

CANADA CARBON INC.

CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(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, 2014 have 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)
AS AT

	June 30, 2014 \$	December 31, 2013 \$
ASSETS		
Current		
Cash and cash equivalents (Note 7)	798,532	626,715
Receivables (Note 8)	117,127	198,665
Prepaid expenses (Note 9)	126,843	37,768
Total current assets	1,042,502	863,148
Exploration and evaluation assets (Notes 11 and 14)	2,366,055	2,043,500
Drilling and reclamation deposits (Note 12)	5,000	5,000
Total assets	3,413,557	2,911,648
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 14)	108,618	191,310
Restoration, rehabilitation and environmental obligations (Note 13)	14,000	14,000
Total current liabilities	122,618	205,310
Restoration, rehabilitation and environmental obligations (Note 13)	24,400	24,400
Total liabilities	147,018	229,710
Shareholders' equity		
Capital stock (Note 15)	25,826,396	25,187,706
Reserves	2,032,692	1,829,017
Deficit	(24,592,549)	(24,334,785)
Total shareholders' equity	3,266,539	2,681,938
Total liabilities and shareholders' equity	3,413,557	2,911,648

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 18)

Subsequent events (Note 19)

On behalf of the Board:

_____, Director

_____, Director

See accompanying notes to the financial statements.

CANADA CARBON INC.
UNAUDITED CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE THREE AND SIX MONTHS ENDED

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
EXPENSES				
Amortization	\$ -	\$ -	\$ -	\$ 513
Management fees (Note 14)	30,000	30,000	60,000	128,750
Consulting fees	13,238	12,000	25,413	28,000
Sales and marketing costs	-	-	-	95,929
Professional fees (Notes 14)	36,233	25,014	88,929	57,759
Office, rent and miscellaneous	10,458	10,965	19,286	46,299
Shareholder communications and promotion	44,751	2,316	55,621	41,449
Share based compensation (Note 15)	-	66,662	-	69,790
Transfer agent and filing fees	7,063	6,346	22,151	13,845
Travel and accommodation	4,803	-	9,952	226
Loss before impairments and other (income) expenses	146,546	153,303	281,352	482,560
OTHER ITEMS				
Foreign exchange loss (gain)	(65)	47	227	121
Investment income	(2,204)	(185)	(3,555)	(207)
Write off of exploration and evaluation expenditures	-	271	-	142,258
Gain on disposal of exploration and evaluation expenditures	-	(95,000)	-	(95,000)
Loss (gain) on disposal of equipment	-	9,748	-	9,748
Net loss and comprehensive loss for the period	\$ 144,277	\$ 68,184	\$ 278,024	\$ 539,480
Basic and diluted net loss per common share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01
Weighted average number of common shares outstanding	75,326,541	65,485,910	73,764,678	63,485,514

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

	2014	2013
	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES		
Net (loss) for the period	(278,024)	(539,480)
Items not affecting cash:		
Amortization	-	513
Share-based compensation	-	69,790
Shares issued for services	-	50,000
Write-off of exploration and evaluation assets	-	142,258
Loss on disposal of equipment	-	9,748
Gain on disposal of mining claims	-	(95,000)
Unrealized foreign exchange loss (gain)	3	191
	<u>(278,021)</u>	<u>(361,980)</u>
Change in non-cash working capital items:		
Decrease in receivables	7,827	34,379
Decrease (increase) in prepaid expenses	(89,075)	92
Increase (decrease) in accounts payable and accrued liabilities	(22,227)	9,829
Net cash flows from operating activities	<u>(381,496)</u>	<u>(317,680)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placements	825,000	500,000
Share issue costs	(77,142)	(15,042)
Proceeds from warrant and option exercises	30,000	-
Net cash flows from financing activities	<u>777,858</u>	<u>484,958</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation assets	(224,542)	(179,248)
Proceeds for sale of mining claims	-	90,000
Net cash flows from investing activities	<u>(224,542)</u>	<u>(89,248)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(3)</u>	<u>19</u>
Increase (decrease) in cash and cash equivalents	171,817	78,049
Cash and cash equivalents, beginning of period	626,715	58,029
Cash and cash equivalents, end of period	<u>798,532</u>	<u>136,078</u>

Supplemental disclosure with respect to cash flows (Note 16)

See accompanying notes to the financial statements.

CANADA CARBON INC.

UNAUDITED CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

	Number of Shares	Capital Stock \$	Reserves			Total \$
			Equity settled share- based payments reserve \$	Warrant reserve \$	Deficit \$	
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 and surface access	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, six months ended June 30	-	-	-	-	(539,480)	(539,480)
Balance, June 30, 2013	65,517,794	24,201,467	789,401	943,913	(23,995,518)	1,939,263
Acquisition of exploration properties and surface access	565,000	105,050	-	-	-	105,050
NSR buy-back	100,000	35,000	-	-	-	35,000
Issued pursuant to private placement	5,166,000	786,107	-	250,453	-	1,036,560
Share based compensation	-	-	39,854	-	-	39,854
Expiry of options	-	-	(146,027)	-	146,027	-
Exercise of options	50,000	10,000	-	-	-	10,000
Fair value of options exercised	-	4,052	(4,052)	-	-	-
Exercise of warrants	600,000	108,000	-	-	-	108,000
Fair value of warrants exercised	-	23,155	-	(23,155)	-	-
Expiry of warrants	-	-	-	(26,241)	26,241	-
Tax effect of warrant expiry	-	-	-	-	(3,477)	(3,477)
Issue costs-cash	-	(60,573)	-	(19,681)	-	(80,254)
Issue costs-non cash	-	(24,552)	-	(8,186)	-	(32,738)
Broker warrants	-	-	-	32,738	-	32,738
Net loss and comprehensive loss, six months ended December 31	-	-	-	-	(508,058)	(508,058)
Balance, December 31, 2013	71,998,794	25,187,706	679,176	1,149,841	(24,334,785)	2,681,938
Issued pursuant to private placement	4,125,000	661,859	-	163,141	-	825,000
Share based compensation	-	-	68,346	-	-	68,346
Expiry of options	-	-	(20,260)	-	20,260	-
Exercise of warrants	200,000	30,000	-	-	-	30,000
Fair value of warrants exercised	-	11,206	-	(11,206)	-	-
Issue costs-cash	-	(48,713)	-	(12,008)	-	(60,721)
Issue costs-non cash	-	(15,662)	-	(3,860)	-	(19,522)
Broker warrants	-	-	-	19,522	-	19,522
Net loss and comprehensive loss, six months ended June 30	-	-	-	-	(278,024)	(278,024)
Balance, June 30, 2014	76,323,794	25,826,396	727,262	1,305,430	(24,592,549)	3,266,539

CANADA CARBON INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013

1. NATURE AND CONTINUANCE OF OPERATIONS

Canada Carbon Inc. (hereafter the "Company") was incorporated in British Columbia on August 13, 1985 and is listed on the TSX Venture Exchange ("TSX-V").

The Company's principal business is the acquisition, 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 exploration and evaluation 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 25, 2014.

The Company is in the process of exploring its exploration and evaluation assets and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets 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 and political uncertainty.

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, 2014, the Company had working capital of \$919,884 and an accumulated deficit of \$24,592,549 compared to working capital of \$657,838 and an accumulated deficit of \$24,334,785 as at December 31, 2013. 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.

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 unaudited 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.

CANADA CARBON INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013

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.

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, 2014 and December 31, 2013, the Company had 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.

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 or loss. 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 profit or loss. Regular way purchases and sales of financial assets are accounted for at the trade date. As at June 30, 2014 and December 31, 2013, the Company had 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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, 2014 and December 31, 2013 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Exploration and evaluation assets

All of the Company's exploration and evaluation property interests are in the exploration and evaluation phase. The Company records its interests in exploration and evaluation 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 exploration and evaluation 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 properties located in British Columbia and Quebec. Recoverable amounts are offset against exploration and evaluation assets when the Company has complied with the terms and conditions of the program and the recovery is reasonably assured.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 an exploration and evaluation 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 risk free 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, 2014 and December 31, 2013 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 contracts 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, 2014 and December 31, 2013.

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 investors.

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, 2014 and 2013, 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.

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 assets, 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 assets

While assessing whether any indications of impairment exist for exploration and evaluation assets, 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 assets. Internal sources of information include the manner in which exploration and evaluation assets 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. 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 18.

Adoption of new and amended IFRS pronouncements

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

IAS 32 – Financial Instruments: Presentation (“IAS 32”) was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The adoption of IAS 32 has not materially impacted the Company’s financial statements.

IAS 36 – Impairments of Assets (“IAS 36”) was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The adoption of IAS 36 has not materially impacted the Company’s financial statements.

Future accounting changes

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2014 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes (Continued)

instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

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 its 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 six months ended June 30, 2014. 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 and tax credits 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 has sufficient funds for its 2014 exploration program however it will require additional equity funding to fund its overhead expenditures. 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. (Note 19)

Market risk

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt, therefore, interest rate risk is minimal.

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6. FINANCIAL RISK FACTORS (Continued)

(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, 2014 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 twelve-month period.

7. CASH AND CASH EQUIVALENTS

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

	June 30, 2014	December 31, 2013
Cash balances	\$ -	\$ 167,941
Short term money market instruments	798,532	458,774
Total	\$ 798,532	\$ 626,715

The Company's short term money market instruments accrued interest between 1.05% to 1.20% (2013 - 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, 2014	December 31, 2013
Quebec tax credit	\$ 96,289	\$ 170,000
Sales tax due from federal & provincial governments	20,838	28,665
Total	\$ 117,127	\$ 198,665

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9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

	June 30, 2014	December 31, 2013
Reclamation deposit (Note 13)	\$ 14,000	\$ 14,000
Insurance	8,915	7,965
Investor information	-	11,875
Professional fee retainers	3,928	3,928
Bulk sample processing deposit	100,000	-
Total	\$ 126,843	\$ 37,768

10. EQUIPMENT

	Office Equipment \$	Computer Equipment \$	Total \$
Cost			
Balance, December 31, 2012	10,801	-	10,801
Less: disposals	(10,801)	-	(10,801)
Balance, December 31, 2013 and June 30, 2014	-	-	-
Accumulated amortization			
Balance, December 31, 2012	540	-	540
Amortization	513	-	513
Less: disposals	(1,053)	-	(1,053)
Balance, December 31, 2013 and June 30, 2014	-	-	-
Carrying Value			
At December 31, 2012	10,261	-	10,261
At December 31, 2013	-	-	-
At June 30, 2014	-	-	-

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 2013 and transfer the office equipment and furniture it purchased during fiscal 2013 to the new tenant. The net book value of the office equipment and furniture was written off accordingly.

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11. EXPLORATION AND EVALUATION ASSETS

At June 30, 2014, expenditures incurred on exploration and evaluation assets were as follows:

	Asbury Graphite Property, Quebec	Miller, and Dun Raven Properties, Quebec	Yukon Prospect, Yukon	Six months ended June 30, 2014	Year ended December 31, 2013
Acquisition costs:					
Balance, beginning of period	\$ 654,379	\$ 367,472	\$ 148,721	1,170,572	\$1,065,802
Additions during the period	-	4,043	-	4,043	498,216
	654,379	371,515	148,721	1,174,615	1,564,018
Less: write offs	-	-	-	-	(393,446)
Balance, end of period	654,379	371,515	148,721	1,174,615	1,170,572
Deferred exploration costs:					
Balance, beginning of period	443,687	356,683	72,558	872,928	483,162
Assays	-	26,605	-	26,605	32,729
Field supplies and equipment	-	1,342	-	1,342	4,277
Surveys and other studies	-	30,670	-	30,670	32,965
Geologists, consultants and other labour	-	142,077	-	142,077	300,910
Excavation, drilling and transportation	-	29,105	-	29,105	162,321
Licences, permits and maintenance fees	-	329	-	329	427
Travel, meals and accommodation	-	10,673	-	10,673	22,362
Admin and other expenses	-	4,000	-	4,000	4,150
Quebec tax credit	55,000	18,711	-	73,711	(170,000)
Additions during the period	55,000	263,512	-	318,512	390,141
	498,687	620,195	72,558	1,191,440	873,303
Less: write offs	-	-	-	-	(375)
Balance, end of period	498,687	620,195	72,558	1,191,440	872,928
Total	\$1,153,066	\$ 991,710	\$ 221,279	\$2,366,055	\$2,043,500

For the six months ended June 30, 2014, the Company staked three additional claims continuous to two of the three existing Dun Raven claim blocks and the Dun Raven A extension claims, which were originally acquired in January 2013, were allowed to expire.

12. DRILLING AND RECLAMATION DEPOSITS

The following table details the outstanding drilling and reclamation deposits:

Property	June 30, 2014	December 31, 2013
Rare Earth	5,000	5,000
Total	\$ 5,000	\$ 5,000

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13. RESTORATION, REHABILITATION AND ENVIRONMENTAL OBLIGATIONS

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 paid to the Company's partner for the Company's portion of reclamation work to be performed. Communication has commenced with regulatory authorities to determine the nature and scope of reclamation work to be completed on the Arcadia property. Some reclamation work to be completed on the property relates to exploration work completed prior to the Company's acquisition of the project. Management believes the \$14,000 is a reasonable estimate, however, it is subject to change based on ongoing communication with regulatory authorities.

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 Company has recorded an obligation of \$14,400 for the Miller graphite property to reclaim disturbance caused by the work programs.

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

Balance, December 31, 2012	\$ 32,992
Additions	14,400
Reductions	(9,212)
Foreign exchange	220
Balance, December 31, 2013 and June 30, 2014	\$ 38,400

14. 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

	Nature of transactions	Notes	Six months ended	
			June 30, 2014	June 30, 2013
R. Bruce Duncan	Management	a	\$ 60,000	\$ 60,000
O2 Ltd.	Management/Consulting fees	b	\$ -	\$ 87,500
Olga Nikitovic	Professional fees	c	\$ 30,000	\$ 40,000
Aird & Berlis	Professional fees	d	\$ 15,986	\$ 24,945

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.

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. During 2013, \$68,750 of Mr. Ogilvie's fees was charged to management fees of which \$25,000 relates to a termination payment while \$18,750 was charged to exploration and evaluation assets.

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.

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14. RELATED PARTY TRANSACTIONS (Continued)

d) Tom Fenton, Corporate Secretary for the Company is a partner with Aird & Berlis, LLP. Fees relate to legal services of which \$9,810 (2013 - \$15,119) is included in professional fees and \$6,176 (2013 - \$9,826) is included in share issue costs. As at June 30, 2014, \$Nil (2013 - \$1,664) was included in accounts payable. This amount is unsecured, non-interest bearing and payable on demand.

In March 2013, three officers of the Company subscribed for a total of 500,000 units for gross proceeds of \$50,000.

Compensation of key management personnel

	Notes	Six months ended	
		June 30, 2014	June 30, 2013
Salaries	a	\$ 90,000	\$ 162,500
Termination payments	a	-	25,000
Share-based payments	b	-	66,662
		<u>\$ 90,000</u>	<u>\$ 254,162</u>

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.

15. 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, 2014, the Company had 76,323,794 common shares outstanding (December 31, 2013 - 71,998,794).

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

In January 2014, 200,000 broker compensation units were exercised at a price of \$0.15 per unit for gross proceeds of \$30,000. Each unit consisted of one common share and one half share purchase warrant exercisable at \$0.25 for three years.

In April 2014, the Company closed a non-brokered flow-through private placement of 4,125,000 units at a price of \$0.20 per unit for gross proceeds of \$825,000 of which \$163,141 was allocated to warrants. Each unit consisted of one flow-through common share and one half non-flow-through share purchase warrant with each whole warrant exercisable at \$0.25 per share for eighteen months. Finder's fees of \$49,500 were paid and 247,500 compensation warrants valued at \$19,522 were issued, of which \$3,860 was allocated to warrants. The compensation warrants are exercisable at a price of \$0.25 into one non-flow through common share for an eighteen month period. Total cash issue costs were \$60,721 of which \$12,008 were allocated to warrants.

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

Share Purchase Warrants

At June 30, 2014, 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)
October 4, 2014	0.30	4,000,000	0.26	4,000,000	0.26
October 5, 2014	0.20	7,000,000	0.26	7,000,000	0.26
October 28, 2014	0.30	4,755,000	0.33	4,755,000	0.33
February 1, 2015	0.20	500,000	0.58	500,000	0.58
March 1, 2015	0.10	12,000	0.67	12,000	0.67
March 1, 2015	0.20	4,500,000	0.67	4,500,000	0.67
June 23, 2015	0.16	89,280	0.98	89,280	0.98
June 23, 2015	0.25	558,000	0.98	558,000	0.98
September 25, 2015	0.40	325,000	1.24	325,000	1.24
October 1, 2015	0.25	84,000	1.25	84,000	1.25
October 1, 2015	0.40	1,400,000	1.25	1,400,000	1.25
October 22, 2015 ⁽ⁱ⁾	0.25	2,310,000	1.31	-	-
July 30, 2016	0.25	1,000,000	2.08	1,000,000	2.08
January 6, 2017	0.25	100,000	2.52	100,000	2.52
		<u>26,633,280</u>	<u>0.60</u>	<u>24,323,280</u>	<u>0.53</u>

(i) Subject to a four month hold period.

The following is a summary of the warrant transactions for the six months ended June 30, 2014 and the year ended December 31, 2013.

	Six months ended June 30, 2014		Year ended December 31, 2013	
	Number of Warrants	Weighted Average Exercise Price \$	Number of Warrants	Weighted Average Exercise Price \$
Balance, beginning of period	24,423,280	0.25	17,035,000	0.25
Warrants issued pursuant to private placements	2,310,000	0.25	8,668,280	0.25
Warrants issued pursuant to broker unit exercise (i)	100,000	0.25	-	-
Warrants exercised (i)	(200,000)	0.15	(600,000)	0.18
Warrants expired	-	-	(680,000)	0.18
Balance, end of period	<u>26,633,280</u>	<u>0.25</u>	<u>24,423,280</u>	<u>0.25</u>

(i) In January 2014, 200,000 broker compensation units were exercised at a price of \$0.15 per unit. Each unit consists of one common share and one half share purchase warrant exercisable at \$0.25 for three years.

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

Share Purchase Warrants (Continued)

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants issued during the six months ended June 30, 2014 and the year ended December 31, 2013.

	Six months ended June 30, 2014	Year ended December 31, 2013
Risk-free interest rate	1.04%	1.06%
Expected dividend yield	0.00%	0.00%
Expected stock volatility	133%	109%
Expected warrant life in years	1.5 years	2.1 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 June 30, 2014, the following incentive stock options were outstanding:

Expiry Date	Exercise Price \$	Options Outstanding		Options Exercisable	
		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	0.08	197,000	0.08
April 1, 2015	0.28	60,000	0.75	60,000	0.75
December 29, 2015	0.50	800,000	1.50	800,000	1.50
July 19, 2016	0.35	400,000	2.05	400,000	2.05
June 15, 2017	0.20	450,000	2.96	450,000	2.96
April 17, 2018	0.10	1,450,000	3.80	1,450,000	3.80
October 18, 2018	0.25	816,667	4.30	300,000	4.30
		4,173,667	2.98	3,657,000	2.79

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

Stock Options (Continued)

The following is a summary of stock option transactions for the six months ended June 30, 2014 and the year ended December 31, 2013.

	Six months ended June 30, 2014		Year ended December 31, 2013	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of the period	4,507,000	0.25	4,432,000	0.35
Options granted	-	-	2,350,000	0.15
Options exercised	-	-	(50,000)	0.20
Options forfeited	(83,333)	0.25	-	-
Options expired	(250,000)	0.20	(2,225,000)	0.36
Balance end of period	4,173,667	0.25	4,507,000	0.25

Share-Based Compensation

For the six months ended June 30, 2014, no options were granted (2013 – 1,450,000). Total share-based compensation for the six months ended June 30, 2014 of \$68,346 has been capitalized to exploration and evaluation assets with a corresponding amount being recorded in the equity settled share-based payments reserve. Share-based compensation for the six months ended June 30, 2013 of \$69,790 was charged to share-based compensation expense with a corresponding amount being recorded in 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, 2014 and the year ended December 31, 2013.

	Six months ended June 30, 2014	Year ended December 31, 2013
Risk-free interest rate	-	1.43%
Expected dividend yield	-	0.00%
Expected stock volatility	-	119%
Expected option life in years	-	5.0 years

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the six months ended June 30, 2014 consisted of:

- a) A decrease in accrued exploration and evaluation assets of \$44,044.
- b) A decrease in accrued share issuance costs of \$16,421.
- c) \$68,346 of share-based payments included in exploration and evaluation assets.
- d) A decrease in receivables included in exploration and evaluation assets of \$73,711.

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) Issuance of 588,236 common shares valued at \$50,000 pursuant to the termination provisions of two consultant contracts expiring on March 31, 2013.
- d) An increase in restoration, rehabilitation and environmental obligations of \$220.
- e) An increase in drilling and reclamation deposits of \$10.
- f) A decrease in accrued exploration and evaluation assets of \$241.

17. 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.

18. COMMITMENTS AND CONTINGENCIES

The Company is obligated to spend \$178,448 by December 31, 2014 as part of the flow-through funding agreement for shares issued in December 2013 and \$824,588 by December 31, 2015 as part of the flow-through funding agreement for shares issued in April 2014. 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. See Note 13.

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18. COMMITMENTS AND CONTINGENCIES (Continued)

In May 2012, the Company entered into two year employment contracts that are automatically renewable for one year periods 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.

19. SUBSEQUENT EVENTS

- i) On July 15, 2014, 1,200,000 options exercisable at \$0.20 per share for a period of five years were granted to directors, officers and consultants.
- ii) In July 2014, 238,667 options exercisable at \$0.25 expired.
- iii) 2,650,000 warrants and 125,000 options were exercised for gross proceeds of \$555,000.