

# **Northern Graphite Corporation**

## **Condensed Interim Financial Statements**

**For the Three and Nine Month Periods Ended September 30, 2019 and 2018**

(expressed in Canadian dollars)

### **NOTICE**

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

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

	As at September 30, 2019 \$	As at December 31, 2018 \$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	1,534,581	2,370,622
HST receivable	11,852	50,485
Prepaid expenses and deposits	84,654	109,555
	<hr/> 1,631,087	<hr/> 2,530,662
Reclamation deposit (note 11)	836,631	829,131
Property and equipment	154,613	180,919
Exploration and evaluation assets (note 4)	13,284,214	12,940,056
	<hr/> 15,906,545	<hr/> 16,480,768
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	130,189	228,203
	<hr/> 340,125	<hr/> 335,100
Reclamation and close down provision (note 11)		
<b>Total liabilities</b>	470,314	563,303
<b>Shareholders' equity</b>		
Share capital (note 5)	25,105,383	25,262,083
Warrants (note 5)	939,092	782,392
Contributed surplus (note 5)	2,362,599	2,543,346
Accumulated deficit	(12,970,843)	(12,670,356)
<b>Total shareholders' equity</b>	<hr/> 15,436,231	<hr/> 15,917,465
<b>Total liabilities and shareholders' equity</b>	<hr/> 15,906,545	<hr/> 16,480,768

*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 15, 2019

(signed) Gregory Bowes  
Director

(signed) Donald Christie  
Director

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>General and administrative expenses</b>				
Legal and audit	9,580	8,354	26,886	26,339
Office, management and director fees (note 9)	103,225	109,766	339,008	371,514
Promotion and investor relations	450	21,685	58,066	176,588
Regulatory and transfer agent	12,416	10,736	62,518	62,833
Share-based payments (notes 5 and 9)	334	7,990	26,621	249,879
Depreciation	8,769	8,769	26,306	26,044
	<u>134,774</u>	<u>167,300</u>	<u>539,405</u>	<u>913,197</u>
<b>Loss from operations</b>	(134,774)	(167,300)	(539,405)	(913,197)
Interest income	8,668	13,177	31,550	39,396
<b>Loss and comprehensive loss for the period</b>	<u>(126,106)</u>	<u>(154,123)</u>	<u>(507,855)</u>	<u>(873,801)</u>
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	65,112,756	65,112,756	64,979,610

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

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

	Number of shares	Share capital \$	Warrants \$	Contributed surplus \$	Accumulated deficit \$	Total \$
<b>Balance, December 31, 2018</b>	65,112,756	25,262,083	782,392	2,543,346	(12,670,356)	15,917,465
Extension of warrant expiry (note 5)	-	(156,700)	156,700	-	-	-
Share-based payment expense (note 5 and 9)	-	-	-	26,621	-	26,621
Expiry of stock options (note 5)	-	-	-	(207,368)	207,368	-
Loss and comprehensive loss for the period	-	-	-	-	(507,855)	(507,855)
<b>Balance, September 30, 2019</b>	65,112,756	25,105,383	939,092	2,362,599	(12,970,843)	15,436,231
<b>Balance, December 31, 2017</b>	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)
<b>Balance, September 30, 2018</b>	65,112,756	25,223,773	820,702	2,533,963	(12,506,867)	16,071,571

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Loss for the period	(126,106)	(154,123)	(507,855)	(873,801)
Items not affecting cash:				
Accretion of asset retirement obligation (note 11)	(825)	-	(2,475)	-
Depreciation	8,769	8,769	26,306	26,044
Share-based payments (note 5 and 9)	334	7,990	26,621	249,879
Change in non-cash working capital items:				
HST receivable	45,010	(10,847)	38,633	(29,204)
Prepaid expenses and deposits	17,205	11,426	24,901	(40,006)
Accounts payable and accrued liabilities	(109,232)	(95,384)	(146,020)	(14,244)
<b>Net cash used in operating activities</b>	<b>(164,845)</b>	<b>(232,169)</b>	<b>(539,889)</b>	<b>(681,332)</b>
<b>Financing activities</b>				
Proceeds from the exercise of warrants (note 5)	-	-	-	153,562
<b>Net cash generated from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>153,562</b>
<b>Investing activities</b>				
Exploration and evaluation costs (note 4)	(50,317)	(230,399)	(296,152)	(578,547)
<b>Net cash used in investing activities</b>	<b>(50,317)</b>	<b>(230,399)</b>	<b>(296,152)</b>	<b>(578,547)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(215,162)</b>	<b>(462,568)</b>	<b>(836,041)</b>	<b>(1,106,317)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,749,743</b>	<b>3,326,172</b>	<b>2,370,622</b>	<b>3,969,921</b>
<b>Cash and cash equivalents, end of period</b>	<b>1,534,581</b>	<b>2,863,604</b>	<b>1,534,581</b>	<b>2,863,604</b>

Supplemental cash flow information (note 7)

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

# Northern Graphite Corporation

## Notes to Condensed Interim Financial Statements

### For the three and nine month periods ended September 30, 2019 and 2018

(expressed in Canadian dollars)

#### **1. Corporate information**

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

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

#### **2. Basis of preparation**

##### **a. Statement of compliance**

These unaudited condensed interim financial statements for the three and nine month period ended September 30, 2019 (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, 2018 and 2017, 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 15, 2019.

##### **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 Interim 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 \$507,855 for the nine month period ended September 30, 2019 (Year ended December 31, 2018 – \$1,037,290) and has accumulated a deficit of \$12,970,843 since the inception of the Company. As at September 30, 2019, the Company had working capital of \$1,500,898 (December 31, 2018 – \$2,302,459). The Company’s ability to continue as a going concern is dependent upon its ability to raise additional capital to continue the development of the Bissett Creek Property. 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 Interim Financial Statements, and revenues and expenses for the period. By their nature, these estimates and judgments are subject to uncertainty and the effect on the Interim Financial Statements of changes in such estimates in future periods could be significant. Actual results may differ from those estimates and judgments.

# Northern Graphite Corporation

## Notes to Condensed Interim Financial Statements

### For the three and nine month periods ended September 30, 2019 and 2018

(expressed in Canadian dollars)

*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, 2018 and 2017.

#### **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, 2018. 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 adopted IFRS 16 effective January 1, 2019 and there has been no impact of adoption of IFRS 16 on its financial statements.

**Northern Graphite Corporation**  
**Notes to Condensed Interim Financial Statements**  
**For the three and nine month periods ended September 30, 2019 and 2018**  
(expressed in Canadian dollars)

**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, 2019, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	\$
<b>Balance, December 31, 2018</b>	12,940,056
Exploration and evaluation expenditures made from January 1, 2019 to September 30, 2019:	
Environmental and mine permitting	192,643
Feasibility study	70,307
First Nations consultations	2,019
Site and royalties	79,189
<b>Balance, September 30, 2019</b>	<b>13,284,214</b>

As of September 30, 2018, accumulated costs with respect to the Bissett Creek Property consisted of the following:

	\$
<b>Balance, December 31, 2017</b>	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
<b>Balance, September 30, 2018</b>	<b>12,544,598</b>

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

**5. Share capital**

**Authorized**

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

**Warrants and compensation options**

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

	Number of warrants	Weighted average exercise price \$
<b>Balance, December 31, 2017</b>	6,930,607	0.47
Compensation options exercised	(438,750)	0.35
Compensation options expired	(291,370)	0.60
<b>Balance, December 31, 2018 and September 30, 2019</b>	<b>6,200,487</b>	<b>0.47</b>



**Northern Graphite Corporation**  
**Notes to Condensed Interim Financial Statements**  
**For the three and nine month periods ended September 30, 2019 and 2018**  
(expressed in Canadian dollars)

A summary of the Company's warrants and compensation options outstanding at June 30, 2019 is presented below:

<b>Exercise price</b>	<b>Number of warrants outstanding</b>	<b>Expiry date</b>
\$0.40	3,909,166	March 24, 2021
\$0.60	2,291,321	November 22, 2019
	<b>6,200,487</b>	

As at September 30, 2019, the weighted average remaining contractual life of warrants outstanding is 0.99 years. During January 2019, the Company extended the expiry date of the 3,909,166 warrants exercisable at \$0.40 from March 24, 2019 to March 24, 2021. Subsequent to quarter end, during November 2019, the Company extended the expiry date of the 2,291,321 warrants exercisable at \$0.60 from November 22, 2019 to November 22, 2021. No warrants or compensation options were issued during the year ended December 31, 2018 or during fiscal 2019 to date.

**Stock options**

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

A summary of the Option Plan activity is presented below:

	<b>Number of options</b>	<b>Weighted average exercise price \$</b>
<b>Balance, December 31, 2017</b>	3,575,000	0.53
Granted	800,000	0.50
Forfeited	(375,000)	0.55
<b>Balance, December 31, 2018</b>	4,000,000	0.53
Granted	600,000	0.21
Forfeited	(600,000)	0.53
<b>Balance, September 30, 2019</b>	<b>4,000,000</b>	<b>0.45</b>

A summary of the Company's outstanding stock options at September 30, 2019 is presented below:

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

The weighted average remaining contractual life of stock options outstanding is 1.78 years. As at December 31, 2018, a total of 3,900,000 stock options were exercisable. During January 2019, the Company granted 150,000 stock options exercisable at \$0.25 per share to a director of the Company. These stock options expire on January 21, 2024. During May 2019, the Company granted 450,000 stock options exercisable at \$0.20 per share in connection with a consulting agreement for financial advisory services. These stock options expire on May 9, 2020.

**Northern Graphite Corporation**  
**Notes to Condensed Interim Financial Statements**  
**For the three and nine month periods ended September 30, 2019 and 2018**  
(expressed in Canadian dollars)

The values of stock options determined during the nine month period ended September 30, 2019 and the year ended December 31, 2018 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	<b>Nine months ended September 30, 2019</b>	<b>Year ended December 31, 2018</b>
Stock options granted during the period	600,000	800,000
Weighted-average exercise price	\$0.21	\$0.50
Expected stock option life <sup>(1)</sup>	1 to 5 years	5 years
Expected volatility <sup>(2)</sup>	42.8% to 82.5%	75.1%
Risk-free interest rate <sup>(3)</sup>	1.72% to 1.83%	1.61%
Dividend yield	Nil	Nil
Forfeiture rate	Nil	Nil
Weighted-average fair value (Black-Scholes value)	\$0.03	\$0.33

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

As at September 30, 2019, there was \$Nil (December 31, 2018 – \$6,338) of unrecognized share-based compensation costs related to unvested stock option awards granted under the Option Plan.

**Contributed surplus**

	<b>\$</b>
<b>Balance, December 31, 2017</b>	2,415,093
Share-based compensation	259,262
Expiry of stock options	(131,009)
<b>Balance, December 31, 2018</b>	2,543,346
Share-based compensation	26,621
Expiry of stock options	(207,368)
<b>Balance, September 30, 2019</b>	2,362,599

Contributed surplus as at September 30, 2019 and December 31, 2018 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.

**Northern Graphite Corporation**  
**Notes to Condensed Interim Financial Statements**  
**For the three and nine month periods ended September 30, 2019 and 2018**  
(expressed in Canadian dollars)

**7. Supplemental cash flow information**

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

	<b>Three and Nine months ended September 30, 2019</b>	<b>Three and Nine months ended September 30, 2018</b>
	\$	\$
Exploration and evaluation costs in accounts payable and accrued liabilities	48,006	48,146

**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 fair value hierarchy contained in the Company's financial instrument accounting policy. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

At September 30, 2019 and December 31, 2018, the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized on the statement of financial position at fair value on a recurring basis are categorized as follows:

	<b>Category</b>	<b>As at September 30, 2019</b>	<b>As at December 31, 2018</b>
		\$	\$
Cash and cash equivalents	Level 1	1,534,581	2,370,622

At September 30, 2019 and December 31, 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 periods presented in these Interim Financial Statements. At September 30, 2019 and December 31, 2018, there were no financial assets or liabilities measured and recognized in the statements of financial position at fair value that would be categorized as Level 2 or Level 3 in the fair value hierarchy.

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

**Currency risk**

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

**Credit risk**

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

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk through the management of its capital structure. Further discussion on liquidity and management's plans are outlined in note 2.

# Northern Graphite Corporation

## Notes to Condensed Interim Financial Statements

### For the three and nine month periods ended September 30, 2019 and 2018

(expressed in Canadian dollars)

#### **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.

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

##### **Key management compensation**

During the nine month period ended September 30, 2019, the Company expensed management fees to a company owned and controlled by key management personnel of \$44,921 (nine months ended September 30, 2018 – \$46,541) and salary and compensation to key management personnel of \$135,000 (nine months ended September 30, 2018 – \$187,500). During the nine month period ended September 30, 2019, the Company expensed directors' fees of \$45,000 (nine months ended September 30, 2018 – \$47,500). During the nine month period ended September 30, 2019, the Company expensed share-based compensation for stock options granted to key management personnel and directors of \$20,918 (nine months ended September 30, 2018 – \$249,879).

As at September 30, 2019, \$23,072 (December 31, 2018 – \$13,059) was included in accounts payable and accrued liabilities owing to officers and directors relating to management and director fees and for reimbursement of expenses.

#### **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 August of 2019. The advances will be credited against any future production royalty payments.

##### **Contractual obligations**

As at September 30, 2019 and December 31, 2018, 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 Ontario Ministry of Energy, Northern Development and Mines ("MENDM"). In accordance with the MCP, the Company is required to deposit \$2,329,008 with the Minister of Finance for the Province of Ontario prior to the commencement of commercial production. This represents the estimated amount that would be required to restore the Bissett Creek Property to its original environmental state after the mine has been constructed and operations cease. An initial deposit of \$836,631 (December 31, 2018 – \$829,131), including accrued interest, has been made and has been accounted for as a long term deposit. The Company has recorded a provision of \$340,125 (December 31, 2018 – \$335,100) which represents the estimated current cost of reclamation. The reclamation deposit will be returned to the Company once the MENDM is satisfied that the obligations contained in the MCP have been performed by the Company. Due to a number of operational changes made to improve the economics of the Bissett Creek project and to the passage of time since the MCP was approved, the MENDM has informed the Company that it must file an amendment to the MCP which will include a recalculation of reclamation costs and the amount of the required deposit.

#### **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 located 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.

#### **13. Subsequent event**

During November 2019, the Company extended the expiry date of the 2,291,321 warrants exercisable at \$0.60 from November 22, 2019 to November 22, 2021.