

**CANADA CARBON INC.**

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(EXPRESSED IN CANADIAN DOLLARS)**

251 Consumers Road, Suite 800  
Toronto, Ontario  
M2J 4R3  
Canada

Tel 416-496-1234  
Fax 416-496-0125  
Email [info@uhymh.com](mailto:info@uhymh.com)  
Web [www.uhymh.com](http://www.uhymh.com)

## 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, 2017 and 2016, 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, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company had continuing losses during the year ended December 31, 2017 and a cumulative deficit and limited working capital as at December 31, 2017. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

UHY McGovern Hurley LLP



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
April 23, 2018

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

	December 31, 2017 \$	December 31, 2016 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (Note 7)	875,272	410,743
Receivables (Note 8)	37,438	68,949
Prepaid expenses (Note 9)	16,563	43,889
<b>Total current assets</b>	<b>929,273</b>	<b>523,581</b>
<b>Exploration and evaluation assets</b> (Note 10)	<b>6,389,370</b>	<b>5,686,343</b>
<b>Drilling and reclamation deposits</b> (Note 11)	<b>5,000</b>	<b>5,000</b>
<b>Total assets</b>	<b>7,323,643</b>	<b>6,214,924</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 13)	437,735	228,992
Flow through premium	62,792	70,060
Restoration, rehabilitation and environmental obligations (Note 12)	15,089	88,500
<b>Total current liabilities</b>	<b>515,616</b>	<b>387,552</b>
Restoration, rehabilitation and environmental obligations (Note 12)	30,000	25,000
<b>Total liabilities</b>	<b>545,616</b>	<b>412,552</b>
<b>Shareholders' equity</b>		
Capital stock (Note 14)	31,677,484	30,281,130
Reserves	1,044,670	616,914
Deficit	(25,944,127)	(25,095,672)
<b>Total shareholders' equity</b>	<b>6,778,027</b>	<b>5,802,372</b>
<b>Total liabilities and shareholders' equity</b>	<b>7,323,643</b>	<b>6,214,924</b>

**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.**  
**STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE YEARS ENDED DECEMBER 31**

	2017	2016
<b>EXPENSES</b>		
Management fees (Note 13)	\$ 286,000	\$ 334,750
Consulting fees	43,355	7,928
Professional fees (Notes 13)	241,754	186,111
Office, rent and miscellaneous	32,700	30,755
Shareholder communications and promotion	64,945	98,108
Share based compensation (Note 14)	230,591	144,056
Transfer agent and filing fees	26,646	29,369
Travel and accommodation	10,177	23,008
<b>Loss before other items</b>	<b>936,168</b>	<b>854,085</b>
<b>OTHER ITEMS</b>		
Foreign exchange loss	941	951
Investment income	(9,185)	(5,634)
Flow through premium	(180,518)	(150,864)
Restoration, rehabilitation and environmental (Note 12)	43,269	64,500
Write off of exploration and evaluation expenditures	57,780	-
<b>Net loss and comprehensive loss for the year</b>	<b>\$ 848,455</b>	<b>\$ 763,038</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>
<b>Weighted average number of common shares outstanding</b>	<b>101,072,964</b>	<b>94,728,800</b>

See accompanying notes to the financial statements.

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

	2017	2016
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) for the year	(848,455)	(763,038)
Items not affecting cash:		
Share-based compensation	230,591	144,056
Flow-through premium	(180,518)	(150,864)
Restoration, rehabilitation and environmental obligations	43,269	64,500
Write off of exploration and evaluation expenditures	57,780	-
Unrealized foreign exchange (gain) loss	391	(40)
	<u>(696,942)</u>	<u>(705,386)</u>
Change in non-cash working capital items:		
(Increase) Decrease in receivables	(4,022)	47,599
Decrease in prepaid expenses	27,326	21,769
Increase in accounts payable and accrued liabilities	149,472	120,356
Net cash flows from operating activities	<u>(524,166)</u>	<u>(515,662)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from private placements	1,858,900	540,000
Share issue costs	(100,131)	(40,573)
Proceeds from warrant and option exercises	-	200,000
Net cash flows from financing activities	<u>1,758,769</u>	<u>699,427</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and evaluation assets	(688,536)	(1,206,100)
Quebec tax credits received	35,533	13,052
Restoration, rehabilitation and environmental obligations	(116,680)	(7,509)
Net cash flows from investing activities	<u>(769,683)</u>	<u>(1,200,557)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(391)</u>	<u>40</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>464,529</b>	<b>(1,016,752)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>410,743</b>	<b>1,427,495</b>
<b>Cash and cash equivalents, end of year (Note 7)</b>	<b><u>875,272</u></b>	<b><u>410,743</u></b>

**Supplemental disclosure with respect to cash flows (Note 15)**

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

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

	Number of Shares	Capital Stock \$	<i>Reserves</i>		Deficit \$	Total \$
			Equity settled share- based payments reserve \$	Warrant reserve \$		
Balance, December 31, 2015	93,489,074	29,649,257	585,698	90,787	(24,480,015)	5,845,727
Issued pursuant to private placement	1,350,000	405,000	-	-	-	405,000
Issued pursuant to surface access agreement	40,000	11,200	-	-	-	11,200
Share-based compensation	-	-	144,056	-	-	144,056
Exercise of warrants	600,000	150,000	-	-	-	150,000
Fair value of warrants exercised	-	35,988	-	(35,988)	-	-
Expiry of warrants	-	-	-	(54,799)	54,799	-
Exercise of options	250,000	50,000	-	-	-	50,000
Fair value if options exercised	-	20,258	(20,258)	-	-	-
Expiry of options	-	-	(92,582)	-	92,582	-
Issue costs - cash	-	(40,573)	-	-	-	(40,573)
Net loss and comprehensive loss of the year	-	-	-	-	(763,038)	(763,038)
Balance December 31, 2016	95,729,074	30,281,130	616,914	-	(25,095,672)	5,802,372
Issued pursuant to private placement	7,580,000	1,478,602	-	207,048	-	1,685,650
Issued pursuant to surface access agreement	40,000	8,000	-	-	-	8,000
Share-based compensation	-	-	230,591	-	-	230,591
Issue costs-cash	-	(90,248)	-	(9,883)	-	(100,131)
Net loss and comprehensive loss for the year	-	-	-	-	(848,455)	(848,455)
Balance, December 31, 2017	103,349,074	31,677,484	847,505	197,165	(25,944,127)	6,778,027

See accompanying notes to the financial statements.

CANADA CARBON INC.  
NOTES TO FINANCIAL STATEMENTS  
(EXPRESSED IN CANADIAN DOLLARS)  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

**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 in the exploration and evaluation stage 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 23, 2018.

The Company is in the process of exploring its exploration and evaluation assets. 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, 2017, the Company had working capital of \$413,657 and an accumulated deficit of \$25,944,127 compared to working capital of \$136,029 and an accumulated deficit of \$25,095,672 as at December 31, 2016. 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. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. 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, 2017 and 2016, 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, 2017 and 2016, the Company had no available-for-sale financial assets.

Financial liabilities that are not classified as fair value through profit or loss 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, 2017 and 2016 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. 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)

##### **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.

##### **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 and the 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, 2017 and 2016 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.

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

##### **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.

##### **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 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.

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

##### **Income taxes (Continued)**

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 year ended December 31, 2017 and 2016, all of the outstanding stock options and warrants were anti-dilutive and were excluded from the diluted loss per share calculation.

##### **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.

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

##### Use of estimates (Continued)

###### 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.

###### Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

###### 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.

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

##### **Adoption of new and amended IFRS pronouncements**

The Company has adopted the following amendment, effective January 1, 2017. These changes were made in accordance with the applicable transitional provisions. The adoption of this standard did not have a material impact on the Company's financial statements.

IAS 7 – Statement of Cash Flows (“IAS 7”) was amended in January 2016 to clarify that disclosures shall be provided that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

##### **Future accounting changes**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing after January 1, 2017. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following has not yet been adopted and is being evaluated to determine its 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 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. The Company does not expect the implementation of IFRS 9 to have a material impact on its financial statements.

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”), deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service. The standard replaces IAS 18 “Revenue” and IAS 11 “Construction Contracts” and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018. The Company does not expect the implementation of IFRS 15 to have a material impact on its financial statements.

IFRS 16 – Leases (“IFRS 16”), was issued in January 2016 and requires lessees to recognize assets and liabilities for most leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively. The Company does not expect the implementation of IFRS 16 to have a material impact on its financial statements.

#### 5. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of 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

**5. CAPITAL MANAGEMENT (Continued)**

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, 2017. 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 significant changes in the risks, objectives, policies and procedures during the year ended December 31, 2017 and 2016. 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. Additional funding will be required to get the Miller project through the feasibility stage; however, management believes it will be able to obtain the necessary funding.

**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 three-month period.

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**7. CASH AND CASH EQUIVALENTS**

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

	December 31, 2017	December 31, 2016
Cash balances (cheques issued in excess of cash)	\$ 14,351	\$ (1,682)
Short term money market instruments	860,921	412,425
<b>Total</b>	<b>\$ 875,272</b>	<b>\$ 410,743</b>

The Company's short term money market instruments accrued interest at a rate of 0.70% – 1.30% (2016 – 0.70%) per annum and were redeemable at any time without penalty.

**8. RECEIVABLES**

The receivables balance is comprised of the following items:

	December 31, 2017	December 31, 2016
Quebec tax credit	\$ 7,212	\$ 42,946
Sales tax due from federal & provincial governments	30,226	26,003
<b>Total</b>	<b>\$ 37,438</b>	<b>\$ 68,949</b>

**9. PREPAID EXPENSES**

The prepaid expense balance is comprised of the following items:

	December 31, 2017	December 31, 2016
Reclamation deposit	\$ -	\$ 14,000
Insurance	7,834	7,834
Investor information/promotion	3,499	3,000
Consulting and advisory fee	5,230	19,055
<b>Total</b>	<b>\$ 16,563</b>	<b>\$ 43,889</b>



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**10. EXPLORATION AND EVALUATION ASSETS**

At December 31, 2017, expenditures incurred on exploration and evaluation assets were as follows:

	Asbury Graphite Property, Quebec	Miller Property, Quebec	Dun Raven Property, Quebec	Year ended December 31, 2017
<b>Acquisition costs:</b>				
Balance, beginning of year	\$ 654,379	\$ 369,414	\$ 34,101	\$ 1,057,894
Additions during the year	-	8,000	375	8,375
	654,379	377,414	34,476	1,066,269
Less: write offs	-	-	(34,476)	(34,476)
Balance, end of year	654,379	377,414	-	1,031,793
<b>Deferred exploration costs:</b>				
Balance, beginning of year	547,609	4,057,753	23,087	4,628,449
Assays	-	72,222	-	72,222
Field supplies and equipment	-	11,336	-	11,336
Surveys and other studies	10,046	115,602	-	125,648
Community consultations	-	24,233	-	24,233
Geologists, consultants and other labour	-	257,029	-	257,029
Excavation, drilling and transportation	-	222,824	-	222,824
Travel, meals and accommodation	-	28,959	-	28,959
Admin and other expenses	-	9,964	217	10,181
Additions during the year	10,046	742,169	217	752,432
	557,655	4,799,922	23,304	5,380,881
Less: write offs	-	-	(23,304)	(23,304)
Balance, end of year	557,655	4,799,922	-	5,357,577
<b>Total</b>	<b>\$1,212,034</b>	<b>\$ 5,177,336</b>	<b>\$ -</b>	<b>\$ 6,389,370</b>

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**10. EXPLORATION AND EVALUATION ASSETS (Continued)**

At December 31, 2016, expenditures incurred on exploration and evaluation assets were as follows:

	Asbury Graphite Property, Quebec	Miller Property, Quebec	Dun Raven Property, Quebec	Year ended December 31, 2016
Acquisition costs:				
Balance, beginning of year	\$ 654,379	\$ 358,214	34,101	\$ 1,046,694
Additions during the year	-	11,200	-	11,200
Balance, end of year	654,379	369,414	34,101	1,057,894
Deferred exploration costs:				
Balance, beginning of year	529,134	2,889,543	18,087	3,436,764
Assays	-	161,296	-	161,296
Field supplies and equipment	-	26,751	-	26,751
Surveys and other studies	18,475	348,635	4,000	371,110
Geologists, consultants and other labour	-	285,440	1,000	286,440
Excavation, drilling, crushing and transportation	-	329,787	-	329,787
Travel, meals and accommodation	-	47,760	-	47,760
Quebec tax credits	-	(42,946)	-	(42,946)
Admin and other expenses	-	11,487	-	11,487
Additions during the year	18,475	1,168,210	5,000	1,191,685
Balance, end of year	547,609	4,057,753	23,087	4,628,449
Total	\$1,201,988	\$ 4,427,167	57,188	\$ 5,686,343

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

The Company acquired these properties during 2012 and 2013. Certain claims are subject to net production and net smelter royalties between 1.5% and 2%. Certain of these royalties can be reduced to 1% at any time through the Company making payments 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 to the landholders for the first year, and for every subsequent year until commercial production, 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.

Pursuant to the surface access rights agreement with respect to the Miller graphite property, the Company issued 40,000 shares valued at \$11,200 in September 2015, 40,000 shares valued at \$11,200 in September 2016 and 40,000 shares valued at \$8,000 in August 2017.

As at December 31, 2017, the Company has determined that given its focus on the Miller property, it is unlikely that future exploration will occur on the Dun Raven property for the foreseeable future, therefore, the capitalized costs of Dun Raven have been written off accordingly.

**Asbury Graphite Property, Quebec, Canada**

In 2012, the Company acquired claims subject to a net production royalty of 0.75% for a period of 10 years after the start of graphite production.

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**10. EXPLORATION AND EVALUATION ASSETS (Continued)**

**Yukon Prospect, Yukon, Canada**

In September 2010, the Company acquired a 100% interest in certain claims in the White Gold District/Stewart River Area of the Yukon.

At the end of 2014, the Company decided that given its focus on graphite, it was unlikely that future exploration would occur in the Yukon for the foreseeable future therefore, the capitalized costs were written off accordingly. All claims expired in July 2017 and were not renewed.

**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. The claims expired in 2016. See Notes 11 and 12.

**11. DRILLING AND RECLAMATION DEPOSITS**

The following table details the outstanding drilling and reclamation deposits:

Property	December 31, 2017	December 31, 2016
Rare Earth (Note 12)	\$ 5,000	\$ 5,000
<b>Total</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>

**12. RESTORATION, REHABILITATION AND ENVIRONMENTAL OBLIGATIONS**

The Company had set up a \$121,769 obligation to reclaim the Arcadia property. The restoration work was completed in the third quarter of 2017 and payment was made. The provision of \$5,089 has been retained to cover the cost of final inspection to occur in 2018.

The Company has recorded an obligation of \$10,000 for the Rare Earth property. The restoration costs are expected to be incurred in 2018. See Note 11.

The Company has also recorded an obligation of \$30,000 for the Miller graphite property to reclaim disturbance caused by the work programs. The restoration costs are expected to be incurred in 2037.

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

Balance, December 31, 2015	\$ 38,000
Deductions	(7,509)
Additions	83,009
Balance, December 31, 2016	\$ 113,500
Deductions	(116,680)
Additions	48,269
Balance, December 31, 2017	\$ 45,089

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**13. 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	Years ended	
			December 31, 2017	December 31, 2016
R. Bruce Duncan	Management	a	\$ 250,000	\$ 298,750
Directors	Management	b	\$ 36,000	\$ 36,000
Olga Nikitovic	Professional fees	c	\$ 120,000	\$ 144,000
Aird & Berlis	Professional fees	d	\$ 18,690	\$ 5,624

a) The fees for R. B. Duncan, CEO are included in management fees. As at December 31, 2017, \$173,750 (2016 - \$90,417) was included in accounts payable.

b) Fees for independent directors are included in management fees. As at December 31, 2017, \$18,000 (2016 - \$3,000) was included in accounts payable.

c) Fees for Olga Nikitovic, CFO relate to financial management and accounting services which are charged to professional fees. As at December 31, 2017, \$84,000 (2016 - \$44,000) was included in accounts payable.

d) Tom Fenton, Corporate Secretary for the Company is a partner with Aird & Berlis, LLP. Legal fees of \$13,357 (2016 - \$4,703) are included in professional fees and \$5,333 (2016 - \$921) are included in share issue costs. As at December 31, 2017, \$Nil (2016 - \$405) was included in accounts payable.

All related party amounts included in accounts payable are unsecured, non-interest bearing and payable on demand.

*Compensation of key management personnel*

	Notes	Year ended	
		December 31, 2017	December 31, 2016
Salaries	a	\$ 406,000	\$ 478,750
Share-based payments	b	225,215	137,434
		\$ 631,215	\$ 616,184

a) The Company does not pay any health or post-employment benefits. The salaries represent the fees for the CEO, CFO and directors which are included in the trading transactions above.

b) Share-based payments include the fair value of options issued for services granted to key management and directors.

## 14. 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, 2017, the Company had 103,349,074 common shares outstanding (December 31, 2016 – 95,729,074).

- i. In April 2017, the Company closed a flow-through private placement in which it issued 1,650,000 common shares at a price of \$0.30 per share for gross proceeds of \$495,000 of which \$173,250 was allocated to flow-through premium.
- ii. In addition the Company closed a non-flow-through private placement in which it issued 5,930,000 units at a price of \$0.23 per unit for gross proceeds of \$1,363,900 of which \$207,048 was allocated to warrants. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire one common share at a price of \$0.30 per share for a period of three years from the closing date.

Cash commissions of approximately \$80,000 were paid for the April 2017 private placements. Total cash issue costs were \$100,131 of which \$9,883 was allocated to warrants.

- iii. In August 2017, the Company issued 40,000 shares valued at \$8,000 pursuant to the Miller Surface Access Rights Agreement. (See Note 10)
- iv. During the year ended December 31, 2016, 250,000 options exercisable at \$0.20 per share were exercised for gross proceeds of \$50,000 and 600,000 warrants exercisable at \$0.25 per share were exercised for gross proceeds of \$150,000.
- v. In May 2016, the Company completed a non-brokered flow-through private placement in which the Company issued 1,350,000 common shares at a price of \$0.40 per share for gross proceeds of \$540,000 of which \$135,000 was allocated to flow-through premium. Finder's fees of \$32,400 were paid. Total cash issue costs were \$40,573.
- vi. In September 2016, the Company issued 40,000 shares valued at \$11,200 pursuant to the Miller Surface Access Rights Agreement. See Note 10.
- vii. During the year ended December 31, 2015, 3,550,000 warrants exercisable at \$0.20, 584,000 warrants exercisable at \$0.25 and 89,280 warrants exercisable at \$0.16 were exercised for gross proceeds of \$870,285.
- viii. On June 29, 2015, the Company completed a non-brokered flow-through private placement in which the Company issued 3,000,000 shares at a price of \$0.33 per share for gross proceeds of \$990,000 of which \$210,000 was allocated to flow through premium. Finder's fees of \$69,300 were paid. Total cash issue costs were \$79,112.
- ix. In September 2015, the Company issued 40,000 common shares valued at \$11,200 pursuant to the surface access rights agreement with respect to the Miller graphite property. See Note 10.

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

**Share Purchase Warrants**

At December 31, 2017, the following warrants were outstanding.

Expiry Date	Exercise Price \$	Number of Shares	Remaining contractual life (years)	Currently exercisable	Remaining contractual life (years)
April 12, 2020	0.30	2,500,000	2.28	2,500,000	2.28
April 26, 2020	0.30	3,430,000	2.32	3,430,000	2.32
		5,930,000	2.31	5,930,000	2.31

The following is a summary of the warrant transactions for the year ended December 31, 2017 and 2016.

	Year ended December 31, 2017		Year ended December 31, 2016	
	Number of Warrants	Weighted Average Exercise Price \$	Number of Warrants	Weighted Average Exercise Price \$
Balance, beginning of year	-	-	1,600,000	0.34
Warrants issued	5,930,000	0.30	-	-
Warrants exercised	-	-	(600,000)	0.25
Warrants expired	-	-	(1,000,000)	0.40
Balance, end of year	5,930,000	0.30	-	-

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants issued during the years ended December 31, 2017 and 2016.

	Year ended December 31, 2017	Year ended December 31, 2016
Risk-free interest rate	0.80%	-
Expected dividend yield	0.00%	-
Expected stock volatility	45%	-
Expected warrant life in years	3.0 years	-

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

**Stock Options**

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

As at December 31, 2017, the following incentive stock options were outstanding:

Expiry Date	Options Outstanding			Options Exercisable	
	Exercise Price \$	Number of Options Outstanding	Weighted average remaining contractual life (years)	Number of Options Vested	Weighted average remaining contractual life (years)
April 17, 2018	0.10	1,450,000	0.30	1,450,000	0.30
October 18, 2018	0.25	675,000	0.80	675,000	0.80
July 15, 2019	0.20	1,200,000	1.54	1,200,000	1.54
October 30, 2019	0.22	500,000	1.83	500,000	1.83
October 30, 2020	0.245	1,000,000	2.83	1,000,000	2.83
August 4, 2022(i)	0.19	2,100,000	4.59	2,000,000	4.59
		6,925,000	2.34	6,825,000	2.31

(i) 2,000,000 options vested upon grant and 100,000 options vest in three equal instalments over 18 months.

The following is a summary of stock option transactions for the years ended December 31, 2017 and 2016.

	Year ended December 31, 2017		Year ended December 31, 2016	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of year	4,825,000	0.19	5,375,000	0.20
Options granted	2,100,000	0.19	-	-
Options exercised	-	-	(250,000)	0.20
Options expired	-	-	(300,000)	0.35
Balance end of year	6,925,000	0.19	4,825,000	0.19

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

**Share-Based Compensation**

In the year ended December 31, 2017, 2,100,000 options were granted (2016 - Nil). Share-based compensation for the year ended December 31, 2017 of \$230,591 (2016 - \$144,056) has been charged to share-based compensation expense with a corresponding amount being recorded in the equity settled share-based payments reserve.

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted during the years ended December 31, 2017 and 2016.

	Year ended December 31, 2017	Year ended December 31, 2016
Risk-free interest rate	1.53%	-
Expected dividend yield	0.00%	-
Expected stock volatility	65.79%	-
Expected option life in years	5.0 years	-

**15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash investing and financing transactions for the year ended December 31, 2017 consisted of:

- a) An increase in accrued exploration and evaluation assets of \$59,271.
- b) A decrease in receivables included in exploration and evaluation assets of \$35,533.
- c) The issuance of 40,000 common shares of the Company valued at \$8,000 pursuant to the Surface Access Rights Agreement with respect to the Miller property.

Significant non-cash investing and financing transactions for the year ended December 31, 2016 consisted of:

- d) An increase in accrued exploration and evaluation assets of \$10,022.
- e) An increase in asset retirement obligations included in exploration and evaluation assets of \$18,509.
- c) An increase in receivables included in exploration and evaluation assets of \$29,894.
- d) The issuance of 40,000 common shares of the Company valued at \$11,200 pursuant to the Surface Access Rights Agreement with respect to the Miller property.



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**16. INCOME TAXES**

a) A reconciliation of income taxes at the statutory rate of 26.5% (2015 – 26.5%) is as follows:

	2017	2016
Loss for the year before income taxes	\$ (848,455)	\$ (763,038)
Expected income tax (recovery)	\$ (225,000)	\$ (202,000)
Expenses not deductible for income tax purposes	61,000	36,000
Flow-through renunciation	110,000	136,000
Change in deferred tax assets not recognized	54,000	30,000
Total income tax (recovery)	\$ -	\$ -

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

	2017	2016
Exploration and evaluation assets	\$ 11,997,000	\$ 12,598,000
Non-capital loss carry-forwards	5,386,000	4,598,000
Other	309,000	387,000
Total	\$ 17,692,000	\$ 17,583,000

The Company has available for deduction against future taxable income, Canadian non-capital losses of approximately \$5,386,000. Subject to certain restrictions, the Company also has resource expenditures of approximately \$11,997,000 available to reduce taxable income in Canada in future years.

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

2026	849,000
2027	669,000
2028	605,000
2029	234,000
2030	170,000
2033	100,000
2034	406,000
2035	774,000
2036	791,000
2037	<u>788,000</u>
	5,386,000

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

**18. COMMITMENTS AND CONTINGENCIES**

The Company is obligated to spend \$495,000 by December 31, 2018, of which \$315,595 was incurred to December 31, 2017, as part of the flow-through funding agreement for shares issued in April 2017. 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 12.

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 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) In April 2018, 600,000 options were exercised for gross proceeds of \$60,000.
- ii) On April 17, 2018, 850,000 options exercisable at \$0.10 per share expired.