

## **CEYLON GRAPHITE CORP.**

Yearly Report  
March 31, 2017

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **1.1 Date of Report: July 28, 2017**

*The following management's discussion and analysis ("MD&A") should be read together with the consolidated financial statements and accompanying notes for the year ended March 31, 2017 which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated.*

*This MD&A includes certain statements that may be deemed "forward-looking statements". Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "project", "predict", "potential", "could", "might", "should" and other similar expressions. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.*

#### **1.2 Nature of Business and Overall Performance**

Ceylon Graphite Corp. (the "Company or Ceylon") was incorporated on April 3, 1986 under the Canada Business Corporations Act as NWest Energy Corp. On December 30, 2016, the Company acquired Plumbago Refining Corp. B.V. ("Plumbago") through a reverse acquisition transaction. 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 the same.

Plumbago was organized for the purpose of acquiring land packages containing high-grade graphite in the country of Sri Lanka. This is done through a wholly owned subsidiary Sarcon Development (Private) Limited ("Sarcon")

#### **1.3 Overall Performance**

Announcements and highlights during the year:

- On October 24, 2016, the Company announced that in connection with the previously announced share exchange transaction with Plumbago Refining Corp. B.V. that they will increase a previously announced non-brokered private placement (see news disseminated on June 20, 2016) from \$1,500,000 to up to \$3,000,000 through the issuance of up to 15,000,000 units (the "Units") of the Company at a price of \$0.20 per Unit, up from the 7,500,000 Units previously announced on June 20, 2016.
- On December 30, 2016, the Company announced the completion of its previously announced

reverse takeover transaction (the “RTO”) pursuant to which it acquired Plumbago Refining Corp. B.V. The Company’s common shares commenced trading on the TSX Venture Exchange (the “TSXV”) as a Tier 2 mining issuer under the symbol “CYL” once the TSXV’s conditions for listing were satisfied and the TSXV issued its final exchange bulletin confirming the completion of the RTO. Trading commenced on January 3, 2017. As a part of the RTO, the Company changed its name from “NWest Energy Corp.” to “Ceylon Graphite Corp.”. Following the completion of the RTO, Plumbago is now a wholly-owned subsidiary of the Company. The Company will continue the business of Plumbago and Sarcon.

- On February 6, 2017, the Company announced proposed shares-for-debt transactions (the "Proposed Transactions"), made in order to preserve its cash, in which Ceylon would issue up to 3,000,000 common shares ("Common Shares") at a price of \$0.20 per share to certain directors and consultants of the Company in connection with the settlement of an aggregate of up to \$600,000 of debt relating to unpaid director and consulting fees and expenses.
- In early January 2017, management completed a trip to Sri Lanka, where they visited several of the company’s exploration sites and started a process, with the company geologists and consultants of documenting the potential of each assigned grid. They also met with Government officials to discuss the next steps for permitting and the continual approval processes for exploration and mining.
- On March 2, 2017, the Company listed its common shares on the Frankfurt Stock Exchange (FSE) under the ticker symbol “CCY.FSE ” WKN: A2DJ44 / ISIN: CA15722J1030.
- In March 2017, the Company attended PDAC Convention 2017 and was present at the Investor Exchange, Booth # 3348 from March 5 to March 8, 2017 in Toronto, Ontario.
- March 28, 2017 – the Company announced that it had purchased a VLF- EM 16 Receiver that is to be utilized by its field crew as the Company commences a ground exploration program. The company intends to explore each one of the 116 grids by conducting a detailed electromagnetic mapping, that will provide the indicative/possible location(s) of the graphite vein(s) in each grid.
- In May of 2017, Sarcon Development outsourced its back office work, including all Administrative/Financial/HR and other Non-Mining related work to a third-party provider.
- In July of 2017, Sarcon Development appointed Mr Sarath Dinalankara as a Consultant Geologist.

#### **1.4 Results of Operations**

The consolidated financial statements are presented as a continuance of Plumbago Refining Corp. B.V. (“Plumbago”). The consolidated financial statements include the assets and operations of the Company and its wholly owned subsidiaries Plumbago and Sarcon Development (PVT) Limited. Sarcon was incorporated in Sri Lanka under the Companies Act, No. 07 of 2007.

The Company reported a net loss of \$3,657,931 or \$0.08 per share for the year ended March 31, 2017, as compared to a net loss of \$436,767 or \$27.29 per share for the year ended March 31, 2016. The net loss includes listing expenses of \$2,460,040, gain on forgiveness of debt of \$304,159 and loss on debt settlements of \$578,367.

During the year the Company used (\$955,573) in cash for operating activities.

Professional fees increased from \$245,446 to \$612,937 compared to the prior year due to increased third-party consulting services and operational activities of the Company. The professional fees include any consulting services and related expenses.

Office and administrative expenses increased by \$62,934 and advertising and promotion increased by \$83,482 mainly due to more activity during the year compared to the prior year as the Company complete its RTO. The Company has no payroll and engages other consulting services as needed.

During the year ended March 31, 2017, the Company recorded \$10,243 in foreign exchange translation loss to its cumulative translation account due to the changes resulting from the fluctuation of foreign exchange rates.

### 1.5 Summary of Quarterly Results

	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
	\$	\$	\$	\$
Expenses	762,970	10,645	66,603	68,639
Net Loss	(2,085,108)	(1,431,612)	(57,864)	(83,347)
Loss per Share	(0.05)	(0.18)	(3.75)	(4.70)

	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
	\$	\$	\$	\$
Expenses	86,242	262,157	69,987	68,426
Net Loss	(128,106)	(260,499)	(15,548)	(79,397)
Loss per Share	(4.67)	(0.13)	(3.94)	(4.48)

### 1.6 Liquidity

The Company has total assets of \$3,894,871 as at March 31, 2017 consisting of cash, amounts receivable, prepaid expenses, equipment, and exploration and evaluation assets. The Company has negative working capital of \$407,846. At March 31, 2017, the Company had cash of \$1,136,621. The current liabilities include USD \$1,000,000 due to the former shareholders of Sarcon. Of the amount owing to the former Sarcon shareholders, approximately USD \$1,000,000 is a contingently payable when the Company begins operations and receives revenues from the sale of graphite.

The Company's cash inflows from financing activities of \$2,057,674. Of this amount \$351,075 was related to payments made to a related party and \$1,074,687 was the cash in the Company prior to the RTO transaction described above.

At March 31, 2017, share capital was \$5,096,142 comprising of 54,314,681 issued and outstanding Common Shares. During the year share capital increased by \$4,466,512. The increase was related to the RTO transaction described above and the issuance of common shares for cash.

At March 31, 2017, exploration and evaluation assets was \$2,694,550. The increase is due to the effect on foreign exchange.

During the year ended March 31, 2017, certain creditors forgave amounts payable of \$304,159 (2016 - \$3,262) and as a result the Company recognized a gain on the forgiveness of debt for the same amount.

At present, the Company's operations do not generate cash inflows and its financial success after March 31, 2017 is dependent on management's ability to quickly explore its grids and commence mining. To do this management will need to continue to obtain funding to sustain operations through the development stages of the mining process to the point that these operations lead to the Company being cash flow positive. The mining development process may take substantial time and is subject to factors that may be beyond the Company's control.

In order to finance the Company's future mining and development and to cover administrative and overhead expenses in the coming years the Company may raise money through equity sales. Many factors influence the Company's ability to raise funds, including the Company's track record, and the experience and caliber of its management. Actual funding requirements may vary from those planned due to a number of factors, including the progress of operational activities. Management believes it will be able to meet its operational targets and raise capital if and when required through future equity issuance and or borrowings, but recognizes there may be risks involved that may be beyond their control.

See subsequent events for additional information.

### **1.7 Share Capital**

The Company had 54,626,181 common shares issued and outstanding and as of the date of this report the Company had 54,626,181 common shares issued and outstanding.

### **1.8 Share Purchase Warrants**

As at March 31, 2017, the Company had 25,393,500 Special Warrants outstanding and 16,103,246 warrants outstanding.

### **1.9 Stock Options**

As of March 31, 2017, the Company has 1,186,441 stock options outstanding.

### **1.10 Capital Resources**

The Company is not a party to any off -balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

### **1.11 Off Balance Sheet Arrangements**

There is no off-balance sheet arrangements to which the Company is committed.

### 1.12 Transactions with Related Parties

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:

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	2017	2016
Consulting fees	\$ 157,560	\$ 236,113
Rent	7,823	9,254

The Company has an amounts payable of \$1,330,835 (US\$1,000,000) due to the former shareholder of Sarcon.

The amounts are unsecure, due on-demand and non-interest bearing.

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:

	2017	2016
Consulting fees - CEO	\$ 36,242	\$ -
Consulting fees - CFO	9,280	-
Share-based payments	77,959	176,234

### 1.13 Commitment

In December 2012, the Company signed a service agreement with a significant shareholder whereby the Company would pay \$15,000 per month for financial and business services. The agreement was cancelled on October 31, 2016.

### 1.14 Subsequent events

Subsequent to March 31, 2017:

- On April 25, 2017, the Company announced that Sarcon Development (PVT) Ltd its wholly owned subsidiary has purchased a HXY-2T type Core Drilling Rig from the H.H. Drill-Tech Drilling Machinery Co Ltd based in Lianyungang, Jiangsu Province, China. The drill arrived in Sri Lanka in early June and has commenced drilling operations.

On April 27, 2017, the Company announced that it has commenced drilling at its K1 site, which is an area that has a past producing graphite mine. Drilling at K1 will initially focus on the area identified during VLF mapping around the old mine site. The K1 site is currently on of the highest priority grids that has been identified by the local geological team. The K1 site was selected for its historic crystalline graphite production as it contains a number of abandoned mine shafts and adits, and is inundated with dump

material.

- On May 2, 2017, the Company announced that Sarcon Development (PVT) Ltd its wholly owned subsidiary has conducted a “pre-drilling” grab sample of historic dump material (graphite and quartzite) including substantial rock fragments of graphite from its K1 site in Karasnagala. Laboratory tests of this material show a carbon content of over 86 %
- The Company has issued 311,500 common shares through the exercise of warrants.

## 1.15 Critical Accounting Estimates

### *Critical Estimates and Assumptions*

The preparation of the consolidated financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company’s management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the fair value measurements for financial instruments and the recoverability and measurement of deferred tax assets.

The most significant judgments in applying the Company’s financial statements is the classification of financial instruments and the going concern assumption.

## 1.16 Changes in Accounting Policies

### Accounting standards issued but not yet applied

The following new standards and interpretations are not yet effective and have not been applied in preparing these financial statements. The Company is currently evaluating the potential impacts of these new standards and does not anticipate any material changes to the financial statements upon adoption of this new and revised accounting pronouncement.<sup>7</sup>

### **Effective for annual periods beginning on or after 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, new general hedge requirements were added to the standard. In July 2014, the final version of IFRS 9 was issued and adds 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 category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics.

#### *IFRS 15 – Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, 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.

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

### **1.17 Financial Instruments and Other Instruments**

The Company's financial instruments consist of cash, prepaid expenses, accounts payable, amounts payable and due to a related party.

The Company's financial instruments are exposed to the following risks:

#### *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.

#### *Interest rate risk*

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates.

#### *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 March 31, 2017, the Company had cash of \$1,136,621 to settle accounts payable, capital lease obligations.

#### *Fair value*

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

### **1.18 Other MD&A Requirements**

A. For more information about the Company, see [Ceylone website at](#)

<http://www.ceylongraphite.com>. The Company has not filed an AIF Annual Information Form.

B. Information required in the following section of National Instrument 51-102, if applicable:

i) Section 5.3 – Additional Disclosure for Venture Issuers without Significant Revenue

An analysis of material components of the Company's general and administrative expenses is disclosed in the Statement of Comprehensive Loss forming part of the Financial Statements for the year ended March 31, 2017 to which this MD&A relates.

ii) Section 5.4 - Disclosure of Outstanding Share Data

a. Authorized:

Unlimited common shares without par value

b. Common Shares Issued:

Number

Balance, March 31, 2017

54,314,681

As at March 31, 2017, there were no common shares held in escrow.

(iii) Section 5.7 – Additional Disclosure for Reporting Issuers with Significant Equity Investees.

Not applicable.

C. Disclosure required by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Filings*.

Not applicable.

## **Risk Factors**

The Company is focused solely on its mining and exploration efforts in a cost effective manner. The failure to generate future cash flow could have a significant and adverse effect on the Company.

The Company's success will depend in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Company. In addition, there can be no assurance that Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

The Company has incurred a net loss for the year ended March 31, 2017 of \$3,657,931 and has a deficit of \$5,011,872 as at March 31, 2017. Management is continuing efforts to attract additional equity and capital investors and implement cost control measures to maintain adequate levels of working capital. Nevertheless, there can be no assurance provided with respect to the successful outcome of these ongoing actions. If the Company is unable to obtain additional financing on reasonable terms, the Company may be required to reduce its operations to continue as a going concern.

In addition, the Company's limited working capital could affect the Company's ability to seize upon opportunities requiring investment, or to reinvest in its products in a timely manner.