

Northern Graphite Corporation

(an Exploration Stage Company)

Financial Statements

For the Years Ended December 31, 2015, and 2014

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, 2015 and 2014 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 audits 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, 2015 and December 31, 2014, and the results of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 of these financial statements, which states that Northern Graphite Corporation incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 2, indicates the existence of a material uncertainty which may cast significant doubt about the ability of Northern Graphite Corporation to continue as a going concern.



March 29, 2016

Vancouver, British Columbia

Chartered Professional Accountants

Northern Graphite Corporation

(an exploration stage company)

Statements of Financial Position

	As at December 31 2015 \$	As at December 31 2014 \$
Assets		
Current		
Cash and cash equivalents	1,457,962	1,800,901
HST receivable	10,882	32,394
Prepaid expenses and deposits	50,498	34,831
	1,519,342	1,868,126
Deposits	53,000	53,000
Reclamation deposit (note 14)	812,628	809,569
Property and equipment (note 4)	313,687	382,783
Exploration and evaluation assets (notes 5 and 6)	11,416,388	10,869,049
	14,115,045	13,982,527
Liabilities		
Current		
Accounts payable and accrued liabilities	206,306	331,607
	206,306	331,607
Reclamation and close down provision (note 14)	325,885	324,661
	532,191	656,268
Shareholders' equity		
Share capital (note 7)	21,256,057	20,364,805
Warrants (note 7)	130,029	-
Contributed surplus (note 7)	2,930,493	2,658,904
Deficit	(10,733,725)	(9,697,450)
Total shareholders' equity	13,582,854	13,326,259
Total liabilities and shareholders' equity	14,115,045	13,982,527

The accompanying notes are an integral part of these financial statements

Approved by the Board of Directors and authorized for issue on March 29, 2016

(signed) Gregory Bowes
Director

(signed) Donald Christie
Director

Northern Graphite Corporation
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Statements of Comprehensive Loss

	Years ended December 31	
	2015	2014
	\$	\$
General and administrative expenses		
Management and consulting fees (note 12)	366,900	516,553
Legal and audit	66,784	88,181
Office and miscellaneous (note 12)	273,324	353,037
Share-based payments (notes 7 and 12)	271,589	75,490
Depreciation	69,096	69,096
Foreign exchange loss (gain)	781	934
	1,048,474	1,103,291
Loss from operations	(1,048,474)	(1,103,291)
Interest income	12,199	31,892
Gain on debt settlement	-	80,665
Income before taxes	(1,036,275)	(990,734)
Tax expense	-	-
Loss and comprehensive loss for the year	(1,036,275)	(990,734)
Loss per share	(0.02)	(0.02)
Weighted average number of shares – basic and fully diluted	50,189,568	49,152,651

The accompanying notes are an integral part of these financial statements

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Statements of Changes in Shareholders' Equity

	Number of Shares	Share capital Amount \$	Warrants reserve \$	Contributed Surplus Reserve \$	Deficit \$	Total \$
Balance at December 31, 2014	49,181,281	20,364,805	-	2,658,904	(9,697,450)	13,326,259
Proceeds from the issuance of shares	2,102,998	1,261,799	-	-	-	1,261,799
Share issuance costs		(240,518)		-	-	(240,518)
Issuance of warrants	-	(130,029)	130,029	-	-	-
Share-based payment expense (note 7 and 12)	-	-	-	271,589	-	271,589
Net loss	-	-	-	-	(1,036,275)	(1,036,275)
Balance, December 31, 2015	51,284,279	21,256,057	130,029	2,930,493	(10,733,725)	13,582,854
Balance at December 31, 2013	49,131,281	20,317,304	-	2,605,915	(8,706,716)	14,216,503
Proceeds from the exercise of options	50,000	25,000	-	-	-	25,000
Fair value of options exercised		22,501		(22,501)		
Share-based payment expense (note 7 and 12)	-	-	-	75,490	-	75,490
Net loss	-	-	-	-	(990,734)	(990,734)
Balance, December 31, 2014	49,181,281	20,364,805	-	2,658,904	(9,697,450)	13,326,259

The accompanying notes are an integral part of these financial statements

Northern Graphite Corporation

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Statements of Cash Flows

	Years ended December 31	
	2015	2014
	\$	\$
Cash provided by (used in)		
Operating activities		
Loss for the year	(1,036,275)	(990,734)
Items not affecting cash		
Accretion of asset retirement obligation (Note 14)	(1,835)	(3,854)
Depreciation (Note 4)	69,096	69,096
Share-based payments (Note 7)	271,589	75,490
Gain on debt settlement (Note 11)	-	(80,665)
HST receivable	21,512	67,585
Prepaid expenses and deposits	(15,667)	11,622
Accounts payable and accrued liabilities	28,379	63,852
Net cash used in operating activities	(663,201)	(787,609)
Financing activities		
Issuance of share capital in private placement	1,261,799	-
Proceeds from the exercise of options (Note 7)	-	25,000
Share issuance costs	(240,518)	-
Net cash generated from financing activities	1,021,281	25,000
Investing activities		
Purchase of fixed assets (Note 4)	-	(3,400)
Exploration and evaluation costs (Note 5)	(701,019)	(791,489)
Net cash used in investing activities	(701,019)	(794,889)
Net increase (decrease) in cash and cash equivalents	(342,939)	(4,923,326)
Cash and cash equivalents, beginning of year	1,800,901	8,281,725
Cash and cash equivalents, end of year	1,457,962	1,800,901

The accompanying notes are an integral part of these financial statements

Northern Graphite Corporation
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Notes to Financial Statements
For the years ended December 31, 2015 and 2014

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, 2015 and 2014.

In the opinion of management, all adjustments necessary to present fairly the financial position of the Company as at December 31, 2015 and the results of its operations and cash flows for the year then ended have been made.

The policies set out in note 3 were consistently applied to all the periods presented.

The Financial Statements were approved and authorized for issue by the Board of Directors on March 29, 2016.

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 11). 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 \$1,036,275 for the year ended December 31, 2015 (2014 - \$990,734) and has an accumulated deficit of \$10,733,725 since the inception of the Company. As at December 31, 2015, the Company had working capital of \$1,313,036 (December 31, 2014 - \$1,536,519) 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. On July 9, 2015, the Company closed a short form prospectus offering of 2,102,998 units of the Company at a price of \$0.60 per unit for gross proceeds of \$1,261,799. However, substantial additional capital is required to ultimately build a mine and processing plant on the Bissett Creek Project and to enable the Company to enter production and continue its operations. 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 negative investor sentiment and 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.

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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 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 for potential impairment. Impairment is indicated if the carrying value of the Company's exploration and evaluation 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 changed to the statement of 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 to potential reserves.

- (ii) Share-based payments

The Company has an equity-settled share-based scheme 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 share 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 7 and include, among others, expected volatility, expected life of the options and number of options expected to vest.

- (iii) Useful lives of equipment, buildings and improvements depreciation

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

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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, whilst 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 balance sheet 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. Where 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 estimated useful lives. Where significant parts of an asset have differing useful lives, depreciation is calculated on each separate part. The estimated useful

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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 balance sheet 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.

Restoration and site closure provision

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 profit or 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 did not have any transactions during the year ended December 31, 2015 and 2014 that give rise to other comprehensive income, and therefore no balance has accumulated.

Share capital

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 and common share purchase warrants are classified as equity instruments.

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Incremental costs directly attributable to the issuance of new equity instruments are shown in equity as deduction from the proceeds of issuance.

When shares and warrants are issued together as units, the proceeds are allocated to warrants first according to their fair value determined using the Black-Scholes option pricing model, the residual value being allocated to shares.

Earnings per share

Basic loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the period. Fully diluted loss per share is calculated using the treasury share method and reflects the potential dilution by including share options and contingently issuable shares, in the weighted average number of common shares outstanding for the year. For the year ended December 31, 2015 and the year ended December 31, 2014, all outstanding share options and warrants were anti-dilutive.

Share-based payments

The Company has a share option plan (the "Plan") described in Note 7. The Company measures the compensation cost of share options issued under the 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 in net income (loss) 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 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
Reclamation deposit	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.

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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 years.

Future accounting standards

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods after December 31, 2015. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the discussion below. The Company is currently evaluating the potential impacts of these new standards.

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. 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.

IAS 1 Presentation of Financial Statements amendments are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016.

4. Property and equipment

	Building and improvements	Equipment	Total property plant & equipment
Cost	\$	\$	\$
December 31, 2014	803,497	646,994	1,450,491
Additions	-	-	-
Disposals	-	-	-
Impairment	-	-	-
December 31, 2015	803,497	646,994	1,450,491
Accumulated depreciation			-
December 31, 2014	479,979	587,729	1,067,708
Additions	36,212	32,884	69,096
Disposals	-	-	-
Impairment	-	-	-
December 31, 2015	516,191	620,613	1,136,804
Net book value	287,306	26,381	313,687

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Cost	Building and improvements	Equipment	Total property plant & equipment
	\$	\$	\$
December 31, 2013	800,097	646,994	1,447,091
Additions	3,400	-	3,400
Disposals	-	-	-
Impairment	-	-	-
December 31, 2014	803,497	646,994	1,450,491
Accumulated depreciation			-
December 31, 2013	443,767	554,845	998,612
Additions	36,212	32,884	69,096
Disposals	-	-	-
Impairment	-	-	-
December 31, 2014	479,979	587,729	1,067,708
Net book value	323,518	59,265	382,783

5. Exploration and evaluation asset

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, 2015, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	\$
Balance, December 31, 2013	10,009,218
Drilling & exploration	43,290
Environmental & mine permitting	409,661
Metallurgical	176,642
Feasibility study	45,164
Engineering	78,399
Site & royalties	37,360
Surveying & geophysics	-
Geotechnical	69,315
Detailed engineering	-
Balance, December 31, 2014	10,869,049
Drilling & exploration	(974)
Environmental & mine permitting	325,650
Metallurgical	115,050
Feasibility study	-
Engineering	10,297
Site & royalties	97,316
Surveying & geophysics	-
Geotechnical	-
Detailed engineering	-
Balance, December 31, 2015	11,416,388

The Company is required to make royalty payments of \$20 per ton of graphite carbon 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. Scientific research and experimental development program claims

In 2015, the Company filed federal and provincial claims under the scientific research and experimental development program in the amount of \$483,469 related to the 2013 taxation year and \$549,242 related to the 2014 taxation year. The refundable portion of these claims is \$36,985 for the 2013 taxation year and \$6,291 for the 2014 taxation year. In 2015, Company received \$6,291 for the 2014

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taxation year which it recognized as a reduction of management and consulting fees and \$36,985 for the 2013 taxation year which it recognized as a reduction of management and consulting fees and exploration and evaluation assets.

7. Share capital

Authorized

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

Short form prospectus offering

On July 9, 2015, the Company closed a short form prospectus offering of 2,102,998 units of the Company at a price of \$0.60 per unit for gross proceeds of \$1,261,799. Each unit was comprised of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.80 per share for a period of 24 months from the closing of the offering. In connection with the offering, the Company paid fees totaling \$67,698 to the agents, and issued to the agents 126,180 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 offering. The Company intends to use the net proceeds from the Offering to fund ongoing permitting necessary for the construction and operation of a mine at the Bissett Creek Property, to conduct additional product qualification work to further develop its technologies for purifying graphite and making spherical graphite for use in lithium ion batteries, and for general working capital.

Issued

	Common shares	
	Number of shares	Amount \$
Balance at December 31, 2013	49,131,281	20,317,304
Fair value of options exercised	-	22,501
Issued pursuant to the exercise of options	50,000	25,000
Balance at December 31, 2014	49,181,281	20,364,805
Issued pursuant to short form prospectus offering	2,102,998	1,261,799
Share issuance costs		(240,518)
Issuance of warrants		(130,029)
Balance at December 31, 2015	51,284,279	21,256,057

Warrants

A summary of the Company's warrants is presented below:

	Number of Warrants	Weighted average exercise price (\$)
Balance, December 31, 2013 and December 31, 2014	-	-
Warrants issued pursuant to short form prospectus on July 9, 2015	1,051,499	0.80
Compensation Options issued pursuant to short form prospectus on July 9, 2015	126,180	0.60
Balance, December 31, 2015	1,177,679	0.78

	Number of warrants Outstanding	Expiry date
Exercise price \$0.80	1,051,499	July 9, 2017
\$0.60	126,180	July 9, 2016
	1,177,679	

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The following is a summary of warrant activity and related Black-Scholes option pricing model input factors used for the years ended December 31, 2015 and December 31, 2014:

	Year ended December 31, 2015	Year ended December 31, 2014
Warrants granted during the period	1,177,679	Nil
Weighted-average exercise price	\$0.78	Nil
Expected stock option life ⁽¹⁾	1-2 years	Nil
Expected volatility ⁽²⁾	60%-61%	Nil
Risk-free interest rate ⁽³⁾	1.25%	Nil
Dividend yield	NA	Nil
Forfeiture rate	NA	Nil
Weighted-average fair value (Black-Scholes value)	\$0.11	Nil

1. The Company estimates the expected warrant life (estimated period of time outstanding) of warrants granted to be the length of time before the warrant's expiry until such time that the Company can base its estimate on historical information on the Company's warrants.
2. The expected volatility was based on the Company's trading history over a period equal to the expected warrant life.
3. The risk-free rate is based on the yield of a Government of Canada marketable bond in effect at the time of grant with an expiry commensurate with the expected life of the award.

Share 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 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.

The exercise price of each option shall be determined by the Board of Directors at the time of grant, and shall not be less than the price permitted by any stock exchange on which the common shares are then listed or other regulatory body having jurisdiction. Currently, the TSX Venture Exchange (the "TSX-V") requires that the exercise price of the options must be equal to or greater than the Discounted Market Price (as defined in the policies of the TSX-V). The exercise price of options is solely payable in cash. The Board of Directors has the discretion to determine the term and vesting provisions of any options granted under the Option Plan at the time of grant subject to the policies of the TSX-V.

A summary of the Option Plan activity is presented below:

	Number of options	Weighted average exercise price (\$)
Balance, December 31, 2013	3,400,000	0.87
Granted	200,000	0.75
Exercised	(50,000)	0.50
Balance, December 31, 2014	3,550,000	0.87
Granted	750,000	0.71
Cancelled	500,000	2.50
Balance, December 31, 2015	3,800,000	0.62

The weighted average share price of options exercised in 2014 was \$0.75 at the time of exercise.

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A summary of the Company's share options outstanding and exercisable at December 31, 2015 is presented below:

Exercise price	Options outstanding	Options exercisable	Expiry date
\$0.50	2,225,000	2,225,000	April 18, 2016
\$0.94	25,000	25,000	November 16, 2016
\$0.80	75,000	75,000	December 20, 2016
\$2.50	25,000	25,000	April 11, 2017
\$0.75	200,000	200,000	May 15, 2017
\$0.85	500,000	500,000	December 20, 2017
\$0.75	100,000	-	May 19, 2018
\$0.70	650,000	650,000	January 9, 2020
	3,800,000	3,700,000	

The weighted average remaining contractual life of options outstanding is 1.29 years.

The following is a summary of stock option grant activity and related Black-Scholes option pricing model input factors used for the years ended December 31, 2015 and December 31, 2014:

	Year ended December 31, 2015	Year ended December 31, 2014
Stock options granted during the period	750,000	200,000
Weighted-average exercise price	\$0.71	\$0.75
Expected stock option life ⁽¹⁾	3-5 years	3 years
Expected volatility ⁽²⁾	73%-74%	77%
Risk-free interest rate ⁽³⁾	1.22%-1.25%	1.33%
Dividend yield	NA	NA
Forfeiture rate	NA	NA
Weighted-average fair value (Black-Scholes value)	\$0.38	\$0.38

1. The Company estimates the expected stock option life (estimated period of time outstanding) of options granted to be the length of time before the stock option's expiry until such time that the Company can base its estimate on historical information on the Company's options.
2. The expected volatility was based on the Company's trading history over a period equal to the expected stock option life.
3. The risk-free rate is based on the yield of a Government of Canada marketable bond in effect at the time of grant with an expiry commensurate with the expected life of the award.

The fair value is calculated using the Black-Scholes option valuation model. As at December 31, 2015 there was \$13,654 (December 31, 2014 – \$nil) of total unrecognized share-based compensation costs related to unvested stock option awards granted under the Option Plan.

Contributed surplus

	\$
Balance, December 31, 2013	2,605,915
Fair value of options exercised	(22,501)
Share-based compensation	75,490
Balance, December 31, 2014	2,658,904
Share-based compensation	271,589
Balance, December 31, 2015	2,930,493

Contributed surplus as at December 31, 2015 and December 31, 2014 consists of a share-based payment reserve related to stock options issued under the Option Plan. The Company recorded \$271,589 (December 31, 2014 – \$75,490) as share-based compensation expense for the year ended December 31, 2015.

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8. Income taxes

The following table reconciles the expected income tax expense at the Canadian statutory income tax rates to the amounts recognized in the statement of comprehensive income for the years ended December 31, 2015 and 2014:

		Dec 31, 2015		Dec 31, 2014
Income tax (loss) before income taxes	\$	(1,036,273)	\$	(990,734)
Canadian statutory income tax rate		26.50%		26.50%
Expected income tax expense (recovery)		(274,612)		(262,545)
Differences resulting from:				
Non-deductible items		71,971		20,082
Change in estimates		396,964		(381,164)
Expired losses		598,892		389,482
Other		(63,737)		-
Increase (decrease) in deferred tax assets not recognized		(729,477)		234,145
Provision for income taxes	\$		- \$	-

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 at December 31, 2014 and 2013 are comprised of the following:

		Dec 31, 2015		Dec 31, 2014
Deferred tax assets				
Non-capital loss carry forwards	\$	3,592,934	\$	4,412,929
SR&ED pool		-		-
Exploration and evaluation assets		(277,205)		(265,230)
Share issuance costs		59,812		50,576
Investment tax credits		345,044		270,098
Property and equipment		93,314		75,004
Total deferred tax asset not recognized	\$	3,813,899	\$	4,543,376

The Company has non-capital loss carry forwards of approximately \$13,558,242 (2014 – \$16,652,562), which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	2026	\$	1,345,807
	2027		2,672,335
	2028		857,236
	2029		393,269
	2030		444,321
	2031		2,540,766
	2032		2,518,874
	2033		982,260
	2034		902,121
	2035		901,253
	Total	\$	13,558,242

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9. Capital disclosures

Capital of the Company consists of the equity attributable to the common shareholders, comprised of share capital and 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.

10. Loss per share

	Year ended December 31, 2015	Year ended December 31, 2014
Loss and comprehensive loss for period	(1,036,275)	(990,734)
Weighted average number of shares – basic and fully diluted	50,189,568	49,152,651
Loss and comprehensive loss per share	(\$0.02)	(\$0.02)

11. 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, 2014, 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, 2015 \$	At December 31, 2014 \$
Cash and cash equivalents	Level 1	1,457,962	1,800,901

At December 31, 2015, 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, 2015.

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At December 31, 2015, there were no financial assets or liabilities measured and recognized on the Consolidated Statement of Financial Position at fair value that would be categorized as Level 2 or Level 3 in the fair value hierarchy (December 31, 2014 - \$Nil; December 31, 2013 - \$Nil; January 1, 2013 - \$Nil).

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.

During the year ended December 31, 2014, the Company had written off trade accounts payable of \$80,665. These payables were written off as they had passed the time period noted in the statute of limitations regarding the collection of debt.

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 its financial obligations as they come due. The Company manages its liquidity risk through the management of its capital structure as outlined in note 9. Further discussion on liquidity and management's plans are outlined in note 2. All of the Company's trade payables are due within 1 year.

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.

12. Related parties

Key Management Compensation

In the year ended December 31, 2015 and included in management and consulting fees, the Company expensed salary to key management personnel of \$312,500 (2014 - \$430,000). In the year ended December 31, 2015, the Company provided employee benefits totaling \$18,876 (2014 - \$18,480) to key management personnel. In the year ended December 31, 2015, the Company expensed share-based compensation for stock options granted to key management personnel of \$249,723 (2014 - \$nil). In the year ended December 31, 2015, the Company expensed fees to directors of \$20,000 (2014 - \$40,000).

Other Related Party Transactions

During the year ended December 31, 2015, the Company expensed office rental payments of \$23,700 (2014 - \$23,700) to a public company whose CEO and a Director is also a Director of Northern. This expense is included in office and miscellaneous expenses.

13. Commitments

Leased mineral claims

In connection with the Bissett Creek Property, the Company is required to make production royalty payments of \$20 per ton of graphite carbon concentrate produced to the previous owners and 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 has been paid for the years ended December 31, 2015 and 2014. The advance will be credited against any future production royalty payments.

Contractual obligations

As at December 31, 2015, the Company had no contractual obligations (commitments as at December 31, 2014 - \$Nil) which related to costs associated with work at the Bissett Creek Property.

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14. Provisions

In 2004, a Mine Closure Plan (“MCP”) was filed with, and accepted by, the Ministry of Northern Development and Mines (“MNDM”). The Company filed a revised MCP for a new development scenario in 2012 and in August, 2013, the MNDM accepted the revised MCP. Upon this acceptance, the Company added an additional \$479,610 to the reclamation deposit which now totals \$812,628 (2014 - \$809,569), including accrued interest. These amounts have been paid to the Minister of Finance for the Province of Ontario, and have been accounted for as a long term deposit. As per the revised MCP, the overall required Financial Assurance has increased to \$2,329,008. In addition to the \$479,610 deposited in August of 2013, \$800,000 will be deposited prior to placing any footings in the ground for construction of structures such as buildings and dams and \$729,088 will 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 after construction and operations. The Company has a provision of \$325,885 on its balance sheet (2014 - \$324,661) which represents the estimated current cost of reclamation. In 2015, the Company has not undertaken any work on the property that would increase the provision. The provision has increased by \$1,224 as a consideration for inflation. 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.