



## Management's Discussion and Analysis

June 23, 2010

*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, 2009.*

*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's 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 portfolio of commodity based 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 may also invest in publicly traded companies.

Pursuant to the terms of a management agreement, 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 management and advisory services as well as administrative and accounting services.

## FINANCIAL HIGHLIGHTS

### Selected Annual Information

For the years ended December 31, 2009 and December 31, 2008:

	2009	2008
(\$000's, except per share amounts)	\$	\$
Realized (loss) gain on investments	(1,882)	201
Change in unrealized gain (loss) on marketable securities	1,809	(2,280)
Impairment loss on investments	(2,649)	(5,277)
Share of loss in equity accounted investments	(460)	(1,306)
Impairment of loan receivable and accounts receivable	(1,630)	-
Dilution gain on equity accounted investment	1,909	-
Change in unrealized gain on investments	191	-
Net loss	(5,717)	(11,601)
Net loss per share	(0.038)	(0.077)

	2009	2008
As at December 31	\$	\$
Cash, cash equivalents and marketable securities	791	6,226
Investments in privately-held companies	5,837	5,191
Total assets	6,670	12,898
Total liabilities	320	832

## RESULTS OF OPERATIONS

In 2009, the following significant events occurred:

- In April 2009, a further CDN\$170,892 was invested in Feronia to bring TriNorth's total investment to that date to equate to US \$ 1 million. In September 2009, Feronia issued common shares to TriNorth and other investors. The Company paid CDN\$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. With the dilution, the Company ceased to consolidate Feronia and adopted equity accounting for its investment up to the end of the third quarter. In the fourth quarter of 2009, the Company ceased to be involved in the day-to-day management of all its investments and 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 (including Feronia) at fair value. At the year end an amount of \$805,301 was added to the carrying value and is included in Change in unrealized gain on investment. This reflects TriNorth's 17 million shares at a fair value of US\$ 0.25 per share, being the amount received in the third party financing referred to above.
- The Company's opening carrying value for its investment in Russo-Forest was \$977,435. After the equity loss of \$362,750 the carrying value of this investment was \$614,685. Russo had attempted to merge with Nyah Resources but when that transaction failed in the fall of 2009, the Company, seeing the Nyah merger as Russo's last option and based on the financial situation of Russo, wrote off the carrying value of this investment to zero being the estimated fair value, which loss is netted against Change in unrealized gain on investment.

- 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, 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 their behalf. Since management believes that Russo does not have sufficient assets that in anyway could repay this loan, 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.
- The Company incurred losses on sale of marketable securities and investments available for sale of \$1,881,764. These losses arose mainly from the sale of Homeland Energy (\$392,000), Day4 Energy (\$1,105,000) and Chevalier (\$220,000). The Company recorded a Change in unrealized gain on investments in marketable securities of \$1,809,226. This gain relates to reversal of unrealized losses in prior periods mainly in connection with Homeland Energy (\$911,337) and Day4 Energy (\$885,000).
- The Company's proportionate share of losses from investments in which it has significant influence was \$459,607. The majority of these losses were the \$362,750 mentioned earlier with Russo and \$96,857 for the month of September during which time Feronia was being equity accounted.
- The Company recorded an impairment loss on investments of \$2,648,953. \$1,234,863 relates to Wild Horse where the Company wrote down its original investment in Wild Horse common shares to a value of \$767,637 (\$0.25 per share) based on the most recent round of third party financing. The Company also wrote down its investment in Saber. The write down, reflected a third party round of financing in the fall of 2009 (in which the Company did not participate) at US\$ 0.06 per share (this amount also being the fair value used in the year end valuation).

TriNorth paid the Manager \$213,477 (\$508,880 in 2008) for management services pursuant to the terms of an investment management agreement. The drop in fees reflects the drop in the value of the total portfolio which is the basis on which the fee is determined.

General and administrative expenses totalled \$1,611,823 (\$939,291 in 2008). The majority of the increase year over year was caused by significant legal and other professional fees incurred in relation to the proxy dispute in June of 2009.

Project development expenses were \$923,958 compared to \$2,115,692 in 2008. These development expenses are primarily consulting and due diligence costs for projects which the Company has been trying to develop into viable businesses. The decrease reflects the significant drop in activity and shortage of funds to expend. The majority of the 2009 project development expenses relate to Feronia.

As a result of the foregoing, the Company recorded a loss from operations of \$ 5,717,437 for the year ended December 31, 2009.

## SUMMARY OF QUARTERLY RESULTS

(\$000's except per share information)

	31-Dec-09	30-Sep-09	30-Jun-09	31-Mar-09	31-Dec-08	30-Sep-08	30-Jun-08	31-Mar-08
	\$	\$	\$	\$	\$	\$	\$	\$
Net Investment gains (losses)	(1,522)	606	(1,906)	111	(9,895)	(164)	2,265	(867)
Net income (loss) for the period	(2,401)	(156)	(3,054)	(418)	(10,938)	(1,467)	1,921	(1,117)
Earnings (loss) per share	(0.014)	(0.001)	(0.020)	(0.003)	(0.073)	(0.010)	0.013	(0.007)

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. In the last quarter of 2009, the Company began to follow AcG-18 which is described in more detail under Adoption of New Accounting Standards.

#### **Fourth Quarter Results**

The fourth quarter results were largely driven by the Company's write offs of its investment in Russo Forest which totalled \$2,244,838. This loss was partially offset by the write up to fair value of \$805,301 for the investment in Feronia.

#### **FINANCIAL POSITION AND LIQUIDITY**

During the year ended December 31, 2009, cash outflow used in operating activities before non-cash working capital balance adjustments and share of loss of equity accounted investment was \$3,289,530. After reflecting the changes in accounts receivable, prepaid expenses, payables and share of loss of equity accounted investment, cash outflow used in operations was \$3,163,953.

Working capital at December 31, 2009 was \$470,967, including cash and cash equivalents of \$328,912 and marketable securities of \$462,420. These amounts, together with the \$370,500 proceeds received in April 2010 from the sale of Talon (Saber) are sufficient to fund the Company's operations and to support its current activities; however this section should be read in conjunction with Note 1 to the financial statements.

Current liabilities were \$320,365 as at December 31, 2009, of which \$57,591 represented liabilities to the Manager for unpaid fees.

Net cash outflow from the purchase of marketable securities was \$1,066,252. Net cash outflow from investments in privately-held companies for the year was \$ 2,151,229.

Cost of investments purchased:	\$
Feronia Inc.	2,121,229
Wild Horse Farm	250,000
	<u>2,371,229</u>
Proceeds from investment sold:	
Chevalier Resources Inc	(220,000)
	<u>2,151,229</u>

#### **INVESTMENTS**

##### ***Feronia Inc. ("Feronia")***

The Company created Feronia as a wholly owned subsidiary and capitalized it with CDN \$1 million in 2008. As a wholly-owned subsidiary, Feronia was consolidated in fiscal 2008 and for the first eight months of 2009.

In April 2009, a further \$170,892 was invested to bring TriNorth's total investment to that date to equate to US \$ 1 million. 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 2009 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 2009, 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 part of the Change in unrealized gain on investment. This brings TriNorth's 17 million shares to a fair value of US\$ 0.25 per share being the amount received in the third party financing referred to above.

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 take-over. 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 had 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 fund and would most likely result of failure. As 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.

***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 \$1,342,092 respectively. The write down in September 2009, reflected a third party round of financing (in which the Company did not participate) at US\$ 0.06 per share which was the fair value used in the year end valuation.

In March 2010, Saber merged with Talon Metals Corp. (“Talon”) so that the Company owned 981,518 common share 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).

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

In March, 2009, TriNorth sold its entire investment in Chevalier for \$220,000 (with a realized loss on disposition of \$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, 2009, the Company’s only marketable security held was CIC Energy which had a fair value as at that date of \$462,420. The interest in CIC was sold in January for \$425,700.

Additional information about CIC Energy may be found on its website and SEDAR.

**STOCK BASED COMPENSATION**

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.

**RELATED PARTY TRANSACTIONS AND CONTRACTUAL OBLIGATION**

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.

**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.

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.

### **CHANGE IN BASIS OF ACCOUNTING AND ADOPTION OF NEW ACCOUNTING STANDARDS**

During the fourth quarter of fiscal 2009, the Company ceased to be involved in the day-to-day management of it 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 change in unrealized gain (loss) on investments in the Statement of Operations.

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.

### **FUTURE ACCOUNTING PRONOUNCEMENTS**

The Canadian Accounting Standards Board (“AcSB”) has confirmed its plan to adopt all International Financial Reporting Standards (“IFRS”), as published by the International Accounting Standards Board by January 1, 2011. The Company will adopt IFRS for the year begining January 1, 2011 and will present the interim and annual financial statements including comparative 2010 financial statements in accordance with IFRS.

The Company is currently in the process of assessing the differences between IFRS and Canadian GAAP, as well as the alternatives available upon adoption. The impact these differences may have on the financial results has not been yet determined and will be an ongoing process as the International Accounting Standards Board and the AcSB issue new standards and recommendations periodically.

## **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 (see Note 1 of the Financial Statements) 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. Market risk also creates significantly uncertainty around the ability of the Company to liquidate its investments.

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. It is impossible to eliminate all risks which a specific investment is subject to.

## **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, 2009, there were 150,747,317 outstanding common shares and no outstanding preference shares.

## **OUTLOOK**

The first quarter of 2009 saw a continuation of the 2008 decline in asset values and further deterioration of the global economy. Throughout the balance of the year, the global economy stabilized and most economies returned to growth. However, there was and continues to be an aversion for assets perceived to carry high risk, regardless of potential return, and for assets which are illiquid. With the passage of time we anticipate increased appetite for risk and acceptance of illiquidity of investments albeit at a measured pace and for the foreseeable future, with a far higher discount rate associated to these factors.

The original business case for TriNorth was to be an active provider of investment capital to higher-risk and commensurately higher return potential assets. The market conditions in 2007 favored this approach. However, we do not believe current market conditions favor this style of investing and do not believe the opportunity exists for TriNorth to actively invest in this manner. As a result, the focus of TriNorth management will continue to be on minimizing operating costs, preserving cash and maximizing the value of its various assets.

The most important asset for TriNorth is its share holdings in Feronia Inc. Feronia is a promising company that is rehabilitating plantations assets in the Democratic Republic of Congo. Given its long-term potential, Feronia is currently in the process of applying to list its shares on the TSX-Venture Exchange.

The current focus for the management and directors of the Company is to preserve cash and maximize the value of TriNorth's existing investments, for its shareholders, through sale or distribution.