Northern Graphite Corporation

Financial Statements

For the Years Ended December 31, 2017 and 2016

(expressed in Canadian dollars)

MNP LLP

Independent Auditors' Report

To the Shareholders of Northern Graphite Corporation:

We have audited the accompanying financial statements of Northern Graphite Corporation, which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Northern Graphite Corporation as at December 31, 2017 and December 31, 2016 and the results of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, British Columbia

April 16, 2018

Chartered Professional Accountants

Northern Graphite Corporation
Statements of Financial Position

	As at December 31, 2017 $	As at December 31, 2016 $
Assets		
Current		
Cash and cash equivalents	3,969,921	705,577
HST receivable	14,828	16,434
Prepaid expenses and deposits	45,681	45,478
	4,030,430	767,489
Reclamation deposit (note 13)	819,243	815,689
Property and equipment (note 4)	215,732	252,579
Exploration and evaluation assets (note 5)	11,917,905	11,569,893
Total assets	16,983,310	13,405,650
Liabilities		
Current		
Accounts payable and accrued liabilities	112,847	75,306
Reclamation and close down provision (note 13)	328,532	327,110
Total liabilities	441,379	402,416
Shareholders' equity		
Share capital (note 6)	25,033,021	21,459,258
Warrants (note 6)	857,892	116,833
Contributed surplus (note 6)	2,415,093	2,907,743
Accumulated deficit	(11,764,075)	(11,480,600)
Total shareholders' equity	16,541,931	13,003,234
Total liabilities and shareholders' equity	16,983,310	13,405,650

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors and authorized for issue on April 16, 2018

(signed) Gregory Bowes
Director

(signed) Donald Christie
Director

Northern Graphite Corporation
Statements of Comprehensive Loss

	Years ended December 31,	
	2017	**2016**
	$	**$**
General and administrative expenses		
Management and consulting fees (note 11)	405,934	235,604
Legal and audit	43,129	27,354
Office and miscellaneous (note 11)	307,457	383,179
Share-based payments (notes 6 and 11)	121,052	994,173
Depreciation (note 4)	36,847	61,108
Foreign exchange loss (gain)	40	(44)
	914,459	1,701,374
Loss from operations	(914,459)	(1,701,374)
Interest income	17,282	5,581
Gain on disposal of equipment	-	22,000
Loss and comprehensive loss for the year	(897,177)	(1,673,793)
Loss per share – basic and diluted	(0.02)	(0.03)
Weighted average number of shares – basic and diluted	58,443,613	51,424,716

The accompanying notes are an integral part of these financial statements.

Northern Graphite Corporation
Statements of Changes in Shareholders' Equity

	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated deficit	Total
		$	$	$	$	$
Balance, December 31, 2016	51,484,279	21,459,258	116,833	2,907,743	(11,480,600)	13,003,234
Issuance of shares and warrants (note 6)	12,915,977	3,753,368	808,822	-	-	4,562,190
Issuance of compensation options (note 6)	-	(76,877)	76,877	-	-	-
Share issuance costs	-	(356,055)	-	-	-	(356,055)
Exercise of warrants (note 6)	273,750	136,494	(27,807)	-	-	108,687
Expiry of warrants (note 6)	-	116,833	(116,833)	-	-	-
Expiry of stock options (note 6)	-	-	-	(613,702)	613,702	-
Share-based payment expense (note 6 and 11)	-	-	-	121,052	-	121,052
Loss and comprehensive loss for the year	-	-	-	-	(897,177)	(897,177)
Balance, December 31, 2017	64,674,006	25,033,021	857,892	2,415,093	(11,764,075)	16,541,931
Balance, December 31, 2015	51,284,279	21,256,057	130,029	2,930,493	(10,733,725)	13,582,854
Exercise of stock options (note 6)	200,000	190,005	-	(90,005)	-	100,000
Expiry of stock options (note 6)	-	-	-	(926,918)	926,918	-
Expiry of warrants (note 6)	-	13,196	(13,196)	-	-	-
Share-based payment expense (note 6 and 11)	-	-	-	994,173	-	994,173
Loss and comprehensive loss for the year	-	-	-	-	(1,673,793)	(1,673,793)
Balance, December 31, 2016	51,484,279	21,459,258	116,833	2,907,743	(11,480,600)	13,003,234

The accompanying notes are an integral part of these financial statements.

Northern Graphite Corporation
Statements of Cash Flows

	Years ended December 31,	
	2017	**2016**
	$	**$**
Cash provided by (used in)		
Operating activities		
Loss for the year	(897,177)	(1,673,793)
Items not affecting cash:		
Accretion of asset retirement obligation (note 13)	(2,132)	(1,836)
Depreciation (note 4)	36,847	61,108
Share-based payments (note 6 and 11)	121,052	994,173
Gain on disposal of equipment	-	(22,000)
Change in non-cash working capital items:		
HST receivable	1,605	(5,552)
Prepaid expenses and deposits	(203)	5,020
Deposits	-	53,000
Accounts payable and accrued liabilities	6,272	(136,212)
Net cash used in operating activities	(733,736)	(726,092)
Financing activities		
Issuance of shares and warrants in private placements (note 6)	4,562,190	-
Proceeds from the exercise of warrants (note 6)	108,687	100,000
Share issuance costs	(353,278)	-
Net cash generated from financing activities	4,317,599	100,000
Investing activities		
Proceeds from the disposal of equipment	-	22,000
Exploration and evaluation costs (note 5)	(319,519)	(148,293)
Net cash used in investing activities	(319,519)	(126,293)
Net increase (decrease) in cash and cash equivalents	3,264,344	(752,385)
Cash and cash equivalents, beginning of year	705,577	1,457,962
Cash and cash equivalents, end of year	3,969,921	705,577

Supplemental cash flow information (note 9)

The accompanying notes are an integral part of these financial statements.

1. Corporate information

Northern Graphite Corporation (“Northern” or the “Company”) was incorporated under the laws of the Province of Ontario on February 25, 2002. Northern holds a 100% interest in the Bissett Creek Graphite Property (the “Bissett Creek Property”) and is listed on the TSX Venture Exchange (symbol “NGC”).

The Company’s address and head office is 290 Picton Avenue, Suite 201, Ottawa, Ontario K1Z 8P8 Canada.

2. Basis of preparation

a. ***Statement of compliance***
These financial statements and the notes thereto (the “Financial Statements”) present Northern’s financial results of operations and financial position under International Financial Reporting Standards (“IFRS”) as at and for the years ended December 31, 2017 and 2016.

In the opinion of management, all adjustments necessary to present fairly the financial position of the Company as at December 31, 2017 and the results of its operations and cash flows for the year then ended have been made.

The accounting policies set out in note 3 were consistently applied to all the periods presented, unless otherwise noted.

The Financial Statements were approved and authorized for issue by the Board of Directors on April 16, 2018.

b. Basis of measurement
The Financial Statements have been prepared on a historical cost basis except those accounts as noted in the financial instruments section (note 10). In addition, the Financial Statements have been prepared using the accrual basis of accounting.

c. Going concern
The Company is an exploration stage company that incurred a net loss of $897,177 for the year ended December 31, 2017 (December 31, 2016 - $1,673,793) and has accumulated a deficit of $11,764,075 since the inception of the Company. As at December 31, 2017, the Company had working capital of $3,917,583 (December 31, 2016 – $692,183) and the Company’s ability to continue as a going concern is dependent upon its ability to raise additional capital to continue the development of the Bissett Creek Property. During the year ended December 31, 2017, the Company raised gross proceeds of $4,562,190 through private placements of shares and warrants. Substantial additional capital is required to ultimately build a mine and processing plant at the Bissett Creek Project. There is a high degree of risk and many inherent uncertainties in the mining industry and there is no assurance management will be successful in its endeavours.

The Financial Statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company’s management believes that it can continue to finance operating expenses over the next twelve months with funds on hand. Given the continuation of weak capital markets in the resource sector, there exists a material uncertainty as to the Company’s ability to raise additional funds on favourable terms. The Company’s discretionary activities have considerable scope for flexibility in terms of the amount and timing of expenditures. The Company will thoroughly assess all such activities before undertaking them in advance of additional financing being secured. The Company’s Financial Statements do not include any adjustments that might result from negative outcomes with respect to these uncertainties.

d. Functional and presentation currency
The Company’s functional and presentation currency is the Canadian dollar.

e. Critical accounting estimates and judgments

The preparation of the Financial Statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the Financial Statements, and revenues and expenses for the period. By their nature, these estimates and judgments are subject to uncertainty and the effect on the Financial Statements of changes in such estimates in future periods could be significant. Actual results may differ from those estimates and judgments.

Significant estimates used in the preparation of the Financial Statements include, but are not limited to:

(i) asset carrying values and impairment charges;
(ii) the economic recoverability of exploration expenditures incurred and the probability of future economic benefits from development expenditures incurred;
(iii) the expected costs of asset retirement obligations; and
(iv) the calculation of share-based compensation and the valuation of warrants which includes the assumptions used in the Black-Scholes option pricing model including volatility, estimated forfeiture rates and expected time until exercise.

Significant judgments used in the preparation of these Financial Statements include, but are not limited to:

(i) those relating to the assessment of the Company's ability to continue as a going concern;
(ii) the useful lives and related depreciation of property and equipment;
(iii) the identification of separately identifiable components in property and equipment where their respective cost is significant in comparison to the total cost;
(iv) the classification of expenditures as exploration and evaluation assets; and
(v) the recognition of deferred tax.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the Financial Statements are as follows:

(i) Exploration and evaluation assets

The Company is required to review the carrying value of its exploration and evaluation properties at each reporting date for potential impairment. Impairment is indicated if the carrying value of the Company's exploration and evaluation assets is not recoverable. If impairment is indicated, the amount by which the carrying value of exploration and evaluation assets exceeds their estimated fair value is charged to the statements of comprehensive loss.

Evaluating for recoverability during the exploration and evaluation phase requires judgment in determining whether future economic benefits from future exploitation, sale or otherwise are likely. Evaluations may be more complex where activities have not reached a stage which permits a reasonable assessment of the existence of reserves or resources. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Company's financial ability to continue exploration and evaluation activities, contractual issues with joint venture partners, the impact of government legislation and political stability in the region, and the impact of current and expected future metal prices on potential reserves.

(ii) Share-based payments

The Company has an equity-settled share-based stock option plan for directors, officers, employees and consultants. Services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of stock options are estimated by using the Black-Scholes model on the date of the grant based on certain assumptions. Those assumptions are described in note 6 and include, among others, expected volatility, expected life of the stock options and the number of stock options expected to vest.

(iii) Useful lives of equipment, buildings and improvements

The Company estimates the useful lives of equipment, buildings, and improvements based on the period over which the assets are expected to be available for use. The depreciation method and useful lives reflect the pattern in which management expects the asset's future economic benefits to be consumed by the Company. The amounts and timing of recorded expenses for any period would be affected by changes in assumptions and estimates used.

(iv) Taxes

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the probable timing and the level of future taxable income realized, including the usage of tax planning strategies.

(v) Restoration and site closure provision
The Company recognizes the liability for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the exploration or development of its properties. The Company assesses its provision for site restoration and site closure at each reporting date. The fair value of an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is adjusted to reflect the passage of time (accretion expense) and for changes in estimated future cash flows. The provision at the reporting date represents management's best estimate of the present value of the future restoration and site closure costs required.

3. Significant accounting policies

Cash and cash equivalents
Cash and cash equivalents include bank balances, funds held in trust with lawyers, and short term investments that are readily convertible into cash with original maturities of three months or less.

Property and equipment
Upon initial acquisition, buildings, plant and equipment are valued at cost, being the purchase price and the directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management.

In subsequent periods, buildings, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value and is not depreciated.

Each component or part of property and equipment with a cost that is significant in relation to total cost of the item will be depreciated separately unless there is no difference in depreciation on the respective components.

Impairment of long-lived assets
At each statement of financial position date, the Company assesses whether there is any indication that any long-lived assets or finite life tangible assets are impaired. The Company monitors the recoverability of long-lived assets based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the assets. An impairment is recognized if the recoverable amount, determined as the higher of an asset's fair value less cost to sell and the discounted future cash flows generated from use and eventual disposal of an asset, is less than its carrying value. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Mining properties and exploration and evaluation assets are also assessed for impairment upon the transfer of exploration and evaluation assets to development assets regardless of whether facts and circumstances indicate that the carrying amount of the exploration and evaluation assets is in excess of their recoverable amount.

Mining properties and exploration and evaluation expenditures
Mining properties correspond to acquired interests in mining exploration leases/permits/claims which include the rights to explore, mine, extract and sell all minerals. All pre-exploration costs, i.e. costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on an area of interest, are expensed as incurred.

Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized in respect of each identifiable area of interest until the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated.

General and administration expenditures relating to exploration are capitalized where they can be directly attributed to the site undergoing exploration and evaluation.

Exploration and evaluation assets are carried at historical cost, less any impairment losses recognized.

When the technical feasibility and commercial viability of extracting a mineral resource are demonstrated for an area of interest, the Company stops capitalizing exploration and evaluation costs for that area, tests recognized exploration and evaluation assets for impairment and reclassifies any unimpaired exploration and evaluation assets either as tangible or intangible mine development assets according to the nature of the assets.

Depreciation and depletion

Depreciation and depletion is provided so as to write off the cost less estimated residual values of mining properties, buildings, plant and equipment on the following bases:

Buildings, plant and equipment unrelated to production are depreciated using the straight-line method based on their estimated useful lives. Where significant parts of an asset have differing useful lives, depreciation is calculated on each separate part. The estimated useful life of each item or part has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property on which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates which affect depreciation are accounted for prospectively.

The expected useful lives are as follows:

Building and improvements	10 years
Equipment	3 – 20 years
Process buildings	20 years

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of 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 is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit (loss) nor taxable profit (loss). In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Translation of foreign currencies

Monetary items denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the statement of financial position date, and non-monetary items are translated at exchange rates in effect when the assets were acquired or liabilities incurred. Revenue and expense items are translated at the rate of exchange in effect on the transaction date. Foreign currency transaction gains or losses are reflected in the results of operations.

Asset retirement obligations

The fair value of an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is adjusted to reflect the passage of time (accretion expense) and for changes in estimated future cash flows. Accretion expense is charged to the statement of comprehensive loss, while adjustments related to changes in estimated cash flows are recorded as increases or decreases in the carrying value of the asset. The capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, a gain or loss is recorded if the actual costs incurred are different from the liability recorded.

Comprehensive income

Other comprehensive income represents the change in net equity for the period resulting from unrealized gains and losses on available-for-sale financial instruments, and changes in the fair market value of derivative instruments designated as cash flow hedges. These amounts are shown net of tax. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income which is presented, if any, as a new category in shareholders' equity. The Company has not had any transactions during the years ended December 31, 2017 and 2016, or previously, that give rise to other comprehensive income, and therefore no balance has accumulated.

Share capital and share purchase warrants
Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial asset or liability. The Company's common shares, share purchase warrants and stock options are classified as equity instruments. Incremental costs directly attributable to the issuance of new equity instruments are shown in equity as a deduction from the proceeds of issuance. Amounts recorded relating to expired warrants are transferred to share capital.

Effective January 1, 2017, the Company voluntarily changed its accounting policy related to the determination of values when shares and warrants are issued together as units. During 2017, the proceeds from the issue of units have been allocated between common shares and share purchase warrants on a pro-rata basis based on relative fair values at the date of issuance. The fair value of common shares is based on the market closing price on the day preceding the date the units are issued and the fair value of share purchase warrants is determined using the Black-Scholes option pricing model as of the date of issuance. Prior to January 1, 2017, when units were issued, the proceeds were allocated to warrants first according to their fair value determined using the Black-Scholes option pricing model, with the residual value being allocated to shares. Company management has implemented this voluntary change in accounting policy as it believes the relative fair value method provides more reliable and relevant outputs that base both the valuation of common shares and warrants on readily observable inputs related to quoted market prices of the Company's common share. This change in accounting policy has had no impact on the comparative figures presented in these Financial Statements.

Loss per share
Basic loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method which includes the dilutive effect of warrants, stock options and contingently issuable shares in the weighted average number of common shares outstanding for the period when applicable. For the years ended December 31, 2017 and 2016, all outstanding warrants and stock options were anti-dilutive.

Share-based payments
The Company has a stock option plan (the "Option Plan") described in note 6. The Company measures the compensation cost of stock options issued under the Option Plan using the fair-value method as determined using the Black-Scholes option pricing model. Compensation costs are measured at the grant date based on the fair value of the award and are recognized over the vesting period as share-based payments with a corresponding increase to contributed surplus. Upon exercise, common shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, as adjusted for any consideration paid. The Company transfers the value of forfeited and expired unexercised vested stock options to deficit from contributed surplus at the date of expiration.

The Black-Scholes option pricing model incorporates highly subjective assumptions, including volatility, estimated forfeiture rates and expected time until exercise, which affect the calculated values. At the end of each reporting period, the Company reviews the option pricing model and updates model inputs for any changes for the purposes of determining the fair value of new grants, and reflects the impact of changes to non-market input estimates for previous grants in net income (loss) with a corresponding adjustment to contributed surplus.

Financial instruments
All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends upon whether the financial instrument is classified as fair value through profit or loss ("FVTPL"), available-for-sale assets, held-to-maturity investments, loans and receivables, or other liabilities measured at amortized cost ("Other Financial Liabilities"). Financial instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the statement of operations. Available-for-sale asset financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Financial assets classified as held-to-maturity investments, loans and receivables and Other Financial Liabilities, are measured at amortized cost. Transaction costs in respect of financial assets and liabilities which are FVTPL are recognized in profit or loss immediately. Transaction costs in respect of Other Financial Liabilities are included in the initial fair value measurement of the financial instrument.

The Company may enter into derivative contracts or, financial instruments and non-financial contracts containing embedded derivatives. Embedded derivatives are required to be accounted for separately at fair value as derivatives when the risks and characteristics of the embedded derivatives are not closely related to those of their host contract, and the host contract is not carried at fair value.

The Company has designated each of its significant categories of financial instruments as follows:

Cash and cash equivalents	FVTPL
Deposits	Loans and receivables
Accounts payable and accrued liabilities	Other Financial Liabilities

Financial assets carried at amortized cost are assessed for indicators of impairment at the end of each reporting period. These financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments;
- The likelihood that the borrower will enter bankruptcy or financial re-organization; or
- Observable data that there is a measurable decrease in estimated future cash flows from a group of financial assets.

The carrying amount of financial assets is reduced by any impairment loss directly except in the case of accounts receivable, where the carrying amount is recorded through the use of an allowance account. When an account receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of accounts receivable previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal is recognized in profit or loss and is limited to the carrying amount that would have been determined had no impairment loss been recognized in prior periods.

Future accounting standards

Certain pronouncements were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after December 31, 2017. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the discussion below.

IFRS 9, Financial Instruments (effective January 1, 2018) introduces new requirements for the classification and measurement of financial assets and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options available in IAS 39. The Company has evaluated the new standard and does not anticipate any material impact from the adoption on its results of operations, financial position, and disclosures.

IFRS 15, Revenue from Contracts with Customers provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related Interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. This standard is effective for reporting periods beginning on or after January 1, 2018. The Company has evaluated the new standard and does not anticipate any material impact from the adoption on its results of operations, financial position, and disclosures.

IFRS 16, Leases, was issued by the IASB in January 2016. The new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. This standard is effective for annual reporting periods on or after January 1, 2019. Early adoption is permitted if IFRS 15 has also been adopted. The Company has not yet evaluated the impact of adoption on its financial statements.

4. Property and equipment

	Building and improvements $	Equipment $	Total property and equipment $
Cost			
Balance, December 31, 2016 and 2017	803,497	590,919	1,394,416
Accumulated depreciation			
Balance, December 31, 2016	552,501	589,336	1,141,837
Additions	35,642	1,205	36,847
Balance, December 31, 2017	588,143	590,541	1,178,684
Net book value	215,354	378	215,732

	Building and improvements $	Equipment $	Total property and equipment $
Cost			
Balance, December 31, 2015	803,497	646,994	1,450,491
Disposals	-	(56,075)	(56,075)
Balance, December 31, 2016	803,497	590,919	1,394,416
Accumulated depreciation			
Balance, December 31, 2015	516,191	620,613	1,136,804
Additions	36,310	24,798	61,108
Disposals	-	(56,075)	(56,075)
Balance, December 31, 2016	552,501	589,336	1,141,837
Net book value	250,996	1,583	252,579

5. Exploration and evaluation assets

The Company has a 100% interest in the Bissett Creek Property which consists of a 1,938 hectare mining lease, expiring in June, 2034, a 565 hectare mining lease, expiring in August, 2035, and five unpatented claims totaling approximately 464 hectares. All leases and claims are located in the United Townships of Head, Clara and Maria, in the County of Renfrew, Ontario. As of December 31, 2017, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	$
Balance, December 31, 2016	11,569,893
Exploration and evaluation expenditures made from January 1, 2017 to December 31, 2017:	
Environmental and mine permitting	85,504
Metallurgical	150,484
Engineering	27,985
Site and royalties	77,839
Other	6,200
Balance, December 31, 2017	11,917,905

As of December 31, 2016, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	$
Balance, December 31, 2015	11,416,388
Exploration and evaluation expenditures made from January 1, 2016 to December 31, 2016:	
Environmental and mine permitting	21,819
Metallurgical	18,129
Engineering	47,993
Site and royalties	65,564
Balance, December 31, 2016	11,569,893

The Company is required to make royalty payments of $20 per ton of graphite concentrate produced to the previous owners and is subject to a 2.5% net smelter return payable on any other minerals derived and sold from the Bissett Creek Property. An advance royalty of $27,000 per annum is payable in semi-annual installments and is recorded in exploration and evaluation assets. The advance will be credited against any future royalty payments.

6. Share capital

Authorized
The Company is authorized to issue an unlimited number of common shares.

Private placements
On March 24, 2017, the Company completed a non-brokered private placement and issued 8,333,333 units at a price of $0.30 per unit for gross proceeds of $2,500,000. Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.40 per share for a period of 24 months from the closing of the private placement. The 4,166,666 warrants were recorded at a value of $427,680. In connection with the private placement, the Company paid fees totaling $136,500 to the agents, and issued to the agents 455,000 compensation options. Each compensation option entitles the holder to purchase one common share at an exercise price of $0.35 per share for a period of 12 months from the closing of the private placement. The compensation options were recorded at a value of $38,567.

On November 22, 2017, the Company completed a non-brokered private placement and issued 4,582,644 units at a price of $0.45 per unit for gross proceeds of $2,062,190. Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.60 per share for a period of 24 months from the closing of the private placement. The 2,291,322 warrants were recorded at a value of $381,142. In connection with the private placement, the Company paid fees totaling $131,119 to the agents, and issued to the agents 291,370 compensation options. Each compensation option entitles the holder to purchase one common share at an exercise price of $0.60 per share for a period of 12 months from the closing of the private placement. The compensation options were recorded at a value of $38,310.

Warrants and compensation options
Information with respect to the Company's warrants and compensation options is presented below:

	Number of warrants	**Weighted average exercise price $**
Balance, December 31, 2015	1,177,679	0.78
Expiry of compensation options	(126,180)	0.60
Balance, December 31, 2016	1,051,499	0.80
Warrants issued	6,457,988	0.47
Compensation options issued	746,370	0.45
Warrants exercised	(257,500)	0.40
Compensation options exercised	(16,250)	0.35
Warrants expired	(1,051,499)	0.80
Balance, December 31, 2017	6,930,608	0.47

A summary of the Company's warrants and compensation options outstanding at December 31, 2017 is presented below:

Exercise price	**Number of warrants outstanding**	**Expiry date**
$0.35	*438,750	March 24, 2018
$0.40	3,909,166	March 24, 2019
$0.60	291,370	November 22, 2018
$0.60	2,291,322	November 22, 2019
	6,930,608	

** Exercised subsequent to December 31, 2017 (Note 15)*

The weighted average remaining contractual life of warrants and compensation option outstanding is 1.37 years.

The values of warrants and compensation options determined during the years ended December 31, 2017 and 2016 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Warrants granted during the year	7,204,358	Nil
Weighted-average exercise price	$0.47	n/a
Expected warrant life[(1)]	1-2 years	n/a
Expected volatility[(2)]	76.3% - 91.6%	n/a
Risk-free interest rate[(3)]	0.76% - 1.45%	n/a
Dividend yield	Nil	n/a
Forfeiture rate	Nil	n/a
Weighted-average fair value (Black-Scholes value)	$0.16	n/a

1. The Company has a limited history of warrant exercises. The Company continues to estimate the expected warrant life (estimated period of time outstanding prior to exercise) based on the contractual term to expiry of warrants and will continue to do so until such time that the Company can base its estimate on a volume of historical information pertaining to the Company's actual warrant exercise history.
2. The expected volatility was based on the Company's common share trading history over a period equal to the expected warrant life.
3. The risk-free interest rate is based on the yield of a Government of Canada marketable bond in effect at the time of grant with a term to maturity commensurate with the expected life of the warrant.

Stock options

The Company has adopted a stock option plan (the "Option Plan") for directors, officers, employees and consultants of the Company. Under the Option Plan, the Company may grant non-transferable stock options to purchase common shares of the Company for a period of up to ten years from the date of the grant. The maximum number of common shares reserved for issuance under the Option Plan together with any common shares reserved for issuance pursuant to any other stock options may not exceed 10% of the issued and outstanding common shares of the Company.

A summary of the Option Plan activity is presented below:

	Number of options	Weighted average exercise price $
Balance, December 31, 2015	3,800,000	0.62
Granted	3,050,000	0.50
Exercised	(200,000)	0.50
Expired	(2,125,000)	0.52
Balance, December 31, 2016	4,525,000	0.60
Granted	200,000	0.50
Expired	(1,050,000)	0.77
Forfeited	(100,000)	0.75
Balance, December 31, 2017	3,575,000	0.53

A summary of the Company's outstanding stock options at December 31, 2017 is presented below:

Exercise price	Stock options outstanding	Stock options exercisable	Expiry date
$0.70	600,000	600,000	January 9, 2020
$0.50	2,775,000	2,775,000	April 27, 2021
$0.50	200,000	200,000	November 27, 2022
	3,575,000	3,575,000	

The weighted average remaining contractual life of stock options outstanding is 3.19 years. As at December 31, 2017, a total of 3,575,000 stock options were exercisable (2016 – 4,025,000).

The values of stock options determined during the years ended December 31, 2017 and 2016 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	Year ended December 31, 2017	**Year ended December 31, 2016**
Stock options granted during the year	200,000	3,050,000
Weighted-average exercise price	\$0.50	\$0.50
Expected stock option life[(1)]	5 years	1-5 years
Expected volatility[(2)]	78.4%	94.0%
Risk-free interest rate[(3)]	1.31%	0.89%
Dividend yield	Nil	Nil
Forfeiture rate	Nil	Nil
Weighted-average fair value (Black-Scholes value)	\$0.33	\$0.34

1. The Company estimates the expected stock option life (estimated period of time outstanding prior to exercise) based on the contractual term to expiry of stock options until such time that the Company can base its estimate on historical information pertaining to the Company's stock option exercise history.
2. The expected volatility was based on the Company's common share trading history over a period equal to the expected stock option life.
3. The risk-free interest rate is based on the yield of a Government of Canada marketable bond in effect at the time of grant with a term to maturity commensurate with the expected life of the stock option.

As at December 31, 2017, there was \$nil (December 31, 2016 – \$54,395) of unrecognized share-based compensation costs related to unvested stock option awards and stock option awards subject to an escrow agreement granted under the Option Plan.

Contributed surplus

	$
Balance, December 31, 2015	2,930,493
Share-based compensation	994,173
Exercise of stock options	(90,005)
Expiry of stock options	(926,918)
Balance, December 31, 2016	2,907,743
Share-based compensation	121,052
Expiry of stock options	(613,702)
Balance, December 31, 2017	2,415,093

Contributed surplus as at December 31, 2017 and 2016 consists of a share-based payment reserve related to stock options issued under the Option Plan.

7. Income taxes

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statements of comprehensive loss for the years ended December 31, 2017 and 2016:

		Year ended December 31, 2017		Year ended December 31, 2016
Loss before income taxes	$	(897,177)	$	(1,673,793)
Canadian statutory income tax rate		26.50%		26.50%
Expected income tax recovery		(237,752)		(443,555)
Differences resulting from:				
Non-deductible items		32,079		263,456
Change in deferred tax assets not recognized		205,673		180,099
Income tax expense (recovery)	$	-	$	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Deferred tax assets (liabilities) at December 31, 2017 and 2016 are comprised of the following:

		December 31, 2017		December 31, 2016
Non-capital loss carry forwards	$	488,570	$	488,570
Exploration and evaluation assets		(363,235)		(363,235)
Investment tax credits		(125,335)		(125,335)
	$	-	$	-

The unrecognized temporary differences as at December 31, 2017 and 2016 are comprised of the following:

		December 31, 2017		December 31, 2016
Non-capital loss carry forwards	$	13,566,333	$	12,667,930
Exploration and evaluation assets		428,085		391,238
Reclamation and close down provision		328,532		327,110
SR&ED expenditures		1,486,074		1,486,074
Financing costs		442,553		144,311
Investment tax credits		472,964		472,964
	$	16,724,541	$	15,489,627

As of December 31, 2017, the Company has non-capital loss carry forwards of approximately $13,566,333 (2016 – $12,667,930), which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to the final determination by taxation authorities. The carry forward balances expire as follows:

Year		Amount
2027	$	2,174,483
2028		857,236
2029		393,269
2030		444,321
2031		2,566,624
2032		2,518,874
2033		1,136,578
2034		981,691
2035		900,029
2036		720,683
2037		872,545
Total	$	13,566,333

8. *Capital disclosures*

The Company's capital consists of the equity attributable to the common shareholders, comprised of share capital and accumulated deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to explore and develop its mineral resource property for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As the Company is an exploration stage company, it has no revenues and its principal source of capital is from the issue of common shares. In order to achieve its objectives, the Company will spend its existing working capital and raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

9. *Supplemental cash flow information*

Non-cash transactions not reflected in the statements of cash flows are as follows:

	Year ended December 31, 2017	**Year ended December 31, 2016**
Exploration and evaluation costs in accounts payable and accrued liabilities	28,492	5,212
Share issue costs in accounts payable and accrued liabilities	2,777	-

10. Financial instruments and risk management

Fair value

Certain of the Company's accounting policies and disclosures require the determination of fair value. Fair value represents the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on quoted market values and other valuation methods. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

In establishing fair value, the Company uses a fair value hierarchy based on levels as defined below:
● Level 1: defined as observable inputs such as quoted prices in active markets.
● Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.
● Level 3: defined as inputs that are based on little or no observable market data and, therefore, requiring entities to develop their own assumptions.

At December 31, 2017, the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized on the statement of financial position at fair value on a recurring basis are categorized as follows:

	Category	**At December 31, 2017 $**	**At December 31, 2016 $**
Cash and cash equivalents	Level 1	3,969,921	705,577

At December 31, 2017, there were no financial assets and liabilities measured and recognized at fair value on a non-recurring basis. The Company's policy for determining when a transfer occurs between levels in the fair value hierarchy is to assess the impact at the date of the event or the change in circumstances that could result in a transfer. There were no transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2017.

At December 31, 2017 and 2016, there were no financial assets or liabilities measured and recognized in the statements of financial position at fair value that would be categorized as Level 2 or Level 3 in the fair value hierarchy.

The carrying value of cash and cash equivalents, deposits and accounts payable and accrued liabilities approximates fair value due to the short-term nature of these financial instruments. The carrying value of the reclamation deposit approximates its fair value as it bears a market rate of interest.

Currency risk

As the majority of the Company's expenditures are in Canadian dollars, the Company limits its exposure to currency risk by maintaining its cash and cash equivalents in Canadian dollars. The Company carries a portion of its accounts payable and accrued liabilities in US dollars, and is subject to currency risk on these balances. However, the Company considers this risk to be minimal.

Credit risk

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company limits its exposure to credit risk by holding its cash in deposits with high credit quality Canadian financial institutions, and considers this risk to be minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet is financial obligations as they come due. The Company manages its liquidity risk through the management of its capital structure. Further discussion on liquidity and management's plans are outlined in note 2.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk due to the short-term nature of its financial instruments.

11. Related party transactions and compensation of key management

Key management compensation
During the year ended December 31, 2017, the Company expensed management fees to companies owned and controlled by key management personnel of $nil (2016 – $55,088) and salary and compensation to key management personnel of $270,000 (2016 – $120,000). During the year ended December 31, 2017, the Company provided employee benefits totaling $nil (2016 - $28,430) to key management personnel. During the year ended December 31, 2017, the Company expensed directors' fees of $75,000 (2016 - $Nil). During the year ended December 31, 2017, the Company expensed share-based compensation for stock options granted to key management personnel and directors of $54,573 (2016 – $980,703).

As at December 31, 2017, $12,445 (2016 – $10,908) was included in accounts payable and accrued liabilities owing to officers and directors relating to director fees and for reimbursement of expenses.

Other related party transactions
During the period from January to May of 2017, the Company expensed office rental payments of $6,250 (Year ended December 31, 2016 – $22,975) provided to a public company whose former CEO and director is also a director of the Company.

12. Commitments

Leased mineral claims
In connection with the Bissett Creek Property, the Company is required to make royalty payments of $20 per ton of graphite concentrate produced to the previous owners and a 2.5% net smelter return is payable on any other minerals derived and sold from the Bissett Creek Property. An advance royalty of $27,000 per annum is payable in semi-annual installments. Installments were paid during the years ended December 31, 2017 and 2016. The advance will be credited against any future production royalty payments.

Contractual obligations
As at December 31, 2017 and December 31, 2016, the Company had no contractual obligations which related to costs associated with work at the Bissett Creek Property.

13. Provisions

In 2012, the Company filed a revised Mine Closure Plan ("MCP") which was accepted by the Ministry of Northern Development and Mines ("MNDM"). The Company's obligations under the MCP are secured by a deposit of $819,243 (December 31, 2016 - $815,689), including accrued interest. This amount has been paid to the Minister of Finance for the Province of Ontario and has been accounted for as a long term deposit. In accordance with the MCP, the total required reclamation deposit will increase to $2,329,008. In addition to the existing deposit, $800,000 must be deposited prior to placing any footings in the ground for the construction of structures such as buildings and dams and $729,088 must be deposited prior to the commencement of commercial production. The provision for reclamation and close down represent the estimated amount that would be required to restore the Bissett Creek Property to its original environmental state. The Company has a provision of $328,532 on its balance sheet (December 31, 2016 - $327,110) which represents the estimated current cost of reclamation. The reclamation deposit will be returned to the Company once the MNDM is satisfied that the obligations contained in the MCP have been performed by the Company. Should the Company not perform its obligations contained in the MCP, the MNDM will restore the Bissett Creek Property site to its original environmental state using the funds from the reclamation deposit.

14. Segmented information

The Company's operations comprise one reportable segment being the exploration and development of mineral resource properties. The Company's corporate and administrative offices are in Ontario, Canada. The Company's exploration and development activities are focused on the Bissett Creek Property in Ontario, Canada. All property and equipment and exploration and evaluation assets are located in Ontario, Canada.

15. Subsequent events

On January 12, 2018, the Company granted stock options to officers and directors to purchase a total of 800,000 common shares at an exercise price of $0.50 per share for five years. Of this total, 650,000 stock options vest immediately while 150,000 stock options vest over a period of 18 months.

During February and March of 2018, a total of 438,750 compensation options were exercised for total proceeds to the Company of $153,562.