



CONDENSED INTERIM FINANCIAL STATEMENTS

September 30, 2018

(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)

	September 30 2018	December 31 2017
ASSETS		
Current assets		
Cash	\$ 62	\$ 35
Equity investments, at fair value (Note 3)	7,718	12,245
Accounts receivable and prepaid expenses (Note 4)	21	23
Loans and advances receivable (Note 4)	1,510	923
	9,311	13,226
Non-current assets		
Convertible debenture receivable (Note 5)	5,170	6,204
Embedded derivative asset (Note 5)	302	302
Property, plant and equipment (Note 6)	48	42
Total assets	\$ 14,831	\$ 19,774
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 856	\$ 705
	856	705
Non-current liabilities		
Convertible debentures (Note 8)	3,934	3,710
Subordinate debentures (Note 9)	726	680
Debt portion of preferred shares (Note 8)	707	717
Total liabilities	6,223	5,812
EQUITY		
Common shares (Note 11)	70,411	70,313
Preferred shares (Note 11)	2,684	2,723
Contributed surplus (Note 11)	5,567	5,337
Equity portion of convertible debentures (Note 8)	1,568	1,583
Equity portion of subordinate debentures (Note 9)	301	301
Deficit	(71,923)	(66,295)
Total equity	8,608	13,962
Total liabilities and equity	\$ 14,831	\$ 19,774

Events after the reporting period (Note 15)

Approved on behalf of the Board

“Tom MacNeill”
Director

“Norman Betts”
Director

The accompanying notes are an integral part of these financial statements

49 North Resources Inc.**Statements of Income (Loss) and Comprehensive Income (Loss)**

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

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Revenues				
Interest and dividend income (Note 5)	\$ 255	\$ 262	\$ 754	\$ 927
Realized losses on equity investments	(40)	82	(321)	(1,105)
Unrealized (losses) gains on equity investments	(803)	130	(2,830)	3,889
Unrealized gains on convertible debenture receivable (Notes 2 and 5)	(168)	-	27	-
Unrealized losses on embedded derivative assets (Note 5)	-	(135)	-	(675)
Other consulting	-	-	15	-
	(756)	339	(2,355)	3,036
Expenses				
Amortization and depletion (Note 6)	3	3	9	9
Business and investor relations	7	34	73	122
Finance (Notes 8)	166	154	478	446
General and administration	74	77	235	218
Management fees (Note 7)	109	146	344	437
Professional fees	44	52	62	149
Share based compensation (Note 13)	-	-	230	-
Transaction costs	2	10	14	26
Wages and benefits	11	11	27	33
	416	487	1,472	1,440
Loss on debt reassignment	-	-	-	(2)
Loss on shares for debt settlement	-	(6)	-	(6)
Writedown - advances owing from related party (Note 7)	-	-	-	(134)
Net income (loss) and comprehensive income (loss)	\$ (1,172)	\$ (154)	\$ (3,827)	\$ 1,454
Basic income (loss) per share (Note 12)	\$ (0.02)	\$ -	\$ (0.06)	\$ 0.02
Diluted income (loss) per share (Note 12)	\$ (0.02)	\$ -	\$ (0.06)	\$ 0.03
Weighted average number of common shares outstanding - basic	60,353,756	59,096,260	60,302,533	58,913,390
Weighted average number of common shares outstanding - diluted	60,353,756	59,096,260	60,302,533	77,474,475

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)

	Attributable to the common shareholders					
	Common Share Capital	Preferred Share Capital	Contributed Surplus	Equity portion of debentures	Deficit	Total Equity
Balance, January 1, 2017	\$ 69,870	\$ 2,877	\$ 5,324	\$ 1,937	\$ (65,828)	\$ 14,180
Convertible debenture conversions (Note 8)	133	-	-	(40)	-	93
Preferred share conversions (Note 8)	109	(87)	-	-	-	22
Net income	-	-	-	-	1,454	1,454
Balance, September 30, 2017	\$ 70,112	\$ 2,790	\$ 5,324	\$ 1,897	\$ (64,374)	\$ 15,749
	Common Share Capital	Preferred Share Capital	Contributed Surplus	Equity portion of debentures	Deficit	Total Equity
Balance, January 1, 2018	\$ 70,313	\$ 2,723	\$ 5,337	\$ 1,884	\$ (66,295)	\$ 13,962
Convertible debenture conversions (Note 8)	49	-	-	(15)	-	34
Preferred share conversions (Note 8)	49	(39)	-	-	-	10
Warrant extension (Note 11)	-	-	230	-	-	230
Initial fair value adjustment on convertible debenture receivable (Notes 2 and 5)	-	-	-	-	(1,801)	(1,801)
Net loss	-	-	-	-	(3,827)	(3,827)
Balance, September 30, 2018	\$ 70,411	\$ 2,684	\$ 5,567	\$ 1,869	\$ (71,923)	\$ 8,608

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 nine months ended September 30,	2018	2017
Cash flows from Operating Activities		
Net income (loss)	\$ (3,827)	\$ 1,454
Items not affecting cash		
Realized losses on equity investments	321	1,105
Amortization	9	9
Accretion of debentures payable	303	271
Accrued dividends	64	67
Accrued interest income	(286)	(637)
Accretion of debenture receivable	(467)	(275)
Share-based compensation	230	-
Loss on debt reassignment	-	8
Writedown - loans and advances receivable	-	134
Unrealized gains (losses) on equity investments	2,830	(3,889)
Unrealized gain on convertible debenture receivable	(27)	-
Unrealized loss on embedded derivative assets	-	675
Purchase of equity investments	(743)	(1,595)
Proceeds from disposal of equity investments	2,119	2,174
Net changes in non-cash working capital items related to operations (Note 14)	(484)	600
	42	101
Cash flows from Investing Activities		
Purchase of property, plant and equipment	(15)	-
	(15)	-
Net change in cash during the period	27	101
Cash, beginning of period	35	85
Cash, end of period	\$ 62	\$ 186

The accompanying notes are an integral part of these financial statements

49 North Resources Inc.

Notes to the Condensed Interim Financial Statements

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

For the nine months ended September 30, 2018 and 2017

1. Description of business

Description of business

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

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

2. Significant accounting policies

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

Statement of compliance

These 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, 2017.

The financial statements of the Corporation for the three and nine month periods ended September 30, 2018 were authorized for issuance by the Corporation's board of directors on November 16, 2018.

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.

New accounting pronouncements

Certain new accounting standards and interpretations have been published that are mandatory for period ends beginning on or after January 1, 2018.

In July 2014, the IASB issued the final publication of the IFRS 9 standard, which will supersede IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and the new hedge accounting guidance.

Under IFRS 9, financial assets will be classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. Management has assessed that adoption of IFRS 9 will have a material impact on the accounting treatment of its convertible debenture receivable. Currently, the Corporation has bifurcated the debenture receivable and carries the host debt contract at amortized cost, with the embedded derivative asset being carried at FVTPL. On adoption of IFRS 9, the debenture will be considered in its entirety at FVTPL, without bifurcation of the components.

IFRS 9 also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018.

49 North Resources Inc.

Notes to the Condensed Interim Financial Statements

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

For the nine months ended September 30, 2018 and 2017

2. Significant accounting policies - continued

New accounting pronouncements - continued

On January 1, 2018, the Corporation adopted IFRS 9 in accordance with the transitional provisions of the standard. The Corporation has elected not to adopt the hedging requirements of IFRS 9, but may adopt them in a future period.

IFRS 9 address the classification, measurement and recognition of financial assets and financial liabilities and supersedes the guidance relating to the classification measurement of financial instrument IAS 39. Financial Instruments: Recognition and Measurement (IAS 39) and includes revised guidance on the classification and measurement of financial instruments, a new credit loss model for calculating impairment on financial assets, and the new hedge accounting guidance.

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition;

- Those measured at fair value through profit and loss;
- those measured at fair value through other comprehensive income; and
- those measured at amortized cost.

Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option for each equity instrument to present fair value changes in other comprehensive income. Measurement and classification of financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the standard retains most of the IAS 39 requirement. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. However, the Corporation has no financial liabilities at fair value through profit or loss.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

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

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

For the nine months ended September 30, 2018 and 2017

2. Significant accounting policies - continued**New accounting pronouncements - continued**

The Corporation has assessed the classification and measurement of its financial assets and financial liabilities under IFRS 9 and have summarized the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 in the following table:

	Measurement Category	
	Original (IAS 39)	New (IFRS 9)
Financial Assets:		
Cash	Amortized cost	Amortized cost
Accounts receivable	Amortized cost	Amortized cost
Equity investments	Fair value through profit or loss	Fair value through profit or loss
Loans and advances receivable	Amortized cost	Amortized cost
Convertible debenture receivable	Amortized cost	Fair value through profit or loss
Embedded derivative asset	Fair value through profit or loss	Fair value through profit or loss
Financial Liabilities:		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost
Subordinate debentures	Amortized cost	Amortized cost
Debt portion of preferred shares	Amortized cost	Amortized cost

There have been no changes in the carrying value of the Corporation's financial instruments or to previously reported figures as a result of change to the measurement categories listed above, except for the following:

Convertible debenture receivable

The Corporation has determined the fair value of the discounted future cash flows to be \$4,586, using a discount rate of 22%, which approximates the credit risk of the financial asset, as at January 1, 2018. The carrying value was determined by running a discounted cash flow model for the receivable portion of the convertible debenture, with the fair value of the embedded derivative asset (\$302) being derived through the use of the Black-Scholes option pricing model. The resulting \$1,801 fair value loss was adjusted through deficit, in accordance with the IFRS 9 transition guideline.

In the determination of fair value of the Corporation's receivable portion of the convertible debenture receivable, the Corporation uses a discounted cash flow technique which includes inputs that are not based on observable market data and inputs that are derived from observable market data. Where available, the Corporation seeks comparable interest (discount) rates, or if unavailable, those considered appropriate for the risk profile of a similar corporation in the industry. Use of a different discount rate could materially impact the fair value of the debenture receivable.

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15, Revenue from Contracts with Customers, which will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

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

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

For the nine months ended September 30, 2018 and 2017

2. Significant accounting policies - continued**New accounting pronouncements - continued**

The new standard contains a single model that applies to contracts with customers and two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of individual transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. The Corporation will adopt IFRS 15 in its financial statements for the annual period beginning January 1, 2018.

3. Equity investments

As at September 30, 2018 and December 31, 2017, the Corporation's investments consist of equity interests in companies in the following segments:

	September 30, 2018		December 31, 2017	
	Cost	FMV	Cost	FMV
Publicly listed companies	\$ 20,716	\$ 5,414	\$ 22,413	\$ 9,941
Private companies	11,662	2,304	11,662	2,304
	\$ 32,378	\$ 7,718	\$ 34,075	\$ 12,245

As at September 30, 2018 and December 31, 2017, the Corporation's investments consist of equity interests in companies in the following industries:

	September 30, 2018		December 31, 2017	
	Cost	FMV	Cost	FMV
Base and Precious Metals	\$ 14,347	\$ 3,032	\$ 13,984	\$ 4,527
Coal	1,981	-	1,981	-
Diamonds	1,148	1,603	1,681	1,438
Oil & Gas	11,514	554	12,778	2,841
Other	3,239	2,518	3,505	3,437
Uranium	149	11	146	2
	\$ 32,378	\$ 7,718	\$ 34,075	\$ 12,245

The equity investments consist of investment in common shares of corporations of which 46.24% (December 31, 2017 – 61.68%) are listed on the TSX-V, 29.85% (December 31, 2017 – 18.81%) are private, 20.77% (December 31, 2017 – 11.75%) are listed on the TSX and 3.14% (December 31, 2017 – 7.76%) are listed on the Canadian Securities Exchange ("CSE") as of September 30, 2018.

An analysis of fair value was prepared for the private investments held in the portfolio. The analysis used comparable entities public corporation stock prices, observable index comparisons, transaction prices for same or similar instruments and information from brokers and other analysis. Based on this review, management has recorded a \$nil unrealized gain (December 31, 2017 - \$180 unrealized gain) on certain private corporation investments.

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

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

For the nine months ended September 30, 2018 and 2017

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

	September 30, 2018	December 31, 2017
Trade accounts receivable	\$ 15	\$ 16
Other receivable	3	3
Prepaid expenses	3	4
	\$ 21	\$ 23

The aging of accounts receivables at the reporting date was:

	September 30, 2018	December 31, 2017
Not past due	\$ -	\$ 4
Past due 0 - 30 days	-	-
Past due 31+ days	15	12
	\$ 15	\$ 16

During the period ended September 30, 2018, the Corporation recognized an impairment loss of \$nil (September 30, 2017 – impairment loss of \$8) in respect of trade accounts receivable.

Loans and advances receivable

	September 30, 2018	December 31, 2017
<u>Current</u>		
Unrelated corporations	\$ 382	\$ 175
Related corporation (Note 7)	1,128	748
	\$ 1,510	\$ 923

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.

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

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

For the nine months ended September 30, 2018 and 2017

5. Convertible debentures receivable

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

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

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

	<u>Convertible Debenture Receivable</u>		<u>Embedded derivative asset</u>
	<u>Face Value</u>	<u>Carrying Value</u>	
Balance, January 1, 2017	\$ 6,997	\$ 5,256	\$ 1,593
Interest income accrued	581	581	-
Accretion income	-	367	-
Fair value adjustment to derivative asset	-	-	(1,291)
Balance, December 31, 2017	\$ 7,578	\$ 6,204	\$ 302
Interest income accrued	467	467	-
Accretion income	-	273	-
Fair value adjustment - adoption IFRS 9	-	(1,801)	-
Fair value adjustments	-	27	-
Balance, September 30, 2018	\$ 8,045	\$ 5,170	\$ 302

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

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

For the nine months ended September 30, 2018 and 2017

6. Property, plant and equipment

	Other corporate assets	
Cost:		
Balance at January 1, 2017 and December 31, 2017		399
Additions		15
Balance at September 30, 2018	\$	414
Accumulated depletion and amortization:		
Balance at January 1, 2017		345
Amortization expense		12
Balance at December 31, 2017		357
Amortization expense		9
Balance at September 30, 2018	\$	366
Total balance at December 31, 2017	\$	42
Total balance at September 30, 2018	\$	48

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

The Corporation has significant equity investments in the following corporations, which were previously consolidated to January 1, 2016 (Note 2):

Name of entity	Principal activities and country of incorporation	% of Equity	
		2018	2017
Allstar Energy Limited	Canadian incorporated oil and gas exploration Corporation	90%	90%
Omineca Mining and Metals Ltd.	Canadian incorporated gold exploration Corporation	59.9%	59.9%
Westcore Energy Ltd.	Canadian incorporated oil and gas exploration Corporation	27.2%	43.6%
Gespeg Copper Resources Inc.	Canadian incorporated copper exploration Corporation	28.7%	33.5%
Vicarage Capital Limited.	United Kingdom incorporated investment banking and consulting Corporation	50%	50%

Compensation of key executive personnel

	September 30, 2018		September 30, 2017	
Management fees to officers	\$	344	\$	437
Directors' fees		12		18
	\$	356	\$	455

49 North Resources Inc.

Notes to the Condensed Interim Financial Statements

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

For the nine months ended September 30, 2018 and 2017

7. Corporation Information and Related party transactions - continued

TMM Portfolio Management Inc. (“TMM”) is responsible for the management of the Corporation’s investment portfolio in accordance with the terms of a portfolio management agreement made January 1, 2008 (the “Management Agreement”) and is to be reimbursed by the Corporation for all expenses reasonably and properly incurred in conducting the Corporation’s business and in performing its duties and obligations under the Management Agreement. Additionally, pursuant to the Management Agreement, TMM: (a) is entitled to a quarterly management fee equal to 0.5% of the net asset value of the Corporation calculated as of the last business day of the relevant fiscal quarter; and (b) starting with the Corporation’s fiscal year ended December 31, 2008, an annual performance bonus, calculated as of the last business day of the applicable fiscal year, in an amount in respect of each common share that is outstanding as of such day, equal to 20% of the amount, if any, by which the sum of the net asset value per common share as of that date, plus all dividends per common share during that fiscal year, exceeds the greater of \$16.34 and the net asset value per common share as of the last business day of the preceding fiscal year.

Effective 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 monthly consulting fee of \$20 (2017 - \$20) plus GST.

Related party balances

As at September 30, 2018, \$1,052 is receivable (December 31, 2017 – \$724 receivable) from Westcore Energy Ltd., which has been included in loans and advances receivable. The balance is not interest bearing and due on demand.

As at September 30, 2018, \$76 is receivable (December 31, 2017 – \$24 receivable) from OMM, which has been included in loans and advances receivable. The balance is not interest bearing and due on demand.

As at September 30, 2018, \$82 is payable (December 31, 2017 – \$77 payable) to TMM, which has been included in accounts payable and accrued liabilities.

As of September 30, 2018, \$96 is payable (December 31, 2017 - \$54) to Jaelky, which has been included in accounts payable and accrued liabilities.

As at December 31, 2017, it was determined that the related party receivable from Allstar was unlikely to be collected in the future as a result of Allstar disposing of all of its assets in 2016. As such, the Corporation wrote the related party receivable to \$nil and recorded an impairment of \$18 during the year ended December 31, 2017.

8. Convertible debentures

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

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

49 North Resources Inc.

Notes to the Condensed Interim Financial Statements

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

For the nine months ended September 30, 2018 and 2017

8. Convertible debentures - continued

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

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

The restructuring was accounted for as an extinguishment for accounting purposes, which resulted in a gain on extinguishment of \$9,390. The original debentures were derecognized and the revised debentures, preferred shares and common shares were measured at their fair values on the date of the restructuring with an effective interest rate of 12%. The fair value of the revised debentures of \$2,041 was estimated using discounted future cash flows, and the difference between the fair value and the principal amount was allocated to the conversion feature in the amount of \$1,063. In addition, the \$647 fair value of the preferred share cumulative dividend was estimated using discounted future cash flows and was allocated to the debt component of the preferred shares. The residual value of the revised debentures and preferred shares were allocated to equity, and the common shares were valued using the market price at the date of the restructuring. The carrying value of the liability component of the revised debentures as at September 30, 2018 was \$2,433 (December 31, 2017 - \$2,302).

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 7) 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 September 30, 2018 was \$1,501 (December 31, 2017 - \$1,408).

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

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

For the nine months ended September 30, 2018 and 2017

8. Convertible debentures - continued

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance, January 1, 2017	\$ 4,777	\$ 3,498	\$ 1,636
Conversions	(155)	(102)	(53)
Accretion	-	314	-
Balance at December 31, 2017	4,622	3,710	1,583
Conversions	(41)	(34)	(15)
Accretion	-	258	-
Balance, September 30, 2018	\$ 4,581	\$ 3,934	\$ 1,568

9. Subordinate debentures

On December 18, 2015 as part of the debenture restructure as described in Note 8(b), \$881 in subordinated debentures were issued.

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

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

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance, January 1, 2017	\$ 880	\$ 628	\$ 301
Accretion	-	52	-
Balance at December 31, 2017	880	680	301
Accretion	-	46	-
Balance, September 30, 2018	\$ 880	\$ 726	\$ 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.

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 September 30, 2018 was \$726 (December 31, 2017 - \$680).

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10. Deferred income taxes

As of December 31, 2017, the Corporation has non-capital losses of \$9,638 (December 31, 2016 - \$11,481) available to carry forward to reduce future years' taxable income with expiration ranging from 2033 to 2036.

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

11. 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

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

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

	Common shares		Preferred shares	
	Quantity	Amount	Quantity	Amount
Balance at January 1, 2017	58,740,028	\$ 69,870	3,634,989	\$ 2,877
Stock options exercised	750,000	94	-	-
Debenture conversions	309,982	155	-	-
Preferred share conversions	389,874	194	(194,937)	(154)
Balance at December 31, 2017	60,189,884	70,313	3,440,052	2,723
Debenture conversions	82,460	49	-	-
Preferred share conversions	98,666	49	(49,333)	(39)
Balance at September 30, 2018	60,371,010	\$ 70,411	3,390,719	\$ 2,684

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.

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

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

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

	September 30, 2018		December 31, 2017	
	Options	Price	Options	Price
Beginning of period	5,240,000	\$ 0.16	5,090,000	\$ 0.17
Options exercised	-	-	(750,000)	0.07
Options granted	-	-	900,000	0.07
End of period	5,240,000	\$ 0.16	5,240,000	\$ 0.16

As at September 30, 2018, the weighted average remaining life of stock options is 6.87 years (December 31, 2017 – 7.62 years).

On November 24, 2017, the board of directors of the Corporation approved the grant of 900,000 stock options pursuant to the 2008 Option Plan. 600,000 of the options were granted to directors and executive officers with the balance granted to employees and consultants. The options are exercisable at \$0.07 per share, vest immediately and, if not exercised, expire November 24, 2027, subject to earlier expiration in accordance with the 2008 Option Plan and applicable policies of the TSX-V.

The value of options issued on November 24, 2017, using the Black-Scholes option pricing model, was \$54 (\$0.06 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 1.77%, expected life of 10 years, annualized volatility 113.12% and dividend rate of nil.

Warrants

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

	September 30, 2018		December 31, 2017	
	Warrants	Price	Warrants	Price
Beginning of period	10,000,000	\$ 0.15	13,538,769	\$ 0.19
Warrants extended and repriced	-	\$ (0.04)	-	\$ -
Warrants expired	-	-	(3,538,769)	\$ 0.30
End of period	10,000,000	\$ 0.11	10,000,000	\$ 0.15

As at September 30, 2018, the weighted average remaining life of warrants is 0.71 years (December 31, 2017 – 0.45 years).

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

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

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

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

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.

Contributed surplus

A summary of the contributed surplus activity is as follows:

	September 30, 2018	December 31, 2017
Balance, beginning of period	\$ 5,337	\$ 5,324
Fair value of stock options granted	-	54
Warrants extension	230	-
Stock options exercised	-	(41)
Balance, end of period	\$ 5,567	\$ 5,337

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For the nine months ended September 30, 2018 and 2017

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

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

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

	September 30 2018	September 30 2017
Net income (loss) attributable to common shareholders	\$ (3,827)	\$ 1,454
Weighted average number of common shares - basic	60,353,756	58,913,390
Weighted average number of common shares - diluted	60,353,756	77,474,475
Basic earnings (loss) per common share - basic	\$ (0.06)	\$ 0.02
Basic earnings (loss) per common share - diluted	\$ (0.06)	\$ 0.03

The Corporation's stock options, convertible and subordinate debentures and preferred shares had a dilutive effect during the nine months ended June 30, 2017. All stock options, convertible debentures and preferred shares were excluded from the diluted weighted average number of shares calculation for the nine months ended September 30, 2018, as their effect would have been anti-dilutive.

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.

12. 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.

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Notes to the Condensed Interim Financial Statements

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12. Capital management - continued

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

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

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

13. Financial instruments and risk management

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

(a) Liquidity risk:

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

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

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

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

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

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13. Financial instruments and risk management - continued

(b) Market risk:

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

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

(c) Interest rate risk:

Interest rate risk is the impact that changes in interest rates could have on the Corporation's earnings and liabilities. As at September 30, 2018 and December 31, 2017, 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.

At September 30, 2018 the Corporation had loans and advances receivable and accounts receivable and prepaid expenses from companies, totaling \$1,531 (December 31, 2017 - \$946) which represents approximately 10.3% (December 31, 2017 - 4.8%) of the Corporation's total assets. During the period ended September 30, 2018 an impairment loss of \$nil (September 30, 2017 - \$8) and an allowance for doubtful accounts provision of \$nil (September 30, 2017 - \$134) was recorded.

(e) Commodity price risk:

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

In the past, and from time to time, the Corporation has attempted to mitigate a portion of its commodity price risk through the use of the futures contract, as at September 30, 2018 and December 31, 2017 - all futures contracts have been disposed.

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13. Financial instruments and risk management - continued

(f) Fair value:

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

Fair value hierarchy and determination of fair value

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

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

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

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

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

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

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

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

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

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

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

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity investments, at fair value	\$ 5,414	\$ -	\$ 2,304	\$ 7,718
Embedded derivative asset	-	-	302	302
	<u>\$ 5,414</u>	<u>\$ -</u>	<u>\$ 2,606</u>	<u>\$ 8,020</u>

There were no changes in the fair value of level 3 assets for the nine month period ended September 30, 2018.

Within Level 3, the Corporation includes private company investments. The key assumptions driving the valuation of these instruments include, but are not limited to, the value at which a recent financing was completed by the investee, significant changes in general market conditions and company specific information. For those investments valued based on general market condition and company specific information, these inputs can be highly judgmental. A +/- 25% change in the fair value of these investments will result in a corresponding +/- \$576 (2017 - \$651) change to the total fair value of the investments. While this illustrates the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different circumstances.

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

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14. Supplemental cash flow information

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

For the nine months ended September 30,	2018	2017
Loans and advances receivable	\$ (574)	\$ (668)
Accounts receivable and prepaid expenses	2	(23)
Accounts payable and accrued liabilities	88	(620)
	\$ (484)	(1,311)
Non-cash transactions:	2018	2017
Loans and advances receivable issued in disposal of equity investments	\$ -	\$ 131
Convertible debentures converted to common shares	\$ 49	\$ 133
Preferred shares converted to common shares	\$ 49	\$ 109
Shares for debt settlement	\$ -	\$ 6
Interest paid in the year	\$ 77	\$ 78
Income taxes paid in the year	\$ -	\$ -

15. Events after the reporting period

On November 14, 2018, the Corporation issued a share purchase right on the basis of 1 right for each common share held at such date. Under the rights offering, two rights entitles the holder to subscribe for one unit of the Corporation upon payment of \$0.02 per right. Each unit consists of one common share.