# CANADA CARBON INC.

**(FORMERLY BOLERO RESOURCES CORP.)**

# FINANCIAL STATEMENTS
# FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
# (EXPRESSED IN CANADIAN DOLLARS)

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canada Carbon Inc.

We have audited the accompanying financial statements of Canada Carbon Inc., which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of loss and comprehensive loss, statements of cash flows and statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canada Carbon Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company had working capital of $47,423 at December 31, 2012 and a cumulative deficit as at December 31, 2012. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 22, 2013

**CANADA CARBON INC. (FORMERLY BOLERO RESOURCES CORP.)**
STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

| | December 31, 2012 $ | December 31, 2011 $ (Note 21) |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents (Note 7) | 58,029 | 856,723 |
| Receivables (Note 8) | 43,680 | 270,246 |
| Prepaid expenses (Note 9) | 22,342 | 11,245 |
| **Total current assets** | 124,051 | 1,138,214 |
| **Investments** (Note 10) | - | 115,000 |
| **Equipment** (Note 11) | 10,261 | 2,133 |
| **Exploration and evaluation expenditures** (Notes 12 and 15) | 1,548,964 | 4,898,671 |
| **Drilling and reclamation deposits** (Note 13) | 15,347 | 20,546 |
| **Total assets** | 1,698,623 | 6,174,564 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (Note 15) | 43,636 | 354,710 |
| Restoration, rehabilitation and environmental obligations (Note 14) | 32,992 | 29,000 |
| **Total current liabilities** | 76,628 | 383,710 |
| **Restoration, rehabilitation and environmental obligations** (Note 14) | - | 5,986 |
| **Total liabilities** | 76,628 | 389,696 |
| **Shareholders' equity** | | |
| Capital stock (Note 16) | 23,527,122 | 21,941,917 |
| Shares to be issued | - | 8,000 |
| Reserves | 1,957,684 | 3,003,704 |
| Deficit | (23,862,811) | (19,168,753) |
| **Total shareholders' equity** | 1,621,995 | 5,784,868 |
| **Total liabilities and shareholders' equity** | 1,698,623 | 6,174,564 |

**Nature and continuance of operations** (Note 1)
**Commitments and contingencies** (Notes 12 and 20)
**Subsequent events** (Note 22)

**On behalf of the Board:**

"R. B. Duncan", Director                    " Greg Lipton", Director

**See accompanying notes to the financial statements.**

**CANADA CARBON INC. (FORMERLY BOLERO RESOURCES CORP.)**
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED DECEMBER 31

| | 2012 $ | 2011 $ (Note 21) |
|---|---|---|
| **EXPENSES** | | |
| Amortization | 860 | 795 |
| Management fees (Note 15) | 500,000 | 120,000 |
| Consulting fees (Note 15) | 57,500 | 51,000 |
| Sales and marketing costs | 55,044 | - |
| Professional fees (Notes 15) | 219,843 | 118,877 |
| Office, rent and miscellaneous | 86,120 | 100,536 |
| Shareholder communications and promotion | 158,195 | 149,858 |
| Share-based compensation (Note 16) | 310,710 | 490,058 |
| Property investigation costs | 65,575 | - |
| Transfer agent and filing fees | 34,322 | 23,967 |
| Travel and accommodation | 22,778 | 15,896 |
| **Loss before impairments and other (income) expense** | 1,510,947 | 1,070,987 |
| **OTHER ITEMS** | | |
| Foreign exchange loss (gain) | 732 | (5,085) |
| Investment income | (11,497) | (43,500) |
| Write off of exploration and evaluation expenditures (Note 12) | 4,780,897 | 14,100 |
| Cost of flow-through expenditure shortfall | (17,227) | 202,101 |
| Impairment of available for sale investment (Note 10) | - | 71,830 |
| Loss on disposal of available for sale investment (Note 10) | 21,216 | - |
| Loss (gain) on disposal of equipment (Note 11) | 883 | (2,744) |
| **Loss for the year before income taxes** | 6,285,951 | 1,307,689 |
| Income tax recovery (Note 18) | (104,854) | (50,000) |
| **Net loss for the year** | 6,181,097 | 1,257,689 |
| **Other comprehensive loss** | | |
| Unrealized (gain) loss on marketable securities (Note 10) | (65,143) | 106,600 |
| Reclassification of net unrealized loss (Note 10) | (21,216) | (71,830) |
| **Total comprehensive loss** | 6,094,738 | 1,292,459 |
| **Basic and diluted net loss per common share** | $ 0.14 | $ 0.04 |
| **Weighted average number of common shares outstanding** | 42,883,873 | 35,674,353 |

**See accompanying notes to the financial statements.**

**CANADA CARBON INC. (FORMERLY BOLERO RESOURCES CORP.)**
STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED DECEMBER 31

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net (loss) for the year | (6,181,097) | (1,257,689) |
| Items not affecting cash: | | |
| Income tax (recovery) | (104,854) | (50,000) |
| Amortization | 860 | 795 |
| Loss (gain) on disposal of equipment | 883 | (2,744) |
| Share-based compensation | 310,710 | 490,058 |
| Shares issued for services (Note 15 (b)) | 350,000 | - |
| Write-off of exploration and evaluation expenditures | 4,780,897 | 14,100 |
| Loss on sale of investment | 21,216 | - |
| Impairment of investment | - | 71,830 |
| Unrealized foreign exchange (gain) loss | (59) | 1,216 |
| | (821,444) | (732,434) |
| Change in non-cash working capital items: | | |
| Decrease (increase) in receivables | 226,566 | (211,754) |
| (Increase) in prepaid expenses | (11,097) | (653) |
| (Decrease) increase in accounts payable and accrued liabilities | (274,137) | 222,610 |
| Net cash flows from operating activities | (880,112) | (722,231) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Exercise of options and warrants | - | 253,100 |
| Proceeds from private placements | 700,000 | 320,000 |
| Share issue costs | (20,158) | - |
| Net cash flows from financing activities | 679,842 | 573,100 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Exploration and evaluation expenditures | (771,960) | (2,398,916) |
| Restoration, rehabilitation and environmental obligations | (1,872) | (14,130) |
| Reclamation bond refund (Note 14) | 5,171 | - |
| Purchase of office equipment (Note 11) | (10,801) | - |
| Proceeds on sale of investment (Note 10) | 180,143 | - |
| Proceeds from sale of equipment (Note 11) | 930 | 2,744 |
| Net cash flows from investing activities | (598,389) | (2,410,302) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (35) | (1,286) |
| **(Decrease) in cash and cash equivalents** | (798,694) | (2,560,719) |
| **Cash and cash equivalents, beginning of year** | 856,723 | 3,417,442 |
| **Cash and cash equivalents, end of year** | 58,029 | 856,723 |

**Supplemental disclosure with respect to cash flows** (Note 17)

**See accompanying notes to the financial statements.**

**CANADA CARBON INC. (FORMERLY BOLERO RESOURCES CORP.)**
STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED DECEMBER 31,

| | | | | *Reserves* | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Capital Stock $ | Shares to be issued $ | Equity settled share-based payments reserve $ | Warrant reserve $ | Available-for-sale revaluation reserve $ | Deficit $ | Total $ |
| Balance, December 31, 2010 | 34,999,558 | 21,313,658 | - | 1,688,754 | 1,822,656 | (51,589) | (18,772,643) | 6,000,836 |
| Issued pursuant to private placement | 2,560,000 | 269,632 | - | - | 50,368 | - | - | 320,000 |
| Acquisition of exploration properties | 150,000 | 61,500 | 8,000 | - | - | - | - | 69,500 |
| Share based compensation | - | - | - | 490,058 | - | - | - | 490,058 |
| Exercise of warrants | 825,000 | 247,500 | - | - | - | - | - | 247,500 |
| Value of warrants exercised | - | 42,653 | - | - | (42,653) | - | - | - |
| Expiry of warrants | - | - | - | - | (355,550) | - | 355,550 | - |
| Tax effect of warrant expiry | - | - | - | - | - | - | (50,000) | (50,000) |
| Exercise of options | 20,000 | 5,600 | - | - | - | | - | 5,600 |
| Value of options exercised | - | 6,570 | - | (6,570) | - | - | - | - |
| Expiry of options | - | - | - | (556,029) | - | - | 556,029 | - |
| Issue costs-cash | - | (5,196) | - | - | (971) | - | - | (6,167) |
| Net loss and comprehensive loss for the year | - | - | - | - | - | (34,770) | (1,257,689) | (1,292,459) |
| Balance, December 31, 2011 | 38,554,558 | 21,941,917 | 8,000 | 1,616,213 | 1,473,850 | (86,359) | (19,168,753) | 5,784,868 |
| Acquisition of exploration properties | 6,050,000 | 498,000 | (8,000) | - | - | - | - | 490,000 |
| Shares for services | 5,500,000 | 550,000 | - | - | - | - | - | 550,000 |
| Issued pursuant to private placement | 7,000,000 | 548,161 | - | - | 151,839 | - | - | 700,000 |
| Share based compensation | - | - | - | 310,710 | - | - | - | 310,710 |
| Expiry of warrants | - | - | - | - | (791,354) | - | 791,354 | - |
| Tax effect of warrant expiry | - | - | - | - | - | - | (104,854) | (104,854) |
| Expiry of options | - | - | - | (800,539) | - | - | 800,539 | - |
| Issue costs-cash | - | (10,956) | - | - | (3,035) | - | - | (13,991) |
| Net loss and comprehensive loss for the year | - | - | - | - | - | 86,359 | (6,181,097) | (6,094,738) |
| Balance, December 31, 2012 | 57,104,558 | 23,527,122 | - | 1,126,384 | 831,300 | - | (23,862,811) | 1,621,995 |

**See accompanying notes to the financial statements.**

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Canada Carbon Inc. (formerly Bolero Resources Corp.) (hereafter the "Company") was incorporated in British Columbia on August 13, 1985 and is listed on the TSX Venture Exchange ("TSX-V"). On September 17, 2012, the Company received shareholder approval to change its name to Canada Carbon Inc. and the name change became effective on October 5, 2012.

The Company's principal business is the acquisition and exploration and evaluation of mineral properties .In fiscal 2012 the Company positioned itself as a carbon science company focused on graphite. The Company is at the early stages of development on its projects and as such, to date, has not generated significant revenues from its operations.

The Company's head office is located at 1166 Alberni Street, Suite 605, Vancouver, BC, V6E 3Z3.

The financial statements were approved by the Board of Directors on April 22, 2013.

The Company is in the process of exploring its mineral exploration properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation expenditures are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, the achievement of profitable production, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

These financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at December 31, 2012, the Company had working capital of $47,423 and an accumulated deficit of $23,862,811 compared to working capital of $754,504 and an accumulated deficit of $19,168,753 as at December 31, 2011. These conditions suggest that there are material uncertainties related to events or conditions that may cast significant doubt about the ability of the Company to continue as a going concern. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations (See Note 22). These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

## 2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and its interpretations.

## 3. BASIS OF PRESENTATION

These financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale or held-for-trading, which are stated at their fair values. In addition these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

In the preparation of these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the year. Actual results could differ from these estimates.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**Principles of consolidation**
Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

The Company had a wholly-owned subsidiary, Montana Molybdenum Corporation ("MT Moly"), a company incorporated under the laws of Montana, U.S.A. The subsidiary was inactive for a number of years and was dissolved in the first quarter of fiscal 2012. These financial statements include the accounts of the wholly owned subsidiary up until the date of dissolution.

**Cash and cash equivalents**
Cash and cash equivalents include balances with banks and short-term investments with original maturities of 90 days or less which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and guaranteed investment certificates that are available on demand by the Company.

**Financial instruments**
Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are measured at fair value with subsequent changes in fair value recognized in the statement of loss. The Company's cash equivalents are classified as held-for-trading.

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and are measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held to maturity financial assets are recognized in the statement of loss. As at December 31, 2012 and 2011, the Company has no held-to-maturity financial assets.

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are recognized in the statement of loss. The Company's cash and receivables are classified as loans and receivables. The estimated fair values of these financial instruments approximate their carrying values because of the limited terms of these instruments.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments (Continued)**

Available-for-sale assets are those financial assets that are not classified as held-for-trading, held-to-maturity or loans or receivables, and are carried at fair value. Any gains or losses arising from the change in fair value are recorded as other comprehensive income. Available-for-sale investments are written down to fair value through operations whenever it is necessary to reflect other than temporary impairment. Cumulative gains and losses arising upon the sale of the instrument are included in operations. The Company's investments are classified as available-for-sale assets. Regular way purchases and sales of financial assets are accounted for at the trade date.

Financial liabilities that are not classified as held-to-maturity are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are recognized in the statement of loss. The Company has classified accounts payable and accrued liabilities as other financial liabilities, which are carried at amortized cost. Due to their short-term natures, the fair values of these financial instruments approximate their carrying values, and are not subject to significant credit or interest rate risk.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At December 31, 2012 and December 31, 2011, the Company's financial instruments that were carried at fair value, consisted of investments which have been classified as Level 1 within the fair value hierarchy and cash equivalents which have been classified as Level 2.

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the assets have been negatively impacted. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of the impairment and the loss is recognized in the statement of loss.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in the statement of loss.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of loss.

**Impairment of non-financial assets**

At each date of the statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount of the asset, the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the statement of loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Joint ventures**
A portion of the Company's exploration activity is conducted in cooperation with others whereby the Company enters into agreements that provide for specific percentage interests in mining properties. Joint venture accounting, which reflects the Company's proportionate interest in exploration properties, is applied by the Company when the parties enter into formal agreements for joint participation terms.

**Equipment**
Equipment is stated at cost less accumulated amortization and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Amortization is charged to income based on cost less estimated residual value of the asset using the declining balance method of amortization at the following rates:

| | |
|---|---|
| Office equipment | 20% |
| Computer equipment | 30% |

An item of equipment is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of loss.

The Company conducts an annual assessment of the residual balances, useful lives and amortization methods being used for equipment and any changes arising from the assessment are applied by the Company prospectively.

**Foreign currency translation**
The Canadian dollar is the functional and reporting currency of the Company. Under this method, all monetary assets and liabilities are translated at the rate of exchange at the statement of financial position date and non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the statement of financial position date. Income and expenses are translated at the rates approximating those at the transaction dates. Gains and losses arising from translation of foreign currency monetary assets and liabilities are recognized in the statement of loss.

**Exploration and evaluation expenditures**
All of the Company's mineral exploration property interests are in the exploration and evaluation phase. The Company records its interests in mineral properties and areas of geological interest at cost. Expenditures incurred prior to obtaining the legal right to explore are expensed. All direct and indirect costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be impairment. These costs will be amortized on the basis of units produced in relation to the reserves available on the related property following commencement of production.

The cost of mineral exploration properties includes any cash consideration paid and the fair market value of shares issued, if any, on the acquisition of property interests. Acquisition costs of properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property claim acquisition costs and their related exploration and evaluation costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company qualifies for mineral exploration assistance programs associated with the exploration of mineral properties located in British Columbia and Quebec. Recoverable amounts are offset against exploration and evaluation expenditures when the Company has complied with the terms and conditions of the program and the recovery is reasonably assured.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Exploration and evaluation expenditures (Continued)**

The Company reviews capitalized costs on its exploration and evaluation properties on a periodic basis and when events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of revenues from the property or from the sale of the property.

**Restoration, rehabilitation and environmental obligations**

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit-of-production method. Changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation impact the carrying value of the asset and liability. The related liability is adjusted each period for the unwinding of the discount rate. Discounting has not been performed on the obligations as at December 31, 2012 and December 31, 2011 as the effect of the time value of money was not material.

**Provisions**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

A provision for onerous contacts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company has no material provisions at December 31, 2012 and December 31, 2011.

**Share-based payment transactions**

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The fair value of stock options granted to employees is recognized as an expense over the vesting period with a corresponding increase in the equity settled share-based payments reserve account. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Unexercised expired stock options and warrants are transferred to deficit.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Flow-through shares**

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which offer a tax incentive to Canadian investors by transferring the tax deductibility of exploration expenditures from the Company to the investor.

The Company has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A liability is recognized for the premium paid by the investors. Upon renunciation of the flow through expenditures for Canadian income tax purposes, the liability component is derecognized and a deferred income tax liability is recognized for the taxable temporary difference created at the Company's applicable tax rate which is expected to apply in the year the deferred income tax liability will be settled. Any difference between the amount of the liability component derecognized and deferred income tax liability recognized is recorded in profit and loss.

Resource expenditure deductions for income tax purposes related to exploration and evaluation activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The Company has indemnified the subscribers of previous flow-through share offerings against any tax related amounts that became payable by the shareholder as a result of the Company not meeting its commitments.

**Income taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and to the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not set up.

**Loss per share**

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The diluted loss per share calculation excludes any potential conversion of stock options and share purchase warrants that would decrease the loss per share. During the years ended December 31, 2012 and 2011, all the outstanding stock options and warrants were anti-dilutive.

**Comprehensive loss**

Other comprehensive loss represents the change in net equity for the period that arises from unrealized gains and losses on available-for-sale financial instruments. Amounts included in other comprehensive loss are shown net of tax. Cumulative changes in other comprehensive loss are presented separately in the statement of changes in equity. The Company has classified its investments as financial instruments available for sale, and accordingly, reports other comprehensive gain or loss related to the changes in fair value on the investment at the end of each reporting period.

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of estimates**

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of the assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. The impact of these estimates is pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. Estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant estimates made by the Company include factors affecting the recoverability of exploration and evaluation expenditures, valuation of restoration, rehabilitation and environmental obligations, inputs used for share-based payment transactions, inputs used for valuation of warrants and deferred tax assets and liabilities. Actual results could differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Capitalization of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of operating facilities, operating management expertise and existing permits.

Impairment of exploration and evaluation expenditures

While assessing whether any indications of impairment exist for exploration and evaluation expenditures, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation expenditures. Internal sources of information include the manner in which exploration and evaluation expenditures are being used or are expected to be used and indications of expected economic performance of the assets. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

Estimation of decommissioning and restoration costs and the timing of expenditures

The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Use of estimates (Continued)**

Income taxes and recoverability of potential deferred tax assets
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Share-based payments
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Commitments and contingencies
See Note 20.

**Future accounting changes**
Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for accounting periods beginning after January 1, 2013 or later periods.

IFRS 9, Financial Instruments: Classification and Measurement, (“IFRS 9”) effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2015, and has not yet considered the potential impact of the adoption of IFRS 9.

IFRS 10 Consolidated Financial Statements (“IFRS 10”) provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

IFRS 11 Joint Arrangements (“IFRS 11”) replaces the guidance in IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Future accounting changes (Continued)**

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairment of Assets. Any impairment losses are recognized as an adjustment to opening deficit at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of IFRS 11 on its financial statements.

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and effective for years beginning on or after January 1, 2013, replaces the disclosure requirements currently found in IAS 28 Investments in Associates ("IAS 28"). The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows. The Company is currently evaluating the impact the introduction of IFRS 12 will have on its financial statements.

IFRS 13 Fair Value Measurement ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company has not yet determined the impact of IFRS 13 on its financial statements.

IAS 1 Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company has not yet determined the impact of the amendment on its financial statements.

IAS 28 Investments in Associates and Joint Ventures ("IAS 28") was issued by the IASB in May 2011 and supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IAS 28 also provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and joint ventures should be tested for impairment. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company has not yet determined the impact of the amendment on its financial statements.

## 5. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management considers the Company's capital structure to primarily consist of the components of shareholder's equity.

The properties in which the Company currently has an interest are in the exploration and evaluation stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the years ended December 31, 2012 and 2011. The Company is not subject to externally imposed capital requirements.

## 6. FINANCIAL RISK FACTORS

There have been no changes in the risks, objectives, policies and procedures from the previous year. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk
The Company's credit risk is primarily attributable to receivables. The receivables primarily relate to sales tax due from the Federal Government of Canada. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to its receivables is remote.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company requires additional equity funding to fund its operations.

Management believes it will be successful in raising the necessary funding; however, there is no assurance that these funds will be available on terms acceptable to the Company or at all.

Market risk
(a) Interest rate risk
The Company has cash balances and no interest-bearing debt therefore, interest rate risk is minimal.

(b) Foreign currency risk
The majority of the Company's administrative expenditures are transacted in Canadian dollars. The Company funds certain expenses in the United States on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Management does not hedge its foreign exchange risk. As at December 31, 2012, the Company had drilling and reclamation deposits of US$2,314 (Cdn$2,306), a bank balance of US$374 (Cdn$372), and restoration, rehabilitation and environmental obligations of US$4,006 (Cdn$3,992). A 1% change in foreign exchange rates between the Canadian and US dollar at December 31, 2012 would not have a material impact on the Company's financial statements.

(c) Price risk
The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(EXPRESSED IN CANADIAN DOLLARS)

## 6. FINANCIAL RISK FACTORS (Continued)

(d) Title risk
Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Sensitivity analysis
Based on management's knowledge and experience of the financial markets, the Company does not expect material movements in the underlying market risk variables over the next three-month period.

## 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are comprised of the following items:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Cash balances | $ (7,111) | $ 157,876 |
| Private placement proceeds in trust | - | 300,000 |
| Short term money market instruments | 65,140 | 398,847 |
| Total | $ 58,029 | $ 856,723 |

The Company's short term money market instruments accrued interest between 0.95% and 1.05% per annum and were redeemable at any time without penalty.

## 8. RECEIVABLES

The receivables balance is comprised of the following items:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Sales tax due from Federal Government | $ 43,680 | $ 270,246 |

## 9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Reclamation deposit (Note 14) | $ 14,000 | $ - |
| Rent and security deposit | 3,833 | 5,024 |
| Insurance | 3,834 | 4,167 |
| Investor relations and communications | - | 1,710 |
| Other | 675 | 344 |
| Total | $ 22,342 | $ 11,245 |

(EXPRESSED IN CANADIAN DOLLARS)

## 10. INVESTMENTS

In May 2010, the Company purchased 20,000 shares of Superior Plus Corp. for $273,189. The Company held the investment for its investment income potential and as such classified the investment as available-for-sale. In fiscal 2011, management believed the drop in the value of the investment reflected a permanent impairment of approximately $71,830 and reflected this decline in the statement of loss. The fair value of the investment at December 31, 2011 was $115,000. The Company sold the investment in September 2012 for net proceeds of $180,143.

## 11. EQUIPMENT

| | Office Equipment $ | Computer equipment $ | Total $ |
|---|---|---|---|
| **Cost** | | | |
| Balance, December 31, 2010, December 31, 2011 | 1,946 | 7,178 | 9,124 |
| Add: acquisitions | 10,801 | - | 10,801 |
| Less: disposals | (1,946) | (7,178) | (9,124) |
| Balance, December 31, 2012 | 10,801 | - | 10,801 |
| **Accumulated amortization** | | | |
| Balance, December 31, 2010 | 1,111 | 5,085 | 6,196 |
| Amortization | 167 | 628 | 795 |
| Balance, December 31, 2011 | 1,278 | 5,713 | 6,991 |
| Amortization | 640 | 220 | 860 |
| Less: disposals | (1,378) | (5,933) | (7,311) |
| Balance, December 31, 2012 | 540 | - | 540 |
| **Carrying Value** | | | |
| At December 31, 2010 | 835 | 2,093 | 2,928 |
| At December 31, 2011 | 668 | 1,465 | 2,133 |
| At December 31, 2012 | 10,261 | - | 10,261 |

During fiscal 2012, the Company sold equipment for gross proceeds of $930. The carrying value of the equipment had been written off in prior years, therefore a gain of $930 on sale of the equipment has been recorded in the statement of loss. In addition, the Company disposed of office equipment and computer equipment for $nil consideration and wrote off the net book values of $568 and $1,245, respectively.

For the year ended December 31, 2011, the Company received proceeds of $2,744 on the sale of equipment. The book value of the equipment had previously been written off; therefore, the Company has recorded a gain on the sale equal to the value of the proceeds.

(EXPRESSED IN CANADIAN DOLLARS)

## 12. EXPLORATION AND EVALUATION EXPENDITURES

At December 31, 2012, expenditures incurred on mineral exploration properties were as follows:

| | Red Chris South, British Columbia | Rare Earth Claims, British Columbia | Yukon Prospect, Yukon | Charge Property, British Columbia | Maria Township Graphite Property, Ontario | Asbury Graphite Property, Quebec | Miller, Walker and Dun Raven Properties, Quebec | Year ended December 31, 2012 |
|---|---|---|---|---|---|---|---|---|
| Acquisition costs: | | | | | | | | |
| Balance, beginning of year | $ 229,160 | $ 789,393 | $ 211,515 | $ 83,306 | $ - | $ - | $ - | $ 1,313,374 |
| Additions during the year | - | - | - | - | 251,702 | 654,379 | 11,000 | 917,081 |
| | 229,160 | 789,393 | 211,515 | 83,306 | 251,702 | 654,379 | 11,000 | 2,230,455 |
| Less: write offs | (229,160) | (789,393) | (62,794) | (83,306) | - | - | - | (1,164,653) |
| Balance, end of year | - | - | 148,721 | - | 251,702 | 654,379 | 11,000 | 1,065,802 |
| Deferred exploration costs: | | | | | | | | |
| Balance, beginning of year | 1,176,587 | 2,173,300 | 76,296 | 159,114 | - | - | - | 3,585,297 |
| Assays | - | (5,800) | - | - | - | - | - | (5,800) |
| Field supplies | - | - | - | - | - | 74 | - | 74 |
| Geologists, consultants and other labour | 15,016 | 35,776 | 625 | 5,830 | - | 400,544 | - | 457,791 |
| Excavation, drilling and transportation | 84 | 43 | - | 60 | - | - | - | 187 |
| Licences, permits and maintenance fees | 22,069 | - | (39) | - | - | - | - | 22,030 |
| Travel, meals and accommodation | - | - | - | - | - | 9,946 | - | 9,946 |
| Admin and other expenses | 3,276 | 7,201 | - | 2,675 | - | 40 | - | 13,192 |
| Additions during the year | 40,445 | 37,220 | 586 | 8,565 | - | 410,604 | - | 497,420 |
| | 1,217,032 | 2,210,520 | 76,882 | 167,679 | - | 410,604 | - | 4,082,717 |
| Less: write offs | (1,217,032) | (2,210,520) | ( 4,324) | (167,679) | - | - | - | (3,599,555) |
| Balance, end of year | - | - | 72,558 | - | - | 410,604 | - | 483,162 |
| Total | $ - | $ - | $ 221,279 | $ - | $ 251,702 | $ 1,064,983 | $ 11,000 | $ 1,548,964 |

Expenditures incurred during the year ended December 31, 2012 for properties written off in prior years are charged directly to the statement of loss.

(EXPRESSED IN CANADIAN DOLLARS)

## 12. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

At December 31, 2011, expenditures incurred on mineral exploration properties were as follows:

| | Red Chris South, British Columbia | Rare Earth Claims, British Columbia | Yukon Prospect, Yukon | Charge Property, British Columbia | Year ended December 31, 2011 |
|---|---|---|---|---|---|
| Acquisition costs: | | | | | |
| Balance, beginning of year | $ 229,160 | $ 772,793 | $ 211,404 | $ - | $ 1,213,357 |
| Additions during the year | - | 16,600 | 111 | 83,306 | 100,017 |
| Balance, end of year | 229,160 | 789,393 | 211,515 | 83,306 | 1,313,374 |
| Deferred exploration costs: | | | | | |
| Balance, beginning of year | 503,191 | 689,829 | 27,456 | - | 1,220,476 |
| Assays | 23,497 | 13,527 | 5,441 | 16,245 | 58,710 |
| Surveys, reports, maps | - | 346,238 | - | - | 346,238 |
| Rental of equipment and facilities | 288 | 12,084 | 1,010 | 1,488 | 14,870 |
| Field supplies | 12,120 | 15,862 | 119 | 387 | 28,488 |
| Geologists and other labour | 107,646 | 203,146 | 11,288 | 28,460 | 350,540 |
| Excavation/drilling/transportation | 459,355 | 758,218 | 5,480 | 57,774 | 1,280,827 |
| Licences, permits and maintenance fees | 100 | 32,144 | 15,866 | 13,424 | 61,534 |
| Travel, meals and accommodation | 52,428 | 71,703 | 4,464 | 30,644 | 159,239 |
| Admin and other expenses | 17,962 | 30,549 | 5,172 | 10,692 | 64,375 |
| Additions during the year | 673,396 | 1,483,471 | 48,840 | 159,114 | 2,364,821 |
| Balance, end of year | 1,176,587 | 2,173,300 | 76,296 | 159,114 | 3,585,297 |
| Total | $ 1,405,747 | $ 2,962,693 | $ 287,811 | $ 242,420 | $ 4,898,671 |

Expenditures incurred during the year ended December 31, 2011 for properties written off in prior years are charged directly to the statement of loss.

**Maria Township Graphite Property, Ontario, Canada**

In May 2012, the Company entered into a purchase agreement with an arm's length vendor to acquire 38 prospective, large-flake graphite mineral claims located in the Maria Township in Ontario. Pursuant to the agreement, the Company paid $100,000 and issued 1,000,000 common shares, valued at $140,000 to the vendor. In addition, the Company granted to the vendor, a 2% net smelter return royalty (“NSR”) and a production royalty equal to $25 per tonne of all graphite mined from the property. The Company may reduce the NSR to 1% by paying $1,000,000 to the vendor and additionally may reduce the production royalty to $12.50 per tonne by paying $500,000 to the vendor.

**Asbury Graphite Property, Quebec, Canada**

In August 2012, the Company entered into an agreement with Uragold Bay Resources Inc. (“Uragold” or “UBR”) for the purchase of UBR’s Asbury mining claims. Under the terms of the agreement, the Company was required to make an initial contribution of $30,000 (paid) to UBR and a second cash payment of $70,000 (paid) within thirty days of the signed term sheet. The Company and UBR entered into a definitive agreement for the acquisition of the Asbury mining claims on August 29, 2012. As consideration for the transfer and sale of the claims and related assets, the Company paid $200,000 and issued 5,000,000 common shares (valued at $350,000) to Uragold. In addition, the Company will pay a yearly royalty of 0.75% on the net production returns for a period of 10 years after the start of graphite production.

**Miller, Walker and Dun Raven Properties, Quebec, Canada**

In December 2012, the Company entered into a term sheet with 9228-6202 Quebec Inc. to acquire certain mining claims in relation to three properties: the Miller, Walker and Dun Raven mines located in Quebec, Canada. A purchase and transfer agreement for each property was signed on January 7, 2013.

## 12. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

**Miller, Walker and Dun Raven Properties, Quebec, Canada (Continued)**

Pursuant to the terms of the Miller purchase and transfer agreement, the Company is to make an initial contribution of $5,000 (paid) and is to make a second cash payment of $45,000 (paid subsequent to year-end on April 1, 2013) and is to pay a yearly royalty of 2% on the net production returns. As further consideration, the Company is to issue 1,000,000 common shares to the vendor on closing (See Note 22) and a conditional payment of 1,000,000 shares on the first anniversary date of the closing after the Company makes certain expenditures of up to $250,000 and confirms specific defined quality, grade and feasibility targets.

Pursuant to the terms of the Walker purchase and transfer agreement, the Company is to make an initial contribution of $5,000 (paid) and is to make a second cash payment of $45,000 and will pay a yearly royalty of 2.0% on the net production returns. As further consideration, the Company is to issue 1,500,000 common shares to the vendor on closing (See Note 22) and a conditional payment of 1,000,000 shares on the first anniversary date of the closing after the Company makes certain expenditures of up to $250,000 and confirms specific defined quality, grade and feasibility targets. Subsequent to December 31, 2012, the Company decided to no longer pursue this property.

Pursuant to the terms of the Dun Raven purchase and transfer agreement, the Company is to make an initial contribution of $1,000 (paid) and is to make a second cash payment of $9,000 (paid subsequent to year-end on April 1, 2013) and is to pay a yearly royalty of 2.0% on the net production returns. As further consideration, the Company is to issue 250,000 common shares to the vendor (See Note 22) and a conditional payment of 250,000 shares on the first anniversary date of the closing after the Company makes certain expenditures of up to $100,000 and confirms specific defined quality, grade and feasibility targets.

**Red Chris South Property, British Columbia, Canada**

Between December 2009 and September 2010, the Company entered into a number of agreements to purchase interests in claims in the Red Chris South acres of north-western British Columbia. As consideration for the acquisitions, the Company paid $33,000 and issued 465,000 shares valued at $178,000. A finder's fee of 15,000 common shares (issued and valued at $9,000) was paid in relation to one of the acquisitions.

The Company obtained an $8,000 reclamation bond in relation to the drilling permits for the Red Chris South property.

During fiscal 2012, the Company decided that due to its focus shift to graphite and the lack of funds to continue to explore all of its mineral interests, it was unlikely that future exploration would occur on the Red Chris South property for the foreseeable future, therefore, the capitalized costs were written off accordingly.

## 12. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

**Rare Earth Claims, British Columbia, Canada**

In March 2010, the Company entered into an acquisition agreement to acquire a 100% interest in the Carbonatite Syndicate Rare Earth Claim Group. As consideration for the acquisition, the Company issued 1,500,000 common shares valued at $405,000 and 500,000 purchase warrants for common stock of the Company valued at $101,884. The vendors retained a 1% NSR with a 0.5% buyout for $500,000. A finder's fee of 150,000 common shares (issued and valued at $40,500) was paid in relation to this agreement.

From May to November 2010 the Company acquired a 100% interest in claims adjoining the Carbonatite Syndicate Rare Earth Claim Group which was acquired in March 2010 for cash of $39,131 and 500,000 common shares valued at $117,500.

In December 2010, the Company entered into an arm's length agreement to acquire an 80% interest in the Cougar property which consists of five mineral claims contiguous to the Company's previously acquired Carbonatite Syndicate Rare Earth Claim Group. As consideration for the acquisition, the Company paid $15,000 and issued 150,000 common shares valued at $55,500. In addition, the Company reimbursed the vendor $8,622 for the claims renewal costs

The Company obtained a $5,000 reclamation bond in relation to the drilling permits for the Rare Earth property.

During fiscal 2012, the Company decided that due to its focus shift to graphite and the lack of funds to continue to explore all of its mineral interests, it was unlikely that future exploration would occur on the Rare Earth Claim Group for the foreseeable future, therefore, the capitalized costs were written off accordingly.

**Charge Property, British Columbia, Canada**

During the year ended December 31, 2011, the Company acquired a 100% interest in the Charge Rare Earth Element prospect, located in Northern British Columbia, for consideration of $2,500 and 150,000 common shares issued for a value of $61,500.

During fiscal 2012, the Company decided that due to its focus shift to graphite and the lack of funds to continue to explore all of its mineral interests, it was unlikely that future exploration would occur on the Charge Property claims for the foreseeable future therefore, the capitalized costs were written off accordingly.

(EXPRESSED IN CANADIAN DOLLARS)

## 12. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

**Yukon Prospect, Yukon, Canada**
In September 2010, the Company acquired a 100% interest in 128 claims in two claim blocks in the White Gold District/Stewart River Area of the Yukon. As consideration for the acquisition of the claims, the Company issued 800,000 common shares to the vendors valued at $208,000. During fiscal 2012, the Company decided based on the results of previous work programs that it would no longer pursue one of the claims blocks and the capitalized costs were written off accordingly.

**Arcadia Bay, Nunavut, Canada**
In August 2007, the Company entered into an option and joint venture agreement to acquire a 50% interest in the Arcadia Property, an area of Inuit-owned land located in Canada's Nunavut territory from Alix Resources Corp. ("Alix"). Alix and the Company had an officer in common at the time of signing the agreement. Under the terms of the option and joint venture agreement, the Company paid $15,000, issued 7,500 common shares of the Company valued at $34,500, and completed $600,000 worth of exploration work.

On May 26, 2008, the Company met all of its obligations under the option and joint agreement and a joint venture was established. While the Company continues to retain its joint venture ownership of the Arcadia property, it does not anticipate any exploration activity on the property in the foreseeable future and accordingly the acquisition and deferred exploration costs were written off in 2009.

## 13. DRILLING AND RECLAMATION DEPOSITS

The following table details the outstanding drilling and reclamation deposits:

| Property | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Red Chris South | $ 8,041 | $ 8,041 |
| Rare Earth | 5,000 | 5,000 |
| Bald Butte / Cannivan Gulch | 2,306 | 7,505 |
| **Total** | $ 15,347 | $ 20,546 |

## 14. RESTORATION, REHABILITATION AND ENVIRONMENTAL OBLIGATIONS

The Company performed reclamation work on its former Bald Butte and Cannivan Gulch properties during 2010. The Company was responsible for weed control on the two properties for up to three years. The Company met its obligations on the Cannivan Gulch property and the Department of Environmental Quality ("DEQ") released the Cannivan Gulch bond for US$5,046 in July 2012. The Company continues to be responsible for weed control on Bald Butte until 2013. A bond of $2,306 (US$2,314) is being held by the DEQ until the Company has met that commitment. It is estimated that the weed control obligation on Bald Butte will be approximately $3,992 (US$4,006).

The Company set up a $28,000 obligation to reclaim the Arcadia Property at December 31, 2010 of which $14,000 was incurred during 2011 and $14,000 remains outstanding at December 31, 2012 (2011 - $14,000). Included in prepaid expenses is $14,000 (2011 - $nil) to the Company's joint venture partner for the Company's portion of reclamation work to be performed.

The Company has recorded an obligation of $10,000 for the Rare Earth Property and $5,000 for the Red Chris South Property to reclaim the disturbance caused by the work programs. The reclamation work on the Canadian properties is expected to be carried out within the next 12 months.

(EXPRESSED IN CANADIAN DOLLARS)

## 14. RESTORATION, REHABILITATION AND ENVIRONMENTAL OBLIGATIONS (Continued)

The following is an analysis of the restoration, rehabilitation and environmental obligations:

| | |
|---|---|
| Balance, December 31, 2010 | $ 39,001 |
| Additions | 10,000 |
| Reductions | (14,130) |
| Foreign exchange | 115 |
| Balance, December 31, 2011 | 34,986 |
| Reductions | (15,872) |
| Foreign exchange | (122) |
| Balance, December 31, 2012 | $ 18,992 |

## 15. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, Executive Officers and any companies owned or controlled by them.

*Trading transactions*
The Company entered into the following transactions with related parties

| | | | Years ended | |
|---|---|---|---|---|
| | Nature of transactions | Notes | December 31, 2012 | December 31, 2011 |
| West Oak Capital | Management | a | $ 120,000 | $ 120,000 |
| O2 Ltd. | Management/Consulting fees | b | $ 450,000 | $ - |
| Olga Nikitovic | Professional fees | c | $ 60,000 | $ 60,000 |
| Roger Steininger | Consulting fees | d | $ 18,238 | $ 20,346 |
| Aird & Berlis | Professional fees | e | $ 69,497 | $ 18,137 |

a) West Oak Capital is owned by R. B. Duncan, the Company's former President and CEO and current Chairman of the Board. The fees paid to West Oak Capital relate to management fees.

b) O2 Ltd. is owned by Paul Ogilvie who became the Company's CEO on May 23, 2012. In addition to monthly fees, 2,500,000 shares valued at $250,000 were issued to Mr. Ogilvie pursuant to his consulting contract. The issuance of shares received regulatory and shareholder approval. $380,000 of the fees are included in management fees and $70,000 of the fees are included in consulting fees charged to exploration and evaluation expenditures.

c) Olga Nikitovic is the CFO for the Company. The fees paid relate to financial management and accounting services which are charged to professional fees.

d) Roger Steininger is a former director of the Company. Fees paid relate to geological consulting which are charged to exploration and evaluation expenditures.

e) Tom Fenton, Corporate Secretary for the Company is a partner with Aird & Berlis, LLP. Fees relate to legal services of which $64,324 (2011 - $11,980) is included in professional fees and $5,173 (2011 – $6,167) is included in share issue costs. As at December 31, 2012, $7,171 (2011 - $6,274) is included in accounts payable. These amounts are unsecured, non-interest bearing and due on demand.

(EXPRESSED IN CANADIAN DOLLARS)

## 15. RELATED PARTY TRANSACTIONS (Continued)

During fiscal 2011, pursuant to the December flow-through private placement described in Note 16, one officer of the Company subscribed for a total of 160,000 units for gross proceeds of $20,000.

*Compensation of key management personnel*

| | | Years ended | |
|---|---|---|---|
| | Notes | December 31, 2012 | December 31, 2011 |
| Salaries | a | $ 380,000 | $ 180,000 |
| Share-based payments | b | $ 344,906 | $ 61,721 |
| | | $ 724,906 | $ 241,721 |

a) The Company does not pay any directors' fees nor does the Company pay any health or post employment benefits. The salaries represent the fees for the CEO, Chairman of the Board and CFO which are included in trading transactions above.
b) Share-based payments include the fair value of options and shares issued for services granted to key management and directors.

## 16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

**Capital Stock**
The Company has authorized an unlimited number of common shares without par value. As at December 31, 2012, the Company had 57,104,558 common shares outstanding (2011 – 38,554,558).

Common shares issued for mineral exploration property interests are valued based on the quoted price of the shares on the date of issue.

i) In March 2012, the Company issued 50,000 shares valued at $8,000 pursuant to the amended Cougar Earth Element property acquisition agreement.

ii) In May 2012, the Company issued 1,000,000 shares valued at $140,000 for the acquisition of the Maria Township graphite claims.

iii) On September 17, 2012, the Company issued 5,500,000 shares valued at $550,000 based on the fair value of the shares on the grant date as inducement shares pursuant to the terms of certain consulting contracts. The cost of the shares has been reflected in the accounts in which the fees of each consultant normally are charged. Accordingly, $250,000 is reflected in management fees, $200,000 is reflected in exploration and evaluation expenditures, $50,000 in professional fees and $50,000 in shareholder communications and promotion.

iv) In October 2012, the Company closed a private placement in which it issued 7,000,000 units for gross proceeds of $700,000 of which $151,839 was allocated to warrants. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable into one common share for an exercise price of $0.20 per share for a period of two years. Total issue costs were $13,991 of which $3,035 was allocated to warrants.

v) In December 2012, the Company issued 5,000,000 shares valued at $350,000 for the acquisition of the Asbury graphite property.

vi) During 2011, 825,000 warrants exercisable at $0.30 and 20,000 options exercisable at $0.28 were exercised.

vii) In February 2011, the Company issued 150,000 shares valued at $61,500 pursuant to the Charge Rare Earth Element property acquisition agreement.

(EXPRESSED IN CANADIAN DOLLARS)

## 16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

**Capital Stock (Continued)**

viii) On December 22, 2011, the Company closed a non-brokered private placement in which it issued 2,560,000 flow-through units at $0.125 per unit for gross proceeds of $320,000 of which $50,368 was allocated to warrants. Each unit consisted of one flow-through common share and one half non-flow-through share purchase warrant. Each full warrant entitles the holder to purchase one common share for $0.18 for a period of two years. There was no commission payable on the transaction. Total issue costs were $6,167 of which $971 was allocated to the warrants. An officer of the Company subscribed for 160,000 units for gross proceeds of $20,000.

**Share Purchase Warrants**

At December 31, 2012, warrants were outstanding enabling holders to acquire shares as follows:

| Expiry Date | Exercise Price $ | Number of Shares | Remaining contractual life (years) | Currently exercisable | Remaining contractual life (years) |
|---|---|---|---|---|---|
| December 22, 2013 | 0.18 | 1,280,000 | 0.98 | 1,280,000 | 0.98 |
| October 4, 2014 (i) | 0.30 | 4,000,000 | 1.76 | 4,000,000 | 1.76 |
| October 5, 2014 | 0.20 | 7,000,000 | 1.76 | - | - |
| October 28, 2014 (ii) | 0.30 | 4,755,000 | 1.83 | 4,755,000 | 1.83 |
| | | 17,035,000 | 1.72 | 10,035,000 | 1.69 |

(i) On October 2, 2012, the TSX-V consented to the extension of the expiry date of the warrants from October 4, 2012 to October 4, 2014.

(ii) On October 26, 2011, the TSX-V consented to the extension of the expiry date of the warrants from October 28, 2011 to October 28, 2014.

The following is a summary of the warrant transactions for the years ended December 31, 2012 and 2011.

| | Year ended December 31, 2012 | | Year ended December 31, 2011 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price $ | Number of Warrants | Weighted Average Exercise Price $ |
| Balance, beginning of year | 14,445,000 | 0.37 | 15,505,197 | 0.41 |
| Warrants issued pursuant to private placements | 7,000,000 | 0.20 | 1,280,000 | 0.18 |
| Warrants expired | (4,410,000) | 0.55 | (1,515,197) | 0.78 |
| Warrants exercised | - | - | (825,000) | 0.30 |
| Balance, end of year | 17,035,000 | 0.25 | 14,445,000 | 0.37 |

(EXPRESSED IN CANADIAN DOLLARS)

**16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)**

**Share Purchase Warrants (Continued)**

The Company has recognized an income tax recovery of $104,854 (2011 - $50,000) related to the tax impact of the expiry of warrants.

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants issued during the years ended December 31, 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| Risk-free interest rate | 1.14% | 1.16% |
| Expected dividend yield | 0.00% | 0.00% |
| Expected stock volatility | 94% | 134% |
| Expected warrant life in years | 2.0 years | 2.8 years |

**Stock Options**

The Company is authorized to grant to directors, employees and consultants up to 20% of the issued and outstanding capital stock of the Company. Under the plan, the exercise price of each option equals the market price, less any applicable discounts of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

As at December 31, 2012, the following incentive stock options were outstanding:

| | | Options Outstanding | | Options Exercisable | |
|---|---|---|---|---|---|
| Expiry Date | Exercise Price $ | Number of Options Outstanding | Weighted average remaining contractual life (years) | Number of Options Vested | Weighted average remaining contractual life (years) |
| March 7, 2013 | 3.00 | 115,000 | 0.19 | 115,000 | 0.19 |
| May 9, 2013 | 2.00 | 10,000 | 0.36 | 10,000 | 0.36 |
| July 30, 2014 | 0.25 | 197,000 | 1.58 | 197,000 | 1.58 |
| April 1, 2015 | 0.28 | 60,000 | 2.25 | 60,000 | 2.25 |
| December 29, 2015 | 0.50 | 800,000 | 3.00 | 800,000 | 3.00 |
| July 19, 2016 | 0.35 | 500,000 | 3.55 | 472,222 | 3.55 |
| May 17, 2017 | 0.20 | 1,000,000 | 4.38 | 1,000,000 | 4.38 |
| June 15, 2017 | 0.20 | 1,500,000 | 4.46 | 1,500,000 | 4.46 |
| October 1, 2017 | 0.20 | 250,000 | 4.75 | - | - |
| | | 4,432,000 | 3.59 | 4,154,222 | 3.76 |

(EXPRESSED IN CANADIAN DOLLARS)

## 16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

### Stock Options (Continued)

The following is a summary of the stock option transactions for the years ended December 31, 2012 and 2011.

| | Year ended December 31, 2012 | | Year ended December 31, 2011 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ |
| Balance, beginning of the year | 2,253,667 | 0.83 | 2,067,000 | 1.12 |
| Options granted | 3,000,000 | 0.20 | 500,000 | 0.35 |
| Options forfeited | (250,000) | 0.20 | (58,333) | 0.50 |
| Options expired | (571,667) | 1.49 | (235,000) | 2.57 |
| Options exercised | - | - | (20,000) | 0.28 |
| Balance end of year | 4,432,000 | 0.35 | 2,253,667 | 0.83 |

### Share-Based Compensation

The Company appointed a new CEO in May 2012. Pursuant to the terms of the contract for the new CEO, the Company would issue 2,500,000 fully paid, non-assessable common shares and grant 1,000,000 options exercisable at $0.20 for a period of five years. The options vest over a period of six months. The share grant was subject to shareholder and regulatory approval. In September 2012, all necessary approvals were obtained and the shares were issued for a value of $250,000. The fair value of the options granted was $94,906.

In June 2012, the Company entered into consulting contracts with seven individuals, or corporations controlled by individuals, to provide various duties and services to the Company. Pursuant to the terms of the contracts, the Company would issue 3,500,000 fully paid, non-assessable common shares and grant 1,750,000 options exercisable at $0.20 for a period of five years. The options vest over a period of six months. The fair value of the options granted was $141,817. The share grant was subject to shareholder and regulatory approval. In August 2012, one of the contracts was terminated and as a result 500,000 shares ceased to be payable and 250,000 options were forfeited. In September 2012, all necessary approvals were obtained and the shares were issued for a value of $300,000.

In October 2012, the Company entered into consulting contracts with two individuals to provide various duties and services to the Company. Pursuant to the terms of the contracts, the Company would issue fully paid, non-assessable common shares worth $50,000 at the end of the agreement term and grant 250,000 options exercisable at $0.20 for a period of five years. The options vest over a period of six months. The fair value of the options granted was $14,802. The shares were issued in April 2013. See Note 22(v).

During the year ended December 31, 2011, 500,000 options were granted at an exercise price of $0.35 for a period of five years with a fair value of $154,303.

Total share-based compensation derived from stock options for the year ended December 31, 2012 was $310,710 (2011 - $490,058) which has been expensed with a corresponding amount being recorded in the equity settled share-based payments reserve.

(EXPRESSED IN CANADIAN DOLLARS)

## 16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

**Share-Based Compensation (Continued)**

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted during the years ended December 31, 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| Risk-free interest rate | 1.22% | 2.19% |
| Expected dividend yield | 0.00% | 0.00% |
| Expected stock volatility | 128% | 128% |
| Expected option life in years | 5.0 years | 5.0 years |

## 17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the year ended December 31, 2012 consisted of:

a) The issuance of 1,000,000 common shares of the Company valued at $140,000 pursuant to the acquisition of the Maria Township graphite claims.

b) The issuance of 2,000,000 common shares of the Company valued at $200,000 pursuant to terms of consulting contracts is included in exploration and evaluation expenditures.

c) The issuance of 5,000,000 common shares of the Company valued at $350,000 pursuant to the acquisition of the Asbury property.

d) Decrease in shares to be issued of 50,000 common shares of the Company valued at $8,000 pursuant to the amended Cougar Rare Earth Element property agreement.

e) A decrease in restoration, rehabilitation and environmental obligations of $122.

f) A decrease in drilling and reclamation deposits of $28.

g) A decrease in accrued exploration and evaluation expenditures of $30,770.

h) A decrease in accrued share issuance costs of $6,167.

Significant non-cash investing and financing transactions for the year ended December 31, 2011 consisted of:

a) The issuance of 150,000 common shares of the Company valued at $61,500 pursuant to the Charge Rare Earth Element property agreement.

b) The charge for the future issuance of 10,000 shares valued at $8,000 pursuant to the Cougar property agreement.

c) The increase in restoration, rehabilitation and environmental obligations of $115.

d) The increase in drilling and reclamation deposits of $185.

e) An increase in accrued exploration and evaluation expenditures of $522.

f) An increase in accrued share issuance costs of $6,167.

(EXPRESSED IN CANADIAN DOLLARS)

**18. INCOME TAXES**

a) A reconciliation of income taxes at the statutory rate of 26% (2011 – 28%) is as follows:

| | 2012 | 2011 |
|---|---|---|
| Loss for the year before income taxes | $ (6,285,951) | $ (1,307,689) |
| Expected income tax (recovery) | $ (1,666,000) | $ (366,000) |
| Share issue costs | (4,000) | (2,000) |
| Change in expected tax rate | (190,000) | 18,000 |
| Expenses not deductible for income tax purposes | 82,000 | 192,000 |
| Flow-through renunciation | 85,000 | 575,000 |
| Loss of tax assets on disposition of subsidiary | 29,000 | - |
| Other | 3,146 | - |
| Change in deferred tax assets not recognized | 1,556,000 | (467,000) |
| Total income tax (recovery) | $ (104,854) | $ (50,000) |

b) The significant components of the Company’s unrecognized deferred income tax assets are as follows:

| | 2012 | 2011 |
|---|---|---|
| Deferred income tax assets: | | |
| Exploration properties | $ 3,890,000 | $ 2,268,000 |
| Non-capital loss carry-forwards | 823,000 | 848,000 |
| Other assets | 34,000 | 75,000 |
| Deferred income tax assets not recognized | $ 4,747,000 | $ 3,191,000 |

The Company has available for deduction against future taxable income, Canadian non-capital losses of approximately $3,106,000. Subject to certain restrictions, the Company also has resource expenditures of approximately $16,229,000 available to reduce taxable income in Canada in future years.

The non-capital losses if not used, will expire as follows:

| Year | Canadian losses Amount |
|---|---|
| 2015 | $ 579,000 |
| 2026 | 849,000 |
| 2027 | 669,000 |
| 2028 | 605,000 |
| 2029 | 234,000 |
| 2030 | 170,000 |
| | $ 3,106,000 |

(EXPRESSED IN CANADIAN DOLLARS)

## 19. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of mineral properties in Canada. As the operations comprise in a single reporting segment, amounts disclosed in the financial statements also represent segment amounts.

## 20. COMMITMENTS AND CONTINGENCIES

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

In May 2012, the Company entered into two year employment contracts with its CEO and CFO for $10,000 and $5,000 per month respectively. The Company is committed to pay $180,000 per annum with respect to these contracts. These contracts contain clauses requiring additional payments of up to $180,000 to be made upon the occurrence of certain events such as change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements.

In August 2012, the Company entered into a lease for office premises which commits the Company to monthly payments of $3,833 plus applicable taxes for a period of two years (See Note 22(iv)).

## 21. CHANGE IN ACCOUNTING POLICY

In a report dated July 19, 2012, the Accounting Standards Board's IFRS Discussion Group concluded that the accounting under IFRS for the modification of warrants issued as part of a private placement unit should not trigger an expense; rather the modification would trigger a reclassification within equity, or alternatively no recognition at all. In consideration of this new guidance, the Company has elected to change its policy to not value private placement warrant modifications. This policy change has been applied retrospectively.

The impact on the statement of financial position as at December 31, 2011 and the statements of loss and comprehensive loss for the year ended December 31, 2011 is as follows:

| | December 31, 2011, Original $ | Changes $ | December 31, 2011, Restated $ |
|---|---|---|---|
| Warrant reserve | 2,184,711 | (710,861) | 1,473,850 |
| Shareholder communication and promotion expense for the year ended | 860,719 | (710,861) | 149,858 |
| Net loss for the year ended | 1,968,550 | (710,861) | 1,257,689 |
| Deficit | (19,879,614) | 710,861 | (19,168,753) |

## 22. SUBSEQUENT EVENTS

i) In January 14, 2013, the Company issued 2,750,000 shares pursuant to the Miller, Walker and Dun Raven purchase and transfer agreements for a value of $247,500. On April 1, 2013, the Company paid $54,000 pursuant to the Miller and Dun Raven purchase and transfer agreements and terminated its interest in the Walker property.

ii) On March 6, 2013, the Company closed a non-brokered private placement of 3,750,000 units at $0.10 per unit and 1,250,000 flow-through units at $0.10 per unit for aggregate gross proceeds of $500,000. Each unit consisted of one common share and one common share purchase warrant. Each flow-through unit consisted of one flow-through common share and one non-flow-through warrant. Each warrant is exercisable for the purchase of an additional common share for a period of two years from closing at $0.20 per common share. 12,000 finder's warrants were issued and $1,200 in finder's fees were paid in connection with the private placement. The finder's warrants are exercisable at $0.10 for two years from closing. The Company has indemnified the subscribers of the flow-through financing against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its commitments. The Company is obligated to spend approximately $125,000 by December 31, 2014 as part of the flow-through funding agreement.

iii) On March 7, 2013, 115,000 options exercisable at $3.00 per share expired.

iv) On April 1, 2013, the Company assigned all of its office lease obligations to a third party.

v) In April 2013, the Company issued 588,236 shares valued at $50,000 pursuant to the termination terms of two consulting contracts that were entered into on October 1, 2012.

vi) In April 2013, the Company entered into an agreement with a third party to acquire three graphite claims contiguous to the Miller graphite claims purchased in January 2013. As consideration for the purchase, the Company will issue 75,000 common shares. In addition the Company granted the vendor a 2% NSR which can be reduced to 1% for a payment of $1,000,000.