



# Annual Report

2008

## **COMPANY PROFILE**

TriNorth Capital Inc. (“TriNorth” or the “Company”) is an investment company that holds a diversified portfolio of public and private companies in order to generate long-term capital growth for shareholders.

TriNorth takes an active interest in its investee companies, providing strategic and financial counsel to assist in their growth and success.

TriNorth is managed by Lawrence Asset Management Inc.

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Dear Shareholders,

The past year was a difficult one for the global economy, capital markets, and in particular, early-stage companies. The access to capital for early-stage ventures weakened throughout the year and virtually ceased altogether in September as the credit-crisis unfolded. Our business model of seeding early-stage ventures and creating value for our shareholders by helping these companies graduate into capital markets at higher valuations has been negatively affected as a result. However, the scarcity of capital has lowered valuations dramatically and created tremendous investment opportunities, including our existing investee companies.

Early in 2008 TriNorth realized on its investment in Buchanan Renewable Energies Inc. Buchanan was an early-stage venture we believed held great promise for value creation over a long period of time. However, with capital markets showing weakness and a premium all-cash bid presented to the company, we believed it was in the best interest of TriNorth shareholders to accept the offer. This resulted in a modest profit for TriNorth. Although this was not the exit-strategy anticipated at the time of investment, this transaction demonstrated the flexibility of our business model and our capability to access alternative sources of capital. This reach has become increasingly important in today's capital starved environment.

We continued to deploy money throughout the course of the year including a major focus on the agriculture sector with investments in Mag Minerals, an emerging potash fertilizer company, Wild Horse Farms & Bio Energy Corporation, a corporate farm in Saskatchewan, Canada, and Feronia Inc. an Africa-focused plantation and farming company. We believe this sector presents a major long-term investment opportunity regardless of the direction of capital markets. A confluence of trends in population growth, urbanization, scarcity of arable land, and a resultant increase in agricultural commodity prices makes this an excellent sector for TriNorth to have long-term exposure to. We also added to our investment in Russo-Forest, an emerging forestry company focused on consolidating and harvesting large-scale forestry assets in Russia. Russo-Forest has achieved several key operational milestones and although it is operating in a challenged industry in a difficult jurisdiction we continue to be optimistic for its long-term prospects.

In 2009 TriNorth will continue to focus almost exclusively on existing investments with a priority of ensuring that they are sufficiently capitalized to execute on their business plans in the current difficult economic environment. To the extent that we utilize our cash position it will be directed towards supporting our existing investee companies. We believe there is real value being created in our various investments that will be realized over the course of time.

Sincerely,

*Ravi Sood*  
President  
Lawrence Asset Management Inc.

## Management's Discussion and Analysis

April 27, 2009

*The following provides additional analysis of the operations and financial position of TriNorth Capital Inc. (“TriNorth” or the “Company”). It is supplementary information and should be read in conjunction with the financial statements and accompanying notes for the year ended December 31, 2008. A comparative analysis between 2007 and 2008 has not been provided and would not be meaningful as the reported prior year’s financial results were for the period from October 10 to December 31, 2007.*

*Regulatory filings for TriNorth may be found on SEDAR at [www.sedar.com](http://www.sedar.com), while other information related to the Company, including its net asset value, is published on its website at [www.trinorthcapital.com](http://www.trinorthcapital.com).*

### FORWARD-LOOKING STATEMENTS

Included in this Management Discussion & Analysis are matters that constitute “forward-looking” information within the meaning of Canadian securities law. Such forward-looking statements may be identified by words such as “plans”, “proposes”, “estimates”, “intends”, “expects”, “believes”, “may” or words of a similar nature. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from such statements. Factors that could cause actual results to differ materially include among others, regulatory risks, risk inherent in foreign operations, commodity prices and competition. These factors are largely outside the control of the Company. All subsequent forward-looking statements attributable to the Company or its agents are expressly qualified in their entirety by these cautionary comments. Except as otherwise required by applicable securities statutes or regulation, the Company expressly disclaims any intent or obligation to update publicly forward-looking information, whether as a result of new information, future events or otherwise.

### OVERVIEW

TriNorth is an investment company with investments in a diversified portfolio of companies. TriNorth’s investment strategy includes structuring and initiating deals focused on particular resources, themes or regions as well as launching the development of businesses in select industries by providing assistance with the hiring of management teams, providing seed capital and facilitating IPOs. TriNorth will also invest in publicly traded companies, that are trading at compelling and attractive valuations.

Pursuant to the terms of a management agreement, the Company is managed by Lawrence Asset Management Inc. (the “Manager”). The Manager is responsible for providing or arranging for investment management and advisory services as well as administrative and accounting services.

### FINANCIAL HIGHLIGHTS

#### Selected Annual Information

For the year ended December 31, 2008 and period from October 10 to December 31, 2007

	<b>2008</b>	2007
(\$000’s, except per share amounts)	<b>\$</b>	\$
Realized gain on investments	<b>201</b>	-
Unrealized loss on marketable securities	<b>(2,280)</b>	-
Impairment loss on investments	<b>(5,277)</b>	
Share of losses from equity accounted investees	<b>(1,306)</b>	(535)
Net loss	<b>(11,601)</b>	(675)
Net loss per share	<b>(0.077)</b>	(0.004)

As at December 31	2008	2007
	\$	\$
Cash, cash equivalents and marketable securities	<b>6,226</b>	13,524
Investments in privately-held companies	<b>5,191</b>	9,742
Total assets	<b>12,898</b>	23,770
Total liabilities	<b>832</b>	202

## RESULTS OF OPERATIONS

In 2008, the Company's first full year of operations subsequent to its corporate reorganization on October 10, 2007, the following significant events occurred:

- On April 18, 2008 the Company sold its entire investment in Buchanan Renewable Energies Inc. ("Buchanan") for net proceeds of \$6,246,750 and recorded an accounting gain of \$2,546,150. This gain was offset by the Company's realized loss on MagMinerals Holdings Corp. ("Mag Holding") of \$2,542,548.
- Investments in privately held companies were written down by \$5,277,108 due to the credit crunch, which made it difficult for these companies to raise financing to support ongoing operations.
- The Company's proportionate share of losses from investments in which it has significant influence was \$1,305,565. Part of this loss is attributable to Buchanan prior to its sale by the Company.
- The Company recorded an unrealized loss on investments in public companies of \$2,279,948.
- The Company earned \$164,010 from the disposition of CHC Helicopter Corp. as it took advantage of the turmoil in capital markets to acquire shares in CHC Helicopter, a company that was trading at a deep discount to a fully financed takeover bid.

TriNorth paid the Manager \$508,880 for management services pursuant to the terms of an investment management agreement. General and administrative expenses totalled \$939,291. Project development expenses were \$2,115,692. These expenses are primarily consulting and due diligence costs for projects which the Company has been trying to develop into a viable business.

As a result of the foregoing, the Company recorded an operating loss from operations of \$ 11,600,855 for the year ended December 31, 2008.

## SUMMARY OF QUARTERLY RESULTS

(\$000's except per share information)

	31-Dec-08	30-Sep-08	30-Jun-08	31-Mar-08	31-Dec-07
	\$	\$	\$	\$	\$
Net investment gains (losses)	(9,895)	(164)	2,265	(867)	-
Net income(loss) for the period	(10,938)	(1,467)	1,921	(1,117)	(675)
Earnings (loss) per share	(0.007)	(0.010)	0.013	(0.007)	(0.004)

Results for the quarter ended December 31, 2007 are for the period of October 10 to December 31, 2007. Variances in quarterly results occur due to the timing of disposition of investments and revaluations of marketable securities due to fluctuations in the public markets. Privately-held equity investments are revalued at their fair values if the Company has determined that there is a permanent impairment in the value of the investment.

## Fourth Quarter Results

Global economic turmoil accelerated in the fourth quarter. Equity markets plunged as public and private company valuations tumbled to multi-decade lows. As a consequence, the Company incurred unrealized losses on its marketable securities of approximately \$2.3 million. Privately-held companies were written down by approximately \$5.3 million and were recorded as an impairment. The Company realized a loss of \$2.5 million on of its investment in Mag Holdings as the Company's shares in Mag Holdings were converted into shares of MagIndustries Corp. In addition, the Company wrote-off all project development costs as it plans to reduce spending on new projects in anticipation of a prolonged recession. Net loss for the quarter was approximately \$10.9 million.

In the fourth quarter, the Company made new investments in the marketable securities of Homeland Energy Group Ltd., and Day 4 Energy Inc. and increased its investment in CIC Energy Corp.

## FINANCIAL POSITION AND LIQUIDITY

During the year ended December 31, 2008, cash outflow from operating activities before non-cash working capital balance adjustments and share of loss of equity accounted investment was \$4,144,741. After reflecting the changes in accounts receivable, prepaid expenses, payables and share of loss of equity accounted investment, cash outflow from operations was \$2,189,418.

Working capital at December 31, 2008 was \$6,875,809 including cash and cash equivalents of \$3,891,916 and marketable securities of \$2,333,851. These amounts are sufficient to fund the Company's operations and to support its current investments.

Current liabilities were \$831,545 as at December 31, 2008, of which \$47,131 represented liabilities to a related party.

Net cash outflow from the purchase of marketable securities was \$3,785,177.

Net cash outflow from investments in privately-held companies for the year was \$ 2,485,750:

Cost of investments purchased:	\$
Russo Forest Corporation	1,500,000
Wild Horse Farms & Bio Energy Corporation	2,002,500
Mag Minerals Holdings Corp.	3,000,000
Chevalier Resources Inc.	2,080,000
C3 Resources	150,000
	<u>8,732,500</u>
Proceeds from investment sold:	
Buchanan Renewable Energies	6,246,750
	<u>2,485,750</u>

## INVESTMENTS

### *Russo Forest Corporation ("Russo")*

The Company owns approximately 26.6% of Russo, a Russian based forestry company. In addition, the Company loaned Russo \$1,371,022 which is unsecured, payable on demand and bears interest at 15% per annum.

Russo's current operating performance has shown substantial progress from early 2008, nevertheless as a start up company, Russo continues to require additional financial support in order to grow.

During the year, the Company recorded \$543,565 as its share of Russo's net loss and incurred an impairment charge of \$504,000.

Summary financial information for Russo for the year ended December 31, 2008.

Total revenue	\$	<b>624,874</b>
Total expenses		<b>3,037,351</b>
Net loss		<b>(2,043,477)</b>
Working capital		<b>(2,421,041)</b>
Non-current assets		<b>7,859,305</b>
Shareholders' equity		<b>5,119,264</b>

In February, 2009, Russo announced that it would be acquired by Nyah Resources Corp. (TSXV:NRU) ("Nyah") in a reverse takeover. This proposed transaction is subject to a number of conditions including regulatory approval by the TSX Venture Exchange. As a result of this reverse takeover, approximately 80% of Nyah's shares will be owned by Russo-Forest's current shareholders, with the balance held by Nyah's current shareholders. TriNorth will own approximately 27.6% of Nyah on the completion of the transaction.

***Saber Energy Corporation ("Saber")***

The Company owns approximately 3.7% of Saber, a Botswana-based private early stage company focused on coal bed methane exploration.

During 2008 Saber expanded its available land position in the Karoo Basin to 5.9 million acres from the original 1 million acre Karoo Central Block and began its exploration program. The results of the exploration program have been mixed. Two of the four production five-well patterns ("Five Spots") tested have been producing gas with the other two having gas flow rates below expectations. Saber's objective for the successful Five Spots is to prove recoverability by continuing to dewater and optimize gas production.

Saber's 2009 drilling program has been temporarily suspended. Further analysis is needed on the exploration data that has been gathered on the Karoo Central Block, including whether an alternative drilling technology may be better suited to maximize gas production and decrease anticipated capital costs.

Saber requires additional capital to execute its business plan. With the collapse of global financial markets, Saber had to significantly reduce costs. In addition, Saber has arranged for a \$6 million bridge loan from a related party and has sold assets to raise cash. Saber is reasonably confident that it can fund expenditures for the short-term.

***MagMinerals Holdings Corp. and MagIndustries Corp.***

TriNorth invested \$3,000,000 in Mag Holdings, a company with plans to develop a promising potash mining and processing operation in the Republic of the Congo. Due to the credit crunch and lower potash prices, Mag Holdings had difficulty in raising additional capital on a timely basis and was unable to complete a planned public offering of its shares in 2008.

On December 31, 2008, the Company's shares in Mag Holdings were converted into shares of its parent company, MagIndustries Corp., a TSX-Venture Exchange listed company. TriNorth had acquired Mag

Holdings in a private placement in April 2008. Pursuant to the terms of Mag Holdings' offering, its shares were automatically converted into shares of MagIndustries Corp. on December 31, 2008 if Mag Holdings was unable to complete a liquidity event prior to December 31, 2008. As a result of the conversion, TriNorth owns 1,759,777 shares of MagIndustries Corp.

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

The Company purchased in a private placement approximately 8.9% of Wild Horse, a corporate farming company in Saskatchewan. TriNorth's ownership increased to 9.6% on December 31, 2008 because Wild Horse had to increase the number of shares issued to purchasers of its private placement by 15%, as a penalty, when Wild Horse was unable to publicly list its shares by the end of 2008.

During Wild Horse's first full year of operations ending December 31, 2008, sales and net operating loss were approximately \$2.1 million and \$3.4 million respectively. Despite the decline in commodity prices in the latter half of 2008, Wild Horse's financial performance was better than expected due to a favourable hedge of canola prices. As at December 31, 2008 Wild Horse had working capital of approximately \$1.8 million, long-term debt of \$2.9 million and shareholders' equity of \$10.5 million.

Wild Horse has acquired approximately 25,000 acres of farm land and subject to market conditions, intends to purchase another 20,000 acres.

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

In July, 2008, the Company invested \$2,080,000, for an 14.8% ownership interest in Chevalier Resources, a start up exploration stage mining company with ownership of copper, cobalt and tin deposits in the Katanga region of the Democratic Republic of the Congo. For the period ended December 31, 2008, Chevalier had no revenues and an operating loss of approximately \$1.6 million. Its working capital as at December 31, 2008 is approximately \$700,000. In the fourth quarter, Chevalier substantially cut expenses in order to preserve cash. Chevalier is currently focused on raising additional capital in order to start small scale mining operations. Until new capital is raised, operating activities will be minimal.

In March, 2009, TriNorth sold its entire investment in Chevalier for \$220,000 as the decline in the price of copper and the difficulty in raising capital no longer made Chevalier an attractive investment.

***Investments in public companies***

As at December 31, 2008 the Company held the following investments in publicly traded companies at fair value:

Homeland Energy Group Ltd. - \$235,339 (cost: \$1,146,676). Homeland is primarily focused on coal production and resource development in South Africa.

CIC Energy Corp. - \$770,970 (cost: \$1,254,581) CIC is developing a power station and integrated coal mine in Botswana.

Day 4 Energy Inc. - \$ 870,000 (cost: \$1,755,000). Day 4 is a Canadian based solar energy company that manufactures and designs solar electric modules.

MagIndustries Corp. - \$457,542 (cost: \$457,542). MagIndustries is a resource company operating and developing industrial projects in the Republic of Congo and Democratic Republic of Congo.

Additional information about these companies may be found on their respective websites and SEDAR.

**STOCK BASED COMPENSATION**

On May 12, 2008 the Company implemented a Directors Stock Option Plan which permits directors to receive their quarterly fees either in cash or stock options. Each option granted under the plan is for a

maximum term of seven years with an exercise price equal to the Company's closing share price on the last day of the applicable quarter and vests immediately.

During the year, directors chose to receive their directors' fees either completely in options or 50% in options and 50% cash.

#### **RELATED PARTY TRANSACTIONS AND CONTRACTUAL OBLIGATION**

Lawrence Asset Management Inc. is the manager of the Company and in accordance with a management agreement is entitled to a management fee of 2% of the Company's net asset value. For the year ended December 31, 2008, a management fee of \$508,880 was recorded. As at December 31, 2008, the amount accrued and payable to the manager is \$49,060.

The Manager provides or arranges for all general management and administrative services required by the Company in its day-to-day operations, including investment advice, establishment of brokerage arrangements relating to the purchase and sale of investments of the portfolio, bookkeeping and record-keeping.

A director of TriNorth is also a director of Russo and Chevalier.

#### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Company's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company's accounting policies are described in Note 2 to the financial statements

Areas in which significant judgement and estimates are used include, but are not limited to, the fair values of the Company's investments. Available-for-sale securities are generally carried at cost except where there has been impairment, for a decline in value that is other than temporary, in which case the investment is written down to fair value to recognize the impairment loss.

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 Manager uses estimation techniques to determine fair value, which may include arm's length transactions, discounted cash flows, multiples of earnings or production and comparison with other securities that are substantially the same.

#### **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company. It has used the Committee of Sponsoring Organizations of the Treadway Commission framework to evaluate the effectiveness of the Company's internal controls over financial reporting.

Management has implemented such disclosure controls and procedures, as defined by National Instrument 52-109, to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") by others during the period in which the annual filings are being prepared. The CFO evaluated the effectiveness of the Company's disclosure controls as at December 31, 2008. The CEO and CFO have concluded that those disclosure controls were effective for the most recent year.

Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP. Management has concluded that internal controls over financial reporting are effective as at December 31, 2008.

#### **ADOPTION OF NEW ACCOUNTING STANDARDS**

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Section 3862: *Financial Instruments – Disclosures* (“Section 3862”) of the CICA Handbook - *Accounting and Section 3863: Financial Instruments – Presentation* (“Section 3863”). These new sections establish standards for enhanced disclosure about the nature and extent of risks associated with the financial instruments held by the Company and how those risks are managed. The new disclosures include qualitative and quantitative analysis for various types of risks. The disclosure and presentation provisions of Section 3862 and Section 3863 are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Comparative figures are not required in the initial year of adoption. Refer to note 10 for the discussion of management of financial instrument risks.

Effective January 1, 2008 the Company also adopted the CICA Handbook Section 1535: *Capital Disclosures* (“Section 1535”). Section 1535 specifies the disclosure of information about a legal entity’s capital and how it is managed. The Manager has policies and procedures in place to manage the capital of the Company in accordance with the Company’s investment objectives, strategies and restrictions as detailed in the prospectus. Refer to note 10 for disclosure of the Company’s capital and how it is managed.

The adoption of these new standards resulted in increased disclosures but did not affect the Company’s net assets or results of operations.

#### **FUTURE ACCOUNTING PRONOUNCEMENTS**

In 2006, Canada’s Accounting Standards Board (AcSB) ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards (IFRS) over a transitional period currently expected to be until 2011. In April 2008, the AcSB issued an exposure draft which requires IFRS to replace Canadian GAAP for interim and annual financial periods beginning on or after January 1, 2011, including comparative figures. The impact of this transition on the Company’s financial statements is still being determined.

The Canadian Institute of Chartered Accountants issued Section 3064 “Goodwill and Intangible Assets”, which clarifies the costs that can be deferred only when they relate to an item that meets the definition of an asset. Accordingly, start-up costs must be expensed as incurred. Section 1000 “Financial 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. These new standards are not expected to have any impact on the Company’s consolidated financial statements.

#### **RISK FACTORS AND RISK MANAGEMENT**

The Company’s investment strategy requires assuming risk in exchange for an above average return on investment. Each of TriNorth’s investee companies are subject to the risks inherent in the region and industry in which they operate. Such risks include political, currency, market and liquidity risk. The investee companies are all at an early stage of development and may continue to require additional capital to develop their business plans until they become self-funding.

##### *Credit Risk, Liquidity Risk and Market Risk*

Credit risk is the risk of financial loss when a counterparty defaults on its obligations to the Company. Liquidity risk is the risk that the Company is unable to fulfill its financial obligations as they become due.

Market risk occurs when changes in interest rates, foreign exchange rates and commodity prices affect the fair value of, or future cash flows, from the Company's financial instruments.

The Company relies on the expertise of the Manager's experience as a portfolio manager in managing risk. Prior to making an investment the Manager will engage in extensive due diligence, 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. In addition TriNorth actively manages its investment portfolio and maintains a diversified portfolio of investments. It is impossible to eliminate all risks which a specific investment is subjected to. However, by maintaining a number of holdings in different regions and sectors of the economy, the Company diversifies its specific risks and hence reduces its overall risk.

### **OUTSTANDING SHARE DATA**

The Company has two authorized classes of shares: an unlimited number of common shares and an unlimited number of preference shares, issuable in series. As at December 31, 2008, there were 150,747,317 outstanding common shares and no outstanding preference shares.

### **OUTLOOK**

The back-to-back bursting to the U.S. real estate and global commodities bubble in 2008 has caused the largest economic crisis in a generation. The crisis was exacerbated by the unwinding of leverage of overleveraged consumers, banks and investment funds. As result, virtually every asset class, real estate, commodities and equities suffered substantial declines in 2008. As consumers and banks saw the value of their assets decline, economic activity plummeted as consumers and banks attempted to repair their balance sheets. While the banks were tightening credit and the consumer was spending less, businesses started to reduce their costs with layoffs and other cost reduction measures.

By the fourth quarter of 2008, the global recession deepened and is expected to continue well into 2009. As at March 2009 U.S. and Canadian unemployment rates were 8.5 % and 8.0% respectively, with most economists forecasting further erosion in employment throughout 2009. Rising unemployment has serious negative implications for the economy. With consumers either unable or unwilling to spend, businesses delay expansion plans until they see turnaround. Consumers and business have developed a hunker down mentality and have fled to cash and government bonds, the only asset classes that have not dropped in value. The preservation of cash and increased savings has sent the economy into a further downward spiral.

In an effort to avoid further economic damage, governments have become the spenders of last resort. Governments have committed to spending trillions of dollars to stimulate the world's economy. Furthermore, central banks have reduced interest rates to all-times lows in order to increase the flow and supply of money. This fiscal and monetary stimulus will require time to take effect, therefore, we do not anticipate an recovery in the economy until 2010.

In these challenging times, the business strategy for TriNorth for 2009 is to minimize our expenses and conserve cash. For example we have reduced the number of directors from seven to five and we are moving our listing from the TSX to the TSX-Venture exchange. In addition, project development activities have been significantly curtailed. The portfolio of public companies we acquired in the fourth quarter are positioned for a recovery of commodity prices which we believe to be inevitable, as the fundamentals for commodities are still sound, notwithstanding the current economic turbulence. TriNorth's portfolio of private company investments are all in their start up phase. We continue to work with the management of these companies to enhance shareholder value. An exit or liquidity event for these investments is not expected in 2009, except for Chevalier, which was sold in March 2009.

## **Management's Responsibility Statement**

The financial statements of TriNorth Capital Inc. have been prepared by Management of the Company and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements and the other sections of the Annual Report.

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and, where necessary, reflect management's estimates and judgments. The significant accounting policies applicable to the Company are described in Note 2 to the financial statements. Management is responsible for the accuracy, integrity and objectivity of the financial statements within reasonable limits of materiality and for the consistency of the financial data contained in the financial statements.

To assist management in the discharge of these responsibilities, Management maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, only valid and authorized transactions are executed and accurate, timely comprehensive information is prepared.

The Board of Directors of the Company oversees the fulfillment by Management of its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board of Directors carries out this responsibility through the Audit Committee, which is comprised of independent Directors of the Board.

The Company, with the approval of its Board of Directors, has appointed the firm of Ernst & Young LLP as the external auditor of the Company. They have audited the financial statements of the Company in accordance with Canadian generally accepted auditing standards to enable them to express to shareholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings or any other matters at any time.

John Pennal  
President & Chief Executive Officer

K. Matthew Hoang  
Chief Financial Officer

April 27, 2009

## AUDITORS' REPORT

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

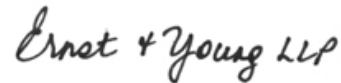
We have audited the consolidated balance sheet of **TriNorth Capital Inc.** as at December 31, 2008, and the consolidated statements of operations and comprehensive loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements for the preceding period from October 10, 2007 to December 31, 2007 were audited by other auditors, whose report, dated March 14, 2008, expressed an opinion without reservation on those financial statements.

Toronto, Canada,  
April 27, 2009.



Chartered Accountants  
Licensed Public Accountants

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**TriNorth Capital Inc.**  
**Consolidated Balance Sheets**

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As at December 31,	2008	2007
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,891,916	\$ 13,350,873
Marketable securities (Note 7)	2,333,851	173,581
Prepaid expenses and other assets	12,150	32,591
Loan receivable (Note 3)	1,469,437	470,825
Investments (Note 3)	5,191,068	9,741,840
	<b>\$ 12,898,422</b>	<b>\$ 23,769,710</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 831,545	\$ 202,228
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 4)	55,518,529	55,518,529
Contributed Surplus (Note 4)	34,048,593	33,948,343
Share Purchase Warrants (Note 5)	7,041,980	7,041,980
Deficit	(84,542,225)	(72,941,370)
	<b>12,066,877</b>	<b>23,567,482</b>
	<b>\$ 12,898,422</b>	<b>\$ 23,769,710</b>

*See accompanying notes.*

**Approved on behalf of the Board:**

*John Pennal*  
Director

*John Crow*  
Director

**TriNorth Capital Inc.**

**Consolidated Statements of Operations and Comprehensive Loss and Deficit**

	For the year ended December 31, 2008	For the period from October 10 to December 31, 2007
<b>Net investment gain (loss)</b>		
Realized gain on disposal of marketable securities	\$ 197,500	\$ -
Realized gain on disposal of equity accounted investment	2,546,150	-
Realized loss on disposal of investments designated as available-for-sale	(2,542,458)	-
Unrealized loss on marketable securities	(2,279,948)	-
Impairment of investments designated as available-for-sale	(4,773,108)	-
Share of loss in equity accounted investments	(1,305,565)	(534,900)
Impairment of equity accounted investment	(504,000)	-
	<b>(8,661,429)</b>	<b>(534,900)</b>
<b>Other revenue</b>		
Interest on cash and cash equivalents	293,555	275,073
Interest on loan receivable	69,585	-
Foreign exchange gain	261,297	-
	<b>624,437</b>	<b>275,073</b>
<b>Expenses</b>		
Management fee (Note 8)	508,880	81,397
Operating, general and administrative	939,291	311,209
Project development	2,115,692	23,043
	<b>3,563,863</b>	<b>415,649</b>
<b>Net loss for the period and comprehensive loss</b>	<b>(11,600,855)</b>	<b>(675,476)</b>
<b>Deficit, beginning of period</b>	<b>(72,941,370)</b>	<b>(72,265,894)</b>
<b>Deficit, end of period</b>	<b>\$ (84,542,225)</b>	<b>\$ (72,941,370)</b>
<b>Basic and diluted loss per share</b>	<b>(\$0.077)</b>	<b>(\$0.004)</b>

*See accompanying notes.*

## TriNorth Capital Inc.

### Consolidated Statements of Cash Flows

	For the year ended December 31, 2008	For the period from October 10 to December 31, 2007
<b>Operating activities</b>		
Net loss for the period	\$ (11,600,855)	\$ (675,476)
Items not affecting cash:		
Realized gain on disposal of marketable securities	(197,500)	-
Realized gain on disposal of equity accounted investments	(2,546,150)	-
Realized loss on disposal of investments designated as available-for-sale	2,542,458	-
Unrealized loss on marketable securities	2,279,948	-
Impairment of investments designated as available-for-sale	4,773,108	-
Share of loss in equity accounted investments	1,305,565	534,900
Impairment of equity accounted investment	504,000	-
Stock based compensation	100,250	-
Net change in non-cash working capital balances		
Prepaid expenses and other assets	20,441	(32,591)
Accounts payable and accrued liabilities	629,317	(1,291,933)
	<b>649,758</b>	<b>(1,324,524)</b>
<b>Cash used in operating activities</b>	<b>(2,189,418)</b>	<b>(1,465,100)</b>
<b>Investing activities</b>		
Proceeds from disposal of marketable securities	4,143,000	-
Purchase of marketable securities	(7,928,177)	(173,581)
Proceeds from disposal of equity accounted investment	6,246,750	-
Purchase of equity accounted investments	(1,500,000)	(10,276,740)
Purchase of investments designated as available-for-sale	(7,232,500)	-
Loan to equity accounted investment	(998,612)	(470,825)
<b>Cash used in investing activities</b>	<b>(7,269,539)</b>	<b>(10,921,146)</b>
Net decrease in cash and cash equivalents during the period	(9,458,957)	(12,386,246)
Cash and cash equivalents, beginning of period	13,350,873	25,737,119
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,891,916</b>	<b>\$ 13,350,873</b>

*See accompanying notes.*

**TriNorth Capital Inc.**

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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**1. DESCRIPTION OF BUSINESS**

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

The Company is managed by 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.

***2007 Financing and Reorganization***

An opportunity was presented to the Company to raise equity from investors who wished to have their assets managed by the Manager. As the Company’s assets prior to the reorganization were not part of the Manager’s investment strategies, the Company spun these assets out to shareholders. To complete TriNorth’s reorganization, the Company in conjunction with the Manager, issued new equity through a special warrant financing.

On July 19, 2007 TriNorth engaged Agents for a private placement of special warrants to be sold by offering memorandum. The offering closed August 30, 2007 and resulted in net proceeds of \$24,819,948. Each special warrant was exercisable into one common share and one common share purchase warrant for no additional consideration on closing of the following reorganization.

At a special meeting held on September 7, 2007, the Company adopted a special resolution approving the completion of a reorganization of the Company’s net assets, accordingly, on October 10, 2007 the following transactions occurred:

- The Company transferred all of its then existing assets and liabilities, except those relating to the Company’s financing to Centiva Capital Inc. (“Centiva”), a then wholly-owned subsidiary of TriNorth, in exchange for common shares of Centiva.
- TriNorth reduced the stated capital of its common shares; and distributed to its shareholders all of the common shares of Centiva as a payment for the reduction of stated capital.

The special warrants were exercised on November 22, 2007.

**2. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES**

With the disposal effective October 10, 2007 of all the then-existing assets and liabilities of the Company other than those resulting from the financing, the accompanying financial statements and notes thereto reflect the Company’s operations from October 10, 2007 only, except where otherwise stated.

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 consolidated financial statements:

**TriNorth Capital Inc.**

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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***Basis of consolidation***

These consolidated financial statements include the accounts of the Company and its wholly owned investment holding subsidiaries. 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***

Privately-held equity investments over which the Company does not have the ability to exercise significant influence are designated as available-for-sale and are carried at cost. If there is pervasive evidence that such an investment is impaired (decline in value other than temporary), the investment is written down to its fair value to recognize its impairment. 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 and comparison with other securities that are substantially the same.

The fair value of a privately-held investment may be re-valued downward if:

- the investee is placed into receivership or bankruptcy
- political or economic changes in a country in which the company operates restricts the investee company from operating normally
- significant changes in commodity prices or markets in which the investee invests
- the inability for the company to access financing that would permit it to continue operations
- changes in management that have a negative impact on the investee's operations

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.

Any difference between the fair value and the cost of the investments as a result of a write-down is recorded as an impairment of investments designated as available-for-sale.

Investments in shares of investee companies in which the Company's ownership is greater than 20% but not more than 50% and over which the Company has the ability to exercise significant influence, are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost. The carrying value is 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 is recorded in the consolidated statements of operations.

***Marketable securities***

Publicly-traded investments over which the Company does not have the ability to exercise significant influence are designated as held for trading and are carried at fair value based on

**TriNorth Capital Inc.**

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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quoted bid prices at the balance sheet date. Any changes in the fair value are recognized in the consolidated statements of operations as 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 period. Exchange gains and losses are included in net income (loss) from operations for the period.

The Company's subsidiaries are considered to be integrated foreign operations. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the year. The resulting translation adjustment is recorded in the consolidated statements of operations.

***Investment transactions and income recognition***

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

The Company's proportionate share of income or losses from an equity accounted investment is recorded in the consolidated statements of operations at the end of each reporting period.

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 has been 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 as at December 31, 2008:

**TriNorth Capital Inc.**

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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*Held for trading*

Cash and cash equivalents and marketable securities are designated as held for trading. These assets have been acquired principally for the purpose of selling or repurchasing in the near term. They are measured at fair value on the consolidated balance sheets, with realized and unrealized gains and losses reported in the consolidated statements of operations.

*Available-for-sale*

Investments in privately-held equity securities without quoted values are designated as available-for-sale. These assets are generally carried at cost except where there has been impairment for a decline in value that is other than temporary, in which case the investment is written down to fair value to recognize the impairment loss.

*Loans and receivables*

Loan receivable is designated as loans and receivables. These assets are 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 are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method, net of any impairment recognized.

*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 to the consolidated statements of operations as incurred.

***Adoption of new accounting policies***

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, "*Financial Instruments – Disclosure*" ("Section 3862") and Section 3863, "*Financial Instruments – Presentation*" ("Section 3863"), which replaced Handbook Section 3861, "*Financial Instruments - Disclosure and Presentation*". The objective of the disclosure requirements of Section 3862 is to provide information about the significance of financial instruments to the Company's financial position and performance, the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. The new standards require specific qualitative and quantitative disclosure about each type of risks.

Effective January 1, 2008, the Company adopted the CICA Handbook Section 1535, "*Capital Disclosures*" which specifies the disclosure of an entity's objectives, policies and processes for managing capital and how it is meeting those objectives.

The adoption of these standards resulted in additional disclosures in the notes to the consolidated financial statements but did not have an impact on the financial position or results of operation of the Company.

**TriNorth Capital Inc.**

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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Effective January 1, 2008, the Company adopted EIC 165, *Accounting by an Investor upon a Loss of Significant Influence*. This abstract provides that if a company no longer has significant influence over an equity method accounted investee but continues to be an equity investor, then, as part of discontinuing the equity method of accounting, the company would derecognize its portion of investee Other Comprehensive Income, with an offset to the carrying value of the investment. Prior periods are restated as if significant influence had never been in place. Adoption of this standard did not have an impact on the current year's financial statements but may have an effect on the Company's future financial statements as its interest in equity accounted investments change but not on the Company's fair value.

***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.

***Variable Interest Entities***

The CICA Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities* ("VIEs"), provides criteria for the identification of VIEs. AcG-15 also includes guidance for determining if an enterprise is the primary beneficiary of a VIE and if so requires the enterprise to consolidate it. The primary beneficiary is an entity that absorbs the majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns or both.

Due to the nature of its investments, including early-stage companies, the Company may hold investments in entities that are VIEs during the course of its normal business activities. However, for the periods ended December 31, 2008 and 2007, the Company was not the primary beneficiary of an investee that was a VIE.

***Future accounting changes***

The Canadian Institute of Chartered Accountants issued Section 3064: *Goodwill and Intangible Assets*, which clarifies the costs that can be deferred only when they relate to an item that meets the definition of an asset. Accordingly, start-up costs must be expensed as incurred. Section 1000: *Financial 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. These new standards are not expected to have any impact on the Company's consolidated financial statements.

**TriNorth Capital Inc.**

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

**3. INVESTMENTS**

The Company's investments as at December 31, 2008 and 2007 are as follows:

*Private investments accounted for using the equity method:*

	<u>2008</u>	<u>2007</u>
Russo-Forest Corporation		
Opening balance	\$ 525,000	\$ -
Purchase of investment	1,500,000	525,000
Less: TriNorth share of loss	(543,565)	-
Charge for impairment	(504,000)	-
Balance as at December 31	<u>977,435</u>	<u>525,000</u>
Buchanan Renewable Energies Inc.		
Opening balance	4,462,600	-
Purchase of investment	-	4,997,500
Less: TriNorth share of loss	(762,000)	(534,900)
Cost on disposal of investment	(3,700,600)	-
Balance as at December 31	<u>-</u>	<u>4,462,600</u>
Total private investments accounted for using equity method	<u>977,435</u>	<u>4,987,600</u>
<i>Private investments designated as available-for-sale</i>		
Chevalier Resources Inc.	440,000	-
Saber Energy Corporation	1,699,133	4,754,240
Wild Horse Farms & Bio Energy Corporation	2,002,500	-
C3 Resources	72,000	-
Total private investments designated as available-for-sale	<u>4,213,633</u>	<u>4,754,240</u>
Total investments as at December 31	<u>\$ 5,191,068</u>	<u>\$ 9,741,840</u>

***Russo-Forest Corporation***

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 is comprised of one common share and one share purchase warrant, with each warrant entitling the holder to acquire one common share at a price of \$1.00 for a period of five years. At the close of this round of financing, TriNorth had an interest in Russo of approximately 26.6%.

In addition to the Company's equity investment, the Company loaned Russo \$1,371,022 which is secured by the assets of Russo, due on October 18, 2009 and bears interest at 15% per annum. This amount is included in loan receivable on the consolidated balance sheets.

Summary financial information for Russo for the year ended December 31, 2008.

**TriNorth Capital Inc.**

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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	<u>2008</u>
Total revenue	\$ 624,874
Total expenses	3,037,351
Net loss	(2,043,477)
Working capital	(2,421,041)
Non-current assets	7,859,305
Shareholders' equity	5,119,264

***Chevalier Resources Inc.***

In July 2008, the Company invested \$2,080,000, for a 14.8% ownership stake in Chevalier Resources Inc. (“Chevalier”). Chevalier is an exploration stage mining company with ownership of potential copper, cobalt and tin deposits in the Katanga region of the Democratic Republic of the Congo. Chevalier is attempting to raise capital in order to start small scale production of copper and cobalt near Lubumbashi. The Company has written down its investment in Chevalier by \$1,640,000.

***Saber Energy Corporation***

In November 2007, the Company made a US\$4,995,000 common share investment at US\$0.90/share in Saber Energy Corporation (“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 has written down its investment in Saber by \$3,055,107.

***Wild Horse Farms & Bio Energy Corporation***

In May 2008, the Company invested \$2,002,500, for an 8.8% ownership interest in Wild Horse Farms & Bio Energy Corporation (“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 its 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.

***C3 Resources***

In July 2008, the Company invested \$150,000 in C3 Resources, a Nevada based gold exploration company. The Company has written down its investment in C3 Resources by \$78,000.

***Buchanan Renewable Energies Inc.***

The Company acquired an approximately 23.3% ownership stake in Buchanan, a Liberian-based alternative-energy company, in October 2007. Buchanan's principal business activities focus on excavating non-producing rubber trees in Liberia and exporting biomass in the form of wood chips to electric utilities in the UK and the rest of Europe.

Summary financial information for Buchanan for the period ended December 31, 2007:

**TriNorth Capital Inc.**

## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Total revenue	75,309
Total expenses	5,847,492
Net loss	(5,772,183)
Working capital	685,562
Non-current assets	7,769,562
Long-term liability	2,500,000
Shareholders' equity	5,955,124

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.

**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 Stock Exchange, stock symbol "TRT". As at December 31, 2008, there were 150,747,317 outstanding common shares and no outstanding preference shares. Common shares issued are as follows:

	Number of shares	Stated Capital
Shares outstanding, October 10, 2007	18,726,317	\$ 38,317,550
Add: Common shares issued on exercise of special warrants	132,021,000	19,782,331
Less: Financing costs	-	(2,581,352)
Shares outstanding, December 31, 2008 and 2007	150,747,317	55,518,529

**Contributed Surplus changes during the period:**

Balance, December 31, 2007	\$ 33,948,343
Stock-based compensation	100,250
Balance, December 31, 2008	\$ 34,048,593

**5. SHARE PURCHASE WARRANTS**

At the effective date of exercise of the 132,021,000 special warrants and resulting issuance of the common share purchase warrants, the latter warrants as well as the 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*	

**TriNorth Capital Inc.**

## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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\* 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 \$142,355,672 and non-capital losses of \$10,272,250 that may be carried forward to reduce income taxes in future years.

If not utilized, the non-capital losses will expire as follows:

2009	291,656
2010	3,711,841
2014	442,399
2015	367,041
2026	801,603
2027	1,673,226
2028	2,984,484
	<u>\$ 10,272,250</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 \$25.2 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***

The Company is not exposed to significant interest rate risk that arises from fluctuations in interest rates on its cash and cash equivalents and marketable securities. At December 31, 2008 the Company had not entered into any interest rate swaps.

***Currency risk***

The Company is exposed to currency risk as expenses for some of its operating activities and investments are in currencies not denominated in Canadian 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.

**TriNorth Capital Inc.**

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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***Market risk***

The Company is exposed to market risk with respect to its 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, 2008 are as follows:

	<b>Fair value</b>	<b>Cost</b>
	\$	\$
Homeland Energy Group Ltd.	235,339	1,146,676
CIC Energy Corp.	770,970	1,254,581
Day 4 Energy Inc.	870,000	1,755,000
MagIndustries Corp.	457,542	457,542
	<u>2,333,851</u>	<u>4,613,799</u>

***Credit risk***

The Company is exposed to credit risk associated with its cash and cash equivalents. Credit risk is substantially minimized by ensuring that such investments 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, 2008, the Company had US\$105,677 of cash with a bank in Africa. The Company is also exposed to credit risk associated with its loan receivable and the related balance in the consolidated balance sheets represents the maximum credit exposure.

**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, 2008, a management fee of \$508,880 (For the period from October 10, 2007 to December 31, 2007 - \$81,397) was recorded.

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

A Director of TriNorth is also a Director of 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 expertise of 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

**TriNorth Capital Inc.**

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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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.

**10. DIRECTORS STOCK OPTION PLAN**

On May 12, 2008, the Company implemented a Directors Stock Option Plan which permits Directors to receive their quarterly fees either in cash or stock options. Each option granted under the plan is for a maximum term of seven years with an exercise price equal to the Company's closing share price on the last day of the applicable quarter and vests immediately. A Director electing to exercise an option is required to purchase the shares for the exercise price.

At December 31, 2008 the number of options outstanding and exercisable is as follows:

<u>Exercise price</u>	<u>Quantity</u>	<u>Expiry date</u>
\$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

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 February 2009, Russo-Forest Corporation announced that it would be acquired by Nyah Resources Corp. (TSXV: NRU) ("Nyah") in a reverse takeover. This proposed transaction is subject to a number of conditions including regulatory approval by the TSX Venture Exchange. As a result of this reverse takeover, approximately 80% of Nyah's shares will be owned by Russo's current shareholders, with the balance held by Nyah's current shareholders. TriNorth will own approximately 27.6% of Nyah on the completion of the transaction. A Director of TriNorth is also a Director of Nyah. Russo has agreed to a \$500,000 break fee if the transaction does not close under certain circumstances.

In March 2009, TriNorth entered into an agreement with Russo to modify the loan receivable to add an option to convert the balance into common shares at the conversion price of \$0.12. In the event that the transaction with Nyah is not completed on or before

**TriNorth Capital Inc.**

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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June 30, 2009, the principal will mature and will be due and payable on June 30, 2009 or such other date upon which the debenture holder may declare the principal to be due and owing.

In March 2009, TriNorth disposed of its investment in Chevalier Resources for \$220,000.

## **CORPORATE INFORMATION**

### **Board of Directors**

Rene Bharti <sup>(1)</sup>  
Amar Bhalla <sup>(1) (2)</sup>  
John Crow <sup>(1) (2)</sup>  
John D. Pennal <sup>(2)</sup>  
Ravi Sood

- <sup>(1)</sup> Member of the Audit Committee  
<sup>(2)</sup> Member of the Governance Committee

### **Officers**

John D. Pennal  
*President & Chief Executive Officer*

K. Matthew Hoang  
*Chief Financial Officer*

### **Stock Exchange Listing**

The Toronto Stock Exchange  
Stock symbol: TRT

### **Auditor**

Ernst & Young LLP  
Toronto, Canada

### **Registrar & Transfer Agent**

Computershare Investor Services  
100 University Avenue, 11th Floor  
Toronto, ON  
Canada M5J 2Y1

### **Annual Meeting of Shareholders**

The Annual Meeting of Shareholders will be held on June 22, 2009 at 10:00 a.m. at Suite 5300, Toronto Dominion Bank Tower, Toronto, Ontario.