



CONDENSED INTERIM FINANCIAL STATEMENTS

March 31, 2021

(Unaudited - Prepared by Management)

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed interim financial statements have been prepared by management.

The company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

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

	March 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash	\$ 48	\$ 47
Equity investments, at fair value (Note 3)	16,002	22,600
Accounts receivable and prepaid expenses (Note 4)	38	33
Loans and advances receivable (Note 4)	461	446
	16,549	23,126
Non-current assets		
Convertible debenture receivable (Note 5)	8,576	8,445
Property and equipment (Note 6)	26	28
Right of use asset (Note 7)	182	194
Total assets	\$ 25,333	\$ 31,793
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 1,920	\$ 1,715
Lease liability (Note 7)	72	72
Convertible debentures (Note 9)	4,561	4,569
Subordinate debentures (Note 10)	880	880
	7,433	7,236
Non-current liabilities		
Lease liability (Note 7)	136	146
Debt portion of preferred shares (Note 12)	699	700
Total liabilities	8,268	8,082
EQUITY		
Common shares (Note 12)	70,889	70,879
Preferred shares (Note 12)	2,654	2,656
Contributed surplus (Note 12)	7,322	7,322
Deficit	(63,800)	(57,146)
Total equity	17,065	23,711
Total liabilities and equity	\$ 25,333	\$ 31,793
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 (loss) Income and Comprehensive (loss) Income**

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

For the three months ended March 31,	2021	2020
Revenues		
Interest and dividend income	\$ 195	\$ 182
Realized gains (losses) on equity investments	132	(63)
Unrealized (losses) gains on equity investments	(6,630)	2,801
Unrealized (loss) gain on convertible debenture receivable (Note 5)	(59)	192
	(6,362)	3,112
Expenses		
Accretion (Note 7)	8	9
Amortization (Note 7)	14	15
Business and investor relations	23	30
Finance (Note 9)	56	181
General and administration	22	64
Management fees (Note 8)	155	118
Professional fees	7	7
Transaction costs	2	2
Wages and benefits	5	5
	292	431
(Loss) income and comprehensive (loss) income for the period	\$ (6,654)	\$ 2,681
Basic (loss) income per share (Note 12)	\$ (0.08)	\$ 0.03
Diluted (loss) income per share (Note 12)	\$ (0.08)	\$ 0.03
Weighted average number of common shares outstanding - basic	83,102,467	83,039,992
Weighted average number of common shares outstanding - diluted	83,102,467	83,039,992

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, 2020	\$ 70,844	\$ 2,678	\$ 5,456	\$ 1,868	\$ (73,178)	\$ 7,668
Preferred share conversions (Note 12)	15	(12)	-	-	-	3
Net income	-	-	-	-	2,681	2,681
Balance, March 31, 2020	\$ 70,859	\$ 2,666	\$ 5,456	\$ 1,868	\$ (70,497)	\$ 10,352

	Common Share Capital	Preferred Share Capital	Contributed Surplus	Equity portion of debentures	Deficit	Total Equity
Balance, January 1, 2021	\$ 70,879	\$ 2,656	\$ 7,322	\$ -	\$ (57,146)	\$ 23,711
Convertible debenture conversions (Note 9)	8	-	-	-	-	8
Preferred share conversions (Note 12)	2	(2)	-	-	-	-
Reclassification - convertible debentures matured	-	-	-	-	-	-
Net loss	-	-	-	-	(6,654)	(6,654)
Balance, March 31, 2021	\$ 70,889	\$ 2,654	\$ 7,322	\$ -	\$ (63,800)	\$ 17,065

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 three months ended March 31,	2021	2020
Cash flows from Operating Activities		
Net (loss) income	\$ (6,654)	\$ 2,681
Items not affecting cash		
Realized (gain) losses on equity investments	(132)	63
Amortization	14	15
Accretion of lease liability	8	9
Accretion of debentures payable	-	123
Accrued dividends	21	21
Accrued interest income	(195)	(182)
Unrealized losses (gain) on equity investments	6,630	(2,801)
Unrealized loss (gain) on convertible debenture receivable	59	(192)
Purchase of equity investments	(100)	(33)
Proceeds from disposal of equity investments	200	268
Net changes in non-cash working capital items related to operations (Note 15)	178	139
	29	111
Cash flows from Investing Activities		
Lease payments	(18)	(18)
Loans and advances receivable, net	(10)	(98)
	(28)	(116)
Net change in cash during the period	1	(5)
Cash, beginning of period	47	51
Cash, end of period	\$ 48	\$ 46

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 three months ended March 31, 2021 and 2020

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 \$63,800 (December 31, 2020 - \$57,146). The Corporation recognized net loss of \$6,654 in the three months ended March 31, 2021 (Fiscal 2020 – \$16,032). 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. In 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 in conformity with International Accounting Standard ("IAS") 34, Interim Financial Reporting, and do not include all the information required for full annual financial statements 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"). It is suggested that these financial statements be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2020.

The financial statements of the Corporation for the three month periods ended March 31, 2021 were authorized for issuance by the Corporation's board of directors on May 7, 2021.

Basis of preparation

These condensed interim 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 prepared in Canadian dollars, which is the Corporation's functional currency.

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

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

For the three months ended March 31, 2021 and 2020

3. Equity investments

As at March 31, 2021 and December 31, 2020, the Corporation's investments consist of equity interests in companies in the following segments:

	March 31, 2021		December 31, 2020	
	Cost	FMV	Cost	FMV
Publicly listed companies	\$ 16,152	\$ 14,198	\$ 16,106	\$ 20,782
Private companies	8,159	1,804	8,173	1,818
	\$ 24,311	\$ 16,002	\$ 24,279	\$ 22,600

As at March 31, 2021 and December 31, 2020, the Corporation's investments consist of equity interests in companies in the following industries:

	March 31, 2021		December 31, 2020	
	Cost	FMV	Cost	FMV
Base and Precious Metals	\$ 11,193	\$ 11,309	\$ 10,681	\$ 18,455
Coal	281	-	281	-
Diamonds	666	569	672	634
Oil & Gas	10,514	2,209	10,514	1,257
Other	1,657	1,915	2,126	2,239
Uranium	-	-	5	15
	\$ 24,311	\$ 16,002	\$ 24,279	\$ 22,600

The equity investments consist of investments in common shares of corporations of which 83.78% (December 31, 2020 – 88.34%) are listed on the TSX-V, 11.27% (December 31, 2020 – 8.04%) are private, 3.55% (December 31, 2020 – 2.81%) are listed on the TSX and 1.40% (December 31, 2020 – 0.81%) are listed on the Canadian Securities Exchange (“CSE”) as of March 31, 2021.

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.

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

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

For the three months ended March 31, 2021 and 2020

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

	March 31, 2021	December 31, 2020
Trade accounts receivable	\$ 37	\$ 30
Prepaid expenses	1	3
	\$ 38	\$ 33

The aging of accounts receivables at the reporting date was:

	March 31, 2021	December 31, 2020
Not past due	\$ -	\$ 4
Past due 0 - 30 days	-	-
Past due 31+ days	37	26
	\$ 37	\$ 30

Loans and advances receivable

	March 31, 2021	December 31, 2020
<u>Current</u>		
Unrelated corporations	\$ 447	\$ 444
Related corporation (Note 8)	14	2
	\$ 461	\$ 446

Certain of the loans to unrelated corporations bear interest at 5% and are due on demand. The loans to related corporations are non-interest bearing, and are due on demand.

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

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

For the three months ended March 31, 2021 and 2020

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, 2020	\$ 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
Interest income accrued	190	190
Fair value adjustments	-	(59)
Balance, March 31, 2021	\$ 9,649	\$ 8,576

6. Property and equipment

	Computers, Furniture and leasehold improvements	
Cost:		
Balance at January 1, 2020	\$	417
Additions		-
Balance at December 31, 2020		417
Additions		-
Balance at March 31, 2021	\$	417
Accumulated amortization:		
Balance at January 1, 2020	\$	380
Amortization expense		9
Balance at December 31, 2020		389
Amortization expense		2
Balance at March 31, 2021	\$	391
Total balance at December 31, 2020	\$	28
Total balance at March 31, 2021	\$	26

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

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

For the three months ended March 31, 2021 and 2020

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 period ended March 31, 2021 is as follows:

Right of use asset	
Value of ROU as at January 1, 2020	\$ 243
Amortization	(49)
Value of ROU as at December 31, 2020	194
Amortization	(12)
Value of ROU as at March 31, 2021	\$ 182
Lease liability	
Lease liability as at January 1, 2020	\$ 254
Lease payments	(72)
Lease accretion	36
Lease liability as at December 31, 2020	218
Lease payments	(18)
Lease accretion	8
Lease liability as of March 31, 2021	\$ 208
Current portion	\$ 72
Long-term portion	136
	\$ 208

8. Related party transactionsCompensation of key executive personnel

For the three months ended March 31,	2021		2020	
Management fees to officers	\$	155	\$	118
Directors' fees		-		6
	\$	155	\$	124

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.

49 North Resources Inc.

Notes to the Financial Statements

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

For the three months ended March 31, 2021 and 2020

8. Related party transactions (continued)

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 (2020 - \$20) plus GST on a monthly basis.

Related party balances

As at March 31, 2021, \$6 is receivable (December 31, 2020 – \$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 period ended March 31, 2021 the Company wrote off the \$nil loan receivable (year ended December 31, 2020 - \$132).

As at March 31, 2021, \$6 is receivable (December 31, 2020 – \$nil receivable) from OMM, which has been included in loans and advances receivable. The balance is non interest bearing and due on demand.

As at March 31, 2021, \$494 is payable (December 31, 2020 – \$422 payable) to TMM, which has been included in accounts payable and accrued liabilities.

As of March 31, 2021, \$395 is payable (December 31, 2020 - \$352) to Jaelky, which has been included in accounts payable and accrued liabilities.

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

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

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

For the three months ended March 31, 2021 and 2020

9. Convertible debentures - continued

at the date of the restructuring. The carrying value of the liability component of the revised debentures as at March 31, 2021 was \$2,739 (December 31, 2020 - \$2,745).

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 March 31, 2021 was \$1,822 (December 31, 2020 - \$1,824).

	Face Value	Carrying Value	Carrying Value
Balance, January 1, 2020	\$ 4,574	\$ 4,422	\$ 1,567
Conversions	(5)	(5)	(2)
Accretion	-	152	
Re-allocation to contributed surplus upon maturity	-	-	(1,565)
Balance at December 31, 2020	4,569	4,569	-
Conversions	(8)	(8)	-
Balance, March 31, 2021	\$ 4,561	\$ 4,561	\$ -

49 North Resources Inc.

Notes to the Financial Statements

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

For the three months ended March 31, 2021 and 2020

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, 2020	\$ 880	\$ 808	\$ 301
Accretion	-	72	-
Re-allocation to contributed surplus upon maturity	-	-	(301)
Balance at December 31, 2020	880	880	-
Accretion	-	-	-
Balance, March 31, 2021	\$ 880	\$ 880	\$ -

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

11. Deferred income taxes

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.

12. 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.

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

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

For the three months ended March 31, 2021 and 2020

12. Common shares, preferred shares and contributed surplus – continuedIssued and outstanding

	Common shares	
	Quantity	Amount
Balance at January 1, 2020	83,026,559	\$ 70,844
Debenture conversions	10,804	5
Preferred share conversions	60,268	30
Balance at December 31, 2020	83,097,631	\$ 70,879
Debenture conversions	10,804	8
Preferred share conversions	5,360	2
Balance at March 31, 2021	83,113,795	\$ 70,889

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	Quantity	Equity Component	Amount
Balance at January 1, 2020	\$ 705	3,383,642	\$ 2,678	
Preferred share conversions	(5)	(27,634)	(22)	
Balance at December 31, 2020	700	3,356,008	2,656	
Preferred share conversions	(1)	(2,680)	(2)	
Balance at March 31, 2021	\$ 699	3,353,328	\$ 2,654	

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:

	March 31, 2021		December 31, 2020	
	Options	Price	Options	Price
Beginning of period	7,605,000	\$ 0.11	7,755,000	\$ 0.10
Options granted			-	-
Options expired	(85,000)	0.50	(150,000)	0.36
End of period	7,520,000	\$ 0.10	7,605,000	\$ 0.10

As at March 31, 2021, the weighted average remaining life of stock options is 6.21 years (December 31, 2020 – 6.39 years).

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

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

For the three months ended March 31, 2021 and 2020

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

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.

Contributed surplus

A summary of the contributed surplus activity is as follows:

	March 31, 2021	December 31, 2020
Balance, beginning of period	\$ 7,322	\$ 5,456
re-allocation equity component of debentures upon maturity	-	1,866
Balance, end of period	\$ 7,322	\$ 7,322

EPS and diluted EPS

Three months ended March 31,	2021	2020
Net (loss) income attributable to common shareholders	\$ (6,654)	\$ 2,681
Weighted average number of common shares - basic	83,102,467	83,039,992
Weighted average number of common shares - diluted	83,102,467	83,039,992
Basic (loss) income per common share - basic	\$ (0.08)	\$ 0.03
Basic (loss) income per common share - diluted	\$ (0.08)	\$ 0.03

All out-of-the-money stock options and preferred shares were excluded from the diluted weighted average number of shares calculation for the period ended March 31, 2021 as their effect would have been anti-dilutive. As at March 31, 2020, no convertible instruments were in the money.

49 North Resources Inc.

Notes to the Financial Statements

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

For the three months ended March 31, 2021 and 2020

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.

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Notes to the Financial Statements

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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 March 31, 2021 and 2020, 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.

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14. Financial instruments and risk management - continued

At March 31, 2021 the Corporation had loans and advances receivable and accounts receivable and prepaid expenses from companies, totaling \$499 (December 31, 2020 - \$479) which represents approximately 1.9% (December 31, 2020 – 1.5%) 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 March 31, 2021 of \$nil (December 31, 2020 - \$162). 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.

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Notes to the Financial Statements

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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	\$ 14,198	\$ -	\$ 1,804	\$ 16,002
Convertible debenture receivable	-	-	8,576	8,576
	<u>\$ 14,198</u>	<u>\$ -</u>	<u>\$ 10,380</u>	<u>\$ 24,578</u>

For the period ended March 31, 2021, a reconciliation of financial assets measured at fair value using unobservable inputs (Level 3) is presented as follows:

Beginning balance as at December 31, 2020	\$ 1,818
Transfers to Level 1	(14)
Balance at March 31, 2021	<u>\$ 1,804</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 +/- \$451 (2020 - \$454) 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.

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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:

For the three months ended March 31,	2021	2020
Accounts receivable and prepaid expenses	\$ (5)	\$ 1
Accounts payable and accrued liabilities	183	138
	\$ 178	\$ 139

Non-cash transactions:	2021	2020
Convertible debentures converted to common shares	\$ 8	\$ -
Preferred shares converted to common shares	\$ 2	\$ 15