Northern Graphite Corporation

(an Exploration Stage Company)

Financial Statements

For the Years Ended December 31, 2013, and 2012

MNP LLP

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Northern Graphite Corp:**

We have audited the accompanying financial statements of **Northern Graphite Corp**., which comprise the statements of financial position as at December 31, 2013 and 2012 and the statements of comprehensive loss, changes in equity, and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Northern Graphite Corp. as at December 31, 2013 and December 31, 2012, and the results of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 of these financial statements, which states that Northern Graphite Corp. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the ability of Northern Graphite Corp. to continue as a going concern.

February 28, 2014
Vancouver, British Columbia

Chartered Professional Accountants

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Northern Graphite Corporation

(an exploration stage company)

Statements of Financial Position

	As at December 31 2013 $	As at December 31 2012 $
Assets		
Current		
Cash and cash equivalents	3,358,399	8,281,725
HST receivable	99,979	150,803
Prepaid expenses and deposits	46,453	46,785
	3,504,831	8,479,313
Deposits	53,000	26,500
Reclamation deposit (note 14)	803,135	319,590
Property and equipment (note 4)	448,479	516,583
Exploration and evaluation assets (notes 5 and 6)	10,009,218	7,143,817
	14,818,663	16,485,803
Liabilities		
Current		
Accounts payable and accrued liabilities (note 12)	280,079	481,129
	280,079	481,129
Reclamation and close down provision (note 14)	322,081	319,590
	602,160	800,719
Shareholders' equity		
Share capital (note 7)	20,317,304	20,238,328
Warrants (note 7)	-	53,976
Contributed surplus (note 7)	2,605,915	2,605,984
Deficit	(8,706,716)	(7,213,204)
Total shareholders' equity	14,216,503	15,685,084
Total liabilities and shareholders' equity	14,818,663	16,485,803

The accompanying notes are an integral part of these financial statements

Approved by the Board of Directors and authorized for issue on February 28, 2014

(signed) Gregory Bowes
Director

(signed) Donald Christie
Director

Northern Graphite Corporation

(an exploration stage company)

Statements of Comprehensive Loss

	Years ended December 31	
	2013	**2012**
	$	**$**
General and administrative expenses		
Management and consulting fees (note 12)	836,860	1,133,804
Legal and audit	96,959	133,994
Office and miscellaneous (note 12)	561,050	942,316
Share-based payments (notes 7 and 12)	(69)	1,438,646
Depreciation	68,104	71,782
Foreign exchange loss (gain)	1,959	(1,256)
	1,564,863	3,719,286
Loss from operations	(1,564,863)	(3,719,286)
Interest income	71,351	83,951
Income before taxes	(1,493,512)	(3,635,335)
Tax expense	-	-
Loss and comprehensive loss for the year	(1,493,512)	(3,635,335)
Loss per share	(0.03)	(0.08)
Weighted average number of shares – basic and fully diluted	49,091,692	45,200,127

The accompanying notes are an integral part of these financial statements

Northern Graphite Corporation

(an exploration stage company)

Statements of Changes in Shareholders' Equity

	Number of Shares	Share capital Amount $	Warrants reserve $	Contributed Surplus Reserve $	Deficit $	Total $
Balance at December 31, 2012	49,081,281	20,238,328	53,976	2,605,984	(7,213,204)	15,685,084
Fair value of warrants expired	-	53,976	(53,976)	-	-	-
Proceeds from the exercise of options	50,000	25,000	-	-	-	25,000
Share-based payment expense (note 7 and 12)	-	-	-	(69)	-	(69)
Net loss	-	-	-	-	(1,493,512)	(1,493,512)
Balance, December 31, 2013	49,131,281	20,317,304	-	2,605,915	(8,706,716)	14,216,503
Balance at December 31, 2011	37,415,167	7,859,427	134,647	1,241,085	(3,577,869)	5,657,290
Share capital issued through private placement	6,206,377	10,550,841	-	-	-	10,550,841
Issued pursuant to the exercise of warrants	5,234,737	1,727,601	-	-	-	1,727,601
Issued pursuant to the exercise of options	225,000	112,500	-	-	-	112,500
Fair value of options exercised		73,747		(73,747)		-
Warrants issued in private placement	-	(53,976)	53,976	-	-	-
Fair value of warrants exercised	-	133,957	(133,957)	-	-	-
Fair value of expired warrants	-	690	(690)	-	-	-
Share issuance costs	-	(166,459)	-	-	-	(166,459)
Share-based payment expense	-	-	-	1,438,646	-	1,438,646
Net loss	-	-	-	-	(3,635,335)	(3,635,335)
Balance, December 31, 2012	49,081,281	20,238,328	53,976	2,605,984	(7,213,204)	15,685,084

The accompanying notes are an integral part of these financial statements

Northern Graphite Corporation
(an exploration stage company)
Statements of Cash Flows

	Years ended December 31	
	2013	2012
	$	$
Cash provided by (used in)		
Operating activities		
Loss for the year	(1,493,512)	(3,635,335)
Items not affecting cash		
Accretion of asset retirement obligation	(1,444)	
Depreciation	68,104	71,782
Share-based payments	(69)	1,438,646
HST receivable	50,824	(33,058)
Prepaid expenses and deposits	332	(6,960)
Accounts payable and accrued liabilities	(66,178)	(25,315)
Net cash used in operating activities	(1,441,943)	(2,190,240)
Financing activities		
Due to Mindesta	-	(16,127)
Issuance of share capital in private placement	-	10,550,841
Proceeds from the exercise of options	25,000	112,500
Proceeds from the exercise of warrants	-	1,727,601
Share issuance costs	-	(166,459)
Net cash generated from financing activities	25,000	12,208,356
Investing activities		
Purchase of fixed assets	-	(14,200)
(Increase) decrease in deposits	(26,500)	380,982
(Increase) in reclamation deposit	(479,610)	-
Exploration and evaluation costs	(3,000,273)	(3,727,869)
Net cash used in investing activities	(3,506,383)	(3,361,087)
Net increase (decrease) in cash and cash equivalents	(4,923,326)	6,657,029
Cash and cash equivalents, beginning of year	8,281,725	1,624,696
Cash and cash equivalents, end of year	3,358,399	8,281,725

The accompanying notes are an integral part of these financial statements

1. Corporate Information

Northern Graphite Corporation ("Northern" or "the Company") was incorporated under the laws of the Province of Ontario on February 25, 2002, under the name Industrial Minerals Canada Inc. The Company's name was changed to Northern on March 1, 2010. Northern was incorporated by its former parent company, Mindesta Inc. ("Mindesta" formerly Industrial Minerals, Inc.), to develop and hold title to a 100% interest in the Bissett Creek Graphite Property (the "Bissett Creek Property"). Mindesta is a Delaware corporation which trades on the OTC Bulletin Board ("MDST") in the United States. The Company was a wholly owned subsidiary of Mindesta until early in 2010. As at December 31, 2012, Mindesta's interest in Northern had decreased to less than 1%. As at December 31, 2013, Mindesta no longer owned any shares in Northern. Northern is listed on the TSX Venture Exchange and trades under the 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 financial statements and the notes thereto (the "Financial Statements") present Northern's financial results of operations and financial position under International Financial Reporting Standards ("IFRS") as at and for the years ended December 31, 2013 and 2012.

In the opinion of management, all adjustments necessary to present fairly the financial position of the Company as at December 31, 2013 and the results of its operations and cash flows for the year then ended have been made.

The policies set out in note 3 were consistently applied to all the periods presented.

The Financial Statements were approved and authorized for issue by the Board of Directors on February 28, 2014.

b. Basis of measurement

The Financial Statements have been prepared on a historical cost basis except those accounts as noted in the financial instruments section (note 11). 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 $1,493,326 for the year ended December 31, 2013 (2012 - $3,635,335) and has an accumulated deficit of $8,706,716 since the inception of the Company. As at December 31, 2013, the Company had working capital of $3,224,752 (December 31, 2012 – $7,998,184). 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. On March 16, 2012, the Company raised financing with gross proceeds of $10,550,841 as described in note 7. While the Company has been successful in raising capital to advance the Bissett Creek Property, substantial additional capital is required to ultimately build a mine and processing plant on the Bissett Creek Property and to enable the Company to continue its operations. However, there is a high degree of risk and many inherent uncertainties in the mining industry and there is no assurance management will be successful in its endeavors. These factors indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern.

The Financial Statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company's management believes that it will continue to be able to generate sufficient funds from public or private debt or equity financings for the Company to continue to operate. The Financial Statements do not include any adjustments that might result from negative outcomes with respect to these uncertainties.

d. Functional and presentation currency

The Company's functional and presentation currency is the Canadian dollar.

e. Critical accounting estimates and judgments

The preparation of the Financial Statements requires management to make estimates and judgments that affect the reported amounts of

assets and liabilities at the date of the Financial Statements, and revenues and expenses for the period. By their nature, these estimates and judgments are subject to uncertainty and the effect on the Financial Statements of changes in such estimates in future periods could be significant. Actual results may differ from those estimates and judgments.

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

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

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

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

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

(i) Exploration and evaluation assets
The Company is required to review the carrying value of its exploration and evaluation properties for potential impairment. Impairment is indicated if the carrying value of the Company's exploration and evaluation 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 changed to the statement of 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 to potential reserves.

(ii) Share-based payments
The Company has an equity-settled share-based scheme 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 share options are estimated by using the Black-Scholes model on the date of the grant based on certain assumptions. Those assumptions are described in Note 7 and include, among others, expected volatility, expected life of the options and number of options expected to vest.

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

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

(v) Restoration and site closure provision
The Company recognizes the liability for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the exploration or development of its properties.

The Company assesses its provision for site restoration and site closure at each reporting date. The fair value of an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is adjusted to reflect the passage of time (accretion expense) and for changes in estimated future cash flows. The provision at the reporting date represents management's best estimate of the present value of the future restoration and site closure costs required.

3. Significant accounting policies

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

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

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

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

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

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

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

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

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 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:

Electrical building	7 years
Office furniture	7 years
Office building	10 years
Equipment	3 – 20 years
Process buildings	20 years
Laboratory equipment	3 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. 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 balance sheet 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.

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

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 did not have any transactions during the year ended December 31, 2013 and 2012 that give rise to other comprehensive income, and therefore no balance has accumulated.

Share capital

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 and common share purchase warrants are classified as equity instruments. Incremental costs directly attributable to the issuance of new equity instruments are shown in equity as deduction from the proceeds of issuance.

Earnings per share

Basic loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the period. Fully diluted loss per share is calculated using the treasury share method and reflects the potential dilution by including share options and contingently issuable shares, in the weighted average number of common shares outstanding for the year. For the year ended December 31, 2013 and the year ended December 31, 2012, all outstanding share options and warrants were anti-dilutive.

Share-based payments

The Company has a share option plan (the "Plan") described in Note 7. The Company measures the compensation cost of share options issued under the Plan using the fair-value method as determined using the Black-Scholes option pricing model. Compensation costs are measured at the grant date based on the fair value of the award and are recognized over the vesting period in net income (loss) with a corresponding increase to contributed surplus. Upon exercise, common shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, as adjusted for any consideration paid.

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

Financial instruments

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends upon whether the financial instrument is classified as fair value through profit or loss ("FVTPL"), available-for-sale assets, held-to-maturity investments, loans and receivables, or other liabilities measured at amortized cost ("Other Financial Liabilities"). Financial instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the statement of operations. Available-for-sale asset financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Financial assets classified as held-to-maturity investments, loans and receivables and Other Financial Liabilities, are measured at amortized cost. Transaction costs in respect of financial assets and liabilities which are FVTPL are recognized in profit or loss immediately. Transaction costs in respect of Other Financial Liabilities are included in the initial fair value measurement of the financial instrument.

The Company may enter into derivative contracts or, financial instruments and non-financial contracts containing embedded derivatives. Embedded derivatives are required to be accounted for separately at fair value as derivatives when the risks and characteristics of the embedded derivatives are not closely related to those of their host contract, and the host contract is not carried at fair value.

The Company has designated each of its significant categories of financial instruments as follows:

Cash and cash equivalents	FVTPL
Deposits	Loans and receivables
Reclamation deposit	Loans and receivables
Accounts payable and accrued liabilities	Other Financial Liabilities

Recently adopted accounting standards

The following amended or new Standards were issued by the IASB and are effective for the Company's fiscal year beginning on January 1, 2013.

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

Consolidated Financial Statements - IFRS 10 Consolidated Financial Statements ("IFRS 10") will replace existing guidance on consolidation in IAS 27 Consolidated and Separate Financial Statements, and SIC 12 Consolidation – Special Purpose Entities. The portion of IAS 27 that deals with separate financial statements will remain. IFRS 10 changes the definition of control, such that the same consolidation criteria will apply to all entities. The revised definition focuses on the need to have both "power" and "variable returns" for control to be present. Power is the current ability to direct the activities that significantly influence returns. Variable returns can be positive, negative or both. IFRS 10 requires continuous assessment of control of an investee in line with any changes in facts and circumstances. Adoption of this standard did not have an effect on the Company's financial statements.

Joint Arrangements - IFRS 11 Joint Arrangements ("IFRS 11") will replace IAS 31 Interests in Joint Ventures, and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 defines a joint arrangement as an arrangement where two or more parties contractually agree to share control. Joint control exists only when the decisions about activities that significantly affect the returns of an arrangement require the unanimous consent of the parties sharing control. The focus is not solely on the legal structure of joint arrangements, but rather on how the rights and obligations are shared by the parties to the joint arrangement. IFRS 11 eliminates the existing policy choice of proportionate consolidation for jointly controlled entities. In addition, the Standard categorizes joint arrangements as either joint operations or joint ventures. Adoption of this standard did not have an effect on the Company's financial statements.

Disclosure of Interests in Other Entities - IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") is the new Standard for disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Matters covered include information about the significant judgments and assumptions that any entity has made in determining whether it has control, joint control or significant influence over another entity. Adoption of this standard did not have an effect on the Company's financial statements.

Separate Financial Statements - IAS 27 Separate Financial Statements ("IAS 27") has been updated to require an entity presenting separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The amended IAS 27 excludes the guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent currently within the scope of the current IAS 27 Consolidated and Separate Financial Statements that is replaced by IFRS 10.

Investments in Associates and Joint Ventures - IAS 28 Investments in Associates and Joint ventures ("IAS 28") has been revised and it is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. The scope of IAS 28 Investments in Associates does not include joint ventures. Adoption of this standard did not have an effect on the Company's financial statements.

IFRS 13 Fair Value Measurement ("IFRS 13") was issued by the IASB in May 2011, and is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 13 was issued to remedy the inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurement in various current IFRSs. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. Adoption of this standard did not have an effect on the Company's financial statements.

The IASB has issued an amendment to IAS 1, Presentation of Financial Statements ("IAS 1"), which requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they might at some point be reclassified from OCI to profit or loss at a later date when specified conditions are met. By requiring items of OCI to be grouped on this basis, their potential effect on profit or loss in future periods will be clearer. This amendment is effective for annual periods beginning on or after July 1, 2012 and requires full retrospective application. Adoption of this standard did not have an effect on the Company's financial statements.

Future accounting standards

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after December 31, 2013. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the discussion below.

The IASB has issued a new standard, IFRS 9, Financial Instruments ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 requires a single impairment method to be used, replacing multiple impairment methods in IA 39. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income. Companies may early adopt IFRS 9 however there is no mandatory application date. The Company does not expect the implementation to have a significant impact on the Company's results of operations, financial position and disclosures.

4. *Property and equipment*

	Building and improvements	**Equipment**	**Total property plant & equipment**
Cost	**$**	**$**	**$**
December 31, 2012	800,097	646,994	1,447,091
Additions	-	-	-
Disposals	-	-	-
Impairment	-	-	-
December 31, 2013	800,097	646,994	1,447,091
Accumulated depreciation			-
December 31, 2012	408,548	521,960	930,508
Additions	35,219	32,885	68,104
Disposals	-	-	-
Impairment	-	-	-
December 31, 2013	443,767	554,845	998,612
Net book value	356,330	92,149	448,479

Cost	Building and improvements $	Equipment $	Total property plant & equipment $
December 31, 2011	800,097	632,794	1,432,891
Additions	-	14,200	14,200
Disposals	-	-	-
Impairment	-	-	-
December 31, 2012	800,097	646,994	1,447,091
Accumulated depreciation			-
December 31, 2011	367,809	490,917	858,726
Additions	40,739	31,043	71,782
Disposals	-	-	-
Impairment	-	-	-
December 31, 2012	408,548	521,960	930,508
Net book value	391,549	125,034	516,583

5. Exploration and evaluation asset

The Company has a 100% interest in the Bissett Creek Property which consists of a 565 hectare mining lease expiring September 22, 2014, a 1,938 hectare mining lease expiring June 30, 2034 and five unpatented claims totaling approximately 464 hectares, located in the United Townships of Head, Clara and Maria, in the County of Renfrew, Ontario. The Company intends to submit the application for renewal of the lease that expires in 2014 within the required 90 day period before the expiration of the lease.

As of December 31, 2013, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	$
Balance, December 31, 2011	3,353,146
Exploration expenditures made from January 1, 2012 to December 31, 2012:	
Drilling & exploration	483,066
Environmental & mine permitting	919,925
Metallurgical	1,155,482
Feasibility study	524,484
Engineering	34,247
Site & royalties	183,879
Surveying & geophysics	268,425
Geotechnical	221,163
Balance, December 31, 2012	7,143,817
Exploration expenditures made from January 1, 2013 to December 31, 2013:	
Drilling & exploration	209,139
Environmental & mine permitting	538,470
Metallurgical	425,961
Feasibility study	(60,582)
Engineering	156,360
Site & royalties	99,210
Surveying & geophysics	(960)
Geotechnical	250,108
Detailed engineering	1,247,695
Balance, December 31, 2013	10,009,218

The Company is required to make royalty payments of $20 per ton of graphite carbon 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.

6. Scientific research and experimental development program claims

The Company has filed federal and provincial claims under the scientific research and experimental development program in the amount of $317,736 related to the 2011 taxation year. The refundable portion of the claims was $125,090. On October 7, 2013, the Company was refunded $59,483 for the Ontario refundable tax credit portion of the claims. On December 13, 2013, 2013, the Company was refunded the remaining $65,607 refundable portion of the claims. The Company could not be reasonably assured that it would receive these claims as filed as these were the Company's first claims under this program and as such, the Company has no history on the success of claims. The Company recognized a reduction of $116,852 against Exploration and Evaluation assets and a reduction of $8,508 against Office and miscellaneous and management and consulting expenses in period in which the claims were accepted.

On October 18, 2013, the Company filed federal and provincial claims under the scientific research and experimental development program in the amount of $381,458 related to the 2012 taxation year. The refundable portion of these claims is $125,944. The Company cannot be reasonably assured that it will receive these claims as filed as the Company has not established a history on the success of claims. Upon acceptance of the claims, the Company will recognize most of these claims as a reduction against Exploration and Evaluation assets.

7. *Share capital*

Authorized
The Company is authorized to issue an unlimited number of common shares. On March 1, 2010, the Company subdivided its common shares on the basis of 11,750,000 common shares for the one common share outstanding.

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

Initial public offering
On April 18, 2011 the Company completed an initial public offering of 8,000,000 common shares at a price of $0.50 per share for gross proceeds of $4,000,000. In connection with the offering, the Company paid to the Agents a commission of $280,000 equal to 7% of the gross proceeds of the offering, and issued to the agents 560,000 common share purchase warrants entitling the holder to purchase one common share at a price of $0.50 per common share until April 18, 2012.

Issued

	Common shares	
	Number of shares	**Amount $**
Balance, December 31, 2011	37,415,167	7,859,427
Share capital issued through private placement	6,206,377	10,550,841
Issued pursuant to the exercise of warrants	5,234,737	1,727,601
Issued pursuant to the exercise of options	225,000	112,500
Fair value of options exercised		73,747
Warrants issued in private placement	-	(53,976)
Fair value of warrants exercised	-	133,957
Fair value of warrants expired	-	690
Share issuance costs	-	(166,459)
Balance at December 31, 2012	49,081,281	20,238,328
Fair value of warrants expired	-	53,976
Issued pursuant to the exercise of options	50,000	25,000
Balance at December 31, 2013	49,131,281	20,317,304

The fair value of the broker warrants of $53,976 was calculated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.12%
Expected volatility	79%
Expected life of warrants	1 year
Expected dividend yield	Nil

Warrants

A summary of the Company's warrants is presented below:

	Number of Warrants	Weighted average exercise price ($)
Balance, December 31, 2011	5,237,329	0.33
Issued pursuant to private placement March 16, 2012	71,480	2.00
Exercised	(5,234,737)	0.33
Expired	(2,592)	0.50
Balance, December 31, 2012	71,480	2.00
Expired	(71,480)	2.00
Balance, December 31, 2013	-	-

Share 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 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.

The exercise price of each option shall be determined by the Board of Directors at the time of grant, and shall not be less than the price permitted by any stock exchange on which the common shares are then listed or other regulatory body having jurisdiction. Currently, the TSX Venture Exchange (the "TSX-V") requires that the exercise price of the options must be equal to or greater than the Discounted Market Price (as defined in the policies of the TSX-V). The exercise price of options is solely payable in cash. The Board of Directors has the discretion to determine the term and vesting provisions of any options granted under the Option Plan at the time of grant subject to the policies of the TSX-V.

A summary of the Option Plan activity is presented below:

	Number of options	Weighted average exercise price ($)
Balance, December 31, 2011	3,200,000	0.52
Granted	1,025,000	1.70
Exercised	(225,000)	0.50
Balance, December 31, 2012	4,000,000	0.83
Granted		-
Exercised	(50,000)	0.50
Forfeited	(550,000)	0.58
Balance, December 30, 2013	3,400,000	0.87

A summary of the Company's share options outstanding and exercisable at December 31, 2013 is presented below:

Exercise price	Options outstanding	Options exercisable	Expiry date
$0.50	2,275,000	2,275,000	April 18, 2016
$0.94	25,000	25,000	November 16, 2016
$0.80	75,000	75,000	December 20, 2016
$2.50	525,000	525,000	April 11, 2017
$0.85	500,000	500,000	December 20, 2017
	3,400,000	3,400,000	

The following is a summary of stock option grant activity and related Black-Scholes option pricing model input factors used for the years ended December 31, 2013 and December 31, 2012:

	Year ended December 31, 2013	Year ended December 31, 2012
Stock options granted during the period	NA	1,025,000
Weighted-average exercise price	NA	$1.70
Expected stock option life(1)	NA	5 years
Expected volatility(2)	NA	96%
Risk-free interest rate(3)	NA	1.40%-1.50%
Dividend yield	NA	0.00%
Forfeiture rate	NA	0.00%
Weighted-average fair value (Black-Scholes value)	NA	$1.26

1. The Company estimates the expected stock option life (estimated period of time outstanding) of options granted to be the length of time before the stock option's expiry until such time that the Company can base its estimate on historical information on the Company's options.
2. The expected volatility was based on the average of certain comparative companies' historical volatilities which the Company had deemed to be an appropriate measure of volatility until the Company has sufficient trading history in order to use its own volatility measurement. Upon having achieved sufficient trading history, the Company based its expected volatility on its own trading history.
3. The risk-free rate is based on the yield of a Government of Canada marketable bond in effect at the time of grant with an expiry commensurate with the expected life of the award.

The fair value is calculated using the Black-Scholes option valuation model. As at December 31, 2013, there was $nil (December 31, 2012 – $29,304) of total unrecognized share-based compensation costs related to unvested stock option awards granted under the Option Plan.

Contributed surplus

	$
Balance, December 31, 2011	1,241,085
Fair value of options exercised	(73,747)
Share-based compensation	1,438,646
Balance, December 31, 2012	2,605,984
Share-based compensation	(69)
Balance, December 31, 2013	2,605,915

Contributed surplus as at December 31, 2013 and December 31, 2012 consists of a share-based payment reserve related to stock options issued under the Option Plan. The Company recorded a credit balance of $69 in share-based compensation expense for the year ended December 31, 2013. In the year ended December 31, 2013, the Company expensed share-based compensation for stock options granted to key management personnel of $23,184. This expense was offset by a $23,253 adjustment to the estimate for forfeitures of unvested options.

8. ***Income taxes***

The following table reconciles the expected income tax expense at the Canadian statutory income tax rates to the amounts recognized in the statement of comprehensive income for the years ended December 31, 2013 and 2012:

		Dec 31, 2013		Dec 31, 2012
Income tax (loss) before income taxes	$	(1,493,512)	$	(3,635,334)
Canadian statutory income tax rate		26.50%		26.25%
Expected income tax expense (recovery)		(395,781)		(954,275)
Differences resulting from:				
Non-deductible items		958		378,341
Change in estimates		432,188		(634,374)
Share issuance costs		-		(43,695)
Change in tax rates		(212,564)		29,506
Increase in deferred tax assets not recognized		175,199		1,224,498
Provision for income taxes	$	-	$	-

The Ontario corporate tax rate has increased to 11.5%, resulting in an increase in the Company's combined statutory tax rate.

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 at December 31, 2013 and 2012 are comprised of the following:

		Dec 31, 2013		Dec 31, 2012
Deferred tax assets				
Non-capital loss carry forwards	$	4,337,661	$	3,702,636
SR&ED pool		-		218,545
Exploration and evaluation assets		(294,919)		(227,625)
Share issuance costs		92,849		127,474
Investment tax credits		116,946		276,544
Property and equipment		56,694		36,458
Total deferred tax asset not recognized	$	4,309,231	$	4,134,032

The Company has non-capital loss carry forwards of approximately $16,368,532 (2012 – $14,810,542), which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

2014	$	1,469,742
2015		2,259,969
2026		1,345,807
2027		2,672,335
2028		857,236
2029		393,269
2030		444,321
2031		2,540,766
2032		2,806,262
2033		1,578,825
Total	$	16, 368,532

9. Capital disclosures

Capital of the Company consists of the equity attributable to the common shareholders, comprised of share capital and 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 year.

10. Loss per share

	Year ended December 31, 2013	**Year ended December 31, 2012**
Loss and comprehensive loss for period	(1,493,512)	(3,635,335)
Weighted average number of shares – basic and fully diluted	49,091,692	45,200,127
Loss and comprehensive loss per share	($0.03)	($0.08)

11. 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 December 31, 2013, 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	At December 31, 2013 $	At December 31, 2012 $	At January 1, 2012 $
Cash and cash equivalents	Level 1	3,358,399	8,281,725	1,624,696

At December 31, 2013, 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 year ended December 31, 2013.

At December 31, 2013, there were no financial assets or liabilities measured and recognized on the Consolidated Statement of Financial Position at fair value that would be categorized as Level 2 or Level 3 in the fair value hierarchy (December 31, 2012 - $Nil; January 1, 2012 - $Nil).

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 is financial obligations as they come due. The Company manages its liquidity risk through the management of its capital structure as outlined in note 9. Further discussion on liquidity and management's plans are outlined in note 1. All of the Company's trade payables are due within 1 year.

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.

12. Related parties

Major Shareholder
At the close of trading on January 25, 2012, Mindesta completed the distribution to Mindesta's shareholders of 9,413,581 shares of Northern owned by Mindesta. As at December 31, 2012, Mindesta's interest in Northern had decreased to less than 1%. As at December 31, 2013, Mindesta no longer owned any shares of Northern.

Key Management Compensation
In the year ended December 31, 2013, the Company expensed management fees to companies owned and controlled by key management personnel of $157,500 (2012 – $201,250) and expensed salary to key management personnel of $430,000 (2012 – $414,375). In the year ended December 31, 2013 and 2012, the Company provided short-term employee benefits totaling $23,323 (2012 - $23,929) to key management personnel. In the year ended December 31, 2013, the Company expensed share-based compensation for stock options granted to key management personnel of $23,184. This expense was offset by a $23,253 adjustment to the estimate for forfeitures of unvested options. As a result, the Company recorded a credit balance of $69 in share-based compensation expense for the year ended December 31, 2013. In the year ended December 31, 2012, the Company expensed share-based compensation for stock options granted to key management personnel of $123,890 (1,800,000 share options, 1,616,667 share options vested, exercisable at $0.50; and 225,000 share options, 112,500 share options vested, exercisable at $0.80) and share-based payments of $1,251,353 to directors (500,000 share options exercisable at $2.50; and 500,000 share options exercisable at $0.85). In the year ended December 31, 2013, the Company provided bonus payments of $48,000 (2011 - $236,911) to key personnel.

Other Related Party Transactions
During the year ended December 31, 2013, the Company expensed office rental payments of $22,680 (2012 – $19,170) to a Company whose CEO and a Director is also a Director of Northern.

13. Commitments

Leased mineral claims
In connection with the Bissett Creek Property, the Company is required to make production royalty payments of $20 per ton of graphite carbon concentrate produced to the previous owners and 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 has been paid for the year ended December 31, 2013. The advance will be credited against any future production royalty payments.

Contractual obligations
As at December 31, 2013, the Company had no contractual obligations (commitments as at December 31, 2012 – $Nil) which related to costs associated with work at the Bissett Creek Property.

14. Provisions

In 2004, a Mine Closure Plan ("MCP") was filed with, and accepted by, the Ministry of Northern Development and Mines ("MNDM"). The Company filed a revised MCP for a new development scenario in 2012 and in August, 2013, the MNDM accepted the revised MCP. Upon this acceptance, the Company added an additional $479,610 to the reclamation deposit which now totals $803,135 (2012 - $319,590), including accrued interest. These amounts have been paid to the Minister of Finance for the Province of Ontario, and have been accounted for as a long term deposit. As per the revised MCP, the overall required Financial Assurance has increased to $2,329,008. In addition to the $479,610 deposited in August of 2013, $800,000 will be deposited prior to placing any footings in the ground for construction of structures such as buildings and dams and $729,088 will 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 after construction and operations. The Company has estimated $322,081 for this provision (2012 - $319,590). In 2013, the Company has not undertaken any work on the property that would increase the provision. The provision has increased by $3,935 as a consideration for inflation. The money pledged for 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.