

# **Northern Graphite Corporation**

## **Condensed Interim Financial Statements For the Three Month Periods Ended March 31, 2021 and 2020**

(expressed in Canadian dollars)

### **NOTICE**

*The Company's independent auditors have not performed a review of these condensed interim financial statements.*

**Northern Graphite Corporation**  
**Unaudited Condensed Interim Statements of Financial Position**  
(expressed in Canadian dollars)

	As at March 31, 2021 \$	As at December 31, 2020 \$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	4,871,161	1,211,575
HST receivable	39,836	15,496
Prepaid expenses and deposits	105,953	89,185
Marketable securities (note 4)	609,500	182,708
	5,626,450	1,498,964
Marketable securities (note 4)	-	153,607
Reclamation deposit (note 12)	845,895	845,145
Property and equipment	93,246	101,120
Exploration and evaluation assets (note 5)	12,675,607	12,623,846
<b>Total assets</b>	<b>19,241,198</b>	<b>15,222,682</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	172,025	207,739
Reclamation and close down provision (note 12)	347,650	345,925
<b>Total liabilities</b>	<b>519,675</b>	<b>553,664</b>
<b>Shareholders' equity</b>		
Share capital (note 6)	28,482,620	25,098,662
Warrants (note 6)	1,563,619	945,813
Contributed surplus (note 6)	2,411,966	2,405,345
Accumulated deficit	(13,736,682)	(13,780,802)
<b>Total shareholders' equity</b>	<b>18,721,523</b>	<b>14,669,018</b>
<b>Total liabilities and shareholders' equity</b>	<b>19,241,198</b>	<b>15,222,682</b>

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

**Approved by the Board of Directors and authorized for issue on May 25, 2021**

(signed) *Gregory Bowes*  
Director

(signed) *Donald Christie*  
Director

**Northern Graphite Corporation**  
**Unaudited Condensed Interim Statements of Income (Loss) and**  
**Comprehensive Income (Loss)**  
(expressed in Canadian dollars)

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>General and administrative expenses</b>		
Legal and audit	8,952	7,831
Office, management and director fees (note 10)	142,463	88,969
Promotion and investor relations	47,484	35,257
Regulatory and transfer agent	17,719	10,291
Share-based payments (notes 6 and 10)	6,621	-
Depreciation	7,874	8,769
	<hr/> 231,113	<hr/> 151,117
<b>Loss from operations</b>	(231,113)	(151,117)
Interest income	2,048	7,342
Gain on marketable securities (note 4)	273,185	-
	<hr/> 44,120	<hr/> (143,775)
<b>Income (loss) and comprehensive income (loss)</b> <b>for the period</b>		
Income (loss) per share – basic and diluted	0.00	(0.00)
Weighted average number of shares – basic and diluted	71,361,952	65,112,756

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

**Northern Graphite Corporation**  
**Unaudited Condensed Interim Statements of Changes in Shareholders' Equity**  
(expressed in Canadian dollars)

	Number of shares	Share capital \$	Warrants \$	Contributed surplus \$	Accumulated deficit \$	Total \$
<b>Balance, December 31, 2020</b>	65,112,756	25,098,662	945,813	2,362,599	(13,072,050)	15,335,024
Issuance of common shares and warrants (note 6)	10,688,000	1,816,890	1,175,750	-	-	2,992,640
Share issue costs	-	(198,876)	-	-	-	(198,876)
Exercise of warrants (note 6)	3,020,000	1,639,035	(431,035)	-	-	1,208,000
Expiry of warrants (note 6)	-	126,909	(126,909)	-	-	-
Share-based payment expense (note 6)	-	-	-	6,621	-	6,621
Income and comprehensive income for the period	-	-	-	-	44,120	44,120
<b>Balance, March 31, 2021</b>	<b>78,820,756</b>	<b>28,482,620</b>	<b>1,563,619</b>	<b>2,411,966</b>	<b>(13,736,682)</b>	<b>18,721,523</b>
<b>Balance, December 31, 2019</b>	65,112,756	25,098,662	945,813	2,362,599	(13,072,050)	15,335,024
Expiry of stock options (note 6)	-	-	-	(153,676)	153,676	-
Loss and comprehensive loss for the period	-	-	-	-	(143,775)	(143,775)
<b>Balance, March 31, 2020</b>	<b>65,112,756</b>	<b>25,098,662</b>	<b>945,813</b>	<b>2,208,923</b>	<b>(13,062,149)</b>	<b>15,191,249</b>

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

**Northern Graphite Corporation**  
**Unaudited Condensed Interim Statements of Cash Flows**  
(expressed in Canadian dollars)

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Income (loss) for the period	44,120	(143,775)
Items not affecting cash:		
Accretion of asset retirement obligation (note 12)	975	(1,562)
Unrealized gain on marketable securities (note 4)	273,185	-
Depreciation	7,874	8,769
Share-based payments (note 6)	6,621	-
Change in non-cash working capital items:		
HST receivable	(24,340)	6,396
Prepaid expenses and deposits	(16,768)	(41,606)
Accounts payable and accrued liabilities	(52,604)	(30,808)
<b>Net cash used in operating activities</b>	<b>(307,307)</b>	<b>(202,586)</b>
<b>Investing activities</b>		
Exploration and evaluation costs (note 5)	(34,871)	(21,046)
<b>Net cash used in investing activities</b>	<b>(34,871)</b>	<b>(21,046)</b>
<b>Financing activities</b>		
Issuance of common shares and warrants (note 6)	2,992,640	-
Share issue costs	(198,876)	-
Proceeds from exercise of warrants (note 6)	1,208,000	-
<b>Net cash provided by financing activities</b>	<b>4,001,764</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,659,586</b>	<b>(223,632)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,211,575</b>	<b>1,384,798</b>
<b>Cash and cash equivalents, end of period</b>	<b>4,871,161</b>	<b>1,161,166</b>

Supplemental cash flow information (note 8)

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

# Northern Graphite Corporation

## Notes to Condensed Interim Financial Statements

### For the three month periods ended March 31, 2021 and 2020

(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 unaudited condensed interim financial statements for the three month period ended March 31, 2021 (the “Interim Financial Statements”) have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). These Interim Financial Statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Company’s audited annual financial statements for the years ended December 31, 2020 and 2019, which have been prepared in accordance with IFRS.

The Interim Financial Statements were approved and authorized for issue by the Board of Directors on May 25, 2021.

##### **b. Basis of measurement**

The Interim 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 Interim Financial Statements have been prepared using the accrual basis of accounting.

##### **c. Going concern**

The Company is an exploration stage company that generated net income of \$44,120 for the three month period ended March 31, 2021 (Year ended December 31, 2020 – loss of \$868,131) and has accumulated a deficit of \$13,736,682 since the inception of the Company. As at March 31, 2021, the Company had working capital of \$5,454,425 (December 31, 2020 – \$1,291,225). The Company’s ability to continue as a going concern is dependent upon its ability to raise additional capital to continue the development of the Bissett Creek Property. During February 2021, the Company closed a non-brokered private placement financing for gross proceeds of approximately \$2,992,640. Additionally, during February and March 2021, the Company realized proceeds of \$1,208,000 from the exercise of warrants. 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 endeavors.

The Interim 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. The Company’s Interim 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 Interim Financial Statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the Interim 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 Interim Financial Statements of changes in such estimates in future periods could be significant. Actual results may differ from those estimates and judgments.

*Significant estimates used in the preparation of the Interim 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;

**Northern Graphite Corporation**  
**Notes to Condensed Interim Financial Statements**  
**For the three month periods ended March 31, 2021 and 2020**  
(expressed in Canadian dollars)

- (iv) the valuation of marketable securities that have contractual trading restrictions that limit marketability; and
- (v) 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 Interim 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.

**3. Significant accounting policies**

These Interim Financial Statements have been prepared using accounting policies that are consistent with those used in the preparation of the Company’s audited annual financial statements for the years ended December 31, 2020 and 2019.

**4. Marketable securities**

During July 2020, the Company received 2,000,000 common shares of Electric Royalties Ltd. (“ERL”) under the terms of an agreement for the sale of a one percent royalty on the Bissett Creek Property to ERL (see note 5). For accounting purposes, these common shares are recorded at fair value based upon the quoted market price of ERL’s common shares on the TSX Venture Exchange with a discount applied for lack of marketability relating to the security-specific trading restrictions related to these shares. Changes in the fair value are reflected in the statements of profit and loss. Of the total common shares received, 1,000,000 are restricted from trading until July 15, 2021 while 1,000,000 are restricted from trading until January 15, 2022. The following table summarizes information regarding the Company’s marketable securities.

	\$
Addition during July 2020	440,340
Unrealized loss	(104,025)
<b>Balance, December 31, 2020</b>	<b>336,315</b>
Unrealized gain	273,185
<b>Balance, March 31, 2021</b>	<b>609,500</b>

As at December 31, 2020, a balance of \$182,708 is recorded in current assets related to these marketable securities with the balance of \$153,607 recorded in non-current assets.

The discount for lack of marketability related to marketable securities was determined using the Black-Scholes option pricing model for a put option. The significant inputs used in the fair value measurement categorized within Level 2 of the fair value hierarchy for the three month period March 31, 2021 are as follows: term of 3.5 to 9.5 months; volatility of 50.0%; and, risk-free interest rate of 0.23%.

**Northern Graphite Corporation**  
**Notes to Condensed Interim Financial Statements**  
**For the three month periods ended March 31, 2021 and 2020**  
(expressed in Canadian dollars)

**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 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 March 31, 2021, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	\$
<b>Balance, December 31, 2020</b>	12,623,846
Exploration and evaluation expenditures made from January 1, 2021 to March 31, 2021:	
Environmental and mine permitting	15,854
Metallurgical	16,419
Site costs and royalties	19,488
<b>Balance, March 31, 2021</b>	<b>12,675,607</b>

As of March 31, 2020, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	\$
<b>Balance, December 31, 2019</b>	13,344,340
Exploration and evaluation expenditures made from January 1, 2020 to March 31, 2020:	
Environmental and mine permitting	4,182
Feasibility study	21,000
Site and royalties	20,196
<b>Balance, March 31, 2020</b>	<b>13,389,718</b>

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.

On July 15, 2020, the Company closed the sale of a one percent gross revenue royalty ("GRR") on its Bissett Creek Property to Electric Royalties Ltd. for \$500,000 in cash and two million common shares of ERL valued at \$440,340 (the "Consideration Shares", see note 4). 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 has 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.

**6. Share capital**

**Authorized**

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

**Private placement**

On February 12, 2021, the Company closed a non-brokered private placement financing raising gross proceeds of \$2,992,640 through the sale of units at a price of \$0.28 per unit. Each unit was comprised of one common share and one-half share purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of \$0.45 per share. A total of 5,344,000 warrants were issued with an expiry date of February 12, 2023. Cash finder fees of \$153,888 were paid in connection with the placement.



**Northern Graphite Corporation**  
**Notes to Condensed Interim Financial Statements**  
**For the three month periods ended March 31, 2021 and 2020**  
(expressed in Canadian dollars)

**Warrants**

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

	<b>Number of warrants</b>	<b>Weighted average exercise price \$</b>
<b>Balance, December 31, 2020 and 2019</b>	6,200,487	0.47
Warrants issued	5,344,000	0.45
Warrants exercised	(3,020,000)	0.40
Warrants expired	(889,166)	0.40
<b>Balance, March 31, 2021</b>	<b>7,635,321</b>	<b>0.50</b>

A summary of the Company's warrants outstanding as at March 31, 2021 is presented below:

<b>Exercise price</b>	<b>Number of warrants outstanding</b>	<b>Expiry date</b>
\$0.45	5,344,000	February 12, 2023
\$0.60	2,291,321	November 22, 2021
	<b>7,635,321</b>	

As at March 31, 2021, the weighted average remaining contractual life of warrants outstanding is 1.50 years (December 31, 2020 – 0.47 years).

**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:

	<b>Number of options</b>	<b>Weighted average exercise price \$</b>
<b>Balance, December 31, 2019</b>	4,000,000	0.45
Granted	1,600,000	0.20
Expired	(850,000)	0.44
<b>Balance, December 31, 2020</b>	<b>4,750,000</b>	<b>0.39</b>
Granted	200,000	0.50
<b>Balance, March 31, 2021</b>	<b>4,950,000</b>	<b>0.40</b>

**Northern Graphite Corporation**  
**Notes to Condensed Interim Financial Statements**  
**For the three month periods ended March 31, 2021 and 2020**  
(expressed in Canadian dollars)

A summary of the Company's outstanding stock options at March 31, 2021 is presented below:

<b>Exercise price</b>	<b>Stock options outstanding</b>	<b>Stock options exercisable</b>	<b>Expiry date</b>
\$0.20	100,000	100,000	July 23, 2022
\$0.20	1,500,000	1,500,000	July 23, 2025
\$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
\$0.50	200,000	-	February 22, 2023
	<b>4,950,000</b>	<b>4,750,000</b>	

As at March 31, 2021, the weighted average remaining contractual life of stock options outstanding is 1.81 years (December 31, 2020 – 2.05 years). As at December 31, 2020, a total of 4,750,000 stock options were exercisable. Subsequent to quarter end, during April 2021, the Company granted a total of 3,050,000 stock options exercisable at \$0.50 per share. Of this total 2,800,000 stock options expire April 15, 2026 and 250,000 stock options expire April 25, 2024.

The values of stock options determined during the three months ended March 31, 2021 and during the year ended December 31, 2020 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	<b>Three months ended March 31, 2021</b>	<b>Year ended December 31, 2020</b>
Stock options granted during the period	200,000	1,600,000
Weighted-average exercise price	\$0.50	\$0.20
Expected stock option life <sup>(1)</sup>	2 years	2 to 5 years
Expected volatility <sup>(2)</sup>	109.5%	96.9% to 107.6%
Risk-free interest rate <sup>(3)</sup>	0.23%	0.23%
Dividend yield	Nil	Nil
Forfeiture rate	Nil	Nil
Weighted-average fair value (Black-Scholes value)	\$0.32	\$0.13

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 March 31, 2021 there was a balance of \$56,979 (December 31, 2020 - \$Nil) of unrecognized share-based compensation cost related to an unvested stock option award granted under the Option Plan.

**Contributed surplus**

Contributed surplus as at March 31, 2021 and December 31, 2020 consists of a share-based payment reserve related to stock options issued under the Option Plan.

**Northern Graphite Corporation**  
**Notes to Condensed Interim Financial Statements**  
**For the three month periods ended March 31, 2021 and 2020**  
(expressed in Canadian dollars)

**7. 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 Interim Financial Statements.

**8. Supplemental cash flow information**

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

	<b>Three months ended March 31, 2021</b>	<b>Three months ended March 31, 2020</b>
--	--	--

Exploration and evaluation costs in accounts payable and accrued liabilities	16,890	24,332
--	--------	--------

**9. 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.

As at March 31, 2020 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: Cash and cash equivalent (Level 1) of \$4,871,161 (December 31, 2020 - \$1,211,575) and marketable securities (Level 2) of \$609,500 (December 31, 2020 - \$336,315).

As at March 31, 2021 and December 31, 2020, 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 three months ended March 31, 2021 or the year ended December 31, 2020. As at March 31, 2021 and December 31, 2020, 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 3 in the fair value hierarchy.

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 marketable securities approximate fair value as they are recorded based on the quoted market price of the securities less a discount for lack of marketability due to the trading date restrictions placed on the securities. The carrying value of the reclamation deposit approximates its fair value as it bears a market rate of interest.

# Northern Graphite Corporation

## Notes to Condensed Interim Financial Statements

### For the three month periods ended March 31, 2021 and 2020

(expressed in Canadian dollars)

#### **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.

### **10. Related party transactions and compensation of key management**

#### **Key management compensation**

During the three month period ended March 31, 2021, the Company expensed management fees to a company owned and controlled by key management personnel of \$19,204 (Q1 2020 – \$15,491) and salary and compensation to key management personnel of \$45,000 (Q1 2020 – \$45,000). During the three month period ended March 31, 2021, the Company expensed directors' fees of \$15,000 (Q1 2020 – \$15,000). During the three month period ended March 31, 2021, the Company expensed share-based compensation for stock options granted to key management personnel and directors of \$Nil (Q1 2020 – \$Nil).

As at March 31, 2021, \$55,056 (December 31, 2020 – \$95,884) was included in accounts payable and accrued liabilities owing to officers and directors relating to management and director fees and for reimbursement of expenses.

### **11. 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.

On July 15, 2020, the Company closed the sale of a 1% gross revenue royalty on its Bissett Creek Property to Electric Royalties Ltd. (see notes 4 and 6).

#### **Contractual obligations**

As at March 31, 2021 and 2020, the Company had no contractual obligations which related to costs associated with work at the Bissett Creek Property.

# **Northern Graphite Corporation**

## **Notes to Condensed Interim Financial Statements**

### **For the three month periods ended March 31, 2021 and 2020**

(expressed in Canadian dollars)

#### ***12. 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 (“ENDM”). 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 \$845,895 (December 31, 2020 – \$845,145), including accrued interest, has been made and has been accounted for as a long term deposit. The Company has recorded a provision of \$347,650 (December 31, 2020 – \$345,925) which represents the estimated current cost of reclamation. The reclamation deposit will be returned to the Company once ENDM 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, ENDM 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.

#### ***13. 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.

#### ***14. Global COVID-19 pandemic***

The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. The duration and impact of the COVID-19 pandemic is unclear at this time and as a result it is not possible for management to estimate the severity of the impact it may have on the financial results and operations of the Company in future periods. COVID-19 may hinder both the Company’s ability to conduct exploration activities in the jurisdiction that it operates in and its ability to raise financing for exploration or operating costs due to uncertain capital markets, supply chain disruptions, increased government regulations and other unanticipated factors, all of which may also negatively impact the Company’s business and financial condition. It is management’s assumption that the Company will continue to operate as a going concern.