CANADA CARBON INC.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(EXPRESSED IN CANADIAN DOLLARS)

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INDEPENDENT AUDITOR’S REPORT

To the Shareholders of Canada Carbon Inc.

We have audited the accompanying financial statements of Canada Carbon Inc., which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of loss and comprehensive loss, statements of cash flows and statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canada Carbon Inc. as at December 31, 2014 and 2013, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 20, 2015

CANADA CARBON INC.
STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

	December 31, 2014 $	December 31, 2013 $
ASSETS		
Current		
Cash and cash equivalents (Note 7)	1,763,453	626,715
Receivables (Note 8)	141,101	198,665
Prepaid expenses (Note 9)	36,895	37,768
Total current assets	1,941,449	863,148
Exploration and evaluation assets (Notes 11 and 14)	3,163,563	2,043,500
Drilling and reclamation deposits (Note 12)	5,000	5,000
Total assets	5,110,012	2,911,648
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 14)	237,665	191,310
Restoration, rehabilitation and environmental obligations (Note 13)	5,000	14,000
Flow through premium (Note 15(iv))	109,200	-
Total current liabilities	351,865	205,310
Restoration, rehabilitation and environmental obligations (Note 13)	40,600	24,400
Total liabilities	392,465	229,710
Shareholders' equity		
Capital stock (Note 15)	27,943,760	25,187,706
Reserves	1,416,952	1,829,017
Deficit	(24,643,165)	(24,334,785)
Total shareholders’ equity	4,717,547	2,681,938
Total liabilities and shareholders’ equity	5,110,012	2,911,648

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 11 and 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.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED DECEMBER 31

	2014	2013
EXPENSES		
Amortization (Note 10)	$ -	$ 513
Management fees (Note 14)	152,500	188,750
Consulting fees	85,286	55,500
Sales and marketing costs	-	95,929
Professional fees (Notes 14)	183,804	205,373
Office, rent and miscellaneous	31,736	61,131
Shareholder communications and promotion	118,624	100,319
Share based compensation (Note 15)	167,958	-
Transfer agent and filing fees	33,957	25,519
Travel and accommodation	38,960	15,558
Loss before other items	812,825	748,592
OTHER ITEMS		
Foreign exchange loss	660	277
Investment income	(9,585)	(2,350)
Write off of exploration and evaluation expenditures (Note 11)	221,279	389,748
Gain on disposal of exploration and evaluation assets (Note 11)	-	(95,000)
Loss on disposal of equipment (Note 10)	-	9,748
Loss for the year before income taxes	$ 1,025,179	$ 1,051,015
Income tax recovery (Note 17)	(83,886)	(3,477)
Net loss and comprehensive loss for the year	$ 941,293	$ 1,047,538
Basic and diluted net loss per common share	$ 0.01	$ 0.02
Weighted average number of common shares outstanding	77,470,813	66,225,603

See accompanying notes to the financial statements.

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

	2014	2013
	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Net (loss) for the year	(941,293)	(1,047,538)
Items not affecting cash:		
Income tax (recovery)	(83,886)	(3,477)
Amortization	-	513
Share based compensation	167,958	-
Shares issued for services	-	50,000
Write-off of exploration and evaluation assets	221,279	389,748
Loss on disposal of equipment	-	9,748
Gain on disposal of mining claims	-	(95,000)
Unrealized foreign exchange (gain) loss	(49)	236
	(635,991)	(695,770)
Change in non-cash working capital items:		
(Increase) decrease in receivables	(30,580)	15,015
Decrease (increase) in prepaid expenses	873	(15,426)
(Decrease) increase in accounts payable and accrued liabilities	(16,480)	45,128
Net cash flows from operating activities	(682,178)	(651,053)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placements	1,385,000	1,536,560
Share issue costs	(110,741)	(78,875)
Proceeds from warrant and option exercises	1,601,200	118,000
Net cash flows from financing activities	2,875,459	1,575,685
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation assets	(1,169,233)	(456,277)
Quebec tax credits received	112,641	-
Reclamation bond refund	-	10,314
Proceeds from sale of mining claims	-	90,000
Net cash flows from investing activities	(1,056,592)	(355,963)
Effect of foreign exchange rate changes on cash and cash equivalents	49	17
Increase in cash and cash equivalents	1,136,738	568,686
Cash and cash equivalents, beginning of year	626,715	58,029
Cash and cash equivalents, end of year	1,763,453	626,715

Supplemental disclosure with respect to cash flows (Note 16)

See accompanying notes to the financial statements.

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

			Reserves			
	Number of Shares	Capital Stock	Equity settled share-based payments reserve	Warrant reserve	Deficit	Total
		$	$	$	$	$
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	3,390,000	357,050	-	-	-	357,050
NPR buy-back	100,000	35,000	-	-	-	35,000
Issued pursuant to private placement	10,166,000	1,170,355	-	366,205	-	1,536,560
Shares for service	588,236	50,000	-	-	-	50,000
Share based compensation	-	-	109,644	-	-	109,644
Exercise of options	50,000	10,000	-	-	-	10,000
Fair value of options exercised	-	4,052	(4,052)	-	-	-
Expiry of options	-	-	(552,800)	-	552,800	-
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	-	(72,131)	-	(23,165)	-	(95,296)
Issue costs-non cash	-	(24,897)	-	(7,841)	-	(32,738)
Broker warrants	-	-	-	32,738	-	32,738
Net loss and comprehensive loss for the year	-	-	-	-	(1,047,538)	(1,047,538)
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	6,125,000	1,051,849	-	223,951	-	1,275,800
Issued pursuant to surface access agreement	40,000	9,600	-	-	-	9,600
Share based compensation	-	-	274,440	-	-	274,440
Exercise of warrants	7,862,000	1,561,200	-	-	-	1,561,200
Fair value of warrants exercised	-	175,093	-	(175,093)	-	-
Expiry of warrants	-	-	-	(633,100)	633,100	-
Tax effect of warrants expiry	-	-	-	-	(83,886)	(83,886)
Exercise of options	200,000	40,000	-	-	-	40,000
Fair value of options exercised	-	16,208	(16,208)	-	-	-
Expiry of options	-	-	(83,699)	-	83,699	-
Issue costs-cash	-	(82,234)	-	(18,018)	-	(100,252)
Issue costs-non cash	-	(15,662)	-	(3,860)	-	(19,522)
Broker warrants	-	-	-	19,522	-	19,522
Net loss and comprehensive loss for the year	-	-	-	-	(941,293)	(941,293)
Balance, December 31, 2014	86,225,794	27,943,760	853,709	563,243	(24,643,165)	4,717,547

See accompanying notes to the financial statements.

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 April 20, 2015.

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 December 31, 2014, the Company had working capital of $1,589,584 and an accumulated deficit of $24,643,165 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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and its interpretations.

3. BASIS OF PRESENTATION

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and are measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held to maturity financial assets are recognized in the statement of loss. As at December 31, 2014 and 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 December 31, 2014 and 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 December 31, 2014 and 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 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 December 31, 2014 and 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 contacts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company has no material provisions at December 31, 2014 and 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 years ended December 31, 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 19.

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, 2015 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 13 – Fair Value Measurement (“IFRS 13”) was amended to clarify that the exception which allows fair value measurements of a group of financial assets and liabilities on a net basis applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or liabilities as defined in IAS 32. The amendment is effective for annual periods beginning on or after July 1, 2014.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes (Continued)

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 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.

IAS 1 - Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IAS 24 – Related Party Disclosures ("IAS 24") was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014.

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 year ended December 31, 2014. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

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 exploration programs and overhead expenditures for the next twelve months. The Company also anticipates receiving funds from the exercise of outstanding warrants and options. (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. The Company holds negligible cash balances in US dollars.

(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:

	December 31, 2014	December 31, 2013
Cash balances	$ 529,947	$ 167,941
Short term money market instruments	1,233,506	458,774
Total	$ 1,763,453	$ 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:

	December 31, 2014	December 31, 2013
Quebec tax credit	$ 81,856	$ 170,000
Sales tax due from federal & provincial governments	59,245	28,665
Total	$ 141,101	$ 198,665

9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

	December 31, 2014	December 31, 2013
Reclamation deposit (Note 13)	$ 14,000	$ 14,000
Insurance	7,967	7,965
Investor information	1,000	11,875
Professional fee retainers	3,928	3,928
Bulk sample processing deposit	10,000	-
Total	$ 36,895	$ 37,768

10. EQUIPMENT

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

11. EXPLORATION AND EVALUATION ASSETS

At December 31, 2014, expenditures incurred on exploration and evaluation assets were as follows:

	Asbury Graphite Property, Quebec	Miller, and Dun Raven Properties, Quebec	Yukon Prospect, Yukon	Year ended December 31, 2014
Acquisition costs:				
Balance, beginning of year	$ 654,379	$ 367,472	$ 148,721	$ 1,170,572
Additions during the year	-	13,643	-	13,643
	654,379	381,115	148,721	1,184,215
Less: write offs	-	-	(148,721)	(148,721)
Balance, end of year	654,379	381,115	-	1,035,494
Deferred exploration costs:				
Balance, beginning of year	443,687	356,683	72,558	872,928
Assays	-	499,840	-	499,840
Field supplies and equipment	-	19,605	-	19,605
Surveys and other studies	-	72,735	-	72,735
Geologists, consultants and other labour	-	390,475	-	390,475
Excavation, drilling, crushing and transportation	-	310,579	-	310,579
Licences, permits and maintenance fees	-	876	-	876
Travel, meals and accommodation	-	50,088	-	50,088
Admin and other expenses	-	7,998	-	7,998
Quebec tax credit	55,000	(79,497)	-	(24,497)
Additions during the year	55,000	1,272,699	-	1,327,699
	498,687	1,629,382	72,558	2,200,627
Less: write offs	-	-	(72,558)	(72,558)
Balance, end of year	498,687	1,629,382	-	2,128,069
Total	$1,153,066	$ 2,010,497	$ -	$ 3,163,563

11. EXPLORATION AND EVALUATION ASSETS (Continued)

At December 31, 2013, expenditures incurred on exploration and evaluation assets were as follows:

	Asbury Graphite Property, Quebec	Miller, Walker and Dun Raven Properties, Quebec	Maria Township Graphite Property, Ontario	Yukon Prospect, Yukon	Year ended December 31, 2013
Acquisition costs:					
Balance, beginning of year	$ 654,379	$ 11,000	$251,702	$ 148,721	$1,065,802
Additions during the year	-	498,216	-	-	498,216
	654,379	509,216	251,702	148,721	1,564,018
Less: write offs	-	(141,744)	(251,702)	-	(393,446)
Balance, end of year	654,379	367,472	-	148,721	1,170,572
Deferred exploration costs:					
Balance, beginning of year	410,604	-	-	72,558	483,162
Assays	225	32,504	-	-	32,729
Field supplies and equipment	-	4,277	-	-	4,277
Surveys and other studies	-	32,965	-	-	32,965
Geologists, consultants and other labour	87,750	213,160	-	-	300,910
Excavation, drilling and transportation	-	162,321	-	-	162,321
Licences, permits and maintenance fees	108	319	-	-	427
Travel, meals and accommodation	-	22,362	-	-	22,362
Admin and other expenses	-	4,150	-	-	4,150
Quebec tax credit	(55,000)	(115,000)	-	-	(170,000)
Additions during the year	33,083	357,058	-	-	390,141
	443,687	357,058	-	72,558	873,303
Less: write offs	-	(375)	-	-	(375)
Balance, end of year	443,687	356,683	-	72,558	872,928
Total	$1,098,066	$ 724,155	$ -	$ 221,279	$2,043,500

Expenditures incurred during the years ended December 31, 2014 and 2013 for properties written off in prior years are charged directly to the statement of loss. During the year ended December 31, 2014 $nil (2013 - a recovery of $4,073) was included in write off of exploration and evaluation expenditures related to properties previously written off.

Miller, Walker and Dun Raven Properties, Quebec, Canada

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

Pursuant to the terms of the Miller purchase and transfer agreement, the Company is to make an initial contribution of $5,000 (paid) and is to make a second cash payment of $45,000 (paid) and is to pay a yearly net production royalty (“NPR”) of 2%. As further consideration, the Company is to issue 1,000,000 common shares (issued for value of $90,000) to the vendor on closing and a conditional payment of 1,000,000 shares on the first anniversary date of the closing after the Company makes certain expenditures of up to $250,000 (incurred) and confirms specific defined quality, grade and feasibility targets. The Company did not confirm the quality, grade and feasibility targets by the anniversary date and has therefore not issued the 1,000,000 shares.

In September 2013, the Company purchased 0.5% of the NPR, thereby reducing the NPR to 1.5%. In consideration for the NPR purchase, the Company issued 100,000 common shares valued at $35,000.

11. EXPLORATION AND EVALUATION ASSETS (Continued)

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

Pursuant to the terms of the Walker purchase and transfer agreement, the Company is to make an initial contribution of $5,000 (paid) and is to make a second cash payment of $45,000 and will pay a yearly NPR of 2% on the net production returns. As further consideration, the Company is to issue 1,500,000 common shares (issued for value of $135,000) to the vendor on closing and a conditional payment of 1,000,000 shares on the first anniversary date of the closing after the Company makes certain expenditures of up to $250,000 and confirms specific defined quality, grade and feasibility targets. In April 2013, the Company decided to no longer pursue this property and the capitalized costs were written off accordingly.

Pursuant to the terms of the Dun Raven purchase and transfer agreement, the Company is to make an initial contribution of $1,000 (paid) and is to make a second cash payment of $9,000 (paid) and is to pay a yearly NPR of 2% on the net production returns. As further consideration, the Company is to issue 250,000 common shares (issued for value of $22,500) to the vendor and a conditional payment of 250,000 shares on the first anniversary date of the closing after the Company makes certain expenditures of up to $100,000 and confirms specific defined quality, grade and feasibility targets. The Company did not confirm the quality, grade and feasibility targets by the anniversary date and has therefore not issued the 250,000 shares.

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. 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% Net Smelter Royalty ("NSR") which can be reduced to 1% for a payment of $1,000,000.

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

In September 2013, the Company entered into a surface access rights agreement ("Agreement") with two landholders with respect to the Miller graphite property. The Agreement provides the Company with surface access for an initial period of five years and allows the Company to carry out regular graphite prospecting and exploration programs on the property. The Agreement grants the Company an exclusive and irrevocable option ("Option") to acquire or lease all or part of the property necessary for the extraction of mineral substances. If the Company exercises the Option prior to the expiry of the five year term, the term of the Agreement will extend through the period of commercial production. Pursuant to the Agreement, the Company will issue 40,000 shares (issued for value of $10,800) to the landholders for the first year, and for every subsequent year until commercial production, the Company will issue 40,000 shares or pay $5,000 cash at the option of the landholder. If the Company begins commercial production, the annual payments will cease and the landholders will be entitled to a 2.5% production royalty.

During fiscal 2013, the Company staked an additional 145 claims contiguous to the Miller graphite claims of which 90 are still pending government approval.

In October 2013, the Company entered into a mining claims and transfer agreement with an arm's length vendor pursuant to which the Company purchased 14 mining claims and 10 pending claims contiguous to the Company's historic Miller Graphite Mine. Pursuant to the agreement, the Company paid $25,000 cash and issued 250,000 common shares valued at $52,500 to the vendor.

11. EXPLORATION AND EVALUATION ASSETS (Continued)

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

In December 2013, the Company entered into a definitive agreement with an arm's length vendor to acquire 100% interest in eight claim units called the Calumet claims contiguous to the Company's Miller Graphite claims. Pursuant to the terms of the agreement, the Company paid $15,000 and issued 200,000 common shares valued at $32,000. The Calumet claims are subject to an existing 2% Net of Processed Material Returns Royalty which can be reduced to 1% at any time by paying $1,000,000 to the royalty holder.

During 2014, the Company staked one additional claim contiguous to the existing Miller claims. In addition, the Company staked three claims continuous to two of the three existing Dun Raven claim blocks. The Dun Raven A extension claims, which were originally acquired in January 2013, were allowed to expire.

In September 2014, the Company issued 40,000 shares valued at $9,600 pursuant to the surface access rights agreement with respect to the Miller graphite property.

Asbury Graphite Property, Quebec, Canada

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

Maria Township Graphite Property, Ontario, Canada

In May 2012, the Company entered into a purchase agreement with an arm's length vendor to acquire 38 prospective, large-flake graphite mineral claims located in the Maria Township in Ontario. Pursuant to the agreement, the Company paid $100,000 and issued 1,000,000 common shares, valued at $140,000 to the vendor.

In fiscal 2013, the Company decided to no longer pursue this property. The claims were allowed to expire and the capitalized acquisition costs were written off accordingly.

Yukon Prospect, Yukon, Canada

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

At the end of 2014, the Company decided that given its focus on graphite, it was unlikely that future exploration would occur on the one remaining Yukon claim block for the foreseeable future therefore, the capitalized costs were written off accordingly.

11. EXPLORATION AND EVALUATION ASSETS (Continued)

Red Chris South Property, British Columbia, Canada

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

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

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

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% NSR. The Purchaser has the option of purchasing two-thirds of the 1.5% NSR from the Company for a cash payment of $1,000,000. 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.

Arcadia Bay, Nunavut, Canada

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

On May 26, 2008, the Company met all of its obligations under the agreement. In 2009 the Company did not anticipate any further exploration activity on the property and accordingly the acquisition and deferred exploration costs were written off. In December 2013, the Company dropped its interest in the Arcadia Property. See Note 13.

Rare Earth Claims, British Columbia, Canada

In March 2010, the Company entered into an acquisition agreement to acquire a 100% interest in the Carbonatite Syndicate Rare Earth Claim Group. The Company obtained a $5,000 reclamation bond in relation to the drilling permits for the Rare Earth property.

During fiscal 2012, the Company decided that due to its focus shift to graphite and the lack of funds to continue to explore all of its exploration and evaluation interests, it was unlikely that future exploration would occur on the Rare Earth Claim Group for the foreseeable future, therefore, the capitalized costs were written off accordingly. See Notes 12 and 13.

12. DRILLING AND RECLAMATION DEPOSITS

The following table details the outstanding drilling and reclamation deposits:

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

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 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 $21,600 for the Miller graphite property to reclaim disturbance caused by the work programs of which $5,000 has been recognized as a current obligation.

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	$ 38,400
Additions	7,200
Balance, December 31, 2014	$ 45,600

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

			Year ended	
	Nature of transactions	Notes	December 31, 2014	December 31, 2013
R. Bruce Duncan	Management	a	$ 152,500	$ 120,000
O2 Ltd.	Management/Consulting fees	b	$ -	$ 87,500
Olga Nikitovic	Professional fees	c	$ 75,000	$ 70,000
Aird & Berlis	Professional fees	d	$ 21,574	$ 85,522

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 December 31, 2014, $2,246 (2013 - $nil) was included in accounts payable. This amount is unsecured, non-interest bearing and payable on demand.

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.

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 $13,478 (2013 - $58,767) is included in professional fees and $8,096 (2013 – $26,755) is included in share issue costs. As at December 31, 2014, $7,792 (2013 - $13,407) 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

		Year ended	
	Notes	December 31, 2014	December 31, 2013
Salaries	a	$ 227,500	$ 252,500
Termination payments	a	-	25,000
Share-based payments	b	149,748	66,662
		$ 377,248	$ 344,162

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 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 December 31, 2014, the Company had 86,225,794 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.

i) 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 $60,720 of which $12,007 were allocated to warrants.

ii) In September 2014, the Company issued 40,000 shares valued at $9,600 pursuant to the Surface Access Rights Agreement with respect to the Miller graphite property.

iii) 7,650,000 warrants and 200,000 options exercisable at $0.20 per share, 200,000 warrants exercisable at $0.15 per share and 12,000 warrants exercisable at $0.10 per share were exercised for gross proceeds of $1,601,200.

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

Capital Stock (Continued)

iv) On December 19, 2014, the Company closed a non-brokered flow-through private placement of 2,000,000 units at a price of $0.28 per unit for gross proceeds of $560,000 of which $60,810 was allocated to warrants and $109,200 was allocated to flow through premium. Each unit consisted of one flow-through common share and one half non-flow-through share purchase warrant with each whole warrant exercisable at $0.40 per share for eighteen months. Finder's fees of $33,600 were paid. Total cash issue costs were $39,532 of which $6,011 were allocated to warrants. The warrants are subject to a four month hold period.

v) 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.

vi) 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 unit 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.

vii) 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.

viii) 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.

ix) 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. On July 17, 2013, the Company issued 75,000 common shares valued at $9,750 pursuant to the acquisition of an additional five graphite claims.

x) 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 of which $69,576 was allocated to warrants. Each unit consisted of one common share and one half share purchase warrant with each whole warrant exercisable at $0.25 per share for three years. Finder's fees of $24,000 cash were paid and 200,000 non-transferable compensation units valued at $18,146 were issued. The compensation units, are exercisable into units at $0.15 per unit for eighteen months. Each unit consists of one common share and one share purchase warrant exercisable at $0.25 per share for three years. Cash issue costs of $31,355 were incurred of which $7,272 was allocated to warrants.

xi) On September 25, 2013, the Company completed a non-brokered flow-through private placement of 650,000 units at a price of $0.32 per unit for gross proceeds of $208,000 of which $42,101 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 $0.40 per share for two years. Cash issue costs of $4,363 were incurred of which $883 was allocated to warrants.

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

Capital Stock (Continued)

xii) In September 2013, the Company issued 40,000 common shares valued at $10,800 pursuant to the Surface Access Rights Agreement with respect to the Miller graphite property and issued 100,000 shares valued at $35,000 pursuant to the buy-back of a 0.5% NPR related to the Miller graphite property.

xiii) In September 2013, the Company issued 650,000 shares pursuant to the exercise of 600,000 warrants and 50,000 options.

xiv) On October 1, 2013, the Company completed a non-brokered private placement of 1,400,000 units at a price of $0.25 per unit for gross proceeds of $350,000 of which $106,216 was allocated to warrants. Each unit consisted of one common share and one share purchase warrant exercisable at $0.40 per share for two years. Finder's fees of $21,000 cash were paid and 84,000 compensation warrants valued at $7,849 were issued. The compensation warrants are exercisable at $0.25 per unit for two years. Cash issue costs of $28,116 were incurred of which $8,532 was allocated to warrants.

xv) In October 2013, the Company issued 250,000 common shares valued at $52,500 pursuant to the acquisition of additional Miller claims.

xvi) In December 2013, the Company issued 200,000 common shares valued at $32,000 pursuant to the acquisition of the Calumet claims.

xvii) On December 23, 2013, the Company completed a non-brokered flow-through private placement of 1,116,000 units at a price of $0.16 per unit for gross proceeds of $178,560 of which $32,560 was allocated to warrants. Each unit consisted of one flow-through common share and one half non-flow-through share purchase warrant exercisable at $0.25 per share for eighteen months. Finder's fees of $10,714 cash were paid and 89,280 compensation warrants valued at $6,295 were issued. The compensation warrants are exercisable at $0.16 per unit for eighteen months. Cash issue costs of $16,420 were incurred of which $2,994 was allocated to warrants.

Share Purchase Warrants

At December 31, 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)
February 1, 2015	0.20	500,000	0.08	500,000	0.08
March 1, 2015	0.20	3,850,000	0.17	3,850,000	0.17
June 23, 2015	0.16	89,280	0.48	89,280	0.48
June 23, 2015	0.25	558,000	0.48	558,000	0.48
September 25, 2015	0.40	325,000	0.74	325,000	0.74
October 1, 2015	0.25	84,000	0.75	84,000	0.75
October 1, 2015	0.40	1,400,000	0.75	1,400,000	0.75
October 22, 2015	0.25	2,310,000	0.81	2,310,000	0.81
June 19, 2016	0.40	1,000,000	1.47	-	-
July 30, 2016	0.25	1,000,000	1.58	1,000,000	1.58
January 6, 2017	0.25	100,000	2.02	100,000	2.02
		11,216,280	0.67	10,216,280	0.59

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

Share Purchase Warrants (Continued)

The following is a summary of the warrant transactions for the years ended December 31, 2014 and 2013.

	Year ended December 31, 2014		Year ended December 31, 2013	
	Number of Warrants	Weighted Average Exercise Price $	Number of Warrants	Weighted Average Exercise Price $
Balance, beginning of year	24,423,280	0.25	17,035,000	0.25
Warrants issued pursuant to private placements	3,310,000	0.30	8,668,280	0.25
Warrants issued pursuant to broker unit exercise (i)	100,000	0.25	-	-
Warrants exercised (i)	(7,862,000)	0.20	(600,000)	0.18
Warrants expired	(8,755,000)	0.30	(680,000)	0.18
Balance, end of year	11,216,280	0.27	24,423,280	0.25

(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.

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

	Year ended December 31, 2014	Year ended December 31, 2013
Risk-free interest rate	1.03%	1.06%
Expected dividend yield	0.00%	0.00%
Expected stock volatility	125%	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.

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

Stock Options (Continued)

As at December 31, 2014, 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)
February 3, 2015	0.25	66,667	0.09	66,667	0.09
April 1, 2015	0.28	60,000	0.25	60,000	0.25
December 29, 2015	0.50	800,000	1.00	800,000	1.00
July 19, 2016	0.35	400,000	1.55	400,000	1.55
June 15, 2017	0.20	250,000	2.46	250,000	2.46
April 17, 2018	0.10	1,450,000	3.30	1,450,000	3.30
October 18, 2018 (i)	0.25	675,000	3.80	450,000	3.80
July 15, 2019	0.20	1,200,000	4.54	1,200,000	4.54
October 30, 2019 (i)	0.22	500,000	4.83	-	-
		5,401,667	3.20	4,654,445	2.99

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(i) Options vest in three equal instalments over an 18 month period.

The following is a summary of stock option transactions for the years ended December 31, 2014 and 2013.

	Year ended December 31, 2014		Year ended December 31, 2013	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Balance, beginning of year	4,507,000	0.25	4,432,000	0.35
Options granted	1,700,000	0.21	2,350,000	0.15
Options exercised	(200,000)	0.20	(50,000)	0.20
Options forfeited	(116,666)	0.25	-	-
Options expired	(488,667)	0.22	(2,225,000)	0.36
Balance end of year	5,401,667	0.24	4,507,000	0.25

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

Share-Based Compensation

For the year ended December 31, 2014**,** 1,700,000 options were granted (2013 – 2,350,000)**.** Share-based compensation for the year ended December 31, 2014 of $106,482 has been capitalized to exploration and evaluation assets and $167,958 has been charged to share-based compensation expense with $274,440 being recorded in the equity settled share-based payments reserve. Share-based compensation for the year ended December 31, 2013 of $109,644 was capitalized to exploration and evaluation assets 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 years ended December 31, 2014 and 2013.

	Year ended December 31, 2014	Year ended December 31, 2013
Risk-free interest rate	1.53%	1.43%
Expected dividend yield	0.00%	0.00%
Expected stock volatility	117%	119%
Expected option life in years	5.0 years	5.0 years

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the year ended December 31, 2014 consisted of:

a) An increase in accrued exploration and evaluation assets of $73,324.

b) A decrease in accrued share issuance costs of $10,489.

c) Share-based payments of $106,482 included in exploration and evaluation assets.

d) A decrease in receivables included in exploration and evaluation assets of $88,144.

e) The issuance of 40,000 common shares of the Company valued at $9,600 pursuant to the Surface Access Rights Agreement with respect to the Miller graphite property.

f) Broker warrants issued for $19,522.

g) An increase in restoration, rehabilitation and environmental obligation of $7,200 included in exploration and evaluation assets.

Significant non-cash investing and financing transactions for the year ended December 31, 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 600,000 common shares of the Company valued at $98,750 pursuant to the purchase of additional claims contiguous to the initial Miller Mine claims acquisition.

c) The issuance of 40,000 shares valued at $10,800 pursuant to the Surface Access Rights Agreement with respect to the Miller graphite property.

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

d) The issuance of 100,000 shares valued at $35,000 pursuant to the buy-back of 0.5%NPR with respect to the Miller graphite property.

e) Broker warrants issued for $32,738.

f) Restoration rehabilitation and environmental obligations capitalized to exploration and evaluation assets $14,400.

g) An increase in accrued exploration and evaluation assets of $86,125.

h) An increase in accrued share issuance costs of $16,421.

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

j) A decrease in drilling and reclamation deposits of $33.

k) $109,644 of share-based payments included in exploration and evaluation assets.

l) An increase in receivables included in exploration and evaluation assets of $170,000.

17. INCOME TAXES

a) A reconciliation of income taxes at the statutory rate of 26.5% (2013 – 26.5%) is as follows:

	2014	2013
Loss for the year before income taxes	$ (1,025,179)	$ (1,051,015)
Expected income tax (recovery)	$ (272,000)	$ (278,000)
Expenses not deductible for income tax purposes	82,000	29,000
Flow-through renunciation	266,000	88,000
Other	(15,000)	(52,477)
Change in deferred tax assets not recognized	(144,886)	210,000
Total income tax (recovery)	$ (83,886)	$ (3,477)

b) Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2014	2013
Exploration and evaluation assets	$ 15,062,000	$ 15,288,000
Non-capital loss carry-forwards	2,969,000	3,250,000
Other	364,000	287,000
Total	$ 18,395,000	$ 18,825,000

The Company has available for deduction against future taxable income, Canadian non-capital losses of approximately $2,969,000. Subject to certain restrictions, the Company also has resource expenditures of approximately $18,226,000 available to reduce taxable income in Canada in future years.

17. INCOME TAXES (Continued)

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

Year	Canadian losses Amount
2015	$ 342,000
2026	849,000
2027	669,000
2028	605,000
2029	234,000
2030	170,000
2033	100,000
	$ 2,969,000

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 a single reporting segment, amounts disclosed in the financial statements also represent segment amounts.

19. COMMITMENTS AND CONTINGENCIES

The Company is obligated to spend $559,800 by December 31, 2015 as part of the flow-through funding agreement for shares issued in December 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.

In October 2014, the Company entered into a six month contract for consulting and support services. Under the terms of the contract the Company is committed to pay $10,000 per month plus taxes. The contract expired on March 31, 2015.

In December 2014, the Company entered into two year employment contracts that are automatically renewable for one year periods with its CEO and CFO for $20,833 and $10,000 per month respectively. The Company is committed to pay $370,000 per annum with respect to these contracts. These contracts contain clauses requiring additional payments of up to $370,000 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

i) 3,550,000 warrants exercisable at $0.20, 500,000 warrants exercisable at $0.25 and 89,280 warrants exercisable at $0.16 were exercised for gross proceeds of $849,285.
ii) 800,000 warrants exercisable at $0.20 expired.
iii) 66,667 options exercisable at $0.25 and 60,000 options exercisable at $0.28 expired.