

Northern Graphite Corporation

Unaudited Condensed Interim Financial Statements For the Three and Nine Month Periods Ended September 30, 2018 and 2017

(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

	As at September 30, 2018 \$	As at December 31, 2017 \$
Assets		
Current		
Cash and cash equivalents	2,863,604	3,969,921
HST receivable	44,032	14,828
Prepaid expenses and deposits	85,687	45,681
	2,993,323	4,030,430
Reclamation deposit (note 11)	819,243	819,243
Property and equipment	189,688	215,732
Exploration and evaluation assets (note 4)	12,544,598	11,917,905
Total assets	16,546,852	16,983,310
Liabilities		
Current		
Accounts payable and accrued liabilities	146,749	112,847
Reclamation and close down provision (note 11)	328,532	328,532
Total liabilities	475,281	441,379
Shareholders' equity		
Share capital (note 5)	25,223,773	25,033,021
Warrants (note 5)	820,702	857,892
Contributed surplus (note 5)	2,533,963	2,415,093
Accumulated deficit	(12,506,867)	(11,764,075)
Total shareholders' equity	16,071,571	16,541,931
Total liabilities and shareholders' equity	16,546,852	16,983,310

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

Approved by the Board of Directors and authorized for issue on November 26, 2018

(signed) Gregory Bowes
Director

(signed) Donald Christie
Director

Northern Graphite Corporation

Unaudited Condensed Interim Statements of Comprehensive Loss

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
General and administrative expenses				
Legal and audit	8,354	7,354	26,339	35,726
Office, management and director fees (note 9)	109,766	96,095	371,514	312,161
Promotion and investor relations	21,685	68,903	176,588	132,116
Regulatory and transfer agent	10,736	10,423	62,833	59,203
Share-based payments (notes 5 and 9)	7,990	-	249,879	54,573
Depreciation	8,769	8,686	26,044	28,078
	167,300	191,461	913,197	621,857
Loss from operations	(167,300)	(191,461)	(913,197)	(621,857)
Interest income	13,177	5,354	39,396	8,212
Loss and comprehensive loss for the period	(154,123)	(186,107)	(873,801)	(613,645)
Loss per share – basic and diluted	(0.00)	(0.00)	(0.01)	(0.01)
Weighted average number of shares – basic and diluted	65,112,756	59,817,612	64,979,610	57,284,035

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

	Number of shares	Share capital \$	Warrants \$	Contributed surplus \$	Accumulated deficit \$	Total \$
Balance, December 31, 2017	64,674,006	25,033,021	857,892	2,415,093	(11,764,075)	16,541,931
Exercise of warrants (note 5)	438,750	190,752	(37,190)	-	-	153,562
Share-based payment expense (note 5 and 9)	-	-	-	249,879	-	249,879
Expiry of stock options (note 5)	-	-	-	(131,009)	131,009	-
Loss and comprehensive loss for the period	-	-	-	-	(873,801)	(873,801)
Balance, September 30, 2018	65,112,756	25,223,773	820,702	2,533,963	(12,506,867)	16,071,571
Balance, December 31, 2016	51,484,279	21,459,258	116,833	2,907,743	(11,480,600)	13,003,234
Issuance of shares and warrants (note 5)	8,333,333	2,072,320	427,680	-	-	2,500,000
Issuance of compensation options (note 5)	-	(38,566)	38,566	-	-	-
Share issuance costs	-	(182,138)	-	-	-	(182,138)
Share-based payment expense (note 5 and 9)	-	-	-	54,573	-	54,573
Expiry of stock options (note 5)	-	-	-	(188,027)	188,027	-
Loss and comprehensive loss for the period	-	-	-	-	(427,538)	(427,538)
Balance, September 30, 2017	59,817,612	23,310,874	583,079	2,774,289	(11,720,111)	14,948,131

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

Northern Graphite Corporation

Unaudited Condensed Interim Statements of Cash Flows

	Three months ended September 30,		Nine months ended September 30,	
	2018	2018	2018	2017
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Loss for the period	(154,123)	(186,107)	(873,801)	(613,645)
Items not affecting cash:				
Depreciation	8,769	8,686	26,044	28,078
Share-based payments (note 5 and 9)	7,990	-	249,879	54,573
Change in non-cash working capital items:				
HST receivable	(10,847)	(2,963)	(29,204)	3,163
Prepaid expenses and deposits	11,426	28,090	(40,006)	20,960
Accounts payable and accrued liabilities	(95,384)	(67,354)	(14,244)	11,381
Net cash used in operating activities	(232,169)	(219,648)	(681,332)	(495,490)
Financing activities				
Issuance of shares and warrants in private placements (note 5)	-	-	-	2,500,000
Proceeds from the exercise of warrants (note 5)	-	-	153,562	-
Share issuance costs (note 5)	-	-	-	(180,192)
Net cash generated from financing activities	-	-	153,562	2,319,808
Investing activities				
Exploration and evaluation costs (note 4)	(230,399)	(102,852)	(578,547)	(276,744)
Net cash used in investing activities	(230,399)	(102,852)	(578,547)	(276,744)
Net increase (decrease) in cash and cash equivalents	462,568	(322,500)	(1,106,317)	1,547,574
Cash and cash equivalents, beginning of period	3,326,172	2,575,651	3,969,921	705,577
Cash and cash equivalents, end of period	2,863,604	2,253,151	2,863,604	2,253,151

Supplemental cash flow information (note 7)

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

Northern Graphite Corporation

Notes to Unaudited Condensed Interim Financial Statements

For the three and nine month periods ended September 30, 2018 and 2017

1. Corporate information

Northern Graphite Corporation (“Northern” or the “Company”) was incorporated under the laws of the Province of Ontario on February 25, 2002. Northern holds a 100% interest in the Bissett Creek Graphite Property (the “Bissett Creek Property”) and is listed on the TSX Venture Exchange (symbol “NGC”).

The Company’s address and head office is 290 Picton Avenue, Suite 201, Ottawa, Ontario K1Z 8P8 Canada.

2. Basis of preparation

a. Statement of compliance

These unaudited condensed interim financial statements for the three and nine month periods ended September 30, 2018 (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, 2017 and 2016, which have been prepared in accordance with IFRS.

The Interim Financial Statements were approved and authorized for issue by the Board of Directors on November 26, 2018.

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 8). In addition, the Financial Statements have been prepared using the accrual basis of accounting.

c. Going concern

The Company is an exploration stage company that incurred a net loss of \$873,801 for the nine month period ended September 30, 2018 (Year ended December 31, 2017 – \$897,177) and has accumulated a deficit of \$12,506,867 since the inception of the Company. As at September 30, 2018, the Company had working capital of \$2,846,574 (December 31, 2017 – \$3,917,583). 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 the year ended December 31, 2017, the Company raised gross proceeds of \$4,562,190 through private placements of shares and 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 endeavours.

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. Given the continuation of weak capital markets in the resource sector, there exists a material uncertainty as to the Company’s ability to raise additional funds on favourable terms. The Company’s discretionary activities have considerable scope for flexibility in terms of the amount and timing of expenditures. The Company will thoroughly assess all such activities before undertaking them in advance of additional financing being secured. The Company’s 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 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.

Northern Graphite Corporation

Notes to Unaudited Condensed Interim Financial Statements

For the three and nine month periods ended September 30, 2018 and 2017

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; and
- (iv) the calculation of share-based compensation and the valuation of warrants which includes the assumptions used in the Black-Scholes option pricing model including volatility, estimated forfeiture rates and expected time until exercise.

Significant judgments used in the preparation of these 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, 2017 and 2016.

Recent and future accounting standards

Certain pronouncements were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after December 31, 2017. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the discussion below.

IFRS 9, Financial Instruments (effective January 1, 2018) introduced new requirements for the classification and measurement of financial assets and replaced IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options available in IAS 39. The Company adopted the new standard effective January 1, 2018. The adoption of IFRS 9 had no impact on the Company's results of operations, financial position, and disclosures.

IFRS 15, Revenue from Contracts with Customers provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related Interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. This standard was effective for reporting periods beginning on or after January 1, 2018. The adoption of IFRS 15 had no impact on the Company's results of operations, financial position, and disclosures.

IFRS 16, Leases, was issued by the IASB in January 2016. The new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. This standard is effective for annual reporting periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has also been adopted. The Company's current evaluation indicates that there will be no impact of adoption of IFRS 16 on its financial statements based on the Company's present activities.

Northern Graphite Corporation

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4. Exploration and evaluation assets

The Company has a 100% interest in the Bissett Creek Property which consists of a 1,938 hectare mining lease, expiring in June, 2034, a 565 hectare mining lease, expiring in August, 2035, and 52 cells under Ontario's new claim system totaling approximately 1,159 hectares. All leases and cells are located in the United Townships of Head, Clara and Maria, in the County of Renfrew, Ontario. As of September 30, 2018, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	\$
Balance, December 31, 2017	11,917,905
Exploration and evaluation expenditures made from January 1, 2018 to September 30, 2018:	
Engineering	17,018
Environmental and mine permitting	252,706
Feasibility study	147,512
Metallurgical	83,404
Product sales and marketing	61,369
Site and royalties	64,684
Balance, September 30, 2018	12,544,598

As of September 30, 2017, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	\$
Balance, December 31, 2016	11,569,893
Exploration and evaluation expenditures made from January 1, 2017 to September 30, 2017:	
Engineering	22,123
Environmental and mine permitting	64,114
Metallurgical	127,414
Site and royalties	67,744
Other	3,200
Balance, September 30, 2017	11,854,488

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.

5. Share capital

Authorized

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

Private placements

On March 24, 2017, the Company completed a non-brokered private placement and issued 8,333,333 units at a price of \$0.30 per unit for gross proceeds of \$2,500,000. Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.40 per share for a period of 24 months from the closing of the private placement. The 4,166,666 warrants were recorded at a value of \$427,680. In connection with the private placement, the Company paid fees totaling \$136,500 to the agents, and issued to the agents 455,000 compensation options. Each compensation option entitles the holder to purchase one common share at an exercise price of \$0.35 per share for a period of 12 months from the closing of the private placement. The compensation options were recorded at a value of \$38,567.

On November 22, 2017, the Company completed a non-brokered private placement and issued 4,582,644 units at a price of \$0.45 per unit for gross proceeds of \$2,062,190. Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.60 per share for a period of 24 months from the closing of the private placement. The 2,291,322 warrants were recorded at a value of \$381,142. In connection with the private placement, the Company paid fees totaling \$131,119 to the agents, and issued to the agents 291,370 compensation options. Each compensation option entitles the holder to purchase one common share at an exercise price of \$0.60 per share for a period of 12 months from the closing of the private placement. The compensation options were recorded at a value of \$38,310.

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Warrants and compensation options

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

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2016	1,051,499	0.80
Warrants issued	6,457,988	0.47
Compensation options issued	746,370	0.45
Warrants exercised	(257,500)	0.40
Compensation options exercised	(16,250)	0.35
Warrants expired	(1,051,499)	0.80
Balance, December 31, 2017	6,930,608	0.47
Compensation options exercised	(438,750)	0.35
Balance, September 30, 2018	6,491,858	0.48

A summary of the Company's warrants and compensation options outstanding at September 30, 2018 is presented below:

Exercise price	Number of warrants outstanding	Expiry date
\$0.40	3,909,166	March 24, 2019
\$0.60	291,370	November 22, 2018
\$0.60	2,291,322	November 22, 2019
	6,491,858	

The weighted average remaining contractual life of warrants and compensation option outstanding is 0.70 years. On November 22, 2018, a total of 291,370 compensation options expired.

The values of warrants and compensation options determined during the years ended December 31, 2017 and 2016 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Warrants granted during the year	7,204,358	Nil
Weighted-average exercise price	\$0.47	n/a
Expected warrant life ⁽¹⁾	1-2 years	n/a
Expected volatility ⁽²⁾	76.3% - 91.6%	n/a
Risk-free interest rate ⁽³⁾	0.76% - 1.45%	n/a
Dividend yield	Nil	n/a
Forfeiture rate	Nil	n/a
Weighted-average fair value (Black-Scholes value)	\$0.16	n/a

1. The Company has a limited history of warrant exercises. The Company continues to estimate the expected warrant life (estimated period of time outstanding prior to exercise) based on the contractual term to expiry of warrants and will continue to do so until such time that the Company can base its estimate on a volume of historical information pertaining to the Company's actual warrant exercise history.
2. The expected volatility was based on the Company's common share trading history over a period equal to the expected 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.

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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, 2016	4,525,000	0.60
Granted	200,000	0.50
Expired	(1,050,000)	0.77
Forfeited	(100,000)	0.75
Balance, December 31, 2017	3,575,000	0.53
Granted	800,000	0.50
Forfeited	(375,000)	0.55
Balance, September 30, 2018	4,000,000	0.53

A summary of the Company’s outstanding stock options at September 30, 2018 is presented below:

Exercise price	Stock options outstanding	Stock options exercisable	Expiry date
\$0.70	500,000	500,000	January 9, 2020
\$0.50	2,600,000	2,600,000	April 27, 2021
\$0.50	200,000	200,000	November 27, 2022
\$0.50	700,000	600,000	January 12, 2023
	4,000,000	3,900,000	

The weighted average remaining contractual life of stock options outstanding is 2.80 years. As at December 31, 2017, a total of 3,575,000 stock options were exercisable.

The values of stock options determined during the nine month period ended September 30, 2018 and during the year ended December 31, 2017 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	Nine months ended September 30, 2018	Year ended December 31, 2017
Stock options granted during the period	800,000	200,000
Weighted-average exercise price	\$0.50	\$0.50
Expected stock option life ⁽¹⁾	5 years	5 years
Expected volatility ⁽²⁾	75.1%	78.4%
Risk-free interest rate ⁽³⁾	1.61%	1.31%
Dividend yield	Nil	Nil
Forfeiture rate	Nil	Nil
Weighted-average fair value (Black-Scholes value)	\$0.33	\$0.33

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

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As at September 30, 2018, there was \$15,721 (December 31, 2017 – \$nil) of unrecognized share-based compensation costs related to unvested stock option awards granted under the Option Plan.

Contributed surplus

	\$
Balance, December 31, 2016	2,907,743
Share-based compensation	121,052
Expiry of stock options	(613,702)
Balance, December 31, 2017	2,415,093
Share-based compensation	249,879
Expiry of stock options	(131,009)
Balance, September 30, 2018	2,533,963

Contributed surplus as at September 30, 2018 and December 31, 2017 consists of a share-based payment reserve related to stock options issued under the Option Plan.

6. 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.

7. Supplemental cash flow information

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Exploration and evaluation costs in accounts payable and accrued liabilities	48,146	7,851	48,146	7,851

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Notes to Unaudited Condensed Interim Financial Statements

For the three and nine month periods ended September 30, 2018 and 2017

8. Financial instruments and risk management

Fair value

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

In establishing fair value, the Company uses a fair value hierarchy based on levels as defined below:

- Level 1: defined as observable inputs such as quoted prices in active markets.
- Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: defined as inputs that are based on little or no observable market data and, therefore, requiring entities to develop their own assumptions.

At September 30, 2018 and December 31, 2017, the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized on the statement of financial position at fair value on a recurring basis are categorized as follows:

	Category	As at September 30, 2018 \$	As at December 31, 2017 \$
Cash and cash equivalents	Level 1	2,863,604	3,969,921

At September 30, 2018, 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 nine month period ended September 30, 2018 or during the year ended December 31, 2017.

At September 30, 2018 and December 31, 2017, there were no financial assets or liabilities measured and recognized in the statements of financial position at fair value that would be categorized as Level 2 or Level 3 in the fair value hierarchy.

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

Currency risk

As the majority of the Company's expenditures are in Canadian dollars, the Company limits its exposure to currency risk by maintaining its cash and cash equivalents in Canadian dollars. The Company carries a portion of its accounts payable and accrued liabilities in US dollars, and is subject to currency risk on these balances. However, the Company considers this risk to be minimal.

Credit risk

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company limits its exposure to credit risk by holding its cash in deposits with high credit quality Canadian financial institutions, and considers this risk to be minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk through the management of its capital structure. 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.

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9. Related party transactions and compensation of key management

Key management compensation

During the nine month period ended September 30, 2018, the Company expensed management fees to a company owned and controlled by key management personnel of \$46,541 (nine months ended September 30, 2017 – \$nil) and salary and compensation to key management personnel of \$187,500 (nine months ended September 30, 2017 – \$187,500). During the nine month period ended September 30, 2018, the Company expensed directors' fees of \$47,500 (nine months ended September 30, 2017 – \$45,000). During the nine month period ended September 30, 2018, the Company expensed share-based compensation for stock options granted to key management personnel and directors of \$249,879 (nine months ended September 30, 2017 – \$54,573).

As at September 30, 2018, \$33,205 was included in accounts payable and accrued liabilities owing to officers and directors relating to management and director fees and for reimbursement of expenses.

Other related party transactions

During the period from January to May of 2017, the Company expensed office rental payments of \$6,250 provided to a public company whose former CEO and director was also a director of the Company.

10. 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. Installments were paid during February and September of 2018. The advances will be credited against any future production royalty payments.

Contractual obligations

As at September 30, 2018 and December 31, 2017, the Company had no contractual obligations which related to costs associated with work at the Bissett Creek Property.

11. Provisions

In 2012, the Company filed a revised Mine Closure Plan ("MCP") which was accepted by the Ministry of Northern Development and Mines ("MNDM"). The Company's obligations under the MCP are secured by a deposit of \$819,243 (December 31, 2017 - \$819,243), including accrued interest. This amount has been paid to the Minister of Finance for the Province of Ontario and has been accounted for as a long term deposit. In accordance with the MCP, the total required reclamation deposit will increase to \$2,329,008. In addition to the existing deposit, \$1,529,088 must be deposited prior to the commencement of commercial production. The provision for reclamation and close down represent the estimated amount that would be required to restore the Bissett Creek Property to its original environmental state. The Company has a provision of \$328,532 on its balance sheet (December 31, 2017 - \$328,532) which represents the estimated current cost of reclamation. The reclamation deposit will be returned to the Company once the MNDM is satisfied that the obligations contained in the MCP have been performed by the Company. Should the Company not perform its obligations contained in the MCP, the MNDM will restore the Bissett Creek Property site to its original environmental state using the funds from the reclamation deposit.

12. 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.