

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

Condensed Interim Financial Statements

For the three and six month periods ended June 30, 2022 and 2021

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

Condensed Interim Statements of Financial Position
(Stated in Canadian Dollars)

As at:

(Unaudited)

	Note	June 30, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalence		11,709,760	19,025,817
Prepaid expenses		259,000	36,219
Total current assets		11,968,760	19,062,036
Non-current assets			
Property and equipment	4	461,972	141,192
Exploration and evaluation assets	5	12,807,236	6,108,179
Total non-current assets		13,269,208	6,249,371
Total assets		25,237,968	25,311,407
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		682,187	46,258
Deposits for share subscription		-	2,223,698
Total liabilities		682,187	2,269,956
Shareholders' Equity			
Share capital	7	27,727,287	25,503,589
Capital surplus	7,10	2,043,763	-
Deficit		(5,215,269)	(2,462,138)
Total shareholders' equity		24,555,781	23,041,451
Total liabilities and shareholders' equity		25,237,968	25,311,407

Subsequent event (Note 11)

Approved on behalf of the Board of Directors:

Director

Director

The accompanying notes form an integral part of these condensed interim financial statements

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

Condensed Interim Statements of Net Loss and Comprehensive Loss

(Stated in Canadian Dollars)

For the months ended:

(Unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2022	2021	2022	2021
Interest income		(12,285)	(4,364)	(13,557)	(4,364)
Expenses					
Office and general		542,868	4,259	698,670	13,781
Share based compensation	7	1,736,750	-	1,736,750	-
Professional fees	6	171,553	295,564	256,832	372,014
Rent	6	9,500	6,000	15,500	12,000
Depreciation	4	16,674	7,470	22,936	12,583
Management fees	6	18,000	12,000	36,000	21,000
Total expenses		2,495,345	325,293	2,766,688	431,378
Net loss and comprehensive loss		2,483,060	320,929	2,753,131	427,014
Loss per share					
Basic and diluted		(0.02)	(0.00)	(0.03)	(0.00)
Weighted average shares outstanding					
Basic and diluted	7	101,916,970	99,815,453	92,142,314	99,815,453

The accompanying notes form an integral part of these condensed interim financial statements

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

Condensed Interim Statements of Changes in Shareholders' Equity

(Stated in Canadian Dollars)

(Unaudited)

	Note	Share Capital	Capital Surplus	Share Subscription Receivable	Deficit	Total
As at December 31, 2020		5,504,500	-	(1,900,000)	(1,013,069)	2,591,431
Common shares issued		-	-	1,900,000	-	1,900,000
Units issued		10,661,590	-	-	-	10,661,590
Net loss and comprehensive loss		-	-	-	(427,014)	(427,014)
As at June 30, 2021		16,166,090	-	-	(1,440,083)	14,726,007
As at December 31, 2021		25,503,589	-	-	(2,462,138)	23,041,451
Common shares issued	7	2,223,698	-	-	-	2,223,698
Share-based compensation	7,10	-	2,043,763	-	-	2,043,763
Net loss and comprehensive loss		-	-	-	(2,753,131)	(2,753,131)
As at June 30, 2022		27,727,287	2,043,763	-	(5,215,269)	24,555,781

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

Condensed Interim Statements of Cash Flows

(Stated in Canadian Dollars)

For the six months ended June 30,

(Unaudited)

	Note	2022	2021
Cash provided by (used in):			
Operating activities			
Net loss		(2,753,131)	(427,014)
Depreciation	4	22,936	12,583
Share-based compensation	7	1,736,750	-
Changes in non-cash working capital:			
Prepaid expenses		(222,781)	(156,793)
Accounts payable and accrued liabilities		635,929	(339,397)
Net cash used in operating activities		(580,297)	(910,621)
Financing Activities			
Units issuance		-	11,261,590
Deposit for units issuance		-	5,561,197
Promissory note advance		-	-
Net cash provided by financing activities		-	16,822,787
Investing Activities			
Purchase of property and equipment	4	(343,716)	-
Expenditures on exploration and evaluation assets	5	(6,392,044)	(205,054)
Net cash used in investing activities		(6,735,760)	(205,054)
Increase (Decrease) in cash		(7,316,057)	15,707,112
Cash, beginning of period		19,025,817	1,553,324
Cash, end of period		11,709,760	17,260,436

The accompanying notes form an integral part of these condensed interim financial statements

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

Notes to the Condensed Interim Financial Statements

For the three and six months ended June 30, 2021 and 2022

(all amounts are expressed in Canadian dollars)

(Unaudited)

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 Courtneypark Dr East, Mississauga, Ontario.

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.

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.

The current challenging economic climate relating to the effect of COVID-19 may lead to challenges in managing cash flows and the ability to raise capital.

2. Basis of Presentation

(a) Statement of Compliance

The condensed interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and comply with IAS 34. These condensed interim financial statements does not include all of the information required of a full audited annual financial statements and it is therefore recommended that these condensed interim financial statements be read in conjunction with the annual financial statements for the year ended December 31, 2021.

These financial statements were approved and authorized for issuance on August 25, 2022 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.

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

Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2021 and 2022
(all amounts are expressed in Canadian dollars)
(Unaudited)

2. Basis of Presentation (Continued)

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. These condensed interim financial statements have been prepared using the same judgments, estimates and assumptions as reported in the Company's December 31, 2021 audited annual financial statements.

3. Significant Accounting Policies

These condensed interim financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as the annual financial statements for the year ended December 31, 2021 and should be read in conjunction with those annual financial statements and the notes thereto.

4. Property and Equipment

Cost	
Balance, December 31, 2021	318,413
Addition	343,716
<u>Balance, June 30, 2022</u>	<u>662,129</u>
Accumulated Depreciation	
Balance, December 31, 2021	177,221
Depreciation	22,936
<u>Balance, June 30, 2022</u>	<u>200,157</u>
Net Book Value, December 31, 2021	141,192
Net Book Value, June 30, 2022	461,972

5. Exploration and evaluation assets

Balance, December 31, 2021	6,108,179
Exploration costs	6,699,057
<u>Balance, June 30, 2022</u>	<u>12,807,236</u>

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

Notes to the Condensed Interim Financial Statements
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(Unaudited)

6. Related Party Transactions

The Company has identified directors and senior officers as key management personnel. During the six months ended June 30, 2022, the Company recognized the following transactions with related parties:

- \$15,500 (the six months ended June 30, 2021 - \$12,000) office rental expenses paid to a company owned by a director of the Company.
- \$36,000 (the six months ended June 30, 2021 - \$21,000) management fee paid to a company owned by a director of the Company.
- \$0 (the six months ended June 30, 2021 - \$4,364) interest income from a company owned by a director of the Company.
- \$50,000 (the six months ended June 30, 2021 - \$20,000) geological consulting fee paid to a company owned by a director of the Company, and
- \$66,170 (the six months ended June 30, 2021 - \$129,503) professional fees paid to companies owned by officers of the Company.

At June 30, 2022, accounts payable and accrued liabilities include \$0 (2021 - \$2,260) due to related parties for office rent and management fees. The balances are unsecured, bear no interest and due upon demand.

Transactions with related parties are incurred in the normal course of business and initially measured at fair value.

7. Share Capital and Capital Surplus

- (a) Authorized
Unlimited number of common shares without nominal or par value.
- (b) Issued: Common shares and Series 1 Shares/Warrants

	Number of shares	Number of Series 1 warrants	Value
<i>Common shares:</i>			
December 31, 2021	6,869,792	-	516,981
Series 1 Shares converted to Common Shares (i)	92,945,661	13,332,737	24,986,608
Issuance of Common Shares (ii)	2,223,698	-	2,223,698
June 30, 2022	102,039,151	13,332,737	27,727,287
<i>Series 1 Shares/Warrants:</i>			
Balance, December 31, 2021	92,945,661	13,332,737	24,986,608
Series 1 Shares converted to Common Shares (i)	(92,945,661)	(13,332,737)	(24,986,608)
Balance, June 30, 2022	-	-	-
<i>Total share capital</i>			
Balance, December 31, 2021	99,815,453	13,332,737	25,503,589
Balance, June 30, 2022	102,039,151	13,332,737	27,727,287

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

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7. Share Capital and Capital Surplus (Continued)

- (i) On January 17, 2022, the Company completed the share conversion of Series 1 Shares into the common shares at the ratio of 1:1. The Series 1 Warrants were converted into the Warrants at the ratio of 1:1.
- (ii) On April 5, 2022, the Company received approval from Ontario Securities Commission for the listing on Toronto Stock Exchange Venture (TSXV). Pursuant to the listing of the Company, the Special Warrants of 2,223,698 from the Offering Memorandum were converted into Common Shares.

(c) Capital Surplus

On April 5, 2022, the Company granted to its directors, officers and consultants, options to purchase a total of 771,698 Common Shares of the Company, at an exercise price of \$1.00 per share, which options will expire on April 4, 2027.

On May 19, 2022, the Company granted to its directors, officers, employees, consultants, and to management company employees, options to purchase a total of 2,695,000 Common Shares of the Company, at an exercise price of \$1.92 per share, which options will expire on May 18, 2027.

On June 30, 2022, the accumulated amortization cost of the options is \$2,043,763, which has been stated in the account of Capital Surplus.

Loss per share

The basic and diluted weighted average shares outstanding is calculated as below:

	Three months ended June 30,	
	2022	2021
Opening balance	99,815,453	99,815,453
Weighted average of additional common shares	2,101,517	-
Weighted average as at period end	101,916,970	99,815,453
	Six months ended June 30,	
	2022	2021
Opening balance	6,869,792	99,815,453
Weighted average of additional common shares	85,272,522	-
Weighted average as at period end	92,142,314	99,815,453

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Notes to the Condensed Interim Financial Statements

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(Unaudited)

8. 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 and prepaid expenses. The Company limits its exposure to credit risk by dealing with well rated entities. Management believes credit risk to be low as its cash which is held in a major financial institution in Canada. The prepaid expenses is from the parties who provide services of mine exploration and mine analysis.

(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 \$11,968,760 (2021 - \$19,062,036) to settle obligations of \$682,187 (2021 - \$2,269,956).

(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 Condensed Interim Financial Statements

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(Unaudited)

8. Financial Instruments and Risk Management (Continued)

(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 and accounts payable and accrued liabilities approximates fair value due to the short-term nature.

9. 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.

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(Unaudited)

10. Share Based Compensation

(a) Share Options.

The continuity of share purchase options for the six months ended June 30, 2022 is as follows:

Expiry date	Exercise Price	Outstanding December 31, 2021	Granted	Exercised	Cancelled /Expired	Outstanding June 30, 2022	Exercisable June 30, 2022
April 4, 2027	\$1.00	-	771,698	-	-	771,698	771,698
May 18, 2027	\$1.92	-	2,695,000	-	-	2,695,000	2,695,000
Total		-	3,466,698	-	-	3,466,698	3,466,698
Weighted average exercise price			\$1.72			\$1.72	\$1.72
Weighted average contractual remaining life (years)			5.00			4.81	4.81

The weighted average fair value of share purchase options granted during the six months ended June 30, 2022 is \$1.72 (three months ended June 30, 2021 – \$Nil)

Options were priced based on the Black-Scholes option pricing model using the following weighted average assumptions to estimate the fair value of options granted:

	Six months ended June 30,	
	2022	2021
Risk-free interest rate	2.52%-2.75%	-
Expected life in years	5	-
Expected volatility*	100%-101.34%	-
Grant date share price	\$1-\$1.92	-
Expected forfeiture rate	0	-
Risk-free interest rate	2.52%-2.75%	-

*The expected volatility used was based on the historical volatility of the Company's share price over a period equivalent to the expected life of the options prior to their grant date.

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

Notes to the Condensed Interim Financial Statements

For the three and six months ended June 30, 2021 and 2022

(all amounts are expressed in Canadian dollars)

(Unaudited)

10. Share Based Compensation (Continued)

(b) Warrants.

Expiry date	Exercise Price	Outstanding December 31, 2021	Issued	Exercised	Cancelled /Expired	Outstanding June 30, 2022
December 29, 2023	\$1.50	13,332,737	-	-	-	13,332,737
Total		13,332,737	-	-	-	13,332,737
Weighted average exercise price		\$1.50				\$1.50
Weighted average contractual remaining life (years)		1.50				1.50

11. Subsequent event

On July 13, the Company filed the NI43-101 Independent Technical Report on the updated resource estimate for the Ferguson Lake Project in Nunavut, Canada. The Report indicates large open pit and underground Indicated and Inferred Mineral Resources with significant growth potential at the Ferguson Lake Project.

On July 18, 2022, the Company was accepted for listing on the Quotation Board of the Open Market of the Frankfurt Stock Exchange (FSE) under the trading symbol: **EO0**, which is **E-O-zero**. The Company's common shares is now cross-listed on the TSXV and the FSE.