MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2012

The following management's discussion and analysis ("MD&A") of the financial position and results of the operations of Northern Graphite Corporation ("Northern" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2012 compared to the year ended December 31, 2011. This MD&A is dated and has been prepared with information available as of April 9, 2013.

This MD&A should be read in conjunction with the Company's financial statements for the year ended December 31, 2012 and related notes (the "Financial Statements"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A contains forward-looking statements. Statements regarding the adequacy of cash resources to carry out the Bissett Creek Project and programs related thereto, in addition to the need for future financing, are forward-looking statements. All forward-looking statements, including those not specifically identified herein, are made subject to cautionary language at the end of this document. Readers are advised to refer to the cautionary language at the end of this MD&A when reading any forward-looking statements.

The MD&A is prepared in conformity with 51-102F1 and has been approved by the Board of Directors prior to its release.

Introduction

The Company was incorporated on February 25, 2002 under the *Business Corporations Act* (Ontario) under the name Industrial Minerals Canada Inc. The Company's name was changed to Northern Graphite Corporation on March 1, 2010. The Company was incorporated by its former parent company, Mindesta Inc. (formerly "Industrial Minerals, Inc.") ("Mindesta") to develop and hold title to the Bissett Creek graphite project.

The Company was a wholly-owned subsidiary of Mindesta until early in 2010. As the result of a number of financings and debt settlement transactions by the Company, Mindesta's interest was reduced to 26.1% as at December 31, 2011. At the close of trading on January 25, 2012, Mindesta completed the distribution to Mindesta's shareholders of 9,413,581 shares of Northern owned by Mindesta on the basis of one share of Northern for each share of Mindesta held. As at December 31, 2012, Mindesta's interest in Northern was less than 1%. Subsequent to the end of the year, Mindesta no longer holds any shares of Northern.

Nature of Operations

The Company's sole focus is the potential development of the Bissett Creek graphite project located in the County of Renfrew, Province of Ontario (the "Bissett Creek Project"). The Company has no other properties or rights to acquire other properties. On July 9, 2012, the Company released results from its full bankable feasibility study ("FS") for the Bissett Creek Project which confirmed the technical and financial viability of constructing and operating an open pit mine and 2,500 tpd processing plant. The FS incorporated a new resource estimate that was announced in 2011 and a National Instrument 43-101 technical report based on the FS has been filed on SEDAR. On March 7, 2013, the Company announced positive results from a 61 hole, 3,425 meter drilling program. This drill program was designed to infill a significant portion of inferred resources with the objective of upgrading them to the measured and indicated categories. In addition, the potential for higher grade zones to extend outside of the current resource model was tested. Most of the 61 holes returned widths and grades as good as or better than those in the FS. The Company intends to produce a new resource estimate from these results and revise the FS in the second quarter of 2013.

The Company originally filed a mine closure plan ("MCP") with the Ministry of Northern Development and Mines ("MNDM") in 2004 and was authorized to begin production based on a dry recovery process but a commercial operation was never established due to technical problems and financial difficulties being experienced by the Company's parent, Mindesta. The Company recently filed an amended MCP to increase the size of the potential operation and to use a conventional flotation recovery process as outlined in the FS. Following approval of the amended MCP, the Company will be in a position to begin construction of a mine on the Bissett Creek Project, subject to the availability of financing.

In March, 2012 the Company raised $10.4 million of net proceeds through a non-brokered private placement.

The Bissett Creek Project

The Company holds a 100% interest in the Bissett Creek Project, which contains a large flake graphite deposit, and is located approximately 15 km from the Trans-Canada Highway (Highway 17) between the towns of Deep River and Mattawa, Ontario. The Bissett Creek Project is located in the United Townships of Head, Clara and Maria, in the County of Renfrew, Province of Ontario, approximately 300 km northeast of Toronto and 200 km west of Ottawa, Ontario.

The Bissett Creek Project consists of an Ontario Mining Lease number 106693 issued in 1993 valid for 21 years and covering 564.6 hectares, and Mining Claims, covering 2,424 hectares for a total land coverage of 2,989 hectares. The well explored area is less than 150 hectares in size. The Company has applied for a mining lease covering 12 of the claims.

Royalties on the Bissett Creek Project include an annual advance payment of $27,000 to the three original prospectors that discovered the deposit which will be credited against a royalty of $20 per ton of concentrate sold once the mine is operational, and a 2.5% Net Smelter Royalty ("**NSR**") on any other minerals derived from the Bissett Creek Property.

The Bissett Creek Project was extensively explored in the 1980's and over 8,400 metres of drilling was completed. A full feasibility study, including the calculation of a proven and probable reserve, was completed but the Bissett Creek Project was not developed due to a subsequent decline in graphite prices. The feasibility study and reserve estimate pre-date NI 43-101 standards and therefore, are non-compliant. While historical information is presented for information purposes only and cannot be relied upon from a regulatory perspective, it represents a substantial body of work that provided a great deal of value in the FS process. The price of graphite has increased since 2005 due to the ongoing industrialization of emerging economies which has led to increased demand in traditional steel and automotive markets. In addition, lithium-ion batteries, fuel cells, vanadium redox batteries and new nuclear technologies are all large users of graphite and have the potential to create substantial additional demand in the future. As a result, there is renewed interest in graphite projects.

In May 2007, Mindesta retained SGS Canada Inc., formerly and then named Systèmes Geostat International Inc. ("**SGS**"), to prepare a NI 43-101 compliant technical report on the Bissett Creek Project. In 2010 SGS updated their 2007 work and produced a technical report (the "**Technical Report**") entitled "Technical Report Preliminary Economic Assessment on the Bissett Creek Graphite Property of Industrial Minerals, Inc. & Northern Graphite Corporation" dated July 16, 2010 and revised February 2, 2011. The Technical Report was prepared by Gilbert Rousseau P.Eng and Claude Duplessis P.Eng of SGS, each of whom is an independent Qualified Person pursuant to National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("**NI 43-101**"). The Technical Report is available under the Company's profile at www.sedar.com.

Certain historical technical disclosure regarding the Bissett Creek Project by Mindesta did not comply with NI 43-101 standards and should not be relied upon. Only information contained in the Company's Annual Information Form and the Technical Report should be relied upon.

Mineral Resource Estimate

In September, 2011 The Company announced a significant increase in estimated resources based on the results from a 51 hole, 2,927 meter drilling program. The updated base case mineral resource for the Bissett Creek Project, using a cut off of 0.986% graphitic carbon ("Cg"), now totals 25,983,000 tonnes grading 1.81% Cg in the indicated category (470,300 tonnes of contained graphite) while inferred resources total 55,038,000 tonnes grading 1.57% Cg (864,100 tonnes of contained graphite). Grades reflect mining dilution and mining losses. In order to establish a reasonable prospect of economic extraction in an open-pit context, mineral resources were constrained within an optimized

Whittle pit shell using an average graphite price of US$2,000 per tonne along with current operating and capital costs that were updated from the Technical Report. *(Mineral resources are not mineral reserves and do not have demonstrated economic viability)*

The new resource represents a 44% increase in contained graphite within the indicated category and a 117% increase in contained graphite within the inferred category over undiluted resources previously reported which used an average price of US$1,700/tonne and a base case cut off of 1.5%. The 1% cut off used in the new base case is now more appropriate given higher graphite prices. The deposit remains open along strike to the north and south, and down dip to the east. The drilling program and resource estimate confirm that near surface graphite mineralization exists in an area that is now over one square kilometer in size. The deposit is tabular and very shallow dipping (10%). As a result of good continuity between holes, there is a high probability that inferred resources can be upgraded with additional drilling. The waste to ore ratio for the new resource is 0.27.

In 2012, the Company completed a bankable final feasibility study and reported a probable reserve of 19 million tonnes grading 1.89% Cg, see “Feasibility Study”.

Table 1

Bissett Creek Flake Graphite Deposit

September 2011 Updated Mineral Resources (Diluted)

	Indicated			**Inferred**		
%Cg Cut-off	**Tonnage* (metric tons)**	**Cg(%) by LECO****	**In Situ Graphite** (metric tons)**	**Tonnage* (metric tons)**	**Cg(%) by LECO**	**In Situ Graphite*** (metric tons)**
0.986	**25,983,000**	**1.81**	**470,300**	**55,038,000**	**1.57**	**864,100**
1.227	**24,588,000**	**1.85**	**454,900**	**50,472,000**	**1.62**	**817,600**
1.50	**19,954,000**	**1.99**	**397,100**	**33,672,000**	**1.81**	**609,500**
1.75	**16,031,000**	**2.34**	**375,100**	**21,417,000**	**2.21**	**473,300**
2.0	**11,921,000**	**2.50**	**298,000**	**14,584,000**	**2.37**	**345,600**

Relative density 2.63t/m^3, 10% dilution, 90% mine recovery

*rounded to nearest 1,000

**LECO is a combustion analysis technique used to determine the level of carbon, nitrogen, oxygen or sulphur in inorganic material

***rounded to nearest 1,000

Mineral resources are not mineral reserves and do not have demonstrated economic viability.

The mineral resource estimate was prepared by François Thibert, M.Sc. P. Geo. from SGS Canada Inc. (Geostat), independent Qualified Person under NI 43-101, using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) Standards on Mineral Resources and Reserves, Definitions and Guidelines.

The mineral resources were estimated using analytical data from 50 recent surface drill holes and 162 historical surface drill holes for which 2,745 samples were assayed for Cg using the LECO analytical method. The deposit was historically drilled on an approximately 64 m x 46 m drill pattern with one area drilled on a 25 m x 25 m grid. 2010 drilling was carried out on a wider 100 m x 100 m grid. Interpretation on 25m spaced N68º sections and modeling of a 3D wireframe envelope was completed to outline the mineralized graphitic horizon. A block model of 10 m (E-W) by 10 m (N-S) by 6 m (vertical) was interpolated using geostatistical methods (ordinary kriging) within the mineralized envelope. It covers a strike length of approximately 1,300 m and it reaches a maximal depth of 100 m below surface. Spatial continuity of the Cg composites was assessed by variography and it showed good continuity of grade in almost all directions within the horizontal plane but very limited continuity within the vertical plane. An anisotropic search ellipsoid was selected for the grade interpolation process based on the analysis of the spatial continuity of Cg composites. 6m bench composites were used to reflect an assumed bench height of 6 m. No capping was applied to the composite Cg grades.

Exploration and Development

As at December 31, 2012, the Company had capitalized $7,143,817 of exploration and evaluation expenditures relating to the Bissett Creek Project. Over the next 12 months the Company expects to spend approximately $650,000 to complete the mine permitting work and initiate the initial phases of the FS including additional permitting relating to construction and operations. On January 18th, 2013, the Company announced that it had awarded a $3.5 million contract for the detailed engineering and design of the Bissett Creek Project which is part of the capital cost in the FS. The Company expects to complete this contract over a seven month period.

(i) Pilot Plant and Variability Test Results

Pilot plant test results from the Bissett Creek Graphite Project have confirmed the technical viability and operating performance of the Company's process plant design for the production of high purity, large flake graphite. Results indicated that 50% of the graphite concentrate produced will be jumbo size, +48 mesh flake with a very high carbon content averaging 97.7% graphitic carbon ("Cg"). The Company believes that this is an exceptional product that will attract a premium price. SGS Minerals Services ("SGS") processed a 130 tonne bulk sample of graphitic material from the Bissett Creek deposit in the pilot plant and produced five final products which showed consistent flake size distribution and an overall carbon grade averaging 95% Cg. Pilot plant recoveries ranged from 90.5% to 94.4 at concentrate grades of 94.5% Cg or greater.

The Company also completed variability testing on its Bissett Creek Project to confirm that the high recovery of large flake, high purity graphite is consistent across the entire resource. The overall recovery from eight Locked Cycle Tests ("LCT") was 97% and almost all concentrate will qualify for large flake (+80 mesh), high carbon (94%) pricing. In fact, 33% of the concentrate was +50 mesh, 97% graphitic carbon ("Cg") and 19% was +32 mesh, 98% Cg which are exceptional products that will attract premium pricing based on both flake size and carbon content. In two of the locked cycle tests the +32 mesh concentrate reached 99% Cg. SGS performed the LCTs on representative drill core samples taken from a number of locations within the deposit which confirmed that the recovery and flake size distribution were consistent throughout the resource. The overall concentrate grade averaged 95% Cg with a 97% recovery which was generally better than the pilot plant results which were based on a partially weathered sample.

(ii) Feasibility Study

On July 9, 2012, the Company announced the results of its bankable feasibility study ("FS") and on August 27, 2012, the Company filed the FS on SEDAR and posted it on the Company's website.

The FS was prepared by GMining Services Inc. and included contributions from SGS Canada Inc. (Lakefield–metallurgy and Geostat-resource modelling), Knight Piesold Ltd. (environmental, permitting, tailings management and road infrastructure) and Met-Chem Canada Inc. (process engineering). The FS confirmed the technical and financial viability of constructing and operating an open pit mine and 2,300 tpd processing plant on the Bissett Creek property**.**

Table 2

Summary of the March 2012 Feasibility Study Results (First Quarter of 2012)

Probable reserves (tonnes)	18,977,000 t	
Grade (graphitic carbon)	1.89%	
Waste to ore ratio	0.50	
Processing rate	2,300 tpd	(92% availability)
Mine life	23 years	
Mill recovery	94.7%	(years 3 to 23)
Average annual production (tonnes of graphite concentrate @ 94.5% C)	18,600t	(first five years)
Capital cost ($ millions)	$102.9M	(including $9.4M contingency)
Mine Cash Operating costs ($ per tonne of concentrate)	$851/t	(first five years)
Mine Cash Operating Costs ($ per tonne of concentrate)	$968/t	(mine life)
Mining costs ($ per tonne of ore)	$5.79/t	(mine life)
Processing costs ($ per tonne of ore)	$9.60/t	(mine life)
General and administrative costs ($ per tonne of ore)	$2.94/t	(mine life)
CDN/US dollar exchange rate	1.00	

Graphite prices (US$ per tonne)	**$2,800**	**$2,600**	**$2,300**	**$2,100**
Pre tax Net Present Value @8% (CDN$ millions)	$182.8	$151.0	$103.5	$71.7
Pre tax IRR (%)	25.9%	23.1%	18.7%	15.6%
After tax Net Present Value @8% (CDN$ millions)	$125.0	$103.2	$69.9	$46.9
After tax IRR (%)	22.4%	20.0%	16.4%	13.7%

Prices of US$2,100 and US$2,600 per tonne of concentrate represent the 24 and 12 month weighted average price for the various sizes and grades of flake graphite that will be produced from the Bissett Creek deposit, based on prices quoted by Industrial Minerals Magazine as at the preparation date of the FS. Prices of US$2,300/t and US$2,800/t represent the 24 and 12 month weighted average prices with the inclusion of a conservative 10% premium over +80 mesh large flake graphite prices for the +50 mesh (XL) and +32 mesh (XXL) flake components that will make up approximately 50% of Bissett Creek production. The Company believes that it could realize premiums in excess of 20% over the price of standard large flake graphite based on historical pricing for XL and XXL flake graphite. Graphite prices are currently in the US$1,400 to US$1,800 per tonne range for premium product.

The Company intends to produce a new resource estimate and revise the FS based on the drill results from the fall 2012 program.

(a) Project Description

The proposed development of the Bissett Creek graphite deposit includes the construction of an open pit mine, a 2,300 tpd flotation processing plant based on 92% availability, a natural gas fuelled power generating plant and associated infrastructure. The processing plant will consist of conventional crushing, grinding and flotation circuits followed by concentrate drying and screening. The Company plans to build a natural gas pipeline to the site from the main Trans Canada line which is approximately fifteen km away. The natural gas will fuel five 1.0 MW-generators to produce electrical power and waste heat from the generators will be used to dry the concentrate. This will result in low overall energy costs. Infrastructure includes upgrading the last five km of access road, site preparation, and building a non-acid generating tailings facility and a very small sulphide tailings facility. The processing plant will include sulphide flotation at the end of the circuit to remove enough sulphides to make approximately 97% of the tailings benign. After twelve years of operation, the sulphide tailings will be moved to the bottom of a mined out pit for permanent storage under water. Sulphide tailings and non-sulphide tailings will subsequently continue to be deposited in a mined out pit for the balance of the mine life which will result in a low final closure costs.

(b) Resources and Reserves

Probable mining reserves for the Bissett Creek deposit were established based on indicated resources estimated as at September, 2011 by François Thibert, M.Sc. P. Geo. from SGS Canada Inc. (Geostat), an independent qualified person under NI 43-101, using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) Standards on Mineral Resources and Reserves, Definitions and Guidelines (see Table 1).

GMining Services Inc. established a breakeven cut-off grade ("COG") and ran optimized Whittle pits on the indicated resources based on a number of parameters. The final mine plan resulted in a probable reserve of 19.0 million tonnes of ore grading 1.89% graphitic carbon ("Cg") based on a cut-off grade of 1.2% Cg. In order to increase head grades in the initial years of production while maintaining a reasonable stripping ratio, ore between 1.2% Cg and 1.6% Cg will be partially stockpiled and added to the mill feed at a later date. The mine plan was also designed to supply blasted rock and glacial till for tailings dam construction during pre-production and to allow for tailings disposal in mined out areas by year 13 for sulphide tailings and year 16 for non-sulphide tailings. A mining recovery factor of 90% and a dilution factor of 7.8% at a grade of 0.5% Cg were applied.

(c) Metallurgy

SGS-Lakefield has completed the full suite of metallurgical tests on the Bissett Creek deposit including lab and bench scale work, a bulk sample/pilot plant test, and variability testing to determine if recoveries and flake size distribution are consistent across the deposit. A similar program was also carried out in the 1980's as part of a previous feasibility study (non NI 43-101 compliant) with consistent results.

The FS is largely based on pilot plant results from the processing of slightly weathered material that does not respond as well to flotation as unweathered rock. The locked cycle tests, which were performed on fresh drill core, were better in terms of recoveries, concentrate grades and flake size distribution which represents potential upside in the project.

The FS assumes recoveries of 92.7% in the first year of operation, 93.7% in year two and 94.7% over the balance of the project. Recoveries in the eight locked-cycle test averaged 97.2% and ranged from 95.2% to 99.1%.

The FS assumes an average concentrate grade of 94.5% Cg compared to 94.9% Cg in the locked-cycle tests. However, the locked cycle tests generated average grades of 98.1%, 97.0% and 95.1% for the important +32 (XXL), +50 (XL) and +80 (L) mesh size fractions respectively.

Based on pilot plant results, the FS assumes that production will consist of 18% +32 mesh at 95.1% Cg, 31% +50 mesh at 95.1% Cg, 28.2% +80 mesh at 94.5% Cg, 5% +100 mesh at 97.3% Cg, 7% +150 mesh at 98% Cg and 11% -150 mesh at 92.7% Cg.

(d) Production

Over the first five full years of operation a total of 4.2 million tonnes of ore will be processed at an average head grade of 2.22% Cg to produce an average of 18,600 tonnes of graphite concentrate at 94.5% Cg per year. Over the 23 years of operations contemplated in the FS, the mine will produce an average of approximately 15,900 tonnes of graphite concentrate (94.5% Cg) per year which includes processing of the low grade stockpile. The Company has recently completed a drilling program with the objective of upgrading some higher grade inferred resources to replace the low stockpile and maintain a higher rate of production.

(e) Operating Costs

Over the first five years, cash mine operating costs will average CDN$851 per tonne of concentrate. Over the life of the project operating costs are estimated at $968 per tonne of concentrate. These estimates are based on operating costs per tonne of ore of $9.60 for processing, $2.94 for general and administrative costs and $5.79 for mining.

(f) Capital Costs

The capital cost to construct the processing plant, power plant and all associated mine infrastructure is estimated at $93.5 million before contingency. The total capital cost, including a $9.4 million contingency, is $102.9 million (Table 3). In some instances the Company chose options that increased the capital cost but reduced operating costs and improved the overall project economics. In addition, the Company is required to post a $1.6 million financial assurance with the Province of Ontario to guarantee its obligations with respect to the Mine Closure Plan ("MCP").

Table 3

Capital Costs ($CDN millions)

Power plant and pipeline	$	11.7
Infrastructure	$	9.3
Mobile equipment	$	1.7
Tailings and water management	$	6.7
Processing plant	$	39.9
EPCM and construction indirects	$	14.2
General services and other	$	5.8
Preproduction and commissioning	$	4.2
SUBTOTAL	$	93.5
Contingency	$	9.4
TOTAL	$	102.9

(g) Sensitivities

Table 4

Project Sensitivities (Pre tax)

	$2,800		**$2,600**		**$2,300**		**$2,100**	
	NPV*	**IRR**	**NPV***	**IRR**	**NPV***	**IRR**	**NPV***	**IRR**
Base Case	$182.8	25.9%	$151.0	23.1%	$103.5	18.7%	$71.7	15.6%
Grade +10%	$219.0	28.2%	$184.7	25.4%	$133.2	21.0%	$98.9	17.9%
Operating costs -10%	$198.0	27.2%	$166.2	24.4%	$118.7	20.1%	$86.9	17.1%
Operating costs +10%	$167.6	24.6%	$135.8	21.7%	$88.3	17.3%	$56.5	14.1%
Capex -10%	$193.0	28.5%	$161.3	25.5%	$113.7	20.8%	$82.0	17.5%
Capex +10%	$172.5	23.6%	$140.8	21.0%	$93.2	16.9%	$61.5	14.0%

***$ millions @ 8%**

(h) Project Opportunities

It is the opinion of Northern Graphite management that a number of significant, low risk opportunities exist to improve upon the FS. A 10% increase in grade and a 10% reduction in operating costs for example, both of which management believes are achievable for the reasons outlined below, could increase the pre tax IRR by up to 20% and the NPV by up to 40%.

(1) The final pit includes approximately 1.5 million tonnes of inferred resources grading 1.54% Cg which are treated as waste. The processing of this material would reduce the stripping ratio and mining costs and improve cash flows.

(2) The mine plan does not consider inferred resources outside the pit where significant tonnages in excess of 2% Cg exist. Upgrading these resources to indicated and including them in a revised mine plan, instead of processing the low grade stockpile, would reduce costs, greatly extend the mine life, and further enhance the economics of the deposit. The Preliminary Economic Assessment on the Bissett Creek project states there is a relatively high probability that inferred resources can be upgraded due to the thick, flat lying and continuous nature of the mineralization in the Bissett Creek deposit. *Mineral resources, as opposed to mineral reserves, do not have demonstrated economic viability.*

(3) The FS assumed contract mining. It is highly likely the Company will buy and operate its own mining fleet. The incremental capital cost is approximately $7 million but with lease financing, and a 20%

down payment, the incremental financing requirement is approximately $1.4 million. Owner mining could reduce operating costs by in excess of $100 per tonne of concentrate.

(4) The Company expects to achieve 95% mill recoveries earlier than projected in the FS and ultimately to exceed the 95% level and to do better than the 92% mill utilization rate used in the FS.

(5) The Company's business plan is to significantly expand production in the future by incorporating inferred resources and to undertake actions that could potentially reduce unit costs to $800/tonne of concentrate or lower. Inferred resources are considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is therefore no certainty that the Company's business plan in this regard will be realized. *Mineral resources, as opposed to mineral reserves, do not have demonstrated economic viability.*

(6) There is scope to reduce capital costs through the purchase of used equipment, lease financing of the natural gas generators, and additional permitting to provide access to lower cost tailings options.

(7) The Company has successfully upgraded graphite concentrate from the Bissett Creek deposit for use in Lithium ion batteries and other high purity markets. Testing is ongoing and will assist the Company in defining the capital and operating costs associated with constructing an upgrading facility. No revenues or costs associated with upgrading and selling into value added markets are included in the FS.

(i) Environmental, Permitting and Local Community

The Company has filed a Mine Closure Plan ("MCP") with the Ministry of Northern Development and Mines ("MNDM"). The MCP is a comprehensive document that describes in detail the scope of the project including the nature of mining and processing operations, buildings and infrastructure, potential effects on the environment, mitigation measures to protect the environment, a description of First Nation, government agency and local community consultation, and the Company's plan to rehabilitate the site and return it to its natural state at the end of operations including an estimate of the cost of doing so. The Company will be required to post a $1.6 million financial assurance to ensure that funds are available to complete the closure plan. The Company anticipates that acceptance and approval of the MCP will be received during the second quarter of this year. Approval of the MCP will enable the Company to initiate construction and to apply for a number of other permits that relate to operations.

(j) Qualified Persons

The FS was prepared in accordance with NI 43-101 standards by GMining Services Inc. Louis Gignac, ing., Nicolas Ménard, ing., Antoine Champagne, ing., Ahmed Bouajila, ing., Robert Menard, ing., and Robert Marchand, ing. are the independent "qualified persons" under NI 43-101 who were responsible for preparing the FS on behalf of GMining Services Inc.

Readers should refer to the NI 43-101 technical report relating to the FS for further details.

Corporate Developments

(i) Corporate Developments

On December 12, 2011, the Board of Directors of Mindesta declared a pro rata dividend-in-kind, payable January 25, 2012 to shareholders of record as at January 5, 2012, whereby most of the shares of the Company owned by Mindesta would be distributed to Mindesta shareholders. At the close of trading on January 25, 2012, Mindesta completed the distribution to its shareholders of 9,413,581 shares of the Company owned by Mindesta (approximately 25% of the Northern common shares outstanding) on the basis of one share of Northern common stock for each share of Mindesta common stock held. As at the close of trading January 25, 2012, Mindesta's interest in the Company decreased to less than 1.0%.

On March 16, 2012, the Company completed a non-brokered private placement through the issuance of 6,206,377 common shares at a price of $1.70 per share for gross proceeds of $10,550,841. In connection with the private placement, and in accordance with the policies of the TSX Venture Exchange, the Company paid total finder's fees of $121,517 and issued 71,480 finder's warrants, each exercisable to acquire one common share of the Company at a price of C$2.00 per share for a period of one year. The net proceeds of the placement will be used to finance the completion of the FS and permitting with respect to the Company's Bissett Creek graphite project and for working capital and general corporate purposes, as well as detailed engineering and design and the acquisition of long lead time equipment upon the positive completion of the FS.

On April 2, 2012, the Company announced that it had successfully manufactured test quantities of spherical graphite from graphite concentrate produced from the Company’s Bissett Creek deposit. The spherical graphite has been evaluated in Lithium/graphite battery test cells and the performance of these cells demonstrated that it met or exceeded current commercial performance requirements and that Bissett Creek graphite does not contain any impurities that negatively affect cell performance. Further test cycles are on-going. The cells were made and the testing carried out in a highly qualified, independent laboratory.

The Company can now provide potential strategic and offtake partners with representative test samples of graphite concentrate produced using the same flow sheet that would be employed in a full scale mine, and spherical graphite based on that concentrate.

On April 11, 2012, the Company’s Board of Directors approved the issuance of 525,000 stock options to the Company’s non-executive Directors and a contractor at a strike price of $2.50 per share. These options vest immediately and have a five year term that expires on April 11, 2017.

In April, 2012 the Company retained GMP Securities L.P. as its exclusive financial advisor with respect to evaluating strategic alternatives for financing the development of the Bissett Creek graphite project.

Effective April 23, 2012, the Company was added to the Standard & Poor's S&P/TSX Venture Select Index. The S&P/TSX Venture Select Index, launched in August of 2011, "measures the performance of constituents in the S&P/TSX Venture composite index that meet specific market capitalization and liquidity criteria.

On May, 2012, the Company engaged Hazen Research of Golden, Colorado and the National Research Council Canada ("NRC") to continue testing and optimizing its process for manufacturing spherical graphite which is used to make the anodes in Lithium ion batteries. Hazen Research was been retained to confirm laboratory results using bench scale models of commercial purification equipment that will be employed in the full scale process. It is anticipated that this program will be followed by a pilot plant test and then engineering and design work to define the capital and operating costs of a commercial facility to upgrade Bissett Creek graphite concentrate into spherical graphite. The National Research Council of Canada was engaged to carry out ongoing testing of Northern's spherical graphite in Lithium/graphite batteries in order to optimize and customize its performance to meet the specifications of potential offtake and strategic partners and customers. NRC has advanced battery testing capabilities with various chemistries and is the Government of Canada's premier organization for research and development.

On October, 2012, NRC successfully completed the first phase of testing of "spherical graphite" produced from the Company’s Bissett Creek deposit. NRC reported that the electrochemical performance of the uncoated samples provided by Northern performed very well compared to commercial coated synthetic samples, especially considering their early stage of development. The most promising samples for use in lithium-ion battery applications will undergo further testing to optimize and refine their performance.

On November 8, 2012, the Company announced that ongoing metallurgical testing by Hazen Research had succeeded in purifying spherical graphite from the Bissett Creek deposit up to 99.99% Cg and large flake graphite to 99.83% Cg. These bench scale tests were the first step in demonstrating that the laboratory process developed by Northern can be scaled to commercial levels.

On November 29, 2012, the Company was accepted for graduation to Tier 1 of the TSX Venture Exchange. As a result of Northern’s graduation to Tier 1 issuer status, all of the securities of Northern that had remained in escrow, being an aggregate of 1,734,541 common shares, were released effective November 29, 2012. Northern no longer has any securities remaining in escrow.

(ii) 2012 Drill Program

On October 1, 2012, the Company announced that it has commenced a drill program on its Bissett Creek graphite project consisting of approximately 3,000 meters of drilling in 65 holes. This drill program was designed to follow up on opportunities identified in the FS to further improve the already attractive economics of the Bissett Creek project. The main objective of the drill program was to upgrade inferred resources both within and outside the FS pit shell to the indicated category. The FS considers approximately 1.5 million tonnes of inferred resources within the pit as waste and includes the processing of a low grade stockpile that exceeds 2.5 million tonnes. Upgrading the inferred resources within the pit to the indicated category, and substituting higher grade material from outside of the FS pit for the low grade stockpile, could result in an increase in grade and a further reduction in operating costs. The Preliminary Economic Assessment on the Bissett Creek project states that there is a relatively high probability that inferred resources can be upgraded due to the thick, flat lying and continuous nature of the mineralization. However, the inferred resources do yet not have demonstrated economic viability and are not mineral reserves. The Company has retained AGP Mining Consultants Inc. ("AGP") to update the current resource and reserve estimates, mine design and economic model now that the new drilling results are available.

The Company has indicated that the FS is based on 23 years of indicated resources which does not necessarily represent the best 23 years. There are an additional 50+ years of inferred resources at planned production rates. The Company believes that the drill program will enable it to optimize the first 20 years and demonstrate that the project has very solid economics even in a potential low graphite price environment.

On March 7, 2013, the Company announced positive results from a 61 hole, 3,425 meter drilling program. Almost all holes returned widths and grades as good as or better than those in the FS. The Company intends to produce a new resource estimate based on these drill results and a revise the FS.

(iii) Mine Closure Plan

In October 2012, the Company submitted the MCP for the Bissett Creek project to the Ontario Ministry of Northern Development and Mines ("MNDM"). The approval of the Mine Closure Plan by the MNDM will enable the Company to commence construction of the Bissett Creek Mine, subject to financing. The MCP is an all-encompassing document that describes, in detail, the nature of the operations that will be carried out, the current baseline environmental conditions, and the Company's plan for rehabilitating the site and returning it to its natural state at the end of mining operations. The MCP is a requirement of the Ontario Mining Act and must be filed prior to commencement of mining operations. A financial assurance that guarantees the Company's rehabilitation obligations under the MCP must be provided to the MNDM as part of the filing process. The financial assurance has been estimated at $1.6 million which reflects the relatively benign nature of the operation, neutral tailings and the ability to practice progressive rehabilitation due to the shallow, flat lying nature of the deposit.

The MCP and underlying baseline information were prepared by Knight Piesold Ltd.. The MCP addresses the questions and concerns of the public, First Nation Communities and other interest groups that were identified during pre submission consultations. A number of other permits relating to air, noise, water, etc. are required prior to the commencement of operations and follow in the normal course after acceptance of the MCP. These issues are addressed in the MCP. With the acceptance or "filing" of the MCP, the Company could initiate site work including the clearing of internal roads, plant site and tailings basin. Following acceptance and subject to financing, the Company would also be in a position to begin plant construction in the fall of 2013. Construction of the plant and infrastructure are estimated to take approximately 12 to 18 months. Production in Q4 2014 is the earliest date that the Company is targeting and could coincide with improving economies, a recovery in the graphite market and higher graphite prices.

Subsequent Events

On January 8, 2012, the Company announced that it had signed a Letter of Intent with Caterpillar Financial Services Corporation (“Cat Financial”) to provide financing for up to US$17.5 million in Cat mining and Cat power equipment purchases for the Company’s Bissett Creek graphite project. Cat Financial has preliminarily indicated its additional interest in participating in a Project Debt Facility, subject to receipt of an Information Memorandum relating thereto and its agreement with the terms and conditions thereof.

The equipment financing facility will cover the cost of the mobile mining fleet and the purchase and installation of natural gas powered generators including the engineering, procurement and construction management related thereto. The FS contemplated mining being carried out by an independent contractor. By buying and operating its own mining fleet, the Company estimates that it will reduce its cost per tonne of concentrate produced by more than $100.

Closing of the financing facility is contingent on customary requirements for due diligence, satisfaction of conditions precedent, internal Cat Financial credit approval and negotiation and execution of definitive legal documentation.

On January 18, 2013, the Company announced that following a competitive bidding process involving five engineering firms, it had awarded a $3.5 million contract for the detailed engineering and design of the Bissett Creek project to PES-BECMA. PES-BECMA, a joint venture between Porcupine Engineering Services Inc. and BECMA LIMITED, will be responsible for the front end engineering and design of the 2,500 tonne per day processing facility, and related infrastructure that will produce approximately 20,000 tonnes of large flake, high purity graphite per year. The detailed engineering and design phase is expected to take seven months to complete and cost $3.5 million which is part of the estimated capital costs of $102.9 million (including a $9.2 million contingency). The work will be financed out of the Company's current cash position.

Adoption of IFRS

The Company adopted IFRS effective January 1, 2011. The financial results discussed in this MD&A were prepared in accordance with IFRS.

Selected Information

The selected financial information set out below is based on and derived from the Financial Statements which have been prepared in accordance with IFRS.

		Year ended December 31, 2012 $	Year ended December 31, 2011 $
Statement of Operations and Comprehensive Loss Data			
Total Revenue		Nil	Nil
Total Expenses		3,719,286	2,454,886
Net Income/(Loss)		(3,635,335)	(2,459,752)
Net Income/(Loss) per Share – basic and diluted		(0.08)	(0.08)
Statement of Financial Position Data		**As at December 31, 2012**	**As at December 31, 2011**
Total Assets		16,485,803	6,434,101
Total Long-Term Debt		Nil	Nil
Total Liabilities		800,719	776,811
Shareholders' Equity:			
Share Capital		20,238,328	7,859,427
Equity		15,685,084	5,657,290

Results of Operations

	Years ended December 31	
	2012	**2011**
	$	**$**
General and administrative expenses		
Management and consulting fees	1,133,804	576,923
Legal and audit	133,994	137,448
Office and miscellaneous	942,317	443,585
Share-based payments	1,438,646	1,241,085
Depreciation	71,782	62,117
Foreign exchange (gain) loss	(1,256)	(6,272)
	3,719,286	2,454,886
Loss from operations	(3,719,286)	(2,454,886)
Finance cost	-	(19,904)
Interest income	83,951	11,767
Gain on debt settlement		25,858
Loss on sale of assets	-	(22,587)
Income before taxes	(3,635,335)	(2,459,752)
Tax expense	-	-
Loss and comprehensive loss for the period	(3,635,335)	(2,459,752)

Management and consulting fees increased from $576,923 in 2011 to $1,133,804 in 2012 as the Company increased activity levels with respect to the Bissett Creek Project including a greater number of management personnel and all of their respective time now being dedicated to the Company. Office and miscellaneous expenses increased from $443,585 in 2011 to $952,317 in 2012 as a result of the Company's increased overall activity including public company costs and investor relations activity. Depreciation expenses increased to $71,782 in 2012 from $62,117 last year due to the addition of $14,200 of equipment assets during 2012 and a full year of depreciation recognized on assets purchased during the 2011 year.

For the year ended December 31, 2012, the Company recorded a loss and comprehensive loss of $3,635,335, or $0.08 per share, compared to a net loss of $2,459,752, or $0.08 per share, in the same period last year, as a result of higher management and consulting fees and higher office and miscellaneous expenses. The loss and comprehensive loss in 2012 included non-cash charges for share-based payments and depreciation totalling $1,510,428, compared to $1,303,202 in 2011.

As a function of the Company's increased activity at its property and work on the Feasibility Study, expenses capitalized to the Company's exploration and evaluation assets during year ended December 31, 2012 increased to $3,790,671 compared to $2,287,966 in the same period last year. These expenses included $919,925 in environmental and mine permitting expenses, $1,155,482 in metallurgical expenses, $524,484 in feasibility expenses, $34,247 in engineering expenses, and $183,879 in site and royalty expenses.

Summary of Quarterly Results

The summary of quarterly results has been prepared in accordance with IFRS.

Year ended Dec 31	Quarter	Interest Income $	Total Loss $	Income (Loss) Per share $
2012	4	25,936	(876,058)	(0.02)
	3	27,960	(394,755)	(0.01)
	2	25,911	(1,666,852)	(0.04)
	1	4,144	(697,670)	(0.02)
2011	4	4,062	(377,930)	(0.01)
	3	4,932	(343,297)	(0.01)
	2	2,773	(1,590,460)	(0.07)
	1	-	(148,065)	(0.01)

The Company, as an exploration stage company, experiences a high degree of variability in its quarterly results. The Company's expenses are not related to the regular and continuous activities that take place when a mine is in production. In the fourth quarter of 2012, the Company awarded stock options which contributed $385,834 to an increase in loss & comprehensive loss. In the second quarter of 2012, the Company awarded stock options which contributed $978,952 to an increase in loss & comprehensive loss of $1,666,852. In the second quarter of 2011, the Company awarded stock options which contributed $1,163,932 to an increase of loss & comprehensive loss of $1,590,460.

Liquidity and Capital Resources

As at December 31, 2012, the Company had $481,129 in accounts payable and accrued liabilities, compared to accounts payable and accrued liabilities of $443,642 as at December 31, 2011. The Company had cash of $8,281,725 as at December 31, 2012 compared to $1,624,696 as at December 31, 2011. The increase in cash was the result of the completion of the private placement on March 16, 2012, and the exercise of warrants during 2012, offset to some degree by increased expenditures by the Company on exploration and evaluation.

In March 2010, the Company completed a non-brokered private placements of 7,327,000 units at $0.25 per unit for total proceeds of $1,831,750. Each unit consisted of one common share and one common share purchase warrant exercisable at a price of $0.35 per share until October 7th, 2012. All of these warrants were exercised by the end of 2012.

As at December 31, 2009 the Company had an intercompany loan due to Mindesta in the amount of $9,836,794. The intercompany loan was unsecured, non-interest bearing, had no fixed terms of repayment and largely represented equity capital raised by Mindesta and advanced to the Company to further the Bissett Creek Project. Effective March 31, 2010 the intercompany loan was converted to equity to facilitate the refinancing of the Company and to further the development of the Bissett Creek Project. As part of this process, in March 2010, the Company subdivided its common shares on the basis of 11,750,000 common shares for the one common share outstanding. As a result of the private placements, Note conversion and debt settlements, the Company issued a total of 11,186,925 common shares and 11,155,571 common share purchase warrants in late 2009 and 2010.

The Company has a long-term reclamation deposit with the Ministry of Finance for the Province of Ontario in the amount of $319,590. The deposit accrues interest and represents a financial guarantee to the Province of Ontario that the Company will effect the proper reclamation and closure of the Bissett Creek site when activities are terminated pursuant to a Mine Development and Closure Plan that was filed with, and accepted by, the Ministry of Northern Development and Mines in accordance with the *Mining Act* (Ontario), including the standards, procedures and requirements of the Mining Code of Ontario. The Closure Plan related to the proposed operation based on the dry recovery process which never achieved commercial production. The Company is responsible for any reclamation costs in excess of the deposit. The Company has a revised Closure Plan based on a conventional flotation recovery process and once accepted by MNDM, is it estimated that the deposit will need to be increased to $1.6 million.

The Company's working capital has increased from $1,322,497 at December 31, 2011 to $7,998,183 as a result of the private placement and warrant exercises. As at December 31, 2012 the Company had $8,479,313 in cash, receivables, and prepaid expenses, compared to $1,782,266 as at December 31, 2011. Current liabilities have increased from $459,769 as at December 31, 2011 to $491,205 as at December 31, 2012.

In the first part of 2011 the Company financed operations through an intercompany working capital loan facility in the maximum amount of $600,000 from Mindesta pending the completion of the Company's IPO. The Mindesta facility was repayable in two years, unless the Company raised gross proceeds of at least $3 million from the IPO, in which case it was repayable immediately at the option of Mindesta. The Company closed its IPO on April 18, 2011 which consisted of the sale of 8,000,000 common shares at a price of $0.50 per share for gross proceeds of $4,000,000, and obtained a listing on the TSX Venture Exchange effective April 20, 2011. The net proceeds of the IPO were sufficient to repay Mindesta and to fund exploration and development work on the Bissett Creek Project. On April 26th, 2011, the Company repaid the facility with prescribed interest. From the IPO to December 31, 2011, 6,478,242 warrants have been exercised resulting in proceeds to the Company of $2,095,553. During the first nine months of 2012, 3,132,594 warrants were exercised resulting in additional proceeds to the Company of $1,144,851.

On March 16, 2012, the Company completed a private placement of 6,206,377 common shares at a price of $1.70 for gross proceeds of $10,550,841. In connection with the offering, the Company paid finders' fees totaling $121,517, and issued to the agents 71,480 common share purchase warrants entitling the holder to purchase one common share at a price of $2.00 until March 16, 2013.

Use of the Proceeds from Private Placement

On March 16, 2012, the Company completed a private placement of 6,206,377 common shares at a price of $1.70 for gross proceeds of $10,550,841. Net proceeds of $10,429,323 are to be used to finance the completion of the bankable feasibility study and permitting with respect to the Company's Bissett Creek Project, certain engineering work and the acquisition of long lead time equipment upon the positive completion of the FS and for working capital and general corporate purposes.

	Use of net proceeds as per private placement	**Actual use of proceeds**
Financing the completion of the bankable feasibility study and permitting, engineering work, acquisition of long lead time equipment, working capital, and general corporate purposes.	$10,429,323	$6,114,894

Contractual Obligations

As at the date hereof, the Company's contractual obligations consist of purchase obligations in the amount of approximately $28,000 which relate to the cost of marketing services and which are due within one year. Purchase obligations represent agreements to purchase goods or services that are enforceable and legally binding on the Company.

Off Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements.

Transactions with Related Parties

Major Shareholder
Mindesta's interest in Northern was reduced to 26.1 per cent as at December 31, 2011 as the result of a number of financing transactions. At the close of trading on January 25, 2012, Mindesta completed the distribution to

Mindesta's shareholders of 9,413,581 shares of Northern owned by Mindesta on the basis of one share of Northern for each share of Mindesta. As at December 31, 2012, Mindesta's interest in Northern had decreased to less than 1%. Subsequent to the end of the year, Mindesta no longer holds any shares of Northern.

Key Management Compensation
In the year ended December 31, 2012, the Company expensed management fees to companies owned and controlled by key management personnel of $201,250 (2011 – $220,723) and expensed salary to key management personnel of $414,375 (2011 – $231,667). In the year ended December 31, 2012 and 2011, the Company provided short-term employee benefits totaling $23,929 (2011 – $4,148) to key management personnel. In the year ended December 31, 2012, the Company expensed share-based compensation for stock options granted to key management personnel of $123,890 (1,800,000 share options, 1,616,667 share options vested, exercisable at $0.50; and 225,000 share options, 112,500 share options vested, exercisable at $0.80) and share-based payments of $1,251,353 to directors (500,000 share options exercisable at $2.50; and 500,000 share options exercisable at $0.85). In the year ended December 31, 2011, the Company expensed share-based payments of $731,310 (2,025,000 share options, 1,433,333 share options vested, exercisable at $0.50 to key management personnel). In the year ended December 31, 2012, the Company provided bonus payments of $236,911 (2011 - $47,572) to key personnel.

Other Related Party Transactions
During the year ended December 31, 2012, the Company expensed office rental payments of $19,170 (2011 – $18,000) to a Company whose CEO and a Director is also a Director of Northern.

These transactions were in the normal course of business and are recorded at an exchange value established and agreed upon by the related parties.

As at December 31, 2012, there are no amounts due to Mindesta (2011-$16,127).

Proposed Transactions

The Company continually reviews potential merger, acquisition, investment and other joint venture transactions that could enhance shareholder value. At the current time, there are no reportable proposed transactions.

Changes in Accounting Policies

Recent pronouncements issued
Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after December 31, 2012. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the table below.

The following amended or new Standards were issued by the IASB and are effective for annual periods beginning on or after January 1, 2013. The Company has not early adopted these Standards in these Interim Financial Statements:

- IFRS 7, "Financial Instruments: Disclosures";
- IFRS 9, Financial Instruments, "IFRS 9";
- IFRS 10, "Consolidated Financial Statements";
- IFRS 11, "Joint Arrangements";
- IFRS 12, "Disclosure of Interests in Other Entities";
- IFRS 12, "Disclosure of Interests in Other Entities";
- IFRS 13, "Fair Value Measurement";
- IAS 1, "Presentation of Financial Statements:
- IAS 27, "Separate Financial Statements"; and
- IAS 28, "Investments in Associates and Joint Ventures".

Critical Accounting Estimates and Judgements

The preparation of the Financial Statements requires Management to make estimates, assumptions, and judgements about the future that affect the amounts recorded in the Financial Statements. These estimates, assumptions, and judgements are based on the Company's experience and management's expectations about future events that are believed to be reasonable under the circumstances, and they are continually being evaluated based on new facts and experience. Actual results may differ from these estimates, assumptions and judgements. The effect of a change in an accounting estimate is recognized prospectively in the period of change and future periods if the change impacts both periods.

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;
(iv) the calculation of gains and losses relating to foreign currencies; and
(v) the calculation of gains related to the settlement of debt by the issuance of shares.
(vi) 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 judgements used in the preparation of the 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 financial instruments;
(v) the calculation of gains related to the settlement of debt by the issuance of shares; and
(vi) the recognition of deferred tax.

Critical Accounting Policies

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its interim financial statements:

Going Concern

The critical assumption made by management of the Company is that the Company will continue to operate as a going concern.

The Company is an exploration stage company that incurred a net loss of $3,645,413 for the year ended December 31, 2012 (2011 - $2,459,752) and has an accumulated deficit of $7,223,281 since the inception of the Company. As at December 31, 2012, working capital was $7,988,108 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 Project. The Company completed a private placement with proceeds of $10,550,841 during the first quarter of 2012, and an IPO with proceeds of $4,000,000 during the second quarter of 2011. 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 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 will continue to be able to generate sufficient funds from public or private debt or equity financings for the Company to continue to operate. The Company's Financial Statements do not include any adjustments that might result from negative outcomes with respect to these uncertainties.

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 permits/claims/leases which include the rights to explore, mine, extract and sell all minerals from such permits/claims/leases. 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 are 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 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.

Share-based compensation

The Company has a share option plan (the "Plan") described in Note 7 of the Financial Statements. The Company measures the compensation cost of stock 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.

Restoration and site closure provision

The Company has an obligation to reclaim its mining property after the minerals have been mined from the site, and has estimated the costs necessary to comply with existing reclamation standards. 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.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax is determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. Deferred tax is measured using the enacted tax, or substantially enacted tax rates which will be in effect when the temporary differences are likely to reverse. The effect on deferred tax of a change in tax rates is included in operations in the period in which the change is enacted. The amount of deferred tax recognized is limited to the amount of the benefit that is probable.

Deferred tax and the recognition and measurement of uncertain tax positions are subject to various assumptions and management judgement. Actual results may differ from these estimates. In circumstances where the applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates could occur that materially affect the amounts of deferred tax recorded at September 30, 2012.

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 Instruments 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.

Disclosure of Outstanding Share Data (as at April 9, 2013):

Common Shares

Authorized: Unlimited number of common shares.

Outstanding: 49,081,281 common shares.

Trends

There are significant uncertainties regarding the prices of industrial minerals and in the availability of equity financing for the purposes of mineral exploration and development. For instance, the prices of industrial minerals, including graphite, have fluctuated widely in recent years and it is expected that wide fluctuations may continue. Management of the Company is not aware of any trend, commitment, event or uncertainty both presently known or reasonably expected by the Company to have a material adverse effect on the Company's business, financial condition or results of operations other than the normal speculative nature of the natural resource industry and the risks disclosed below under the heading "Risk Factors".

Risk Factors

An investment in the Company's common shares is speculative and subject to risks and uncertainties. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the value of any investment in the Company and the business, prospects, financial position, financial condition or operating results of the Company. The risk factors noted below, in no specific order, are not an exhaustive list of all risk factors associated with an investment in the Company's common shares or in connection with the operations of the Company.

- Exploration stage company developing one single asset;
- The highly speculative nature of mineral exploration and development;
- No history of mineral production;
- Mining operations and no insurance coverage on the inherent risks of such operations;
- Limited operating history and financial resources;
- Government regulation and compliance;
- The reliability of results of prior exploration work;
- Reliance on management and experts;
- Competition;
- The possibility of conflicts of interest for the Company's directors and/or officers;
- Competitive conditions;
- Title to property;
- Aboriginal land claims;
- Environmental risks and hazards;
- Cost of land reclamation;
- Commodity prices;
- Price volatility and lack of active market;
- Litigation;
- No earning or dividend record and no anticipation of paying in foreseeable future.

For a more detailed discussion of the above risk factors, refer to the Company's Annual Information Form filed for the year ended December 31, 2012.

Cautionary Statement Regarding Forward-Looking Statements

This MD&A contains "forward-looking statements" which reflect management's expectations regarding the Company's future growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements may include, but are not limited to, statements with respect to the future financial or operating performance of the Company and its projects, the future price of graphite or other metal prices, the estimation of Mineral Resources, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of regulatory matters. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; conclusions of economic evaluations; fluctuations in currency exchange rates; changes in project parameters as plans continue to be refined; changes in labor costs or other costs of production; future prices of graphite or other industrial mineral prices; possible variations of mineral grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labor disputes and other risks of the mining industry, including but not limited to environmental hazards, cave-ins, pit-wall failures, flooding, rock bursts and other acts of God or unfavorable operating conditions and losses; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; actual results of reclamation activities, and the factors discussed in the section entitled "Risk Factors" in this MD&A. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, except as may be required by applicable securities laws. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Qualified Person

Don Baxter P.Eng is the Company's President and Qualified Person as that term is defined within National Instrument 43-101 and is responsible for and supervises all technical aspects of the Bissett Creek Project.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.