Northern Graphite Corporation

Condensed Interim Consolidated Financial Statements

For the Three and Six Month Periods Ended June 30, 2022 and 2021

(Unaudited and expressed in thousands of Canadian dollars)

NORTHERN GRAPHITE CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at June 30, 2022 and December 31, 2021

(Unaudited - Stated in thousands of Canadian Dollars)

	Notes		June 30, 2022		December 31, 2021 (Audited)
ASSETS					
Current assets					
Cash and cash equivalents		**$**	**8,588**	$	3,578
Restricted cash and reclamation deposits	5		**9,090**		-
Receivables, prepaids and deposits	8		**4,871**		144
Inventories	9		**15,169**		-
Marketable securities	10		**450**		750
Deferred costs			**-**		750
Total current assets			**38,168**		5,222
Non-current assets					
Exploration and evaluation assets	11		**14,105**		13,518
Mineral interests, property, plant and equipment	12		**46,780**		70
Other assets	13		**1,906**		-
Restricted cash	28		**2,073**		846
Goodwill	6		**2,713**		-
Total Assets		**$**	**105,745**	$	19,656
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	14, 26	**$**	**6,449**	$	1,562
Current portion of royalty	16		**1,549**		-
Current portion of leases	18		**750**		-
Total current liabilities			**8,748**		1,562
Non-current liabilities					
Senior secured loan	15		**13,109**		-
Royalty	16		**3,126**		-
Deferred revenue	17		**26,273**		-
Leases	18		**1,294**		-
Reclamation provisions	28		**6,116**		362
Deferred tax liability	6		**2,634**		-
Total Liabilities			**61,300**		1,924
SHAREHOLDERS' EQUITY					
Share capital	19		**51,358**		30,862
Warrants	19		**10,767**		627
Contributed surplus	19		**4,220**		2,503
Foreign currency translation			**(672)**		-
Accumulated deficit			**(21,228)**		(16,260)
Total shareholders' equity			**44,445**		17,732
Total Liabilities and Shareholders' Equity		**$**	**105,745**	$	19,656

Nature of operations (note 1)

Subsequent events (note 31)

APPROVED ON BEHALF OF THE BOARD ON AUGUST 26, 2022:

(Signed) *Gregory Bowes*, Director

(Signed) *Donald Christie*, Director

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

NORTHERN GRAPHITE CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENT OF LOSS AND OTHER COMPREHENSIVE LOSS

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited - Stated in thousands of Canadian Dollars, except for number of shares)

	Notes	Three months ended June 30, 2022	2021	Six months ended June 30, 2022	2021
Revenue		**$ 3,693**	$ -	**$ 3,693**	$ -
Cost of Sales					
Production costs	20	**2,248**	-	**2,248**	-
Royalty		**15**	-	**15**	-
Depletion and depreciation		**110**	-	**110**	-
Total cost of sales		**2,373**	-	**2,373**	-
Income from mine operations		**1,320**	-	**1,320**	-
Expenses					
General and administrative	21	**1,009**	244	**1,631**	467
Share-based compensation	19, 26	**153**	818	**1,244**	824
Project evaluation, acquisition, and integration		**1,386**	274	**1,691**	274
Foreign exchange loss		**289**	-	**258**	-
Total expenses		**2,837**	1,336	**4,824**	1,565
Operating loss		**(1,517)**	(1,336)	**(3,504)**	(1,565)
Loss (gain) on marketable securities	10	**230**	(199)	**300**	(472)
Finance costs	22	**1,081**	**-**	**1,086**	4
Interest income		**(39)**	(7)	**(44)**	(10)
Loss before taxes		**(2,789)**	(1,130)	**(4,846)**	(1,087)
Current tax expense		**253**	-	**253**	-
Deferred tax recovery		**(79)**	-	**(79)**	-
Net loss		**(2,963)**	(1,130)	**(5,020)**	(1,087)
Other comprehensive loss					
Foreign currency translation		**(672)**	-	**(672)**	-
Other comprehensive loss		**$ (3,635)**	$ (1,130)	**$ (5,692)**	$ (1,087)
Loss per share – basic and diluted		**(0.03)**	(0.01)	**(0.05)**	(0.01)
Weighted average shares outstanding					
- basic and diluted		**107,770,249**	78,930,756	**107,162,053**	75,206,522

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

NORTHERN GRAPHITE CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited - Stated in thousands of Canadian Dollars, except for number of shares)

		Three months ended June 30,		Six months ended June 30,	
	Notes	**2022**	**2021**	**2022**	**2021**
Cash provided by operations					
Operating loss		**$ (2,963)**	$ (1,130)	**$ (5,020)**	$ (1,087)
Items not affecting cash					
Depletion and depreciation	12	**118**	8	**126**	16
Income taxes		**174**	-	**174**	-
Share based payments		**153**	818	**1,244**	824
Interest expense and accretion	22	**985**	-	**985**	-
Accretion of reclamation provision	22	**70**	1	**75**	2
Foreign exchange loss		**318**	-	**318**	-
Unrealized loss (gain) on marketable securities		**230**	(199)	**300**	(472)
Other		**142**	-	**142**	-
Changes in non-cash working capital items					
Receivable and prepaid expenses		**(4,617)**	31	**(4,734)**	20
Inventory		**(652)**	-	**(652)**	-
Accounts payable and accruals		**2,949**	60	**3,270**	(5)
Net cash provided by (used) in operating activities		**(3,093)**	(411)	**(3,772)**	(702)
Investing activities					
Cash paid in LDI acquisition	6	**(25,636)**	-	**(25,636)**	-
Cash paid in Namibia acquisition, net of cash acquired	7	**(19,944)**	-	**(20,003)**	-
Restricted cash		**(6,732)**	-	**(8,549)**	-
Land and building use lease payments	18	**(2,948)**	-	**(2,948)**	-
Exploration and evaluation costs	11	**(219)**	(148)	**(362)**	(200)
Property, plant, equipment and intangibles	12	**(488)**	-	**(548)**	-
Net cash provided by (used) in investing activities		**(55,967)**	(148)	**(58,046)**	(200)
Financing activities					
Private placement, net of costs	19	**20,690**	-	**21,394**	2,794
Proceeds from exercise of warrants		**18**	-	**174**	1,208
Senior secured debt, net of costs	15	**15,050**	-	**14,690**	-
Deferred revenue	17	**26,287**	-	**25,658**	-
Royalty financing, net of costs	16	**5,115**	-	**4,992**	-
Lease payments	18	**(73)**	-	**(73)**	-
Net cash used in financing activities		**67,087**	-	**66,835**	4,002
Effect of exchange rate changes on cash		**(7)**	-	**(7)**	-
Net increase (decrease) in cash and cash equivalents		**8,027**	(558)	**5,017**	3,100
Cash and cash equivalents, beginning		**568**	4,871	**3,578**	1,212
Cash and cash equivalents, ending		**$ 8,588**	$ 4,312	**$ 8,588**	$ 4,312

Supplemental Cash Flow Information – Note 15

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

NORTHERN GRAPHITE CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Six Months Ended June 30, 2022 and 2021

(Unaudited – Stated in thousands of Canadian Dollars, except for number of shares)

	Number of shares	Share Capital	Warrants	Contributed Surplus	Foreign Currency Translation	Accumulated Deficit	Total
Balances at December 31, 2021	**81,371,422**	**$ 30,862**	**$ 627**	**$ 2,503**	**$ -**	**$ (16,260)**	**$ 17,732**
Issuance of common shares and warrants, net (note 19)	30,762,500	16,094	5,172	-	-	-	21,266
Issuance of common shares and warrants for acquisition of LDI	6,841,600	4,176	955	-	-	-	5,131
Issuance of warrants for senior secured debt, royalty, stream (note 19)	-	-	4,065	-	-	-	4,065
Obligation to issue common shares (note 31)	-	-	-	525		-	525
Exercise of warrants	385,000	226	(52)	-	-	-	174
Expiry of stock options (note 19)	-	-	-	(52)	-	52	-
Share based payments (note 19 and 26)	-	-	-	1,244	-	-	1,244
Foreign currency translation	-	-	-	-	(672)	-	(672)
Loss and comprehensive loss for the period	-	-	-	-	-	(5,020)	(5,020)
Balances at June 30, 2022	119,360,522	$ 51,358	$ 10,767	$ 4,220	$ (672)	$ (21,228)	$ 44,445
Balances at December 31, 2020	**65,112,756**	**$ 25,099**	**$ 946**	**$ 2,405**	**$ -**	**$ (13,781)**	**$ 14,669**
Issuance of common shares and warrants, net (note 19)	10,688,000	1,618	1,176	-	-	-	2,794
Exercise of warrants (note 19)	3,020,000	1,639	(431)	-	-	-	1,208
Common shares issued for property (note 19)	500,000	250	-	-	-	-	250
Expiry of stock options (note 19)	-	-	-	(865)	-	865	-
Expiry of warrants (note 19)	-	127	(127)	-	-	-	-
Share based payment expense (note 19 and 26)	-	-	-	824	-	-	824
Loss and comprehensive loss for the period	-	-	-	-	-	(1,087)	(1,087)
Balances at June 30, 2021	79,320,756	$ 28,733	$ 1,564	$ 2,364	$ -	$ (14,002)	$ 18,658

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

(Unaudited - Stated in thousands of Canadian Dollars)

1. NATURE OF OPERATIONS

Northern Graphite Corporation ("Northern" or the "Company") is in the business of exploration, development, production and acquisition of graphite properties. The Company was incorporated under the laws of the Province of Ontario on February 25, 2002. Northern holds a 100% interest in the Bissett Creek Graphite Property (the "Bissett Creek Property") and has an option to earn up to an 80% interest in the South Okak Project ("South Okak"). The Company is listed on the TSX Venture Exchange (symbol "NGC") and the OTCQB Market (symbol "NGPHF"). On April 29, 2022, the Company acquired the producing Lac des lles graphite mine in Quebec and the Okanjande graphite deposit and Okorusu processing plant in Namibia (notes 6 and 7).

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 PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements for the three and six month periods ended June 30, 2022 (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 consolidated financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2021 and 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Interim Financial Statements were approved and authorized for issue by the Board of Directors on August 26, 2022.

Basis of consolidation

Subsidiaries are entities over which the Company has control. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. These Interim Financial Statements include the accounts of the wholly-owned subsidiaries as shown below. All inter-company balances, and gains and losses on intercompany transactions, have been eliminated for consolidation purposes.

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

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company. The Company's wholly owned subsidiaries and their functional currencies are as follows:

Name of Subsidiary	Location	Percentage Ownership	Functional Currency
Graphite Nordique Inc.	Canada	100%	CAD
Northern Graphite Processing (Namibia) (Pty) Ltd.	Namibia	100%	NAD
Northern Graphite Holdings (Namibia) (Pty) Ltd.	Namibia	100%	NAD
Northern Graphite Okanjande Mining (Pty) Ltd.	Namibia	100%	NAD

Going concern

The Interim Financial Statements have been prepared on a going concern basis, which assumes the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. On April 29, 2022, the Company completed the acquisition of the producing Lac des lles graphite mine in Quebec (note 6) and the Okanjande graphite deposit and Okorusu processing plant in Namibia (note 7) and related financings. The Company's management believes it can further develop the Namibian mining assets and the Bisset Creek property (note 11) with funds on hand and the proceeds from the financings. Substantial capital is required to further develop the Bissett Creek Property into a producing mine and build a large new processing plant at Okanjande and there is no assurance management will be successful in its endeavors.

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 and generated from the Lac des Isle mine. The Company's discretionary activities have considerable scope for flexibility in terms of the amount and timing of expenditures. The Company will thoroughly assess all such activities before undertaking them. The Company's Interim Financial Statements do not include any adjustments that might result from negative outcomes with respect to these uncertainties such as the inability to obtain funding on reasonable terms, or any terms at all.

3. USE OF ESTIMATES AND JUDGEMENTS

In preparing these interim financial statements management has made estimates and judgements that affect the application of the Company's accounting policies and have a material impact on the consolidated financial statements. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis and revisions to estimates are recognized prospectively.

In addition to the significant judgements disclosed in the Company's audited annual consolidated financial statements for the years ended December 31, 2021 and 2020 the following judgements used in the preparation of these Interim Financial statements were as follows:

Functional currency

The functional currency of each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates.

In addition to the key sources of estimate uncertainty disclosed in the Company's audited annual consolidated financial statements for the years ended December 31, 2021 and 2020 the following are key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the Interim Financial Statements as follows:

Business Combinations

The allocation of the preliminary purchase price is based upon management's preliminary estimates and certain estimates and assumptions with respect to fair value associated with the assets to be acquired and the liabilities assumed. Finalized fair values of the assets and liabilities will be determined as of the date of acquisition and may differ from the amounts disclosed in the preliminary purchase price allocation. The determination of preliminary and final fair values of assets acquired and liabilities assumed requires management to make significant estimates, assumptions and judgements.

Asset Acquisition

The Company accounted for the acquisition of Okanjande (note 7) as an asset acquisition. Significant judgement were required to determine that the application of this accounting treatment was appropriate for the transaction. These included, among others, the determination that Okanjande was not considered a business under IFRS 3 – Business Combinations as Okanjande did not have significant inputs, processes and outputs, that together constitute a business as the formerly producing operation was on care and maintenance.

Estimated mineral reserves

The carrying amounts of the Company's producing mining properties are depleted based on recoverable tonnes contained in mineral reserves which are estimated using reports which are prepared according to National Instrument 43-101 Technical Report standards. Changes to estimates of recoverable tonnes of reserves resulting from revisions to the Company's mine plans and changes in graphite price forecasts can result in a change to future depletion rates.

Depreciation rates for property, plant and equipment and depletion rates for mineral interests

Depletion and depreciation expenses are allocated based on estimated asset lives. Should the asset life, depletion rates or depreciates rates differ from the initial estimate, an adjustment would be made in the condensed interim consolidated statement of loss and comprehensive loss on a prospective basis.

Inventory valuation

Materials and supplies, ore stockpiles and finished goods, are valued at the lower of cost and net realizable value. Estimates in the carrying values of inventories arise due to the nature of the valuation of ore stockpiles and finished good based on an appropriate allocation of direct mining costs, direct labour and material costs, mine site overhead, and depletion and depreciation.

Market interest rates

Both the senior secured loan (note 15) and the royalty (note 16) were initially recorded at fair value by discounting at a market interest rate, with residuals funds received allocated to the warrants issued as part of these agreements. The determination of a fair market interest rate requires management to make significant estimates, assumptions and judgements.

Deferred Revenue

The upfront deposit received under a mineral purchase and sale agreement (note 17) was accounted for as deferred revenue in accordance with IFRS 15 Revenue from Contracts with Customers ("IFRS 15). As the Company's obligation under the mineral purchase and sale agreement will be satisfied through deliveries of graphite, which is a non-financial item rather than cash or other financial assets, it was determined to be entered into and continued to be held for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale or usage requirements and thus not within the scope of IFRS 9 Financial Instruments ("IFRS 9"). The determination of whether the obligation is within the scope if IFRS 15 or IFRS 9 requires management's judgement.

4. 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 consolidated financial statements for the years ended December 31, 2021 and 2020, except as adopted during the period as follows:

Translation of foreign currencies

The functional currency and presentation currency of the Company is the Canadian dollar. The functional currency of each entity is determined after consideration of the primary economic environment of the entity. The functional currencies of the Company's material subsidiaries are listed in note 2. Financial statements of subsidiaries are maintained in their functional currencies and converted to Canadian dollars for consolidation of the Company's results.

Transactions denominated in foreign currencies, which are transactions in currencies other than the functional currency of an entity, are translated at the exchange rates on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at reporting date exchange rates and any gain or loss on translation is recorded in the condensed interim consolidated statement of loss and comprehensive loss as a foreign exchange gain or loss.

On translation of entities with functional currencies other than the Canadian dollar into the presentation currency, condensed interim consolidated statement of loss and comprehensive loss items are translated at average rates of exchange where this is a reasonable approximation of the exchange rate at the dates of the transactions. Condensed interim consolidated statement of financial position items are translated at closing exchange rates as at the reporting date. Exchange differences on the translation of the foreign currency entities are recorded in the foreign currency translation reserve in equity.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method under IFRS 3, Business Combinations. A business combination requires the assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs.

Consideration is measured at the date of the exchange which includes equity instruments issued. Acquisition related costs incurred for the business combination are expensed. The acquiree's identifiable assets and liabilities are recognized at their fair values at the acquisition date. Provisional fair values are finalized at the earlier of the following: the date as soon as the acquirer received the information it was seeking about facts and circumstances that existed as of the acquisition date, learns that more information is not available or twelve months from the acquisition date. Goodwill arising on an acquisition is recognized as an asset and initially measured at cost, which is the excess of the consideration over the fair value of the net identifiable assets and liabilities recognized.

Mineral interests

Mineral interests consist of the cost of acquiring and developing mineral interests. Once in production, mineral interests are depleted on a units-of-production basis over the component of the ore body to which they relate.

Construction in progress

Mineral interest development and plant and equipment construction commences when approved by management, the Board and the Company has obtained all regulatory permissions to proceed. Development and construction expenditures are capitalized and classified as construction in progress. Once completed, the costs associated with all applicable assets related to the development and construction are reclassified to the appropriate category within mineral interest or plant and equipment.

Depletion and depreciation of mineral interests, property, plant and equipment

The carrying amounts of mineral interests, property, plant and equipment are depleted or depreciated to their estimated residual value over the estimated economic life of the specific assets to which they relate. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of the remaining amortization rate. Depreciation commences on the date the asset is available for its use as intended by management. In addition to depreciation methods and rate disclosed in the annual financial statements the Company depletes the Lac des Isle mineral interest and property, plant and equipment over the mineral reserves of the related graphite deposit.

Revenue

Revenue is generated from the sale of graphite concentrate which is sorted into different graphite flake sizes and sold according to flake size specifications.

Graphite revenue is recognized when the risk and rewards associated with the graphite concentrate is transferred to the customer, which generally coincides when physical and legal title transfers from the Company to the customer when the graphite concentrate leaves the production site, the sales price is agreed upon and collectability is reasonably assured. Graphite revenue is measured based on the graphite sales price agreed to between the Company and the customer at the time of sale and the amount the Company expects to receive.

Inventory

Inventory includes work in progress inventory in the form of stockpiled graphite ore, finished goods inventory and materials and supplies. Cost of materials and supplies inventory include acquisition, freight and other directly attributable costs. Cost of work in progress inventory and finished goods includes all direct costs incurred in production including direct labor and materials, freight, depletion and depreciation of plant and equipment used in the production process, amortization of acquisition costs and directly attributable overhead costs. All inventories are valued at the lower of average cost or net realizable value, with net realizable value determined with reference to recent sales prices, less estimated future production costs to convert inventories into graphite concentrate. If carrying value exceeds net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused the write-down no longer exist.

Deferred revenue

Deferred revenue consists of upfront deposits received by the Company in consideration for future commitments to deliver graphite under a mineral purchase and sale agreement. As deliveries of graphite are made, the Company records a portion of the deferred revenue as sales, based on a proportionate share of graphite deliveries made compared with the total estimated contractual commitment.

Interest expense on deferred revenue is recognized in finance costs as the Company has identified a significant financing component related to its graphite streaming arrangement, resulting from a difference in the timing of the upfront deposit received and delivery of the graphite. The interest rate is determined based on the market rate in the streaming agreement at the date of inception.

Revenue to be recognized from the upfront deposit received from the mineral purchase and sale agreement is considered variable and is subject to changes in the total graphite tonnes to be delivered. Changes in estimates of total graphite tonnes to be delivered are applied prospectively.

Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset (“ROU asset”) and a corresponding lease liability with respect to all lease arrangements except for ROU assets and lease liabilities for leases of low-value assets and leases with lease terms that are less than 12 months. Lease payments associated with these leases are instead recognized as an expense over the lease term.

The lease liability is initially measured at the present value of the lease payments for the term of the lease, discounted using the lease interest rate or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. The incremental borrowing rate reflects the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The Company remeasures leases when there is a change in future lease payments or other factors which affect the terms of the lease. When the lease contains an extension or purchase option that the Company considers reasonably certain to be exercised, the cost of the option is included in the lease payments.

(Unaudited - Stated in thousands of Canadian Dollars)

ROU assets are included in mineral interests, property, plant and equipment, and the lease liability is presented separately in the condensed interim consolidated statement of financial position.

5. RESTRICTED CASH AND RECLAMATION DEPOSIT

Cash which the Company does not have immediate access to and is held in escrow accounts, on deposit with governmental agencies for reclamation obligations or as security for surety bonds have been presented as restricted cash. Restricted cash which the Company expects to receive, and have access to, within a year have been presented within current assets. Cash held in escrow ($6,683) is to be released to the Company upon the governmental administrative transfer of the reclamation obligations from the seller of the Lac des Ilse graphite mine in Quebec to the Company.

6. ACQUISITION OF LAC DES ILES GRAPHITE MINE

On April 29, 2022, the Company acquired 100% ownership of the producing Lac des Iles graphite mine in Quebec (“LDI”). The acquisition of LDI was completed as a direct asset purchase with the assumption of certain liabilities and the business’ employees through the Company’s wholly-owned subsidiary Graphite Nordique Inc. from a subsidiary of Imerys S.A. (“Imerys”).

On closing of the acquisition of LDI, the Company paid $22,734 (US$17,771) in cash, $1,561 in cash as a reimbursement for a reclamation deposit and issued 6,841,600 private placement units of the Company at a price of $0.75 which consisted of one common share and one-half share purchase warrant exercisable at $1.01 for a combined fair value of $5,131. In addition the purchase price was subject to post closing adjustments, which at the end of the period, had not been paid.

The Company has determined the acquisition of LDI is a business combination for accounting purposes under IFRS 3, Business Combinations. The preliminary purchase price allocation resulting from a business combination requires management to estimate the fair value of identifiable assets acquired and liabilities assumed. The determination of fair value involves making estimates relating to the acquired assets and liabilities including inventory, mineral interests, property, plant and equipment and mine rehabilitation provisions. Goodwill is attributable to the recognition of a deferred tax liability at the date of acquisition.

For the purpose of these Interim Financial Statements, the purchase consideration has been allocated on a preliminary basis based on management’s best estimates using available information at the time these Interim Financial Statements were prepared. Any future changes to the purchase price allocation may result to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. The Company is completing a valuation of the fair value of the mineral interests and property, plant and equipment of LDI with the assistance of an independent third party.

The following table summarizes the fair value of the consideration paid to acquire LDI:

Cash	$	24,295
Private placement units (note 19)		5,131
Post closing adjustments		1,341
Total Consideration	$	30,767

(Unaudited - Stated in thousands of Canadian Dollars)

The following table summarizes the preliminary fair values of identified assets and liabilities recognized as a result of the acquisition:

Inventories	$	13,517
Right of use assets		276
Mineral interests, property, plant and equipment		21,368
Reclamation deposits		1,561
Goodwill		2,713
Leases		(276)
Reclamation provision		(5,679)
Deferred tax liability		(2,713)
Net Assets Acquired	$	30,767

Business combination costs, including advisory, legal, regulatory and other professional fees, and success fees payable on completion of the transaction totaled $341 which were expensed in the condensed interim consolidated statement of loss and comprehensive loss for the three and six months ended June 30, 2022 ($934 expensed during the year ended December 31, 2021).

The acquired business contributed revenues of $3,693 and a net profit of $1,320 to the Company for the period from April 29, 2022 to June 30, 2022. If the acquisition had occurred on January 1, 2022, estimated pro-forma revenue and income for the six months ended June 30, 2022 would have been $10,801 and $5,400, respectively.

7. ACQUISITION OF NAMIBIAN GRAPHITE DEPOSIT AND PROCESSING PLANT

On April 29, 2022, the Company acquired 100% of the Okanjande graphite deposit and Okorusu processing plant in Namibia (“Okanjande”).

The acquisition of Okanjande was completed through the acquisition of Imerys Gecko Holdings (Namibia) (Pty) Ltd. which was subsequently renamed Northern Graphite Processing (Namibia) (Pty) Ltd. As consideration for the acquisition, the Company paid Imerys and its joint venture partner $20,237 in cash.

The Company accounted for the acquisition of Okanjande as an asset acquisition.

For the purpose of these Interim Financial Statements, the consideration has been allocated based on management’s best estimates at the time these Interim Financial Statements were prepared. Any future changes to the allocation may result in adjustments to mining interests and property, plant and equipment. The Company is completing a valuation of the fair value of the mineral interests and property, plant and equipment of Okanjande with the assistance of an independent third party.

The following table summarizes the total consideration of the acquisition:

Cash	$	20,237
Transaction costs		694
Total Consideration	$	20,931

(Unaudited - Stated in thousands of Canadian Dollars)

The acquisition was accounted for as an asset acquisition. The following table summarizes the total consideration and the preliminary allocation of assets and liabilities acquired based on their fair values:

Cash	$	309
Restricted cash		213
Receivables		3
Right of use assets		99
Mineral interests, property, plant and equipment		21,291
Accounts payable and accrued liabilities		(266)
Withholding tax obligation		(619)
Leases		(99)
Total	$	20,931

8. RECEIVABLES, PREPAIDS AND DEPOSITS

		June 30, 2022		December 31, 2021
Trade receivables	**$**	**3,549**	$	-
Value added tax		**995**		-
Prepaid expenses and deposits		**327**		144
	$	**4,871**	$	144

9. INVENTORIES

		June 30, 2022		December 31, 2021
Materials and supplies	**$**	**1,603**	$	-
Graphite ore stockpiles		**5,875**		-
Finished goods		**7,691**		-
	$	**15,169**	$	-

The amount of inventories recognized as an expense during the period is $2,292.

10. MARKETABLE SECURITIES

During 2020, the Company received 2,000,000 common shares of Electric Royalties Ltd. ("ERL") under the terms of an agreement for the sale of a one percent royalty on the Bissett Creek Property to ERL (note 28). For accounting purposes, these common shares are designated at fair value through profit or loss and are recorded at fair value based upon the quoted market price of ERL's common shares on the TSX Venture Exchange with a discount applied in the prior year for lack of marketability relating to security-specific trading restrictions which expired on January 15, 2022. The following table summarizes information regarding the Company's holdings in ERL.

Balance, December 31, 2020	$	336
Unrealized gain		414
Balance, December 31, 2021		750
Unrealized loss		(300)
Balance, June 30, 2022	$	450

(Unaudited - Stated in thousands of Canadian Dollars)

11. EXPLORATION AND EVALUATION

For the periods ended June 30, 2022 and December 31, 2021 exploration and evaluation costs capitalized are as follows:

	Bisset Creek Property	South Okak	Total
Balance, December 31, 2021	$ 12,958	$ 560	$ 13,518
Engineering	14	-	14
Environmental	92	-	92
Community engagement	57	-	57
Geophysical	-	396	396
Site costs and royalties	28	-	28
Balance, June 30, 2022	$ 13,149	$ 956	$ 14,105

	Bisset Creek Property	South Okak	Total
Balance, December 31, 2020	$ 12,624	$ -	$ 12,624
Cash option payment	-	50	50
Common shares issued for property option	-	250	250
Claim staking	-	16	16
Environmental and mine permitting	153	-	153
Geological	-	230	230
Geophysical	-	14	14
Engineering	27	-	27
Metallurgical	74	-	74
Site costs and royalties	80	-	80
Balance, December 31, 2021	$ 12,958	$ 560	$ 13,518

Bissett Creek Property, Ontario, Canada

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

The Company is required to make royalty payments of $0.02 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 per annum is payable in semi-annual installments and is recorded in exploration and evaluation assets ($14 paid as of June 30, 2022). The advance will be credited against any future royalty payments.

During 2020, the Company closed the sale of a one percent gross revenue royalty ("GRR") on its Bissett Creek Property to Electric Royalties Ltd. for $500 in cash and 2,000,000 shares of ERL (note 10). Under the terms of the agreement, ERL had two-year option to acquire an additional half of one percent GRR by paying $750 which expired unexercised. The Company has the option to buy back half of one percent of the initial GRR at any time after twelve months by returning the shares or paying $1,500 in cash.

South Okak Project, Labrador, Canada

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

Mousseau West, Quebec, Canada

During February 2022, the Company entered into an option agreement that provides it with an option to acquire a 100% interest in the Mousseau West Graphite property, subject to the owners retaining a 2% net smelter royalty. Pursuant to the agreement, the Company paid $50 for the six month exclusive right to conduct due diligence on the property, which was expensed during the three and six months ended June 30, 2022 and included in project evaluation, acquisition and integration costs, as the Company did not have title to any mineral rights. If the Company elects to exercise its option, it can acquire the property for $500 in cash and the issuance of 900,000 common shares of the Company. The Company will also have the right to acquire the 2% NSR from the owners at any time upon the payment of $1,000. Subsequent to the end of the quarter the period for exercising the option on Mousseau West was extending until October 4, 2022.

(Unaudited - Stated in thousands of Canadian Dollars)

12. MINERAL INTERESTS, PROPERTY, PLANT AND EQUIPMENT

Cost	Okanjande mineral interests, property, plant and equipment	LDI mineral interests, property, plant and equipment	Bissett Creek property, plant & equipment	Okanjande construction in process	Total
Balance, December 31, 2021	$ -	$ -	$ 1,320	$ -	$ 1,320
Acquired assets (note 6 and 7)	21,390	21,644	-	-	43,034
Additions	4,007	841	-	661	5,509
Foreign exchange	(687)	-	-	(19)	(706)
Balance, June 30, 2022	24,710	22,485	1,320	642	49,157
Accumulated depletion and depreciation					
Balance, December 31, 2021	-	-	(1,250)	-	(1,250)
Depletion and depreciation	-	(1,111)	(16)	-	(1,127)
Balance, June 30, 2022	-	(1,111)	(1,266)	-	(2,377)
Net book value	$ 24,710	$ 21,374	$ 54	$ 642	$ 46,780

Cost	Okanjande mineral interests, property, plant and equipment	LDI mineral interests, property, plant and equipment	Bissett Creek property, plant & equipment	Okanjande construction in process	Total
Balance, December 31, 2020 and 2021	$ -	$ -	$ 1,320	$ -	$ 1,320
Accumulated depletion and depreciation					
Balance, December 31, 2020	-	-	1,219	-	1,219
Depletion and depreciation	-	-	31	-	31
Balance, December 31, 2021	-	-	1,250	-	1,250
Net book value	$ -	$ -	$ 70	$ -	$ 70

As at June 30, 2022 the amount of depletion and depreciation included in inventory as at June 30, 2022 was $1,001, the amount of depletion and depreciation included in mining operations was $110 and the amount of depreciation included in general and administrative expenses was $16.

As at June 30, 2022, property, plant, and equipment cost includes $4,967 (December 31, 2021 - $nil) for right of use assets with a net book value of $4,889 (December 31, 2020 - $nil). The right of use assets consist of $3,905 for a land use and building lease and $1,062 for mobile assets.

13. OTHER ASSETS

Intangible assets	$ 164
Contractual assets	1,742
Balance, June 30, 2022	$ 1,906

(Unaudited - Stated in thousands of Canadian Dollars)

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities primarily comprised of amounts outstanding for purchases relating to mining operations, exploration and evaluation activities and corporate expenses. Accounts payable and accrued liabilities are comprised of the following items:

	June 30, 2022	December 31, 2021
Trade payables	**$ 3,835**	$ 207
Trade related accruals	**959**	1,355
Income tax payable	**253**	-
Payroll and related benefits	**67**	-
Consideration payable	**1,335**	-
Balance, June 30, 2022	**$ 6,449**	$ 1,562

15. SENIOR SECURED LOAN

On April 29, 2022 the Company completed a senior secured loan in the amount of $15,350 (US$12,000) made at a 2% discount, which matures in 48 months, bearing interest at 9% plus the greater of the three month SOFR or 1% and issued the lender 4,800,000 warrants each of which is exercisable to purchase one common share of the Company at an exercise price of $1.01 with an expiry date of April 29, 2024. The loan was discounted at a market interest rate of 15.2%, with the residual proceeds allocated to the value of warrants resulting in a fair value of $1,858. At the Company's option, interest payable during the initial twelve months can be capitalized and added to the principal. The loan is secured against the assets of LDI and Okanjande.

Balance, December 31, 2021	$ -
Funds received	15,350
Financing costs	(2,647)
Interest expense and accretion	311
Foreign exchange loss	95
Balance, June 30, 2022	$ 13,109

(Unaudited - Stated in thousands of Canadian Dollars)

16. ROYALTY FINANCING

On April 29, 2022 the Company sold a 9% royalty on graphite concentrate sales revenue from LDI for gross proceeds of $5,117 (US$4,000) and issued the royalty purchaser 1,200,000 warrants each of which is exercisable to purchase one common share of the Company at an exercise price of $1.01 with an expiry date of April 29, 2024. The royalty was discounted at a market interest rate of 22.5%, with the residual proceeds allocated to the value of the warrants resulting in a fair value of $465. The purchaser of the royalty has also been granted a right of first refusal with respect to any proposed grant of a stream, royalty or similar transaction on the Company's Bissett Creek Property

Balance, December 31, 2021	$	-
Funds received		5,117
Financing costs		(632)
Interest expense and accretion		158
Foreign exchange loss		32
Balance, June 30, 2022		4,675
Current portion of royalty		(1,549)
Non-current portion of royalty	$	3,126

17. DEFERRED REVENUE

On April 29, 2022 the Company completed, in exchange for an upfront deposit of $25,584 (US$20,000), a minerals purchase and sale agreement for 11.25% of the graphite produced by the Okanjande project until 350,000 tonnes of contained graphite in concentrate have been produced and delivered, at which time, at the option of the stream purchaser, the stream may convert into a 1% royalty for the remaining life of the Okanjande deposit. The stream is secured by the assets of the Okanjande Project. The stream purchaser has also been granted a right of first refusal with respect to any proposed grant of a stream, royalty or similar transaction on the Okanjande deposit. As partial consideration for entering into the stream, the Company has issued 4,500,000 warrants, each of which is exercisable to purchase one common share of the Company at an exercise price of $1.01 with an expiry date of April 29, 2024. The fair value of the warrants were $1,742 and was determined using the Black-Scholes option pricing model (note 19) and have been recognized as a contractual asset which will be expensed over the term of the contract. The Company will have the option, subject to any consents or approvals required under the secured loan, to reduce the stream percentage by up to 50% upon payment of $19,508 (US$15,250) in 2024 or $22,386 (US$17,500) in 2025. This option will be exercisable in whole or in part on a pro rata basis and was assigned a nil value at inception.

Balance, December 31, 2021	$	-
Funds received		25,584
Interest accretion		499
Foreign exchange loss		190
Balance, June 30, 2022	$	26,273

(Unaudited - Stated in thousands of Canadian Dollars)

18. LEASES

During the six months ended June 30, 2002 the Company acquired and entered into several lease agreements relating to mobile equipment and a land and building use lease with interest rates ranging from 4.5% to 10.0%.

	June 30, 2022	December 31, 2022
Balance, beginning of period	$ -	$ -
Acquisition related additions (note 6 and 7)	375	-
Additions	1,707	-
Principal payments	(73)	-
Interest expense and accretion	17	-
Foreign exchange	18	-
Balance, end of period	2,044	-
Current portion of leases	(750)	-
Non-current portion of leases	$ 1,294	$ -

19. SHARE CAPITAL

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

For the Six Months Ended June 30, 2022
On April 29, 2022, as partial consideration for the acquisition of LDI (note 6) the Company issued 6,841,600 private placement units of the Company at a price of $0.75 which consisted of one common share and one-half share purchase warrant for a combined fair value of $5,131. The warrants have an exercise price of $1.01 and expire on April 29, 2024.

On February 2022, the Company completed an initial closing of a brokered private placement raising gross proceeds of $19,322 through the sale of 25,762,500 subscription receipts at a price of $0.75 per subscription receipt. Each subscription receipt was automatically exercised, without payment of any additional consideration and without further action on the part of the holder thereof, into one unit upon closing of the acquisition of LDI (note 6) and Okanjande (note 7) on April 29, 2022. Each unit is comprised of one common share of the Company and one-half of one share purchase warrant. Each warrant is exercisable to acquire one common share at a price of $1.10 per common share with an expiry date of April 29, 2024 and a fair value of $745.

In connection with the initial closing of the private placement, the agents received 1,545,750 agent's warrants with a fair market value of $745 and a cash fee of $1,159, of which, $580 was paid on the initial closing. Each agent's warrant is exercisable for one common share at an exercise price of $0.75 per common share at any time on or before February 10, 2024.

On April 29 2022, the Company completed the final closing of the private placement which included 5,000,000 subscription receipts for gross proceeds of $3,750 and upon the closing of the LDI and Okanjande project acquisitions, each subscription receipt automatically converted into one unit of Northern, with each unit being comprised of one common share and one-half of one share purchase warrant of the Company. Each whole warrant is exercisable to purchase one common share of the Company at an exercise price of $1.10 with an expiry date of April 29, 2024 and a fair value of $698.

(Unaudited - Stated in thousands of Canadian Dollars)

In connection with the final closing of the private placement, the agents received a cash fee of $225 from the Company equal to 6% of the aggregate gross proceeds and 300,000 compensation warrants equal to 6% of the number of subscription receipts issued under the closing. Each agents' warrant is exercisable for one common share at an exercise price of $0.75 per share with an expiry date of April 27, 2024 and a fair value of $134.

For the Year Ended December 31, 2021

On February 12, 2021, the Company closed a non-brokered private placement financing raising gross proceeds of $2,993 through the sale of units at a price of $0.28 per unit. Each unit was comprised of one common share and one-half share purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of $0.45 per share. A total of 5,344,000 warrants were issued with an expiry date of February 12, 2023. Cash finder fees of $154 were paid in connection with the placement.

Warrants

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

	Number of warrants	Weighted average exercise price $
Balance, December 31, 2020	**6,200,487**	0.47
Warrants issued	**5,344,000**	0.45
Warrants exercised	**(5,070,666)**	0.47
Warrants expired	**(1,381,321)**	0.47
Balance, December 31, 2021	**5,092,500**	0.45
Warrants issued	**31,147,800**	1.05
Warrants exercised	**(385,000)**	0.45
Balance, June 30, 2022	**35,855,300**	0.97

The Company's warrants outstanding as at June 30, 2022 are as follows:

Exercise price	**Number of Warrants Outstanding**	**Expiry Date**
0.45	4,707,500	February 12, 2023
0.75	1,545,750	February 10, 2024
0.75	300,000	April 27, 2024
1.10	18,802,050	April 29, 2024
1.01	10,500,000	April 29, 2024
	35,855,300	

As at June 30, 2022, the weighted average remaining contractual life of warrants outstanding is 1.67 years (December 31, 2021 – 1.12 years).

(Unaudited - Stated in thousands of Canadian Dollars)

The value of warrants determined during the periods ended June 30, 2022 and 2021 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	Six Months Ended June 30, 2022	**Six Months Ended June 30, 2021**
Warrants granted during the period	**31,147,800**	5,344,000
Weighted-average exercise price	**$1.05**	$0.45
Expected warrant life	**2 years**	2 years
Expected volatility	**99.58% - 109.27%**	109.35%
Risk-free interest rate	**1.50% - 2.63%**	0.23%
Dividend yield	**Nil**	Nil
Forfeiture rate	**Nil**	Nil
Weighted-average fair value (Black-Scholes value)	**$0.37**	$0.22

Stock options

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

A summary of the option plan activity is presented below:

	Number of options	**Weighted average exercise price $**
Balance, December 31, 2020	4,750,000	0.39
Granted	3,250,000	0.50
Expired	(2,200,000)	0.50
Balance, December 31, 2021	5,800,000	0.41
Granted	2,675,000	0.75
Expired	(250,000)	0.50
Balance, June 30, 2022	**8,225,000**	**0.52**

(Unaudited - Stated in thousands of Canadian Dollars)

A summary of the Company's outstanding stock options at June 30, 2022 is as follows:

Exercise price	Stock options outstanding	Stock options exercisable	Expiry date
$0.20	100,000	100,000	July 23, 2022
$0.20	1,500,000	1,500,000	July 23, 2025
$0.25	150,000	150,000	January 21, 2024
$0.50	200,000	200,000	November 27, 2022
$0.50	600,000	600,000	January 12, 2023
$0.50	200,000	200,000	February 22, 2023
$0.50	2,800,000	2,800,000	April 15, 2026
$0.75	500,000	125,000	December 31, 2026
$0.75	175,000	137,500	January 2, 2023
$0.75	300,000	300,000	October 31, 2024
$0.75	250,000	100,000	March 7, 2026
$0.75	1,325,000	1,325,000	January 30, 2027
$0.75	25,000	25,000	December 31, 2023
$0.75	100,000	-	May 11, 2024
	8,225,000	**7,562,500**	

As at June 30, 2022, the weighted average remaining contractual life of stock options outstanding is 3.19 years (December 31, 2021 – 3.24 years). As at December 31, 2021, a total of 5,750,000 stock options were exercisable.

The value of stock options determined during the three months ended June 30, 2022 and 2021 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Stock options granted during the period	**2,675,000**	3,250,000
Weighted-average exercise price	**$0.75**	$0.50
Expected stock option life	**1 to 5 years**	2 to 5 years
Expected volatility	**90.6% to 119%**	93.9% to 109.5%
Risk free interest	**0.97% to 1.64%**	0.23% to 0.75%
Dividend yield	**Nil**	Nil
Forfeiture rate	**Nil**	Nil
Weighted average fair value (Black-Scholes value)	**$0.53**	$0.27

As at June 30, 2022 there was $183 of unrecognized share-based compensation costs related to unvested stock option awards granted under the Option Plan.

Contributed surplus

Contributed surplus as at June 30, 2022 and December 31, 2021 consists of a share-based payment reserve related to stock options issued under the Option Plan and obligations to issue shares in subsequent periods.

(Unaudited - Stated in thousands of Canadian Dollars)

20. PRODUCTION COSTS

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Raw materials and consumables	$ 466	$ -	$ 466	$ -
Salaries and employee benefits	751	-	751	-
Contracted services	823	-	823	-
Electricity and energy	477	-	477	-
Other	28	-	28	-
Change in inventories	(297)	-	(297)	-
	$ 2,248	$ -	$ 2,248	$ -

21. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended March 31,		Six months ended June 30,	
	2022	2021	2022	2021
Legal and audit	$ 146	$ 19	$ 176	$ 27
Office, management, and director fees	714	99	1,177	240
Promotion and investor relations	112	108	187	155
Regulatory and transfer agent	29	11	75	29
Depreciation	8	8	16	16
	$ 1,009	$ 244	$ 1,631	$ 467

22. FINANCE EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Interest expense and accretion	$ 1,011	$ -	$ 1,011	$ -
Accretion of reclamation provision	70	2	75	4
	$ 1,081	$ 2	$ 1,086	$ 4

During the three and six months periods ended June 30, 2022 the Company paid interest expense of $26.

23. CAPITAL MANAGEMENT

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to pursue the exploration, development and production of its exploration, development and producing mining interests and to maintain a flexible capital structure for its projects for the benefit of its stakeholders.

The Company's capital consists of items included in shareholders’ equity, the senior secured loan and leases net of cash and cash equivalents and current restricted cash.

(Unaudited - Stated in thousands of Canadian Dollars)

Management reviews the capital structure on a regular basis to ensure the above-noted objectives are met. The Company manages the capital structure and makes adjustments to it considering changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the issue common shares, or acquire or dispose of assets or issue debt if the circumstances permit.

The senior secured loan contains financial covenants which the Company was in compliance with as of June 30, 2022.

24. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three and six months ended June 30, 2022	Three and six months ended June 30, 2021
Exploration and evaluation costs in accounts payable and accrued liabilities	$ 224	$ 32
Fair value of warrants issued for financings	$ 4,065	$ -

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

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

As at June 30, 2022 the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized on the condensed interim consolidated statement of financial position at fair value on a recurring basis are categorized as follows: cash and cash equivalents, restricted cash, reclamation deposits, marketable securities (Level 1) of $20,201 (December 31, 2021 - $5,174).

As at June 30, 2022 and December 31, 2021, 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 for the six months ended June 30, 2022 and the year ended December 31, 2021. As at June 30, 2022 and December 31, 2021, there were no financial assets or liabilities measured and recognized in the statements of financial position at fair value that would be categorized as Level 3 in the fair value hierarchy.

The carrying value of receivables 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. The carrying values of the royalty obligation and the senior secured loan approximate their fair values due to the short time period between the agreements being entered into at market terms with arms length parties for market rates of interest.

Currency risk

Foreign currency exchange rate risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate as a result of changes in foreign exchange rates. Some of the Company's operating and corporate administration expenditures are incurred in US dollars and the fluctuation of the US dollar in relation to the Canadian dollar will have an impact on the Company's profitability and the Company's financial assets and liabilities. At June 30, 2022, the Company had the following financial assets and liabilities denominated in US dollars: cash and cash equivalents of $1,717; trade receivables of $2,723; accounts payable and accrued liabilities of $1,721; senior secured loan of $11,847; royalty of $4,071; and deferred revenue of $20,000 (December 31, 2021: $nil). With other variables unchanged, a 1% increase on the USD/CAD exchange rate would result in an unrealized foreign exchange loss of $428. The Company has not entered into any formal arrangements to hedge currency risk but does maintain cash balances within each currency.

Commodity price risk

The Company is subject to commodity price risk from fluctuations in the market prices for graphite. Commodity price risks are affected by many factors that are outside the Company's control including global or regional consumption patterns, the supply of and demand for graphite, inflation and political and economic conditions. Management closely monitors trends in commodity prices of graphite as part of its routine activities, as these trends could significantly impact future cash flows.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

The Company invests cash and cash equivalents, restricted cash and reclamation deposits with financial institutions that are financially sound based on their credit rating. The Company's exposure to credit risk associated with receivables is influenced mainly by the individual characteristics of each customer. The Company's current customers have no history of credit default with the Company. The Company has not incurred credit losses during the period ended June 30, 2022.

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. Further discussion on liquidity and management's plans are outlined in note 2 and further analysis relating to the maturity of the Company's financial obligation are outlined in note 27.

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. With other variables unchanged, a 1% increase on the Company's floating rate debt would increase annual interest expense by $19. The Company closely monitors its exposure to interest rate risk and has not entered into any derivative contracts to manage this risk.

26. RELATED PARTY TRANSACTIONS AND COMPENSATION OF KEY MANAGEMENT

During the three and six month periods ended June 30, 2022, the Company expensed salary and compensation to key management personnel of $286 and $528 (three and six months ended June 30, 2021 – $61 and $90) and management fees to a company owned and controlled by key management personnel of $17 and $46 (three and six months ended June 30, 2021 – $4 and $34). During the three and six month period ended June 30, 2022, the Company expensed directors' fees of $15 and $30 (three and six months ended June 30, 2021 – $15 and $30). During the three and six month period ended June 30, 2022, the Company expensed share-based payments for stock options granted to key management personnel and directors of $153 and $1,196 (three and six months ended June 30, 2021 – $739 and 739).

(Unaudited - Stated in thousands of Canadian Dollars)

As at June 30, 2022, $106 (December 31, 2021 – $8) was included in accounts payable and accrued liabilities owing to officers and directors relating to management and directors' fees and for reimbursement of expenses.

27. COMMITMENTS AND CONTINGENCIES

At June 30, 2022, the Company had the following contractual obligations outstanding:

	Within 1 year	2-3 years	4-5 years	5+ years	Total
Accounts payable and accrued liabilities	$ 6,449	$ -	$ -	$ -	$ 6,449
Senior secured loan	-	-	22,581	-	22,581
Royalty	1,549	3,174	-	-	4,723
Deferred revenue	-	4,381	5,026	16,236	25,643
Lease commitments	737	1,228	337	-	2,302
Reclamation provisions	-	5,745	-	371	6,116
	$ 8,735	$ 14,528	$ 27,944	$ 16,607	$ 67,814

28. PROVISIONS

The Company has an obligation to undertake decommissioning, reclamation and environmental work when environmental disturbance is caused by the development and ongoing production of a mining operation. Movements in the reclamation provisions during the periods ended June 30, 2022 and December 31, 2021 are allocated as follows:

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of period	$ 362	$ 346
Acquisition of LDI (note 6)	5,679	-
Accretion	75	16
Balance, end of period	$ 6,116	$ 362

Of the total balance of $6,116 at June 30, 2022, $371 was attributable to the Bissett Creek Property and $5,745 was attributable to LDI. The reclamation provision for LDI was based on a report prepared by an independent third party. During March 2022 the Company entered into an irrevocable letter of credit for $1,817 as part of the security required for reclamation obligations relating to LDI. The irrevocable letter of credit is secured by a cash deposit of $1,817.

29. SEGMENTED INFORMATION

Operating segments are those operations whose operating results are reviewed by the chief operating decision makers ("CODM") to make decisions about resources to be allocated to the segments and assess their performance, provided those operations pass certain quantitative thresholds. The CODM for the Company are the Chief Executive Officer and the Chief Financial Officer.

Since the acquisition of the LDI and Namibian assets in April 2022, management has viewed the operations as two separate geographical units, Canada and Namibia. The Company has only one revenue source, being the sale of graphite concentrate from its operations in LDI.

(Unaudited - Stated in thousands of Canadian Dollars)

The following geographic data includes assets based on their location as at June 30, 2021 and December 31, 2020.

	June 30, 2022			December 31, 2021		
	Canada	Namibia	Total	Canada	Namibia	Total
Cash and cash equivalents	$ 8,432	$ 156	$ 8,588	$ 3,578	$ -	$ 3,578
Other current assets	29,122	458	29,580	1,645	-	1,645
Non current assets	42,018	25,559	67,577	14,434	-	14,434
Current liabilities	7,189	1,558	8,748	1,562	-	1,562
Non current liabilities	51,751	802	52,553	362	-	362
Net Loss	$ (4,951)	$ (69)	$ (5,020)	$ (3,226)	$ -	$ 5,223

30. GLOBAL COVID-19 PANDEMIC

The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. The duration and impact of the COVID-19 pandemic is unclear at this time and as a result it is not possible for management to estimate the severity of the impact it may have on the financial results and operations of the Company in future periods. COVID-19 may hinder both the Company's ability to conduct exploration activities in the jurisdictions that it operates in and its ability to raise financing for exploration or operating costs due to uncertain capital markets, supply chain disruptions, increased government regulations and other unanticipated factors, all of which may also negatively impact the Company's business and financial condition. It is management's assumption that the Company will continue to operate as a going concern.

31. SUBSEQUENT EVENTS

The following occurred subsequent to June 30, 2022:

- the Company announced that it intends to exercise its option to acquire a 100% interest in the Mousseau West graphite project for a payment of $500 in cash and the issuance of 900,000 common shares and extended the period to exercise the option until October 4, 2022;
- ERL had two-year option to acquire an additional half of one percent GRR on the Bissett Creek Property by paying $750 which expired unexercised;
- 700,000 shares were issued to an arm's length investment advisory firm for amounts for monthly consulting fees payable and additional advisory fees; and
- 100,000 stock options expired.