

Northern Graphite Corporation

Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

(expressed in Canadian dollars)

To the Shareholders of Northern Graphite Corporation:

Opinion

We have audited the consolidated financial statements of Northern Graphite Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and December 31, 2020, 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 Consolidated 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 consolidated 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 consolidated 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 consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

The engagement partner on the audit resulting in this independent auditor's report is Brent Wolfe.

Vancouver, British Columbia

April 11, 2022

MNP LLP

Chartered Professional Accountants

Northern Graphite Corporation
Consolidated Statements of Financial Position
(expressed in Canadian dollars)

	As at December 31, 2021 \$	As at December 31, 2020 \$
Assets		
Current		
Cash and cash equivalents	3,577,643	1,211,575
HST receivable	79,411	15,496
Prepaid expenses and deposits	64,786	89,185
Marketable securities (note 4)	750,000	182,708
Deferred costs (note 7)	750,492	-
	5,222,332	1,498,964
Marketable securities (note 4 and 13)	-	153,607
Reclamation deposit (note 15)	845,883	845,145
Property and equipment (note 5)	69,624	101,120
Exploration and evaluation assets (note 6)	13,518,393	12,623,846
Total assets	19,656,232	15,222,682
Liabilities		
Current		
Accounts payable and accrued liabilities	1,562,028	207,739
Reclamation and site closure provision (note 15)	362,180	345,925
Total liabilities	1,924,208	553,664
Shareholders' equity		
Share capital (note 8)	30,862,348	25,098,662
Warrants (note 8)	626,566	945,813
Contributed surplus (note 8)	2,502,850	2,405,345
Accumulated deficit	(16,259,740)	(13,780,802)
Total shareholders' equity	17,732,024	14,669,018
Total liabilities and shareholders' equity	19,656,232	15,222,682

Nature of operations (note 1)

Subsequent events (note 18)

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

Approved by the Board of Directors and authorized for issue on April 11, 2022

(signed) *Gregory Bowes*
Director

(signed) *Donald Christie*
Director

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

	Years ended December 31,	
	2021	2020
	\$	\$
General and administrative expenses		
Legal and audit	165,809	52,349
Office, management and director fees (note 13)	759,160	331,271
Promotion and investor relations	289,307	113,235
Regulatory and transfer agent	82,794	59,147
Project evaluation and acquisition (note 7)	1,488,107	-
Share-based payments (notes 8 and 13)	844,126	202,125
Depreciation (note 5)	31,496	34,180
	<u>3,660,799</u>	<u>792,307</u>
Loss from operations	(3,660,799)	(792,307)
Interest income	21,555	11,605
Gain (loss) on marketable securities (note 4)	413,685	(104,025)
Gain on sale of building (note 5)	-	16,596
Loss and comprehensive loss for the year	<u>(3,225,559)</u>	<u>(868,131)</u>
Loss per share – basic and diluted	(0.04)	(0.01)
Weighted average number of shares – basic and diluted	<u>77,465,330</u>	<u>65,112,756</u>

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

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

	Number of shares	Share capital \$	Warrants \$	Contributed surplus \$	Accumulated deficit \$	Total \$
Balance, December 31, 2020	65,112,756	25,098,662	945,813	2,405,345	(13,780,802)	14,669,018
Common shares issued for property (note 6)	500,000	250,000	-	-	-	250,000
Issuance of common shares and warrants, net (note 8)	10,688,000	2,133,934	659,830	-	-	2,793,764
Exercise of warrants (note 8)	5,070,666	3,169,532	(768,857)	-	-	2,400,675
Expiry of warrants (note 8)	-	210,220	(210,220)	-	-	-
Share-based payment expense (note 8 and 13)	-	-	-	844,126	-	844,126
Expiry of stock options (note 8)	-	-	-	(746,621)	746,621	-
Loss and comprehensive loss for the year	-	-	-	-	(3,225,559)	(3,225,559)
Balance, December 31, 2021	81,371,422	30,862,348	626,566	2,502,850	(16,259,740)	17,732,024
Balance, December 31, 2019	65,112,756	25,098,662	945,813	2,362,599	(13,072,050)	15,335,024
Share-based payment expense (note 8 and 13)	-	-	-	202,125	-	202,125
Expiry of stock options (note 8)	-	-	-	(159,379)	159,379	-
Loss and comprehensive loss for the year	-	-	-	-	(868,131)	(868,131)
Balance, December 31, 2020	65,112,756	25,098,662	945,813	2,405,345	(13,780,802)	14,669,018

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

Northern Graphite Corporation
Consolidated Statements of Cash Flows
(expressed in Canadian dollars)

	Year ended December 31,	
	2021	2020
	\$	\$
Cash provided by (used in)		
Operating activities		
Loss for the year	(3,225,559)	(868,131)
Items not affecting cash:		
Accretion of asset retirement obligation (note 15)	15,517	295
Unrealized (gain) loss on marketable securities (note 4)	(413,685)	104,025
Depreciation (note 5)	31,496	34,180
Share-based payments (note 8 and 13)	844,126	202,125
Gain on sale of building (note 5)	-	(16,596)
Change in non-cash working capital items:		
HST receivable	(63,915)	2,522
Prepaid expenses and deposits	24,399	(35,161)
Accounts payable and accrued liabilities	1,387,249	51,296
Net cash used in operating activities	(1,400,372)	(525,445)
Financing activities		
Issuance of common shares and warrants, net (note 8)	2,793,764	-
Proceeds from exercise of warrants (note 8)	2,400,675	-
Deferred financing costs (note 7)	(131,283)	-
Net cash provided by financing activities	5,063,156	-
Investing activities		
Proceeds from sale of building (note 5)	-	27,140
Exploration and evaluation costs (note 6)	(677,507)	(174,918)
Proceeds from sale of Bissett Creek royalty (note 6)	-	500,000
Deferred acquisition costs (note 7)	(619,209)	-
Net cash (used in) provided by investing activities	(1,296,716)	352,222
Net increase (decrease) in cash and cash equivalents	2,366,068	(173,223)
Cash and cash equivalents, beginning of year	1,211,575	1,384,798
Cash and cash equivalents, end of year	3,577,643	1,211,575

Supplemental cash flow information (note 11)

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

Northern Graphite Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(expressed in Canadian dollars)

1. Nature of operations

Northern Graphite Corporation (“Northern” or the “Company”) is an exploration and development stage company engaged in the acquisition, exploration and development of graphite properties. 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 a 49% interest in the South Okak Project (“South Okak”). The Company is listed on the TSX Venture Exchange (symbol “NGC”) and the OTC Markets (symbol “NGPHF”). During November 2021 the Company incorporated a wholly owned subsidiary, Graphite Nordique Inc., to hold certain mineral property assets.

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 and consolidation

a. Statement of compliance

These consolidated financial statements and the notes thereto (the “Consolidated Financial Statements”) present Northern’s consolidated financial results of operations and consolidated financial position under International Financial Reporting Standards (“IFRS”) as at and for the years ended December 31, 2021 and 2020.

In the opinion of management, all adjustments necessary to present fairly the consolidated financial position of the Company as at December 31, 2021 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 Consolidated Financial Statements were approved and authorized for issue by the Board of Directors on April 11, 2022.

b. Basis of consolidation

Subsidiaries are entities over which the Company has control. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. These consolidated financial statements include the accounts of the wholly-owned subsidiary Graphite Nordique Inc., which was incorporated in Canada. All inter-company balances, and gains and losses on intercompany transactions, have been eliminated for consolidation purposes.

c. Basis of measurement

The Consolidated Financial Statements have been prepared on a historical cost basis except those accounts as noted in the financial instruments section (note 12). In addition, the Consolidated Financial Statements have been prepared using the accrual basis of accounting.

d. Going concern

The Consolidated Financial Statements have been prepared on a going concern basis, which assumes 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 it can finance the acquisition of the Lac de Isles mine and the Namibian mining assets (note 7) and further develop the Bissett Creek property (note 6) and the Namibian mining assets over the next twelve months with funds on hand and the proceeds from future financings. Substantial capital is required to close the acquisition of the Lac des Iles mine and the Namibian mining assets and further develop the Bissett Creek Property and there is no assurance management will be successful in its endeavors.

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 Consolidated Financial Statements do not include any adjustments that might result from negative outcomes with respect to these uncertainties.

e. Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

Northern Graphite Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(expressed in Canadian dollars)

f. Critical accounting estimates and judgments

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

Significant judgments used in the preparation of these Consolidated 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;
- (v) the recognition of deferred tax; and
- (vi) the determination of a transaction as a business combination or asset acquisition.

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

(i) Marketable securities

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using other valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

(ii) Acquisition related costs

The Company has allocated costs to separate transactions which it has determined to be a business combination and an asset acquisition (note 7). In certain circumstances where costs relating to both transactions could not be separately identified, the Company has allocated costs to both transactions based on the estimated fair value of each transaction.

(iii) 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.

(iv) 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 and warrants are estimated by using the Black-Scholes model on the date of the grant based on certain assumptions. Those assumptions are described in note 8 and include, among others, expected volatility, expected life of the stock options and warrants, and the number of stock options expected to vest.

(v) 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.

Northern Graphite Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(expressed in Canadian dollars)

(vi) 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.

(vii) Reclamation 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 reclamation 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 outflows. 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 consolidated 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, comprised of 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.

Northern Graphite Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(expressed in Canadian dollars)

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

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 building	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.

Northern Graphite Corporation

Notes to the Consolidated Financial Statements

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(expressed in Canadian dollars)

Other 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, 2021 and 2020, or previously, that give rise to other comprehensive income, and therefore no balance has accumulated.

Share capital and share purchase warrants

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

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, 2021 and 2020, all outstanding warrants and stock options were anti-dilutive.

Share-based payments

The Company has a stock option plan (the "Option Plan") and issues warrants as described in note 8. The Company measures the compensation cost of stock options issued under the Option Plan and warrants issued 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 or warrants to accumulated 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 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.

Northern Graphite Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(expressed in Canadian dollars)

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 and marketable securities are measured at FVTPL with changes in fair value recognized in the statements of loss.

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).

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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.

Recent and future accounting standards

Certain new accounting standards and interpretations have been published that are not mandatory for the current period and have not been early adopted. These standards are not expected to have a material impact on the Company's current or future reporting periods upon adoption.

Presentation of Financial Statements (Amendment to IAS 1)

The amendments to IAS 1, clarify the presentation of liabilities. The classification of liabilities as current or noncurrent is based on contractual rights that are in existence at the end of the reporting period and is affected by expectations about whether an entity will exercise its right to defer settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendment also introduces a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendment clarifies that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendment is effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted.

Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16)

The amendment will prohibit the Company from deducting net proceeds from selling any items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in a manner intended by management. The amendment requires retrospective application and effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

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 6). For accounting purposes, these common shares are designated as fair value through profit and loss and 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. Of the total common shares received, 1,000,000 are restricted from trading until January 15, 2022. The following table summarizes information regarding the Company's marketable securities.

Addition, July 2020	\$ 440,340
Unrealized loss	(104,025)
Balance, December 31, 2020	336,315
Unrealized gain	413,685
Balance, December 31, 2021	750,000

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

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The discount for lack of marketability related to marketable securities was determined using the Black-Scholes option pricing model for a put option for the year ended December 31, 2020. The significant inputs used in the fair value measurement categorized within Level 2 of the fair value hierarchy for the year ended December 31, 2020 are as follows: term of 12 to 18 months; volatility of 45.8% to 62.7%; and, risk-free interest rate of 0.20% to 0.24%.

5. Property and equipment

	Buildings and improvements	Process building	Equipment	Total property and equipment
	\$	\$	\$	\$
<i>Cost</i>				
Balance, December 31, 2020 and 2021	105,384	623,714	590,919	1,320,017
<i>Accumulated depreciation</i>				
Balance, December 31, 2020	105,384	522,812	590,701	1,218,897
Depreciation	-	31,442	54	31,496
Balance, December 31, 2021	105,384	554,254	590,755	1,250,393
Net book value	-	69,460	164	69,624

	Buildings and improvements	Process building	Equipment	Total property and equipment
	\$	\$	\$	\$
<i>Cost</i>				
Balance, December 31, 2019	179,783	623,714	590,919	1,394,416
Sale of building	(74,399)	-	-	(74,399)
Balance, December 31, 2020	105,384	623,714	590,919	1,320,017
<i>Accumulated depreciation</i>				
Balance, December 31, 2019	166,553	491,371	590,648	1,248,572
Depreciation	2,686	31,441	53	34,180
Sale of building	(63,855)	-	-	(63,855)
Balance, December 31, 2020	105,384	522,812	590,701	1,218,897
Net book value	-	100,902	218	101,120

During November 2020, the Company sold a building and lot located near the Bissett Creek Property, which was formerly used as an office. Cash proceeds from the sale of \$27,140 exceeded the net book value of \$10,544 resulting in a gain of \$16,596 which was recorded in the statement of loss.

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6. Exploration and evaluation assets

For the years ended December 31, 2021 and 2020 exploration and evaluation expenditures are as follows:

	Bisset Creek \$	South Okak \$	Total \$
Balance, December 31, 2020	12,623,846	-	12,623,846
Cash option payment	-	50,000	50,000
Common shares issued for property option	-	250,000	250,000
Claim staking	-	16,185	16,185
Geological	-	229,725	229,725
Geophysical	-	13,542	13,542
Environmental and mine permitting	153,161	-	153,161
Engineering	27,330	-	27,330
Metallurgical	74,197	-	74,197
Site costs and royalties	80,407	-	80,407
Balance, December 31, 2021	12,958,941	559,452	13,518,393

	Bisset Creek \$	South Okak \$	Total \$
Balance, December 31, 2019	13,344,340	-	13,344,340
Environmental and mine permitting	40,965	-	40,965
Engineering	19,765	-	19,765
Feasibility study	21,480	-	21,480
Metallurgical	56,273	-	56,273
Site costs and royalties	81,363	-	81,363
Proceeds from royalty sale to ERL	(940,340)	-	(940,340)
Balance, December 31, 2020	12,623,846	-	12,623,846

Bissett Creek Property, Ontario, Canada

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.

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.

In July 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.

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South Okak Project, Labrador, Canada

In June 2021, the Company entered into an option agreement to earn up to an 80% interest in the South Okak nickel-copper-cobalt project, located 80 kilometres southeast of Voisey's Bay, Labrador. The project comprises a total of 503 claims covering 12,575 hectares. Under the term of the option agreement, the Company has a first option to earn a 49% interest in the project by incurring exploration expenditures and making cash and/or share payments as follows: (i) payment of \$50,000 in cash (paid) and the issuance of 500,000 common shares (issued) following the June 7, 2021 effective date of the option agreement; (ii) incurring cumulative exploration expenditures of \$250,000 (completed) prior to March 1, 2022 and \$500,000 in cumulative expenditures prior to March 1, 2023; (iii) payment of \$75,000 in cash, plus \$200,000 in cash or common shares, at the Company's option, by June 7, 2023; and, (iv) incurring cumulative exploration expenditures of \$1 million prior to March 1, 2024. Following the first option, the Company has a second option to increase its interest in the project from 49% to 80% as follows: (i) payment of \$75,000 in cash, plus \$200,000 in cash or common shares, at the Company's option, by June 7, 2024; and, (ii) incurring total cumulative exploration expenditures of \$1,500,000 prior to March 1, 2025. Following completion of the second option earn-in, the optionors will be carried to production on their 20% interest.

7. Acquisition of Lac des Iles Graphite Mine and Namibian Graphite Deposit and Processing Plant

During December 2021, the Company entered into binding purchase and sale agreements to acquire 100% ownership of the producing Lac des Iles graphite mine in Quebec and the Okanjande graphite deposit and processing plant in Namibia for approximately \$51million (US\$40 million) from subsidiaries of Imerys SA. Closing of the acquisitions is subject to a number of conditions including final approval of the TSX Venture Exchange and closing of related financings (note 18).

The Company determined that the transactions, when completed, will be considered as two separate transactions. The acquisition of the Lac des Iles graphite mine and related assets will be treated as a business combination due to the existence of inputs, processes and outputs. The acquisition of the shares of Imerys Gecko Holdings (Namibia) (Pty) Ltd. will be treated as an asset acquisition, due in part to the fact that the property is on care and maintenance. Management has recorded \$619,209 as deferred costs related to the asset acquisition of Imerys Gecko Holdings (Namibia) (Pty) Ltd. and expensed \$933,572 in business combination related costs for the Lac des Iles assets. In addition, management has recorded \$131,283 in deferred financing costs related to the financing of the transactions which included a private placement financing (note 18).

A finder's fee is payable in connection with the transactions in the amount of 1.5% of the fair market value.

8. 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 with the sale of 10,688,000 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. A cash finder's fees of \$153,888 was paid in connection with the placement.

Warrants

Information with respect to the Company's warrants is as follows:

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2020 and 2019	6,200,487	0.47
Warrants issued	5,344,000	0.45
Warrants exercised	(5,070,666)	0.47
Warrants expired	(1,381,321)	0.47
Balance, December 31, 2021	5,092,500	0.45

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The Company's warrants outstanding as at December 31, 2021 and December 31, 2020 were as follows:

	Year ended December 31, 2021	Year ended December 31, 2020	
Exercise price			Expiry date
\$0.45	5,092,500	-	February 12, 2023
\$0.40	-	3,909,166	March 24, 2021
\$0.60	-	2,291,321	November 22, 2021
	5,092,500	6,200,487	

As at December 31, 2021, the weighted average remaining contractual life of warrants outstanding is 1.12 years (December 31, 2020 – 0.47 years).

The values of warrants determined during the years ended December 31, 2021 and 2020 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Warrants granted during the period	5,344,000	Nil
Weighted-average exercise price	\$0.45	-
Expected warrant life ⁽¹⁾	2 years	-
Expected volatility ⁽²⁾	109.35%	-
Risk-free interest rate ⁽³⁾	0.23%	-
Dividend yield	Nil	-
Forfeiture rate	Nil	-
Weighted-average fair value (Black-Scholes value)	\$0.22	-

1. The Company estimates the expected warrant life (estimated period of time outstanding prior to exercise) based on the contractual term to expiry of the warrants.
2. The expected volatility was based on the Company's common share trading history over a period equal to the warrant life.
3. The risk-free interest rate is based on the yield of a Government of Canada marketable bond in effect at the time of grant with a term to maturity commensurate with the expected life of the warrant.

Stock options

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

A summary of the Option Plan activity is presented below:

	Number of options	Weighted average exercise price \$
Balance, December 31, 2019	4,000,000	0.45
Granted	1,600,000	0.20
Expired	(850,000)	0.44
Balance, December 31, 2020	4,750,000	0.39
Granted	3,250,000	0.50
Expired	(2,200,000)	0.50
Balance, December 31, 2021	5,800,000	0.41

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A summary of the Company's outstanding stock options at December 31, 2021 is as follows:

Exercise price	Stock options outstanding	Stock options exercisable	Expiry date
\$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	200,000	200,000	November 27, 2022
\$0.50	600,000	600,000	January 12, 2023
\$0.50	200,000	150,000	February 22, 2023
\$0.50	2,800,000	2,800,000	April 15, 2026
\$0.50	250,000	250,000	January 31, 2022
	5,800,000	5,750,000	

As at December 31, 2021, the weighted average remaining contractual life of stock options outstanding is 3.24 years (December 31, 2020 – 2.05 years). As at December 31, 2020, a total of 4,750,000 stock options were exercisable.

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

	Year ended December 31, 2021	Year ended December 31, 2020
Stock options granted during the period	3,250,000	1,600,000
Weighted-average exercise price	\$0.50	\$0.20
Expected stock option life ⁽¹⁾	2 to 5 years	2 to 5 years
Expected volatility ⁽²⁾	93.9% to 109.5%	96.9% to 107.6%
Risk-free interest rate ⁽³⁾	0.23% to 0.75%	0.23%
Dividend yield	Nil	Nil
Forfeiture rate	Nil	Nil
Weighted-average fair value (Black-Scholes value)	\$0.27	\$0.13

- 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.
- The expected volatility was based on the Company's common share trading history over a period equal to the expected stock option life.
- 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, 2021 there was \$9,279 of unrecognized share-based compensation costs related to unvested stock option awards granted under the Option Plan.

Contributed surplus

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

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9. Income taxes

The following table reconciles the expected income taxes at the Canadian statutory income tax rates to the amounts recognized in the statements of comprehensive loss for the years ended December 31, 2021 and 2020:

	Year ended December 31, 2021	Year ended December 31, 2020
Loss before income taxes	\$ (3,225,559)	\$ (868,131)
Canadian statutory income tax rate	26.5%	26.5%
Expected income tax recovery	(854,773)	(230,055)
Differences resulting from:		
Share issuance costs	(52,702)	-
Non taxable gain	(54,812)	-
Non-deductible and other items	493,737	169,018
Change in deferred tax assets not recognized	468,550	61,037
Income tax	\$ -	\$ -

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, 2021 and 2020 are comprised of the following:

	December 31, 2021	December 31, 2020
Non-capital loss carry forwards	\$ 566,142	\$ 490,322
Exploration and evaluation assets	(490,322)	(490,322)
Deferred acquisition costs	(34,790)	-
Marketable securities	(41,030)	-
	\$ -	\$ -

The unrecognized deductible temporary differences as at December 31, 2021 and 2020 are comprised of the following:

	December 31, 2021	December 31, 2020
Non-capital loss carry forwards	\$ 17,208,054	\$ 16,133,037
Property and equipment	547,192	515,555
Reclamation and close down provision	362,180	345,925
Marketable securities	-	104,024
SR&ED expenditures	1,486,074	1,486,074
Financing costs	264,126	71,211
Investment tax credits - Federal	440,018	440,018
Investment tax credits - Ontario	88,763	88,763
	\$ 20,396,407	\$ 19,184,608

As at December 31, 2021, the Company has non-capital loss carry forwards in Canada of approximately \$17,208,054 which can be applied to reduce future Canadian taxable income and will expire between 2027 and 2041.

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10. 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 Consolidated Financial Statements.

11. Supplemental cash flow information

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

	Year ended December 31, 2021	Year ended December 31, 2020
Exploration and evaluation costs in accounts payable and accrued liabilities	32,960	44,928
Marketable securities offset against exploration and evaluation assets	-	440,340
Common shares issued for property	250,000	-

12. 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 December 31, 2021 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 equivalents and marketable securities (Level 1) of \$4,327,643 (December 31, 2020 - \$1,211,575) and marketable securities (Level 2) of \$Nil (December 31, 2020 - \$336,315).

As at December 31, 2021 and 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 was a transfer of marketable securities between Level 2 and Level 1 with no other transfers between Level 1, Level 2 and Level 3 during the years ended December 31, 2021 and 2020. As at December 31, 2021 and 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 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.

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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.

The Company incurred a net loss of \$3,225,559 for the year ended December 31, 2021 (December 31, 2020 – \$868,131) and has an accumulated deficit of \$16,259,740 since the inception of the Company. As at December 31, 2021, the Company had working capital of \$3,660,304 (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 and to close the acquisition of the Lac des Iles and Namibian mining assets (note 7). Substantial additional capital is required to close the acquisition of Lac des Iles and Namibian mining assets and further develop the Bissett Creek Property and there is no assurance management will be successful in its endeavors. Subsequent to year end, the Company completed an initial closing of a brokered private placement financing for gross proceeds of \$19,321,875 (note 18).

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.

13. Related party transactions and compensation of key management

During the year ended December 31, 2021, the Company expensed management fees to a company owned and controlled by key management personnel of \$81,994 (2020 – \$39,690) and salary and compensation to key management personnel of \$300,000 (2020 – \$180,000). During the year ended December 31, 2021, the Company expensed directors' fees of \$60,000 (2020 – \$60,000). During the year ended December 31, 2021, the Company expensed share-based compensation for stock options granted to key management personnel and directors of \$738,600 (2020 – \$192,500).

As at December 31, 2021, \$8,238 (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. Effective July 1, 2020, the Company's CEO agreed to defer current payment of two-thirds of his salary and the directors of the Company agreed to defer all payment of board of director fees until market conditions improve. As of December 31, 2021, the Company's CEO's salary and the board of director fees were no longer deferred as market conditions have improved.

14. 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 ("GRR") on its Bissett Creek Property to Electric Royalties Ltd. (see notes 4 and 6).

Contractual obligations

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

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15. 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 \$845,883 (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 \$362,180 (December 31, 2020 – \$345,925) 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 fulfilled 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.

16. 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 and the South Okak Project located in Labrador, Canada. All property and equipment and exploration and evaluation assets are located in Canada.

17. 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.

18. Subsequent events

Private placement financing

During February 2022, the Company completed an initial closing of a brokered private placement raising gross proceeds of \$19,321,875 with the sale of 25,762,500 subscription receipts at a price of \$0.75 per subscription receipt. Each subscription receipt shall be deemed to be automatically exercised, without payment of any additional consideration and without further action on the part of the holder thereof, into one unit upon satisfaction of certain escrow release conditions relating to the closing of the acquisition of the Lac des Iles graphite mine and Namibian graphite deposit and processing plant (note 7). The escrow release conditions include satisfaction of certain release conditions including all conditions precedent of the acquisition have been met. Each unit is comprised of one common share of the Company and one-half of one share purchase warrant. Each warrant shall be exercisable to acquire one common share at a price of \$1.10 per common share for a period of 24 months from the date the escrow release conditions are satisfied.

In connection with the initial closing of the private placement, the agents received a cash fee equal to 6% of the aggregate gross proceeds of the closing, and such number of compensation warrants equal to 6% of the number of subscription receipts issued under the closing. Each agent’s warrant is exercisable for one common share at an exercise price of \$0.75 per common share at any time on or before February 10, 2024.

In the event that the escrow release conditions have not been satisfied on or before May 1, 2022, or the Company advises the lead agent or announces to the public that it does not intend to satisfy the escrow release conditions or the proposed acquisition (note 7) has been terminated, the aggregate issue price of the subscription receipts will be returned to the applicable holders and the subscription receipts will be automatically cancelled and be of no further force and effect.

Northern Graphite Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
(expressed in Canadian dollars)

Warrant exercises

Subsequent to December 31, 2021, the Company issued 347,500 shares from warrant exercises for proceeds of \$156,375.

Stock options

Subsequent to December 31, 2021, the Company granted 2,575,000 stock options exercisable at a price of \$0.75 and 250,000 stock options with an exercise price of \$0.50 expired.

Option agreement

During February 2022, the Company announced that it has entered into an option agreement (the “Agreement”) that provides it with an option to acquire a 100% interest in the Mousseau West Graphite project, subject to the owners retaining a 2% net smelter royalty. Pursuant to the Agreement, the Company has paid \$50,000 for the six-month exclusive right to conduct due diligence on the Property. If the Company elects to exercise its option, it can acquire the property for \$500,000 in cash and the issuance of 900,000 common shares of the Company, subject to the acceptance of the TSX Venture Exchange. The Company will also have the right to acquire the 2% NSR from the owners at any time upon the payment of \$1,000,000.