



ALPHANORTH  
RESOURCE FUND

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**Interim Financial Statements**

June 30, 2016 (Unaudited)

# ALPHANORTH RESOURCE FUND

Financial Statements

June 30, 2016 (Unaudited)

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## NOTICE TO SHAREHOLDERS

AlphaNorth Resource Funds' independent auditors have not performed an audit of these interim financial statements in accordance with the standards established by the International Accounting Standards Board.

# AlphaNorth Resource Fund

## Statements of Financial Position

As at June 30, 2016 (Unaudited)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Receivable for investments sold	\$ 1,000	\$ —
Financial assets at fair value through profit and loss	2,409,512	1,196,886
Prepaid expenses	6,267	—
Cash	18,861	47,384
	<u>2,435,640</u>	<u>1,244,270</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Management fees payable	4,096	2,161
Performance fees payable	103,076	—
Accounts payable and accrued liabilities	38,781	40,790
	<u>145,953</u>	<u>42,951</u>
<b>Net Assets Attributable to Holders of Redeemable Shares</b>	<u>\$ 2,289,687</u>	<u>\$ 1,201,319</u>
<b>Number of Redeemable Shares Outstanding</b>		
Series A	4,041	6,534
Series F	11,936	20,725
Series B	186,209	223,204
<b>Net Assets Attributable to Holders of Redeemable Shares per Series</b>		
Series A	\$ 46,571	\$ 31,210
Series F	\$ 141,389	\$ 101,914
Series B	\$ 2,101,727	\$ 1,068,195
	<u>\$ 2,289,687</u>	<u>\$ 1,201,319</u>
<b>Net Assets Attributable to Holders of Redeemable Shares per Share</b>		
Series A	\$ 11.52	\$ 4.78
Series F	\$ 11.85	\$ 4.92
Series B	\$ 11.29	\$ 4.79

On behalf of the Manager:



Steven Palmer, President



Joey Javier, Director

# AlphaNorth Resource Fund

## Statements of Comprehensive Income For the six-months ended June 30, 2016 (Unaudited)

	2016	2015
<b>Income</b>		
Change in unrealized appreciation on financial assets at fair value through profit and loss	\$ 1,183,344	\$ 194,256
Net realized gain on sale of financial assets at fair value through profit and loss	533,377	314,603
Interest for distribution purposes	382	–
Dividend	–	898
Change in unrealized appreciation on foreign currency transactions	–	8
	<u>1,717,103</u>	<u>509,765</u>
<b>Expenses</b>		
Performance fees	103,076	–
Administration fees	30,698	24,753
Transfer agency fees	23,468	17,356
Transaction costs	21,517	34,230
Management fees	18,511	22,028
Audit fees	9,944	9,917
Legal fees	9,944	4,439
Trailer commission fees	7,435	8,956
Other fees	7,101	9,412
Independent review committee fees	2,351	7,968
	<u>234,045</u>	<u>139,059</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Shares</b>	<u>\$ 1,483,058</u>	<u>\$ 370,706</u>
<b>Increase (decrease) in Net Assets Attributable to Holders of Redeemable Shares per Series</b>		
Series A	\$ 36,188	\$ (703)
Series B	1,306,171	337,604
Series F	140,699	33,805
	<u>\$ 1,483,058</u>	<u>\$ 370,706</u>
<b>Weighted Average of Redeemable Shares Outstanding During the Period</b>		
Series A	5,761	5,035
Series B	206,411	256,470
Series F	20,652	22,633
<b>Increase (decrease) in Net Assets Attributable to Holders of Redeemable Shares per Series per Share</b>		
Series A	\$ 6.28	\$ (0.14)
Series B	6.33	1.32
Series F	6.81	1.49

# AlphaNorth Resource Fund

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares For the six-months ended June 30, 2016 (Unaudited)

	Net assets attributable to holders of redeemable shares, beginning of period	Increase in net assets from operations attributable to holders of redeemable shares	Proceeds from redeemable shares issued	Redemption of redeemable shares	Net assets attributable to holders of redeemable shares, end of period
<b>2016</b>					
Series A	\$ 31,210	\$ 36,188	\$ 3,817	\$(24,644)	\$ 46,571
Series F	101,914	140,699	6,664	(107,888)	141,389
Series B	1,068,195	1,306,171	—	(272,639)	2,101,727
	<u>\$ 1,201,319</u>	<u>\$ 1,483,058</u>	<u>\$ 10,481</u>	<u>\$(405,171)</u>	<u>\$ 2,694,858</u>

	Net assets attributable to holders of redeemable shares, beginning of period	Increase (decrease) in net assets from operations attributable to holders of redeemable shares	Proceeds from redeemable shares issued	Redemption of redeemable shares	Net assets attributable to holders of redeemable shares, end of period
<b>2015</b>					
Series A	\$ 2516	\$(703)	\$ 43,152	—	\$ 44,965
Series F	140703	33,805	9,466	(31,145)	183,974
Series B	1511324	337,604	48,930	(233,736)	1,897,858
	<u>\$ 1,654,543</u>	<u>\$ 370,706</u>	<u>\$ 101,548</u>	<u>\$(264,881)</u>	<u>\$ 2,126,797</u>

# AlphaNorth Resource Fund

## Statements of Cash Flows

For the six-months ended June 30, 2016 (Unaudited)

	2016	2016
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Increase in Net Assets Attributable to Holders of Redeemable Shares	\$ 1,483,058	\$ 370,706
Adjustments for non-cash items		
Change in unrealized appreciation on financial assets at fair value through profit and loss	(1,183,344)	(194,256)
Net realized gain on sale of financial assets at fair value through profit and loss	(533,377)	(314,603)
Net change in non-cash working capital	95,735	(9,949)
Proceeds from sale of investments	1,855,090	2,443,258
Purchase of investments	(1,350,995)	(2,095,442)
Cash provided by operating activities	<u>366,167</u>	<u>199,714</u>
<b>Financing Activities</b>		
Redemptions of redeemable shares	(405,171)	(272,031)
Proceeds from issuance of redeemable shares	10,481	107,014
Cash used in financing activities	<u>(394,690)</u>	<u>(165,017)</u>
(Decrease) increase in cash and cash equivalents during the period	(28,523)	34,697
Cash and cash equivalents, beginning of period	47,384	34,386
<b>Cash and cash equivalents, end of period</b>	<u>\$ 18,861</u>	<u>\$ 69,083</u>
<b>Supplemental Information</b>		
Interest Received	\$ 382	\$ —

# AlphaNorth Resource Fund

## Schedule of Investment Portfolio as at June 30, 2016 (Unaudited)

Number of shares/units	Investments owned	Average cost	Fair value	% of net asset value
	<b>Canadian equities</b>			
3,832,833	Anconia Resources Corp.	\$ 326,577	\$ 268,298	11.72
1,340,000	Blackbird Energy Inc.	201,000	207,700	9.07
550,000	Canada Carbon Inc.	110,000	151,250	6.61
1,600,000	Canada Coal Inc.	80,000	56,000	2.45
500,000	Canadian Overseas Petroleum Ltd.	33,135	32,500	1.42
1,428,000	Canadian Overseas Petroleum Ltd., Restricted	99,980	89,964	3.93
855,000	Canadian Platinum Corp.	34,200	12,825	0.56
50,000	Capstone Mining Corp.	37,055	42,500	1.86
69,800	Diamcor Mining Inc.	70,497	81,666	3.57
400,000	Golden Predator Mining Corp., Restricted	64,000	319,600	13.96
192,100	GreenStar Agricultural Corp.	116,567	–	–
315,500	Mason Graphite Inc.	183,717	242,935	10.61
175,000	MBAC Fertilizer Corp.	105,000	1,750	0.08
80,000	NexGen Energy Ltd.	191,878	212,000	9.26
2,430,303	Northern Iron Corp.	133,667	72,909	3.18
250,000	Potash Ridge Corp.	76,270	67,500	2.95
835,000	Sanatana Resources Inc.	25,050	12,525	0.55
351,582	Sintana Energy Inc.	185,635	24,611	1.07
249,112	Trevali Mining Corp.	160,348	139,503	6.09
		<u>2,234,576</u>	<u>2,036,036</u>	<u>88.94</u>
	<b>Canadian warrants</b>			
1,340,000	Blackbird Energy Inc., Warrants (Exp. 05/19/21)	–	80,400	3.51
	Canadian Overseas Petroleum Ltd., Restricted			
1,428,000	Warrants (Exp. 05/03/18)	–	–	–
	Golden Predator Mining Corp., Restricted Warrants			
400,000	(Exp. 05/24/18)	–	292,103	12.76
175,000	MBAC Fertilizer Corp., Warrants (Exp. 04/17/19)	17,500	875	0.04
1,000,000	Standard Tolling Corp., Warrants (Exp. 03/25/17)	–	–	–
58,500	Talon Metals Corp., Warrants (Exp. 11/06/17)	–	98	–
		<u>17,500</u>	<u>373,476</u>	<u>16.31</u>
	<b>Total investments owned</b>	2,252,076	2,409,512	105.25
	Commissions and other portfolio transaction costs	(9,970)	–	–
	<b>Net investments owned</b>	<u>\$ 2,242,106</u>	2,409,512	105.25
	<b>Other liabilities, net</b>		(119,825)	(5.25)
	<b>Net Assets Attributable to Holders of Redeemable Units</b>		<u>\$ 2,289,687</u>	<u>100.00</u>

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements

June 30, 2016 (Unaudited)

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## 1. Organization and management of the Fund:

AlphaNorth Resource Fund (the "Fund") is a class of shares of AlphaNorth Mutual Funds Limited (the "Corporation"), a mutual fund corporation incorporated under the Canada Business Corporations Act on April 29, 2011. The Fund is an open-ended mutual fund which was formed under the laws of Ontario and commenced operations on January 6, 2012. AlphaNorth Asset Management is the manager of the Fund (the "Manager"). The principal place of business of the Fund and the head office of the Manager are located at 333 Bay St., Suite 630, Toronto, Ontario, M5H 2R2.

The Manager provides various services to the Fund, including portfolio advisory services, investor relations, oversight of service providers and general administrative support and acts as the portfolio manager and investment fund manager of the Fund.

These financial statements reflect only the assets, liabilities, revenue, and expenses of the Fund, and therefore do not include any assets, liabilities, revenue or expenses of the shareholders. Financial statements of another class of shares of the Corporation is also prepared as part of its continuous disclosure requirements.

The Fund consists of Series A, Series F and Series B shares. Series A shares are available to all investors who purchase through dealers and who invest the minimum amount, while Series F shares are available to investors who participate in fee-based programs through their dealer. Series B shares were transferred from AlphaNorth 2011 Flow-Through Limited Partnership (the "2011 Partnership") and AlphaNorth 2012 Flow-Through Limited Partnership (the "2012 Partnership").

The Fund seeks to generate strong long-term returns by investing in resource companies that offer attractive risk-reward characteristics. In order to accomplish this objective, the Fund will invest primarily in junior and intermediate Canadian resource companies, however, 25% of the Fund may be invested in foreign markets.



# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies:

These interim financial statements have been prepared in compliance with International Financial Reporting Standards applicable to the preparation of financial statements, and International Accounting Standard 34, Interim Financial Reporting (together IFRS). These interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2015 which have been prepared in accordance with IFRS.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of August 22, 2016, which is the date on which the financial statements were authorized for issue by the Manager.

These financial statements are presented in Canadian dollars, which is the Fund's functional currency.

The following is a summary of significant accounting policies of the Fund.

### (a) Classification:

The Fund classifies financial assets and financial liabilities into the following categories:

Financial assets at fair value through profit or loss ("FVTPL"):

- Held-for-trading ("HFT"): derivative financial instruments.
- Designated at FVTPL: debt securities and equity investments.

Financial liabilities at FVTPL:

- HFT: securities sold short and derivative financial instruments.

All other financial assets and financial liabilities are measured at amortized cost, and are classified as loans and receivables and other financial liabilities, respectively. The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies (continued):

### (b) Recognition and initial measurement:

Financial assets or liabilities at FVTPL are initially recognized on the trade date, which is the date the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated.

Financial assets and financial liabilities at FVTPL are initially measured at fair value, with transaction costs recognized in profit or loss. Financial assets and financial liabilities not at FVTPL are initially measured at fair value plus transaction costs that are directly attributable to their acquisition or issue.

### (c) Fair value measurement:

When available, the Fund measures the fair value of a financial instrument using the quoted price in an active market for that instrument. The Fund measures instruments quoted in an active market at the last traded market price. For instruments that are thinly traded and therefore do not have an available price at period end, the Fund measures the instruments at a mid price between the bid and ask price as at the last traded date. For instruments which are restricted from trading, the Fund applies a discount to the quoted price based on the length of time until the instrument can be freely traded in the market.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation techniques incorporate all of the factors that market participants would take into account in pricing a transaction.

The Fund recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

Financial assets classified as loans and receivables are carried at amortized cost using the effective interest rate method, less impairment losses, if any.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies (continued):

### (d) Derecognition:

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

### (e) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when the Fund has a legal right to offset the amounts and it intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL and foreign exchange gains and losses.

### (f) Valuation of series:

Net assets are calculated for each series of shares of the Fund. The net assets of a particular series of shares is computed by calculating the value of the series proportionate share of the assets and liabilities of the Fund common to all series. Management fees directly attributable to a series are charged to that series. Other expenses, investment income and realized and unrealized gains and losses on investments are allocated proportionately to each series based upon the relative net assets of each series. The Fund's shares are classified as a financial liability as there is a requirement to distribute all income. The Fund's redeemable shares are measured at the redemption amount and are considered a residual interest in the assets of the Fund after deducting all of its liabilities.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies (continued):

### (g) Income taxes:

The Fund qualifies as a mutual fund corporation as defined in the Income Tax Act (Canada) (the "Tax Act"). The Corporation is subject to tax at the full corporate rate on its taxable income. Dividends received from taxable Canadian corporations are generally not included in the taxable income of the Corporation but are subject to a special tax, refunded at a rate of 33-1/3% of taxable dividends distributed by the Corporation to its shareholders. Capital gains realized in the period are included in the taxable income of the Fund at the applicable capital gains rate. The Corporation is eligible for a refund calculated on a formula basis when mutual fund shares are redeemed or when capital gains dividends are paid to shareholders. The Corporation endeavours to pay out sufficient Canadian dividends and net capital gains so that it will not be subject to refundable income taxes in respect of income from those sources. However, the Corporation will be liable for non-refundable income tax if its income from other sources exceeds its expenses for the period.

Temporary differences between the carrying values of assets and liabilities for accounting and income tax purposes give rise to future income tax assets and liabilities. The most significant temporary difference is that between the reported fair value of the investment portfolio and its adjusted cost base ("ACB") for income tax purposes. To the extent that the fair value of the portfolio exceeds its ACB, a future tax liability arises. Since capital gains taxes payable by the Corporation are refundable under the relevant provisions of the Tax Act, the future tax liability is fully offset by these future refundable taxes. Conversely, when the ACB exceeds the fair value of the portfolio, a future tax asset is generated. In such cases, a full valuation allowance is taken to offset this asset given the uncertainty that such future tax assets will ultimately be realized.

### (h) Transaction costs:

Transaction costs (such as brokerage commissions), incurred in the purchase and sale of securities are recorded as expenses and are reported as such in the statements of comprehensive income.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies (continued):

### (i) Investment transactions and income recognition:

Except for short-term investments, investment transactions are accounted for on the trade date. Short-term investments are accounted for on the date that the order to buy or sell is executed. Realized gains and losses are calculated on an average cost basis. Revenue from investments is recognized on the accrual basis.

The interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities.

### (j) Foreign currency translation:

Transactions in currencies other than the Canadian dollar are translated at the rate of exchange prevailing at the transaction date. Assets and liabilities denominated in currencies other than the Canadian dollar are transacted at the applicable exchange rates prevailing at the reporting dates. Resulting exchange differences are recognized in the statements of comprehensive income (loss) in net realized gain on sale of financial assets at fair value through profit or loss exchange in unrealized depreciation of financial assets at fair value through profit or loss.

### (k) Financial instruments:

The carrying values of financial instruments, including cash, receivable for shares issued, payable for shares repurchased or redeemed, management fees payable and accounts payable and accrued liabilities approximate the fair value due to their short term to maturity.

### (l) Decrease in net assets attributable to holders of redeemable shares:

Net decrease from operations per share in the statements of comprehensive income (loss) represents the decrease in net assets from operations for the period for each series divided by the weighted average shares outstanding for each series during the period.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies (continued):

(m) Future accounting changes - IFRS:

IFRS 9, Financial Instruments ("IFRS 9"):

In July 2014, the IASB issued IFRS 9, Financial Instruments, to replace International Accounting Standard 39, Financial Instruments - Recognition and Measurement ("IAS 39"). IFRS 9 addresses classification and measurement, impairment and hedge accounting.

The new standard requires assets to be classified based on the Fund's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. Financial assets will be measured at fair value through profit and loss unless certain conditions are met which permit measurement at amortized cost or value through other comprehensive income.

The classification and measurement of liabilities remain generally unchanged, with the exception of liabilities recorded at fair value through profit and loss. For financial liabilities designated at fair value through profit and loss, IFRS 9 requires the presentation of the effects of changes in the Fund's own credit risk in other comprehensive income instead of net income.

IFRS 9 is effective for fiscal years beginning on January 1, 2018, though early adoption is permitted. The Manager is currently assessing the impact of this new standard on the Fund's financial statements.

## 3. Critical accounting estimates and judgments:

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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### 3. Critical accounting estimates and judgments (continued):

Fair value measurement of derivatives and securities not quoted in an active market:

Fair values of instruments not quoted in active markets are determined using valuation techniques and may be determined using most recent significant transactions, reputable pricing sources (such as pricing agencies), valuation agents or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager. The models used for private equity securities are based mainly on recent significant transactions. Models use observable data, to the extent practicable. However, areas such as discounts based on restriction term and volatilities may require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to note 7 for further information about the fair value measurement of the Fund's financial instruments.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to note 7 for further information about the fair value measurement of the Fund's financial instruments.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 4. Related party transactions:

The Manager provides investment management services to the Fund. In consideration for the service provided, the Manager receives a management fee of 2% of the net assets attributable to holders of redeemable shares for both Series A, Series B and Series F shares, calculated daily and paid monthly in arrears.

In addition to management fees, the Fund also pays a performance fee equal to excess return per share over the S&P/TSX Small Cap Index (including distributions) multiplied by the number of the shares outstanding at the end of the quarter, multiplied by 20%. The performance fee accrued and payable for the six month period ended June 30, 2016 was \$103,076 (June 30, 2015 - nil).

Common expenses incurred by the Fund are allocated among the series on a pro rata basis among all shares of all series. The Manager is reimbursed for reasonable costs related to maintaining the Fund and preparation and distribution of financial statements and other documents to shareholders. The Fund is responsible for the payment of all expenses relating to the operation of the Fund and the carrying on of its business.

As at June 30, 2016, the Manager and related parties held shares valued at \$634,125 (December 31, 2015 - \$333,385) in the Fund.

## 5. Soft dollars:

Brokerage commissions, where applicable, are used as payment for order execution services or research services. The Manager may select brokers, including their affiliates, for such arrangements if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. It is the Manager's objective that over time, all clients receive benefits from client brokerage commissions. Soft dollars for the period ended June 30, 2016 were \$34,997 (June 30, 2015 - \$22,183).

## 6. Management of financial risk:

In the normal course of business, the Fund is exposed to financial risk, including market risk (consisting of price risk and interest rate risk), custodian and prime brokerage risks, and liquidity risk. The Fund's overall risk management program seeks to minimize potentially adverse effects of those risks on the Fund's financial performance. The Fund moderates financial risks through the careful selection of portfolio investments and other financial instruments within the parameters of the investment guidelines, strategies and objectives.



# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 6. Management of financial risk (continued):

### (a) Market risk:

#### (i) Price risk:

Price risk is the risk the value of a financial instrument will fluctuate because of changes in market prices. As at June 30, 2016 and December 31, 2015, the Fund's portfolio investments include equity securities of companies whose securities are actively traded on recognized public exchanges.

As at June 30, 2016, a 10% increase or decrease in the prices of the Fund's investments would result in a \$240,951 (December 31, 2015 - \$119,689) increase or decrease in net assets attributable to holders of redeemable shares of the Fund, with all other factors held constant.

#### (ii) Interest rate risk:

Interest rate risk is the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. As at June 30, 2016 and December 31, 2015, interest-bearing financial instruments are at fixed rates over their respective terms of typically 90 days or less. The Fund has no floating rate long-term assets or long-term liabilities. A portion of the assets of the Fund may be invested in interest-bearing deposits (bankers' acceptances) with major Canadian chartered banks.

As at June 30, 2016 and December 31, 2015, changes in the interest rate would not have a material impact on net assets attributable to holders of redeemable shares.

### (b) Custodian and prime brokerage risks:

There are risks involved with dealing with a custodian or prime broker who settle trades. In certain circumstances, the securities or other assets deposited with the custodian or prime broker may be exposed to credit risk with respect to those parties. In addition, there may be practical or timing problems associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 6. Management of financial risk (continued):

The Fund maintains a custody account with Laurentian Bank Securities ("Laurentian"). Although the Fund monitors Laurentian and believes it to be an appropriate custodian, there is no guarantee that Laurentian will not become insolvent. While there are government regulations intended to protect investor property in the event of a failure, liquidation or insolvency of a broker-dealer, there is no certainty that, in the event of a failure, the Fund will not incur losses due to its assets being unavailable for a period of time, ultimately less than full recovery of its assets, or both. Because substantially all the assets of the Fund are in the custody of a single custodian, such losses could be significant and could impair the ability of the Fund to achieve its investment objectives.

### (c) Liquidity risk:

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations when they become due. The Fund retains sufficient liquid investments (including cash and portfolio investments in equity securities traded in active markets) to maintain liquidity.

### (d) Concentration risk:

The Fund may concentrate its' investments in a relatively small number of securities, certain sectors or specific regions or countries. This may result in higher volatility, as the value of the Fund may vary more in response to changes in the market value of these securities, sectors, regions or countries. At June 30, 2016, four securities represented 49.05% of the Fund. At December 31, 2015, four securities represented 51.3% of the Fund. The Fund turns over its' positions periodically and rebalances its' positions to mitigate excessive concentration risk.

## 7. Fair value measurement:

The table below summarizes the fair value of the Fund's financial instruments as at June 30, 2016 and December 31, 2015 using the following fair value hierarchy:

- Level 1- inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

## 7. Fair value measurement (continued):

- Level 3- inputs that are unobservable and where there is little, if any, market activity. Inputs into the determination of fair value require significant management judgment or estimation.

June 30, 2016	Financial assets at fair value			Total
	Level 1	Level 2	Level 3	
Equities	\$ 1,626,472	\$ 409,564	\$ –	\$ 2,036,036
Warrants	81,245	292,201	–	373,476
<b>Total</b>	<b>\$ 1,707,747</b>	<b>\$ 701,765</b>	<b>\$ –</b>	<b>\$ 2,409,512</b>

December 31, 2015	Financial assets at fair value			Total
	Level 1	Level 2	Level 3	
Equities	\$ 1,076,544	\$ 60,000	\$ –	\$ 1,136,544
Warrants	–	60,156	186	60,342
<b>Total</b>	<b>\$ 1,076,544</b>	<b>\$ 120,156</b>	<b>\$ 186</b>	<b>\$ 1,196,886</b>

During the period ended June 30, 2016 and the year ended December 31, 2015, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	2016	2015
Balance, beginning of period	\$ 186	\$ 139,374
Purchases	–	–
Sales	–	(35,100)
Change in unrealized depreciation included in comprehensive income	(186)	(104,088)
<b>Balance, end of period</b>	<b>\$ –</b>	<b>\$ 186</b>

There were no transfers of investments between Levels 1, 2, and 3 for the period ended June 30, 2016 and the year ended December 31, 2015.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

## 7. Fair value measurement (continued):

The tables below set out information about significant unobservable inputs used at June 30, 2016 and December 31, 2015 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value		Valuation technique	Unobservable input	Range (weighted average)		Sensitivity to changes in significant unobservable inputs	
	2016	2015			2016	2015	2016	2015
Warrants	\$ nil	\$ 186	Black Scholes	Volatility	14% - 85% (average 60%)	14% - 85% (average 60%)	The estimated fair value would increase by \$52 or 0% for a 5 point increase in the volatility or decrease by \$39 or 0% for 5 point decrease in the volatility	The estimated fair value would increase by \$137 or 74% for a 5 point increase in the volatility or decrease by \$90 or 49% for a 5 point decrease in the volatility

The restricted equity investment which constitutes the remaining financial instruments categorized in Level 3 was nil at June 30, 2016, (December 31, 2015 - nil). This instrument was valued based on the most recent trade of comparable securities of the issuer.

The Manager is responsible for performing the fair value measurements included in the financial statements of the Fund, including Level 3 measurements.

The Manager reviews and approves pricing for Level 3 financial instruments immediately as pricing information is available.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

## 7. Fair value measurement (continued):

Financial instruments not measured at fair value:

The financial instruments not measured at FVTPL are short-term financial assets and financial liabilities whose carrying amounts approximate fair values.

The Fund's redeemable shares are measured at the redemption amount and are considered a residual interest in the assets of the Fund after deducting all of its liabilities. The shares are redeemable annually, at the holders' option, for cash equal to the proportionate share of the Fund's net asset value attributable to the share class as described in the prospectus.

Cash and receivable for shares issued include the contractual amounts for settlement of trades and other obligations due to the Fund. Payable for shares repurchased or redeemed, management fees payable and accounts payable and accrued liabilities represent the contractual amounts and obligations due by the Fund for settlement of trades and expenses.

## 8. Net gain (loss) from financial assets at fair value through profit or loss:

	2016	2015
Net realized gain (loss) on financial assets:		
Financial assets held for trading	\$ 20,463	\$ (5)
Financial assets designated at fair value through profit or loss	512,914	314,608
	<u>533,377</u>	<u>314,603</u>
Net change in unrealized gain (loss) on financial assets:		
Financial assets held for trading	319,058	87,518
Financial assets designated at fair value through profit or loss	864,286	106,738
	<u>1,183,344</u>	<u>194,256</u>
	<u>\$ 1,183,344</u>	<u>\$ 508,859</u>

The realized gain from financial assets at fair value through profit or loss represents the difference between the carrying amount of the financial asset at the beginning of the reporting period, or the transaction price if it was purchased during the reporting period, and its sale or settlement price.

The unrealized gain (loss) represents the difference between the carrying amount of a financial asset at the beginning of the reporting period, or the transaction price if it was purchased during the reporting period, and its carrying amount at the end of the reporting period.

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

## 9. Share capital:

The shares and common shares of the Corporation have equal rights and privileges, except that the common shares may not be redeemed.

On February 22, 2013, as part of the transfer of assets of the 2011 Partnership to the Fund, 280,137 Series B shares were issued. On December 6, 2013, as part of the transfer of assets of the 2012 Partnership to the Fund, 283,421 Series B shares were issued (note 1).

Changes in issued mutual fund shares of the Fund for the periods ended June 30, 2016 and June 30, 2015 are summarized as follows:

	Series A	
	2016	2015
Redeemable shares outstanding, beginning of period	6,534	447
Redeemable shares issued	398	6,092
Total	398	6,092
Redeemable shares redeemed	(2,891)	—
Net increase in redeemable shares	(2,493)	6,092
Redeemable shares outstanding, end of period	4,041	6,539

	Series F	
	2016	2015
Redeemable shares outstanding, beginning of period	20,725	24,517
Redeemable shares issued	865	1,468
Total	865	1,468
Redeemable shares redeemed	(9,654)	(4,290)
Net increase (decrease) in redeemable shares	(8,789)	(2,822)
Redeemable shares outstanding at end of period	11,936	21,695

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

## 9. Share capital (continued):

	Series B	
	2016	2015
Redeemable shares outstanding, beginning of period	223,204	267,938
Redeemable shares issued	–	6,638
Total		6,638
Redeemable shares redeemed	(36,995)	(33,028)
Net decrease in redeemable shares	(36,995)	(26,395)
Redeemable shares outstanding at end of period	186,209	241,543

The average number of Series A, Series F and Series B shares outstanding during the period ended June 30, 2016 were 5,761 (2015 – 5,035), 20,652 (2015 - 22,633) and 206,411 (2015 - 256,470), respectively. These numbers were used to calculate the respective net increase (decrease) in net assets from operations per share.

## 10. Net assets and net asset value:

National Instrument 81-106 - Investment Fund Continuous Disclosure requires that net asset value for transactional purposes ("Net Asset Value"), be calculated based on the fair value of investments. The Fund prices warrants for transaction purposes at the intrinsic value. The Fund prices warrants for financial reporting purposes using the Black-Scholes model. Net Assets per share and Net Asset Value per share could be different due to the use of different valuation techniques.

The Net Asset Value per share and Net Assets per share as at June 30, 2016 is as below:

	Net Asset Value per share	Net Assets per share
Series A	\$ 11.40	\$ 11.52
Series F	11.72	11.85
Series B	11.17	11.29

# ALPHANORTH RESOURCE FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 10. Net assets and net asset value (continued):

The Net Asset Value per share and Net Assets per share as at December 31, 2015 is as below:

	Net Asset Value per share	Net Assets per share
Series A	\$ 4.75	\$ 4.78
Series F	4.89	4.92
Series B	4.76	4.79

## 11. Capital management:

The Fund's capital is its net assets attributable to holders of redeemable shares. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns to maximize value for holders of redeemable shares, and maintain financial strength.

The Fund is not subject to any externally-imposed capital requirements.

## 12. Dividends to holders of redeemable shares:

Dividends to holders of redeemable shares from the Fund are made to minimize income taxes payable by the Fund. Accordingly, dividends will vary from the accounting income reflected in these financial statements. Dividends of the Fund, unless otherwise specified by the shareholder, are automatically reinvested in additional shares of the Fund at the per share net assets attributable to holders of redeemable shares without sales charge. No dividends were paid to shareholders for the period ended June 30, 2016 and the year ended December 31, 2015.





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