CANADA CARBON INC.
(FORMERLY BOLERO RESOURCES CORP.)

Management Discussion and Analysis
For The Year Ended December 31, 2012

April 22, 2013

The following discussion and analysis should be read in conjunction with the audited financial statements for the years ended December 31, 2012 and 2011 and related notes included therein. All monetary amounts, unless otherwise indicated, are expressed in Canadian dollars. Additional regulatory filings for the Company can be found on the SEDAR website at www.sedar.com. The Company's website can be found at www.canadcarbon.com.

Forward-Looking Statements

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the Company's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments.

Overview

Canada Carbon Inc. (formerly Bolero Resources Corp.) (the "Company" or "Canada Carbon") was a junior natural resource company focused on the acquisition and exploration of natural resource properties. The Company was incorporated under the British Columbia Company Act on August 13, 1985, and was continued under the laws of the Province of Ontario on September 19, 2007. The Company was a reporting issuer in British Columbia, Alberta and Ontario and was listed on the TSX Venture Exchange under the symbol "BRU." The Company is also listed on the Pink Sheets as BRUZF and the Frankfurt Exchange under the symbol "U7N".

During fiscal 2012, with the acquisition of graphite claims and a new CEO with experience in the graphite sector, the Company created a new business model and redesigned website. The Company began the process of positioning itself as a carbon sciences company focused on the exploration and sale of graphite.

On September 17, 2012, the Company's shareholders approved a name change to Canada Carbon Inc. to better reflect the Company's new focus. The name change became effective on October 5, 2012. The Company is currently traded on the TSX Venture Exchange under the symbol "CCB".

Overall Performance

The Company incurred a net loss for the year ended December 31, 2012 of $6,181,097 compared with a net loss of $1,257,689 in the prior year. The most significant contributor to the increase is a $4,780,897 write off of exploration and evaluation expenditures in 2012.

During the first quarter of 2012, the Company focused on planning exploration programs for its Red Chris South, Rare Earth and White gold district claims. In addition, it dissolved its wholly owned subsidiary Montana Molybdenum Corporation, which had been inactive for a number of years.

In the second quarter of 2012, the Company changed its focus and positioned itself as a carbon sciences company. Given the Company's focus on graphite, the Charge property claims were dropped and planned work programs for Red Chris South and the Rare Earth properties were deferred indefinitely. In addition, one of the claim blocks within the Yukon White Gold district was dropped.

The Company entered into a number of graphite property acquisitions during 2012. In May 2012, the Company acquired 38 prospective, large-flake Graphite mineral claims contiguous to, and completely surrounding, Northern Graphite Corporation's "Bissett Creek" Graphite deposit which recently reported high recovery levels of large-flake, high-purity graphite, consistent across its entire resource and overall recovery rates at approximately 97%.

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. The past producing Asbury Graphite Mine property consists of two claims and is located approximately 10km northeast of Notre-Dame-du-Laus and about 120km north of the Ottawa-Gatineau area. A National Instrument ("NI") 43-101 report was completed on the property in December 2012. The report indicated that historical exploration on the property resulted in the extraction of 875,000 metric tons of graphite ore at a cut off grade of 6%. The report highlights a number of anomalies and recommends a follow up program including mapping and geophysical surveys. A drilling program would be contingent on the results of the mapping and surveys.

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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, Dun Raven and Walker located in Quebec, Canada. The Miller Mine is a past producer of graphite located 70km west of Montreal. This mine may have been the first graphite operation in Canada. It was worked around 1845 to at least 1900 when it was reported that a twenty-five car trainload of lump graphite was shipped from the deposit. The property consists of nine claims covering 5.4 km^2 including the past mine and similar geology around the original deposit, with road access and power nearby. The Dun Raven is a graphite deposit located near Shawville, QC, about 80km west of Ottawa. A geophysical anomaly exists of which only about 15% has been drilled. A historic resource was calculated to contain 571,532 tons of ore grading 4.72% graphite, based on the drill assays. The package consists of fifteen claims, one of which includes almost the entire anomaly. The Walker Mine is a past producer of graphite located 30 km northeast of Ottawa. The property consists of four claims covering the past mine and eleven claims covering interesting geological formations with potential graphite mineralization around the original deposit. Subsequent to year end, the Company decided not to pursue the Walker property.

Subsequent to year end, in addition to staking 10 claims in the direct area and west of the Miller property, the Company acquired another 3 claims from a third party.

In February and March 2013, the Company conducted sampling on the Miller Mine property. The sampling yielded head grades from graphite rich veins in excess of 80% Carbon graphite ("Cg"). The Company is encouraged by the results of the initial sampling and plans to follow up with a geophysical survey, mapping and drilling if warranted based on the results of the survey.

Overall Performance (Continued)

The Company also entered into a number of agreements to procure and sell graphite and graphite products. In June 2012, the Company entered into an Exclusive Distribution Agreement with GEC (ASIA) Industry Co., Ltd in China. The agreement gave Canada Carbon the exclusive rights to manufacture, market, distribute and sell any and all products in the territory of Canada, United States and Mexico for a period of ten years with an option to renew for two additional ten-year periods. The Company has been unable to generate any sales of graphite under this contract.

In March 2013, the Company entered into an Exclusive Distribution Agreement ("Agreement") with CGT Carbon GmbH ("CGT Carbon" or "CGT"), a German company that produces high quality graphite products including; carbon composites, foils and sheets, graphite felts, and a range of specialty compounds. The agreement gave Canada Carbon the exclusive right to market, distribute and sell any and all products in the territory of Canada, Mexico and specific locations within United States.

In October 2012, the Company closed a private placement in which it issued 7,000,000 units for gross proceeds of $700,000. In March 2013, the Company announced the closing of a private placement for $500,000. The Company will require additional funding to fund its 2013 work programs and operations.

Subsequent to year end, given the lack of sales generated, the Company terminated the GEC and CGT contracts and eliminated its sales force. In addition the Company eliminated a number of head office positions. The Company is utilizing its limited cash resources to focus on the development of its existing graphite properties.

Operating Activities- Exploration Properties

Maria Township Graphite Claims, Ontario, Canada

In May 2012, the Company acquired 38 prospective, large-flake Graphite mineral claims contiguous to, and completely surrounding, Northern Graphite Corporation’s “Bissett Creek” Graphite deposit which recently reported high recovery levels of large-flake, high-purity graphite, consistent across its entire resource and overall recovery rates at approximately 97%. The claims are located in the Maria Township, approximately 17 kilometres from the TransCanada Highway between the cities of Ottawa and North Bay, Ontario. The claims cover an estimated area of 4,990 hectares (12,335 acres). The terms of the agreement are disclosed in the notes to the financial statements.

As of December 31, 2012, the Company had incurred $251,702 in acquisition costs on the Maria Township claims.

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. The past producing Asbury Graphite Mine property consists of two claims and is located approximately 10km northeast of Notre-Dame-du-Laus and about 120km north of the Ottawa-Gatineau area. The terms of the agreement are disclosed in the notes to the financial statements.

The Asbury Graphite Mine property is accessible by a good road and a power transmission line runs to the property. Some of the old mill structure still exists and could be refurbished to house a dry milling process.

Operating Activities- Exploration Properties (Continued)

Asbury Graphite Property (Continued)

In December 2012, the Company announced the completion of a NI 43-101 report on the Asbury Graphite Mine. This report describes the exploration potential related to the Asbury Graphite Mine. The data in the report was mostly obtained from historical assessment exploration reports. The report can be found on the Company's website.

The NI 43-101 report noted that historical exploration by various companies and subsequent resource evaluations lead to an historical production by Asbury Graphex from 1974 to 1988. Open pit mining allowed the extraction of 875,000 metric tons of graphite ore at a cut off grade of 6% on the current property. Historical geophysics (EM) over the property reveals three conductive zones, named A to C, striking north-south and thus conforming to the local bedding. Anomaly A is 825m long and 30m wide and is located west of the open pit. Anomaly B is 530m long and 35m wide and is located southwest of the open pit. This anomaly was drilled by one diamond drill hole and 40.5m of graphitic rock grading 2.30% C total was encountered, including 4.07% C total over 11.7 m. Anomaly C is 230 m long and 10 m wide and is in the open pit, going toward south. Four less important conductor axes are also present, along with a small part of another EM anomaly.

The presence of distinct graphitic rock units is compatible with the skarn deposit model, which may imply several mineralized lenses of comparable quality. In addition, significant graphite mineralization can also be present along the extensions to the south and at depth from the open pit.

The NI 43-101 report recommended follow up activities including: (1) an exhaustive map compilation of historic drilling and geophysical survey on the property (2) a detailed Max-Min geophysical ground survey to confirm and complete historical data, and, finally (3) a drilling program testing the best targets revealed by the geophysical compilation and the geophysical survey. Particular attention should also be applied to the immediate area of the mine pit to test its southern and downward extensions. A drilling program is contingent on positive results of the data compilation and geophysical EM survey in confirming the presence of significant conductive anomalies.

As of December 31, 2012, the Company had incurred $654,379 in acquisition costs and $410,604 on exploration and evaluation expenditures on the Asbury claims.

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, Dun Raven and Walker mines located in Quebec, Canada. A purchase and transfer agreement for each property was signed on January 7, 2013. The terms of the agreement are disclosed in the notes to the financial statements.

Miller

The Miller-Graphite Mine, located in Grenville Township is a past graphite and mica producer with unknown graphite reserve left. This mine was worked around 1845 and was probably the first graphite operation in Canada. The quantity of produced graphite is unknown but it is reported that 25 rail cars of lump graphite was shipped from this deposit in the year 1900 and sent to the Globe Refining Company of Jersey City, N.J. This yielded thirty-two tons of clean crucible graphite. The Morgan Crucible Company of London and also J.H. Gauthier and Company, Jersey City, used some of this graphite in their crucibles and pronounced it equal to the best graphite known to come from Ceylon (now Sri Lanka).

The property acquired from 9228-6202 Quebec Inc. consists of nine (9) claims covering the past mine and a similar geologic context for more graphite mineralization around the deposit. The property covers 5.4 km^2 of land and is located 70 km west of Montreal. Main roads connect up to 800m away from the

Operating Activities- Exploration Properties (Continued)

Miller Property (Continued)

deposit and travel all around the property. A powerline also cross the property 500m south of the deposit, and a bush road goes directly to the deposit, which allows for very easy access.

The Company staked an additional 10 claims covering 6.0 km^2 of land in the direct Miller area and 9 km west of the property. In April 2013, the Company purchased another 3 claims from a third party covering 1.8 km^2 of land contiguous to the Miller Mine.

A 2013 sampling program conducted by Canada Carbon in February and March 2013 identified grades as high as 80.1% Cg and assessed the visible graphite deposit through a series of new samples taken directly along and into the vein with a chisel and hammer and went to a depth of approximately 30-50mm. The samples were removed directly from the vein. The purpose of this program was to further confirm the grades encountered within the graphitic zone. Based on subsequent lab analysis conducted by Activation Laboratories (Actlabs) of Ancaster, Ontario immediately after collecting the samples using the IR process (Leco), the results confirmed the presence of a high quality lump/vein graphite deposit.

The Company is encouraged by the results of the sampling and plans to proceed with a work program consisting of a geophysical surveying, mapping and drilling.

Dun Raven

The Dun Raven acquisition includes: Dun Raven A, Dun Raven G and Dun Raven A Extension. Dun Raven A is a graphite deposit with historic reserves of 571,532 tons at 4.72% graphite. The property is easily accessible, 3.5 hours west of Montreal, in the Thorne Township.

The historic reserves come from drilling over a geophysical (self-potential) anomaly. The reserves are only from the drilled part of the anomaly (200 feet max depth of holes) and there is still 75% more of the anomaly left to drill. It is also possible that the tonnage or the grade will vary and the overall deposit could be richer. Numerous high grade samples were found at surface.

The only available description from the Ministry of Natural Resources of Quebec of the graphite quality is from 1955 (GM11478). A flotation process was able to produce a 77.60% C concentrate. It is said that no problems were expected to produce a 80-85% C concentrate (which was a marketable product). The mesh size of the concentrate was 32.97% +100 mesh. Another test included more grinding and produced 24.43% +100 mesh, 38.38% +200 mesh and 23.57% -200 mesh. The same report tells us that the produced concentrate (76% C) contained a low iron content.

Walker

The Walker Mine is a past producer of graphite located 30 km northeast of Ottawa. The property consists of four claims covering the past mine and eleven claims covering interesting geological formations with potential graphite mineralization around the original deposit. More than thirty pits have been reported on the past producing property.

Subsequent to year end, the Company decided to terminate its interest in the Walker property.

As of December 31, 2012, the Company incurred acquisition costs of $5,000 for the Miller Mine, $1,000 for Dun Raven and $5,000 for the Walker Mine.

Operating Activities- Exploration Properties (Continued)

Red Chris South, British Columbia, Canada

In December 2009, the Company purchased a 100% interest in twelve strategic claims in the Red Chris area of north-western British Columbia. The claims are contiguous with the Red Chris copper-gold property where Imperial Metals Corp. announced assay results from its 2009 drilling program and are developing a copper-gold mine. The terms of the agreement are disclosed in the notes to the year-end financial statements.

The 2009 results from Imperial Metals Corp.'s Deep East Zone as reported on December 10th, 2009 are as follows:

"Drill hole RC09-350 previously reported the highest grade intercepted at Red Chris to date (NR Nov 09/09: RC09-350 returned 152.5 metres grading 4.12% copper and 8.83 g/t gold starting at a depth of 540.0 metres). The higher grade material extends to 962.5 metres and averages 2.00% copper and 3.80 g/t gold over 432.5 metres. With all intervals assayed, drill hole RC09-349 intercepted 625.3 metres of 0.82% copper and 0.93 g/t gold starting at 390.0 metres depth."

The significant intervals encountered in holes RC09-349 and RC09-350 of Red Chris East Zone are shown below. (Imperial Metals Corp, December 10, 2009)

Drill Hole	Zone	Total Length (m)	Interval From (m)	Interval To (m)	Interval Length (m)	Copper %	Gold g/t	Silver g/t
RC09-349	East	1150.6	390.0	1015.3	625.3	0.82	0.93	1.11
		including	545.0	582.5	37.5	1.51	1.89	1.54
			866.6	919.9	53.3	1.83	2.62	2.60
RC09-350	East	1477.4	420.0	1067.5	647.5	1.50	2.68	3.22
		including	530.0	962.5	432.5	2.00	3.80	4.42
			540.0	692.5	152.5	4.12	8.83	10.46
			692.5	962.5	270.0	0.83	1.02	1.12

There is no assurance that similar mineralization will be discovered on the Canada Carbon property.

The acquisition agreement gives Canada Carbon a 10,914.9 acre (4,410 hectares) property package immediately adjacent to the southwest side of the Red Chris property. The newly acquired tenures are underlain by Upper Triassic Stuhini volcanic and sedimentary formations that are the principal host rocks for the Red Chris copper-gold deposit. The Canada Carbon property border is approximately 5.5 km southwest of the Red Chris East Zone discovery.

Work had previously been conducted on the property. In 1998 Homestake Canada Inc., conducted geological mapping, geochemical sampling and outlined stratigraphy that is prospective for Eskay Creek-style mineralization. Nearby intrusions have alteration and other characteristics similar to those observed at the Red Chris deposit.

In 2010, the Company retained Terracad Geosciences Services Ltd. ("Terracad") to initiate the planned work program on the property. This program focussed its efforts on the Eskay Creek- style mineralization and intrusion and alterations discovered in 1998 by Homestake Canada Inc that might represent Red Chris-style mineralization.

Operating Activities (Continued)

Red Chris South, British Columbia, Canada (Continued)

This initial work program consisted of property reconnaissance, permitting, prospecting, geological reconnaissance, grid preparation, geochemical soil sampling and/or MMI (mobile metal ion) soil sampling, magnetometer survey, an Induced Polarization ("IP") survey, and rock chip sampling of mineral zones.

In July 2010, the Company entered into an option agreement with an arms-length vendor to acquire two strategic claims contiguous to the claims acquired in December 2009. In September 2010, the Company acquired a 100% interest in 4 additional strategic claims covering over 3,337 acres (1,348 hectares).

In September 2010, the Company announced that the work program conducted by Terracad identified significant anomalies using a 55 line km induced polarization IP survey and 560 MMI soil samples. The survey was designed to identify deep potentially sulphide-bearing targets that could represent Red Chris-type mineralization. The survey detected a relatively strong chargeability anomaly near the eastern portion of the property that appears to lie at a depth starting at about 300 metres and is open to depth. Its apparent width is in the order of 350 metres and the target was detected on two lines spaced 200 metres apart.

Additional interpretation of the geophysical survey data has revealed two distinct faults on the Red Chris South property; one of which appears to be the extension of a south side-down normal bounding fault that lies between the Bowser Lake Group sedimentary rocks and the "Red" Stock that hosts the Red Chris-Imperial Metals Deposit. This fault extends through the same sedimentary rocks on Red Chris South property. A second, semi-parallel fault passes through the identified IP anomaly.

The MMI soil survey results for gold and copper confirm and coincide with the extensions of the east-west elongated IP anomaly. The reconnaissance MMI grid overlaid the geophysical anomaly and includes the highest values for copper and gold of the total Phase 1 geochemical survey of 2010. The geophysical/geochemical anomaly is interpreted to have the characteristics of a mineralized intrusive at depth and warrants further exploration.

At least two other IP chargeability and geochemical anomalies have been identified within the boundaries of the IP survey.

In May 2011, the Company retained Discovery Consultants of Vernon, B.C., to run the 2011 work programs. The Company received its drill permits and commenced initial ground work in early July 2011. Initial work focused on geological mapping and geochemical sampling in the western portion of the claims that were not covered during the 2010 program.

Falcon Drilling of Prince George, B.C. began the drill program on July 12, 2011. The objective of the drill program was to test the anomalies identified during the 2010 geophysical survey. Discovery Consultants supervised the drilling, logging and splitting of the core, and maintained sample integrity until the material was shipped to the analytical lab.

The 2011 drilling program consisted of four core holes totaling 1,396.36 meters, two holes each in the eastern and western IP anomalies. Visual observations of the core from holes RCS-1 and 1A (536.21 meters) do not indicate an apparent reason for the eastern IP anomaly. The rocks encountered were unaltered Bowser Lake Group sediments. Holes RCS-2 and 3 (860.15 meters) tested the western IP anomaly. Both holes encountered Stuhini Group sedimentary rocks, and a weakly altered intrusive (hole 2). Hydrothermal alteration of the sedimentary rocks is scattered through the two holes with some intervals of pyrite and traces of chalcopyrite. Mineralization was encountered in hole 3 with the highest copper value showing 75 parts per million ("ppm") copper and the highest gold value showing 8 parts per

Operating Activities (Continued)

Red Chris South, British Columbia, Canada (Continued)

billion ("ppb"). Holes RCS11-02 and RCS11-03 encountered alteration and pyrite, with minor chalcopyrite in hole 2. Hole 2 also encountered

an altered intrusive. The pyrite in holes 2 and 3 is probably the source for the western IP anomaly. The lack of mineralization in hole 1 which tested the eastern IP anomaly leaves a question as to the source of the geophysical anomaly.

Surface work consisted of additional geological mapping and rock chip geochemical sampling in the central part of the claims, and an extensive soil sampling grid in the north-central portion of the claims. A reconnaissance soil survey, comprising 818 samples, on a grid with line spacing at 200 metres ("m") and sample spacing along the line at 50m intervals, was carried out in the northern portion of the property to follow up historic anomalous copper and gold values in stream sediments draining northerly from the property. Of exploration significance is a coincident copper-gold-arsenic-antimony anomaly along the north-central boundary of the property. This anomaly exists on two grid lines (2200 N and 2400 N) and extends on both lines for 300 metres on a northeast slope. Copper values are up to 114 ppm, gold to 132 ppb, arsenic to 93 ppm and antimony to 10 ppm. Anomalous copper and gold values also occur on line 2000 N, southwest of the main anomaly described above. Multi-sample anomalous gold ±copper values also occur on the northern three lines in the area of grid 3500 to 3700 E.

The Company was planning to conduct another drill program at Red Chris South to test the soil geochemical anomaly in the northern part of the property and to follow-up on the mineralization in the intrusive encountered in RCS11-02. Given the Company's limited cash position and its focus on graphite, future work on the property has been deferred indefinitely and the deferred exploration costs have been written off accordingly.

Carbonatite Syndicate Rare Earth Claims, British Columbia, Canada

In March 2010, the Company entered into an option agreement to acquire 100% interest in the Carbonatite Syndicate Rare Earth Claim Group, surrounding Spectrum Mining Corporation's reported "Wicheeda" rare earth discovery. The Carbonatite Syndicate Claim Group is 80 km northeast of Prince George, BC and comprises 43 mineral claims covering approximately 39,715.5 acres (16,045 hectares). The terms of the agreement are disclosed in the notes to the year-end financial statements.

Highlights from Spectrum's neighboring property included a 48.64 metre interval which averaged 3.55% rare earth elements ("REE"), a 72.0 metre interval that averaged 2.92% REE, and a 144 metre interval which averaged 2.20% REE in three separate drill holes. In 2009, eleven NTW diamond drill holes totaling 1835 metres were drilled in the "Main Zone" from two new drilling platforms on Wicheeda. All 11 drill holes intersected significant rare earth mineralization and the Wicheeda deposit remains open in all directions. (5th Annual Minerals South Conference)

World recognized carbonatite-rare earth specialist Dr. Anthony Mariano has examined drill core samples as well as rock samples. He concluded that the Wicheeda mineralization is mainly monazite and a bastnaesite-synchisite mineral. A heavy liquid and magnetic separation study on a composite sample of Wicheeda drill core was able to produce a high grade REE concentrate that contained 56.09 wt. % REE. The test indicated that the Wicheeda rare earth mineralization could produce a marketable concentrate. It was noted that applying a flotation circuit should produce a 60% LREE concentrate from Wicheeda that would exceed the concentrate grade of Molycorp's Mountain Pass which for over 40 years was the largest domestic supplier of rare earth concentrates in the world. (5th Annual Minerals South Conference).

Operating Activities (Continued)

Carbonatite Syndicate Rare Earth Claims, British Columbia, Canada (Continued)

REEs are critical components in many high-tech applications. Although demand for REEs is growing rapidly, over 90 percent of global production is controlled by China, which has recently imposed restrictions on their exports. With insatiable consumer demand for high tech electronics, clean energy mandates from countries around the globe and increasing military spending, it seems likely that demand will rise as supplies are compromised and uses increase.

In May 2010, the Company entered into an option agreement with an arm's length vendor to acquire a 100% interest in 16,264.8 acres (6,571 hectares) adjoining the Carbonatite Syndicate Rare Earth Claim Group it had acquired in March. With these additional claim blocks, Canada Carbon's land package surrounds Spectrum's property on the southern, eastern, and western sides. The acquisition gave the Company a total of 57 mineral claims covering approximately 55,980.3 acres (22,616 hectares).

The Company retained Mackevoy Geosciences Ltd. ("Mackevoy") to initiate an extensive 90 day work and drill program on the Rare Earth Claim Group. Mackevoy is a geological consulting company that specializes in "high-tech" progressive mineral exploration and detailed mineralogical, geochemical, and petrogenetic investigations of geological systems.

Mackevoy began the work program in May 2010. By the end of June 2010, they conducted exploration on 24 of the 57 claims including visual reconnaissance work and sampling on many of the satellite anomalies. Mackevoy recorded multiple scintillometer anomalies on the NE claim group and commenced further ground exploration in those areas. A total of 70 line kilometers of magnetometer and 90 line kilometers of scintillometer data were collected by the end of June.

In July 2010, the Company announced that it had received initial analytical results from ALS Global Labs ("ALS") for silt and soil samples taken during the work program conducted by Mackevoy. The soil and silt sampling was effective at generating significant local and regional REE geochemical targets. In total, data from 152 silt and 181 soil samples have been returned from ALS. Geological mapping, prospecting, and scintillometer surveys were being carried out in conjunction with silt and soil sampling to build a framework for defining additional prospective areas and for understanding geochemical anomalies in this underexplored region.

By mid-July 2010, four soil grids were completed: two tight grids (using 25 metre line spacing, 25 metre sample spacing) were placed to assess geophysical anomalies while the two larger grids (300 metre line spacing, 100 metre sample spacing & 200 metre line spacing, 50 metre sample spacing) were placed to assess regional trends. Numerous soil samples from the tight soil grids show REE enrichment with elevated pathfinder elements.

Concentrations for Cerium (Ce) and Lanthanum (La) ran up to 631 ppm and 377 ppm respectively, with 20 samples showing total REE contents above 1000 ppm from the two tight grids. Pathfinder elements such as Niobium (Nb) and Barium (Ba) also show distinct elevated concentrations against background, proving their applicability for local exploration.

Several targets have been identified from the regional silt sampling. In particular, total REE values from silts are elevated in the region where the tight soil grids were carried out, further prioritizing this area for additional work. The northeast flank of the main ridge, along which carbonatite and alkaline intrusive related mineralization is known to occur intermittently over a 6 km strike length, also shows elevated pathfinder elements and REEs.

In addition to these two high priority targets, the headwaters of Captain Creek at the southern end of the claim group also show elevated values of indicator elements, including Niobium (Nb). Two Ba-Mo±U±Zn anomalies exist within the MINA claim grouping and at the SE base of Mt. Beauregard in the CarboWest7 claim.

Operating Activities (Continued)

Carbonatite Syndicate Rare Earth Claims, British Columbia, Canada (Continued)

In August 2010, the Company retained Aeroquest Ltd. to undertake state-of-the-art AeroTEM and Radiometric airborne geophysical surveys on the claims. The AeroTEM system is the HTEM system of choice in British Columbia for its superior ability to contour in rugged terrain. The airborne geophysical and radiometric surveys consisted of over 400 line kilometres flown at 200-metre line spacing. Aeroquest Ltd. completed the surveys at the end of September 2010.

In October 2010, the Company announced additional analytical results of soil samples taken from the summer work program that substantially increased previously reported REE values. New analyses have increased maximum concentrations of Cerium (Ce) and Lanthanum (La) to as high as 1205 ppm and 663 ppm respectively, far exceeding previous numbers. Thirty of 228 soil samples returned total “REE+Y” contents above 1000 ppm and show elevated levels of “pathfinder elements” such as Niobium (Nb) and Barium (Ba).

In October 2010, the Company also acquired 13 mineral claims covering over 11,620 acres of lands previously owned by Spectrum. The new claims are contiguous to the Company’s existing claim blocks and cover extensions to airborne radiometric anomalies identified from the Aeroquest airborne survey. An additional 136 mineral claims covering over 149,487 acres of land were acquired in November.

In December 2010, the Company acquired an 80% interest in 5 mineral claims covering over 5,327 acres contiguous to its existing claim group. The claims are referred to as the Cougar claims. The Company earned 80% immediately with a right of first refusal (ROFR) for the final 20%.

The Company received permits from the B.C. Ministry of Energy, Mines and Petroleum Resources to conduct a diamond drill program on its Carbonatite Syndicate Rare Earth prospect. Results from the August 2010 airborne AeroTEM and Radiometric survey were correlated with positive soil samples and existing field radiometric anomalies to establish priority REE drill targets on the property. Given the significant number of claim acquisitions completed in the later part of 2010, the Company hired Aeroquest to conduct additional airborne surveys on the newly acquired claims. Aeroquest began the airborne surveys at the end of June 2011. The survey was completed in August with a total of 4,006.8 line km flown.

The Company hired Discovery Consultants to run the 2011 work program. Seven core holes totaling 1,395.07 meters were drilled by Falcon Drilling of Prince George, B.C. to test geochemical and geophysical anomalies. These holes intersected weakly altered phyllite with traces of pyrite. Since there was no significant alteration or mineralization encountered no analyses were conducted on the drill core. Surface work consisted of additional geological mapping and geochemical sampling. Late in the season, exposures of carbonatites and other intrusives south of the drilled area were located however, given the permitting process, it was too late in the season to drill this area.

A total of 83 soil samples were collected to extend anomalous results identified in soil grids sampled in 2010. These soils returned lower levels of REE than detected during 2010.

Approximately 4,000 kilometres of airborne Total Magnetic Intensity, eTH and eU survey was flown by Aeroquest Airborne of Mississauga, Ontario.

A future exploration program at Wicheeda is required to follow-up geochemical sampling in areas outlined from the airborne survey and to drill in the area of the carbonatite; however, given the Company’s limited cash position and its focus on graphite, futher work on the claims has been deferred indefinitely so the deferred costs have been written off accordingly.

Operating Activities (Continued)

Charge Property, British Columbia, Canada

In February 2011, the Company acquired a 100% interest in the Charge prospect located in northern British Columba, approximately 50 kilometres southeast of the Kemess Mine operated by Northgate Minerals Corporation (NGX – TSX). The "Charge" REE prospect currently contains the highest Lanthanum (La) (1146 ppm), Yttrium (Y) (647 ppm), and second highest Cerium (Ce) (1247 ppm) samples in the province of British Columbia's Regional Geochemical Survey (BCRGS) database, with over 7000 samples recently taken from the region. The terms of the acquisition are disclosed in the notes to the year-end financial statements.

The 2011 work program was limited to initial silt sampling of the southern portion of the property. A total of fifty samples were collected and analyzed. Total REE were only slightly anomalous, but there were significant occurrences of anomalous gold.

The Company decided not to renew the Charge claims and the capitalized expenditures have been written off accordingly.

White Gold District Claims, Yukon, Canada

In September 2010, the Company acquired a 100% interest in 128 quartz claims, covering over 6,500 acres, in two separate claim blocks in the White Gold District/Stewart River Area of the Yukon. These claims are in close proximity to announced discoveries by Kaminak Gold Corporation (KAM – TSX.V) at their "Coffee" property (August 24th 2010 news release) and by Underworld Resources Inc. that agreed to a friendly takeover by Kinross Gold Corp (June 30th 2010 news release). Canada Carbon's claims are underlain by the same quartz-muscovite and chlorite-muscovite schist of the Nasina Assemblage that hosts the deposits on the White Gold property, presenting an attractive exploration target. The terms of the acquisition are disclosed in the notes to the year-end financial statements.

In September 2010, Equity Exploration Consultants Ltd. was engaged to carry out a comprehensive work program. The objective of the work program was to assist in establishing drill targets and areas of high priority for further exploration. As a result of sampling conducted by Equity Exploration Consultants Ltd., a significant multi-element soil anomaly was discovered on one of Canada Carbon's claim blocks.

Soil samples were taken at 100m spacing along contour and ridge lines and were analyzed by ALS Chemex, North Vancouver, for gold by fire assay, and a multi-element suite by Inductively Coupled Plasma Atomic Emission Spectrometry. The soil anomaly was identified using two long contour lines, the results of which confirmed a significant multi-element anomaly in the area. The southeastern end of the anomaly contains the largest sustained gold anomaly on the property, with values above 10 ppb for over 1 km of contour line, with maximum gold values of 42 and 45 ppb. The anomaly continues for several kilometres to the northwest, with scattered samples yielding gold values among the highest encountered during the program. Particularly at the eastern end, these are accompanied by elevated As, Sb and Mo values.

Equity Exploration Consultants Ltd. recommended a follow-up work program which began in August 2011. A total of 235 soil samples were collected along 400 meter spaced grid lines with 100 meter sampling intervals. This grid was designed to infill the sampling conducted in 2010.

The 2011 program consisted of additional soil sampling to enhance the gold-arsenic anomaly detected in 2010. The 2011 program consisted of a soil sampling grid that was oriented at 140^0. Soil sampling lines were spaced 400 meters apart with samples collected at 100 meter spacing along the lines. A total of 235 samples were collected in 2011 from the B horizon, where permafrost permitted. There is a significant gold-arsenic anomaly in the east-central part of the claims that warrants following up, and has

Operating Activities (Continued)

White Gold District Claims, Yukon, Canada (Continued)

sufficient size to be an attractive target. Gold values in soil range from below detection limit to a maximum of 121 ppb. The geology of the property seems to be similar to that of the Kinross Gold Corporation's nearby Golden Saddle gold deposit.

Additional exploration had been planned for 2012 and would have included geological mapping, additional sampling, trenching and potentially some initial drilling of some of the better anomalies; however, given the Company's limited cash position and its focus on graphite, the exploration program has been deferred.

As at December 31, 2012, the Company had incurred $211,515 in acquisition costs and $76,296 toward deferred development expenditures related to the Yukon claims. The Company has decided to let one of its claim blocks expire accordingly, $62,794 of acquisition costs and $4,324 of exploration and evaluation expenditures have been written off.

Arcadia

In 2007, the Company entered into an Option and Joint Venture Agreement to acquire a 50% interest in the Arcadia property, a 1,280 hectare area of Inuit-owned land located in Canada's Nunavut territory from Alix Resources Corp. (formerly "NPN Investment Group Inc."). The obligations under the Option and Joint Venture Agreement were fulfilled in 2008.

The Arcadia property represents an Archean lode-gold deposit located on the Arctic Ocean in Canada's Nunavut territory. A historic resource estimate of 640,650 tonnes averaging 7.2 g/t gold (containing about 148,000 oz. gold) in the North Central Vein and 139,524 tonnes averaging 8.6 g/t gold (or 38,600 contained oz. gold) in the Fred Vein have been reported for the property. These resource estimates were completed prior to 2001 and are not NI 43-101 compliant and therefore, cannot be relied upon.

Apex Geoscience Ltd. was retained to manage the work program on Arcadia. The required permits for drilling were obtained, and drilling began at the end of May 2008. The goals of the 2008 drilling at the Arcadia Bay GH Zone were to test the southern extent of D3 veins and to extend the zone of high grade mineralization intersected in G88-3 to the north and to the south along strike.

Five drill holes were collared. A total of 263 split core samples were taken for assay and geochemical analysis, comprising approximately 60% of the total core drilled. All of the analysis for the 2008 Arcadia Bay drilling was carried out by TSL labs in Saskatoon. All samples were fire assayed for Au using a 50g aliquot. Trace element ICP analysis was also carried out.

Gold fire assay results for the 2008 drill holes yielded some encouraging intersections, which are summarized in the table below.

Hole Id	From	To	Interval (m)	Au (g/t)
08ARC-02	95.50	97.00	1.50	4.73
08ARC-03	90.00	102.00	12.00	4.00
	90.98	97.83	6.85	6.70
	94.00	95.25	1.25	15.67
08ARC-04	92.50	98.50	6.00	1.24
08ARC-05	70.00	74.50	4.50	0.86
	106.89	107.63	0.74	20.44

Operating Activities (Continued)

Arcadia (Continued)

Most of the quartz vein intervals were intersected at approximately 45 degrees to the core angle so therefore true widths will be approximately 0.7 times the “interval” widths.

A total of 16 historic drill holes have tested the GH Zone. The most significant drill intersection occurs at the north end of the GH Zone within drill hole G88-3, at a depth of 88.7 metres the hole intersected 12.0 g/t Au over 13.0 metres. During 1989 a four-hole fan (G89-7, 8, 9, 10) was drilled perpendicular to hole G88-3 and provided a second high grade intersection of the same mineralized zone. At a depth of 88.25 metres drill hole G89-7 (hole bearing 212 degrees azimuth/-70 inclination) intersected 23.4 ppm Au over 5.6 metres. The steepest of the four drill holes, G89-10, intersected significant mineralization near surface at a depth of 9.53 metres which returned assays of 47.6 ppm Au over 1.27 metres (no cutoff, interval consists of 3 samples containing greater than 31 g/t Au). A second mineralized intersection at depth within G89-10 returned 7.2 ppm Au over 5.45 metres, and is interpreted to correspond with high grade intersections within G88-3 and G89-7.

The assay results from the 2008 drill program confirmed that the high grade zone intersected in historic holes G88-3, G89-07,08,10 is continuous over at least 100m on a northeast-southwest trend, and is still open to the north.

While the Company has retained its interest in the Arcadia property, it does not anticipate performing any additional exploratory work for the foreseeable future and accordingly in fiscal 2009 wrote off the capitalized costs incurred on the property.

The Company has incurred $14,100 in each of 2011 and 2012 for the maintenance of the claims. These costs are reflected in the statement of loss as the write-off of exploration and evaluation expenditures.

Selected Annual Information

Financial Information

	2012	2011	2010
	$	$	$
Revenue (investment income)	11,497	43,500	18,904
Net Loss for the year	(6,181,097)	(1,257,689)	(2,993,078)
Net Loss per common share, basic and diluted	(0.14)	(0.04)	(0.12)
Weighted average number of common shares outstanding	42,883,873	35,674,353	24,317,958
Balance Sheet Data			
Working capital	47,423	754,504	3,328,115
Total assets	1,698,623	6,174,564	6,165,248
Long-term debt (rehabilitation, restoration and environmental)	-	5,986	6,001

Results of Operations

The results of operations reflect the overhead costs incurred for mineral property acquisitions and exploration expenses incurred by the Company to maintain good standing with the various regulatory authorities and to provide an administrative infrastructure to manage the acquisition, exploration and financing activities of the Company. General and administrative costs can be expected to increase or decrease in relation to the changes in property acquisition, exploration and sales activities. As at December 31, 2012, the Company had not recorded any significant revenues.

Management, Consulting and Professional Fees

Management, consulting and professional expenses for the respective twelve-month periods ended December 31 were as follows:

As at December 31	2012 $	2011 $	2010 $
Management Fees	500,000	120,000	120,000
Professional Fees	219,843	118,877	156,818
Consulting Fees	57,500	51,000	31,285

The increase in management fees in 2012 is attributable to the inclusion $25,000 per month for the services of the new CEO and the issuing of 2,500,000 shares valued at $250,000 pursuant to the new CEO's consulting contract. The Company hired a new CEO in May 2012 and terminated him in March 2013.

Professional fees, which consists of legal, audit and accounting expenses, increased in 2012 as a result of an underaccrual of the 2011 audit fees as a result of IFRS conversion, and legal fees related to graphite claims acquisitions, annual general meeting and other corporate matters, and the issuance of 500,000 shares valued at $50,000 to corporate in-house counsel pursuant to a consulting contract. The consulting contract for in-house counsel has terminated. Professional fees in 2010 were high due to legal fees related to the acquisition of claims, due diligence activities and negotiations with Gryphon Gold Corporation, and an adjustment to correct an underaccrual of audit fees for the fiscal 2009 audit.

Consulting fees continued to rise over 2010 levels as the Company utilized consultants to locate and evaluate new property acquisition opportunities in 2011. The expenses in 2012 also rose as the Company contracted the services of a consultant to optimize specific sales processes.

Office, Rent and Miscellaneous

Office, rent and miscellaneous expenses for the year ended December 31, 2012 were $86,120 (2011: $100,536, 2010: $79,708). The decrease of $14,416 in expenses in 2012 is predominantly related to a drop of approximately $56,000 in Part XII.6 tax on unspent flow through as the flow through expenditure commitment in 2011 was significantly higher than in 2012. This decrease in Part XII.6 tax is partially offset by an increase of $23,400 in rent as the Company moved its offices to Oakville and increased office supplies, office expenditures and employer portion of payroll remittances. Subsequent to year end the Company assigned its Oakville lease obligations to a third party.

Sales and Marketing

In 2012, the Company contracted the services of a Vice President of Development and a Director of Sales and Marketing to focus on the sales of graphite. The Company was unable to generate any sales. Subsequent to year end, the Company eliminated the sales and marketing positions.

Results of Operations (Continued)

Shareholder Communications and Promotional Expenses

Shareholder communications and promotional expenses for the year ended December 31, 2012 were $158,195 (2011: $149,858, 2010: $188,283). Shareholder communication and promotional expenses dropped from 2010 levels as the Company eliminated certain activities such as the communication and promotion in European markets and participation in mining shows. In addition, in 2010 the Company hired an investor relations firm and increased the number and nature of its external communications to investors.

Stock-Based Compensation

Stock-based compensation expense for the year ended December 31, 2012 was $310,710 (2011: $490,058, 2010: $65,059).

The decrease in stock-based compensation in 2012 relates predominantly to the fair value of granted options. While more options were granted in 2012 than in 2011, the Company's stock price was lower and the exercise price of the options was significantly higher than the stock price at the time of the option grant.

Stock-based compensation in 2011 is a result of the amortization of the fair value of 1,100,000 options that were granted on December 29, 2010 and the amortization of 500,000 options granted in July 2011.

The stock-based compensation expense in 2010 relates to the amortization of the fair value of 100,000 options granted in April 2010 and the amortization of the 347,000 options granted in July 2009. An additional 1,100,000 options were granted on December 29, 2010 however virtually no stock based compensation expense was incurred in 2010 related to the December options.

Property Investigation costs

Property investigation costs of $65,575 are related to the expenses incurred in evaluating certain mineral claim acquisition opportunities for the quality and quantity of potential graphite and the “fit” for Canada Carbon’s strategy.

Transfer Agent & Filing Fees

Transfer agent & filing fees for the year ended December 31, 2012 were $34,322 (2011: $23,967, 2010: $35,442). The increase in transfer agent and filing fees in 2012 is primarily related to filing fees for changes to the stock option plan, consultant share grants and the corporate name change. The fees for 2010 were high due to the number of private placements and warrant and option exercises during the year.

Travel and Accommodation

Travel and accommodation expense for the year ended December 31, 2012 was $22,778 (2011: 15,896, 2010: $7,891). Travel and accommodation costs were higher in 2012 as the Company attended the Novi Show in Michigan and incurred travel costs related to raising funds and pursuing various business opportunities.

Results of Operations (Continued)

OTHER ITEMS

The Company incurred a foreign exchange loss of $732 compared to a foreign exchange gain of $5,085 in the prior year as a result of fluctuations in the US to Canadian dollar exchange rates.

Investment income in 2012 was $11,497 compared with $49,500 in the prior year due to lower interest generating cash balances in 2012 and a reduction of the monthly dividend from Superior Plus Corp. from $2,000 per month in 2011 to $1,000 per month in 2012. The Company also sold its investment in Superior Plus Corp. in September 2012.

The Company wrote off exploration and evaluation expenditures of $4,780,897 in 2012 related to the Charge, Red Chris South and Rare Earth Elements properties and one of the claim blocks on the Yukon White Gold prospect. In 2011, the Company wrote off $14,100 related to license renewal costs for the Arcadia joint venture which was written off in prior years.

In 2011, the Company booked a $202,101 expense for a shortfall of flow-through expenditures. The actual expense was $17,227 less than anticipated and the recovery is reflected in 2012.

In 2011, the Company booked a $71,830 other than temporary impairment on its investment in Superior Plus Corp. In 2012, the Company sold the investment for a loss of $21,216.

In 2012, the Company disposed of equipment with a book value of $1,813 for gross proceeds of $930 resulting in a net loss of $883. In 2011, the Company disposed of equipment for a net gain of $2,744.

In 2012 and 2011, the Company recognized an income tax recovery related to the utilization of unrecorded deferred tax assets to offset the taxable capital gain created by the expiry of warrants.

Summary of Quarterly Results

The following table sets out selected quarterly information for the last eight quarters.

Three Months Ended	**December 31, 2012**	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**
	$	$	$	$
Revenue (investment income)	444	3,156	3,866	4,031
Net Income (Loss)	(4,690,689)	(1,082,481)	(297,004)	(110,923)
Net Income (Loss) per common share	(0.10)	(0.03)	(0.01)	(0.00)
Three Months Ended	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**
	$	$	$	$
Revenue	7,322	12,320	13,500	10,358
Net Income (Loss)	(52,882)	(618,252)	(248,633)	(337,922)
Net Income (Loss) per common share	(0.00)	(0.02)	(0.01)	(0.01)

Summary of Quarterly Results (Continued)

For the three months ended December 31, 2012, the Company had a net loss of $4,690,689 compared with a net loss of $52,882 in the prior year. Compared to the same period in the prior year, the Company incurred material increases of $30,000 in management fees, $35,598 in sales and marketing fees, $12,247 in professional fees, $22,113 in travel costs, $4,448,664 in write off of exploration and evaluation costs and a $19,082 increase in income tax recovery. In addition, the Company incurred material decreases of $10,769 in office rent and miscellaneous expenses and $24,716 in stock-based compensation. The explanation for the above noted increases and decreases is the same as the explanations for the full year variances.

Explanations for variances not covered in the annual variance above include:

- a decrease of $9,000 in consulting fees predominantly due to the termination of consulting services for $3,500 per month in October 2012.

- an increase of $30,481 in shareholder communication expense as a result of web design expenses and the monthly fees of the director of corporate communication.

- a decrease in flow through expenditure shortfall recovery of $107,672. In fiscal 2011, the Company booked a flow through expenditure shortfall expense of $327,000 by the end of the third quarter. In the fourth quarter of 2011, the Company lowered its shortfall estimate resulting in a recovery of $124,899. In the fourth quarter of 2012, the Company booked a recovery of $17,227 as a result of the difference between the estimated shortfall in 2011 and the actual payment.

Liquidity and Capital Resources

The Company's cash and cash equivalent position at December 31, 2012 was $58,029 compared with a cash and cash equivalent position of $856,723 at December 31, 2011. At December 31, 2012, the Company had working capital of $47,423 compared to working capital of $754,504 at December 31, 2011.

For the year ended December 31, 2012, the Company utilized $880,112 for operating activities and $784,633 for mineral property expenditures, reclamation expenditures and the purchase of equipment. The Company received $186,244 from the sale of equipment, the sale of its investment in Superior Plus Corp. and from a reclamation bond refund. The Company also raised $679,842 from the proceeds of a private placement net of issue costs.

In October 2012, the Company closed a private placement in which it issued 7,000,000 units for gross proceeds of $700,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable into one common share for an exercise price of $0.20 per share for a period of two years.

In March 2013, the Company closed another private placement in which it issued 5,000,000 units for gross proceeds of $500,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable into one common share for an exercise price of $0.20 per share for a period of two years. Of the 5,000,000 units issued, 1,250,000 units were flow through units issued at the same terms as the non-flow-through units.

The Company will require additional funding to fund its 2013 work programs and operations.

There were no material credit facilities in place as at December 31, 2012.

Any commitments to pay cash or issue shares are disclosed in the notes to the financial statements.

Related Party Transactions

During the year ended December 31, 2012, the Company entered into the following transactions with related parties:

a) Incurred management fees of $120,000 (2011- $120,000) to West Oak Capital Partners Inc., a company controlled by R. Bruce Duncan (former President & CEO and current Chairman of the Board). Mr. Duncan resigned as President and CEO effective May 23, 2012.

b) Incurred management fees of $380,000 (2011 - $Nil) to O2 Ltd., a company controlled by Paul Ogilvie, CEO of the Company. Paul assumed the role of CEO on May 23, 2012. The management fees include $250,000 for the value of 2,500,000 shares granted to Mr. Ogilvie pursuant to his consulting contract.

c) Incurred professional fees of $60,000 (2011 - $60,000) to Olga Nikitovic (CFO).

d) Incurred consulting fees charged to exploration and evaluation expenditures of $70,000 (2011- $Nil) to O2 Ltd., a company controlled by Paul Ogilvie, CEO of the Company, and $18,238 (2011- $20,346) to Roger Steininger (former Director).

e) Incurred legal fees of $69,497 (2011 – $18,137) to Tom Fenton of Aird & Berlis LLP, (Corporate Secretary). Fees relate to legal services of which $64,324 (2011 - $11,980) is reflected in professional fees and $5,173 (2011 - $6,167) is included in share issue costs.

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

The compensation for key management personnel is identified above in (a), (b), (c) and (d). The Company does not pay any health or post employment benefits. The fair value of options granted to key management during the year ended December 31, 2012 was $344,906 (2011 - $61,721).

Off Balance Sheet Arrangements

The Company is not a party to any off balance sheet arrangements or transactions.

Changes in Accounting Policies

<u>Current Accounting Changes</u>

Please refer to Note 4 of the financial statements for a complete description of accounting policy changes.

<u>Future Accounting Changes</u>

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

Changes in Accounting Policies (Continued)

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

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

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

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

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

Changes in Accounting Policies (Continued)

Future Accounting Changes (Continued)

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

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

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

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

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

Capitalization of exploration and evaluation costs
Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, 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.

Critical Accounting 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. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. 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 expenditure
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 taxes and recoverability of potential deferred tax assets
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

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

Financial Instruments

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the statement of financial position date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Financial Instruments (Continued)

The carrying amounts of cash, receivables and accounts payable and accrued liabilities on the statement of financial position approximate fair market value because of the limited term of these instruments. The Company's investments classified as available for sale and its cash equivalents classified as held-for trading are carried at fair value. The fair value is determined by reference to quoted prices in active markets for identical assets or inputs other than quoted prices that are observable either directly or indirectly.

The Company does not believe it is exposed to significant interest, currency or credit risk arising from these financial instruments.

Proposed Transactions

The Company continues to review and assess possible transactions.

Contingencies

The Company does not have any contingencies or commitments other than those disclosed in the notes to the financial statements.

Subsequent Events

There are no material subsequent events other than those disclosed in the notes to the financial statements.

Management's Responsibility for Financial Statements

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the financial statements.

Other MD&A Requirements

As at April 22, 2013 the Company has 65,442,794 shares outstanding, or 91,806,794 shares on a fully diluted basis. If the Company were to issue 4,317,000 shares upon the conversion of all of its outstanding stock options, and 22,047,000 upon conversion of all of its outstanding warrants, it would raise $6,469,150.

CANADA CARBON INC.

CORPORATE DATA

April 22, 2013

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Greg Lipton	Director
Olga Nikitovic	CFO
Thomas A. Fenton	Corporate Secretary

INVESTOR CONTACTS

Dan Terrett
Tel: (604) 638-0971
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CAPITALIZATION

Authorized:	Unlimited
Issued:	65,442,794
Escrow:	Nil

LISTINGS

TSX Venture Exchange
Trading Symbol: CCB

Frankfurt Exchange
Trading Symbol: U7N