

**CANADIAN NORTH RESOURCES INC. (FORMERLY CANADIAN  
NORTH RESOURCES AND DEVELOPMENT CORP.)**

**Financial Statements**

For the years ended December 31, 2020 and 2019

To the Directors of Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.):

### Opinion

We have audited the financial statements of Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.) (the "Company"), which comprise the statements of financial position as at December 31, 2020 and December 31, 2019, and the statements of net loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company had a net loss and negative cashflows from operating activities during the year ended December 31, 2020. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

Calgary, Alberta  
April 15, 2021

*MNP LLP*  
Chartered Professional Accountants

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Statements of Financial Position

(Stated in Canadian Dollars)

As at December 31,

<b>Assets</b>	<b>2020</b>	<b>2019</b>
<b>Current assets</b>		
Cash	1,553,324	3,120
HST receivable	51,598	51,598
<b>Total current assets</b>	<b>1,604,922</b>	<b>54,718</b>
<b>Non-current assets</b>		
Property and equipment (Note 4)	166,298	90,954
Exploration and evaluation assets (Note 5)	2,475,537	2,382,857
<b>Total non-current assets</b>	<b>2,641,835</b>	<b>2,473,811</b>
<b>Total assets</b>	<b>4,246,757</b>	<b>2,528,529</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 6)	355,326	238,168
Deposits for share subscription (Note 7)	1,300,000	-
Advances from shareholders (Note 6)	-	2,894,732
<b>Total liabilities</b>	<b>1,655,326</b>	<b>3,132,900</b>
<b>Shareholders' Equity (Deficiency)</b>		
Share capital (Note 7)	5,504,500	104,500
Share subscription receivable (Note 7)	(1,900,000)	-
Deficit	(1,013,069)	(708,871)
<b>Total shareholders' equity (deficiency)</b>	<b>2,591,431</b>	<b>(604,371)</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>4,246,757</b>	<b>2,528,529</b>

Going concern (Note 1)

Approved on behalf of the Board of Directors:

*Signed: "Lee Q Shim"*  
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Director Lee Q Shim

*Signed: "Richard Brown"*  
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Director Richard Brown

The accompanying notes form an integral part of these financial statements

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Statements of Net Loss and Comprehensive Loss

(Stated in Canadian Dollars)

For the years ended December 31,

	2020	2019
<b>Expenses</b>		
Office and general	15,876	5,387
Rent (Note 6)	24,000	24,000
Depreciation (Note 4)	25,291	13,410
Management fees (Note 6)	36,000	36,000
Professional fees	203,031	8,000
<b>Total expenses</b>	<b>(304,198)</b>	<b>(86,797)</b>
<b>Net loss and comprehensive loss</b>	<b>(304,198)</b>	<b>(86,797)</b>
<b>Loss per share</b>		
Basic and diluted	(0.00)	(0.00)
<b>Weighted average number of shares outstanding</b>		
Basic and diluted	62,946,330	60,750,000

The accompanying notes form an integral part of these financial statements

## **Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)**

Statements of Changes in Shareholders' Equity (Deficiency)

(Stated in Canadian Dollars)

	Common Shares	Share Capital	Share Subscription Receivable	Deficit	Total
Balance, December 31, 2018	60,750,000	104,500	-	(622,074)	(517,574)
Net loss	-	-	-	(86,797)	(86,797)
Balance, December 31, 2019	60,750,000	104,500	-	(708,871)	(604,371)
Share issuance	12,400,000	5,400,000	(1,900,000)	-	3,500,000
Net loss	-	-	-	(304,198)	(304,198)
Balance, December 31, 2020	73,150,000	5,504,500	(1,900,000)	(1,013,069)	2,591,431

The accompanying notes form an integral part of these financial statements

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Statements of Cash Flows  
(Stated in Canadian Dollars)

For the years ended December 31,

Cash provided by (used in):

## Operating Activities

	2020	2019
Net loss	(304,198)	(86,797)
Depreciation (Note 4)	25,291	13,410
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	117,158	45,956
<b>Net cash used in operating activities</b>	<b>(161,749)</b>	<b>(27,431)</b>

## Financing Activities

Proceeds from insurance	-	101,000
Proceeds from shareholders (Note 6)	605,268	71,132
Deposits for share subscription (Note 7)	1,300,000	-
<b>Net cash provided by financing activities</b>	<b>1,905,268</b>	<b>172,132</b>

## Investing Activities

Purchase of property and equipment (Note 4)	(100,635)	(58,352)
Expenditures on exploration and evaluation assets (Note 5)	(92,680)	(89,903)
<b>Net cash used in investing activities</b>	<b>(193,315)</b>	<b>(148,255)</b>

<b>Increase (decrease) in cash</b>	<b>1,550,204</b>	<b>(3,554)</b>
<b>Cash, beginning of year</b>	<b>3,120</b>	<b>6,674</b>
<b>Cash, end of year</b>	<b>1,553,324</b>	<b>3,120</b>

The accompanying notes form an integral part of these financial statements

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(all amounts are expressed in Canadian dollars)

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## 1. Nature of Operations and Going Concern

Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.) (the “Company”) was incorporated on April 18, 2013 under the laws of Ontario, Canada. The Company's principal business activity is the exploration of mineral properties as the Ferguson Lake Project in the Kivalliq Region of Nunavut, Canada. The registered office of the Company is 3F- 299 Courtney Park Dr East, Mississauga, Ontario.

The novel Coronavirus (“COVID-19”) outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in significant economic uncertainty and governments worldwide are enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global financial markets have experienced significant volatility and weakness as a consequence of this economic uncertainty. The duration and impact of the COVID-19 outbreak is unknown as this time, as is the effectiveness of interventions by governments and central banks. The full extent of the impact on the Company’s future financial results is uncertain given the length and severity of these developments cannot be reliably estimated but may impact the Company’s ability to raise sufficient funds to complete planned activities on the Ferguson Lake Project and be compliant with the earn-in provisions.

### Going concern

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due. For the year ended December 31, 2020, the Company incurred a net loss of \$304,198 (2019 - \$86,797) and had negative cash flows from operations of \$161,749 (2019 - \$27,431). These conditions indicate the existence of a material uncertainty which may cast significant doubt related to the Company’s ability to continue as a going concern and therefore may be unable to realize its assets and discharge its liabilities in the normal course of business. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue as a going concern and therefore be required to realize its assets and liabilities in other than the normal course of business and potentially at amounts materially different from those recorded in these financial statements.

The Company is in the process of exploring its mineral property interests and has not yet determined whether the Ferguson Lake Project contains mineral reserves that are economically recoverable. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral properties is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral properties, obtaining the necessary permits to mine, and future profitable production or proceeds from the disposition of the mineral properties. Management currently assesses the Company’s ability to continue as a going concern using financial forecasts of 12 months to ensure the Company has adequate capital to meet its financial obligations.

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(all amounts are expressed in Canadian dollars)

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## 2. Basis of Presentation and Accounting Policy Change

### (a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), in effect on January 1, 2020.

These financial statements were approved and authorized for issuance on April 15, 2021 by the Board of Directors.

### (b) Basis of Presentation and Measurement

These financial statements have been prepared using the historical cost convention, except for certain financial instruments measured at fair value.

### (c) Functional and Presentation Currency

The financial statements are presented in Canadian dollars, which is the functional currency of the Company.

## 3. Significant Accounting Policies

### (a) Cash

Cash consists of deposits held in a financial institution.

### (b) Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment loss. Property and equipment include costs to purchase and any costs directly attributable to bring the asset to its current location and condition necessary for its intended use including costs of dismantling and removing the item and restoring the site on which it is located. Expenditures for additions and improvements are capitalized and expenditures for maintenance and repairs are charged to expense.

Depreciation is calculated using straight line depreciation method over a period of 5 to 10 years. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposition, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of net loss.

Where an item of property and equipment consists of major components with different useful lives, the components are accounted for as separate items of property and equipment.

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(all amounts are expressed in Canadian dollars)

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Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

## (c) Impairment

At the end of each reporting period the carrying amounts of the Company's non-financial assets are reviewed to determine whether there are any indications that the assets are impaired. The Company uses external factors, such as changes in expected future prices and costs, and other market factors to assess for indications of impairment. If any such indication exists, an estimate of the asset's recoverable amount is calculated; being the higher of fair value less direct costs of disposal and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is charged to the statement of net loss and comprehensive loss so as to reduce the carrying amount in the statement of financial position to its recoverable amount.

Fair value less costs of disposal is determined as the amount that would be obtained from the sale of assets in an arm's length transaction between knowledgeable and willing parties. Fair values for mineral assets are generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, to arrive at a net present value of the asset.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and cannot take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

## (d) Exploration and evaluation assets ("E&E Assets")

E&E Assets include the costs of acquiring licenses, exploration and evaluation activity, and the fair value, at the date of acquisition, of exploration and evaluation assets acquired in a business combination. Costs incurred before the Company has obtained legal rights to explore an area are recognized in the statement of net loss and comprehensive loss.

Acquisition costs, including general and administration costs, are only capitalized to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploration or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(all amounts are expressed in Canadian dollars)

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E&E Assets are assessed for impairment if sufficient evidence exists to determine technical feasibility and commercial viability or facts and circumstances suggest the carrying amount exceeds the recoverable amount.

Once technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to the area of interest are first tested for impairment and then reclassified to mining property development assets within property and equipment.

Recoverability of the carrying amount of any E&E Assets is dependable on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

## (e) Taxes

Tax on the profit or loss for the periods presented comprises current and deferred taxes. Tax is recognized in the statement of net loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting period, adjusted for any income tax reassessments from prior periods.

Deferred tax is provided in full, using the liability method based on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized, or the deferred tax liability is settled.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred taxes attributable to amounts recognized directly in equity are also recognized directly in equity.

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Notes to the Financial Statements

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(all amounts are expressed in Canadian dollars)

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## (f) Loss per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the total net loss and comprehensive loss attributed to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating dilutive loss per share. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

## (g) Financial Instruments

The Company recognizes financial assets and financial liabilities, including derivatives, on the statements of financial position when the Company becomes a party to the contract. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are removed from the financial statements when the liability is extinguished either through settlement of, or release from, the obligation of the underlying liability.

Financial assets, financial liabilities and derivatives are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument's classification, as described below.

### *Amortized cost*

A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the cash flows; and all contractual cash flows represent only principal and interest on that principal. All financial liabilities are measured at amortized cost using the effective interest method except for liabilities incurred for the purposes of selling or repurchasing in the short-term liabilities, if they are held-for trading and those that meet the definition of a derivative.

Cash, HST receivable, receivable for shares issued, advances from shareholders, deposits for share subscription and accounts payable and accrued liabilities are classified as assets or liabilities measured at amortized cost.

### *Fair value through other comprehensive income ("FVTOCI")*

A financial asset shall be measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest ("SPPI") on the principal amount outstanding.

### *Fair value through profit or loss ("FVTPL")*

All financial assets that do not meet the definition of being measured at amortized cost or FVTOCI are measured at FVTPL, this includes all derivative financial assets. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. For financial assets and liabilities, the Company may make an

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Notes to the Financial Statements

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(all amounts are expressed in Canadian dollars)

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irrevocable election to designate an asset at FVTPL. If the election is made it is irrevocable, meaning that asset, liability, or group of financial instruments must be recorded at FVTPL until that asset, liability or group of financial instruments are derecognized.

Financial assets and liabilities are offset and the net amount is reported on the statement of financial position when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## (h) Use of Estimates and Judgments

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the statement of financial position and the reported amounts of expenses during the year. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Adjustments are recorded in the current year as they become known.

### Accounting Estimates

#### Impairment

The Company conducts impairment review of property and equipment and E&E assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Determining whether an asset is impaired requires an estimation on the recoverable amount.

### Accounting Judgments

#### Recoverability of exploration and evaluation assets

The Company applies significant judgements on the ongoing feasibility of mineral exploration, and whether there are indicators that the right to explore the specific area has or will expire, that further exploration and evaluation plans have changed, or whether development of a specific area is unlikely to recover existing exploration and evaluation property costs. If any of these indicators are present, management is required to perform an assessment of the recoverable amount of exploration and evaluation properties.

#### Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgements. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There is a material uncertainty regarding the Company's abilities to continue as a going concern.

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(all amounts are expressed in Canadian dollars)

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## Provisions

Management's determination of no material restoration, rehabilitation and environmental exposure is based on the facts and circumstances that existed during the year.

## Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one of more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

## CGU Determination

An impairment test requires the Company to determine the recoverable amount of an asset or group of assets. For non-current assets, including property and equipment and E&E Assets, the recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets are grouped together into a cash generating unit ("CGU") for impairment testing purposes. A CGU for impairment testing is typically considered to be an individual mine site or a development project. The Company has determined that it has one CGU based on its one project.

## 4. Property and Equipment

	Mining equipment
<b>Cost</b>	
Balance, December 31, 2018	159,425
Additions	58,352
Balance, December 31, 2019	217,777
Additions	100,635
Balance, December 31, 2020	318,412
<b>Accumulated Depreciation</b>	
Balance, December 31, 2018	113,413
Depreciation	13,410
Balance, December 31, 2019	126,823
Depreciation	25,291
Balance, December 31, 2020	152,114
Net Book Value, December, 2019	90,954
Net Book Value, December, 2020	166,298

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(all amounts are expressed in Canadian dollars)

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## 5. Mineral Properties

	Total
Balance, December 31, 2018	2,292,954
Exploration costs	89,903
Balance, December 31, 2019	2,382,857
Exploration costs	92,680
Balance, December 31, 2020	2,475,537

## 6. Related Party Transactions

The Company has identified directors and senior officers as key management personnel. During the year ended December 31, 2020, the Company recognized the following transactions with related parties:

- \$24,000 (2019 - \$24,000) office rent expenses to a company owned by a director of the Company;
- \$36,000 (2019 - \$36,000) management fee to a company owned by a director of the Company; and,
- \$605,268 (2019 - \$71,132) advances from shareholders. At December 31, 2020, advances from shareholders of \$nil (2019 – \$2,894,732) are due on demand, bear no interest and unsecured.

Transactions with related party are in the usual course of business and initially measured at fair value.

At December 31, 2020, accounts payable and accrued liabilities includes \$212,000 (2019 - \$198,000) due to related parties for office rent and management fees. The balances are unsecured, bear no interest, and due upon demand.

## 7. Share Capital

- (a) Authorized  
Unlimited number of common shares without nominal or par value.
- (b) Issued: Common shares

	Number	Value
Balance, December 31, 2019 and 2018	60,750,000	\$104,500
Share issuance	12,400,000	5,400,000
Balance, December 31, 2020	73,150,000	\$5,504,500

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(all amounts are expressed in Canadian dollars)

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On October 1, 2020, 2754096 Ontario Inc. subscribed for 1,600,000 (2,400,000 shares after stock split) shares at \$0.25 per share for \$400,000 in cash. As the cash proceeds have not been received as at December 31, 2020, the amount is recorded as share subscription receivable within shareholders' equity. The full amount was received subsequent to the year end.

On November 9, 2020, the Company completed stock split on the basis of 1:1.5. As a result, the number of shares increased to 63,150,000 as at November 9, 2020. These financial statements reflect the retrospective application of this stock split.

On November 15, 2020, the Lee Quan Shim Family Trust, a party related through share ownership, subscribed for 3,000,000 shares at \$0.50 per share for \$1,500,000. As cash proceeds have not been received as at December 31, 2020, the amount is recorded as share subscription receivable within shareholders' equity. The full amount was received subsequent to the year end.

On November 15, 2020, KRE Developments Co. Ltd., a party related through share ownership, subscribed for 7,000,000 shares in settlement of debt having a carrying value of \$3,500,000. The fair value of the shares was estimated at \$0.50 per share based on an arm's length share offering.

During 2020, the Company received \$1,300,000 for share subscription for which the shares were not granted until subsequent to December 31, 2020. The amount has been recorded as deposits for share subscription.

## 8. Tax

The net income tax provision differs from that expected by applying the Canadian federal and provincial corporate rate due to the following:

	<b>2020</b>	<b>2019</b>
Loss before taxes	(304,198)	(86,797)
Statutory tax rate	12.5%	12.5%
Expected income tax recovery	(38,025)	(10,850)
Tax benefit not recognized	38,025	10,850
Income tax expense	-	-

The Company has approximated gross timing differences of the following:

	<b>2020</b>	<b>2019</b>
Non-capital losses	595,000	347,000
Property and equipment	164,000	126,000
Total timing differences	759,000	473,000

The Company's non-capital loss carryforwards balance is available to reduce future years' taxable income and, if not fully utilized, will commence to expire in fiscal year.

# Canadian North Resources Inc. (formerly Canadian North Resources and Development Corp.)

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(all amounts are expressed in Canadian dollars)

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## 9. Financial Instruments and Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

### (a) Credit risk

Credit risk arises from the possibility that a counterpart to which the Company provides goods or services is unable or unwilling to fulfill their obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash. The Company limits its exposure to credit risk by dealing with well rated entities. Management believes credit risk to be low as its cash is held in a major financial institution in Canada and accounts receivable is due from the Government of Canada as it relates to Harmonized taxes receivable.

### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is through regular monitoring of cash requirements by preparing short-term and long-term cash flow analyses. When necessary, the Company obtains financing from various investors to ensure all future obligations are fulfilled. The Company does not have any contractual obligations other than the accounts payable and accrued liabilities which are due within the next 12 months. The Company has current assets of \$1,604,922 (2019 - \$54,718) to settle obligations of \$1,655,326 (2019 - \$3,132,900).

### (c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of market price changes: foreign currency exchange rates, interest rates and commodity prices.

#### i Foreign currency exchange risk

The Company is not exposed to foreign currency exchange rate fluctuations as the Company conducts all of its business in Canada.

#### ii Interest rate risk

Interest rate risk is the risk of change in the borrowing rates of the Company. The Company does not have any exposure to changes in interest rates and is therefore not exposed to this risk.

#### iii Commodity price risk

Commodity price risk is the risk of price volatility of commodity prices, such as mineral prices. Currently the Company does not have commercial operations and is therefore not exposed to this risk. Commodity prices generally fluctuate beyond the control of the Company. Factors which contribute to the fluctuation are, but not limited to, demand, forward sales, worldwide production, speculative hedging activities, and bank lending rates.

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Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(all amounts are expressed in Canadian dollars)

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## (d) Fair value of financial instruments

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the financial instrument:

- Level 1 fair value measurements are those derived from quoted prices (adjusted) in the active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The carrying value of cash, HST receivable, receivable for shares issued, advances from shareholders, deposits for share subscription and accounts payable and accrued liabilities approximates fair value due to the short-term nature.

## 10. Capital Management

The Company manages its capital in a manner consistent with the risk characteristics of the assets it holds. All financing, including equity and debt, are analyzed by management and approved by the Board of Directors.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and provide returns for shareholders and to facilitate the development of its core business.

The Company considers cash and shareholders' equity to be capital of the Company. The Company does not have any externally imposed restrictions on its capital and there have been no changes in the Company's approach to capital management from previous years.

## 11. Subsequent events

On February 28, 2021, the Company closed the first tranche of the private placement which in total consists of 13,333,333 common shares and 6,666,663 warrants for gross proceeds of \$10,000,000.

On March 23, 2021, the Company issued an Offering Memorandum for the proposed offering of a minimum of 2,000,000 and a maximum of 3,000,000 Special Warrants at a price of \$1 per Special Warrant for gross proceeds of a minimum of \$2,000,000 and a maximum of \$3,000,000.