



**FINANCIAL STATEMENTS**

**December 31, 2016 and 2015**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
49 North Resources Inc.

We have audited the accompanying consolidated financial statements of 49 North Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of 49 North Resources Inc. as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Professional Accountants

April 28, 2017



**49 North Resources Inc.**  
**Consolidated Statement of Financial Position**  
(in thousands of Canadian dollars)  
(See Note 1 – Description of business)

	December 31 2016	December 31 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 85	\$ 1,010
Equity investments, at fair value (Note 3)	11,514	4,202
Accounts receivable and prepaid expenses (Note 4)	124	5,584
Loans and advances receivable (Note 4)	974	60
Income taxes receivable	-	10
	<b>12,697</b>	<b>10,866</b>
<b>Non-current assets</b>		
Convertible debenture receivable (Note 5)	5,256	-
Embedded derivative asset (Note 5)	1,593	-
Exploration and evaluation assets (Note 6)	-	9,757
Property, plant and equipment (Note 7)	54	3,191
<b>Total assets</b>	<b>\$ 19,600</b>	<b>\$ 23,814</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 536	\$ 7,500
Loan payable (Note 11)	-	685
	<b>536</b>	<b>8,185</b>
<b>Non-current liabilities</b>		
Convertible debentures (Note 9)	3,498	3,376
Subordinate debentures (Note 10)	628	581
Debt portion of preferred shares (Note 9)	758	807
Drilling advances (Note 11)	-	2,000
Decommissioning liabilities (Note 12)	-	1,595
<b>Total liabilities</b>	<b>5,420</b>	<b>16,544</b>
<b>EQUITY</b>		
Common shares (Note 14)	69,870	68,839
Preferred shares (Note 14)	2,877	3,064
Contributed surplus (Note 14)	5,324	4,704
Equity portion of convertible debentures (Note 9)	1,636	1,713
Equity portion of subordinate debentures (Note 10)	301	301
Deficit	(65,828)	(73,246)
<b>Equity attributable to common shareholders</b>	<b>14,180</b>	<b>5,375</b>
Non-controlling interests	-	1,895
	<b>14,180</b>	<b>7,270</b>
<b>Total liabilities and equity</b>	<b>\$ 19,600</b>	<b>\$ 23,814</b>

Approved on behalf of the Board

“Tom MacNeill”  
Director

“Norman Betts”  
Director

The accompanying notes are an integral part of these consolidated financial statements

**49 North Resources Inc.****Consolidated Statement of Income and Comprehensive Income**

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31,	2016	2015
<b>Revenues</b>		
Geological and other consulting	\$ 60	\$ 11,503
Oil and gas sales	8	529
Realized losses on equity investments	(1,675)	(1,061)
Unrealized gains on equity investments	6,077	468
Unrealized losses on embedded derivative assets (Note 5)	(127)	-
Unrealized loss on modification of convertible debenture receivable (Note 5)	(30)	-
Interest and dividend income (Note 5)	1,217	298
	<b>5,530</b>	<b>11,737</b>
<b>Expenses</b>		
Amortization and depletion (Note 7)	17	81
Business and investor relations	119	400
Finance (Note 9)	580	1,616
General and administration	146	1,165
Management fees (Note 8)	460	417
Oil and gas operations	21	801
Professional fees	227	681
Project costs on geological and other consulting activities	-	9,322
Share-based compensation (Note 14)	207	74
Transaction costs	53	28
Wages and benefits	39	1,049
	<b>1,869</b>	<b>15,634</b>
Gain on deconsolidation (Note 2)	7,119	-
Gain on debenture extinguishment (Note 9)	-	12,801
Loss on disposal of property, plant and equipment	(102)	(7)
Loss on debt reassignment	(181)	-
Writedown - advances owing from related party (Note 8)	(2,981)	-
Writedown - loan receivable from related party (Note 8)	(98)	-
Writedown - exploration and evaluation assets (Note 6)	-	(29)
Writedown - property, plant and equipment (Note 7)	-	(1,420)
<b>Income before income taxes</b>	<b>7,418</b>	<b>7,448</b>
Current income tax expense (Note 13)	-	(108)
<b>Income and comprehensive income for the year</b>	<b>\$ 7,418</b>	<b>\$ 7,340</b>
Income to common shareholders	7,418	7,654
Loss to non-controlling interest	-	(314)
<b>Net income and comprehensive income</b>	<b>\$ 7,418</b>	<b>\$ 7,340</b>
<b>Basic earnings per share</b> (Note 14)	<b>\$ 0.14</b>	<b>\$ 0.21</b>
<b>Diluted earnings per share</b> (Note 14)	<b>\$ 0.11</b>	<b>\$ 0.14</b>
<b>Weighted average number of common shares outstanding - basic</b>	<b>52,823,827</b>	<b>35,623,647</b>
<b>Weighted average number of common shares outstanding - diluted</b>	<b>71,735,647</b>	<b>55,551,029</b>

The accompanying notes are an integral part of these consolidated financial statements

**49 North Resources Inc.**  
**Consolidated Statement of Changes in Equity (Deficiency)**  
(in thousands of Canadian dollars)

	Attributable to the common shareholders							Non-controlling interests	Total Equity (Deficiency)
	Common Share Capital	Preferred Share Capital	Contributed Surplus	Equity portion of debentures	Deficit	Total			
<b>Balance, January 1, 2015</b>	<b>\$ 66,491</b>	<b>\$ -</b>	<b>\$ 4,117</b>	<b>\$ 1,993</b>	<b>\$ (75,494)</b>	<b>\$ (2,893)</b>	<b>\$ 2,175</b>	<b>\$ (718)</b>	
2011 debenture restructure (Note 9)	2,049	2,457	-	(454)	(4,052)	-	-	-	
2010 debenture restructure (Note 9)	299	607	-	475	(1,381)	-	-	-	
Changes in non-controlling interests	-	-	495	-	-	495	34	529	
Share-based compensation	-	-	74	-	-	74	-	74	
Warrants issued (Note 14)	-	-	18	-	-	18	-	18	
Refundable taxes recovered	-	-	-	-	27	27	-	27	
Net income (loss)	-	-	-	-	7,654	7,654	(314)	7,340	
<b>Balance, December 31, 2015</b>	<b>\$ 68,839</b>	<b>\$ 3,064</b>	<b>\$ 4,704</b>	<b>\$ 2,014</b>	<b>\$ (73,246)</b>	<b>\$ 5,375</b>	<b>\$ 1,895</b>	<b>\$ 7,270</b>	

	Attributable to the common shareholders							Non-controlling interests	Total Equity (Deficiency)
	Common Share Capital	Preferred Share Capital	Contributed Surplus	Equity portion of debentures	Deficit	Total			
<b>Balance, January 1, 2016</b>	<b>\$ 68,839</b>	<b>\$ 3,064</b>	<b>\$ 4,704</b>	<b>\$ 2,014</b>	<b>\$ (73,246)</b>	<b>\$ 5,375</b>	<b>\$ 1,895</b>	<b>\$ 7,270</b>	
Share issuance	587	-	413	-	-	1,000	-	1,000	
Share issuance costs (Note 14)	(28)	-	-	-	-	(28)	-	(28)	
Convertible debenture conversions (Note 9)	235	-	-	(77)	-	158	-	158	
Preferred share conversions (Note 9)	237	(187)	-	-	-	50	-	50	
Deconsolidation adjustments (Note 2)	-	-	-	-	-	-	(1,895)	(1,895)	
Share-based compensation (Note 14)	-	-	207	-	-	207	-	207	
Net income	-	-	-	-	7,418	7,418	-	7,418	
<b>Balance, December 31, 2016</b>	<b>\$ 69,870</b>	<b>\$ 2,877</b>	<b>\$ 5,324</b>	<b>\$ 1,937</b>	<b>\$ (65,828)</b>	<b>\$ 14,180</b>	<b>\$ -</b>	<b>\$ 14,180</b>	

The accompanying notes are an integral part of these consolidated financial statements

**49 North Resources Inc.**  
**Consolidated Statement of Cash Flows**  
(in thousands of Canadian dollars)

For the years ended December 31,	2016	2015
<b>Cash flows from Operating Activities</b>		
Net income	\$ 7,418	\$ 7,340
Items not affecting cash		
Gain on deconsolidation	(7,119)	-
Loss on disposal of property, plant and equipment	102	7
Realized losses on equity investments	1,675	1,061
Accretion of decommissioning liabilities	-	62
Amortization and depletion	17	81
Accretion of debentures payable	327	515
Accrued dividends	96	44
Accrued interest income	(536)	-
Accretion of debenture receivable	(194)	-
Share-based compensation	207	74
Gain on debentures extinguishment	-	(12,801)
Loss on debt reassignment	181	-
Writedown - advances owing from related party	2,981	-
Writedown - loan receivable from related party	98	-
Writedown - exploration and evaluation assets	-	29
Writedown - property, plant and equipment	-	1,420
Unrealized gains on equity investments	(6,017)	(468)
Unrealized loss on modification of convertible debenture receivable	30	-
Unrealized loss on embedded derivative assets	127	-
Net changes in non-cash working capital items related to operations (Note 17)	(1,490)	594
	<b>(2,097)</b>	<b>(2,042)</b>
<b>Cash flows from Investing Activities</b>		
Purchase of property, plant and equipment	-	(247)
Proceeds from disposal of property, plant and equipment	58	2
Purchase of equity investments	(2,153)	(1,302)
Proceeds from disposal of equity investments	4,165	1,824
Cash eliminated on deconsolidation	(960)	-
Exploration and development	-	(593)
Loans and advances receivable	(910)	672
	<b>200</b>	<b>356</b>
<b>Cash flows from Financing Activities</b>		
Issuance of common shares	1,000	-
Share issue costs	(28)	-
	<b>972</b>	<b>-</b>
<b>Net change in cash during the year</b>	<b>(925)</b>	<b>(1,686)</b>
Cash, beginning of year	1,010	2,696
Cash, end of year	<b>\$ 85</b>	<b>\$ 1,010</b>

The accompanying notes are an integral part of these consolidated financial statements

## **49 North Resources Inc.**

### **Notes to the Consolidated Financial Statements**

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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#### **1. Description of business and going concern**

##### **Description of business**

49 North Resources Inc. (the "Corporation") is a resource investment, financial, and managerial advisory company which, as its principal business, invests in a diversified portfolio of common shares and other securities of resource issuers including, without limitation, resource issuers engaged in mineral or oil and gas exploration and development, with a view to achieving capital appreciation of the portfolio.

The Corporation is domiciled in the Province of Saskatchewan, Canada and its office address is at Suite 602 – 224 4<sup>th</sup> Avenue South, Saskatoon, Saskatchewan, Canada, S7K 5M5.

#### **2. Significant accounting policies**

The significant accounting policies used in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

##### **Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements of the Corporation for the year ended December 31, 2016 were authorized for issuance by the Corporation's board of directors on April 28, 2017.

##### **Adoption of IFRS for investment entities and basis of preparation**

IFRS 10 "Consolidated Financial Statements" ("IFRS 10") provides an exception to the consolidation requirements for entities that meet the definition of an investment entity and requires such an entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating those subsidiaries in its consolidated financial statements.

In accordance with IFRS 10, an investment entity is an entity that: (i) obtains funds from one or more investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and (iii) measures and evaluates the performance of substantially all of its investments on a fair value basis. In addition, IFRS 10 clarifies that an investment entity may earn fee income from the provision of investment-related services to external parties.

##### **Adoption of IFRS for investment entities and basis of preparation - continued**

The Corporation pursues business investment opportunities with the objective of growing shareholder value through capital appreciation in these investments and related income. The Corporation uses fair value as the key measure to monitor and evaluate the majority of its equity investments. The Corporation also earns, through wholly and partially-owned entities, advisory fees in connection with its investment activities. The provision of these advisory services does not constitute a significant business activity of the Corporation and the Corporation has assessed and concluded that the advisory fees do not represent a substantial source of revenues. As a result, the Corporation has determined that it qualifies as an investment entity under IFRS, and commenced reporting its financial results in accordance with IFRS applicable to investment entities, on a prospective basis, effective January 1, 2016.

Adopting the investment entity accounting rules in IFRS 10 had a significant impact on the Corporation's financial statements, and the Corporation recognized a gain on deconsolidation of formerly consolidated investees in the amount of \$7,119 during the year ended December 31, 2016. The Corporation no longer consolidates any of its investees.

## **49 North Resources Inc.**

### **Notes to the Consolidated Financial Statements**

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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## **2. Significant accounting policies - continued**

These financial statements have been prepared on a historical cost basis except for certain financial instruments which have been measured at fair value. These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### **Basis of consolidation**

As of January 1, 2016 the Corporation met the requirements of IFRS 10 and adopted investment entity accounting as described above, therefore the December 31, 2016 amounts are presented on the basis of the Corporation as a standalone entity. The comparative figures of these financial statements comprise the financial statements of the Corporation as at December 31, 2015 and for the year ended December 31, 2015 and its previously consolidated subsidiaries.

See Note 8 for listing of the Corporation's former subsidiaries.

### **Business combinations**

Business combinations are accounted for using the acquisition method; the acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below fair value is recognized as a gain in earnings. Associated transaction costs are expensed when incurred through profit or loss.

### **Investments in associate**

Associates are those entities over which the Corporation has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Corporation holds a significant portion of the voting power of another entity, but can also arise where the Corporation holds less than a significant portion of the voting power but has the power to be actively involved and influential in policy decisions affecting the entity. Investments in associates are accounted for using the equity method.

### **Foreign currency translation**

#### **i) Functional currency**

Items included in the financial statements of each of the Corporation's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The functional currency for the Corporation and its former subsidiaries is the Canadian dollar ("Canadian dollar").

#### **ii) Foreign currency transactions**

Foreign currency transactions are translated into the Corporation's functional currency and its former subsidiaries at exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of income (loss) and comprehensive income (loss).

#### **iii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at the dates of the transactions. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange gains or losses of foreign operations are recognized in profit or loss.

## 49 North Resources Inc.

### Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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## 2. Significant accounting policies - continued

### Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### *Financial assets*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Financial assets carried at amortized cost are assessed at each reporting date for any potential impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted using the original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment and is recognized in the consolidated statements of income (loss) and comprehensive income (loss).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated statements of income (loss) and comprehensive income (loss).

Purchases or sales of financial assets that require delivery of assets in a timeframe established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, which is the date that the Corporation commits to purchase or sell the asset.

The Corporation's financial assets include cash, equity investments, accounts receivable, loans and advances receivable, convertible debenture receivable and embedded derivative asset.

### Financial instruments - continued

#### Fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments, as defined by International Accounting Standards ("IAS") 39.

The Corporation's equity instruments (which are designated as held for trading) are carried at fair value with net changes in fair value shown in the consolidated statements of income (loss) and comprehensive income (loss) as unrealized gains or losses on portfolio instruments. The fair value of those instruments is determined as follows:

#### Publicly traded companies

The fair value of any security which is listed or traded upon a stock exchange is estimated by taking the latest bid price. The fair value of investment funds and limited partnerships are recorded based on their published net asset value per unit or last bid price, as appropriate.

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

## 49 North Resources Inc.

### Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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## 2. Significant accounting policies - continued

### Privately held companies

The fair value of any shares which are not listed or traded in 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 Corporation issued common equity without flow-through characteristics or at management's estimated fair value. After the initial transaction, adjustments are made to reflect any changes in fair 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 an assessment of the financial condition of the investment based on operational results, forecasts and other developments.

### Options and Warrants

For options and warrants which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, the options and warrants are valued using the Black-Scholes option pricing model, otherwise they are recorded at their intrinsic value.

### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Corporation's loans and receivables are comprised of cash, loans and advances receivable, accounts receivable and convertible debenture receivable.

## **Financial instruments - continued**

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not classified in any of the previous categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, these assets are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income (loss) and presented within equity. When an investment is derecognized through sale or has an impairment that is other than temporary, the cumulative gain or loss in other comprehensive income (loss) is transferred to profit or loss.

The Corporation does not have any financial assets that are classified as available-for-sale.

### Held-to-maturity financial assets

If the Corporation has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

The Corporation does not have any financial assets that are classified as held-to-maturity.

## 49 North Resources Inc.

### Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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## 2. Significant accounting policies - continued

### *Financial liabilities*

#### Other financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Corporation's accounts payable and accrued liabilities and debt components of convertible debt, subordinate debt and preferred shares are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as fair value through profit or loss are recognized in profit or loss.

#### Compound financial instruments

A compound financial instrument is a non-derivative financial instrument that contains both a liability and an equity component. The Corporation accounted for its convertible debentures (Note 8 and 9) as compound financial instruments. The conversion feature is treated as an equity component and accounted for in compliance with IAS 32 and IAS 39 relating to initial recognition of compound instruments.

IAS 39 deals with the measurement of financial assets and liabilities. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features embedded in the compound financial instrument other than the equity component is included in the liability component.

The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognizing the components of the instrument separately.

The convertible debentures met the criteria to be accounted for as a compound instrument in accordance with IAS 32. As such, the Corporation has first determined the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity instrument represented by the conversion feature has then been determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

#### Debt modifications and extinguishments

An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

**49 North Resources Inc.**

**Notes to the Consolidated Financial Statements**

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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**2. Significant accounting policies - continued**

If a debt modification is deemed to have been accomplished with debt instruments that are substantially different, the modification is accounted for as a debt extinguishment, whereby the Company must recognize currently in income the difference between the reacquisition price and the net carrying amount of the extinguished debt. Any fees paid by the debtor to the creditor are associated with the extinguishment of the old debt instrument and are included in determining the debt extinguishment gain or loss to be recognized.

If modification of terms is accounted for as an extinguishment of the original debt any costs or fees incurred is recognized as part of the gain or loss on the extinguishment. However, if modification is not accounted for as an extinguishment, any costs or fees incurred are an adjustment to the carrying amount of the liability and will be amortized over the remaining term of the modified liability.

**Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amounts are expected to be recovered principally through a disposition rather than through continuing use. The assets or disposal groups are measured at the lower of their net book value and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statements of income (loss) and comprehensive income (loss).

**Cash and cash equivalents**

Cash and cash equivalents include highly liquid investments with original maturities of three months or less, and which are subject to an insignificant risk of change in value. Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

**Convertible debentures receivable**

When the Corporation holds debentures that are convertible into the issuer's equity shares at the Corporation's option, the equity conversion feature represents an embedded option written by the issuer on its equity shares. The embedded derivative is not closely related to the host contract (the debentures) from the Corporation's perspective. Such conversion feature is classified as fair value through profit or loss, with the debentures being classified as loans and receivable.

The embedded derivative's fair value (the conversion feature) is calculated first, and the carrying value of the debenture is assigned the residual amount after deducting from the consideration paid to acquire the hybrid instrument, the amount separately determined for the embedded derivative.

**Exploration and evaluation assets**

**Pre-license costs**

Pre-license costs are costs incurred before the legal rights to explore a specific area have been obtained. These costs are expensed in the period in which they are incurred as exploration and evaluation expense.

## **49 North Resources Inc.**

### **Notes to the Consolidated Financial Statements**

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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## **2. Significant accounting policies - continued**

### **Exploration and evaluation ("E&E") costs**

Once the legal right to explore has been acquired, costs directly associated with the exploration project are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. Such E&E costs may include undeveloped land acquisition, geological, geophysical and seismic, exploratory drilling and completion, testing, decommissioning and directly attributable internal costs. E&E costs are not depleted and are carried forward until technical feasibility and commercial viability of extracting a mineral resource is considered to be determined. The technical feasibility and commercial viability of a mineral resource is considered to be established when proved and/or probable reserves are determined to exist. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the exploratory activity. When this is no longer the case, impairment costs are charged to profit or loss. Upon determination of proved and/or probable reserves, E&E assets attributed to those reserves are first tested for impairment and then reclassified to development and production assets within property, plant and equipment, net of any impairment. Expired land costs are also expensed to exploration and evaluation expense as they occur. Sales from drilling results are credited against the capitalized E&E costs.

### **Exploration and evaluation ("E&E") costs - continued**

Proceeds received from a partial sale or option of any interest in an exploration and evaluation asset are credited against the carrying value of the exploration and evaluation asset. When the proceeds exceed the carrying costs the excess is recorded in profit or loss in the period the excess is received.

E&E assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount, and upon transfer to property, plant and equipment whereby they are allocated to cash-generating units based on geographical proximity and other factors.

### **Farm-in and farm out arrangements**

The Corporation, as farmee, recognizes its expenditures under farm-in arrangements in respect of its own interest and that retained by the farmor, as and when the costs are incurred. The farmee accounts for its expenditures under a farm-in arrangement in the same way as directly incurred E&E expenditures.

The Corporation, as farmor, accounts for the farm-out arrangement as follows; the farmor does not record any expenditure made by the farmee on its behalf, does not recognize any gain or loss on the farm-out arrangement, but rather re-designates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained, any cash consideration received is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

### **Property, plant and equipment ("PP&E")**

Property, plant and equipment include the costs of development and production that are not E&E assets, and costs for corporate (office) assets. PP&E is recorded at cost less accumulated depletion and amortization and accumulated impairment losses, net of recovered impairment losses.

The Corporation does not hold any assets requiring a substantial period of time to get ready for intended use. Accordingly to date, no borrowing costs have been capitalized.

### **Oil and gas development and production assets**

Development and production assets are capitalized on an area-by-area basis and include all costs associated with the development and production of oil and natural gas reserves. These costs may include proved property acquisitions, development drilling (including unsuccessful or delineation wells), completion, gathering and infrastructure, decommissioning costs, amounts transferred from E&E assets and directly attributable internal costs.

## 49 North Resources Inc.

### Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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## 2. Significant accounting policies - continued

Expenditures to renew or improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

Any gains or losses from the divestiture of development and production assets are recognized in profit or loss. Accumulated costs are depleted using the unit-of-production method based on estimated proved plus probable reserves. Costs subject to depletion include estimated future costs to be incurred in developing proved plus probable reserves and exclude residual amounts. Depletion is calculated based on individual components (i.e. fields or combinations thereof and other major components with different useful lives).

### Other assets

Other capital assets are recorded at cost and are amortized using the declining balance method. On acquisitions during the year, amortization is calculated at one-half the annual rate. Annual amortization rates are as follows:

Automotive	30%
Buildings	10%
Computers	30% and 35%
Computer software	100%
Furniture and equipment	30%
Gas line	4%
Leasehold improvements	20%
Processing facility	10%

### Impairment of non-current assets

The carrying amounts of the Corporation's non-current assets are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the Cash Generating Unit ("CGU") level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value less cost to sell is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in earnings for the period to the extent that the carrying amount of the asset (or CGU) exceeds the recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset (or CGU) does not exceed the carrying amount that would have been determined, net of depletion and amortization, had no impairment loss been recognized for the asset (or CGU).

A reversal of an impairment loss is recognized immediately in profit or loss.

E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

## **49 North Resources Inc.**

### **Notes to the Consolidated Financial Statements**

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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## **2. Significant accounting policies - continued**

### **Provisions**

Provisions are recorded when the Corporation has a present obligation as a result of a past event, it is probable that an outflow of resources will be required and a reliable estimate can be made of the amount of the obligation. Provisions are measured based on the discounted expected cash flows.

Decommissioning liabilities are recognized for the future legal or constructive obligation to abandon and reclaim the Corporation's oil and natural gas properties. The amount of the decommissioning liabilities represents the net present value of the estimated future expenditures required to abandon and reclaim the Corporation's net ownership in wells and facilities determined in accordance with local conditions, current technology and current requirements. The liabilities are calculated using currently estimated abandonment and reclamation costs inflated to the estimated decommissioning date and then discounted using a risk-free discount rate. A liability is recorded in the period in which an obligation arises with a corresponding decommissioning cost added to the carrying amount of the related asset. The liability is progressively accreted over time as the effect of discounting unwinds, creating an accretion expense which is recognized as part of finance expense. The related decommissioning cost capitalized in property, plant and equipment is depreciated in a manner consistent with the depletion and depreciation of the underlying asset.

Changes in the estimated liability resulting from revisions to estimated timing of decommissioning, expected amount of cash flows or changes in the discount rate are recognized as a change in the decommissioning liability and the related decommissioning cost. Actual decommissioning expenditures incurred are charged against the accumulated liability to the extent recorded.

### **Income taxes**

Income tax expense is comprised of current and deferred income taxes. Current income tax and deferred income tax are recognized in profit or loss, except to the extent that they relate to items recognized directly in equity or equity investments.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority for the same taxable entity. A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized.

**49 North Resources Inc.**

**Notes to the Consolidated Financial Statements**

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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**2. Significant accounting policies - continued**

**Share capital**

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a reduction of equity, net of any tax effects.

The Corporation has adopted a relative fair value method with respect to the measurement of shares and warrants issued as private placement units. The relative fair value method allocates value to each component on a pro-rata basis, based on the fair value of the components calculated independently of one another. The Company considers the market value of the common shares issued as fair value, and measures the fair value of the warrant component of the unit using the Black-Scholes option pricing model. The unit value is then allocated, pro-rata, between the two components, with the fair value attributed to the warrants being recorded to warrant reserve.

Preferred shares

The Corporation's preferred shares contain a contractual obligation whereby the Corporation is required to pay a cumulative annual mandatory dividend. Accordingly, part of their value has been classified as a financial liability.

The liability component of the preferred shares is accounted for using the effective interest rate method, using an interest rate of 12%.

Share-based payments

The Corporation has a stock option plan that provides for the granting of options to Officers, Directors, related Corporation employees and consultants to acquire shares of the Corporation. The fair value of the options is measured on grant date and is recognized as an expense with a corresponding increase in contributed surplus as the options vest.

Options granted to employees and others providing similar services are measured at grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

On vesting, share-based payments are recorded as an operating expense and as contributed surplus. When options are exercised the consideration received is recorded as share capital. In addition, the related share-based payments originally recorded as contributed surplus are transferred to share capital.

## 49 North Resources Inc.

### Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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## 2. Significant accounting policies - continued

### Earnings (loss) per share ("EPS")

Basic EPS amounts are calculated by dividing net income (loss) attributable to common shareholders of the corporation by the weighted average number of common shares outstanding during the period. Diluted EPS amounts are calculated with consideration given to convertible preferred shares, stock options and warrants, and assumes that any proceeds received on exercise of options or warrants would be used to purchase common shares at the average market price during the period. Diluted EPS amounts also include exchangeable shares using the "if-converted" method to determine the dilutive effect of convertible and subordinate debentures, whereby it is assumed the conversion of the exchangeable shares occurs at the beginning of the reporting period (or at the time of issuance, if later) where applicable. The weighted average number of common shares outstanding is then adjusted by the net change.

### Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that related to transactions with any of the Corporation's other segments.

To be classified as a segment, discrete financial information must be available and operating results must be regularly reviewed by the Corporation's Chief Executive Officer.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, exploration and evaluation assets and other intangible assets other than goodwill.

### Revenue recognition

Security transactions are recorded on a trade basis. Realized gains and losses on the disposal of investments and unrealized gains and losses in the value of investments are reflected in the statement of income (loss) and comprehensive income (loss). Cost is calculated on an average cost basis. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. All transaction costs are expensed as incurred.

- Geological and other consulting revenue is recognized as the services are provided to the client.
- Production revenue is recognized when the oil and gas is delivered to the buyer.
- Interest, rental and dividend income are recognized on an accrual basis.

Revenue is recognized when it is probable that the economic benefits will flow to the Corporation and delivery has occurred, the sale price is fixed or determinable, and collectability is reasonably assured. Revenue is measured based on the sales contract.

### Significant accounting judgments, estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

**49 North Resources Inc.**

**Notes to the Consolidated Financial Statements**

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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**2. Significant accounting policies - continued**

**Significant accounting judgments, estimates and assumptions - continued**

The information about significant areas of estimation uncertainty considered by management in preparing these financial statements are:

- fair value of investment in securities not quoted in an active market or private Corporation investments;
- the recoverable amounts of CGUs used in impairment testing of long-lived assets including estimates of reserves and resources, future commodity prices, production costs, foreign exchange rates, discount rates, inflation and income tax rates;
- the determination of useful lives, units of production and residual values of property, plant and equipment;
- the fair value of share-based compensation determined using the Black-Scholes option pricing model using estimates for expected forfeitures, expected lives and stock volatility;
- the provision for deferred income taxes based on estimated tax bases using substantively enacted tax rates expected to apply to taxable income during the years in which the differences are expected to be recovered or settled; and
- amounts recorded for decommissioning liabilities including estimates around timing and amount of expenditures required to settle liabilities and the risk free discount rate used.
- as described in Note 9, when the terms of convertible debentures are modified, it is often accounted for as a de-recognition of the carrying value of the pre-modified loan and the new recognition of a new loan at the then fair value. In the determination of fair value, the Corporation uses a discounted cash flow technique which includes inputs that are not based on observable market data and inputs that are derived from observable market data. In the case of its convertible debenture modifications, where available, the Corporation seeks comparable interest rates. If unavailable, it uses those considered appropriate for the risk profile of a corporation in the industry.
- the fair value of the embedded derivative asset determined using the Black-Scholes option pricing model using estimates of expected life and stock volatility.
- impairment of non-financial assets using calculations based on future commodity prices, expected volumes, quantity of reserves and discount rates as well as future development costs and operating costs.

In the process of applying the Corporation's significant accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

- whether or not there are indicators of impairment relating to the Corporation's non-financial assets, including consideration of market values, estimations of future prices and costs, changes in estimated quantities of reserves and appropriate discount rates.
- determination of the Corporation meeting the criteria required under IFRS 10 in order to be classified as an investment entity.
- determination of deferred income tax assets or liabilities, which involves subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards.
- valuation techniques for fair value determination of investments in private entities.

## **49 North Resources Inc.**

### **Notes to the Consolidated Financial Statements**

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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## **2. Significant accounting policies - continued**

### **Reserves Estimates**

Reserve engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas. The process relies on interpretations of available geological, geophysical, engineering and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various economic assumptions and the judgment of those preparing the estimate. Because these estimates depend on many assumptions, all of which may differ from actual results, reserves estimates and estimates of future net revenue may be different from the sales volumes ultimately recovered and net revenues actually realized. Changes in market conditions, regulatory matters and the results of subsequent drilling, testing and production may require revisions to the original estimates. Estimates of reserves impact: (i) the assessment of whether or not a new well has found economically recoverable reserves; (ii) depletion rates; and (iii) the determination of the realizable value of oil and gas properties for impairment tests, all of which could have a material impact on profit or loss.

### **Impairment of Non-Financial Assets**

Amounts used for impairment testing and calculations are based on estimates of future commodity prices, expected volumes, quantity of reserves and discount rate as well as future development costs and operating costs. These calculations require the use of estimates and assumptions which, by their nature, are subject to measurement uncertainty. In addition, judgment is exercised by management as to whether there have been indicators of impairment or impairment reversal. Indicators of impairment or impairment reversal may include, but are not limited to a change in: market value of assets, estimate of future prices and costs, a change in estimated quantity of reserves and appropriate discount rate. Management will determine whether a change in one or more indicators of impairment or impairment reversal results in a change in the estimated recoverable amount of the asset. Accordingly, the impact in the financial statements of future periods could be material.

### **Exploration and Evaluation Expenditures**

The application of the Corporation's accounting policy for exploration and evaluation expenditure requires judgment to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

### **Income taxes**

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

### **New accounting pronouncements**

Certain new accounting standards and interpretations have been published that are mandatory for period ends beginning on or after January 1, 2016. None of the new standards adopted had a material impact on the Corporation's financial statements.

## 49 North Resources Inc.

### Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

## 2. Significant accounting policies - continued

### Future accounting pronouncements

The following are new and revised accounting pronouncements that have been issued but are not yet effective:

#### *IFRS 15, Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

#### *IFRS 9 Financial Instruments*

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized costs and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. This standard is effective of annual periods beginning on or after January 1, 2018.

The Corporation is currently assessing the impact that these new and revised accounting pronouncements will have on the financial statements.

## 3. Equity investments

As at December 31, 2016 and December 31, 2015, the Corporation’s investments consist of equity interests in companies in the following segments:

	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Cost</b>	<b>FMV</b>	<b>Cost</b>	<b>FMV</b>
Publicly listed companies	\$ 25,225	\$ 9,170	\$ 21,876	\$ 3,509
Private companies	11,688	2,344	6,196	693
	<b>\$ 36,913</b>	<b>\$ 11,514</b>	<b>\$ 28,072</b>	<b>\$ 4,202</b>

**49 North Resources Inc.****Notes to the Consolidated Financial Statements**

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For the years ended December 31, 2016 and 2015

**3. Equity investments - continued**

As at December 31, 2016 and 2015, the Corporation's investments consist of equity interests in companies in the following industries:

	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Cost</b>	<b>FMV</b>	<b>Cost</b>	<b>FMV</b>
Base and Precious Metals	\$ 17,117	\$ 6,035	\$ 14,291	\$ 1,598
Coal	1,981	-	2,059	85
Diamonds	1,353	1,114	716	505
Oil & Gas	12,917	1,920	7,108	565
Other	3,397	2,441	2,852	1,334
Uranium	148	4	1,046	115
	<b>\$ 36,913</b>	<b>\$ 11,514</b>	<b>\$ 28,072</b>	<b>\$ 4,202</b>

The equity investments consist of investment in common shares of corporations of which 67.33% (2015 – 63.70%) are listed on the TSX-V, 20.36% (2015 – 16.59%) are private, 9.67% (2015 – 12.02%) are listed on the TSX and 2.64% (2015 – 7.69%) are listed on the Canadian Securities Exchange (“CSE”) as of December 31, 2016.

An analysis of fair value was prepared for the private investments held in the portfolio. The analysis used comparable entities public corporation stock prices, observable index comparisons, transaction prices for same or similar instruments and information from brokers and other analysis. Based on this review, management has recorded a \$1,216 unrealized gain (2015 - \$652) on certain private corporation investments.

**4. Loans, advances, accounts receivable and prepaid expenses**Accounts receivable and prepaid expenses

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Trade accounts receivable	\$ 117	\$ 4,820
Sales tax receivable	-	10
Other receivable	3	587
Prepaid expenses	4	167
	<b>\$ 124</b>	<b>\$ 5,584</b>

**49 North Resources Inc.****Notes to the Consolidated Financial Statements**

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**4. Loans, advances, accounts receivable and prepaid expenses - continued**

The aging of accounts receivables at the reporting date was:

	December 31, 2016	December 31, 2015
Not past due	\$ 4	\$ 1,461
Past due 0 - 30 days	8	1,508
Past due 31+ days	105	1,851
	<b>\$ 117</b>	<b>\$ 4,820</b>

During the year ended December 31, 2016, the Corporation recognized an impairment losses of \$184 (2015 – impairment loss of \$75) in respect of trade accounts receivable.

Loans and advances receivable

	December 31, 2016	December 31, 2015
<b><u>Current</u></b>		
Unrelated corporations	\$ 167	\$ 60
Related corporation	807	-
	<b>\$ 974</b>	<b>\$ 60</b>

The loans to unrelated corporations bear interest at 10% and are due on demand. The loan to a related corporation is non-interest bearing, and is due on demand.

**5. Convertible debentures receivable**

On August 31, 2016 the Corporation and Omineca Mining and Metals Ltd. ("OMM") restructured the terms of the debentures originally issued on November 30, 2010 and restructured on October 1, 2013. Pursuant to the terms of the restructure, the conversion feature was amended, below, and the maturity date was extended to October 1, 2021. The face value remains unchanged at \$5,400 and the debenture still bears interest at 8% per annum and is secured by current and future property rights, is payable upon maturity at October 1, 2021 and may be converted into common shares of OMM at any time at a revised conversion price as follows:

- \$0.20 prior to October 1, 2017
- \$0.50 on or after October 1, 2017, but prior to October 1, 2018
- \$0.75 on or after October 1, 2018

The restructuring resulted in a loss on modification of \$30. The fair value of the conversion feature of \$1,863 was re-estimated as of the date of the restructuring using the Black-Scholes option pricing model with the following assumptions: a share price of \$0.07, an exercise price of \$0.20, annualized volatility of 233.83%, an expected life of 5.09 years, a dividend rate of nil, and a risk-free interest rate of 0.82%, the carrying value was determined by first allocation the fair value to the embedded derivative asset and the residual to the carrying value of the convertible debenture receivable.

**49 North Resources Inc.****Notes to the Consolidated Financial Statements**

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For the years ended December 31, 2016 and 2015

**5. Convertible debentures receivable - continued**

	Convertible Debenture Receivable		Embedded derivative asset
	Face Value	Carrying Value	
<b>Balance, December 31, 2014 and 2015</b>	\$ -	\$ -	\$ -
Recognition of convertible debenture receivable	5,400	6,164	112
Interest income accrued	1,597	536	-
Accretion income	-	194	-
Revaluation on restructure	-	(1,638)	1,608
Fair value adjustment to derivative asset	-	-	(127)
<b>Balance, December 31, 2016</b>	<b>\$ 6,997</b>	<b>\$ 5,256</b>	<b>\$ 1,593</b>

**6. Exploration and evaluation assets**

	British Columbia	Quebec	Yukon	Total
<b>Balance, January 1, 2015</b>	\$ 6,686	\$ 2,404	\$ 203	\$ 9,293
Additions	326	171	-	497
Impairment	(29)	-	-	(29)
Option payment received	-	-	(4)	(4)
<b>Balance, December 31, 2015</b>	<b>6,983</b>	<b>2,575</b>	<b>199</b>	<b>9,757</b>
Deconsolidation adjustments	(6,983)	(2,575)	(199)	(9,757)
<b>Balance, December 31, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**British Columbia properties***Wingdam Property*

The Corporation, through its investment in OMM, previously consolidated a 100% undivided interest in certain mineral rights located in the province of British Columbia, subject to a 1% net smelter royalty (“NSR”). OMM has the ability to acquire the rights to the NSR from the holder at any time with a cash payment of \$1,000. After the completion of the extraction of a bulk sample, the Wingdam Property was put into a care and maintenance mode in August of 2012. During the care and maintenance period, OMM is required to carry out a program of site monitoring and maintenance prescribed in permits issued by agencies governing mining in the Province of British Columbia.

**Quebec properties**

The Corporation, through its investment in Gespeg Copper Resources Inc. (“Gespeg”), previously consolidated an interest in certain mineral rights related to copper, molybdenum, industrial metals and quarry product properties in the Gaspé region of the Province of Quebec. Gespeg is committed, through an option agreement, to conduct exploration work representing capital expenditures in the amount of \$1,200 over the next two years.

**49 North Resources Inc.****Notes to the Consolidated Financial Statements**

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**6. Exploration and evaluation assets - continued****Yukon Properties***Kiwi Project*

The Corporation, through its investment in OMM, previously consolidated a 100% interest in the Kiwi Project in the Yukon Territory. In 2013, OMM completed an option agreement with HFX Holding Corp, ("HFX"), whereby HFX can acquire a 100% interest in the Kiwi project by making \$320 in cash payments and issuing 800,000 common shares to OMM over six years. OMM will retain a 2% NSR on the project, which may be reduced to 1% upon payment of \$1,000 in cash.

**7. Property, plant and equipment**

	<b>Total</b>	<b>Oil &amp; gas interests</b>	<b>Other Corporate Assets</b>
<b>Cost:</b>			
Balance at January 1, 2015	\$ 4,577	\$ 3,650	\$ 927
Additions	780	728	52
Dispositions	(48)	-	(48)
Write down of carrying amount	(1,420)	(1,420)	-
Balance at December 31, 2015	3,889	2,958	931
Dispositions	(161)	(161)	-
Deconsolidation adjustments	(3,329)	(2,797)	(532)
<b>Balance at December 31, 2016</b>	<b>399</b>	<b>-</b>	<b>399</b>
<b>Accumulated depletion and amortization:</b>			
Balance at January 1, 2015	658	-	658
Depletion/amortization expense	81	2	79
Dispositions	(41)	-	(41)
Balance at December 31, 2015	698	2	696
Depletion/amortization expense	17	-	17
Dispositions	(2)	(2)	-
Deconsolidation adjustments	(368)	-	(368)
<b>Balance at December 31, 2016</b>	<b>\$ 345</b>	<b>\$ -</b>	<b>\$ 345</b>
<b>Total balance at December 31, 2015</b>	<b>\$ 3,191</b>	<b>\$ 2,956</b>	<b>\$ 235</b>
<b>Total balance at December 31, 2016</b>	<b>\$ 54</b>	<b>\$ -</b>	<b>\$ 54</b>

**Petroleum properties**

During the year ended December 31, 2016, the shareholders of Westcore Energy Ltd. ("Westcore"), a related party, approved the transaction to acquire all of the oil and gas properties of Allstar Energy Limited ("Allstar"), which includes certain working interests held directly by the Corporation. The transaction closed on May 26, 2016.

During the year ended December 31, 2016, the Corporation closed a transaction to dispose of its 50% working interest with a private Saskatchewan oil and gas corporation for cash proceeds of \$58, which resulted in the Corporation realizing a loss of \$102.

**49 North Resources Inc.****Notes to the Consolidated Financial Statements**

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For the years ended December 31, 2016 and 2015

**7. Property, plant and equipment - continued**

In conjunction with these two transactions, an impairment charge on the petroleum properties and equipment was recorded at December 31, 2015 to bring the carrying value of the properties to the value received or receivable in these transactions less estimated costs to sell.

**8. Corporation Information and Related party transactions***Information and subsidiaries*

The Corporation has significant equity investments in the following corporations, which were previously consolidated in the comparative year (Note 2):

Name of entity	Principal activities and country of incorporation	% of Equity	
		2016	2015
Allstar Energy Limited	Canadian incorporated oil and gas exploration Corporation	90%	100%
Omineca Mining and Metals Ltd.	Canadian incorporated gold exploration Corporation	59.6%	64.3%
Gespeg Copper Resources Inc.	Canadian incorporated copper exploration Corporation	33.4%	32.2%
Vicarage Capital Limited.	United Kingdom incorporated investment banking and consulting Corporation	50%	50%
North Rim Exploration Ltd.	Canadian incorporated geological consulting Corporation	0%	50%

Compensation of key executive personnel

	December 31, 2016	December 31, 2015
Management fees to officers	\$ 460	\$ 409
Salaries to officers	-	88
Directors' fees	24	-
Share-based compensation to directors and officers	138	52
	\$ 622	\$ 549

## 49 North Resources Inc.

### Notes to the Consolidated Financial Statements

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For the years ended December 31, 2016 and 2015

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## 8. Corporation Information and Related party transactions - continued

### Compensation of key executive personnel - continued

TMM Portfolio Management Inc. ("TMM") is responsible for the management of the Corporation's investment portfolio in accordance with the terms of a portfolio management agreement made January 1, 2008 (the "Management Agreement") and is to be reimbursed by the Corporation for all expenses reasonably and properly incurred in conducting the Corporation's business and in performing its duties and obligations under the Management Agreement. Additionally, pursuant to the Management Agreement, TMM: (a) is entitled to a quarterly management fee equal to 0.5% of the net asset value of the Corporation calculated as of the last business day of the relevant fiscal quarter; and (b) starting with the Corporation's fiscal year ended December 31, 2008, an annual performance bonus, calculated as of the last business day of the applicable fiscal year, in an amount in respect of each common share 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 common share as of that date, plus all dividends per common share during that fiscal year, exceeds the greater of \$16.34 and the net asset value per common share as of the last business day of the preceding fiscal year. Effective April 1, 2013, TMM agreed to temporarily fix the management fee at \$10 per month until February 1, 2014, post February 1, 2014 the management fee was \$17 per month, on November 1, 2014 the fixed fee was increased to \$20 per month plus GST and will remain at this level until such time as management and the board of directors deem it appropriate to return to the original compensation plan as documented in the Management Agreement.

Effective June 1, 2015, the Company and Jaelky Holdings Inc. ("Jaelky") entered into a consulting agreement. Mr. Andrew Davidson, the Chief Financial Officer of the Company, was and continues to be the sole director and sole voting shareholder of Jaelky. Jaelky is entitled to be paid a consulting fee of \$16 plus GST on a monthly basis.

### Related party balances

As at December 31, 2016, \$21 is payable (2015 - \$84 payable) to TMM, which has been included in accounts payable and accrued liabilities.

As of December 31, 2016, \$17 is payable (2015 - \$93) to Jaelky, which has been included in accounts payable and accrued liabilities.

During the year, it was determined that the related party receivable from Allstar was unlikely to be collected in the future as a result of Allstar disposing of all of its assets in the year. As such, the Corporation wrote the related party receivable to \$nil and recorded an impairment of \$2,981 as at December 31, 2016.

During the year, it was determined that the related party loan receivable from CVG Mining Ltd ("CVG"), a wholly owned subsidiary of OMM, was unlikely to be collected in the future. As such the Corporation wrote the related party loan receivable to \$nil and recorded an impairment provision of \$98 as at December 31, 2016.

## 9. Convertible debentures

a) On May 26, 2015 the Corporation received debenture holder approval to restructure the terms of the debentures originally issued on June 29, 2011 and July 11, 2011 and restructured on June 6, 2013 (the "original debentures"). Pursuant to the terms of the restructure, the Corporation extinguished the original debentures and issued 18,622,722 common shares, a new \$3,104 senior secured convertible debenture (the "revised debentures") and 3,103,795 preferred shares (Series I), with a cumulative annual dividend rate of 2.5%. The preferred shares are redeemable by the Corporation after the third anniversary of the issuance date.

The revised debentures have a 5 year term, maturing June 29, 2020, bear interest from the date of issuance at 2.5% per annum (previously 9%) which, unless the debentures are earlier converted or redeemed in accordance with their terms, interest will be paid on June 29 in each of 2016, 2017, 2018, 2019 and on maturity.

## 49 North Resources Inc.

### Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

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#### 9. Convertible debentures - continued

The revised debentures are convertible, at the option of the respective holders, at any time or from time to time prior to 5:00 p.m. (Toronto time) on June 29, 2020, into fully paid, non-assessable common shares of the Corporation at a conversion price of \$0.50 per common share.

Subject to certain conditions precedent, the Corporation may redeem the revised debentures prior to maturity at a redemption price equal to their principal amount plus interest accruing to but otherwise unpaid to the date preceding the redemption date.

The restructuring was accounted for as an extinguishment for accounting purposes, which resulted in a gain on extinguishment of \$9,390. The original debentures were derecognized and the revised debentures, preferred shares and common shares were measured at their fair values on the date of the restructuring with an effective interest rate of 12%. The fair value of the revised debentures of \$2,041 was estimated using discounted future cash flows, and the difference between the fair value and the principal amount was allocated to the conversion feature in the amount of \$1,063. In addition, the \$647 fair value of the preferred share cumulative dividend was estimated using discounted future cash flows and was allocated to the debt component of the preferred shares. The residual value of the revised debentures and preferred shares were allocated to equity, and the common shares were valued using the market price at the date of the restructuring. The carrying value of the liability component of the revised debentures as at December 31, 2016 was \$2,188 (2015 - \$2,126).

b) On December 18, 2015 the Corporation received debenture holder approval to restructure the terms of the debentures originally issued on September 23, 2010 and October 13, 2010 and restructured on June 6, 2013 (the "original debentures"). Pursuant to the terms of the restructure, the Corporation extinguished the original debentures and issued 4,605,979 common shares, a new \$1,896 senior secured convertible debenture (the "revised debentures"), \$880 in subordinated debentures (Note 10) and 767,663 preferred shares (Series II), with a cumulative annual dividend rate of 2.5%. The preferred shares are redeemable by the Corporation after the third anniversary of the issuance date.

The revised debentures have a 5 year term, maturing December 18, 2020, bear interest from the date of issuance at 2.5% per annum (previously 9%) which, unless the debentures are earlier converted or redeemed in accordance with their terms, interest will be paid on December 18 in each of 2016, 2017, 2018, 2019 and on maturity.

The revised debentures are convertible, at the option of the respective holders, at any time or from time to time prior to 5:00 p.m. (Toronto time) on December 18, 2020, into fully paid, non-assessable common shares of the Corporation at a conversion price of \$0.50 per common share.

Subject to certain conditions precedent, the Corporation may redeem the revised debentures prior to maturity at a redemption price equal to their principal amount plus interest accruing to but otherwise unpaid to the date preceding the redemption date.

The restructuring was accounted for as an extinguishment for accounting purposes, which resulted in a gain on extinguishment of \$3,411. The original debentures were derecognized and the revised debentures, subordinate debentures, preferred shares and common shares were measured at their fair value on the date of the restructuring with an effective interest rate of 12%. The fair value of the revised debentures of \$1,248 was estimated using discounted future cash flows, and the difference between the fair value and the principal amount was allocated to the conversion feature in the amount of \$650. In addition, the \$160 fair value of the preferred share cumulative dividend was estimated using discounted future cash flows and was allocated to the debt component of the preferred shares. The residual value of the revised debentures and preferred shares were allocated to equity, and the common shares were valued using the market price at the date of the restructuring. The carrying value of the liability component of the revised debentures as at December 31, 2016 was \$1,310 (2015 - \$1,250).

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(in thousands of Canadian dollars, except securities and per share amounts)

For the years ended December 31, 2016 and 2015

**9. Convertible debentures - continued**

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
<b>Balance, January 1, 2015</b>	\$ 17,495	\$ 15,609	\$ 1,993
Accretion - original debentures	-	426	-
Extinguishment of original debentures	(17,495)	(16,035)	(1,993)
Issuance of revised debentures	5,000	3,289	1,713
Accretion - revised debentures	-	87	-
Balance at December 31, 2015	5,000	3,376	1,713
Conversions	(223)	(158)	(77)
Accretion	-	280	-
<b>Balance, December 31, 2016</b>	<b>\$ 4,777</b>	<b>\$ 3,498</b>	<b>\$ 1,636</b>

**10. Subordinate debentures**

On December 18, 2015 as part of the debenture restructure as described in Note 9(b), \$881 in subordinated debentures were issued.

The subordinated debentures have a 5 year term, maturing December 18, 2020, bear interest from the date of issuance at 2.5% per annum which, unless the debentures are earlier converted or redeemed in accordance with their terms, interest will be paid on December 18 in each of 2016, 2017, 2018, 2019 and on maturity.

The debentures are convertible, at the option of the respective holders, at any time or from time to time prior to 5:00 p.m. (Toronto time) on December 18, 2020, into fully paid, non-assessable common shares of the Corporation at a conversion price of \$0.50 per common share.

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
<b>Balance, January 1, 2015</b>	\$ -	\$ -	\$ -
Issuance of subordinate debenture	880	579	301
Accretion	-	2	-
Balance at December 31, 2015	880	581	301
Accretion	-	47	-
<b>Balance, December 31, 2016</b>	<b>\$ 880</b>	<b>\$ 628</b>	<b>\$ 301</b>

Subject to certain conditions precedent, the Corporation may redeem the revised debentures prior to maturity at a redemption price equal to their principal amount plus interest accruing to but otherwise unpaid to the date preceding the redemption date.

The fair value of the subordinate debentures of \$579 was estimated using discounted future cash flows, and the difference between the fair value and the principal amount was allocated to the conversion feature in the amount of \$301. The carrying value of the liability component of the subordinate debentures as at December 31, 2016 was \$628 (2015 - \$581).

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For the years ended December 31, 2016 and 2015

**11. Drilling advances & loans payable**

a) The Corporation, through its investment in Allstar, previously recognized a loan payable to an arm's length party. The loan payable was secured against the assets of Allstar, bore interest at 7% per annum and was due on demand. As at December 31, 2015, accrued interest on the loan totaled \$35.

b) On February 12, 2014, the Corporation, through its investment in Allstar, announced that it had entered into a binding letter of intent (the "LOI") with Canada Zhong An Energy Investment Ltd. ("Zhong An"). Under the terms of the LOI, Zhong An has made a \$2,000 non-refundable drilling deposit that was to be used in drilling two (2) new wells in the Riverside field. These wells have been drilled and completed.

Upon completion of the two well program, Zhong An had the right to finance an additional \$10,000 (the "Additional Financing") to drill up to an additional 12 wells at Riverside to earn a 60% interest in all of Allstar's oil and gas properties. During the year ended December 31, 2014, Zhong An formally notified the Corporation that they would not be proceeding with the Additional Financing. Pursuant to the LOI, the original \$2,000 drilling deposit is to be converted, at the election of Zhong An, into either a 60% working interest in the two wells drilled or a 10% equity interest in Allstar.

Conversion will be satisfied through completion of a definitive agreement, which will be subject to the negotiation and satisfaction of a number of conditions, including but not limited to, each of the Corporation and Zhong An being satisfied with the results of their respective due diligence investigations and any required regulatory approvals. As at December 31, 2015 and, the Corporation was awaiting Zhong An's decision in regards to the conversion of its deposit.

**12. Decommissioning liabilities**

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Balance, beginning of year</b>	<b>\$ 1,595</b>	<b>\$ 1,000</b>
Deconsolidation adjustments	(1,459)	-
Change in estimate	(136)	533
Accretion expense	-	62
<b>Balance, end of year</b>	<b>\$ -</b>	<b>\$ 1,595</b>

As at December 31, 2016, the total of the decommissioning liabilities are estimated based on the Corporation's net ownership interest in all the wells and facilities, the estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods.

During the year, the Corporation disposed of all of its working interests in oil and gas properties, which resulted in the assumption of the decommissioning liability by the purchasers.

In addition, the Corporation became an investment entity (Note 2), which has resulted in the Corporation no longer consolidating former subsidiaries and their related decommissioning liabilities. This has resulted in a reduction of the decommissioning liabilities to \$nil as at December 31, 2016.

**49 North Resources Inc.****Notes to the Consolidated Financial Statements**

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For the years ended December 31, 2016 and 2015

**13. Deferred income taxes**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred tax assets and liabilities are as follows:

	<b>December 31</b>	<b>December 31</b>
	<b>2016</b>	<b>2015</b>
Non-capital and capital loss carryforwards	\$ 3,633	\$ 6,229
Share issue costs	13	42
Exploration and evaluation assets	482	119
Convertible debentures	57	(544)
Property, plant and equipment	4	907
Equity investments	1,719	3,223
Unrecognized deferred tax assets	(5,908)	(9,976)
<b>Deferred income tax</b>	<b>\$ -</b>	<b>\$ -</b>

The provision for income tax, both current and deferred, differs from the amount calculated by applying the combined expected federal and provincial rate to profit before taxes. The reasons for these differences are as follows:

	<b>December 31</b>	<b>December 31</b>
	<b>2016</b>	<b>2015</b>
Income (loss) for the year before income taxes	\$ 7,418	\$ 7,448
Expected income tax expense (recovery)	2,003	2,023
Non-deductible expenditures	(518)	20
Accreted discount on debt	36	145
Impact of deconsolidation	(997)	-
Non-taxable portion of unrealized losses	(820)	(3,183)
Other	898	(115)
Change in unrecognized deferred income tax	(602)	1,218
	<b>\$ -</b>	<b>\$ 108</b>

**49 North Resources Inc.****Notes to the Consolidated Financial Statements**

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**13. Deferred income taxes - continued**

As of December 31, 2016 the Corporation has approximately the following tax pools available as a deduction from future income at the prescribed tax rates. These tax pools are subject to confirmation by income tax authorities:

	<b>December 31</b>	<b>December 31</b>
	<b>2016</b>	<b>2015</b>
Non-capital losses carried forward	\$ 11,481	\$ 18,851
Capital losses carried forward	1,976	1,459
Property plant and equipment	11	2,867
Convertible debentures and preferred shares	968	(1,212)
Share issue costs	49	151
Investments	12,735	23,751
Cumulative Canadian exploration and development expenses	1,027	3,001
	<b>\$ 28,247</b>	<b>\$ 48,868</b>

As of December 31, 2016 the Corporation has non-capital losses of \$11,481 (2015 - \$18,851) available to carry forward to reduce future years' taxable income with expiration ranging from 2033 to 2036.

Tax attributes are subject to review, and potential adjustment, by tax authorities.

**14. Common shares, preferred shares and contributed surplus**Authorized:

An unlimited number of voting common shares without par value, an unlimited number of non-voting first preferred shares (Series I) with a redemption value of \$1, and an unlimited number of non-voting first preferred shares (Series II) with a redemption value of \$1. All shares are fully paid.

Issued and outstanding

On May 26, 2015 the debenture holders approved a restructure plan whereby the Corporation issued 18,622,772 common shares and 3,103,795 first preferred shares (Series I) (Note 9). The estimated value allocated to the equity component of each was \$2,049 and \$2,457, respectively.

On December 18, 2015 the debenture holders approved a restructure plan whereby the Corporation issued 4,605,979 common shares and 767,663 first preferred shares (Series II) (Note 9). The estimated value allocated to the equity component of each was \$299 and \$607, respectively.

On June 15, 2016, the Corporation completed a non-brokered private placement of 6,000,000 units at a price of \$0.10 per unit, for gross proceeds of \$600,000. Each unit subscription entitled the holder to one common share of the Corporation and one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one additional common share of the Corporation at an exercise price of \$0.15 per warrant share for a period of 24 months.

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For the years ended December 31, 2016 and 2015

**14. Common shares, preferred shares and contributed surplus - continued**

On August 17, 2016, the Corporation completed a non-brokered private placement of 4,000,000 units at a price of \$0.10 per unit, for gross proceeds of \$400,000. Each unit subscription entitles the holder to one common share of the Corporation and one additional common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share of the Corporation at an exercise price of \$0.15 per warrant share for a period of 22 months. In connection with the financing the Corporation incurred share issue costs of \$28.

	Common shares		Preferred shares	
	Quantity	Amount	Quantity	Amount
<b>Balance at January 1, 2015</b>	24,592,062	\$ 66,491	-	\$ -
2011 debenture restructure	18,622,772	2,049	3,103,795	2,457
2010 debenture restructure	4,605,979	299	767,663	607
<b>Balance at December 31, 2015</b>	47,820,813	68,839	3,871,458	3,064
Share issuance	10,000,000	587	-	-
Share issuance costs	-	(28)	-	-
Debenture conversions	446,075	235	-	-
Preferred share conversions	472,738	237	(236,469)	(187)
<b>Balance at December 31, 2016</b>	58,739,626	\$ 69,870	3,634,989	\$ 2,877

The first preferred shares are convertible at the option of the holder into common shares at a conversion price of \$0.50 per common share and were valued at issuance at \$1.00 per preferred share. The preferred shares bear a cash dividend at the rate of 2.5% payable annually in arrears.

**Stock option plan**

The directors of the Corporation have adopted, and the shareholders have approved a stock option plan (the "2008 Option Plan"), pursuant to which the directors may from time to time grant options for up to 10% of its issued and outstanding shares, all options vest immediately upon issuance. The purpose of the 2008 Option Plan is to attract, retain and motivate directors, employees and consultants of the Corporation and its subsidiaries and to advance the interests of the Corporation by providing such persons with the opportunity, through stock options, to acquire an equity interest in the Corporation.

A summary of the status of the 2008 stock option plan and changes to outstanding and exercisable stock options during the year is presented below:

	December 31, 2016		December 31, 2015	
	Options	Price	Options	Price
<b>Beginning of year</b>	3,100,000	\$ 0.24	1,750,000	\$ 0.35
Options forfeited	(150,000)	0.30	-	-
Options forfeited	(110,000)	0.50	-	-
Options granted	2,250,000	0.10	1,350,000	0.07
<b>End of year</b>	<b>5,090,000</b>	<b>\$ 0.17</b>	<b>3,100,000</b>	<b>\$ 0.24</b>

As at December 31, 2016, the weighted average remaining life of stock options is 8.26 years (2015 – 7.97 years).

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**14. Common shares, preferred shares and contributed surplus - continued****Stock option plan** - continued

On December 1, 2015, the board of directors of the Corporation approved the grant of 1,350,000 stock options pursuant to the 2008 Option Plan. 950,000 of the options were granted to directors and executive officers with the balance granted to employees and consultants. The options are exercisable at \$0.07 per share, vest immediately and, if not exercised, expire December 1, 2025, subject to earlier expiration in accordance with the 2008 Option Plan and applicable policies of the TSX-V.

The value of options issued on December 1, 2015, using the Black-Scholes option pricing model, was \$74 (\$0.05 per option) which was allocated to the share-based compensation expense with a corresponding increase in contributed surplus. Assumptions used in the pricing model for the year are as follows: risk-free interest rate of 1.25%, expected life of options 10 years, annualized volatility 107.76% and dividend rate of nil.

On August 26, 2016, the board of directors of the Corporation approved the grant of 2,250,000 stock options pursuant to the 2008 Option Plan. 1,500,000 of the options were granted to directors and executive officers with the balance granted to employees and consultants. The options are exercisable at \$0.10 per share, vest immediately and, if not exercised, expire August 26, 2026, subject to earlier expiration in accordance with the 2008 Option Plan and applicable policies of the TSX-V.

The value of options issued on August 26, 2016, using the Black-Scholes option pricing model, was \$207 (\$0.09 per option) which was allocated to the share-based compensation expense with a corresponding increase in contributed surplus. Assumptions used in the pricing model for the year are as follows: risk-free interest rate of 0.82%, expected life of 10 years, annualized volatility 110.20% and dividend rate of nil.

**Warrants**

A summary of the outstanding and exercisable warrants during the year is presented below:

	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Warrants</b>	<b>Price</b>	<b>Warrants</b>	<b>Price</b>
<b>Beginning of year</b>	3,538,769	\$ 0.30	3,538,769	\$ 0.30
Warrants issued	10,000,000	0.15	-	-
<b>End of year</b>	<b>13,538,769</b>	<b>\$ 0.19</b>	<b>3,538,769</b>	<b>\$ 0.30</b>

As at December 31, 2016, the weighted average remaining life of warrants is 1.29 years (December 31, 2015 – 0.31 years).

On October 29, 2014, the Corporation issued 3,538,769 share purchase warrants as part of a financing completed. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.30 for a period of 24 months and vested immediately. In accordance with the Corporation's accounting policy in regards to unit bifurcation, the Corporation calculated the relative fair value of these warrants at \$373. Assumptions used in the Black-Scholes option pricing model were as follows: dividend yield 0%, expected volatility of 102.35%, and a risk free interest rate of 1.05%. These warrants expire on October 29, 2017.

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**14. Common shares, preferred shares and contributed surplus - continued****Warrants - continued**

On June 15, 2016, the Corporation issued 6,000,000 share purchase warrants as part of a financing completed. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.15 for a period of 24 months and vested immediately. In accordance with the Corporation's accounting policy in regards to unit bifurcation, the Corporation calculated the relative fair value of these warrants at \$269. Assumptions used in the Black-Scholes option pricing model were as follows: dividend yield 0%, expected volatility of 148.67%, and a risk free interest rate of 0.49%. These warrants expire on June 15, 2018.

On August 17, 2016, the Corporation issued 4,000,000 share purchase warrants as part of a financing completed. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.15 for a period of 22 months and vested immediately. In accordance with the Corporation's accounting policy in regards to unit bifurcation, the Corporation calculated the relative fair value of these warrants at \$144. Assumptions used in the Black-Scholes option pricing model were as follows: dividend yield 0%, expected volatility of 154.08%, and a risk free interest rate of 0.56%. These warrants expire on June 15, 2018.

**Contributed surplus**

A summary of the contributed surplus activity is as follows:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Balance, beginning of year</b>	\$ 4,704	\$ 4,117
Fair value of stock options granted	207	74
Warrants issued	413	18
Change in ownership of former subsidiaries	-	495
<b>Balance, end of year</b>	<b>\$ 5,324</b>	<b>\$ 4,704</b>

During 2015, a formerly consolidated subsidiary completed a financing of which the Corporation and its associates did not participate in, effectively reducing the Corporation and its associate's ownership percentage in the former subsidiary. The change in ownership of the former subsidiary adjustment above reflects the net book value of the ownership dilution.

During 2015, a formerly consolidated subsidiary issued shares pursuant to an option agreement, effectively reducing the Corporation and its associate's ownership percentage in the former subsidiary. The change in ownership of the former subsidiary adjustment above reflects the net book value of the ownership dilution.

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**14. Common shares, preferred shares and contributed surplus - continued****EPS and diluted EPS**

Basic EPS is calculated by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year.

Diluted EPS is determined by dividing the profit or loss attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all potential dilutive common shares related to stock options, warrants, convertible and subordinate debentures and convertible preferred shares issued by the Corporation.

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Net income attributable to common shareholders	\$ 7,418	\$ 7,654
Weighted average number of common shares - basic	52,823,827	35,623,647
Weighted average number of common shares - diluted	71,735,647	55,551,029
Basic earnings per common share - basic	\$ 0.14	\$ 0.21
Basic earnings per common share - diluted	\$ 0.11	\$ 0.14

The Corporation's stock options, convertible and subordinate debentures and preferred shares had a dilutive effect during the years ended December 31, 2016 and 2015.

**Shareholder rights plan**

The directors of the Corporation have approved a shareholder rights plan ("Rights Plan"). In the event a bid to acquire control of the Corporation is made, the Rights Plan is designed to give the directors of the Corporation time to consider alternatives to allow shareholders to receive full and fair value for their shares. In the event that a bid, other than a permitted bid, is made, shareholders become entitled to exercise rights to acquire common shares of the Corporation at a significant discount to the market price.

**15. Capital management**

The Corporation's objectives when managing capital are:

- (a) to ensure that the Corporation maintains the level of capital necessary to meet the requirements of its brokers and bank;
- (b) to allow the Corporation to respond to changes in economic and/or marketplace conditions by maintaining the Corporation's ability to purchase new investments;
- (c) to provide sustained growth and value by increasing equity; and,
- (d) to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

## 49 North Resources Inc.

### Notes to the Consolidated Financial Statements

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#### 15. Capital management - continued

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Corporation maintains or adjusts its capital level to enable it to meet its objectives by:

- (a) realizing proceeds from the disposition of its investments;
- (b) utilizing leverage in the form of margin (due from brokers);
- (c) raising capital through equity financings;
- (d) borrowing funds in the form of advances from related parties; and,

The Corporation is not subject to any capital requirements imposed by a regulator. There were no changes in the Corporation's approach to capital management during the year. The Corporation's management is responsible for the management of capital and monitors the Corporation's use of various forms of leverage on a daily basis.

#### 16. Financial instruments and risk management

The investment operations of the Corporation's business involve the purchase and sale of securities and, accordingly, a significant portion of the Corporation's assets are currently comprised of financial instruments. The use of financial instruments can expose the Corporation to several risks, including market, credit, interest rate, commodity price and liquidity risks. A discussion of the Corporation's use of financial instruments and their associated risks is provided below.

##### (a) Liquidity risk:

Liquidity risk is the risk that the Corporation will have insufficient cash resources to meet its financial obligations as they come due. The Corporation's liquidity and operating results may be adversely affected if the Corporation's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions, generally or related to matters specific to the Corporation, or if the value of the Corporation's investments decline, resulting in losses upon disposition.

The Corporation generates cash flow primarily from its financing activities and proceeds from the disposition of its investments, in addition to interest and dividend income earned on its investments.

The Corporation may use financial leverage (or "margin") when purchasing investments. Trading on margin allows the Corporation to borrow part of the purchase price of the investments (using marginable investments as collateral), rather than pay for them in full. Buying on margin allows the Corporation to increase its portfolio size by increasing the number and amount of investments through leverage. However, if the market moves against the Corporation's positions and the Corporation's investments decline in value, the Corporation may be required to provide additional funds to its brokers.

Given the nature of the Corporation's business, the Corporation may not have sufficient cash on hand to meet margin calls and may be required to liquidate investments prematurely and/or at a loss, in order to generate funds needed to satisfy the Corporation's obligations.

The Corporation has at times borrowed funds from other sources to meet its obligations, but there can be no assurances that such funds will be available in the future, or available on reasonable terms, and the absence of available funding and/or the sale of the Corporation's investments in order to meet margin calls could have a materially adverse impact on the Corporation's operating results. The Corporation manages liquidity risk by reviewing the amount of margin available, and managing its cash flow. The Corporation holds investments which can be readily converted into cash when required.

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**16. Financial instruments and risk management - continued**

**(b) Market risk:**

Market risk is the risk that the fair value of, or future cash flows from, the Corporation's financial instruments will significantly fluctuate because of changes in market prices. The value of the financial instruments can be affected by changes in interest rates, equity and commodity prices. The Corporation is exposed to market risk in trading its investments and unfavorable market conditions could result in dispositions of investments at less than favorable prices.

The Corporation manages market risk by having a portfolio which is not singularly exposed to any one issuer or class of issuers. The Corporation's investment activities are currently concentrated primarily across several sectors in the natural resource industry, including potash, oil and gas, coal, precious metals, base metals, uranium, diamonds and other commodities.

**(c) Interest rate risk:**

Interest rate risk is the impact that changes in interest rates could have on the Corporation's earnings and liabilities. As at December 31, 2016 and 2015, the Corporation had no liabilities payable that bear interest at rates fluctuating with the prime rate.

**(d) Credit risk:**

Credit risk is the risk associated with the inability of a third party to fulfill its payment obligations. The Corporation is exposed to the risk that third parties that owe it money or securities (in connection with its loans receivable, for example) will not perform their underlying obligations.

The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Corporation's customer base, including the default risk of the industry in which the customers operate, as these factors may have an influence on credit risk, particularly in the current economic circumstances. Geological and other consulting revenue consists of approximately nil% (2015 – 38%) of revenue attributable to sales transactions with a single customer.

At December 31, 2016 the Corporation had loans and advances receivable and accounts receivable and prepaid expenses from companies, totaling \$1,098 (2015 - \$5,644) which represents approximately 5.6% (2015 – 23.7%) of the Corporation's total assets. As at December 31, 2016 an impairment loss of \$282 (2015 – \$nil) and an allowance for doubtful accounts provision of \$3,283 (2015 – \$nil) was recorded.

**(e) Commodity price risk:**

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian and United States dollar, but also by world economic events that dictate the levels of supply and demand.

In the past, and from time to time, the Corporation has attempted to mitigate a portion of its commodity price risk through the use of the futures contract, as at December 31, 2016 and 2015 – all futures contracts have been disposed.

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**16. Financial instruments and risk management - continued**

**(f) Fair value:**

The fair value of the Corporation's financial assets and liabilities approximate their carrying values unless otherwise disclosed in the accounting policies.

**Fair value hierarchy and determination of fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation and its subsidiaries uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis at fair value, the Corporation determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Corporation assets that are recognized at fair value on a recurring basis are the equity investments.

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**16. Financial instruments and risk management - continued****(f) Fair value: - continued**

The following is a summary of the fair value of investments segregated based on the various levels of inputs, as discussed in Note 2:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity investments, at fair value	\$ 9,005	\$ 165	\$ 2,344	\$ 11,514
Embedded derivative asset	-	-	1,593	1,593
	<u>\$ 9,005</u>	<u>\$ 165</u>	<u>\$ 3,937</u>	<u>\$ 13,107</u>

For the year ended December 31, 2016, a reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

Beginning balance as at December 31, 2015	\$ 697
Deconsolidation adjustments	4,168
Reclassification to level 1	(2,834)
Purchases	12
Disposition	399
Fair value adjustments	<u>1,495</u>
Balance at December 31, 2016	<u>\$ 3,937</u>

Within Level 3, the Corporation includes private company investments. The key assumptions driving the valuation of these instruments include, but are not limited to, the value at which a recent financing was completed by the investee, significant changes in general market conditions and company specific information. For those investments valued based on general market condition and company specific information, these inputs can be highly judgmental. A +/- 25% change in the fair value of these investments will result in a corresponding +/- \$586 (2015 - \$229) change to the total fair value of the investments. While this illustrates the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different circumstances.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of these investments. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Corporation's view of expected future changes in the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

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**17. Supplemental cash flow information**

The following table summarizes the net changes in non-cash working capital items related to operating activities:

	<b>2016</b>	<b>2015</b>
Loans and advances receivable	\$ (4)	\$ 59
Income taxes receivable/ payable	-	(14)
Accounts receivable and prepaid expenses	(38)	(2,096)
Accounts payable and accrued liabilities	(1,448)	2,645
	<b>\$ (1,490)</b>	<b>\$ 594</b>

<b>Non-cash transactions:</b>	<b>2016</b>	<b>2015</b>
Loans and advances receivable settled through receipt of equity investments	\$ 1,049	\$ -
Share proceeds for property, plant and equipment	\$ 75	\$ -
Convertible debentures converted to common shares	\$ 235	\$ -
Preferred shares converted to common shares	\$ 237	\$ -
Common shares issued for convertible debenture	\$ -	\$ 2,348
Preferred shares issued for convertible debenture	\$ -	\$ 3,064
Revaluation of decommissioning liability	\$ -	\$ 533
Exploration and evaluation costs remaining in accounts payable and accrued liabilities	\$ -	\$ 286
Accrued receivable associated with exploration and evaluation costs	\$ -	\$ 40
<b>Interest paid in the year</b>	<b>\$ 102</b>	<b>\$ 148</b>
<b>Income taxes paid in the year</b>	<b>\$ -</b>	<b>\$ 2</b>

**18. Comparatives**

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

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**19. Segmented information**

As of January 1, 2016, management of the Corporation concluded that the Corporation has met the criteria required in order to be classified as an investment entity (Note 2). Accordingly, for the current period, the information provided in these financial statements is that of the Corporation on a standalone basis. Since the comparative period is still presented on a consolidated basis, the business segments are presented below, for which the Corporation was a resource investment, financial, managerial and geological advisory entity which, as its principal business, invests in a diversified portfolio of shares and other securities of resource issuers including, without limitation, resource issuers engaged in mineral or oil and gas exploration and development, with a view to achieving capital appreciation of the portfolio. Previously, the Corporation had four reportable segments: resource investment, extractive and geological advisory in Canada and brokerage services in the United Kingdom (“UK”).

<b>As at and for the year ended December 31, 2015</b>	<b>Resource Investment</b>	<b>Geological Advisory</b>	<b>UK Brokerage</b>	<b>Extractive Industries</b>	<b>Total</b>
<b>Total assets</b>	\$ 4,515	\$ 5,640	\$ 161	\$ 13,498	\$ 23,814
<b>Total liabilities</b>	\$ 5,932	\$ 4,288	\$ 35	\$ 6,289	\$ 16,544
<b>Capital expenditures</b>	\$ -	\$ -	\$ -	\$ 652	\$ 652
<b>Revenues</b>					
Geological and other consulting	\$ 60	\$ 11,206	\$ 237	\$ -	\$ 11,503
Oil and gas sales	-	-	-	529	529
Realized gains (losses) gains on portfolio investments	(1,065)	-	-	4	(1,061)
Unrealized gains (losses) on portfolio investments	423	-	48	(3)	468
Interest and dividend income	94	200	-	4	298
	<b>(488)</b>	<b>11,406</b>	<b>285</b>	<b>534</b>	<b>11,737</b>
<b>Expenses</b>					
Amortization and depletion	25	31	-	25	81
Business and investor relations	182	20	-	198	400
Finance	1,514	3	-	99	1,616
General and administration	263	244	153	505	1,165
Management fees	372	-	-	45	417
Oil and gas operations	-	-	-	801	801
Professional fees	180	339	-	162	681
Project costs on geological and other consulting activities	-	9,302	20	-	9,322
Share-based compensation	74	-	-	-	74
Transaction costs	28	-	-	-	28
Wages and benefits	171	878	-	-	1,049
	<b>2,809</b>	<b>10,817</b>	<b>173</b>	<b>1,835</b>	<b>15,634</b>
Gain on debenture extinguishment	12,801	-	-	-	12,801
Loss on disposal of property, plant and equipment	(7)	-	-	-	(7)
Writedown - exploration and evaluation assets	-	-	-	(29)	(29)
Writedown - property, plant and equipment	-	-	-	(1,420)	(1,420)
<b>Income (loss) before income taxes</b>	<b>9,497</b>	<b>589</b>	<b>112</b>	<b>(2,750)</b>	<b>7,448</b>
Current income tax expense	-	(90)	(18)	-	(108)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 9,497</b>	<b>\$ 499</b>	<b>\$ 94</b>	<b>\$ (2,750)</b>	<b>\$ 7,340</b>