company's net asset value or closing share price on the last day of the applicable quarter and vests immediately. The Company permits directors to receive their quarterly fees either in cash or stock options. A director electing to exercise an option is required to provide funds to purchase the shares for the exercise price.

There were no options issued for the year ended December 31, 2009. At December 31, 2009 the number of options outstanding and exercisable is as follows:

Exercise price	Quantity	Expiry date
\$0.19	143,426	May 12, 2015
\$0.30	111,312	June 30, 2015
\$0.11	242,450	September 30, 2015
\$0.03	825,006	December 31, 2015

In 2008, the fair value of the options granted was estimated at the date of the grant using the Black-Scholes option pricing model with the following assumptions:

Volatility	average rate of 109%
Risk free interest rate	3.41% to 3.45%
Expected dividend yield	nil
Expected option life	seven years

## 11. COMPARATIVE FIGURES

Certain comparative figures from the prior year have been reclassified to conform with the current year's presentation.

## 12. SUBSEQUENT EVENTS

In January 2010, TriNorth disposed of its investment in CIC Energy Corp. for \$425,700.

In March 2010, Saber merged with Talon Metals Corp. ("Talon") so that the Company owns 981,518 common shares of Talon, a TSX listed company ("TLO"). In April 2010, the Company sold 950,000 shares of its investment in Talon for \$370,500.

Subsequent to the year end, Feronia entered into a number of transactions and pending transactions with other parties impacting its capital structure as described below.

On March 1, 2010, Feronia issued 347,132 shares at a subscription price of US\$ 0.25 per share for gross proceeds of US\$ 86,783.

On April 13, 2010, Feronia issued 8,894,344 shares in consideration for the 20% interest in its subsidiary, Feronia JCA Ltd., which it previously did not own.

On May 25, 2010, Feronia agreed to convert a loan of US\$ 1,000,000 from another fund managed by the Manager into 2,500,000 shares of Feronia and 1,250,000 warrants, upon the satisfaction of the release conditions of the brokered financing described below.

On May 25, 2010 and June 4, 2010, Feronia completed a brokered financing pursuant to which Feronia issued an aggregate of 51,945,024 subscription receipts at an issuance price of \$0.40 per subscription receipt for aggregate gross proceeds of \$20,778,010, consisting of cash proceeds of \$17,378,010 and the conversion of \$3,400,000 of loans from two other funds managed by the Manager. Each subscription receipt is convertible into one share of Feronia and one half of one share purchase warrant. Each whole warrant will entitle the holder to acquire one share at a price of \$0.60 for a period of three years. The cash

proceeds of \$17,378,010 were placed in escrow with a third party escrow agent pending satisfaction of certain release conditions relating to the reverse takeover by Feronia of G.T.M. Capital Corporation and the subsequent listing of its shares on the TSX Venture Exchange. Upon satisfaction of the release conditions and the release of the cash proceeds from escrow, the agents are entitled to receive a cash commission of 6% of the gross proceeds and broker warrants representing 6% of the number of shares issuable upon conversion of the securities sold under the offering at a price of \$0.40 per share for a period of three years. The financing will be used to fund future growth of Feronia's palm oil plantations and other agricultural interests in the Democratic Republic of Congo and other countries in Africa.

TriNorth has not participated in the financing. If the transaction is completed TriNorth's ownership position will be diluted to 17.12% before the impact from warrants being exercised. In addition, there will be certain restrictions on the Company's ability to sell some or all of its shares in Feronia for a period of time after the transaction is completed.

On June 7, 2010, the Manager entered into a share purchase agreement whereby all of its shares would be purchased by Aston Hill Financial Inc. The acquisition is expected to be completed in July 2010.