

Northern Graphite Corporation

Financial Statements

For the Years Ended December 31, 2019 and 2018

(expressed in Canadian dollars)

Independent Auditor's Report

To the Shareholders of Northern Graphite Corporation:

Opinion

We have audited the financial statements of Northern Graphite Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Joseph J. Chirkoff.

Vancouver, British Columbia
March 25, 2020

MNP LLP
Chartered Professional Accountants

Northern Graphite Corporation

Statements of Financial Position

(expressed in Canadian dollars)

	As at December 31, 2019 \$	As at December 31, 2018 \$
Assets		
Current		
Cash and cash equivalents	1,384,798	2,370,622
HST receivable	18,018	50,485
Prepaid expenses and deposits	54,024	109,555
	<hr/> 1,456,840	<hr/> 2,530,662
Reclamation deposit (note 13)	842,015	829,131
Property and equipment (note 4)	145,844	180,919
Exploration and evaluation assets (note 5)	13,344,340	12,940,056
	<hr/> 15,789,039	<hr/> 16,480,768
Total assets	<hr/> <hr/> 15,789,039	<hr/> <hr/> 16,480,768
Liabilities		
Current		
Accounts payable and accrued liabilities	111,515	228,203
	<hr/> 342,500	<hr/> 335,100
Reclamation and close down provision (note 13)	342,500	335,100
Total liabilities	<hr/> 454,015	<hr/> 563,303
Shareholders' equity		
Share capital (note 6)	25,098,662	25,262,083
Warrants (note 6)	945,813	782,392
Contributed surplus (note 6)	2,362,599	2,543,346
Accumulated deficit	(13,072,050)	(12,670,356)
Total shareholders' equity	<hr/> 15,335,024	<hr/> 15,917,465
Total liabilities and shareholders' equity	<hr/> 15,789,039	<hr/> 16,480,768

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

Approved by the Board of Directors and authorized for issue on March 25, 2020

(signed) Gregory Bowes
Director

(signed) Donald Christie
Director

Northern Graphite Corporation
Statements of Loss and Comprehensive Loss
(expressed in Canadian dollars)

	Years ended December 31,	
	2019	2018
	\$	\$
General and administrative expenses		
Legal and audit	33,386	46,880
Office, management and director fees (note 11)	415,066	472,074
Promotion and investor relations	64,474	205,238
Regulatory and transfer agent	75,800	74,407
Share-based payments (notes 6 and 11)	26,621	259,262
Depreciation	35,075	34,813
	<hr/> 650,422	<hr/> 1,092,674
Loss from operations	(650,422)	(1,092,674)
Interest income	41,360	55,384
Loss and comprehensive loss for the year	<hr/> (609,062)	<hr/> (1,037,290)
Loss per share – basic and diluted	(0.01)	(0.02)
Weighted average number of shares – basic and diluted	<hr/> 65,112,756	<hr/> 65,013,891

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

Northern Graphite Corporation
Statements of Changes in Shareholders' Equity
(expressed in Canadian dollars)

	Number of shares	Share capital \$	Warrants \$	Contributed surplus \$	Accumulated deficit \$	Total \$
Balance, December 31, 2018	65,112,756	25,262,083	782,392	2,543,346	(12,670,356)	15,917,465
Extension of warrant expiry (note 6)	-	(163,421)	163,421	-	-	-
Expiry of stock options (note 6)	-	-	-	(207,368)	207,368	-
Share-based payment expense (note 6 and 11)	-	-	-	26,621	-	26,621
Loss and comprehensive loss for the year	-	-	-	-	(609,062)	(609,062)
Balance, December 31, 2019	65,112,756	25,098,662	945,813	2,362,599	(13,072,050)	15,335,024
Balance, December 31, 2017	64,674,006	25,033,021	857,892	2,415,093	(11,764,075)	16,541,931
Exercise of warrants (note 6)	438,750	190,752	(37,190)	-	-	153,562
Expiry of warrants (note 6)	-	38,310	(38,310)	-	-	-
Expiry of stock options (note 6)	-	-	-	(131,009)	131,009	-
Share-based payment expense (note 6 and 11)	-	-	-	259,262	-	259,262
Loss and comprehensive loss for the year	-	-	-	-	(1,037,290)	(1,037,290)
Balance, December 31, 2018	65,112,756	25,262,083	782,392	2,543,346	(12,670,356)	15,917,465

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

Northern Graphite Corporation

Statements of Cash Flows

(expressed in Canadian dollars)

	Year ended December 31,	
	2019	2018
	\$	\$
Cash provided by (used in)		
Operating activities		
Loss for the year	(609,062)	(1,037,290)
Items not affecting cash:		
Accretion of asset retirement obligation (note 13)	(5,484)	(3,320)
Depreciation	35,075	34,813
Share-based payments (note 6 and 11)	26,621	259,262
Change in non-cash working capital items:		
HST receivable	32,467	(35,657)
Prepaid expenses and deposits	55,531	(63,874)
Accounts payable and accrued liabilities	(153,597)	(10,946)
Net cash used in operating activities	(618,449)	(857,012)
Financing activities		
Proceeds from the exercise of warrants (note 6)	-	153,562
Net cash generated from financing activities	-	153,562
Investing activities		
Exploration and evaluation costs (note 5)	(367,375)	(895,849)
Net cash used in investing activities	(367,375)	(895,849)
Net decrease in cash and cash equivalents	(985,824)	(1,599,299)
Cash and cash equivalents, beginning of year	2,370,622	3,969,921
Cash and cash equivalents, end of year	1,384,798	2,370,622

Supplemental cash flow information (note 9)

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

Northern Graphite Corporation

Notes to Financial Statements

For the years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

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”) and the OTC Markets (symbol “NGPHF”).

The Company’s registered office is Suite 6000, 1 First Canadian Place, 100 King Street West, Toronto, Ontario M5X 1E2. The Company’s mailing address is P.O. Box 279, Manotick (Ottawa), Ontario K4M 1A3.

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, 2019 and 2018.

In the opinion of management, all adjustments necessary to present fairly the financial position of the Company as at December 31, 2019 and the results of its operations and cash flows for the year then ended have been made.

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

The Financial Statements were approved and authorized for issue by the Board of Directors on March 25, 2020.

b. Basis of measurement

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

c. Going concern

The Company is an exploration stage company that incurred a net loss of \$609,062 for the year ended December 31, 2019 (Year ended December 31, 2018 – \$1,037,290) and has accumulated a deficit of \$13,072,050 since the inception of the Company. As at December 31, 2019, the Company had working capital of \$1,345,325 (December 31, 2018 – \$2,302,459). 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. Substantial additional capital is required to ultimately build a mine and processing plant on the Bissett Creek Property. 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. 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.

Northern Graphite Corporation

Notes to Financial Statements

For the years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

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

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

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

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

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

- (i) Exploration and evaluation assets

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

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

- (ii) Share-based payments

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

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

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

- (iv) Taxes

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

Northern Graphite Corporation

Notes to Financial Statements

For the years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

(v) Restoration and site closure provision

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

3. *Significant accounting policies*

Cash and cash equivalents

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

Property and equipment

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

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

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

Impairment of long-lived assets

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

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

Mining properties and exploration and evaluation expenditures

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

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

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

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

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

Northern Graphite Corporation

Notes to Financial Statements

For the years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

Depreciation and depletion

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

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

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

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

Translation of foreign currencies

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

Asset retirement obligations

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

Comprehensive income

Other comprehensive income represents the change in net equity for the period resulting from unrealized gains and losses on available-for-sale financial instruments, and changes in the fair market value of derivative instruments designated as cash flow hedges. These amounts are shown net of tax. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income which is presented, if any, as a new category in shareholders' equity. The Company has not had any transactions during the years ended December 31, 2019 and 2018, or previously, that give rise to other comprehensive income, and therefore no balance has accumulated.

Northern Graphite Corporation

Notes to Financial Statements

For the years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

Share capital and share purchase warrants

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

The proceeds from the issue of shares and warrants issued together as units are allocated between common shares and share purchase warrants on a pro-rata basis based on relative fair values at the date of issuance. The fair value of common shares is based on the market closing price on the day preceding the date the units are issued and the fair value of share purchase warrants is determined using the Black-Scholes option pricing model as of the date of issuance.

Loss per share

Basic loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method which includes the dilutive effect of warrants, stock options and contingently issuable shares in the weighted average number of common shares outstanding for the period when applicable. For the years ended December 31, 2019 and 2018, all outstanding warrants and stock options were anti-dilutive.

Share-based payments

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

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

Financial instruments

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as fair value through profit or loss ("FVTPL"), directly attributable transaction costs. Financial instruments are recognized when the Company becomes a party to the contracts that give rise to them and are classified as: amortized cost; fair value through profit or loss; or, fair value through other comprehensive income, as appropriate. The Company considers whether a contract contains an embedded derivative when the it first becomes a party to it. The embedded derivatives are separated from the host contract if the host contract is not measured at FVTPL and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Financial assets at amortized cost

A financial asset is measured at amortized cost if it is held by a business whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and is not designated as FVTPL. Financial assets classified as amortized cost are measured subsequent to initial recognition at amortized cost using the effective interest method. Other receivables and reclamation deposits are classified as and measured at amortized cost.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and financial assets not designated upon initial recognition as amortized cost or fair value through other comprehensive income ("FVTOCI"). A financial asset is classified in this category principally for the purpose of selling in the short term, or if so designated by management. Transaction costs are expensed as incurred. On initial recognition, a financial asset that otherwise meets the requirements to be measured at amortized cost or FVTOCI may be irrevocably designated as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Company's cash and cash equivalents are measured at FVTPL with changes in fair value recognized in the statements of loss.

Northern Graphite Corporation

Notes to Financial Statements

For the years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

Financial assets at FVTOCI

On initial recognition of an equity investment that is not held for trading, an irrevocable election is available to measure the investment at fair value upon initial recognition plus directly attributable transaction costs and at each period end, changes in fair value are recognized in other comprehensive income ("OCI") with no reclassification to the statements of loss. The election is available on an investment-by-investment basis.

Financial liabilities

Financial liabilities, including accounts payable and accrued liabilities are recognized initially at fair value, net of transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statements of loss when the liabilities are derecognized as well as through the amortization process. Borrowing liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. Accounts payable and accrued liabilities are classified as and measured at amortized cost.

Derecognition of financial assets and liabilities

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership. Gains and losses on derecognition are generally recognized in the statements of loss. The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expelled. The financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of loss.

Derivative instruments

Derivative instruments, including embedded derivatives, are measured at fair value on initial recognition and at each subsequent reporting period end. Any gains or losses arising from changes in fair value of derivatives are recorded in statements of loss.

Fair values

The fair value of quoted investments is determined by reference to market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis; and, pricing models.

Financial instruments that are measured at fair value subsequent to initial recognition are grouped into a hierarchy based on the degree to which the fair value is observable as follows:

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period end. 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 asset, the estimated future cash flows of the investment have been impacted. The criteria that the Company uses to determine if there is objective evidence of an impairment loss includes:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

At each statement of financial position date, on a forward looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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Recent and future accounting standards

Certain pronouncements were issued by the International Accounting Standards Board (“IASB”) or the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods after December 31, 2019. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the discussion below.

IFRS 16, Leases, was issued by the IASB in January 2016. For lessee accounting the new standard brings most leases on to the statement of financial position under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. This standard was effective for annual reporting periods beginning on or after January 1, 2019. The Company has applied IFRS 16 with an initial application date of January 1, 2019 using a modified retrospective approach with the cumulative effect of initially applying the standard recognized at the date of initial application, without restating prior periods, in accordance with the transitional provisions specified in IFRS 16. The adoption of IFRS 16 had no impact on the Company’s results of operations, financial position, and disclosures.

IFRIC 23, Uncertainty over Income Tax Treatments, was issued by the IASB in June 2017. IFRIC 23 clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 and requires an entity to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it uses or plans to use in its income tax filing. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 and permits early adoption. The adoption of IFRIC 23 had no impact on the Company’s results of operations, financial position, and disclosures.

4. Property and equipment

	Buildings and improvements	Process building	Equipment	Total property and equipment
	\$	\$	\$	\$
<i>Cost</i>				
Balance, December 31, 2018 and 2019	179,783	623,714	590,919	1,394,416
<i>Accumulated depreciation</i>				
Balance, December 31, 2018	162,974	459,929	590,594	1,213,497
Additions	3,579	31,442	54	35,075
Balance, December 31, 2019	166,553	491,371	590,648	1,248,572
Net book value	13,230	132,343	271	145,844

	Buildings and improvements	Process building	Equipment	Total property and equipment
	\$	\$	\$	\$
<i>Cost</i>				
Balance, December 31, 2017 and 2018	179,783	623,714	590,919	1,394,416
<i>Accumulated depreciation</i>				
Balance, December 31, 2017	159,421	428,722	590,541	1,178,684
Additions	3,553	31,207	53	34,813
Balance, December 31, 2018	162,974	459,929	590,594	1,213,497
Net book value	16,809	163,785	325	180,919

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5. Exploration and evaluation assets

The Company has a 100% interest in the Bissett Creek Property which consists of a 1,938 hectare mining lease, expiring in June, 2034, a 565 hectare mining lease, expiring in August, 2035, and 52 cells under Ontario's new claim system totaling approximately 1,159 hectares. All leases and cells are located in the United Townships of Head, Clara and Maria, in the County of Renfrew, Ontario. As of December 31, 2019, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	\$
Balance, December 31, 2018	12,940,056
Exploration and evaluation expenditures made from January 1, 2019 to December 31, 2019:	
Environmental and mine permitting	213,286
Feasibility study	83,117
First Nations consultations	2,019
Site costs and royalties	105,862
Balance, December 31, 2019	13,344,340

As of December 31, 2018, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	\$
Balance, December 31, 2017	11,917,905
Exploration and evaluation expenditures made from January 1, 2018 to December 31, 2018:	
Engineering	19,076
Environmental and mine permitting	461,423
Feasibility study	293,751
Metallurgical	94,891
Product sales and marketing	81,224
Site and royalties	71,786
Balance, December 31, 2018	12,940,056

The Company is required to make royalty payments of \$20 per ton of graphite concentrate produced to the previous owners and is subject to a 2.5% net smelter return payable on any other minerals derived and sold from the Bissett Creek Property. An advance royalty of \$27,000 per annum is payable in semi-annual installments and is recorded in exploration and evaluation assets. The advance will be credited against any future royalty payments. See also note 15.

6. Share capital

Authorized

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

Warrants and compensation options

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

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2017	6,930,607	0.47
Compensation options exercised	(438,750)	0.35
Compensation options expired	(291,370)	0.60
Balance, December 31, 2018 and 2019	6,200,487	0.47

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A summary of the Company's warrants and compensation options outstanding at December 31, 2019 is presented below:

Exercise price	Number of warrants outstanding	Expiry date
\$0.40	3,909,166	March 24, 2021
\$0.60	2,291,321	November 22, 2021
	6,200,487	

As at December 31, 2019, the weighted average remaining contractual life of warrants outstanding is 1.48 years. During January 2019, the Company extended the expiry date of the 3,909,166 warrants exercisable at \$0.40 from March 24, 2019 to March 24, 2021. During November 2019, the Company extended the expiry date of the 2,291,321 warrants exercisable at \$0.60 from November 22, 2019 to November 22, 2021. No warrants or compensation options were issued during the year ended December 31, 2019.

Stock options

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

A summary of the Option Plan activity is presented below:

	Number of options	Weighted average exercise price
		\$
Balance, December 31, 2017	3,575,000	0.53
Granted	800,000	0.50
Forfeited	(375,000)	0.55
Balance, December 31, 2018	4,000,000	0.53
Granted	600,000	0.21
Forfeited	(600,000)	0.53
Balance, December 31, 2019	4,000,000	0.45

A summary of the Company's outstanding stock options at December 31, 2019 is presented below:

Exercise price	Stock options outstanding	Stock options exercisable	Expiry date
\$0.20	450,000	450,000	May 9, 2020
\$0.25	150,000	150,000	January 21, 2024
\$0.50	2,200,000	2,200,000	April 27, 2021
\$0.50	200,000	200,000	November 27, 2022
\$0.50	600,000	600,000	January 12, 2023
\$0.70	400,000	400,000	January 9, 2020
	4,000,000	4,000,000	

The weighted average remaining contractual life of stock options outstanding is 1.52 years. As at December 31, 2018, a total of 3,900,000 stock options were exercisable. During January 2019, the Company granted 150,000 stock options exercisable at \$0.25 per share to a director of the Company. These stock options expire on January 21, 2024. During May 2019, the Company granted 450,000 stock options exercisable at \$0.20 per share in connection with a consulting agreement for financial advisory services. These stock options expire on May 9, 2020. Subsequent to year end, during January 2020, a total of 400,000 stock options exercisable at \$0.70 per share expired.

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The values of stock options determined during the years ended December 31, 2019 and 2018 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Stock options granted during the period	600,000	800,000
Weighted-average exercise price	\$0.21	\$0.50
Expected stock option life ⁽¹⁾	1 to 5 years	5 years
Expected volatility ⁽²⁾	82.5% to 96.3%	75.1%
Risk-free interest rate ⁽³⁾	1.72% to 1.83%	1.61%
Dividend yield	Nil	Nil
Forfeiture rate	Nil	Nil
Weighted-average fair value (Black-Scholes value)	\$0.03	\$0.33

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

As at December 31, 2019, there was \$Nil (December 31, 2018 – \$6,338) of unrecognized share-based compensation costs related to unvested stock option awards granted under the Option Plan.

Contributed surplus

	\$
Balance, December 31, 2017	2,415,093
Share-based compensation	259,262
Expiry of stock options	(131,009)
Balance, December 31, 2018	2,543,346
Share-based compensation	26,621
Expiry of stock options	(207,368)
Balance, December 31, 2019	2,362,599

Contributed surplus as at December 31, 2019 and 2018 consists of a share-based payment reserve related to stock options issued under the Option Plan.

7. Income taxes

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statements of comprehensive loss for the years ended December 31, 2019 and 2018:

	Year ended December 31, 2019	Year ended December 31, 2018
Loss before income taxes	\$ (609,062)	\$ (1,037,290)
Canadian statutory income tax rate	26.5%	26.5%
Expected income tax recovery	(161,401)	(274,882)
Differences resulting from:		
Non-deductible items	7,313	69,044
Change in deferred tax assets not recognized	154,088	205,838
Income tax expense (recovery)	\$ -	\$ -

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Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Deferred tax assets (liabilities) at December 31, 2019 and 2018 are comprised of the following:

	December 31, 2019		December 31, 2018
Non-capital loss carry forwards	\$ 484,630	\$	363,235
Exploration and evaluation assets	(484,630)		(363,235)
	\$ -	\$	-

The unrecognized temporary differences as at December 31, 2019 and 2018 are comprised of the following:

	December 31, 2019		December 31, 2018
Non-capital loss carry forwards	\$ 15,532,560	\$	14,497,893
Exploration and evaluation assets	497,973		462,898
Reclamation and close down provision	342,500		335,100
SR&ED expenditures	1,486,074		1,486,074
Financing costs	142,422		307,863
Investment tax credits - federal	384,201		384,201
Investment tax credits - provincial	88,763		88,763
	\$ 18,474,493	\$	17,562,792

As of December 31, 2019, the Company has non-capital loss carry forwards of approximately \$15,532,560 which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to the final determination by taxation authorities. The carry forward balances expire as follows:

2027	\$	2,189,355
2028		857,236
2029		393,269
2030		444,321
2031		2,566,624
2032		2,518,874
2033		1,136,578
2034		981,691
2035		900,029
2036		720,682
2037		934,048
2038		1,148,432
2039		741,421
Total	\$	15,532,560

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8. Capital disclosures

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

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

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the periods presented in these Financial Statements.

9. Supplemental cash flow information

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

	Year ended December 31, 2019	Year ended December 31, 2018
Exploration and evaluation costs in accounts payable and accrued liabilities	36,909	126,302

10. Financial instruments and risk management

Fair value

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

At December 31, 2019 and 2018, 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	As at December 31, 2019 \$	As at December 31, 2018 \$
Cash and cash equivalents	Level 1	1,384,798	2,370,622

As at December 31, 2019, 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 years ended December 31, 2019 or 2018. At December 31, 2019 and 2018, there were no financial assets or liabilities measured and recognized in the statements of financial position at fair value that would be categorized as Level 2 or Level 3 in the fair value hierarchy.

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

Currency risk

As the majority of the Company's expenditures are in Canadian dollars, the Company limits its exposure to currency risk by maintaining its cash and cash equivalents in Canadian dollars. The Company periodically 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. Further discussion on liquidity and management's plans are outlined in note 2.

Interest rate risk

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

11. Related party transactions and compensation of key management

Key management compensation

During the year ended December 31, 2019, the Company expensed management fees to a company owned and controlled by key management personnel of \$51,604 (2018 – \$55,283) and salary and compensation to key management personnel of \$180,000 (2018 – \$250,000). During the year ended December 31, 2019, the Company expensed directors' fees of \$60,000 (2018 – \$62,500). During the year ended December 31, 2019, the Company expensed share-based compensation for stock options granted to key management personnel and directors of \$20,918 (2018 – \$259,262).

As at December 31, 2019, \$2,817 (2018 – \$13,059) was included in accounts payable and accrued liabilities owing to officers and directors relating to management and director fees and for reimbursement of expenses.

12. Commitments

Leased mineral claims

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

Contractual obligations

As at December 31, 2019 and 2018, the Company had no contractual obligations which related to costs associated with work at the Bissett Creek Property.

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13. Provisions

In 2012, the Company filed a revised Mine Closure Plan (“MCP”) which was accepted by the Ontario Ministry of Energy, Northern Development and Mines (“MENDM”). In accordance with the MCP, the Company is required to deposit \$2,329,008 with the Minister of Finance for the Province of Ontario prior to the commencement of commercial production. This represents the estimated amount that would be required to restore the Bissett Creek Property to its original environmental state after the mine has been constructed and operations cease. A deposit of \$842,015 (December 31, 2018 – \$829,131), including accrued interest, has been made and has been accounted for as a long term deposit. The Company has recorded a provision of \$342,500 (December 31, 2018 – \$335,100) which represents the estimated current cost of reclamation. The reclamation deposit will be returned to the Company once the MENDM is satisfied that the obligations contained in the MCP have been performed by the Company. Due to a number of operational changes made to improve the economics of the Bissett Creek project and to the passage of time since the MCP was approved, the MENDM has informed the Company that it must file an amendment to the MCP which will include a recalculation of reclamation costs and the amount of the required deposit.

14. Segmented information

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

15. Subsequent events

Royalty sale transaction

On March 23, 2020, the Company announced that it had agreed to sell a one percent gross revenue royalty (“GRR”) on its Bissett Creek Property to Electric Royalties Ltd. (“ERL”) for \$500,000 in cash and two million common shares of ERL (of which half will be subject to a 12 month hold period and half to an 18 month hold period) (the “Consideration Shares”). The transaction is subject to, among other things, regulatory approval, the completion of due diligence by ERL and ERL completing its going public transaction which will involve a financing of not less than \$3.5 million. Under the terms of the agreement, ERL also has a two-year option to acquire an additional half of one percent GRR by paying \$750,000, of which 25 percent can be paid in ERL shares. The Company will have the option to buy back half of one percent of the initial GRR at any time after 12 months by returning the Consideration Shares or paying \$1.5 million in cash.

Global outbreak of COVID-19

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, this outbreak may hinder the Company’s ability to raise financing to build the Bissett Creek Project due to uncertain capital markets, reduced customer demand, supply chain disruptions, increased government regulations and other unanticipated factors, all of which may also negatively impact the Company’s business and financial condition.