

Northern Graphite Corporation

(an Exploration Stage Company)

Condensed Interim Financial Statements

For the Three and Six Months Ended June 30, 2016, and 2015

The following statements have not been reviewed by the Company's auditors.

Northern Graphite Corporation

(an exploration stage company)

Condensed Interim Statements of Financial Position

(unaudited)

	As at June 30 2016 \$ (unaudited)	As at December 31 2015 \$
Assets		
Current		
Cash and cash equivalents	1,033,101	1,457,962
HST receivable	14,954	10,882
Prepaid expenses and deposits	42,144	50,498
	1,090,199	1,519,342
Deposits	53,000	53,000
Reclamation deposit (note 12)	812,628	812,628
Property and equipment (note 4)	280,544	313,687
Exploration and evaluation assets (notes 5 and 6)	11,505,204	11,416,388
	13,741,575	14,115,045
Liabilities		
Current		
Accounts payable and accrued liabilities (note 10)	89,607	206,306
	89,607	206,306
Reclamation and close down provision (note 12)	325,885	325,885
	415,492	532,191
Shareholders' equity		
Share capital (note 7)	21,446,062	21,256,057
Warrants (note 7)	130,029	130,029
Contributed surplus (note 7)	3,733,687	2,930,493
Retained deficit	(11,983,695)	(10,733,725)
Total shareholders' equity	13,326,083	13,582,854
Total liabilities and shareholders' equity	13,741,575	14,115,045

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

Approved by the Board of Directors and authorized for issue on August 17, 2016

(signed) Gregory Bowes
Director

(signed) Donald Christie
Director

Northern Graphite Corporation
(an exploration stage company)
Condensed Interim Statements of Comprehensive Loss
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
General and administrative expenses				
Management and consulting fees (note 10)	56,952	93,439	118,359	211,717
Legal and audit	13,280	62,218	15,901	69,718
Office and miscellaneous (note 10)	132,868	60,769	192,370	187,643
Share-based payments (notes 7 and 10)	884,318	4,106	893,199	253,829
Depreciation	15,916	17,227	33,143	34,264
Foreign exchange loss (gain)	(44)	-	(44)	781
	<u>1,103,290</u>	<u>237,759</u>	<u>1,252,928</u>	<u>757,952</u>
Loss from operations	(1,103,290)	(237,759)	(1,252,928)	(757,952)
Interest income	1,345	1,852	2,958	5,098
Income before taxes	(1,101,945)	(235,907)	(1,249,970)	(752,854)
Tax expense	-	-	-	-
Loss and comprehensive loss for the period	(1,101,945)	(235,907)	(1,249,970)	(752,854)
Loss per share	(0.02)	(0.01)	(0.02)	(0.01)
Weighted average number of shares – basic and fully diluted	51,451,312	49,181,281	51,367,795	49,181,281

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

Northern Graphite Corporation

(an exploration stage company)

Condensed Interim Statements of Changes in Shareholders' Equity

(unaudited)

	Number of Shares	Share capital Amount \$	Warrants reserve \$	Contributed Surplus Reserve \$	Deficit \$	Total \$
Balance at December 31, 2015	51,284,279	21,256,057	130,029	2,930,493	(10,733,725)	13,582,854
Proceeds from the exercise of options	200,000	100,000	-	-	-	100,000
Fair value of options exercised	-	90,005	-	(90,005)	-	-
Share-based payment expense (note 7 and 10)	-	-	-	893,199	-	893,199
Net loss	-	-	-	-	(1,249,970)	(1,249,970)
Balance, June 30, 2016	51,484,279	21,446,062	130,029	3,733,687	(11,983,695)	13,326,083
Balance at December 31, 2014	49,181,281	20,364,805	-	2,658,904	(9,697,450)	13,326,259
Fair value of warrants expired	-	-	-	-	-	-
Proceeds from the exercise of options	-	-	-	-	-	-
Share-based payment expense (note 7 and 10)	-	-	-	253,829	-	253,829
Net loss	-	-	-	-	(752,854)	(752,854)
Balance, June 30, 2015	49,181,281	20,364,805	-	2,912,733	(10,450,304)	12,827,234

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Northern Graphite Corporation

(an exploration stage company)

Condensed Interim Statements of Cash Flows

(unaudited)

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Loss for the period	(1,101,945)	(235,907)	(1,249,970)	(752,854)
Items not affecting cash				
Depreciation	15,916	17,227	33,143	34,264
Share-based payments	884,318	4,106	893,199	253,829
HST receivable	19,018	4,748	(4,071)	13,416
Prepaid expenses and deposits	19,224	9,146	8,354	8,199
Accounts payable and accrued liabilities	(2,516)	35,787	(90,335)	(18,734)
Net cash used in operating activities	(165,985)	(164,893)	(409,680)	(461,880)
Financing activities				
Proceeds from the exercise of options	100,000	-	100,000	-
Net cash generated from financing activities	100,000	-	100,000	-
Investing activities				
Exploration and evaluation costs	(39,485)	(160,659)	(115,181)	(386,259)
Net cash used in investing activities	(39,485)	(160,659)	(115,181)	(386,259)
Net increase (decrease) in cash and cash equivalents	(105,470)	(325,552)	(424,861)	(848,139)
Cash and cash equivalents, beginning of period	1,138,571	1,278,314	1,457,962	1,800,901
Cash and cash equivalents, end of period	1,033,101	952,762	1,033,101	952,762

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

Northern Graphite Corporation
(an Exploration Stage Company)
Notes to Condensed Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(Unaudited)

1. Corporate Information

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

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

2. Basis of Preparation

a. Statement of compliance

The unaudited condensed interim financial statements for the six month period ended June 30, 2016, and the notes thereto (the "Interim Financial Statements"), together with the Company's annual audited financial statements issued under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2015, present Northern's financial results of operations and financial position under IFRS as at and for the three and six months ended June 30, 2016, including 2015 comparative periods. The Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company adopted in its financial statements for the year ending December 31, 2015 based on current standards. The Interim Financial Statements do not include all the necessary annual disclosures in accordance with IFRS.

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

The Interim Financial Statements were approved and authorized for issue by the Board of Directors on August 17, 2016.

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 9). 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 \$1,249,970 for the six months ended June 30, 2016 (2015 - \$752,854) and has an accumulated deficit of \$11,983,695 since the inception of the Company. As at June 30, 2016, working capital was \$1,000,592 and 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 Project. On July 9, 2015, the Company closed a short form prospectus offering of 2,102,998 units of the Company at a price of \$0.60 per unit for gross proceeds of \$1,261,799. However, substantial additional capital is required to ultimately build a mine and processing plant on the Bissett Creek Project and to enable the Company to enter production and continue its operations. 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 that there continues to be negative investor sentiment in the graphite sector and that there was an extended period of weak capital markets in the resource sector, there exists a material uncertainty as to the Company's ability to raise additional funds on favourable terms. The Company's discretionary activities have considerable scope for flexibility in terms of the amount and timing of expenditures. The Company will thoroughly assess all such activities before undertaking them in advance of additional financing being secured. The Company's Interim Financial Statements do not include any adjustments that might result from negative outcomes with respect to these uncertainties.

d. Functional and presentation currency

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

e. Critical accounting estimates and judgments

The preparation of the Interim Financial Statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements, and revenues and expenses for the period. By their nature, these estimates and judgments are subject to uncertainty and the effect on the Interim Financial Statements of changes in such

Northern Graphite Corporation
 (an Exploration Stage Company)
Notes to Condensed Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(Unaudited)

estimates in future periods could be significant. Actual results may differ from those estimates and judgments.

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

- (i) asset carrying values and impairment charges;
- (ii) the economic recoverability of exploration expenditures incurred and the probability of future economic benefits from development expenditures incurred;
- (iii) the expected costs of asset retirement obligations; 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 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

The accounting policies adopted in these Interim Financial Statements are consistent with those followed in the preparation of the Company's 2015 Annual Financial Statements.

Recent and future pronouncements issued

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after December 31, 2015. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the discussion below. The Company is currently evaluating the potential impacts of these new standards.

IFRS 9, Financial Instruments (effective January 1, 2018) introduces new requirements for the classification and measurement of financial assets, and will replace 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. 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 is effective for reporting periods beginning on or after January 1, 2018.

IAS 1 Presentation of Financial Statements amendments are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016.

4. Property, plant and equipment

	Building and improvements	Equipment	Total property plant & equipment
Cost	\$	\$	\$
December 31, 2015	803,497	646,994	1,450,491
Additions	-	-	-
Disposals	-	-	-
Impairment	-	-	-
June 30, 2016	803,497	646,994	1,450,491

Northern Graphite Corporation

(an Exploration Stage Company)

Notes to Condensed Interim Financial Statements

For the three and six months ended June 30, 2016 and 2015

(Unaudited)

Accumulated depreciation			
December 31, 2015	516,191	620,613	1,136,804
Additions	18,056	15,087	33,143
Disposals	-	-	-
Impairment	-	-	-
June 30, 2016	534,247	635,700	1,169,947
Net book value	269,250	11,294	280,544

	Building and improvements	Equipment	Total property plant & equipment
December 31, 2014	803,497	646,994	1,450,491
Additions	-	-	-
Disposals	-	-	-
Impairment	-	-	-
June 30, 2015	803,497	646,994	1,450,491
Accumulated depreciation			
December 31, 2014	488,908	595,837	1,084,745
Additions	8,929	8,108	17,037
Disposals	-	-	-
Impairment	-	-	-
June 30, 2015	497,936	604,036	1,101,972
Net book value	305,561	42,958	348,519

5. Exploration and evaluation asset

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 five unpatented claims totaling approximately 464 hectares. All leases and claims are located in the United Townships of Head, Clara and Maria, in the County of Renfrew, Ontario. As of June 30, 2016, accumulated costs with respect to the Bissett Creek Property consisted of the following:

Balance, December 31, 2015	\$ 11,416,388
Exploration expenditures made from January 1, 2016 to June 30, 2016:	
Drilling & exploration	-
Environmental & mine permitting	459
Metallurgical	15,748
Feasibility study	-
Engineering	47,992
Site & royalties	24,617
Geotechnical	-
Detailed engineering	-
Balance, June 30, 2016	11,505,204

As of June 30, 2015, accumulated costs with respect to the Bissett Creek Property consisted of the following:

Balance, December 31, 2014	\$ 10,869,049
Exploration expenditures made from January 1, 2015 to June 30, 2015:	
Drilling & exploration	-
Environmental & mine permitting	98,944
Metallurgical	78,159
Feasibility study	-
Engineering	2,670

Northern Graphite Corporation
(an Exploration Stage Company)
Notes to Condensed Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(Unaudited)

Site & royalties	50,245
Geotechnical	-
Detailed engineering	-
Balance, June 30, 2015	11,099,067

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.

6. Scientific research and experimental development program claims

In 2015, the Company filed federal and provincial claims under the scientific research and experimental development program in the amount of \$483,469 related to the 2013 taxation year and \$549,242 related to the 2014 taxation year. The refundable portion of these claims is \$36,985 for the 2013 taxation year and \$6,291 for the 2014 taxation year. In 2015, Company received \$6,291 for the 2014 taxation year which it recognized as a reduction of management and consulting fees and \$36,985 for the 2013 taxation year which it recognized as a reduction of management and consulting fees and exploration and evaluation assets.

7. Share capital

Authorized

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

Short form prospectus offering

On July 9, 2015, the Company closed a short form prospectus offering of 2,102,998 units of the Company at a price of \$0.60 per unit for gross proceeds of \$1,261,799. Each unit was comprised of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.80 per share for a period of 24 months from the closing of the offering. In connection with the offering, the Company paid fees totaling \$67,698 to the agents, and issued to the agents 126,180 compensation options. Each compensation option entitles the holder to purchase one common share at an exercise price of \$0.60 per share for a period of 12 months from the closing of the offering. The Company intends to use the net proceeds from the Offering to fund ongoing permitting necessary for the construction and operation of a mine at the Bissett Creek Property, to conduct additional product qualification work to further develop its technologies for purifying graphite and making spherical graphite for use in lithium ion batteries, and for general working capital.

Issued

	Common shares	
	Number of shares	Amount \$
Balance at December 31, 2015	51,284,279	21,256,057
Fair value of options exercised	-	90,005
Issued pursuant to the exercise of options	200,000	100,000
Balance at June 30, 2016	51,484,279	21,446,062

Warrants

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

	Number of warrants	Weighted average exercise price
		\$
Balance, December 31, 2015 and June 30, 2016	1,177,679	0.78

Northern Graphite Corporation

(an Exploration Stage Company)

Notes to Condensed Interim Financial Statements For the three and six months ended June 30, 2016 and 2015 (Unaudited)

Exercise price	Number of warrants outstanding	Expiry date
\$0.60	126,180	July 9, 2016
\$0.80	1,051,499	July 9, 2017
	1,177,679	

The following is a summary of warrant activity and related Black-Scholes option pricing model input factors used for the six months ended June 30, 2016 and the year ended December 31, 2015:

	Six months ended June 30, 2016	Year ended December 31, 2015
Warrants granted during the period	Nil	1,177,679
Weighted-average exercise price	Nil	\$0.78
Expected stock option life ⁽¹⁾	Nil	1-2 years
Expected volatility ⁽²⁾	Nil	60%-61%
Risk-free interest rate ⁽³⁾	Nil	1.25%
Dividend yield	Nil	NA
Forfeiture rate	Nil	NA
Weighted-average fair value (Black-Scholes value)	Nil	\$0.11

1. The Company estimates the expected warrant life (estimated period of time outstanding) of warrants granted to be the length of time before the warrant's expiry until such time that the Company can base its estimate on historical information on the Company's warrants.
2. The expected volatility was based on the Company's trading history over a period equal to the expected warrant life.
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.

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, 2015	3,800,000	0.62
Granted	3,050,000	0.50
Exercised	(200,000)	0.50
Forfeited	(2,025,000)	0.50
Balance, June 30, 2016	4,625,000	0.60

Northern Graphite Corporation
(an Exploration Stage Company)
Notes to Condensed Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(Unaudited)

A summary of the Company's share options outstanding and exercisable at June 30, 2016 is presented below:

Exercise price	Options outstanding	Options exercisable	Expiry date
\$0.94	25,000	25,000	November 16, 2016
\$0.80	75,000	75,000	December 20, 2016
\$2.50	25,000	25,000	April 11, 2017
\$0.75	200,000	200,000	May 15, 2017
\$0.85	500,000	500,000	December 20, 2017
\$0.75	100,000	100,000	May 19, 2018
\$0.70	650,000	650,000	January 9, 2020
\$0.50	3,050,000	2,550,000	April 27, 2021
	<u>4,625,000</u>	<u>4,125,000</u>	

The weighted average remaining contractual life of options outstanding is 3.59 years.

The following is a summary of stock option grant activity and related Black-Scholes option pricing model input factors used for the periods ended June 30, 2016 and December 31, 2015:

	Six months ended June 30, 2016	Year ended December 31, 2015
Stock options granted during the period	3,050,000	750,000
Weighted-average exercise price	0.50	\$0.71
Expected stock option life ⁽¹⁾	5 years	3-5 years
Expected volatility ⁽²⁾	94%	73%-74%
Risk-free interest rate ⁽³⁾	0.89%	1.22%-1.25%
Dividend yield	NA	NA
Forfeiture rate	NA	NA
Weighted-average fair value (Black-Scholes value)	\$0.34	\$0.38

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 Company's trading history over a period equal to the expected stock option life.
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. 500,000 of the stock options granted in 2016 to non-executive directors will be subject to an escrow agreement and cannot be exercised unless and until they have been ratified by a majority vote of disinterested shareholders to be held no later than the Company's annual general meeting to be held in 2017. The balance of the stock options can be exercised at any time. As at June 30, 2016, there was \$155,546 (June 30, 2015 – \$nil) of total unrecognized share-based compensation costs related to unvested stock option awards and stock option awards subject to an escrow agreement granted under the Option Plan.

Contributed surplus

	\$
Balance, December 31, 2015	2,930,493
Fair value of options exercised	(90,005)
Share-based payments	893,199
<u>Balance, June 30, 2016</u>	<u>3,733,687</u>

Northern Graphite Corporation
(an Exploration Stage Company)
Notes to Condensed Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(Unaudited)

Contributed surplus as at June 30, 2016 and December 31, 2015 consists of a share-based payment reserve related to stock options issued under the Option Plan.

8. Loss per share

	Three months ended June 30, 2016	Three months ended June 30, 2015
Loss and comprehensive loss for period	(1,101,945)	(235,907)
Weighted average number of shares – basic and fully diluted	51,451,312	49,181,281
Loss and comprehensive loss per share	(\$0.02)	(\$0.01)

	Six months ended June 30, 2016	Six months ended June 30, 2015
Loss and comprehensive loss for period	(1,249,970)	(752,854)
Weighted average number of shares – basic and fully diluted	51,367,795	49,181,281
Loss and comprehensive loss per share	(\$0.02)	(\$0.01)

9. Financial instruments and risk management

Fair value

Certain of the Company's accounting policies and disclosures require the determination of fair value. Fair value represents the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on quoted market values and other valuation methods. Fair values have been determined for measurement and/or disclosure purposes based on the 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 June 30, 2016, 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 June 30, 2016 \$	At March 31, 2016 \$	At December 31, 2015 \$
Cash and cash equivalents	Level 1	1,033,101	1,138,571	1,457,962

At June 30, 2016, 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 six months ended June 30, 2016.

At June 30, 2016, 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, 2015 - \$Nil; December 31, 2014 - \$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

Northern Graphite Corporation

(an Exploration Stage Company)

Notes to Condensed Interim Financial Statements For the three and six months ended June 30, 2016 and 2015 (Unaudited)

liabilities and notes payable 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 as outlined in note 9. Further discussion on liquidity and management's plans are outlined in note 1.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk due to the short-term nature of its financial instruments.

10. Related parties

Key Management Compensation

In the six months ended June 30, 2016, the Company expensed salary to key management personnel of \$60,000 (2015 – \$167,500). In the six months ended June 30, 2016, the Company provided employee benefits totaling \$3,997 (2015 –\$9,492) to key management personnel. In the six months ended June 30, 2016, the Company expensed share-based compensation for stock options granted to key management personnel of \$585,420 (2015-\$57,628). In the six months ended June 30, 2016, the Company expensed share-based compensation for stock options granted to directors of \$294,124 (2015-\$192,095)

Other Related Party Transactions

During the six months ended June 30, 2016, the Company expensed office rental payments of \$11,850 (2015 – \$11,850) to a public company whose CEO and Director is also a Director of Northern.

11. 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. Installments due were paid for during the year ended December 31, 2015 and the six months ended June 30, 2016. The advance will be credited against any future production royalty payments.

Contractual obligations

As at June 30, 2016, the Company had contractual obligations of \$nil (commitments as at December 31, 2015 – \$Nil) which related to office and miscellaneous expenses.

12. 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 \$812,628 (2014 - \$809,569), 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

Northern Graphite Corporation

(an Exploration Stage Company)

Notes to Condensed Interim Financial Statements

For the three and six months ended June 30, 2016 and 2015

(Unaudited)

has a provision of \$325,885 as at December 31, 2015 and June 30, 2016 which represents the estimated current cost of reclamation. In 2015, the provision increased by \$1,224 as a consideration for inflation as the Company had not undertaken any work on the property. 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.