

49 NORTH RESOURCE FUND LIMITED PARTNERSHIP
(formerly 49 North Resource Flow-Through Limited Partnership)

FINANCIAL STATEMENTS

DECEMBER 31, 2006

HERGOTT DUVAL STACK LLP

CHARTERED ACCOUNTANTS

PARTNERS

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AUDITORS' REPORT

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

We have audited the statements of net assets and investment portfolio of 49 North Resource Fund Limited Partnership as at December 31, 2006 and December 31, 2005 and the statements of operations, changes in net assets and cash flows for the year and five-month period then ended. These financial statements are the responsibility of the partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the partnership and its investments held as at December 31, 2006 and December 31, 2005, the changes in its net assets and the results of its operations and its cash flows for the year and five-month period then ended in accordance with Canadian generally accepted accounting principles.

SASKATOON, SASKATCHEWAN

“Hergott Duval Stack LLP”

February 20, 2007

Chartered Accountant

49 NORTH RESOURCE FUND LIMITED PARTNERSHIP
(formerly 49 North Resource Flow-Through Limited Partnership)

STATEMENT OF NET ASSETS

AS AT DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current assets		
Cash	\$ 68,690	\$ -
Investments	<u>6,065,763</u>	<u>6,308,286</u>
	<u>\$ 6,134,453</u>	<u>\$ 6,308,286</u>
<u>LIABILITIES</u>		
Current liabilities		
Bank indebtedness (Note 3)	\$ -	\$ 120,320
Accounts payable	54,310	17,159
Issuance costs payable	-	23,241
Management fee payable (Note 4)	9,632	8,324
Loan payable (Note 5)	<u>500,000</u>	<u>422,000</u>
	<u>563,942</u>	<u>591,044</u>
<u>PARTNERS' EQUITY</u>		
Net assets, representing partners' equity	<u>\$ 5,570,511</u>	<u>\$ 5,717,242</u>
Limited partnership units outstanding (Note 6)	<u>1,200,000</u>	<u>1,200,000</u>
Net asset value per unit	<u>\$ 4.64</u>	<u>\$ 4.76</u>

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

signed "Tom MacNeill"
Director

signed "Harvey Bay"
Director

49 NORTH RESOURCE FUND LIMITED PARTNERSHIP
(formerly 49 North Resource Flow-Through Limited Partnership)

STATEMENT OF INVESTMENT PORTFOLIO

AS AT DECEMBER 31, 2006

	<u>Shares/ Warrants</u>	<u>Cost</u>	<u>Fair Value</u>
Mineral exploration			
Allyn Resources Inc. (1)	1,994,000	\$ 299,000	\$ 139,580
Allyn Resources Inc. (warrants)	997,000	-	-
Athabasca Potash Inc.(3)	600,000	150,000	240,000
Aurex Copper Mines Corp. (3)	640,000	160,000	142,222
Berkeley Resources Inc. (1)	55,550	49,995	47,218
Claude Resources Inc. (2)	283,090	310,033	486,915
Copper Canyon Resources Ltd. (1)	10,000	7,090	7,000
Copper Reef Mines Ltd. (3)	1,000,000	200,000	177,778
Copper Reef Mines Ltd. (warrants)	500,000	-	-
ESO Uranium Corp. (1)	436,944	315,759	432,575
ESO Uranium Corp. (warrants)	472,222	-	48,000
Golden Band Resources Inc. (1)	1,235,080	428,558	592,838
Goldsource Mines Inc. (1)	567,429	397,200	164,554
Great Western Diamonds Corp. (1)	1,159,500	579,914	481,192
Great Western Minerals Group Inc. (1)	1,073,111	482,900	413,148
Great Western Minerals Group Inc. (warrants)	1,111,111	-	-
Red Rock Energy Inc. (3)	342,856	120,000	210,171
Santoy Resources Ltd. (1)	500,611	225,275	495,605
Tagish Lake Gold Corp. (1)	1,153,846	300,000	271,154
Tagish Lake Gold Corp. (warrants)	576,923	-	-
Titan Uranium Inc. (1)	69,900	110,240	185,934
Wescan Goldfields Inc. (1)	1,699,586	871,696	764,814
Wescan Goldfields Inc. (warrants)	428,571	-	-
Oil and Gas			
Arsenal Energy Inc. (1)	269,714	465,321	210,377
Blackdog Resources Ltd. (1)	90,900	49,995	40,905
Nordic Oil & Gas Ltd. (1)	444,000	177,600	97,680
Nordic Oil & Gas Ltd. (warrants)	50,000	-	-
Magnus Energy Inc. (1)	141,635	251,183	97,728
Panterra Resources Corp. (1)	1,273,500	<u>318,375</u>	<u>318,375</u>
Total investments		<u>\$ 6,270,134</u>	<u>\$ 6,065,763</u>

- (1) Listed on TSX Venture Exchange
(2) Listed on TSX
(3) Private

49 NORTH RESOURCE FUND LIMITED PARTNERSHIP
(formerly 49 North Resource Flow-Through Limited Partnership)

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	(5 months) <u>2005</u>
Income		
Interest	\$ <u>1,023</u>	\$ <u>-</u>
Expenses		
Audit and accounting	26,886	10,000
Bank fees	238	-
Interest	52,065	2,159
Management fees	122,916	8,324
Professional fees	<u>10,531</u>	<u>5,000</u>
	<u>212,636</u>	<u>25,483</u>
Net loss from investment operations	<u>(211,613)</u>	<u>(25,483)</u>
Realized gain on disposition of investments	682,303	-
Unrealized (depreciation) appreciation of investments	<u>(512,657)</u>	<u>308,286</u>
	<u>169,646</u>	<u>308,286</u>
Net (decrease) increase in net assets	<u>\$ (41,967)</u>	<u>\$ 282,803</u>

49 NORTH RESOURCE FUND LIMITED PARTNERSHIP
(formerly 49 North Resource Flow-Through Limited Partnership)

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	(5 months) December 31, <u>2005</u>
Net assets, beginning of year	\$ 5,717,242	\$ -
Operations		
Net (decrease) increase in net assets	(41,967)	282,803
Partner transactions		
Proceeds from issuance of partnership units	-	6,000,005
Agent's fees	-	(420,000)
Other issuance and reorganization costs	<u>(104,764)</u>	<u>(145,566)</u>
Net assets, end of year	\$ <u>5,570,511</u>	\$ <u>5,717,242</u>

49 NORTH RESOURCE FUND LIMITED PARTNERSHIP
(formerly 49 North Resource Flow-Through Limited Partnership)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	(5 months) December 31, <u>2005</u>
Cash flows from operating activities		
Net (decrease) increase in net assets from operations	\$ (41,967)	\$ 282,803
Items not affecting cash		
Realized gain on disposal of investments	(682,303)	-
Unrealized depreciation (appreciation) of investments	512,657	(308,286)
Net changes in non-cash working capital items	<u>38,461</u>	<u>25,483</u>
	<u>(173,152)</u>	<u>-</u>
Cash flows from investing activities		
Purchase of investments	(2,620,524)	(6,000,000)
Proceeds from sale of investments at cost	<u>3,032,691</u>	<u>-</u>
	<u>412,167</u>	<u>(6,000,000)</u>
Cash flows from financing activities		
Proceeds from issuance of partnership units	-	6,000,005
Payment of agent's fees	-	(420,000)
Payment of other issuance costs	(104,764)	(122,325)
Decrease in issuance costs payable	(23,241)	-
Proceeds of issuance of loan payable	500,000	422,000
Payment of loan payable	<u>(422,000)</u>	<u>-</u>
	<u>(50,005)</u>	<u>5,879,680</u>
Net increase (decrease) in cash during period	189,010	(120,320)
(Bank indebtedness) cash, beginning of year	<u>(120,320)</u>	<u>-</u>
Cash (bank indebtedness), end of year	\$ <u>68,690</u>	\$ <u>(120,320)</u>

49 NORTH RESOURCE FUND LIMITED PARTNERSHIP
(formerly 49 North Resource Flow-Through Limited Partnership)

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

1. Formation of partnership

49 North Resource Fund Limited Partnership (the “Partnership”) was formed July 19, 2005 (originally under the name 49 North Resource Flow-Through Limited Partnership) and was constituted a limited partnership under the laws of Saskatchewan upon the filing of a declaration of limited partnership pursuant to *The Partnership Act* (Saskatchewan) and *The Business Names Registration Act* (Saskatchewan) effective July 20, 2005. The Partnership is currently governed by an amended and restated limited partnership agreement made effective October 26, 2006 (the “Partnership Agreement”) between 49 North Resource Fund Inc., as general partner (the “General Partner”), and each person who is or from time to time becomes a limited partner in accordance with the terms of the Partnership Agreement (the “Limited Partners”).

Generally, and unless earlier dissolved by operation of law or judicial decree, the Partnership will not be dissolved unless and until the Limited Partners consent thereto by means of an extraordinary resolution, in which event the Partnership would be dissolved on the date specified in such resolution.

The Partnership invests in a diversified portfolio of shares and other securities of resource issuers including, without limitation, resource issues engaged in mineral or oil and gas exploration and development, with the focus on resource issuers with exploration programs in Saskatchewan; and with a view to achieving capital appreciation of the portfolio. Prior to December 31, 2005 the Partnership was generally restricted to investing in shares that qualified as “flow-through shares” for the purposes of the *Income Tax Act* (Canada), but since then it has been authorized to invest in shares and other securities of resource issuer regardless of whether they are or are not flow-through shares.

On December 28, 2006, the limited partnership units (“Units”) of the Partnership were listed on the TSX Venture Exchange (ticker symbol FNR.UN).

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of appreciation (depreciation) of investments and expenses during the reporting period. Actual results could differ from these estimates.

49 NORTH RESOURCE FUND LIMITED PARTNERSHIP
(formerly 49 North resource Flow-Through Limited Partnership)

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

2. Significant accounting policies (continued)

Valuation of investments

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

Public companies

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

The market values of publicly listed securities can be impacted by trading volumes, restrictions and market price fluctuations, and the quoted market price may not be indicative of what the Partnership could realize on the immediate sale of such securities as it may take an extended period of time to liquidate positions without causing a significant negative impact on the market price.

Private companies

The fair value of any shares which are not listed or traded upon a stock exchange are originally recorded at cost, unless the shares are flow-through shares in which case they are originally recorded either on an assessment of the most recent price at which the investee company issued common equity without flow-through characteristics or the cost reduced by a typical premium being paid by the Partnership for similar flow-through securities. After the initial transaction, adjustments are made to reflect any changes in value as a result of an independent third party transaction.

Downward adjustments to the carrying values are also made when there is evidence of a decline in value, as indicated by the assessment of the financial condition of the investment based on operational results, forecasts and other developments.

Warrants

Warrants are valued at nil during the period in which they are not exercisable and valued based on either quoted market values if traded or the amount by which the warrant is in the money (less an appropriate risk discount) when they become exercisable. A warrant is in the money when the stock price is greater than the exercise price of the warrant.

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

Investment transactions and income recognition

All investment transactions are accounted for on the business day the order to buy or sell is

49 NORTH RESOURCE FUND LIMITED PARTNERSHIP
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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

2. Significant accounting policies (continued)

Investment transactions and income recognition (continued)

executed. Realized gains or losses from investment transactions and unrealized appreciation and depreciation of investments are calculated on an average cost basis.

Income from investment transactions is recognized on an accrual basis.

Issuance costs

Expenses related to the Partnership's initial public offering in 2005 and to the reorganization of the Partnership in 2006 have been accounted for as a reduction of partners' equity.

Allocation of income and loss

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

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

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

Income taxes

No provision for income tax has been provided in the accompanying financial statements and the Partnership does not include the personal assets of the partners, nor is the Partnership liable for any income taxes. The Limited Partners are allocated their proportionate share of any Partnership income or loss and are required to include such income or may deduct such loss in computing their personal taxable income in accordance with the *Income Tax Act* (Canada).

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

Financial instruments

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

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DECEMBER 31, 2006

3. Bank indebtedness

During the period ended December 31, 2006, the Partnership established a line of credit with a Canadian chartered bank (the "Bank") for the payment of issuance costs and has provided the Bank with a general security interest in all of the assets of the Partnership and a pledge of all investments. As at year end, the line of credit was not in use.

4. Expenses of the partnership

The General Partner is responsible for the management of the Partnership in accordance with the terms and conditions of the Partnership Agreement and is entitled to 0.01% of the net income of the Partnership and to be reimbursed by the Partnership for all expenses reasonably and properly incurred in conducting the Partnership's business and in performing its duties and obligations under the Partnership Agreement.

Additionally, pursuant to the Partnership Agreement, for each fiscal quarter the General Partner is entitled to receive a management fee equal to 0.5% of the net asset value of the Partnership calculated as of the last business day of the relevant fiscal quarter, which management fee is payable on or prior to the end of the month following the relevant fiscal quarter. Additionally, in each fiscal year of the Partnership starting with its fiscal year ended December 31, 2006, the General Partner is entitled to receive a performance bonus, calculated as of the last business day of the applicable fiscal year, in an amount in respect of each Unit that is outstanding as of such day, equal to 20% of the amount, if any, by which the sum of the net asset value per Unit as of that date, plus all distributions per Unit made during that fiscal year, exceeds the greater of \$5.50 and the net asset value per Unit as of the last business day of the preceding fiscal year. Any such performance bonus is payable within 30 days following the end of the fiscal year to which it relates. Management fees and, if applicable, any performance bonus not paid by the due dates described above bear interest at prime plus 2% until paid in full.

The Partnership Agreement also authorizes the General Partner to retain an investment manager to manage, or assist in and/or advise the General Partner in the management of, the Partnership's investment portfolio and to negotiate the terms and conditions of such engagement including the fees payable by the Partnership to such investment manager. Pursuant to this authority, the General Partner has retained TMM Portfolio Management Inc. ("TMM") as the Partnership's investment manager. TMM and the General Partner are controlled by the same person, and all or any of the management fees and, if applicable, performance bonus described that is otherwise payable to the General Partner may instead be paid to TMM.

5. Loan payable

During the period ended December 31, 2005, the Partnership established a demand loan facility with the owner of the General Partner (the "Lender") for the payment of issuance costs and provided the Lender with a security interest in all of the assets of the Partnership

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

5. Loan payable (continued)

and a pledge of all investments. Interest is charged on the loan at the Royal Bank of Canada's prime rate plus 2%. The loan principal was repaid in full in December 2006.

In December 2006 the Partnership established another short-term loan facility with an arms-length party (the "New Lender") for \$500,000 for general working capital and provided the New Lender with a security interest in all of the assets of the Partnership. Interest on this loan is also charged at the Royal Bank of Canada's prime rate plus 2% with principal and interest payable on demand, provided that pending such demand interest is payable on the last business day of each month commencing January 31, 2007, with any interest not paid on its due date to be compounded with principal and bear interest at the above rate until paid.

6. Partners' equity

The authorized capital of the Partnership consists of an unlimited number of Units, with all Units being of the same class and with each Unit having equal rights and privileges as every other Unit, including the right to participate equally in any distribution made by the Partnership and the right to one vote on all matters which, pursuant to the Partnership Agreement, require or permit a vote of Limited Partners. As at December 31, 2006, 1,200,000 Units were issued and outstanding.

7. Related party transactions

During the year ended December 31, 2006, the Partnership incurred \$122,916 (period ended December 31, 2005 - \$8,473) of management fees to the General Partner and \$31,267 (period ended December 31, 2005 - \$2,159) of interest expense to the Lender.

The Partnership paid \$18,000 of the incurred interest to the Lender and \$101,608 of the management fee to the General Partner during the year ended December 31, 2006.

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

8. Financial instruments

Interest rate risk

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

9. Tax shelter identification number

The Partnership has been registered as a tax shelter for the purposes of the Income Tax Act (Canada) and has been issued tax shelter identification number TS070789. This tax shelter identification number must be included in any income tax return filed by Limited Partners. Issuance of the identification number is for administrative purposes only and does not in

49 NORTH RESOURCE FUND LIMITED PARTNERSHIP
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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

- 9. Tax shelter identification number** (continued)
any way confirm the entitlement of a Limited Partner to claim any tax benefits associated with the Partnership.
- 10. Subsequent event**
The Partnership and 49 North 2006 Resource Flow-Through Limited Partnership (“49 North 2006”) completed a series of transactions on February 21, 2007 pursuant to which 49 North 2006 was effectively merged into the Partnership. All outstanding limited partnership units of 49 North 2006 were transferred to the Partnership in exchange for 1,598,314 Units of the Partnership and the Partnership acquired all of the assets and assumed all of the liabilities of 49 North 2006. As a result of these transactions the number of issued and outstanding Units of the Partnership increased from 1,200,000 to 2,798,314. As of December 31, 2006 49 North 2006 had a net asset value of \$7,399,650.
- 11. Comparative figures**
The Partnership was formed on July 20, 2005. Accordingly, the 2005 comparative figures on the statements of operations, changes in net assets and cash flows do not represent a full year of operations and certain of them have been changed to conform to the current year presentation.