



FINANCIAL STATEMENTS

December 31, 2020 and 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
49 North Resources Inc.

Opinion

We have audited the accompanying financial statements of 49 North Resources Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of income and comprehensive income, changes in equity, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the financial statements, which indicates that to date, the Company has incurred accumulated losses \$57,146,000. As stated in Note 1, this indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Glenn Parchomchuk.

A handwritten signature in black ink that reads "Davidson & Caspary LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 29, 2021

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

	December 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash	\$ 47	\$ 51
Equity investments, at fair value (Note 3)	22,600	6,945
Accounts receivable and prepaid expenses (Note 4)	33	29
Loans and advances receivable (Note 4)	446	644
	23,126	7,669
Non-current assets		
Convertible debenture receivable (Note 5)	8,445	6,884
Property and equipment (Note 6)	28	37
Right of use asset (Note 7)	194	243
Total assets	\$ 31,793	\$ 14,833
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 1,715	\$ 976
Lease liability (Note 7)	72	72
Convertible debentures (Note 9)	4,569	4,422
Subordinate debentures (Note 10)	880	808
	7,236	6,278
Non-current liabilities		
Lease liability (Note 7)	146	182
Debt portion of preferred shares (Note 12)	700	705
Total liabilities	8,082	7,165
EQUITY		
Common shares (Note 12)	70,879	70,844
Preferred shares (Note 12)	2,656	2,678
Contributed surplus (Note 12)	7,322	5,456
Equity portion of convertible debentures (Note 9)	-	1,567
Equity portion of subordinate debentures (Note 10)	-	301
Deficit	(57,146)	(73,178)
Total equity	23,711	7,668
Total liabilities and equity	\$ 31,793	\$ 14,833

Nature of business and going concern (Note 1)

Approved on behalf of the Board

“Tom MacNeill”
Director

“Andrew Cook”
Director

The accompanying notes are an integral part of these financial statements

49 North Resources Inc.**Statements of Income and Comprehensive Income**

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

For the years ended December 31,	2020	2019
Revenues		
Interest and dividend income	\$ 755	\$ 26
Realized losses on equity investments	(5,216)	(482)
Unrealized gains on equity investments	21,330	2,180
Unrealized gain on convertible debenture receivable (Note 5)	990	1,467
	17,859	3,191
Expenses		
Accretion (Note 7)	36	41
Amortization (Note 7)	58	60
Business and investor relations	78	105
Finance (Note 9)	456	695
General and administration	214	227
Management fees (Note 8)	727	426
Professional fees	75	89
Share-based compensation (Note 12)	-	119
Transaction costs	6	13
Wages and benefits	15	23
	1,665	1,798
Writedown - advances owing from related parties (Note 8)	(162)	(1,202)
Income and comprehensive income for the year	\$ 16,032	\$ 191
Basic income per share (Note 12)	\$ 0.19	\$ -
Diluted income per share (Note 12)	\$ 0.18	\$ -
Weighted average number of common shares outstanding - basic	83,071,207	83,017,102
Weighted average number of common shares outstanding - diluted	89,671,207	83,017,102

The accompanying notes are an integral part of these financial statements

49 North Resources Inc.
Statements of Changes in Equity
(in thousands of Canadian dollars)

	Common Share Capital	Preferred Share Capital	Contributed Surplus	Equity portion of debentures	Deficit	Total Equity
Balance, January 1, 2019	\$ 70,833	\$ 2,682	\$ 5,337	\$ 1,869	\$ (73,369)	\$ 7,352
Convertible debenture conversions (Note 9)	5	-	-	(1)	-	4
Preferred share conversions (Note 12)	6	(4)	-	-	-	2
Share-based compensation (Note 12)	-	-	119	-	-	119
Net income	-	-	-	-	191	191
Balance, December 31, 2019	\$ 70,844	\$ 2,678	\$ 5,456	\$ 1,868	\$ (73,178)	\$ 7,668

	Common Share Capital	Preferred Share Capital	Contributed Surplus	Equity portion of debentures	Deficit	Total Equity
Balance, January 1, 2020	\$ 70,844	\$ 2,678	\$ 5,456	\$ 1,868	\$ (73,178)	\$ 7,668
Convertible debenture conversions (Note 9)	5	-	-	(2)	-	3
Preferred share conversions (Note 12)	30	(22)	-	-	-	8
Reclassification - convertible debentures matured	-	-	1,866	(1,866)	-	-
Net income	-	-	-	-	16,032	16,032
Balance, December 31, 2020	\$ 70,879	\$ 2,656	\$ 7,322	\$ -	\$ (57,146)	\$ 23,711

The accompanying notes are an integral part of these financial statements

49 North Resources Inc.
Statements of Cash Flows
(in thousands of Canadian dollars)

For the years ended December 31,	2020	2019
Cash flows from Operating Activities		
Net income	\$ 16,032	\$ 191
Items not affecting cash		
Realized losses on equity investments	5,216	482
Amortization	58	60
Accretion of lease liability	36	41
Accretion of debentures payable	225	461
Accrued dividends	84	85
Accrued interest income	(754)	(25)
Share-based compensation	-	119
Writedown - loans and advances receivable	162	1,202
Unrealized gain on equity investments	(21,330)	(2,180)
Unrealized gain on convertible debenture receivable	(1,152)	(1,467)
Purchase of equity investments	(373)	(264)
Proceeds from disposal of equity investments	820	1,652
Net changes in non-cash working capital items related to operations (Note 15)	651	210
	(325)	567
Cash flows from Investing Activities		
Purchase of property and equipment	-	(3)
Lease payments	(72)	(79)
Loans and advances receivable, net	393	(497)
	321	(579)
Net change in cash during the year	(4)	(12)
Cash, beginning of year	51	63
Cash, end of year	\$ 47	\$ 51

Supplemental cash flow information (Note 15)

The accompanying notes are an integral part of these financial statements

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

1. Nature of business and Going Concern

Nature 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. On January 1, 2016 the Company completed a change of business to an “investment issuer”.

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

Going concern

These financial statements have been prepared on a going concern basis, which assumes the Corporation will be able to realize its assets and discharge its liabilities in the ordinary course of business. To date, the Corporation has incurred accumulated losses totaling \$57,146 (December 31, 2019 - \$73,178). The Corporation recognized net income of \$16,032 in the current year (2019 – \$191). The Corporation relies on cash flow from actively trading in its investment portfolio to fund corporate operations. The Corporation's continuance as a going concern is dependent upon its ability to generate cash flow from its portfolio of investments. During the year ended December 31, 2020, there was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and, specifically, the regional economies in which the Corporation operates. The pandemic could continue to have a negative impact on the stock market, including trading prices of the Corporation's shares, the value of its portfolio and its ability to raise new capital. These factors, amongst others, could have a significant impact on the Corporation's operations. These material uncertainties cast a substantial doubt regarding the Corporation's ability to continue as a going concern. These financial statements do not reflect any adjustments or other changes that may be required should the Corporation be unable to continue as a going concern.

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 financial statements have been prepared on a going concern basis and 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, 2020 were authorized for issuance by the Corporation's board of directors on April 29, 2021.

Foreign currency translation

Foreign currency transactions are translated into the Corporation's functional currency (the Canadian dollar) 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 statements of loss and comprehensive loss.

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

2. Significant accounting policies - continued

Financial instruments

Under IFRS 9, on initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at amortized cost, fair value through other comprehensive income (“FVOCI”), or fair value through profit or loss (“FVTPL”). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to initial recognition and how changes in value are recorded. The following accounting policies apply to the subsequent measurement of financial assets.

- a) Financial assets at FVTPL - These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
- b) Financial assets at amortized cost - These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
- c) Financial assets at FVOCI - These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Gains or losses recognized on the sale of the equity investment are recognized in other comprehensive income and are never reclassified to profit or loss.

Financial liabilities are designated as either fair value through profit or loss, or at amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Other financial liabilities are carried on the statement of financial position at amortized cost.

Impairment of financial assets

Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables, loans and advances receivable the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

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.

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

2. Significant accounting policies - continued

Convertible debentures receivable

Convertible debentures receivable are hybrid financial assets that consist of a note receivable component and a separate equity conversion component. Derivatives embedded in contracts are never separated, and instead the note receivable is disclosed as single financial instrument.

Interest income on the notes receivable is based on the annualized effective rate of interest taking into account all income expected to be earned on maturity and is recognized through profit and loss as interest income.

Property and equipment ("P&E")

Property and equipment include the costs for corporate (office) assets. P&E is recorded at cost less accumulated depletion and amortization and accumulated impairment losses, net of recovered impairment losses.

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:

Computers	30% and 35%
Computer software	100%
Furniture and equipment	30%
Leasehold improvements	20%

Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial 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.

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

2. Significant accounting policies - continued

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.

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%.

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

2. Significant accounting policies - continued

Share capital - continued

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 fair 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.

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.

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

2. Significant accounting policies - continued

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 loss and comprehensive 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.

- Other consulting revenue is recognized as the services are provided to the client.
- 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.

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

- fair value of investments in securities not quoted in an active market or private Corporation investments;
- the determination of useful lives and residual values of property 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;
- the fair value of the convertible debenture receivable is determined using 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. Where available, the Corporation seeks comparable interest rates and if unavailable, it uses those considered appropriate for the risk profile of a corporation in the industry; and

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:

- 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; and
- valuation techniques for fair value determination of the convertible debenture receivable and investments in private entities.

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

2. Significant accounting policies - continued

Leases

Under IFRS 16, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly, and the liability accrues interest.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease or an entity's incremental borrowing rate if the implicit rate cannot be readily determined. Lessees are permitted to make an election for leases with a term of 12 months or less, or where the underlying asset is of low value and not recognize lease assets and lease liabilities.

The expense associated with these leases can be recognized on a straight-line basis over the lease term or on another systematic basis. A lessee will apply IFRS 16 to its leases either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying IFRS 16 being recognized at the date of initial application.

The Company has adopted IFRS 16 recognizing the cumulative effect on net assets of \$nil on adoption within opening equity as at January 1, 2019. As at January 1, 2019, the Company recognized a right of use asset and a lease liability of \$292 related to its outstanding lease agreements. The Company's lease liabilities were calculated using a discount rate of 15%, which represents the Company's assessed incremental borrowing rate. See Note 7 for disclosure of the Company's lease liabilities and right of use assets at December 31, 2019.

The Company's right of use assets are amortized over the term of the lease.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that are expected to have a material impact on the Corporation.

3. Equity investments

As at December 31, 2020 and 2019, the Corporation's investments consist of equity interests in companies in the following segments:

	December 31, 2020		December 31, 2019	
	Cost	FMV	Cost	FMV
Publicly listed companies	\$ 16,106	\$ 20,782	\$ 19,004	\$ 5,641
Private companies	8,173	1,818	10,951	1,304
	\$ 24,279	\$ 22,600	\$ 29,955	\$ 6,945

As at December 31, 2020 and 2019, the Corporation's investments consist of equity interests in companies in the following industries:

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

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

For the years ended December 31, 2020 and 2019

3. Equity investments - continued

	December 31, 2020		December 31, 2019	
	Cost	FMV	Cost	FMV
Base and Precious Metals	\$ 10,681	\$ 18,455	\$ 13,053	\$ 4,131
Coal	281	-	1,981	-
Diamonds	672	634	703	1,226
Oil & Gas	10,514	1,257	11,036	138
Other	2,126	2,239	3,034	1,445
Uranium	5	15	148	5
	\$ 24,279	\$ 22,600	\$ 29,955	\$ 6,945

The equity investments consist of investments in common shares of corporations of which 88.34% (December 31, 2019 – 59.26%) are listed on the TSX-V, 8.04% (December 31, 2019 – 18.78%) are private, 2.81% (December 31, 2019 – 17.66%) are listed on the TSX and 0.81% (December 31, 2019 – 4.30%) are listed on the Canadian Securities Exchange (“CSE”) as of December 31, 2020.

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.

4. Loans, advances, accounts receivable and prepaid expensesAccounts receivable and prepaid expenses

	December 31, 2020	December 31, 2019
Trade accounts receivable	\$ 30	\$ 26
Prepaid expenses	3	3
	\$ 33	\$ 29

The aging of accounts receivables at the reporting date was:

	December 31, 2020	December 31, 2019
Not past due	\$ 4	\$ 5
Past due 0 - 30 days	-	-
Past due 31+ days	26	21
	\$ 30	\$ 26

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

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

For the years ended December 31, 2020 and 2019

4. Loans, advances, accounts receivable and prepaid expenses - continuedLoans and advances receivable

	December 31, 2020	December 31, 2019
Current		
Unrelated corporations	\$ 444	\$ 388
Related corporation (Note 8)	2	256
	\$ 446	\$ 644

Certain of the loans to unrelated corporations bear interest at 10% and are due on demand. The loans to related corporations are non-interest bearing, and are due on demand.

5. Convertible debentures receivable

The Corporation has a convertible debenture recoverable from Omineca Mining and Metals Ltd. ("OMM"). The face value of the debenture is \$5,400 and the debenture bears interest at 8% per annum, 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

	<u>Convertible Debenture Receivable</u>	
	Face Value	Carrying Value
Balance, January 1, 2019	\$ 8,207	\$ 5,417
Interest income accrued	681	681
Fair value adjustments	-	786
Balance, December 31, 2019	\$ 8,888	\$ 6,884
Interest income accrued	737	737
Payments received	(166)	(166)
Fair value adjustments	-	990
Balance, December 31, 2020	\$ 9,459	\$ 8,445

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

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

For the years ended December 31, 2020 and 2019

6. Property and equipment

	Computers, Furniture and leasehold improvements	
Cost:		
Balance at January 1, 2019	\$	414
Additions		3
Balance at December 31, 2019		417
Additions		-
Balance at December 31, 2020	\$	417
Accumulated amortization:		
Balance at January 1, 2019	\$	369
Amortization expense		11
Balance at December 31, 2019		380
Amortization expense		9
Balance at December 31, 2020	\$	389
Total balance at December 31, 2019	\$	37
Total balance at December 31, 2020	\$	28

7. Right of use asset

The Corporation has a lease agreement for the headquarter office space in Saskatoon, Saskatchewan. Upon transition to IFRS 16, the Corporation recognized \$292 as a right of use asset "ROU" and \$292 as a lease liability as at January 1, 2019.

The continuity of the of the ROU asset and lease liability for the year ended December 31, 2019 is as follows:

Right of use asset		
Value of ROU as at January 1, 2019	\$	292
Amortization		(49)
Value of ROU as at December 31, 2019		243
Amortization		(49)
Value of ROU as at December 31, 2020	\$	194
Lease liability		
Lease liability as at January 1, 2019	\$	292
Lease payments		(79)
Lease accretion		41
Lease liability as at December 31, 2019		254
Lease payments		(72)
Lease accretion		36
Lease liability as of December 31, 2020	\$	218
Current portion	\$	72
Long-term portion		146
	\$	218

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

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

For the years ended December 31, 2020 and 2019

8. Related party transactionsCompensation of key executive personnel

	December 31, 2020	December 31, 2019
Management fees to officers	\$ 727	\$ 426
Directors' fees	-	6
Share-based compensation to directors and officers	-	108
	\$ 727	\$ 540

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) 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 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 \$20 (2019 - \$20) plus GST on a monthly basis.

Related party balances

As at December 31, 2020, \$nil is receivable (December 31, 2019 – \$nil receivable) from Westcore Energy Ltd., which has been included in loans and advances receivable. The balance is non interest bearing and due on demand. During the year ended December 31, 2020 the Company wrote off the \$132 loan receivable (December 31, 2019 - \$1,200).

As at December 31, 2020, \$nil is receivable (December 31, 2019 – \$247 receivable) from OMM, which has been included in loans and advances receivable. The balance is non interest bearing and due on demand.

As at December 31, 2020, \$422 is payable (December 31, 2019 – \$24 payable) to TMM, which has been included in accounts payable and accrued liabilities.

As of December 31, 2020, \$352 is payable (December 31, 2019 - \$178) to Jaelky, which has been included in accounts payable and accrued liabilities.

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

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.

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, 2020 was \$2,866 (December 31, 2019 - \$2,743).

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.

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

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

For the years ended December 31, 2020 and 2019

9. Convertible debentures - continued

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, 2020 was \$1,834 (December 31, 2019 - \$1,679).

	Face Value	Carrying Value	Carrying Value
Balance, January 1, 2019	\$ 4,579	\$ 4,032	\$ 1,568
Conversions	(5)	(4)	(1)
Accretion	-	394	-
Balance at December 31, 2019	4,574	4,422	1,567
Conversions	(5)	(5)	(2)
Accretion	-	152	-
Re-allocation to contributed surplus upon maturity	-	-	(1,565)
Balance, December 31, 2020	\$ 4,569	\$ 4,569	\$ -

10. Subordinate debentures

On December 18, 2015 as part of the debenture restructure as described in Note 8(b), \$880 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
Balance, January 1, 2019	\$ 880	\$ 741	\$ 301
Accretion	-	67	-
Balance at December 31, 2019	880	808	301
Accretion	-	72	-
Balance, December 31, 2020	\$ 880	\$ 880	\$ 301

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.

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

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

For the years ended December 31, 2020 and 2019

10. Subordinate debentures - continued

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, 2020 was \$880 (December 31, 2019 - \$808).

11. 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:

	December 31, 2020	December 31, 2019
Non-capital and capital loss carryforwards	\$ 4,006	\$ 2,897
Share issue costs	3	6
Exploration and evaluation assets	233	233
Convertible and subordinate debentures	346	(167)
Property, plant and equipment	4	(2)
Equity investments	(863)	1,414
Unrecognized deferred tax assets	(3,729)	(5,381)
Deferred income tax assets	\$ -	\$ -

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:

	December 31, 2020	December 31, 2019
Income (loss) for the year before income taxes	\$ 16,032	\$ 191
Expected income tax expense (recovery)	4,329	52
Non-deductible expenditures	706	208
Non-taxable portion of unrealized losses	(2,880)	(294)
Other	(503)	(180)
Change in unrecognized deferred income tax	(1,652)	214
	\$ -	\$ -

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

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

For the years ended December 31, 2020 and 2019

11. Deferred income taxes - continued

As of December 31, 2020, 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:

As of December 31, 2020, the Corporation has non-capital losses of \$9,744 (December 31, 2019 - \$11,426) available to carry forward to reduce future years' taxable income with expiration ranging from 2033 to 2040.

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

	December 31, 2020	December 31, 2019
Non-capital losses carried forward	\$ 9,744	\$ 11,426
Capital losses carried forward	-	2,381
Share issue costs	11	22
Investments	-	10,471
Cumulative Canadian exploration and development expenses	861	861
	\$ 10,616	\$ 25,161

12. Common shares, preferred shares and contributed surplusAuthorized:

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

	Common shares	
	Quantity	Amount
Balance at January 1, 2019	83,006,633	\$ 70,833
Debenture conversions	9,318	5
Preferred share conversions	10,608	6
Balance at December 31, 2019	83,026,559	\$ 70,844
Debenture conversions	10,804	5
Preferred share conversions	55,268	30
Balance at December 31, 2020	83,092,631	\$ 70,879

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

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

For the years ended December 31, 2020 and 2019

12. Common shares, preferred shares and contributed surplus – continued

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. The following table summarizes the components.

	Preferred shares			
	Liability Component		Equity Component Quantity	Amount
Balance at January 1, 2019	\$	706	3,388,946	\$ 2,682
Preferred share conversions		(1)	(5,304)	(4)
Balance at December 31, 2019		705	3,383,642	2,678
Preferred share conversions		(5)	(27,634)	(22)
Balance at December 31, 2020	\$	700	3,356,008	\$ 2,656

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 outstanding and exercisable stock options during the year is presented below:

	December 31, 2020		December 31, 2019	
	Options	Price	Options	Price
Beginning of year	7,755,000	\$ 0.11	5,240,000	\$ 0.16
Options cancelled			(535,000)	0.29
Options granted			3,050,000	0.05
Options expired	(150,000)	0.36	-	-
End of year	7,605,000	\$ 0.10	7,755,000	\$ 0.11

As at December 31, 2020, the weighted average remaining life of stock options is 6.39 years (December 31, 2019 – 7.26 years).

On May 2, 2019, the board of directors of the Corporation approved the grant of 3,050,000 stock options pursuant to the 2008 Option Plan. 2,000,000 of the options were granted to directors and executive officers with the balance granted to employees and consultants. The options are exercisable at \$0.05 per share, vest immediately and, if not exercised, expire May 2, 2029, subject to earlier expiration in accordance with the 2008 Option Plan and applicable policies of the TSX-V.

The value of options issued on May 2, 2019, using the Black-Scholes option pricing model, was \$119 (\$0.04 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 1.69%, expected life of 10 years, annualized volatility 153.34% and dividend rate of nil.

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

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

For the years ended December 31, 2020 and 2019

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

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

	December 31, 2020		December 31, 2019	
	Warrants	Price	Warrants	Price
Beginning of year	-	\$ -	10,000,000	\$ 0.15
Warrants expired			(10,000,000)	0.11
End of year	-	\$ -	-	\$ -

As at December 31, 2019 and 2020, the weighted average remaining life of warrants is nil years.

On June 11, 2018, the expiry of 10,000,000 warrants, originally expiring on June 15, 2018, were extended to June 15, 2019. In addition, 8,260,000 warrants were repriced from \$0.15 to \$0.11. The warrants expired unexercised.

Contributed surplus

A summary of the contributed surplus activity is as follows:

	December 31,		December 31,	
	2020		2019	
Balance, beginning of year	\$	5,456	\$	5,337
Fair value of stock options granted		-		119
Balance, end of year	\$	5,456	\$	5,456

EPS and diluted EPS

Net income attributable to common shareholders	\$	16,032	\$	191
Weighted average number of common shares - basic		83,071,207		83,017,102
Weighted average number of common shares - diluted		89,671,207		83,017,102
Basic income (loss) per common share - basic	\$	0.19	\$	-
Basic income (loss) per common share - diluted	\$	0.18	\$	-

All out-of-the-money stock options and preferred shares were excluded from the diluted weighted average number of shares calculation for the year ended December 31, 2020 as their effect would have been anti-dilutive. As at December 31, 2020, 6,600,000 stock options are in-the-money and have had a dilutive affect on the weighted average number of common shares outstanding, resulting in a diluted weighted average number of common shares outstanding of 89,671,207.

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

12. Common shares, preferred shares and contributed surplus - continued

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.

13. Capital management

The Corporation defines capital as shareholders’ equity.

The Corporation’s objectives when managing capital are:

- (a) to allow the Corporation to respond to changes in economic and/or marketplace conditions by maintaining the Corporation’s ability to purchase new investments;
- (b) to provide sustained growth and value by increasing equity; and,
- (c) to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

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.

14. 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.

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

14. Financial instruments and risk management - continued

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.

(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, 2020 and 2019, 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.

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

14. Financial instruments and risk management - continued

At December 31, 2020 the Corporation had loans and advances receivable and accounts receivable and prepaid expenses from companies, totaling \$479 (December 31, 2019 - \$673) which represents approximately 1.5% (December 31, 2019 – 4.8%) of the Corporation's total assets. The Corporation's credit provisions are represented by its loss allowance based on lifetime expected credit losses as at December 31, 2020 of \$162 (December 31, 2019 - \$1,202). The amount of the loss allowance was calculated based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(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.

(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 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.

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

14. Financial instruments and risk management - continued

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 and investment in convertible debentures.

The following is a summary of the fair value of financial assets 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	\$ 20,782	\$ -	\$ 1,818	\$ 22,600
Convertible debenture receivable	-	-	8,445	8,445
	<u>\$ 20,782</u>	<u>\$ -</u>	<u>\$ 10,263</u>	<u>\$ 31,045</u>

For the year ended December 31, 2020, a reconciliation of financial assets measured at fair value using unobservable inputs (Level 3) is presented as follows:

Beginning balance as at December 31, 2019	\$ 1,304
Purchases	14
Fair value adjustments	500
Balance at December 31, 2020	<u>\$ 1,818</u>

Within Level 3, the Corporation includes the convertible debenture receivable and private company investments. The key assumptions driving the valuation of the private company investments 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 +/- \$454 (2019 - \$326) 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 fair value of the convertible note receivable, which is not traded in an active market, is determined by discounting the stream of future interest and principal repayments at the rate of interest prevailing at the statement of financial position date for instruments of similar term and risk, and adding this value to the value of the convertibility feature which is estimated using a Black-Scholes model based on assumptions including risk free interest rate, expected dividend yield, expected volatility and expected remaining life of the convertible note receivable.

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

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

For the years ended December 31, 2020 and 2019

14. Financial instruments and risk management - continued

Management estimates that the market interest rate on similar borrowing without the conversion feature was approximately 22% and has used an implied volatility of 150% in valuing the convertibility feature. Holding all other variables constant, a fluctuation in interest rates of 1% would have impacted the valuation by approximately \$155 while a fluctuation in the implied volatility use of 25% would have impacted the valuation by approximately \$22.

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.

15. Supplemental cash flow information

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

Non-cash transactions:	2020	2019
Convertible debentures converted to common shares	\$ 5	\$ 5
Preferred shares converted to common shares	\$ 30	\$ 6
Loan receivable settled with shares	\$ -	\$ 100
Recognition of IFRS 16 (Note 2)	\$ -	\$ 292
Reclassification - convertible debentures matured	\$ 1,866	\$ -
Equity investments received on transfer of loans	\$ 12	\$ -

49 North Resources Inc.

Notes to the Financial Statements

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

For the years ended December 31, 2020 and 2019

16. Events after the reporting period

The Company received notification that it was in default of the Trust indenture dated May 27, 2015 as it had not repaid the principal portion of the convertible senior secured debentures that matured on June 1, 2020.

As outlined in the June 1, 2020 press release, the Company announced its intention to amend seek approval from the debenture holders to extend the maturity date three (3) years and to amend the conversion price from \$0.50 to \$0.20. At the meeting held on September 28, 2020, the minimum requisite quorum was not met and the meeting was adjourned to November 27, 2020. At the meeting held on November 27, 2020, the minimum requisite quorum was not met and the Company announced that it would revise the proposal.

On February 3, 2021, the Company announced its amended proposal and new meeting date set for March 22, 2021. The revised proposal seeks approval from the debenture holders to extend the maturity date three (3) years, to amend the conversion price from \$0.50 to \$0.15, and to include a new covenant whereby 50 per cent of the net proceeds from any financing it closes during the term will be used to redeem the principal of and interest on the debentures, on a pro rata basis.