GRAPHITE ONE RESOURCES INC.

Consolidated Financial Statements

December 31, 2017

`

GRAPHITEONE

April 26, 2018

Independent Auditor's Report

To the Shareholders of Graphite One Resources Inc.

We have audited the accompanying consolidated financial statements of Graphite One Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the year ended December 31, 2017 and the fifteen month period ended December 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Graphite One Resources Inc. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the year ended December 31, 2017 and the fifteen month period ended December 31, 2016 in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 3 in the consolidated financial statements which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Graphite One Resources Inc.'s ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

(Expressed in Canadian dollars

As at December 31	Note		2017		2016
ASSETS	**Note**				
Current assets					
Cash		$	351,081	$	723,434
Prepayments and deposits			86,415		142,836
Amounts receivable	6		-		17,979
Total current assets			437,496		884,249
Non-current assets					
Equipment			35,400		33,479
Exploration and evaluation property	7		12,438,625		11,529,074
Total non-current assets			12,474,025		11,562,553
Total assets		$	12,911,521	$	12,446,802
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other accounts payable		$	475,982	$	399,943
Total liabilities			475,982		399,943
Equity					
Share capital			29,072,557		27,558,625
Share option reserve			6,030,374		5,544,921
Deficit			(22,667,392)		(21,056,687)
Total equity			12,435,539		12,046,859
Total equity and liabilities		$	12,911,521	$	12,446,802
Going concern	3				

Approved by the Board of Directors:

"Anthony Huston"
Director

"Douglas Smith"
Director

(Expressed in Canadian dollars)

	Note	For the year ended December 31 2017	For the fifteen month period ended December 31 2016
Expenses			
Management fees and salaries		$ 676,781	$ 697,120
Marketing, advisory and investor relations		191,082	1,435,807
Office and administration		193,750	225,231
Professional fees		138,057	249,410
Share-based payments	8	417,222	885,963
		1,616,892	3,493,531
Other income (expenses)			
Foreign exchange gain		6,187	13,297
Interest income		-	5,643
		6,187	18,940
Net loss and comprehensive loss for the period		$ 1,610,705	$ 3,474,591
Basic and diluted loss per common share		$ 0.01	$ 0.02
Weighted average number of common shares oustanding		244,679,780	212,673,394

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	For the year ended December 31, 2017	For the year ended December 31, 2016
CASH DERIVED FROM (USED IN)		
OPERATING ACTIVITIES		
Loss for the period	$ (1,610,705)	$ (3,474,591)
Items not involving cash:		
Share-based payments	430,761	885,963
Changes in non-cash working capital items		
Amounts receivable	17,979	28,689
Prepayments and deposits	24,842	(56,172)
Trade and other accounts payable	60,445	(84,134)
	(1,076,678)	(2,700,245)
FINANCING ACTIVITIES		
Issuance of units	1,386,002	4,056,777
Share issuance costs	(22,070)	(228,206)
Decrease in cash in trust	-	279,225
	1,363,932	4,107,796
INVESTING ACTIVITIES		
Exploration and evaluation property	(691,186)	(1,668,138)
Changes in non-cash working capital items		
Prepayments and deposits	31,579	(11,540)
	(659,607)	(1,683,054)
(Decrease) increase in cash	(372,353)	(275,503)
Cash at beginning of period	723,434	998,937
Cash at end of period	$ 351,081	$ 723,434
Supplemental cash flow information:		
Non-cash transactions eliminated from the consolidated statements of cash flows:		
Depreciation capitalized to exploration and evaluation property	$ (1,921)	$ 26,213
Change in Accounts payable related to investing activities	$ 15,594	$ (230,933)
Shares issued on purchase of claims and royalty extension	$ 150,000	$ -
Warrants issued on purchase of claims and royalty extension	$ 54,692	$ -
Share-based payments capitalized to exploration and evaluation property	$ -	$ 88,840
Non-cash share issuance costs	$ -	$ 47,188
Shares issued to settle debt	$ -	$ 66,000
	$ 218,365	$ (28,198)

The accompanying notes are an integral part of these consolidated financial statements

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Common Shares				
	Number	Amount $	Share Option Reserve $	Deficit $	Total Equity $
January 1, 2016	199,855,605	24,355,773	4,535,801	(18,135,730)	10,755,844
Shares issued on private placement	34,223,230	2,816,091	-	-	2,816,091
Shares issued on warrant exercise	5,346,500	606,525	-	-	606,525
Cost of share issuance	-	(219,764)	34,318	-	(185,446)
Share-based payments	-	-	974,802	-	974,802
Net loss for the period	-	-	-	(2,920,957)	(2,920,957)
December 31, 2016	239,425,335	27,558,625	5,544,921	(21,056,687)	12,046,859
January 1, 2017	239,425,335	27,558,625	5,544,921	(21,056,687)	12,046,859
Shares issued on private placement	23,840,852	1,386,002	-	-	1,386,002
Shares issued on extension of royalty purchase option	1,666,667	150,000	-	-	150,000
Cost of share issuance	-	(22,070)	-	-	(22,070)
Share-based payments	-	-	430,761	-	430,761
Warrants issued on extension of royalty purchase option	-	-	54,692	-	54,692
Net loss for the period	-	-	-	(1,610,705)	(1,610,705)
December 31, 2017	264,932,854	29,072,557	6,030,374	(22,667,392)	12,435,539

1. NATURE OF OPERATIONS

Graphite One Resources Inc. ("Graphite One" or the "Company") was incorporated in Alberta and commenced operations on March 16, 2006 under the name Cedar Mountain Exploration Inc. ("Cedar Mountain"). On March 23, 2012, Cedar Mountain changed its name to Graphite One and adopted the symbol GPH on the TSX-V effective March 27, 2012. On June 11, 2012 the Company began trading in the over the counter market in the United States on the OTCQX under the symbol GPHOF. Due to changes in the listing requirements of the OTCQX, the Company began trading on the OTCQB on April 1, 2017. The Company was continued into British Columbia on September 12, 2014. Graphite One is the parent company of the consolidated group.

Graphite One is engaged in the business of acquiring exploring and evaluating graphitic material properties. Through its 100% owned subsidiary, Graphite One (Alaska) Inc., the Company is focussed on the Graphite Creek property near Nome, Alaska, (the "Graphite Creek Project").

The ability of the Company to proceed with the evaluation and development of the Graphite Creek Project depends on a number of factors, the key ones including obtaining the necessary financing to complete the evaluation and development, and ultimately upon future profitable production or proceeds from disposition of the Graphite Creek Project.

2. CHANGE OF FINANCIAL YEAR END

Effective with the 2016 fiscal year, the Company changed its fiscal year end from September 30 to December 31. Accordingly, the Company's 2016 fiscal year comprises the 15 month period ended December 31, 2016.

3. GOING CONCERN

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes 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 they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

As at December 31, 2017, the Company had a cash balance of $351,081 and a working capital deficit of $38,486. Current liabilities as at December 31, 2017 totalled $475,982. The Company has incurred losses since inception and does not generate any cash inflows from operations. In the year ended December 31, 2017, cash used in operating activities totalled $1,076,678.

3. GOING CONCERN (cont'd)…

The Company's ability to continue to meet its obligations and carry out its planned exploration and development activities is uncertain and dependent upon the continued financial support of its shareholders and on securing additional financing. There is, however, no assurance that any such initiatives will be sufficient and, as a result, there is significant doubt regarding the going concern assumption and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations for the foreseeable future. These adjustments could be material.

4. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been authorized for issue by the Board of Directors of the Company on April 26, 2018.

4.1 Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis. The statements are presented in Canadian dollars unless otherwise noted.

4.2 Significant judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Judgments

<u>Exploration and evaluation property</u>: The Company is required to make significant judgments on the ongoing feasibility of mineral exploration, and whether there are indicators that the right to explore the specific area has or will expire, that further exploration and evaluation plans have changed, or whether development of a specific area is unlikely to recover existing exploration and evaluation property costs. If any of these indicators are present, management would need to assess whether the exploration and evaluation property should be impaired.

Estimates and assumptions

<u>Share-based payments</u>: Share-based payments are determined using the Black-Scholes Option Pricing Model based on estimated fair values of all share-based awards at the date of grant. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

5. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Graphite One (Alaska) Inc., incorporated in Alaska, USA. Control is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when we have existing rights that give us the ability to direct the activities that significantly affect the investee's returns. The financial statement of subsidiaries are included in the consolidated financial statement from the date that control commences until the date that control ceases.

Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars which is also the functional currency of the Company and its subsidiary. Transactions in foreign currencies are translated to the appropriate functional currency at foreign exchange rates that approximate those on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign exchange gains and losses are included in profit and loss.

Cash

Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of purchase.

Equipment

Equipment is recorded at cost and carried net of accumulated depreciation and accumulated impairment losses. The cost of additions and improvements are capitalized. An item of equipment is derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds and the carrying amount of the asset is recognized in profit or loss.

	Depreciation Rate
Analytical equipment	20%
Mobile equipment	20%
Sample preparation lab	50%

The Company provides for depreciation using the straight line method at rates designed to depreciate the cost of individual items over their estimated useful lives, less any residual value. Depreciation on operating assets is included in the statements of net loss as a component of office and administrative expenses. Depreciation of assets utilized in mineral exploration activities is capitalized as a cost of mineral properties.

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and Evaluation Properties

(i) Pre-license costs:
Costs incurred before the Company has obtained the legal right to explore are expensed as incurred.

(ii) Exploration and evaluation costs:
Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized as incurred, unless future economic benefit is not expected to be realized. The Company capitalizes the costs of acquiring, maintaining its interest in, exploring and evaluating mineral properties until such time as the lease expires, the property is abandoned, sold or considered impaired in value, on a property by property basis. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage.

Once the technical feasibility and commercial viability of the extraction of mineral reserves or resources from a particular mineral property has been determined, the related expenditures are tested for impairment and are then reclassified to mineral property development costs.

The establishment of technical feasibility and commercial viability of a mineral property is assessed based on a combination of factors, including:

- The extent to which mineral reserves or mineral resources as defined in National Instrument 43-101 ("NI 43-101") have been identified through a feasibility study or similar document;
- The results of optimization studies and further technical evaluation carried out to mitigate project risks identified in the feasibility study;
- The status of environmental permits; and
- The status of mining leases or permits.

Exploration and evaluation assets are tested for impairment immediately prior to reclassification to mineral property development costs.

Although the Company has taken steps to verify title to exploration and evaluation properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, non-compliance with regulatory requirements or title may be affected by undetected defects.

Decommissioning and Restoration

The Company is subject to various governmental laws and regulations relating to the protection of the environment. The environmental regulations are continually changing and are generally becoming more restrictive.

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)…

Decommissioning and restoration obligations encompass legal, statutory, contractual or constructive obligations associated with the retirement of a long-lived tangible asset (for example, mine reclamation costs) that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is reflected by an other-than-temporary removal from service, including sale of the asset, abandonment or disposal in some other manner.

A liability for decommissioning and restoration is recorded in the period in which the obligation first arises. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a long-term liability and increases the carrying value of the related assets for that amount. Over time, the liability is increased to reflect an interest element in the estimated future cash flows (accretion expense) considered in the initial measurement of fair value. The capitalized cost is amortized on either the unit-of-production basis or the straight-line basis, as appropriate. The Company's estimates of provisions for decommissioning and restoration obligations could change as a result of changes in regulations, changes to the current market-based discount rate, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for in the period in which these estimates are revised.

As at December 31, 2017 and December 31, 2016 the Company has determined that it does not have any decommissioning and restoration obligations related to its operations.

Impairment

The carrying values of the Company's long lived assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying value amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)…

Provisions

Liabilities are recognized when the Company has a present legal or constructive obligation that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense.

Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects taxable profit or accounting profit. Deferred tax liabilities on temporary differences associated with shares in subsidiaries are not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized for all temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)…

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different entities which intend to settle current tax assets and liabilities on a net basis or simultaneously in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Changes in deferred tax assets or liabilities are recognized as a component of tax recovery or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Share-based Payments

Share-based payment arrangements in which the Company receives goods or services from consultants are accounted for as equity-settled transactions and, when determinable, are recorded at the value of the goods and services received. If the value of the goods and services received are not determinable, then the fair value of the share-based payment is used.

The Company uses a fair value based method (Black-Scholes Option Pricing Model) for all share options granted to directors, employees and certain consultants. For directors and employees, the fair value of the share options is measured at the date of grant. For grants to non-employees where the fair value of the goods or services is not determinable, the fair value of the share options is measured on the date the services are received.

The fair value of share-based payments is charged either to profit or loss, or exploration and evaluation property, with the offsetting credit to share option reserve. The fair value of the share options is recognized over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. If options vest immediately, the expense is recognized when the options are granted. For non-employees, the share options are recognized over the related service period. When share options are exercised, the amounts previously recognized in share option reserve are transferred to share capital.

In the event share options are forfeited prior to vesting, the associated fair value recorded to date is reversed in the period of forfeiture. The fair value of any vested share options that expire remain in share option reserve.

Share capital

When the Company issues private placement units, the shares and warrants are measured using the residual method. This method allocates value first to the more easily measureable component based on fair value and the residual to the less easily measureable component. The Company considers the fair value of its shares to be the more easily measureable component and is valued with reference to the market price. The residual value is attributed to the warrants, if any, is recorded as a separate component of equity.

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)…

Earnings (Loss) per Share

Basic earnings (loss) per share are computed by dividing net earnings (loss) (the numerator) by the weighted average number of outstanding common shares for the period (denominator). In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding share options, warrants and other convertible instruments.

In the periods when the Company reports a net loss, the effect of potential issuances of shares under share options and other convertible instruments is anti-dilutive, therefore, basic and diluted loss per share are the same. When diluted earnings per share is calculated, only those share options and other convertible instruments with exercise prices below the average trading price of the Company's common shares for the period will be dilutive.

Financial Instruments - Recognition and Measurement

Financial instruments are classified into one of five categories, and, depending on the category, will either be measured at amortized cost using the effective interest method or at fair value. Loans and receivables, and other financial liabilities are measured at amortized cost. Financial assets and liabilities classified as fair value through profit or loss and available for sale financial assets are carried on the consolidated statement of financial position at their fair values where such fair value is determinable.

The Company classifies cash, amounts receivable and deposits as loans and receivables. Trade and other accounts payable are classified as other financial liabilities.

The Company assesses whether there is evidence that a financial asset or a group of assets is impaired at each reporting date. Evidence of impairment may include indication that a counterparty is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and when indicators suggest that there are measurable decreases in the estimated future cash flows.

Changes in Accounting Standards

The Company has reviewed the new and proposed accounting pronouncements issued by the IASB relevant to the year ended December 31, 2017 and subsequently, and none were considered to have a significant impact on the Company's current operations or financial statements.

6. AMOUNTS RECEIVABLE

	December 31, 2017	December 31, 2016
Government of Canada – GST	-	17,979
	-	17,979

(Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION PROPERTY

The following table summarizes the capitalized costs associated with the Company's exploration and evaluation property:

		Graphite Creek
Balance, September 30, 2015	$	10,002,322
Acquisition		95,554
Analysis		75,067
Geological consulting		322,012
Fieldwork		478,595
Engineering		555,524
Balance, December 31, 2016	$	11,529,074
Acquisition		284,777
Analysis		25,149
Geological consulting		287,315
Fieldwork		249,979
Engineering		62,331
Balance, December 31, 2017	$	12,438,625
Summary		
Acquisition	$	1,167,270
Exploration and evaluation		10,361,804
Balance, December 31, 2016	$	11,529,074
Acquisition	$	1,452,047
Exploration and evaluation		10,986,578
Balance, December 31, 2017	$	12,438,625

The Graphite Creek Property consists of fifty-six Alaska state mining claims (the "GC Purchased Property") and one hundred and twenty Alaska state mining claims (the "GC Staked Property"). On March 27, 2018, the Federal mining claims were converted to Alaska state claims.

7. EXPLORATION AND EVALUATION PROPERTY (cont'd)…

In May 2015, the Company executed a long-term lease agreement with Kougarok LLC, commencing effective January 1, 2014 with an initial term of twenty years, and with provisions to extend the lease for two successive twenty year periods and ultimately for as long as production, if any, continues from the property. An advance royalty in the amount of US$30,000 was paid upon execution of the agreement, with annual payments of US$30,000 due each year until January 2019, and then increasing by US$10,000 each year until production commences. All required payments under the agreement have been made to date. The production royalties are to be calculated as follows: 5% from lands in the 4 federal claims originally located in 1943; 2.5% from lands within the other 20 federal claims; 5% from lands within state claims staked by the Company within the area of interest; and 2.5% from state claims acquired by the Company within the area of interest. All advance royalties paid may be recouped from production royalties. The Company has the option to reduce the production royalties by up to 2% by paying US$2 million for each 1% reduction of the production royalties.

On January 24, 2012, the Company purchased from a private individual (the "Seller") the GC Purchased Property for $20,000 and a 2% production royalty on future production, if any, from the GC Purchased Property. The Company had the right to purchase the production royalty for $1 million until January 24, 2015 (the "Royalty Purchase Option"). The Company and the Seller entered into an extension agreement effective January 24, 2015 (the "2015 Extension Agreement") In connection with the 2015 Extension Agreement, the Company issued to the Seller 769,231 common shares of the Company at an issue price of $0.13 per share. In January 2017, the Company and the Seller agreed to further extend the terms of the Royalty Purchase Option and entered into an extension agreement effective January 24, 2017 (the "2017 Extension Agreement") whereby the Royalty Purchase Option may be exercised at any time on or before January 24, 2021. In connection with the 2017 Extension Agreement, the Company issued to the Seller 1,666,667 common shares of the Company at an issue price of $0.09 per share and 1,153,846 common share purchase warrants of the Company.

During June 2015, the Company purchased from another private individual the balance of the GC Purchased Property (28 Alaska state mining claims covering the same lands as the 28 Alaska state mining claims acquired in January 2012) for US$50,000, the issuance of 3 million common shares of the Company at a fair value of $270,000 and a royalty interest equal to 1% of the Net Smelter Returns received by the Company on production, if any, from the claims. The Company has the right to purchase the royalty for US$500,000 at any time within 36 months following the start of mine production.

8. SHARE CAPITAL

8.1 Authorized

Unlimited number of common shares with no par value.

8.2 Shares Issued

The following share transactions occurred during the year ended December 31, 2017:

In February 2017, the Company issued 1,666,667 common shares at a fair value of $150,000, and 1,153,846 share purchase warrants at a fair value of $54,692, both in connection with an agreement to extend the Company's right to purchase a net smelter return royalty. The Company incurred share issuance costs of $1,622.

On August 22, 2017, the Company completed a private placement for total gross proceeds of $678,800. Pursuant to this private placement, the Company issued a total of 9,697,143 units (the "2017-1 Units") at a price of C$0.07 per 2017-1 Unit. Each 2017-1 Unit consists of one common share and one transferable common share purchase warrant (a "2017-1 Warrant"). Each 2017-1 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of $0.12 per share during the 60 months from the date of issuance. Based on the residual valuation method, no value was attributed to the 2017-1 Warrants. The Company incurred share issuance costs of $14,081.

On December 4, 2017, the Company completed a private placement for total gross proceeds of $707,202. Pursuant to this private placement, the Company issued a total of 14,143,709 units (the "2017-2 Units") at a price of C$0.05 per 2017-2 Unit. Each 2017-2 Unit consists of one common share and one transferable common share purchase warrant (a "2017-2 Warrant"). Each 2017-2 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of $0.10 per share during the 60 months from the date of issuance. Based on the residual valuation method, no value was attributed to the 2017-2 Warrants. The Company incurred share issuance costs of $6,367.

The following share transactions occurred during the fifteen month period ended December 31, 2016:

On October 30, 2015, the Company completed a private placement for total gross proceeds of $634,161. Pursuant to this private placement, the Company issued a total of 9,059,449 units (the "2015-2 Units") at a price of C$0.07 per 2015-2 Unit. Each 2015-2 Unit consists of one common share and one transferable common share purchase warrant (a "2015-2 Warrant"). Each 2015-2 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of $0.10 per share during the 36 months from the date of issuance. Based on the residual valuation method, no value was attributed to the 2015-2 Warrants. The Company paid finders' fees in the aggregate amount of $20,384 and issued 291,200 transferrable broker warrants valued at $12,871, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2015-2 Warrants described above.

On December 1, 2015, the Company issued 733,334 common shares in settlement of debt of $66,000 at a price of $0.09 per share.

8. SHARE CAPITAL (cont'd)…

On January 18, 2016, the Company completed a private placement for total gross proceeds of $434,090. Pursuant to this private placement, the Company issued a total of 4,823,222 units (the "2016-1 Units") at a price of C$0.09 per 2016-1 Unit. Each 2016-1 Unit consists of one common share and one transferable common share purchase warrant (a "2016-1 Warrant"). Each 2016-1 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of $0.12 per share during the 36 months from the date of issuance. Based on the residual valuation method, no value was attributed to the 2016-1 Warrants. The Company paid finders' fees in the aggregate amount of $324 and issued 3,600 transferrable broker warrants valued at $159, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-1 Warrants described above.

On March 2, 2016, the Company completed a private placement for total gross proceeds of $270,001. Pursuant to this private placement, the Company issued a total of 3,000,008 units (the "2016-2 Units") at a price of C$0.09 per 2016-2 Unit. Each 2016-2 Unit consists of one common share and one transferable common share purchase warrant (a "2016-2 Warrant"). Each 2016-2 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of $0.12 per share during the 36 months from the date of issuance. Based on the residual valuation method, no value was attributed to the 20156-2 Warrants. The Company paid finders' fees in the aggregate amount of $6,400 and issued 71,111 transferrable broker warrants valued at $2,226, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-2 Warrants described above.

In April, May and June 2016, the Company raised $606,525 and issued 5,346,500 shares through the exercise of 5,346,500 warrants at exercise prices of $0.10 to $0.125 per share.

On August 22, 2016, The Company issued 16,250,000 Units (the "2016-3 Units") at a price of $0.08 per 2016-3 Unit for a total of $1.3 million. Each 2016-3 Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "2016-3 Warrant"). Each 2016-3 Warrant entitles the holder to purchase one full Common Share at a purchase price of $0.12 per Common Share and will expire on the earlier of: (a) two years from the date of issuance; and (b) in the event the Common Shares trade at a volume of $0.21 or more on the TSXV Venture Exchange or the Toronto Stock Exchange for 10 consecutive trading days, the Company may, at its option, issue a press release and a notice to the 2016-3 Warrantholder for the expiry of the 2016-3 Warrants on the date that is 45 days from the press release and notice and the 2016-3 Warrantholder may exercise the 2016-3 Warrants during this 45 day period (but no later than two years from the date of issuance). Based on the residual valuation method, no value was attributed to the 2016-3 Warrants. The Company paid finders' fees in the aggregate amount of $67,664 and issued 845,800 non-transferrable broker warrants valued at $15,732, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-3 Warrants described above.

8. SHARE CAPITAL (cont'd)…

On November 8, 2016, the Company issued 10,150,000 Units (the "2016-4 Units") at a price of $0.08 per 2016-4 Unit for a total gross proceeds of $812,000. Each 2016-4 Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "2016-4 Warrant"). Each 2016-4 Warrant entitles the holder to purchase one full Common Share at a purchase price of $0.12 per Common Share and will expire on the earlier of: (a) two years from the date of issuance; and (b) in the event the Common Shares trade at a volume of $0.21 or more on the TSXV Venture Exchange or the Toronto Stock Exchange for 10 consecutive trading days, the Company may, at its option, issue a press release and a notice to the 2016-4 Warrantholder for the expiry of the 2016-4 Warrants on the date that is 45 days from the press release and notice and the 2016-4 Warrantholder may exercise the 2016-4 Warrants during this 45 day period (but no later than two years from the date of issuance). Based on the residual valuation method, no value was attributed to the 2016-4 Warrants. The Company paid finders' fees in the aggregate amount of $48,000 and issued 600,000 non-transferrable broker warrants valued at $16,200, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-4 Warrants described above.

8.3 Share based compensation

Pursuant to a stock option plan (the "Plan") for directors, officers, employees and consultants, the Company may reserve a maximum of 10% of the issued and outstanding listed common shares, the exercise price to be determined on the date of issuance of the options. The options are non-transferable and will expire, if not exercised, 90 days following the date the optionee ceases to be a director, officer, employee or consultant of the Company for reasons other than death, one year after the death of an optionee or on the fifth anniversary of the date the option was granted. Options granted under the plan may not exceed five years and vest at terms to be determined by the board of directors at the time of the grant, but shall not be less than the higher of the price determined by policy or policies of the stock exchange(s) on which the Company's common shares are then listed, or $0.05 per share.

(Expressed in Canadian dollars)

8. SHARE CAPITAL (cont'd)…

The following table summarizes activity related to stock options:

	Options	Weighted Average Exercise Price	
Balance, December 31, 2015	12,200,000	$	0.17
Issued	13,600,000	$	0.10
Expired	(600,000)	$	0.28
Forfeited	(1,275,000)	$	0.23
Balance, December 31, 2016	23,925,000	$	0.12
Issued	6,250,000	$	0.06
Expired	(1,375,000)	$	0.26
Forfeited	(3,000,000)	$	0.13
Balance, December 31, 2017	25,800,000	$	0.10

On December 29, 2017, 6,250,000 options were granted to directors, officers and consultants of the Company. Each option has an exercise price of $0.06, expiring 5 years from the date of grant and vested immediately.

On March 11, 2016, 9,050,000 options were granted to directors, officers and consultants of the Company. Each option has an exercise price of $0.10, expiring 5 years from the date of grant and vested immediately.

On May 18, 2016, 500,000 options were granted to consultants of the Company. Each option has an exercise price of $0.115, expiring 5 years from the date of grant and vesting in four equal installments commencing on the date of grant.

On November 8, 2016, 4,050,000 options were granted to directors, officers and consultants of the Company. Each option has an exercise price of $0.10, expiring 5 years from the date of grant, and vested immediately.

With respect to the options granted in the year ended December 31, 2017; $409,585 (for the fifteen month period ended December 31, 2016, $885,963) was recorded in share-based payments and $13,540 (2016 - $88,840) was capitalized to exploration and evaluation property. An additional $7,637 was recorded in share-based payments for the vesting of options granted in 2016. Options are cancelled in accordance with the Plan, when the optionees are no longer associated with the Company.

(Expressed in Canadian dollars)

8. SHARE CAPITAL (cont'd)…

The fair value of the share options granted in the year ended December 31, 2017 and fifteen month period ended December 31, 2016 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Year ended December 31, 2017	Fifteen month period ended December 31, 2016
Exercise price	$0.06	$0.10 - $0.115
Market price	$0.085	$0.08 - $0.155
Risk free interest rate	1.86%	0.75% - 0.80%
Expected option life	5 years	5 years
Expected stock price volatility	102%	85% - 92%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil
Average fair value per option	$0.07	$0.05 - $0.12

The expected life is based on current expectations. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends.

Stock options outstanding:

As at December 31, 2017				As at December 31, 2016			
Number of options outstanding #	Number of vested options #	Weighted average exercise price $	Weighted average remaining contractual life years	Number of options outstanding #	Number of vested options #	Weighted average exercise price $	Weighted average remaining contractual life years
-	-	-	-	975,000	975,000	0.28	0.2
-	-	-	-	100,000	100,000	0.28	0.5
-	-	-	-	300,000	300,000	0.20	0.8
550,000	550,000	0.17	0.7	600,000	600,000	0.17	1.7
600,000	600,000	0.18	0.7	600,000	600,000	0.18	1.7
-	-	-	-	600,000	600,000	0.17	1.8
-	-	-	-	300,000	300,000	0.17	1.9
5,050,000	5,050,000	0.13	1.9	5,350,000	5,350,000	0.13	2.9
500,000	500,000	0.13	2.3	500,000	500,000	0.13	3.3
1,000,000	1,000,000	0.13	0.5	1,000,000	1,000,000	0.13	1.5
8,050,000	8,050,000	0.10	3.2	9,050,000	9,050,000	0.10	4.2
-	-	-	-	500,000	375,000	0.12	4.4
3,800,000	3,800,000	0.10	3.9	4,050,000	4,050,000	0.10	4.9
6,250,000	6,250,000	0.06	5.0	-	-	-	-
25,800,000	25,800,000	0.10	3.2	23,925,000	23,800,000	0.12	3.4

(Expressed in Canadian dollars)

8. SHARE CAPITAL (cont'd)…

Subsequent to December 31, 2017; 500,000 options were forfeited.

8.4 Warrants

The following table summarizes activity related to warrants: Warrants outstanding:

	Warrants	Weighted Average Exercise Price
Balance, December 31, 2015	87,828,961	$ 0.15
Issued	34,223,230	$ 0.12
Exercised	(5,346,500)	0.11
Expired	(13,905,000)	0.13
Balance, December 31, 2016	102,800,691	$ 0.15
Issued	24,994,698	$ 0.11
Balance, December 31, 2017	127,795,389	$ 0.14

Warrants outstanding:

As at December 31, 2017			As at December 31, 2016		
Number of warrants outstanding #	Weighted average exercise price $	Weighted average remaining contractual life years	Number of warrants outstanding #	Weighted average exercise price $	Weighted average remaining contractual life years
4,285,785	0.30	0.1	4,285,785	0.30	1.1
15,599,160	0.20	0.7	15,599,160	0.20	1.7
22,686,925	0.20	0.7	22,686,925	0.20	1.7
16,946,142	0.10	0.7	16,946,142	0.10	1.7
9,059,449	0.10	0.8	9,059,449	0.10	1.8
4,823,222	0.12	1.0	4,823,222	0.12	2.0
3,000,008	0.12	1.2	3,000,008	0.12	2.2
16,250,000	0.12	0.6	16,250,000	0.12	1.6
10,150,000	0.12	0.9	10,150,000	0.12	1.9
1,153,846	0.13	3.1	-	-	-
9,697,143	0.12	4.6	-	-	-
14,143,709	0.10	4.9	-	-	-
127,795,389	0.14	1.5	102,800,691	0.15	1.7

Subsequent to December 31, 2017, 4,285,785 warrants expired.

(Expressed in Canadian dollars)

8. SHARE CAPITAL (cont'd)…

8.5 Broker Warrants

The following table summarizes activity related to Broker Warrants:

	Warrants	Weighted Average Exercise Price
Balance, September 30, 2015	3,444,536	$ 0.17
Issued	1,811,711	$ 0.12
Balance, December 31, 2016	5,256,247	$ 0.15
Balance, December 31, 2017	5,256,247	$ 0.15

The fair value of the broker warrants granted in the fifteen month period ended December 31, 2016 - $47,188 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Fifteen month period ended December 31, 2016
Strike price	$0.10 - $0.12
Market price	$0.075 - $0.09
Risk free interest rate	0.32% - 0.60%
Expected warrant life	2 - 3 years
Expected stock price volatility	64% - 103%
Dividend payments during life of warrant	nil
Expected forfeiture rate	nil
Fair value per warrant	$0.02 - $0.04

The expected life is based on current expectations. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the warrants is indicative of future trends.

(Expressed in Canadian dollars)

8. SHARE CAPITAL (cont'd)…

Broker warrants outstanding:

As at December 31, 2017			As at December 31, 2016		
Number of warrants outstanding #	Weighted average exercise price $	Weighted average remaining contractual life years	Number of warrants outstanding #	Weighted average exercise price $	Weighted average remaining contractual life years
929,902	0.20	0.7	929,902	0.20	1.7
1,290,200	0.20	0.7	1,290,200	0.20	1.7
1,224,434	0.10	0.7	1,224,434	0.10	1.7
291,200	0.10	0.8	291,200	0.10	1.8
3,600	0.12	1.0	3,600	0.12	2.0
71,111	0.12	1.2	71,111	0.12	2.2
845,800	0.12	0.6	845,800	0.12	1.6
600,000	0.12	0.9	600,000	0.12	1.9
5,256,247	0.15	0.7	5,256,247	0.15	1.7

9. RELATED PARTY TRANSACTIONS AND BALANCES

Relationships	**Nature of the relationship**
Huston Financial Corp. and Huston and Huston Holdings Corp. ("Huston")	Huston Financial Corp. and Huston and Huston Holdings Corp. are private companies controlled by Anthony Huston, an officer and director of the Company which provides management services to the Company.
DH Smith Resource Advisory Corp. ("Smith")	Smith is a private company controlled by Doug Smith, a director of the Company which provides management services to the Company.
Ahlgren Consulting Inc. ("Ahlgren")	Ahlgren is a private company controlled by Alan Ahlgren, an officer of the Company which provides management services to the Company.
Anacortes Management Ltd. ("Anacortes")	Anacortes is a private company controlled by James Currie, a director of the Company which provides director services to the Company.
Rockford Resources LLC ("Rockford")	Rockford is a private company controlled by Patrick Smith, a director of the Company which provides director services to the Company.
0897877 BC Ltd. ("0897877 BC")	0897877 BC is a private company controlled by Brian Budd, a director of the Company which provides director services to the Company.

(Expressed in Canadian dollars)

9. RELATED PARTY TRANSACTIONS AND BALANCES (cont'd)…

	Management Consulting and Directors' Fees	
For the year ended December 31	**2017**	**2016**
Ahlgren Consulting Inc.	-	57,033
DH Smith Resource Advisory Corp.	-	50,317
Huston Financial Corp./Huston & Huston Holdings Corp.	$ 250,000	$ 312,500
Anacortes Management Ltd.	12,000	30,500
Rockford Resources, LLC	24,000	30,500
0897877 BC Ltd.	24,000	30,000

9.1 Related party transactions

The above transactions relate to consulting fees incurred by the Company. Management services expenses are included in management fees and salaries and marketing, advisory and investor relations in the consolidated statements of financial position. Geological services are capitalized to Exploration and evaluation property in the consolidated statements of financial position.

Amounts owing to related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations. At December 31, 2017, the Company owed $118,875 (December 31, 2016- $166,982) to related parties.

9.2 Key management compensation

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the President, Chief Executive Officer, Directors, Chief Financial Officer and General Manager, Operations. Compensation paid to key personnel was as follows:

For the year ended December 31,	**2017**	**2016**
Consulting and directors' fees	$ 310,000	$ 510,532
Salaries and benefits	670,501	622,923
Stock-based compensation	308,035	608,850
	$ 1,288,536	$ 1,742,305

10. FINANCIAL RISK MANAGEMENT

10.1 Financial Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

a. Credit risk

Credit risk is the risk of potential loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash.

The Company has assessed its exposure to credit risk on its cash and has determined that such risk is minimal. The majority of the Company's cash is held with reputable financial institutions in Canada.

b. Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at December 31, 2017, the Company had a working capital deficit of $38,486, with current assets of $437,496 and current liabilities of $475,982. The Company will seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. See Note 3, Going Concern.

c. Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments.

The Company had $351,081 in Cash at December 31, 2017, on which it earns variable rates of interest, and may therefore be subject to a certain amount of risk, though this risk is considered by management to be immaterial.

d. Foreign currency risk

Foreign currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company maintains the majority of its cash reserves in Canadian dollars. A portion of the Company's funds are held in United States dollars and are therefore subject to fluctuations in foreign exchange rates.

At December 31, 2017, the Company has certain monetary items denominated in United States dollars. Based on these net exposures at December 31, 2017 a 10% appreciation or depreciation of the Canadian Dollar against the United States dollar would result in an increase or decrease of $34,500 in the Company's net loss.

(Expressed in Canadian dollars)

10. FINANCIAL RISK MANAGEMENT (cont'd)…

10.2 Fair Values

The carrying values of cash, deposits and amounts receivable and trade and other accounts payable approximate fair values due to their short-term to maturity nature or the ability to readily convert to cash.

11. INCOME TAXES

The income tax provision differs from the amount computed by applying the statutory rates to loss before income taxes. These differences result from the following:

Year ended	**December 31 2017**	December 31 2016
Loss before income taxes	$ 1,610,705	$ 3,474,591
Statutory rate	26.00%	26.00%
Expected tax recovery	418,783	903,394
Effect of tax rate changes and tax rates in foreign jurisdictions	5,044	5,992
Non-deductible expenses	(107,510)	(177,662)
Foreign exchange and other	(316,317)	(48,927)
Prior period adjustments	-	1,691,321
Change in unrecognized deferred tax asset	-	(2,374,118)
Income tax recovery (expense)	$ -	$ -

Prior period adjustment: Mineral properties - true up in the current year required to correct the tax basis in the prior year to account for the different functional currency and tax reporting currency ($1.0 million)

Loss carry forward opening balance: In the current year provision, we identified that the US net operating loss tax asset was not converted from USD to CAD for the prior year tax provision. This has been adjusted in the current year ($0.6 million).

(Expressed in Canadian dollars)

11. INCOME TAXES (cont'd)…

Unrecognized deferred tax asset is comprised of the following tax affected temporary differences:

Year ended	**December 31 2017**	**December 31 2016**
Mineral properties	$ 305,563	$ 726,646
Non-capital losses carried forward	5,903,385	6,076,877
Equipment	-	(391)
Capital loss carried forward	58,764	58,764
Share issuance and incorporation costs	66,113	108,985
Unrecognized deferred tax asset	$ 6,333,825	$ 6,970,881

As at December 31, 2017 the Company had tax operating losses available of the following, which expire at various dates and amounts between 2024 and 2037.

Canada	$ 13,497,820
United States	$ 6,684,809

The Company has accumulated capital losses of $425,031 (December 31, 2016 - $452,031) which can be carried forward indefinitely to offset future capital gains.

The ability to use U.S. loss carry-forwards in future is subject to certain limitations under provisions of the Internal Revenue Code, including Section 382, which relates to a 50% change in control of ultimate shareholders over a three-year period, and is further dependent upon the Company attaining profitable operations. Ownership changes, as defined, may have occurred in prior years for Graphite One Resources Inc. and the U.S. tax losses related to Graphite One (Alaska) Inc. may be subject to limitation under Section 382. Accordingly, the Company's ability to use these losses may be limited or such losses may expire un-utilized. Losses incurred to date may be further limited if a subsequent change in control occurs.