CANADA CARBON INC.

CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012
(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED - PREPARED BY MANAGEMENT)
These financial statements have not been reviewed by the Company's auditor.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim financial statements of Canada Carbon Inc. for the three and six month period ended June 30, 2013 has been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors. Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

CANADA CARBON INC.
UNAUDITED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

	June 30, 2013 $	December 31, 2012 $
ASSETS		
Current		
Cash and cash equivalents (Note 7)	136,078	58,029
Receivables (Note 8)	9,301	43,680
Prepaid expenses (Note 9)	22,250	22,342
Total current assets	167,629	124,051
Equipment (Note 11)	-	10,261
Exploration and evaluation expenditures (Notes 12 and 15)	1,837,713	1,548,964
Drilling and reclamation deposits (Note 13)	15,357	15,347
Total assets	2,020,699	1,698,623
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	53,224	43,636
Restoration, rehabilitation and environmental obligations (Note 14)	28,212	32,992
Total current liabilities	81,436	76,628
Shareholders' equity		
Capital stock (Note 16)	24,201,467	23,527,122
Reserves	1,733,314	1,957,684
Deficit	(23,995,518)	(23,862,811)
Total shareholders' equity	1,939,263	1,621,995
Total liabilities and shareholders' equity	2,020,699	1,698,623

Nature and continuance of operations (Note 1)
Commitments and contingencies (Note 19)
Subsequent events (Note 20)

On behalf of the Board:

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

See accompanying notes to the financial statements.

CANADA CARBON INC.
UNAUDITED CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
EXPENSES				
Amortization	$ -	$ 143	$ 513	$ 286
Management fees (Note 15)	30,000	80,000	128,750	110,000
Consulting fees	12,000	16,000	28,000	30,500
Sales and marketing costs	-	2,500	95,929	2,500
Professional fees (Notes 15)	25,014	50,350	57,759	65,350
Office, rent and miscellaneous	10,965	15,178	46,299	23,157
Shareholder communications and promotion	2,316	21,299	41,449	29,009
Share based compensation (Note 16)	66,662	100,955	69,790	146,451
Property investigation costs	-	19,466	-	19,466
Transfer agent and filing fees	6,346	4,743	13,845	11,895
Travel and accommodation	-	-	226	-
Loss before impairments and other (income) expenses	153,303	310,634	482,560	438,614
OTHER ITEMS				
Foreign exchange loss (gain)	47	(662)	121	(188)
Investment income	(185)	(3,866)	(207)	(7,897)
Write off of exploration and evaluation expenditures	271	14,100	142,258	14,100
Gain on disposal of exploration and evaluation expenditures	(95,000)	-	(95,000)	-
Loss (gain) on disposal of equipment	9,748	(930)	9,748	(930)
Loss for the period	$ 68,184	$ 319,276	$ 539,480	$ 443,699
Income tax recovery (Note 16)	-	(22,272)	-	(35,772)
Net loss for the period	68,184	297,004	539,480	407,927
Other comprehensive loss				
Items that will subsequently be reclassified to income				
Unrealized loss (gain) on marketable securities (Note 10)	-	27,400	-	(6,400)
Total comprehensive loss	$ 68,184	$ 324,404	$ 539,480	$ 401,527
Basic and diluted net loss per common share	$ 0.00	$ 0.01	$ 0.01	$ 0.01
Weighted average number of common shares outstanding	65,485,910	39,197,965	63,485,514	38,888,812

See accompanying notes to the unaudited condensed interim financial statements.

CANADA CARBON INC.
UNAUDITED CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE SIX MONTHS ENDED JUNE 30

	2013 $	2012 $
CASH FLOW FROM OPERATING ACTIVITIES		
Net (loss) for the period	(539,480)	(407,927)
Items not affecting cash:		
Income tax (recovery)	-	(35,772)
Amortization	513	286
(Gain) loss on disposal of equipment	9,748	(930)
Gain on disposal of mining claims	(95,000)	-
Share-based compensation	69,790	146,451
Shares to be issued for services (Note 16)	50,000	-
Write-off of exploration and evaluation expenditures	142,258	14,100
Unrealized foreign exchange (gain) loss	191	(63)
	(361,980)	(283,855)
Change in non-cash working capital items:		
Decrease (increase) in receivables	34,379	246,298
Decrease (increase) in prepaid expenses	92	(6,184)
(Decrease) increase in accounts payable and accrued liabilities	9,829	(187,333)
Net cash flows from operating activities	(317,680)	(231,074)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placements	500,000	-
Share issue costs	(15,042)	(6,167)
Net cash flows from financing activities	484,958	(6,167)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(179,248)	(229,824)
Asset retirement obligation payments	-	(14,000)
Proceeds from sale of mining claims	90,000	
Proceeds from sale of equipment	-	930
Net cash flows from investing activities	(89,248)	(242,894)
Effect of foreign exchange rate changes on cash and cash equivalents	19	97
(Decrease) in cash and cash equivalents	78,049	(480,038)
Cash and cash equivalents, beginning of period	58,029	856,723
Cash and cash equivalents, end of period	136,078	376,685

Supplemental disclosure with respect to cash flows (Note 17)

See accompanying notes to the financial statements.

CANADA CARBON INC.
UNAUDITED CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

				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, 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	1,050,000	148,000	(8,000)	-	-	-	-	140,000
Share based compensation	-	-	-	146,451	-	-	-	146,451
Expiry of warrants	-	-	-	-	(269,976)	-	269,976	-
Tax effect of warrant expiry	-	-	-	-	-	-	(35,772)	(35,772)
Expiry of options	-	-	-	(579,909)	-	-	579,909	-
Net loss and comprehensive loss for six months	-	-	-	-	-	6,400	(407,927)	(401,527)
Balance, June 30, 2012	39,604,558	22,089,917	-	1,182,755	1,203,874	(79,959)	(18,762,567)	5,634,020
Acquisition of exploration properties	5,000,000	350,000	-	-	-	-	-	350,000
Issued pursuant to private placement	7,000,000	548,161	-	-	151,839	-	-	700,000
Shares for service	5,500,000	550,000	-	-	-	-	-	550,000
Share based compensation	-	-	-	164,259	-	-	-	164,259
Expiry of warrants	-	-	-	-	(521,378)	-	521,378	-
Tax effect of warrant expiry	-	-	-	-	-	-	(69,082)	(69,082)
Expiry of options	-	-	-	(220,630)	-	-	220,630	-
Issue costs-cash	-	(10,956)	-	-	(3,035)	-	-	(13,991)
Net loss and comprehensive loss for six months	-	-	-	-	-	79,959	(5,773,170)	(6,017,615)
Balance, December 31, 2012	57,104,558	23,527,122	-	1,126,384	831,300	-	(23,862,811)	1,621,995
Acquisition of exploration properties	2,825,000	252,000	-	-	-	-	-	252,000
Issued pursuant to private placement	5,000,000	384,248	-	-	115,752	-	-	500,000
Shares for service	588,236	50,000	-	-	-	-	-	50,000
Share based compensation	-	-	-	69,790	-	-	-	69,790
Expiry of options	-	-	-	(406,773)	-	-	406,773	-
Issue costs-cash	-	(11,558)	-	-	(3,484)	-	-	(15,042)
Issue costs-non cash	-	(345)	-	-	345	-	-	-
Net loss and comprehensive loss for six months	-	-	-	-	-	-	(539,480)	(539,480)
Balance, June 30, 2013	65,517,794	24,201,467	-	789,401	943,913	-	(23,995,518)	1,939,263

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 August 14, 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 June 30, 2013, the Company had working capital of $86,193 and an accumulated deficit of $23,995,518 compared to working capital of $47,423 and an accumulated deficit of $23,862,811 as at December 31, 2012. 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. 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. (See Note 20)

2. STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"), and its interpretations. Accordingly, these condensed interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes.

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 June 30, 2013 and December 31, 2012, 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. Regular way purchases and sales of financial assets are accounted for at the trade date. As at June 30, 2013 and December 31, 2012, the Company has no available-for-sale financial assets.

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. At June 30, 2013 and December 31, 2012, the Company's financial instruments that were carried at fair value, consisted of 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 June 30, 2013 and December 31, 2012 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 June 30, 2013 and December 31, 2012.

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 three and six months ended June 30, 2013 and 2012, 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 19.

Adoption of new and amended IFRS pronouncements
We have adopted the new and amended IFRS pronouncements listed below as at January 1, 2013, in accordance with the transitional provisions outlined in the respective standards. The adoption of the following new IFRS pronouncements did not affect our financial results or disclosures as our analysis determined that no changes were required to our existing accounting treatment.

IFRS 11- Joint Arrangements
In May 2011, the IASB issued IFRS 11 Joint Arrangements to replace IAS 31, Interests in Joint Ventures. The new standard defines two types of arrangements: Joint Operations and Joint Ventures. The focus of the standard is to reflect the rights and obligations of the parties involved in the joint arrangement, regardless of whether the joint arrangement operates through a separate legal entity. Joint Arrangements that are classified as joint ventures are accounted for using the equity method of accounting. Joint arrangements that are classified as joint operations require the venturers to recognize the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. As a result of adopting IFRS 11, we have classified our interest in the Arcadia mining claims as a joint operation. The individual assets, liabilities and expenses of Arcadia were previously recognized in the financial statements however, the Company's interest in Arcadia was written off in 2009 and the adoption of IFRS does not result in any change to the Company's financial statements.

IFRS 12- Disclosure of Interests in Other Entities
In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e. special purpose entities). We have adopted IFRS 12 effective January 1, 2013. The adoption of IFRS 12 will result in incremental disclosures in our annual financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new and amended IFRS pronouncements (Continued)

IFRS 13- Fair Value Measurement
We adopted IFRS 13, Fair Value Measurement ("IFRS 13") with prospective application from January 1, 2013. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements for fair value measurements.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement, so assumptions that market participants would use should be applied in measuring fair value.

The disclosure requirements of IFRS 13 will be incorporated in our annual financial statements for the year ended December 31, 2013.

IAS 1- Other Comprehensive Income
We adopted the amendments to IAS 1, Presentation of Financial Statements ("IAS 1") on January 1, 2013, with retrospective application. The amendments to IAS 1 require companies preparing financial statements under IFRS to group items within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified.

We have amended our statement loss for all periods presented in these condensed interim financial statements to reflect the presentation changes required under the amended IAS 1. Since these changes are reclassifications within our statement of loss, there is no net impact on our comprehensive income.

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.

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.

5. CAPITAL MANAGEMENT (Continued)

There were no changes in the Company's approach to capital management during the period ended June 30, 2013. 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 and Provincial Governments. 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. (see Note 20)

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. A 1% change in foreign exchange rates between the Canadian and US dollar at June 30, 2013 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.

(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.

(EXPRESSED IN CANADIAN DOLLARS)

7. CASH AND CASH EQUIVALENTS

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

	June 30, 2013	December 31, 2012
Cash balances	$ (4,069)	$ (7,111)
Private placement proceeds in trust	-	-
Short term money market instruments	140,147	65,140
Total	$ 136,078	$ 58,029

The Company's short term money market instruments accrued interest between 0.95% and 1.20% per annum and were redeemable at any time without penalty.

8. RECEIVABLES

The receivables balance is comprised of the following items:

	June 30, 2013	December 31, 2012
Sales tax due from Federal & Provincial Governments	$ 9,301	$ 43,680

9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

	June 30, 2013	December 31, 2012
Reclamation deposit (Note 14)	$ 14,000	$ 14,000
Rent and security deposit	-	3,833
Insurance	8,250	3,834
Other	-	675
Total	$ 22,250	$ 22,342

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 Company sold the investment in September 2012 for net proceeds of $180,143.

(EXPRESSED IN CANADIAN DOLLARS)

11. EQUIPMENT

	Office Equipment $	Computer equipment $	Total $
Cost			
Balance, 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
Less: disposals	(10,801)	-	(10,801)
Balance, June 30, 2013	-	-	-
Accumulated amortization			
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
Amortization	513	-	513
Less: disposals	(1,053)	-	(1,053)
Balance, June 30, 2013	-	-	-
Carrying Value			
At December 31, 2011	668	1,465	2,133
At December 31, 2012	10,261	-	10,261
At June 30, 2013	-	-	-

On April 1, 2013, the Company assigned all of its office lease obligations to a third party. As part of the terms of the assignment of the lease, the Company agreed to pay rent for April and transfer the office equipment and furniture to the new tenant. The net book value was written off accordingly.

(EXPRESSED IN CANADIAN DOLLARS)

12. EXPLORATION AND EVALUATION EXPENDITURES

At June 30, 2013, expenditures incurred on mineral exploration properties were as follows:

	Asbury Graphite Property, Quebec	Miller, Walker and Dun Raven Properties, Quebec	Maria Township Graphite Property, Ontario	Yukon Prospect, Yukon	Six Months ended June 30, 2013	Year ended December 31, 2012
Acquisition costs:						
Balance, beginning of period	$ 654,379	$ 11,000	$251,702	$ 148,721	$1,065,802	$ 1,313,374
Additions during the period	-	310,540	-	-	310,540	917,081
	654,379	321,540	251,702	148,721	1,376,342	2,230,455
Less: write offs	-	(141,744)	-	-	(141,744)	(1,164,653)
Balance, end of period	654,379	179,796	251,702	148,721	1,234,598	1,065,802
Deferred exploration costs:						
Balance, beginning of period	410,604	-	-	72,558	483,162	3,585,297
Assays	225	9,352	-	-	9,577	(5,800)
Field supplies	-	-	-	-	-	74
Surveys and other studies	-	4,578	-	-	4,578	
Geologists, consultants and other labour	17,823	76,045	-	-	93,868	457,791
Excavation, drilling and transportation	-	4,603	-	-	4,603	187
Licences, permits and maintenance fees	-	217	-	-	217	22,030
Travel, meals and accommodation	-	7,485	-	-	7,485	9,946
Admin and other expenses	-	-	-	-	-	13,192
Additions during the period	18,048	102,280	-	-	120,328	497,420
	428,652	102,280	-	72,558	603,490	4,082,717
Less: write offs	-	(375)	-	-	(375)	(3,599,555)
Balance, end of period	428,652	101,905	-	72,558	603,115	483,162
Total	$1,083,031	$ 281,701	$ 251,702	$ 221,279	$1,837,713	$ 1,548,964

Expenditures incurred during the period for properties written off in prior years are charged directly to the statement of loss.

On 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 March 27, 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.

In April 2013, the Company entered into an agreement with an arm’s length party to acquire three graphite claims contiguous to the Miller graphite claims purchased in January 2013. As consideration for the purchase, the Company issued 75,000 common shares valued at $4,500. In addition, the Company granted the vendor a 2% NSR which can be reduced to 1% for a payment of $1,000,000.

In May 2013, the Company completed the sale of its Red Chris South Property located in British Columbia to an arm’s length purchaser in consideration of the payment of $90,000 and a 1.5% Net Smelter Return Royalty. The Purchaser has the option of purchasing two-thirds of the 1.5% NSR from Canada Carbon for a cash payment of $1.0 million. The Purchaser also agreed to arrange a replacement reclamation bond of $8,000 in connection with the transaction. The Purchaser assumes responsibility for any reclamation on the property and accordingly, the Company wrote off its $5,000 asset retirement obligation as a result of the sale. The carrying value of the exploration and evaluation expenditures for the Red Chris South property was written off in 2012.

(EXPRESSED IN CANADIAN DOLLARS)

13. DRILLING AND RECLAMATION DEPOSITS

The following table details the outstanding drilling and reclamation deposits:

Property	June 30, 2013	December 31, 2012
Red Chris South	$ 8,003	$ 8,041
Rare Earth	5,000	5,000
Bald Butte	2,354	2,306
Total	$ 15,357	$ 15,347

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 $2,354 (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 $4,074 (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. Included in prepaid expenses is $14,000 to the Company's joint venture partner for the Company's portion of reclamation work to be performed.

The Company 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 Red Chris South Property was sold in May 2013 and the reclamation obligation was assumed by the purchaser.

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

Balance, December 31, 2011	34,986
Reductions	(1,872)
Foreign exchange	(122)
Balance, December 31, 2012	$ 32,992
Reductions	(5,000)
Foreign exchange	220
Balance, June 30, 2013	$ 28,212

(EXPRESSED IN CANADIAN DOLLARS)

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

			Six months ended	
	Nature of transactions	Notes	June 30, 2013	June 30, 2012
R. Bruce Duncan	Management	a	$ 60,000	$ 60,000
O2 Ltd.	Management/Consulting fees	b	$ 87,500	$ 50,000
Olga Nikitovic	Professional fees	c	$ 40,000	$ 30,000
Roger Steininger	Consulting fees	d	$ -	$ 18,238
Aird & Berlis	Professional fees	e	$ 24,945	$ 22,106

a) The fees paid to R. B. Duncan relate to management fees. In May 2012, Mr. Duncan resigned as CEO and became the Executive Chairman of the Board. On March 18, 2013 Mr. Duncan became interim CEO as a result of the termination of Paul Ogilvie. As at June 30, 2013, $30,000 of management fees was included in accounts payable.

b) O2 Ltd. is owned by Paul Ogilvie who became the Company's CEO on May 23, 2012. Mr. Ogilvie was terminated on March 18, 2013. $68,750 of Mr. Ogilvie's fees was charged to management fees while $18,750 was 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 $15,119 (2012 - $22,106) is included in professional fees and $9,826 (2012 – $Nil) is included in share issue costs. As at June 30, 2013, $1,664 was included in accounts payable.

In March 2013, pursuant to the private placement described in Note 16, three officers of the Company subscribed for a total of 500,000 units for gross proceeds of $50,000.

Compensation of key management personnel

		Six months ended	
	Notes	June 30, 2013	June 30, 2012
Salaries	a	$ 187,500	$ 140,000
Share-based payments	b	$ 66,662	$ 94,906
		$ 254,162	$ 234,906

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.

(EXPRESSED IN CANADIAN DOLLARS)

16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Capital Stock

The Company has authorized an unlimited number of common shares without par value. As at June 30, 2013, the Company had 65,517,794 common shares outstanding (December 31, 2012 – 57,104,558).

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

On 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 February 1, 2013, the Company closed the first tranche of a non-brokered private placement in which it issued 500,000 units at $0.10 per unit for gross proceeds of $50,000 of which $11,151 was allocated to warrants. Each units consisted of one common share and one common share purchase 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. Issue costs of $1,384 were incurred of which $309 was allocated to warrants.

On March 1, 2013, the Company closed the second tranche of its non-brokered private placement of 3,250,000 units at $0.10 per unit and 1,250,000 flow-through units at $0.10 per unit for aggregate gross proceeds of $450,000 of which $104,601 was allocated to warrants. 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 valued at $448 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. Cash issue costs of $13,658 were incurred of which $3,175 was allocated to warrants.

Pursuant to the terms of two consulting contracts entered into on October 1, 2012, the Company issued common shares valued at $50,000 upon termination of the contracts. The termination date of the contracts was March 31, 2013. The Company issued 588,236 shares in April 2013.

In April 2013, the Company issued 75,000 common shares valued at $4,500 pursuant to the acquisition of three graphite claims contiguous to the Miller graphite claims purchased in January 2013.

Share Purchase Warrants

At June 30, 2013, 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	0.48	1,280,000	0.48
October 4, 2014 (i)	0.30	4,000,000	1.26	4,000,000	1.26
October 5, 2014	0.20	7,000,000	1.26	7,000,000	1.26
October 28, 2014	0.30	4,755,000	1.33	4,755,000	1.33
February 1, 2015	0.20	500,000	1.58	500,000	1.58
March 1, 2015	0.10	12,000	1.67	-	-
March 1, 2015	0.20	4,500,000	1.67	-	-
		22,047,000	1.32	17,535,000	1.19

(EXPRESSED IN CANADIAN DOLLARS)

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

Capital Stock (Continued)

The following is a summary of the warrant transactions for the six months ended June 30, 2013 and the year ended December 31, 2012.

	Six months ended June 30, 2013		Year ended December 31, 2012	
	Number of Warrants	Weighted Average Exercise Price $	Number of Warrants	Weighted Average Exercise Price $
Balance, beginning of period	17,035,000	0.25	14,445,000	0.37
Warrants issued pursuant to private placements	5,012,000	0.20	7,000,000	0.20
Warrants expired	-	-	(4,410,000)	0.55
Balance, end of period	22,047,000	0.24	17,035,000	0.25

Share Purchase Warrants (Continued)

The Company has recognized an income tax recovery of $Nil (2012 - $35,772) 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 six month period ended June 30, 2013 and the year ended December 31, 2012.

	Six months Ended June 30, 2013	Year ended December 31, 2012
Risk-free interest rate	0.96%	1.14%
Expected dividend yield	0.00%	0.00%
Expected stock volatility	99%	94%
Expected warrant life in years	2.0 years	2.0 years

(EXPRESSED IN CANADIAN DOLLARS)

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

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 June 30, 2013, 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)
July 30, 2014	0.25	197,000	1.08	197,000	1.08
April 1, 2015	0.28	60,000	1.75	60,000	1.75
December 29, 2015	0.50	800,000	2.50	800,000	2.50
July 19, 2016	0.35	500,000	3.05	500,000	3.05
May 17, 2017	0.20	1,000,000	3.88	1,000,000	3.88
June 15, 2017	0.20	1,000,000	3.96	1,000,000	3.96
April 17, 2018	0.10	1,450,000	4.80	1,450,000	4.80
		5,007,000	3.72	5,007,000	3.72

The following is a summary of stock option transactions for the six months ended June 30, 2013 and the year ended December 31, 2012.

	Six months ended June 30, 2013		Year ended December 31, 2012	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Balance, beginning of the period	4,432,000	0.35	2,253,667	0.83
Options granted	1,450,000	0.10	3,000,000	0.20
Options forfeited	-	-	(250,000)	0.20
Options expired	(875,000)	0.59	(571,667)	1.49
Balance end of period	5,007,000	0.24	4,432,000	0.35

(EXPRESSED IN CANADIAN DOLLARS)

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

Share-Based Compensation

For the six months ended June 30, 2013, the Company granted 1,450,000 options (2012 - 2,750,000) to directors and officers and consultants exercisable at $0.10 (2012 - $0.20) for a period of five years

Total share-based compensation for six months ended June 30, 2013 was $69,790 (2012 - $146,451) which has been expensed with a corresponding amount being recorded in the equity settled share-based payments reserve.

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted during the six months ended June 30, 2013 and the year ended December 31, 2012.

	Six months ended June 30, 2013	Year ended December 31, 2012
Risk-free interest rate	1.18%	1.22%
Expected dividend yield	0.00%	0.00%
Expected stock volatility	118%	128%
Expected option life in years	5.0 years	5.0 years

Pursuant to the terms of two consulting contracts entered into on October 1, 2012, the Company issued common shares valued at $50,000 upon termination of the contracts. The termination date of the contracts was March 31, 2013. The Company issued 588,236 shares in April 2013.

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the six months ended June 30, 2013 consisted of:

a) The issuance of 2,750,000 common shares of the Company valued at $247,500 pursuant to the acquisition of the Miller, Dun Raven and Walker properties.

b) The issuance of 75,000 common shares of the Company valued at $4,500 pursuant to the purchase of three additional claims related to the Miller properties.

c) An increase in restoration, rehabilitation and environmental obligations of $220.

d) An increase in drilling and reclamation deposits of $10.

e) A decrease in accrued exploration and evaluation expenditures of $241.

f) Issuance of 588,236 common shares valued at $50,000 pursuant to termination provisions of two consultant contracts expiring on March 31, 2013.

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (Continued)

Significant non-cash investing and financing transactions for the six months ended June 30, 2012 consisted of:

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

b) 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.

c) The increase in restoration, rehabilitation and environmental obligations of $30.

d) The decrease in drilling and reclamation deposits of $4.

e) A decrease in accrued exploration and evaluation expenditures of $28,011.

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

18. 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.

19. COMMITMENTS AND CONTINGENCIES

The Company is obligated to spend $123,750 by December 31, 2014 as part of the flow through funding agreement for shares issued in March 2013. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to flow-through participants. The Company indemnified the subscribers for any related tax amounts that become payable by the subscribers as a result of the Company not meeting its expenditure commitments.

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 the financial statements.

20. SUBSEQUENT EVENTS

In July 2013, the Company acquired five additional claim units contiguous to its existing Miller graphite Mine claims. As consideration for the purchase the Company issued 75,000 shares valued at $9,750 and granted the seller a 2% net smelter royalty which can be reduced to 1% at any time with the payment of $1.0 million.

On July 18, 2013, 1,000,000 options exercisable at $0.20 per share expired.

On July 30, 2013, the Company completed a non-brokered private placement of 2,000,000 units at a price of $0.15 per unit for gross proceeds of $300,000. Each unit consists of one common share and one half share purchase warrant exercisable at $0.25 per share for three years. Finder’s fees of 8% cash and 10% compensation units were payable on the transaction. The compensation units, which are exercisable at $0.15 per unit for eighteen months, consist of one common share and one share purchase warrant exercisable at $0.25 per share for three years.