

**CEYLON GRAPHITE CORP.**

**Condensed interim consolidated financial statements**

**For the periods ended September 30, 2017 and September 30, 2016**

**(Unaudited)**

**(Expressed in Canadian dollars)**

## **Notice of no Auditor Review of Interim Financial Statements**

**Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.**

**The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.**

**The Company's independent auditor has not performed a review of these interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.**

**CEYLON GRAPHITE CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS AT SEPTEMBER 30, 2017 AND MARCH 31, 2017**  
(Expressed in Canadian Dollars)

	September 30, 2017 (unaudited)	March 31, 2017 (audited)
<b>ASSETS</b>		
Current		
Cash	568,305	1,136,621
Amount receivable	56,564	44,335
Prepaid expenses	57,715	18,477
	682,584	1,199,433
Equipment (Note 6)	158,535	888
Exploration and evaluation assets (Note 7)	2,523,680	2,694,550
	3,364,799	3,894,871
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	202,711	259,641
Amounts payable (Note 7 and 9)	1,245,400	1,330,835
Capital lease obligations	9,191	16,803
	1,457,302	1,607,279
<b>EQUITY</b>		
Share capital (Note 8)	5,189,592	5,096,142
Share subscriptions (Note 8)	50,000	50,000
Contributed surplus	2,062,793	1,992,825
Deficit	(5,411,549)	(5,011,872)
Accumulated other comprehensive income	16,661	160,497
	1,907,497	2,287,592
	3,364,799	3,894,871

CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS (Note 1)  
SUBSEQUENT EVENT (Note 13)

Approved by the Board of Directors on November 24, 2017

"Bharat Parashar"  
Bharat Parashar, Director

"Kevin Aylward"  
Kevin Aylward, Director

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

**CEYLON GRAPHITE CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**FOR THE SIX MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016**  
**(Unaudited)**

(Expressed in Canadian Dollars)

	Three months ended September 30,		Six months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>Expenses</b>				
Amortization	3,399	3,431	8,857	6,806
Advertising and promotion	-	-	29,500	-
Interest, finance and bank charges	3,655	549	5,557	1,338
Office and administrative	5,501	1,016	53,708	1,687
Professional fees (Note 9)	101,688	58,707	182,605	116,711
Rent (Note 9)	2,380	2,150	4,760	4,265
Repair and maintenance	-	-	6,770	-
Share-based payments (Note 9)	34,984	-	69,968	-
Transfer agents	2,495	-	7,352	-
Travel	19,368	750	56,308	2,742
Vehicle	1,709	-	2,449	1,693
Wages and benefits	12,832	-	16,020	-
<b>Loss before other items</b>	<b>(188,011)</b>	<b>(66,603)</b>	<b>(443,854)</b>	<b>(135,242)</b>
<b>Other items:</b>				
Gain on forgiveness of debt (Note 10)	-	-	44,177	-
<b>Net Loss</b>	<b>(188,011)</b>	<b>(66,603)</b>	<b>(399,677)</b>	<b>(135,242)</b>
<b>OTHER COMPREHENSIVE LOSS</b>				
Item that may be reclassified subsequently				
Unrealized foreign exchange translation	(53,655)	8,739	(85,435)	(5,969)
<b>Net comprehensive income (loss) for the period</b>	<b>(241,666)</b>	<b>(57,864)</b>	<b>(485,112)</b>	<b>(141,211)</b>
<b>Net income (loss) per share – basic and diluted</b>	<b>(0.00)</b>	<b>(3.75)</b>	<b>(0.01)</b>	<b>(7.62)</b>
<b>Weighted average number of common shares outstanding</b>	<b>54,448,181</b>	<b>17,741</b>	<b>54,448,181</b>	<b>17,741</b>

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

**CEYLON GRAPHITE CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016**  
**(Unaudited)**

(Expressed in Canadian Dollars)

	September 30, 2017	September 30, 2016
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (399,677)	\$ (135,242)
Items not involving cash:		
Amortization	8,857	6,806
Gain on forgiveness of debt	(44,177)	-
Finance charges	1,814	1,338
Share-based payments	69,968	-
	(363,215)	(127,098)
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	(76,426)	461
Amounts receivable	(12,229)	-
Prepaid expenses	(35,817)	(1,165)
Cash used in operating activities	(487,687)	(127,802)
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(167,392)	-
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares	93,450	-
Payments on capital lease obligation	(9,426)	(3,667)
Due to (from) related party	-	130,423
Cash provided by financing activities	84,024	126,756
CHANGE IN CASH DURING THE PERIOD	(571,055)	(1,046)
CASH, BEGINNING OF PERIOD	1,136,621	41,131
EFFECT OF TRANSLATING FOREIGN CURRENCY	2,739	262
CASH, END OF PERIOD	\$ 568,305	\$ 40,347
<b>SUPPLEMENTAL CASH DISCLOSURES</b>		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

**CEYLON GRAPHITE CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE SIX MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016**  
**(Unaudited)**  
(Expressed in Canadian Dollars)

	Common Shares		Share subscriptions	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
	Number	Amount					
Balances as at March 31, 2016	17,741	\$ 629,630	\$ -	\$ 1,068,918	\$ (1,353,941)	\$ 170,740	\$ 515,347
Net loss and comprehensive loss	-	-	-	-	(135,242)	(5,969)	(141,211)
Balances as at September 30, 2016	17,741	629,630	-	1,068,918	(1,489,183)	164,771	374,136
Balances as at March 31, 2017	54,314,681	\$ 5,096,142	50,000	1,992,825	\$ (5,011,872)	\$ 160,497	\$ 2,287,592
Shares issued for warrants exercised	311,500	93,450	-	-	-	-	93,450
Share-based payments	-	-	-	69,968	-	-	69,968
Net loss and comprehensive loss	-	-	-	-	(399,677)	(143,836)	(543,513)
Balance as at September 30, 2017	54,626,181	5,189,592	50,000	2,062,793	(5,411,549)	16,661	1,907,497

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

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**CEYLON GRAPHITE CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016**  
**(Unaudited)**  
(Expressed in Canadian Dollars)

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**1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS**

Ceylon Graphite Corp. (the “Company or Ceylon”) was incorporated on April 3, 1986 under the Canada Business Corporations Act. On December 30, 2016 the Company acquired Plumbago Refining Corp. B.V. (“Plumbago”) through a reverse acquisition transaction described in Note 5. The historical operations, assets and liabilities of Plumbago are included as the comparative figures as at and for the period ended September 30, 2016, which is deemed to be the continuing entity for financial reporting purposes. Plumbago was a private limited liability company organized under the laws of Curacao.

Concurrent with the closing of the reverse acquisition transaction, the Company changed its name from Nwest Energy Corp. to Ceylon Graphite Corp. and effected a change in directors, management and business.

The address of the Company’s corporate office is Suite 600 – 535 Howe Street, Vancouver, BC, Canada and its principal place of business is Landhuis Joonchi, Kaya Richard J. Beaujon z/n Willemstad, Curacao.

At September 30, 2017, the Company had not yet determined whether its property contains graphite reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production or proceeds from the disposition of the resource property. The outcome of these matters cannot be predicted at this time and the uncertainties cast significant doubt upon the Company’s ability to continue as a going concern.

These condensed interim consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these condensed interim consolidated financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES**

a) Statement of compliance

These condensed interim consolidated financial statements for the six months ended March 31, 2016 have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Company’s March 31, 2017 annual consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”). The condensed interim consolidated financial statements have been prepared under the historical cost convention.

These financial statements were approved by the board of directors for use on November 24, 2017.

b) Basis of presentation

These condensed interim consolidated financial statements include the assets and operations of the Company and its wholly owned subsidiaries Plumbago and Sarcon Development (PVT) Limited (“Sarcon”). Sarcon was incorporated in Sri Lanka under the Companies Act, No. 07 of 2007. All significant inter-company balances and transactions have been eliminated upon consolidation.

**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

There have been no material revisions to the nature of judgments and estimates of amounts reported in the Company’s March 31, 2017 annual consolidated financial statements.

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**CEYLON GRAPHITE CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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4. NEW ACCOUNTING STANDARDS

New standards and amendments effective for the first time

The Company has adopted the new and revised standards and interpretations issued by the IASB listed below effective April 1, 2017. The adoption of this standard and amendment did not have a material impact on the condensed interim consolidated financial statements of the Company.

*IFRS 2 - Share-based payments*

In June 2016, the IASB issued the final amendments to IFRS 2 that clarify the classification and measurement of share-based payment transactions. This includes the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of this standard.

*IFRS 7 – Statements of cash flows*

In January 2016, the IASB issued an amendment to IAS 7 which requires additional disclosures for changes in liabilities arising from financing activities. This includes changes arising from cash flows, such as drawdowns and repayments of borrowings, and non-cash changes, such as acquisitions, disposals and unrealized exchange differences. The amendment is effective for fiscal years beginning on or after January 1, 2017, and is applied on a prospective basis.

Accounting standard issued but not yet effective

Standards issued, but not yet effective, up to the date of issuance of the Company's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

New accounting standards effective for annual periods on or after April 1, 2018:

*IFRS 9 – Financial Instruments*

In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. In November 2013 the standard was revised to add the new general hedge accounting requirements. The standard was finalized in July 2014 and was revised to add a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income (FVOTCI) category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test.

*IFRS 15 – Revenue from Contracts with Customers*

In May 2014, the IASB issued this standard which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

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**CEYLON GRAPHITE CORP.**  
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4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

New accounting standards effective for annual periods on or after April 1, 2019:

IFRS 16 – Leases

In June 2016, the IASB issued this standard which establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.

The extent of the impact of adoption of these standards and interpretations on the financial statements of the Company has not been determined.

5. REVERSE TAKE OVER

On December 30, 2016 the Company acquired 100% ownership of Plumbago Refining Corp. B.V. (“Plumbago”) by issuing 34,673,978 of its common shares, 25,393,500 Special Warrants and 128,571 Stock Options (the “Transaction”). For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3 *Business Combinations* (“IFRS 3”) since the Company, prior to the acquisition did not constitute a business. The transaction is accounted for in accordance with IFRS 2 *Share-based Payment* whereby Plumbago is deemed to have issued common shares, stock warrants and stock options in exchange for the net assets of the Company together with its listing status at the fair value of the consideration received by Plumbago. The accounting for this transaction resulted in the following:

- (i) The consolidated financial statements of the combined entities are issued under the legal parent, Ceylon Graphite Corp., but are considered a continuation of the financial statements of the legal subsidiary, Plumbago.
- (ii) Since Plumbago is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

Since the share and share based consideration allocated to the former shareholders of the Company on closing the Transaction is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or service received in return for the allocation of the common shares, stock warrants and stock options, the value in excess of the net identifiable assets on closing was expensed in the consolidated statements of operations and comprehensive loss as listing expense.

Consideration in the amount of \$2,678,868 is comprised of the fair value of the common shares, stock warrants and stock options of the Company retained by the former shareholders of the Company and legal and transaction costs.

**CEYLON GRAPHITE CORP.**  
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5. REVERSE TAKE OVER (continued)

The listing expense is summarized as follows:

<b>Net assets acquired:</b>	
Cash	\$ 1,074,687
Other assets	1,244
Accounts payable and accrued liabilities	(861,336)
Net assets acquired	218,828
Consideration given	2,678,868
Listing expenses	\$ 2,460,040
<b>Consideration:</b>	
Common shares deemed to be issued re Ceylon	\$ 1,508,062
Stock options issued re Ceylon	15,948
Warrants issued re Ceylon	814,000
Legal and other transaction costs	340,858
	\$ 2,678,868

The Company has estimated the fair value of the equity instruments deemed to be issued by the Company. The fair value of the common shares amounted to \$1,508,062, based on the concurrent financing value of the Company's common shares at the time of the Transaction of \$0.20 per share. The fair value of the stock options amounted to \$15,948 and the stock warrants amount to \$814,000. The fair value was estimated using the Black-Scholes pricing model.

6. EQUIPMENT

As of September 30, 2017, the equipment of \$167,392 (March 31, 2017 - \$888) consists of a drilling equipment. During the period ended September 30, 2017, the Company recorded \$8,857 in amortization.

7. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets as of September 30, 2017 are as follows:

	<b>April 1, 2017</b>	<b>Effect of foreign exchange</b>	<b>September 30, 2017</b>
Sri Lanka	\$ 2,694,550	\$ (170,870)	\$ 2,523,680
	<b>April 1, 2016</b>	<b>Effect of foreign exchange</b>	<b>March 31, 2017</b>
Sri Lanka	\$ 2,637,460	\$ 57,090	\$ 2,694,550

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7. EXPLORATION AND EVALUATION ASSETS (continued)

**Sri Lanka**

On September 12, 2012, the Company entered into an agreement (“Agreement”) to purchase 100% of the shares outstanding of Sarcon Development (PVT) Ltd. (“Sarcon”). At the time of the transaction, Sarcon had 1,000,000 shares outstanding. Sarcon has interests in approximately 100 zones on 1km by 1km grids to develop, construct and operate graphite mines located in Sri Lanka. In exchange for the shares of Sarcon, the Company agreed to pay US \$2 million. The terms and conditions of the Agreement were amended in 2013 and 2014. The payment table below reflects all the amendments to the Agreement.

The Company will be required to make the following cash payments:

	US \$
14 days after Sarcon’s Board of Investment approval – paid;	250,000
Within 7 days of confirming that Sarcon’s shares have been transferred to the Company and the applicable stamp duty has been paid by the Company (“Confirmation Letter”) – paid;	300,000
Within 45 days of issuance of the Confirmation Letter – paid;	75,000
On or before December 31, 2016 - paid;	375,000
Within 14 days of receipt of proceeds from the sale of a minimum 350 tonnes of graphite from the Sarcon grids;	650,000
Provided the previous installment has been made, then a sum of United States Dollars Three Hundred and Fifty Thousand (US\$ 350,000) to the Vendor on or before 31st December 2018 as the fourth and final installment, or in the event that the third payment was not been made for reason other than breach of this agreement, then the date of the fourth installment shall be adjusted to a date acceptable to the Purchaser and the Vendor and this agreement will be amended accordingly.	350,000
	2,000,000

In 2013 and amended in 2014, the Company entered into an escrow agreement with the vendor of Sarcon and an escrow agent. Under the terms of the escrow agreement, the Company deposited its share certificates for 875,000 shares of Sarcon with the escrow agent. The escrow agent will release the remaining share certificates once the Company has fulfilled its payment commitments outlined above.

As of September 30, 2017, the Company has made total payments of US\$1,000,000.

The outstanding amounts due to the vendor have been shown as amounts payable on the condensed interim consolidated statements of financial position. They are non-interest bearing and unsecured.

8. SHARE CAPITAL

a) Authorized:

The Company is authorized to issue an unlimited number of common shares without par value.

b) Issued and Outstanding as at September 30, 2017: 54,626,181 (March 31, 2017: 54,314,681) common shares.

c) On September 30, 2016, the Company completed a share consolidation on the basis of one new common share for every 7 old common shares. All share amounts have been retroactively restated in these condensed interim consolidated financial statements.

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**CEYLON GRAPHITE CORP.**  
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8. SHARE CAPITAL (continued)

d) During the six month period ended September 30, 2017, the Company issued 311,500 common shares for gross proceeds of \$93,450 from warrants exercised and received share subscription of \$50,000.

e) During the year ended March 31, 2017, the Company issued the following common shares:

On September 29, 2016, the Company completed the first tranche of the brokered private placement and issued 5,550,000 units at \$0.20 per unit for gross proceeds of \$1,110,000. Each unit consists of one common share and one common share purchase warrant with an exercise price of \$0.30 and an expiry date of two years. The warrants are subject to an acceleration clause whereby if the common shares trade equal to or greater the \$0.50 for a period of twenty consecutive trading days, the warrant expiry date shall accelerate to a date that is not less than twenty days after notice is given. In connection with the financing, the Company issued 444,000 agent's warrants valued at \$68,000 and paid a cash commission equal to 8% of the gross proceeds received in the amount of \$88,000. The fair value of the agent's warrants was estimated using the Black-Scholes pricing model based on a volatility of 182%, risk free rate of return of 0.5% and an expected life of two years with no dividend yield.

On December 28, 2016, the Company completed the second tranche of the broker private placement and issued 9,295,000 units at a price of \$0.20 per unit for gross proceeds of \$1,859,000. Each unit consists of one common share and one common share purchase warrant with an exercise price of \$0.30 and an expiry date of two years. The warrants are subject to an acceleration clause whereby if the common shares trade equal to or greater the \$0.50 for a period of twenty consecutive trading days, the warrant expiry date shall accelerate to a date that is not less than twenty days after notice is given. In connection with the financing, the Company issued 110,000 agent's warrants valued at \$16,000 and paid a cash commission equal to 8% of the gross proceeds received in the amount of \$22,000. The fair value of the agent's warrants was estimated using the Black-Scholes pricing model based on a volatility of 182%, risk free rate of return of 0.73% and an expected life of two years with no dividend yield.

On December 30, 2016, the Company acquired 100% interest of Plumbago Refining Corp. B.V. ("Plumbago") (see Note 5) by issuing 34,673,978 of its common shares, 25,393,500 special warrants and 128,571 stock options. In connection with the acquisition of 100% interest in Plumbago, the Company entered into an escrow agreement whereby 25,393,500 common shares and 25,393,500 special warrants are subject to the escrow terms. The common shares are to be released at a ratio of 10% on the execution date of the acquisition date (December 31, 2016), 15% on every 6 months thereafter. Each special warrant can be converted, without any further consideration, into 1 common share of the Company. Conversion of the outstanding special warrants is subject to the Company receiving sales proceeds of a minimum of 350 tonnes of graphite from the property described in Note 7.

On March 10, 2017, the Company issued a total of 2,255,445 common shares to settle accounts payable of \$436,583. As the fair value of the shares was \$1,027,450, the Company recognized a loss of \$578,367 from the settlement. The Company also issued a total of 550,000 common shares at fair values of \$100,000 for consulting services and \$10,000 for financing services.

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8. SHARE CAPITAL (continued)

f) Share options

The Company has a stock option plan under which directors, officers, employees and consultants of the Company and its subsidiary are eligible to receive stock options. The total number of shares which are at any one time reserved and set aside for issuance under the stock option plan, and under all other management options outstanding, shall not exceed 10% of the shares issued and outstanding. The maximum number of common shares reserved for issuance to any one person pursuant to stock options shall not exceed 5% of the common shares outstanding at the time of the grant, or such greater amount as may be permitted pursuant to the rules of any regulatory authority having jurisdiction. The option price of a stock option granted shall be fixed by the Board of Directors but shall not be less than the market price of the shares at the time the option is granted, or such lesser price as may be permitted by the rules of the regulatory authority having jurisdiction. Stock options may be granted for a period not exceeding five years. Unless the Board determines otherwise, a stock option shall vest immediately upon being granted.

During the quarter ended September 30, 2017, the Company granted 550,000 stock options to its officers of the Company. Options are exercisable for 5 years at \$0.20 per share and vest one year after the grant date. The Company recorded a share-based payment of \$69,968 in the condensed interim consolidated statements of comprehensive loss.

As at September 30, 2017, the Company had options outstanding enabling holders to acquire the following:

	Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (years)
Balance, March 31, 2016	507,870	\$0.40	1.17
Options deemed to be issued on reverse take-over	128,571	\$0.76	1.17
Options granted	550,000	\$0.20	4.72
Outstanding, March 31, 2017 and September 30, 2017	1,186,441	\$0.35	2.62
Exercisable, March 31, 2017 and September 30, 2017	836,441	\$0.41	1.84

Details of stock options outstanding and exercisable at September 30, 2017 are as follows:

Number of Stock Options Outstanding	Number of Stock Options Exercisable	Exercise Price	Remaining Contractual Life (years)	Expiry Date
507,870	507,870	\$0.40	1.17	August 31, 2018
71,429	71,429	\$0.70	1.54	January 14, 2019
14,286	14,286	\$0.70	1.75	March 31, 2019
42,856	42,856	\$0.88	1.75	March 31, 2019
350,000	-	\$0.20	4.71	March 15, 2022
200,000	200,000	\$0.20	4.74	March 27, 2022
1,186,441	836,441			

8. SHARE CAPITAL (continued)

g) Warrants

A summary of the status of the Company's outstanding and exercisable warrants as at September 30, 2017 and the changes during the period then ended are as follows:

	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Remaining (in years)
Balance, March 31, 2016	704,246	\$0.20	0.42
Warrants deemed to be issued on reverse take-over	5,994,000	\$0.30	1.25
Issued – private placement	9,295,000	\$0.30	1.50
Issued – agent warrants	110,000	\$0.30	1.50
Balance, March 31, 2017	16,103,246	\$0.30	1.36
Exercised	(311,500)	\$0.30	-
Balance, September 30, 2017	15,791,746	\$0.30	1.36

Details of warrants outstanding at September 30, 2017 are as follows:

Number of Warrants	Exercise Price	Remaining Contractual Life (in years)	Expiry Date
704,246	\$0.20	0.42	December 1, 2017
5,994,000	\$0.30	1.25	September 29, 2018
9,093,500	\$0.30	1.50	December 28, 2018
15,791,746			

9. RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

The Company had the following related party transactions:

	September 30, 2017	September 30, 2016
Consulting fees	\$ -	\$ 57,978
Rent	4,760	2,116

During the six month period ended September 30, 2017, the Company paid rental expense of \$4,760 (September 30, 2016 - \$2,116) to a director of Sarcon, and consulting fees of \$Nil (September 30, 2016 - \$57,978) to a company controlled by a shareholder of the Company.

Key management personnel receive compensation in the form of short-term employee benefits, share-based payments, and post-employment benefits. Key management personnel include the Chief Executive Officer, Chief Financial Officer, and directors of the Company. The remuneration of key management is as follows:

	September 30, 2017	September 30, 2016
Consulting fees - CEO	\$ 15,000	\$ -
Consulting fees - CFO	13,500	-
Share-based payments	34,984	-

The Company has an amounts payable of \$1,299,055 (US\$1,000,000) (March 31, 2017 - \$1,330,835 or US\$1,000,000) due to the former shareholder of Sarcon in connection with the Agreement described in Note 7. The amounts are unsecured and non-interest bearing.

#### 10. GAIN ON DEBTS FORGIVENESS

During the six month period ended September 30, 2017, the Company made a payment of \$42,000 to settle an account payable of \$86,177, and as a result the Company recognized a gain of \$44,177 as forgiveness of debt.

#### 11. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the sourcing and exploration of its resource properties. The Company does not have any externally imposed capital requirements to which it is subject.

The Company considers the aggregate of its share capital, contributed surplus and deficit as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash.

The Company's investment policy is to invest its cash in large financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

The Company expects its current capital resources will be sufficient to carry its acquisition plans and operations through its current operating year.

#### 12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

International Financial Reporting Standards 7, *Financial Instruments: Disclosures*, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

##### Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts payable, amounts payable and due from and to related party.

Assets measured at fair value on a recurring basis were presented on the Company's condensed interim consolidated statements of financial position are as follows:

	Fair Value Measurements Using				Total
	Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>September 30, 2017:</b>					
Cash	\$ 568,305	\$ -	\$ -	\$ -	\$ 568,305
<b>March 31, 2017:</b>					
Cash	\$ 1,136,621	\$ -	\$ -	\$ -	\$ 1,136,621

## Fair value

The fair value of the Company's financial instruments approximates their carrying value as at September 30, 2017 because of the demand nature or short-term maturity of these instruments.

## Financial risk management objectives and policies

The risks associated with the financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### (i) *Currency risk*

The Company is exposed to foreign currency risk on fluctuations related to cash, accounts payable, amounts payable and due to related party that are denominated in the United States dollar and Rupees. Management does not hedge its exposure to foreign exchange risk and the Company's net exposure to foreign currency as at each of the reporting periods is at below:

	<b>September 30,</b>	<b>September 30,</b>	<b>March 31, 2017</b>	<b>March 31, 2017</b>
	<b>Rupee</b>	<b>USD</b>	<b>Rupee</b>	<b>USD</b>
Cash	490,340	420	423,561	9,518
Accounts payable	(309,826)	(1,995)	(309,826)	(1,995)
Amounts payable	-	(1,000,000)	-	(1,000,000)
Total	(309,826)	(1,001,995)	(309,826)	(1,001,995)
Net exposure	180,514	(1,001,575)	113,735	(995,477)
<b>Canadian dollar equivalents</b>	<b>1,500</b>	<b>(1,279,187)</b>	<b>972</b>	<b>(1,320,823)</b>

Based on the net Canadian dollar denominated asset and liability exposures as at September 30, 2017, a 10% fluctuation in the Canadian/US exchange rates would impact the Company's earnings for the period ended September 30, 2017 by \$127,919 (March 31, 2017 - \$132,082). The exposure to fluctuations in the Rupee is minimal. The Company has not entered into any foreign currency contracts to mitigate this risk.

### (ii) *Interest rate risk*

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term.

The Company has not entered into any derivative instruments to manage interest rate fluctuations.

### (iii) *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The credit risk on cash is limited because the cash are composed of financial instruments issued by Canadian banks and companies with high credit ratings as assigned by international credit-rating agencies. Therefore, the Company is not exposed to significant credit risk

### (iv) *Liquidity risk*

In the management of liquidity risk, the Company maintains a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations. As at September 30, 2017, the Company had working capital deficiency of \$774,718. As at September 30, 2017, the Company had cash of \$568,305 to settle accounts payable, capital lease

obligation and amounts payable of \$1,457,302 which fall due for payment within twelve months of the financial position date.

### 13. SUBSEQUENT EVENT

Subsequent to the period ended September 30, 2017,

- On October 11, 2017, the Company announced it has signed an agreement to acquire all of the issued and outstanding shares of JADS Enterprises (Private) Ltd., a local Sri Lankan mining company that has five graphite exploration Grid units (“GRIDs”) and an exploration license in the Malsiripura/Kurunegela region in central Sri Lanka. The acquisition of JADS will take the total number of GRIDs under Ceylon’s umbrella in Sri Lanka from 116 to 121. Upon completion of the acquisition, Ceylon Graphite intends to conduct a limited drilling program on the Panliyadda site of the Malsiripura property to confirm the quality and quantity of the graphite mineralization, and develop a mine plan.
- On November 9, 2017, the Company announced that Sarcon Development (Pvt) Ltd., a wholly owned subsidiary of Ceylon Graphite, has purchased a 2017 HY-2T type Core Drilling Rig and accessories for USD 73,644 from H.H. Drill-Tech Drilling Machinery Co. Ltd., a arm’s length party, based in Lianyungang, Jiangsu Province, China – this is the second drilling rig the company has purchased. Thirty (30%) percent of the purchase price USD 22,093 was payable on signing of the purchase agreement, and the balance will be paid on delivery which is expected in early December. The rig will be used for exploration activities in the Company’s various GRIDs.