

Northern Graphite Corporation

Condensed Interim Consolidated Financial Statements

For the Three Month Periods Ended March 31, 2023 and 2022

(Unaudited and expressed in thousands of Canadian dollars except for number of shares and per share amounts)

NORTHERN GRAPHITE CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at March 31, 2023 and December 31, 2022

Unaudited – Stated in thousands of Canadian dollars)

	Notes	March 31, 2023	December 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents		1,969	5,076
Restricted cash and reclamation deposits	3	7	7
Receivables	6	4,317	4,100
Prepays		1,845	1,643
Deposits		132	32
Inventories	7	22,992	18,265
Marketable securities		640	560
Total current assets		31,902	29,683
Non-current assets			
Non-current graphite stockpile inventory	7	6,437	6,331
Exploration and evaluation assets	8	15,557	15,407
Property, plant and equipment	9	23,488	23,110
Mineral interests	10	18,502	20,437
Other assets	11	1,909	1,994
Restricted cash and deposits	3, 26	2,066	2,076
Goodwill	4	2,713	2,713
Total Assets		\$ 102,574	\$ 101,751
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12, 24	\$ 6,838	\$ 5,044
Current portion of senior secured loan	13	1,938	1,896
Current portion of royalty	14	2,226	2,812
Current portion of leases	16	472	519
Total current liabilities		11,474	10,271
Non-current liabilities			
Senior secured loan	13	13,864	13,191
Royalty	14	2,720	2,415
Deferred revenue	15	30,211	29,358
Leases	16	994	1,063
Reclamation provisions	26	6,540	6,601
Deferred tax liability		2,594	2,676
Total Liabilities		68,397	65,575
SHAREHOLDERS' EQUITY			
Share capital	17	55,925	52,617
Warrants	17	10,144	10,760
Contributed surplus	17	4,324	4,002
Foreign currency translation		(1,505)	(454)
Accumulated deficit		(34,711)	(30,749)
Total shareholders' equity		34,177	36,176
Total Liabilities and Shareholders' Equity		\$ 102,574	\$ 101,751

Nature of operations (note 1)

Going concern (note 2)

Subsequent events (notes 17, 24 and 29)

APPROVED ON BEHALF OF THE BOARD ON May 30, 2023:

(Signed) Gregory Bowes, Director

(Signed) Donald Christie, Director

NORTHERN GRAPHITE CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND OTHER COMPREHENSIVE LOSS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars, except for number of shares and per share amounts)

	Notes	Three months ended	
		March 31, 2023	March 31, 2022
Revenue		\$ 3,993	\$ -
Cost of Sales			
Production costs	18	2,887	-
Depletion and depreciation		654	-
Total cost of sales		3,541	-
Income from mine operations		452	-
General and administrative	19	2,274	621
Share-based compensation	17, 24	745	1,091
Project evaluation, acquisition, and integration	4	29	305
Foreign exchange (gain)		(45)	(31)
Total expenses		3,003	1,986
Operating loss		(2,551)	(1,986)
Loss (gain) on marketable securities		(80)	70
Finance expense	20	1,208	5
Foreign exchange (gain) on financing instruments	13, 14, 15	(47)	-
Interest income		(9)	(5)
Impairment loss	9	209	-
Okorusu moving costs	9	195	-
Loss before taxes		(4,027)	(2,056)
Current tax expense		274	-
Deferred tax recovery		(82)	-
Net loss		(4,219)	(2,056)
Other comprehensive loss			
Foreign currency translation		(1,051)	-
Other comprehensive loss		(5,270)	(2,056)
Loss per share – basic and diluted		(0.03)	(0.03)
Weighted average shares outstanding		125,000,190	81,691,573
- basic and diluted			

NORTHERN GRAPHITE CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months ended March 31, 2023 and 2022

(Unaudited – Stated in thousands of Canadian Dollars)

	Notes	Three month period ended	
		March 31, 2023	March 31, 2022
Operating activities			
Net loss		\$ (4,219)	\$ (2,056)
Items not affecting cash			
Depletion and depreciation	9, 10	611	8
Income taxes		192	-
Share based payments	17, 24	758	1,091
Interest expense and accretion	20	1,089	-
Accretion of reclamation provision	20, 26	37	5
Impairment loss	9	209	-
Foreign exchange loss		(348)	-
Loss (gain) on marketable securities		(80)	70
Changes in non-cash working capital items			
Receivables, prepaids and deposits		(385)	(117)
Inventories		(3,107)	-
Accounts payable and accrued liabilities		1,808	320
Net cash used in operating activities		(3,435)	(679)
Investing activities			
Net subscription receipts held in escrow	17	-	(18,618)
Restricted cash and deposits	3	-	(1,817)
Exploration and evaluation costs	8	(65)	(143)
Additions to property, plant, and equipment, mineral property and intangibles	9, 10, 11	(1,652)	(60)
Deferred financing costs		-	(59)
Net cash used in investing activities		(1,717)	(20,697)
Financing activities			
Subscription receipts payable		-	19,322
Proceeds from exercise of warrants	17	2,093	156
Proceeds from exercise of options	17	338	-
Royalty payments	14	(525)	-
Lease payments	16	(111)	-
Deferred financing costs		-	(1,112)
Net cash provided by financing activities		1,795	18,366
Effect of exchange rate changes on cash		250	-
Net decrease in cash and cash equivalents		(3,357)	(3,010)
Cash and cash equivalents, beginning		5,076	3,578
Cash and cash equivalents, ending		\$ 1,969	568

Supplemental Cash Flow Information – Note 22

NORTHERN GRAPHITE CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Three Months Ended March 31, 2023 and 2022

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

	Number of shares	Share Capital	Warrants	Contributed Surplus	Other Comprehensive Income	Accumulated Deficit	Total
Balances at December 31, 2022	121,315,522	\$ 52,617	\$ 10,760	\$ 4,002	\$ (454)	\$ (30,749)	\$ 36,176
Share issuance Mousseau West (notes 8 and 17)	100,000	50	-	-	-	-	50
Exercise of warrants (note 17)	4,652,500	2,709	(616)	-	-	-	2,093
Expiry of stock options (note 17)	-	-	-	(257)	-	257	-
Exercise of options (note 17)	750,000	549	-	(211)	-	-	338
Share based payments (note 17 and 24)	-	-	-	790	-	-	790
Foreign currency translation	-	-	-	-	(1,051)	-	(1,051)
Loss for the period	-	-	-	-	-	(4,219)	(4,219)
Balances at March 31, 2023	126,818,022	\$ 55,925	\$ 10,144	\$ 4,324	(1,505)	\$ (34,711)	\$ 34,177
Balances at December 31, 2021	81,371,422	\$ 30,862	\$ 627	\$ 2,503	\$ -	\$ (16,260)	\$ 17,732
Issuance of agents' warrants, (note 17)	-	-	745	-	-	-	745
Exercise of warrants (note 17)	347,500	203	(47)	-	-	-	156
Expiry of stock options (note 17)	-	-	-	(52)	-	52	-
Share based payment expense (note 17 and 24)	-	-	-	1,091	-	-	1,091
Loss for the period	-	-	-	-	-	(2,056)	(2,056)
Balances at March 31, 2022	81,718,922	\$ 31,065	\$ 1,325	\$ 3,542	\$ -	\$ (18,264)	\$ 17,668

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

1. NATURE OF OPERATIONS

Northern Graphite Corporation (“Northern” or the “Company”) is a mineral resource exploration, development and production company engaged in the acquisition, exploration, development and production of graphite and other mineral properties. The Company was incorporated under the laws of the Province of Ontario on February 25, 2002. On April 29, 2022, the Company acquired the producing Lac-des-Îles graphite mine in Quebec (“LDI”) and the Okanjande graphite deposit and Okorusu processing plant in Namibia (together “Okanjande”) (notes 4 and 5). In addition, Northern holds a 100% interest in the Mousseau West graphite project in Quebec (“Mousseau West”) and the Bissett Creek graphite project in Ontario (“Bissett Creek”) and has an option to earn up to an 80% interest in the South Okak nickel-copper-cobalt project in Labrador project (“South Okak”). The Company is listed on the TSX Venture Exchange (symbol “NGC”) and the OTCQB Market (symbol “NGPHF”).

The Company’s registered office is located at 1000 Innovation Drive, Suite 500, Ottawa, Ontario, K2K 3E7.

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements for the three month periods ended March 31, 2023 and 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, 2022 and 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These Interim Financial Statements were approved and authorized for issue by the Board of Directors on May 30, 2023.

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

These Interim Financial Statements have been prepared on a historical cost basis except those accounts as noted in the financial instruments section (note 23). In addition, the Interim Financial Statements have been prepared using the accrual basis of accounting.

Functional and presentation currency

These Interim Financial Statements are presented in Canadian dollars, which is the functional currency of the Company. The Company’s material 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

As at March 31, 2022, Graphite Nordique Inc. was the Company’s sole material wholly-owned subsidiary.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

Going concern

The Interim Financial Statements have been prepared on a going concern basis, which assumes that the Company will be able to continue its operations 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 LDI. The Company's investment programs are discretionary and have considerable scope for flexibility in terms of the amount and timing of expenditures. The Company will require additional capital to restart operations in Namibia and advance the Bissett Creek, Mousseau West and South Okak Projects and there is no assurance management will be successful in its endeavors. The Company's Interim Financial Statements do not include any adjustments that might result from negative outcomes with respect to these material uncertainties such as the inability to obtain funding on reasonable terms, or any terms at all.

3. 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 has been presented as restricted cash. Restricted cash which the Company expects to receive, and have access to, within a year has been presented within current assets.

As at March 31, 2023, restricted cash consists of \$1,817 (December 31, 2022 - \$1,817) as collateral for an irrevocable letter of credit for reclamation obligations relating to LDI, \$50 as collateral for a VISA deposit (December 31, 2022 - \$50), \$7 of interest which was released subsequent to March 31, 2023 (December 31, 2022 - \$7), and \$199 (December 31, 2022 - \$209) for a Namibian electricity deposit.

4. ACQUISITION OF LAC-DES-ÎLES GRAPHITE MINE

On April 29, 2022, the Company acquired 100% ownership of the producing LDI graphite mine in Quebec. 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 each consisted of one common share and one-half share purchase warrant exercisable at \$1.01 for a period of two years, for a combined fair value of \$5,131. In addition, the purchase price was subject to post closing adjustments, which were paid in November 2022.

The Company has determined the acquisition of LDI's assets should be treated as a business combination for accounting purposes under IFRS 3, Business Combinations. The 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.

The Company has completed 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.

An income approach (using a discounted cash flow approach) was used to value the mineral interests of LDI. The DCF approach reflects the present value of the expected operating cash flows based on an appropriate discount rate (6.1%) to reflect the time value and risk of the invested capital. Property, plant and equipment were valued with the cost approach.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

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

Cash	\$	24,295
Private placement units (note 17)		5,131
Post closing adjustments		1,341
Total Consideration	\$	30,767

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

Inventories	\$	13,517
Right of use assets		276
Property, plant and equipment		5,758
Mineral interests		15,610
Reclamation deposits		1,561
Goodwill		2,713
Leases		(276)
Reclamation provision		(5,679)
Deferred tax liability		(2,713)
Net Assets Acquired	\$	30,767

Goodwill has been allocated to the LDI cash-generating unit. The goodwill balance results from the requirement to recognize a deferred tax liability, calculated as the difference between the tax effect of the fair value of the acquired assets and liabilities and their tax bases.

Business combination costs, including advisory, legal, regulatory and other professional fees, and success fees payable on completion of the transaction totaled \$nil which were expensed in the Project evaluation, acquisition, and integration line of the condensed interim consolidated statement of loss and other comprehensive loss for the three months ended March 31, 2023 (\$67 for the three months ended March 31, 2022).

5. ACQUISITION OF NAMIBIAN GRAPHITE DEPOSIT AND PROCESSING PLANT

On April 29, 2022, the Company acquired 100% ownership of the Okanjande project which consists of the Okanjande graphite deposit and processing equipment at the Okorusu 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.

The Company has completed 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.

An income approach (using a discounted cash flow approach) was used to value the mineral interests of Okanjande. The DCF approach reflects the present value of the expected operating cash flows based on an appropriate discount rate (27.2%) to reflect the time value and risk of the invested capital. Property, plant and equipment were valued with the cost approach. Consideration was allocated on assets and liabilities received on a pro-rata basis net of working capital items.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

The following table summarizes the total consideration of the acquisition:

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

The following table summarizes the total consideration and the final allocation of assets and liabilities acquired based on their fair values:

Cash	\$	209
Restricted cash		213
Receivables		3
Right of use assets		615
Property, plant and equipment		12,079
Mineral interests		9,357
Accounts payable and accrued liabilities		(165)
Withholding tax obligation		(619)
Leases		(761)
Total		\$20,931

6. RECEIVABLES

	March 31, 2023	December 31, 2022
Trade receivables	\$ 1,070	\$1,615
Value added tax	3,208	2,450
Other	39	35
	\$ 4,317	\$4,100

The Company's expected credit loss as at March 31, 2023 is a nominal amount (December 31, 2022 – nominal amount).

7. INVENTORIES

	March 31, 2023	December 31, 2022
Materials and supplies	\$1,494	\$1,289
Graphite ore stockpiles	9,844	8,592
Finished goods	18,091	14,715
Total inventory	29,429	\$24,596
Non-current graphite ore stockpiles	6,437	6,331
Total current inventory	\$22,992	\$18,265

The amount of inventories recognized as an expense during the three months ended March 31, 2023 was \$3,541 (March 31, 2022 – nil).

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

8. EXPLORATION AND EVALUATION

	Bisset Creek	Mousseau West	South Okak	Total
Balance, December 31, 2022	\$ 13,309	\$ 959	\$ 1,139	\$ 15,407
Engineering and metallurgical	23	-	-	23
Geological and geophysical	-	-	7	7
Site costs and royalties	20	-	-	20
Acquisition cost	-	100	-	100
Balance, March 31, 2023	\$ 13,352	\$ 1,059	\$ 1,146	\$ 15,557

	Bisset Creek	Mousseau West	South Okak	Total
Balance, December 31, 2021	\$ 12,958	\$ -	\$ 560	\$ 13,518
Community engagement	146	-	-	146
Engineering and metallurgical	34	-	-	34
Environmental and mine permitting	102	-	-	102
Geological and geophysical	-	-	579	579
Site costs and royalties	69	-	-	69
Acquisition cost	-	959	-	959
Balance, December 31, 2022	\$ 13,309	\$ 959	\$ 1,139	\$ 15,407

Bissett Creek, Ontario, Canada

The Company has a 100% interest in Bissett Creek 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 Bissett Creek. An advance royalty of \$27 per annum is payable in semi-annual installments and is recorded in exploration and evaluation assets (\$9 paid as of March 31, 2023). The advance will be credited against any future royalty payments.

During 2020, the Company closed the sale of a 1.0% gross revenue royalty ("GRR") on its Bissett Creek Property to Electric Royalties Ltd. ("ERL") for \$500 in cash and 2,000,000 shares of ERL. The Company has the option to buy back half of one percent of the initial GRR by returning the shares of ERL or paying \$1,500 in cash.

Mousseau West, Quebec, Canada

During 2022, the Company entered into an option agreement that provided it with an option to acquire a 100% interest in Mousseau West, subject to the owners retaining a 2% net smelter royalty ("NSR"). Pursuant to the agreement, the Company paid \$50 for the six month exclusive right to conduct due diligence on the property, which was expensed in 2022 and included in project evaluation, acquisition and integration costs, as the Company did not have title to any mineral rights. During 2022, the Company exercised its option and acquired the property for \$500 in cash and the issuance of 900,000 common shares of the Company. The Company has the right to acquire the 2% NSR from the owners at any time upon the payment of \$1,000.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

On March 14, 2023, the area covered by Mousseau West was increased by an additional 101.64 hectares to a total of 590.54 hectares by the Québec Ministère des Ressources naturelles et des Forêts (the “Minister”) through an automatic procedure under the *Mining Act* (Québec) due to the lapse of certain adjoining claims previously held by an arm’s length third party. In connection with the increase in the area covered by the Company’s claims, the Company has paid \$50 and issued 100,000 common shares of the Company to the previous holder of the adjoining claims in order to settle litigation proceedings challenging the Minister’s increase in the area of the Company’s claims.

South Okak Project, Labrador, Canada

During 2021, the Company entered into an option agreement to earn up to an 80% interest in South Okak, 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 (completed); (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.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Okanjande in process	LDI property, plant and equipment	Other	Total
Cost				
Balance, December 31, 2022	\$ 18,039	\$ 7,252	\$ 1,330	\$ 26,621
Additions	1,574	505	55	2,134
Immovable assets impairment	(209)	-	-	(209)
Foreign exchange	(758)	-	-	(758)
Balance, March 31, 2023	18,646	7,757	1,385	27,788
Accumulated depletion and depreciation				
Balance, December 31, 2022	(34)	(2,194)	(1,283)	(3,511)
Depletion and depreciation	(9)	(771)	(9)	(789)
Balance, March 31, 2023	(43)	(2,965)	(1,292)	(4,300)
Net book value	\$ 18,603	\$ 4,792	\$ 93	\$ 23,488

	Okanjande in process	LDI property, plant and equipment	Other	Total
Cost				
Balance, December 31, 2021	\$ -	\$ -	\$ 1,320	\$ 1,320
Acquired assets (notes 4 and 5)	12,694	6,034	-	18,728
Additions	6,413	1,218	10	7,641
Asset write off	(881)	-	-	(881)
Foreign exchange	(187)	-	-	(187)
Balance, December 31, 2022	18,039	7,252	1,330	26,621
Accumulated depletion and depreciation				
Balance, December 31, 2021	-	-	(1,250)	(1,250)
Depletion and depreciation	(34)	(2,194)	(33)	(2,261)
Balance, December 31, 2022	(34)	(2,194)	(1,283)	(3,511)
Net book value	\$ 18,005	\$ 5,058	\$ 47	\$ 23,110

As at March 31, 2023 the amount of depletion and depreciation from property, plant and equipment and mineral interests included in inventory was \$1,891 (March 31, 2022 – nil), the amount of depletion and depreciation included in mining operations was \$654 (March 31, 2022 – nil) and the amount of depreciation included in general and administrative expenses was \$22 (March 31, 2022 - \$8).

As at March 31, 2023, LDI property, plant, and equipment cost includes \$1,242 (December 31, 2022 - \$1,242) for right of use assets with a net book value of \$840 (December 31, 2022 - \$951). The right of use assets consists of \$248 for a land use and building lease (December 31, 2022 - \$260) and \$592 for mobile assets (December 31, 2022 - \$691).

As at March 31, 2023, Okanjande in process additions includes \$1,703 (December 31, 2022 - \$1,185) for capitalized interest (rate of 12%) arising from accretion on deferred revenue (note 15).

As at March 31, 2023 Other contains net book value of Bissett Creek plant and equipment of \$31 (December 31, 2022 - \$38) and net book value of office equipment in the Italian sales office of \$63 (December 31, 2022 - \$9).

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

In December 2022, the Company made the decision to move the location of its future Namibian processing plant facilities from Okorusu to Okanjande. This move, while enhancing the net present value of the Okanjande project, resulted in an impairment of the site access asset for Okorusu of \$2,286 after amortization taken of \$179 during the 2022 year. The remaining site access asset was reclassified to current and non-current prepaids of \$289 and \$97 (note 11) respectively at December 31, 2022. Subsequent to March 31, 2023, the Company reached a final settlement with the leaseholder resulting in an additional impairment of \$209 in the quarter.

The Company intends to move virtually all of the processing facilities to Okanjande except for foundations and other immovable objects. As a result, an impairment charge of \$881 has been taken representing assets that could not be moved to Okanjande.

10. MINERAL INTERESTS

	Okanjande mineral interests	LDI mineral interests	Total
Cost			
Balance, December 31, 2022	\$ 9,886	\$ 15,726	\$ 25,612
Additions	276	-	276
Foreign exchange	(433)	-	(433)
Balance, March 31, 2023	9,729	15,726	25,455
Accumulated depletion and depreciation			
Balance, December 31, 2022	-	(5,175)	(5,175)
Depletion and depreciation	-	(1,778)	(1,778)
Balance, March 31, 2023	-	(6,953)	(6,953)
Net book value	\$ 9,729	\$ 8,773	\$ 18,502

	Okanjande mineral interests	LDI mineral interests	Total
Cost			
Balance, December 31, 2021	\$ -	\$ -	\$ -
Acquired assets (notes 4 and 5)	9,357	15,610	24,967
Additions	685	116	801
Foreign exchange	(156)	-	(156)
Balance, December 31, 2022	9,886	15,726	25,612
Accumulated depletion and depreciation			
Balance, December 31, 2021	-	-	-
Depletion and depreciation	-	(5,175)	(5,175)
Balance, December 31, 2022	-	(5,175)	(5,175)
Net book value	\$ 9,886	\$ 10,551	\$ 20,437

As at March 31, 2023, Okanjande mineral interests includes \$918 (December 31, 2022 - \$641) for capitalized interest (rate of 12%) arising from accretion on deferred revenue (note 15).

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

11. OTHER ASSETS

	March 31, 2023	December 31, 2022
Intangible assets	\$ 169	\$ 169
Intangible assets accumulated amortization	(27)	(14)
Contract assets (note 15)	1,742	1,742
Non-current portion of Okorusu lease access	25	97
	\$ 1,909	\$ 1,994

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities are 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:

	March 31, 2023	December 31, 2022
Trade payables	\$ 4,825	\$ 3,313
Trade related accruals	826	915
Income tax payable	978	704
Payroll and related benefits	209	112
Balance, March 31, 2023	\$ 6,838	\$ 5,044

13. 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, bears 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 value of \$1,858. At the Company's option, interest payable during the initial twelve months can be, and has been, capitalized (\$1,871) and added to the principal. The loan is secured against the assets of LDI and Okanjande. The loan is subject to standard conditions and covenants, including maintenance of positive working capital and cash balances as well as debt service and loan life coverage upon achievement of certain cash flow levels. As at March 31, 2023, the Company was in compliance with these covenants.

Balance, December 31, 2021	\$ -
Funds received	15,350
Warrant issuance value	(1,858)
Financing costs	(789)
Interest expense and accretion	1,600
Foreign exchange loss	784
Balance, December 31, 2022	15,087
Current portion of senior secured loan	1,896
Non-current portion of senior secured loan	13,191

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

Balance, December 31, 2022	\$15,087
Interest expense and accretion	727
Foreign exchange gain	(12)
Balance, March 31, 2023	15,802
Current portion of senior secured loan	1,938
Non-current portion of senior secured loan	13,864

14. 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 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 Bissett Creek. The deposit is subject to standard conditions and covenants. As at March 31, 2023, the Company was in compliance with these covenants.

Balance, December 31, 2021	\$ -
Funds received	5,117
Warrant issuance value	(465)
Financing costs	(167)
Interest expense and accretion	887
Payments made	(433)
Foreign exchange loss	288
Balance, December 31, 2022	5,227
Current portion of royalty	2,812
Non-current portion of royalty	2,415

Balance, December 31, 2022	\$ 5,227
Interest expense and accretion	256
Payments made	(525)
Foreign exchange gain	(12)
Balance, March 31, 2023	4,946
Current portion of royalty	2,226
Non-current portion of royalty	2,720

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

15. 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 Okanjande 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 Okanjande. 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 Okanjande. 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 value of the warrants was \$1,742 and was determined using the Black-Scholes option pricing model (note 17) and has been recognized as a contract asset which will be expensed over the term of the contract, beginning once sales commence. 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 \$20,638 (US\$15,250) in 2024 or \$23,683 (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. The deposit is subject to standard conditions and covenants. As at March 31, 2023, the Company was in compliance with these covenants.

Balance, December 31, 2021	\$	-
Funds received		25,584
Interest accretion		2,213
Foreign exchange loss		1,561
Balance, December 31, 2022	\$	29,358
Balance, December 31, 2022	\$	29,358
Interest accretion		876
Foreign exchange gain		(23)
Balance, March 31, 2023	\$	30,211

16. LEASES

The Company has lease agreements relating to mobile equipment and a land and building use with interest rates ranging from 4.5% to 10.0%.

	March 31, 2023	December 31, 2022
Balance, beginning of year	\$1,582	\$ -
Acquisition related additions (notes 4 and 5)	-	1,037
Additions	-	934
Principal payments	(111)	(312)
Interest expense and accretion	25	36
Foreign exchange	(30)	(113)
Balance, end of period	1,466	1,582
Current portion of leases	472	519
Non-current portion of leases	\$994	\$ 1,063

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

17. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares having no par value.

For the three months Ended March 31, 2023

On March 14, 2023 the Company issued 100,000 common shares and paid \$50 cash to the previous holder of the claims adjoining Mousseau West in order to settle litigation proceedings challenging the Minister's increase in the area of the Company's Mousseau West claims by 101.64 hectares to 590.54 hectares (note 8).

In the three month period ended March 31, 2023, 4,652,500 warrants with a strike price of \$0.45 were exercised for gross proceeds of \$2,093 in exchange for 4,652,500 common shares of the Company.

In the three month period ended March 31, 2023, 600,000 stock options with a strike price of \$0.50 were exercised for gross proceeds of \$300 in exchange for 600,000 common shares of the Company and 150,000 stock options with a strike price of \$0.25 were exercised for gross proceeds of \$38 in exchange for 150,000 common shares of the Company.

For the Year Ended December 31, 2022

In 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 4) and Okanjande (note 5) on April 29, 2022. Each unit was comprised of one common share of the Company and one-half of one share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of \$1.10 per common share with an expiry date of April 29, 2024. \$745 of the proceeds were allocated to the warrants on a relative fair value basis.

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. 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 through the sale of an additional 5,000,000 subscription receipts for gross proceeds of \$3,750. 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 4) and Okanjande (note 5) on April 29, 2022. Each unit was comprised of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable to purchase one common share at an exercise price of \$1.10 per common share with an expiry date of April 29, 2024. \$698 of the proceeds were allocated to the warrants on a relative fair value basis.

In connection with the final closing of the private placement, the agents received 300,000 agents' warrants with a fair market value of \$134 and a cash fee of \$225. Each agents' warrant is exercisable for one common share at an exercise price of \$0.75 per share at any time on or before April 27, 2024.

On April 29, 2022, as partial consideration for the acquisition of LDI (note 4) 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 \$1.10 and expire on April 29, 2024.

In July 2022 the Company issued 700,000 common shares to an arm's length advisory firm for monthly consulting fees payable and additional advisory fees totaling \$525.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

On September 26, 2022 300,000 stock options were exercised at a price of \$0.50 for gross proceeds of \$150 in exchange for 300,000 common shares of the Company.

On October 4, 2022 the Company issued 900,000 common shares and paid \$500 cash in order to exercise its option to acquire a 100% interest in Mousseau West.

During the year 440,000 warrants were exercised at a price of \$0.45 for gross proceeds of \$198 in exchange for 440,000 common shares of the Company.

Warrants

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

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2021	5,092,500	0.45
Warrants issued	31,147,800	1.05
Warrants exercised	(440,000)	0.45
Balance, December 31, 2022	35,800,300	0.97
Warrants exercised	(4,652,500)	0.45
Balance, March 31, 2023	31,147,800	1.05

The Company's warrants outstanding as at March 31, 2023 are as follows:

Exercise price	Number of Warrants Outstanding and Exercisable	Expiry Date
\$0.75	1,545,750	Feb 10, 2024
\$0.75	300,000	April 27, 2024
\$1.01	10,500,000	April 29, 2024
\$1.10	18,802,050	April 29, 2024
	31,147,800	

As at March 31, 2023, the weighted average remaining contractual life of warrants outstanding is 1.07 years (December 31, 2022 – 1.16 years).

The value of warrants determined during the periods ended March 31, 2023 and 2022 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	Three months Ended March 31, 2023	Three months Ended March 31, 2022
Warrants granted during the period	Nil	1,545,750
Weighted-average exercise price	Nil	\$0.75
Expected warrant life	Nil	2 years
Expected volatility	Nil	109%
Risk-free interest rate	Nil	1.50%
Dividend yield	Nil	Nil
Weighted-average fair value (Black-Scholes value)	Nil	\$0.48

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

Restricted share units

The Company has a DSU/RSU Plan which is a fixed security-based compensation plan with the maximum number of common shares of the Company that may be issued to participants under the DSU/RSU Plan being 12,036,052 shares, subject to customary adjustments as provided for in the DSU/RSU Plan. The maximum aggregate number of common shares issuable to insiders of the Company (as a group) under the DSU/RSU Plan and the Company's Option Plan shall together collectively not exceed 10% of the issued and outstanding number of shares at any time.

A summary of the RSU activity is presented below:

	Number of Restricted stock units
Balance, December 31, 2021	-
Granted	1,300,000
Balance, December 31, 2022	1,300,000
Balance, March 31, 2023	1,300,000

A summary of the Company's outstanding RSU's at March 31, 2023 is as follows:

Issue price	RSU's outstanding	RSU's exercisable
\$0.46	1,300,000	-
Balance, March 31, 2023	1,300,000	-

As at March 31, 2023 there was \$458 of unrecognized share-based compensation costs related to unvested RSU awards granted under the Company's DSU/RSU Plan and \$125 of share-based compensation costs were recognized in the quarter.

Subsequent to March 31, 2023, the Board of Directors approved an award of RSUs for a total of 490,000 shares of the Company, vesting 1/4 on each of January 4, 2024 and 2025 and 1/2 on January 4, 2026.

Stock options

The Company has an Option Plan which is a rolling security-based compensation plan with the maximum number of common shares of the Company that may be issued to participants under the Option Plan being equal to 10% of the issued and outstanding shares of the Company at any time. 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 aggregate number of common shares issuable to insiders of the Company (as a group) under the Option Plan and the DSU/RSU Plan shall together collectively not exceed 10% of the issued and outstanding number of shares at any time.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

A summary of the stock option activity is presented below:

	Number of options	Weighted average exercise price \$
Balance, December 31, 2021	5,800,000	0.41
Granted	4,506,000	0.69
Exercised	(300,000)	0.50
Expired	(350,000)	0.41
Balance, December 31, 2022	9,656,000	0.54
Granted	1,300,000	0.55
Exercised	(750,000)	0.45
Expired	(675,000)	0.68
Balance, March 31, 2023	9,531,000	0.54

A summary of the Company's outstanding stock options at March 31, 2023 is as follows:

Exercise price	Stock options outstanding	Stock options exercisable	Expiry date
\$0.20	1,500,000	1,500,000	July 23, 2025
\$0.50	2,700,000	2,700,000	April 15, 2026
\$0.55	1,100,000	1,100,000	January 20, 2028
\$0.55	200,000	200,000	February 10, 2028
\$0.60	200,000	-	September 16, 2027
\$0.60	1,631,000	543,667	October 4, 2025
\$0.75	500,000	375,000	December 31, 2026
\$0.75	250,000	250,000	March 8, 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	75,000	May 11, 2024
	9,531,000	8,093,667	

As at March 31, 2023, a total of 8,163,667 stock options were exercisable.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

A summary of the Company's outstanding stock options at December 31, 2022 is as follows:

Exercise price	Stock options outstanding	Stock options exercisable	Expiry date
\$0.20	1,500,000	1,500,000	July 23, 2025
\$0.25	150,000	150,000	January 21, 2024
\$0.50	600,000	600,000	January 12, 2023
\$0.50	200,000	200,000	February 22, 2026
\$0.50	2,700,000	2,700,000	April 15, 2026
\$0.60	200,000	-	September 16, 2027
\$0.60	1,631,000	543,667	October 4, 2025
\$0.75	500,000	250,000	December 31, 2026
\$0.75	175,000	175,000	January 2, 2023
\$0.75	300,000	300,000	October 31, 2024
\$0.75	250,000	100,000	March 8, 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	50,000	May 11, 2024
	9,656,000	7,918,667	

As at March 31, 2023, the weighted average remaining contractual life of stock options outstanding is 3.23 years (March 31, 2022 – 3.46 years). As at March 31, 2022, a total of 7,125,000 stock options were exercisable.

The value of stock options determined during the three months ended March 31, 2023 and 2022 utilized the Black-Scholes option pricing model with input factors and assumptions as follows:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Stock options granted during the period	1,300,000	2,575,000
Weighted-average exercise price	\$0.55	\$0.75
Expected stock option life	5 years	1 to 5 years
Expected volatility	108.57% to 108.83%	91% to 119%
Risk free interest	2.92% to 3.31%	0.97% to 1.64%
Dividend yield	Nil	Nil
Forfeiture rate	Nil	Nil
Weighted average fair value (Black-Scholes value)	\$0.42	\$0.54

As at March 31, 2023 there was \$308 of unrecognized share-based compensation costs related to unvested stock option awards granted under the Company's Option Plan and \$665 of share-based compensation costs were recognized.

Subsequent to March 31, 2023 the Board of Directors approved a grant of 390,000 stock options to certain new officers and employees to purchase a total of 390,000 shares of the Company at a price of \$0.55 per share, with the stock options granted to officers vesting 1/3 on each of January 4, 2024, 2025 and 2026, while the stock options granted to employees vest ¼ on each of January 4, 2024 and 2025 and ½ on January 4, 2026, for a period of five years.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

18. PRODUCTION COSTS

	Three months ended March 31, 2023	Three months ended March 31, 2022
Raw materials and consumables	\$ 659	\$ -
Salaries and employee benefits	618	-
Contracted services	1,122	-
Electricity and energy	371	-
Other	117	-
	<u>\$ 2,887</u>	<u>\$ -</u>

19. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended March 31, 2023	Three months ended March 31, 2022
Legal and audit	\$ 198	\$ 29
Office and management	1,912	462
Promotion and investor relations	121	75
Regulatory and transfer agent	21	47
Depreciation (Note 9)	22	8
	<u>\$ 2,274</u>	<u>\$ 621</u>

20. FINANCE EXPENSE

	Three months ended March 31, 2023	Three months ended March 31, 2022
Interest expense and accretion (notes 13 to 16)	\$ 1,966	\$ -
Accretion of reclamation provision (note 26)	37	5
Capitalization of deferred revenue interest (notes 9 and 10)	(795)	-
	<u>\$ 1,208</u>	<u>\$ 5</u>

During the three months periods ended March 31, 2023 the Company paid interest expense of \$107 (three months ended March 31, 2022 – \$nil).

21. 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 operation 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.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS Three

Months Ended March 31, 2023 and 2022

(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 Company may issue common shares, or acquire or dispose of assets or issue debt if circumstances permit.

As at March 31, 2023, the Company was in compliance with all debt covenant requirements.

22. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Exploration and evaluation costs in accounts payable and accrued liabilities	\$ 35	\$ 20
Okanjande in process costs in accounts payable and accrued liabilities	\$ 179	\$ -
Value of warrants issued for financing	\$ -	\$ 745
Fair value of common shares issued for claim payment	\$ 50	\$ -

23. 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. The fair value hierarchy categorizes inputs to valuation techniques used in measuring fair value into the following three levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly, such as prices, or indirectly (derived from prices).

Level 3 – unobservable inputs for which market data are not available.

As at March 31, 2023 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 statements of financial position at fair value on a recurring basis are categorized as follows: cash and cash equivalents and marketable securities (Level 1) of \$2,609 (December 31, 2022 - \$5,636).

As at March 31, 2023 and December 31, 2022, 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 three months ended March 31, 2023 and the year ended December 31, 2022. As at March 31, 2023 and December 31, 2022, there were no financial assets or liabilities measured and recognized in the condensed interim consolidated statements of financial position at fair value that would be categorized as Level 3 in the fair value hierarchy.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS Three

Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

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 senior secured loan approximates its fair value as it bears a market rate of interest. The Company has performed a sensitivity analysis which indicates that the carrying value of the royalty obligation would be \$37 greater than its fair value with a 3% increase in the market rate.

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 carrying amounts of the Company's financial assets and liabilities. At March 31, 2023, the Company had the following financial assets and liabilities denominated in US dollars: cash and cash equivalents of \$1,032 (December 31, 2022 - \$2,146); trade receivables of \$904 (December 31, 2022 - \$1,355); accounts payable and accrued liabilities of \$144 (December 31, 2022 - \$130); senior secured loan of \$13,351 (December 31, 2022 - \$12,814); royalty of \$4,093 (December 31, 2022 - \$4,102); and deferred revenue of \$21,933 (December 31, 2022: \$21,200). With other variables unchanged, a 1% increase on the USD/CAD exchange rate would result in an unrealized foreign exchange loss of \$509. 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. A 10% increase or decrease in the price of graphite at March 31, 2023 would have resulted in a decrease or increase of \$399 in the Company's income from mine operations for the three month period ended March 31, 2023 (March 31, 2022 - \$nil).

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. Four major customers make up 60% of the Company's 2023 revenue, as such there is a risk of economic dependence.

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. Given the Company's relatively short operating history at LDI, current customers have limited history of credit default with the Company. The Company had nominal credit losses during the three months ended March 31, 2023. Substantially all trade receivables outstanding at March 31, 2023 have since been collected by the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk through the management of its capital structure. Further discussion on liquidity and management's plans are outlined in note 2 and further analysis relating to the maturity of the Company's financial obligations are outlined in note 25.

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 \$192. The Company closely monitors its exposure to interest rate risk and has not entered into any derivative contracts to manage this risk.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS Three

Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

24. RELATED PARTY TRANSACTIONS AND COMPENSATION OF KEY MANAGEMENT

During the three months period ended March 31, 2023, the Company expensed salary and compensation to key management personnel of \$359 (March 31, 2022 – \$242) and management fees to a company owned and controlled by key management personnel of \$22 (March 31, 2022 – \$29). During the three month period ended March 31, 2023, the Company expensed directors' fees of \$50 (March 31, 2022 – \$15). During the three month period ended March 31, 2023, the Company expensed share-based payments for stock options granted to key management personnel and directors of \$736 (March 31, 2022 – \$893).

As at March 31, 2023, \$98 (December 31, 2022 – \$64) was included in accounts payable and accrued liabilities owing to officers and directors relating to management and directors' fees and for reimbursement of expenses.

During January 2023, the Board of Directors approved a grant of stock options to directors to purchase a total of 1,100,000 common shares of the Company at a price of \$0.55 per share, vesting immediately, for a period of five years.

During February 2023 the Board of Directors approved a grant of stock options to an officer of the Company to purchase a total of 200,000 common shares of the Company at a price of \$0.55 per share, vesting immediately, for a period of five years.

Subsequent to March 31, 2023, the Board of Directors approved a grant of stock options to certain new officers and employees to purchase a total of 390,000 common shares of the Company at a price of \$0.55 per share, vest one quarter after each of years one and two, and one half after year three, and are exercisable for a period of five years.

Subsequent to March 31, 2023, the Board of Directors approved a grant of 490,000 RSUs to certain new officers and employees with a vesting period of one quarter after each of years one and two, and one half after year three.

25. COMMITMENTS AND CONTINGENCIES

At March 31, 2023, 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	\$ 6,838	\$ -	\$ -	\$ -	\$ 6,838
Senior secured loan	1,938	5,152	18,979	-	26,069
Royalty	2,226	4,253	-	-	6,479
Deferred revenue	-	8,522	13,699	40,017	62,238
Lease commitments	472	601	244	741	2,058
Reclamation provisions	-	2,359	3,806	2,706	8,871
Firm commitments	1,596	-	-	-	1,596
	\$ 13,070	\$ 20,887	\$ 36,728	\$ 43,464	\$ 114,149

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS Three

Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

26. RECLAMATION 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 three month period ended March 31, 2023 and the year ended December 31, 2022 are allocated as follows:

	Three months ended March 31, 2023	Year ended December 31, 2022
Balance, beginning of period	\$6,503	\$362
Acquisition of LDI (note 4)	-	5,679
Change in estimate	-	116
Payments	-	(10)
Accretion	37	356
Balance, end of period	\$6,540	\$6,503

Of the total balance of \$6,540 at March 31, 2023, \$385 was attributable to Bissett Creek and \$6,155 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.

In late March 2023, the Company received a draft update of the closure plan for LDI. It is currently being reviewed and when this process is completed, an update of the closure provision is expected.

The undiscounted liability as at March 31, 2023 was \$2,329 (December 31, 2022 - \$2,329) for Bissett Creek (assuming operations go ahead as planned) and \$9,251 (December 31, 2022 - \$9,251) for LDI. The discount and inflation rates used for LDI are 3.6% and 2.0%, respectively.

27. 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, but three operational units, Corporate, LDI and Namibia. The Company has only one revenue source, being the sale of graphite concentrate from its operations in LDI.

The following geographic data includes assets based on their location as at March 31, 2023 and December 31, 2022.

	March 31, 2023			
	Corporate	LDI	Namibia	Total
Cash and cash equivalents	\$ 184	\$ 1,699	\$ 86	\$ 1,969
Other current assets	1,172	26,245	2,516	29,933
Non current assets	17,533	24,583	28,556	70,672
Current liabilities	5,580	4,334	1,560	11,474
Non current liabilities	47,179	9,196	548	56,923
Net income (loss)	\$ (3,918)	\$ 192	\$ (493)	\$ (4,219)

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS Three

Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

	December 31, 2022			
	Corporate	LDI	Namibia	Total
Cash and cash equivalents	\$ 483	\$ 4,412	\$ 181	\$ 5,076
Other current assets	1,030	21,316	2,261	24,607
Non current assets	17,352	26,518	28,198	72,068
Current liabilities	6,054	2,481	1,736	10,271
Non current liabilities	45,339	9,304	661	55,304
Net income (loss)	\$ (13,019)	\$ 1,813	\$ (3,345)	\$ (14,551)

The following table presents revenue from sales to major customers that exceeded 10% of the Company's revenue for the periods ended March 31, 2023 and 2022:

	Three months ended March 31, 2023	Three months ended March 31, 2022
Customer 1	\$ 905	\$ -
Customer 2	574	-
Customer 3	531	-
Customer 4	388	-
Total revenue from major customers	\$ 2,398	-
Total revenue from major customers as a percentage of total revenue	60%	% -

Revenue from major customers is entirely based in the LDI segment.

28. 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, and have contributed to 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. One example of supply chain interruptions that has impacted the Company is the delay in delivery of long-lead time mills ordered for the Okanjande processing facility. It is management's assumption that the Company will continue to operate as a going concern.

NORTHERN GRAPHITE CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS ^{Three}

Months Ended March 31, 2023 and 2022

(Unaudited - Stated in thousands of Canadian Dollars)

29. SUBSEQUENT EVENTS

Stock option exercises

Subsequent to March 31, 2023, 200,000 \$0.20 stock options were exercised for gross proceeds of \$40.

Stock option issuances

Subsequent to March 31, 2023, the Board of Directors approved a grant of stock options to purchase a total of 390,000 common shares of the Company at a price of \$0.55 per share, vesting one quarter after each of years one, and two, and one half after year three, which are exercisable for a period of five years.

RSU issuances

Subsequent to March 31, 2023, the Board of Directors approved a grant of 490,000 RSUs to certain new officers and employees with a vesting period of one quarter after each of years one and two, and one half after year three.

Private Placement

On April 27, 2023, the Company closed a non-brokered private placement financing of 3,000,000 units of Northern issued on a charity flow-through basis at a price of \$0.75 per unit for proceeds of \$2,250. Each unit consisted of one common share and one-half of one common share purchase warrant with each whole warrant entitling the holder to purchase one common share at an exercise price of \$0.75 for a period of two years.