CEYLON GRAPHITE CORP.

Condensed Consolidated Interim Financial Statements

For the Three Months Ended

June 30, 2018 and 2017

(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 condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim 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 condensed consolidated 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 CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Note	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
		$	$
ASSETS			
Current			
Cash		1,546,381	180,787
Amount receivable		18,132	5,425
Prepaid expenses		19,787	23,047
		1,584,300	209,259
Equipment	6	281,670	300,989
Exploration and evaluation assets	7	2,658,400	2,672,674
		4,524,370	3,182,922
LIABILITIES			
Current			
Accounts payable and accrued liabilities		50,326	58,315
Amounts payable	7 & 9	1,312,760	1,288,700
Loan payable	11	-	130,760
Current portion of capital lease obligations	10	2,731	3,460
		1,365,817	1,481,235
Capital lease obligations		10,798	15,813
Convertible debenture		1,932,460	-
		3,309,075	1,497,048
EQUITY			
Share capital	9	5,216,542	5,216,542
Share subscriptions	9	50,000	50,000
Equity component of convertible debentures	8	13,930	-
Contributed surplus		2,333,614	2,285,743
Deficit		(6,395,263)	(5,993,192)
Accumulated other comprehensive income		(3,528)	126,781
		1,215,295	1,685,874
		4,524,370	3,182,922

CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS (Note 1)

Approved by the Board of Directors on August 27, 2018

"Bharat Parashar" — Bharat Parashar, Director

"Kevin Aylward" — Kevin Aylward, Director

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

CEYLON GRAPHITE CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND JUNE 30, 2017
(Unaudited)

(Expressed in Canadian Dollars)

	Note	**June 30, 2018**	**June 30, 2017**
		$	**$**
EXPENSES			
Amortization		10,938	5,458
Advertising and promotion		67,624	29,500
Interest, finance and bank charges		21,440	1,902
Office and administrative		96,547	48,207
Professional fees	9	87,073	80,917
Rent	10	2,206	2,380
Repair and maintenance		1,306	6,770
Share-based payments	9	47,871	34,984
Transfer agents		2,476	4,857
Travel		31,740	36,940
Vehicle		148	740
Wages and benefits		32,702	3,188
		(402,071)	(255,843)
Other income (loss)			
Gain on forgiveness of debt	10	-	44,177
NET LOSS		(402,071)	(211,666)
OTHER COMPREHENSIVE GAIN (LOSS)			
Item that may be reclassed subsequently			
Unrealized foreign exchange translation		(130,309)	(31,780)
COMPREHENSIVE LOSS FOR THE PERIOD		(532,380)	(243,446)
LOSS PER SHARE – BASIC AND DILUTED		(0.01)	(0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		54,766,181	54,448,181

CEYLON GRAPHITE CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND JUNE 30, 2017
(Unaudited)

(Expressed in Canadian Dollars)

	June 30, 2018	**June 30, 2017**
	$	$
Net loss for the period	(402,068)	(211,666)
Items not involving cash:		
Amortization	10,938	5,458
Interest accretion	13,890	
Gain on forgiveness of debt	-	(44,177)
Finance charges	-	907
Share-based payments	47,871	34,984
	(329,370)	(214,494)
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	(77,786)	(66,322)
Amounts receivable	(12,708)	3,348
Prepaid expenses	(2,250)	3,477
Cash used in operating activities	(422,114)	(273,991)
INVESTING ACTIVITIES		
Purchase of property and equipment	(6,985)	(91,388)
Expenditures on exploration and evaluation assets	(2,775)	-
	(9,760)	(91,388)
FINANCING ACTIVITIES		
Issuance of common shares	-	93,450
Payments on capital lease obligation	(1,154)	(4,713)
Loan repayment	(130,760)	-
Proceeds of loan payable	1,932,500	-
Cash provided by financing activities	1,800,586	88,737
CHANGE IN CASH DURING THE PERIOD	1,368,712	(276,642)
CASH, BEGINNING OF PERIOD	173,343	1,136,621
EFFECT OF TRANSLATING FOREIGN CURRENCY	4,326	(5,808)
CASH, END OF PERIOD	1,546,381	854,171
SUPPLEMENTAL CASH DISCLOSURES		
Interest paid	7,460	-
Income taxes paid	-	-

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

CEYLON GRAPHITE CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND JUNE 30, 2017
(Unaudited)

(Expressed in Canadian Dollars)

	Common Shares							
	Number	Amount	Share subscriptions	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
		$	$	$	$	$	$	$
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	-	-	-	-	34,984	-	-	34,984
Net loss and comprehensive loss	-	-	-	-	-	(211,666)	(31,780)	(243,446)
Balance as at June 30, 2017	54,626,181	5,189,592	50,000	-	2,027,809	(5,223,538)	128,717	2,172,580
Balances as at March 31, 2018	54,766,181	5,216,542	50,000	-	2,285,743	(5,993,192)	126,781	1,685,874
Equity portion of convertible debentures, net	-	-	-	13,930	-	-	-	13,930
Share-based payments	-	-	-	-	47,871	-	-	47,871
Net loss and comprehensive loss	-	-	-	-	-	(402,071)	(130,309)	(532,380)
Balances as at June 30, 2018	54,766,181	5,216,542	50,000	13,930	2,333,614	(6,395,263)	(3,528)	1,215,295

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

Ceylon Graphite Corp. (the “Company or Ceylon”) was incorporated on April 3, 1986 under the Canada Buisness Corporations Act. On December 30, 2016 the Company acquired Plumbago Refining Corp. B.V. (“Plumbago”) through a reverse acquisition transaction described in Note 5. Plumbago was a private limited liability company organized under the laws of Curacao. During the year ended March 31, 2018, the Company acquired a 40% interest in C Y L Lanka (Private) Limited (“Lanka”), in Sri Lanka. In March 2018, Lanka acquired 100% interest of a local private enterprise, JADS Enterprise (Private) Limited (see Note 5).

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 June 30, 2018, the Company incurred a net loss of $402,071 and had a deficit of $6,395,263, which has been funded by the issuance of equity. The Company’s ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. Tthe 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 consolidated interim 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 consolidated interim financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements should be read in conjunction with the Company’s annual financial statements and accompanying notes for the year ended March 31, 2018. These condensed consolidated interim financial statements have been prepared using the same accounting policies and judgments and estimates as described in the Company’s March 31, 2018 annual financial statements.

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”). These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on August 27, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of presentation

These consolidated financial statements include the assets and operations of the Company and its wholly owned subsidiaries Plumbago and Sarcon Development (PVT) Limited ("Sarcon"), C Y L Lanka (Private) Limited ("Lanka") and JADS Enterprise (Private) Limited ("JADS"). Sarcon was incorporated in Sri Lanka under the Companies Act, No. 07 of 2007. Lanka was incorporated in Sri Lanka having a registration number PV 129449 with the local registration office No.47. JADS was incorporated in Sri Lanka having a registration number PV99839 with the local registration office No.165/2. All significant inter-company balances and transactions have been eliminated upon consolidation.

The condensed consolidated interim financial statements have been prepared on the historical cost basis, with the exception of financial instruments which are measured at fair value, as explained in the accounting policies set out below. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Cash and cash equivalents

Cash in the statements of financial position is comprised of cash in banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. As of June 30, 2018 and 2017, the Company held cash only.

d) Exploration and evaluation assets

Exploration expenditures are expensed as incurred and direct costs of exploration and evaluation assets, such as property acquisition costs and leases, are capitalized. Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Development costs incurred on a mineral property are deferred once management has determined, based on a feasibility study, that, a property is capable of economical commercial production as a result of having established proven and probable reserves. Development costs are carried at cost less accumulated depletion and accumulated impairment charges. Exploration expenditures incurred prior to determining that a property has economically recoverable resources are expensed as incurred.

The Company reviews the carrying values of mineral properties and development costs regularly with a view to assessing whether there has been any impairment in value, or whenever events or changes in circumstances that indicate the carrying value may not be recoverable. In the event the estimated discounted cash flows expected from its use or eventual disposition is determined to be insufficient to recover the carrying value of the property, the carrying value is written down to the estimated recoverable amount.

Once a mine has achieved commercial production, mineral properties and development costs are depleted on a units-of-production basis over the life of the mine.

e) Foreign currency

The Company's consolidated financial statements are presented in Canadian dollars. The Company's functional currency is the Canadian dollar, Plumbago's functional currency is the US dollar and Sarcon's functional currency is the Sri Lankan Rupee, Lanka and JADS functional currency is US dollar.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Foreign currency

Transactions and balances in currencies other than the Canadian dollar, the currency of the primary economic environment in which the Company operates ("the functional currency"), are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at exchange prevailing on the statement of financial position date are recognized in the consolidated statement of comprehensive loss.

f) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

At each financial position reporting date presented, the Company has not incurred any decommissioning costs related to the exploration and evaluation of its mineral properties and accordingly no provision has been recorded for such site reclamation or abandonment.

g) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

h) Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company has not classified any financial assets as loans and receivable or held to maturity.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. At June 30, 2018, the Company has not classified any financial assets as available for sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

j) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized costs using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable, amounts payable, loan payable and convertible debentures are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings. At June 30, 2018, the Company has not classified any financial liabilities as FVTPL.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

k) Equipment

Equipment is recorded at cost less accumulated amortization, less any accumulated impairment losses. Amortization is taken on a straight line basis ranging from 4 to 8 years.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these condensed consolidated interim financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Significant accounts that require estimates as the basis for determining the stated amounts include recognition of deferred income tax assets, assessment of decommissioning provision, valuation of share-based payments and assessment of impairment of exploration and evaluation assets.

(i) Impairment

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(ii) Share-based compensation

Compensation costs accrued for share-based compensation are subject to the estimation using pricing models such as the Black-Scholes Option Pricing Model which is based on significant assumptions such as the future volatility of the market price of the Company's shares and the expected term of the issued stock options.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Adoption of new or amended accounting standards

The Company has adopted the new and revised standards and interpretations issued by the IASB listed below effective April 1, 2018. The adoption of these standard and amendment did not have a material impact on the condensed interim consolidated financial statements of the Company.

- IFRS 2 – *Share-based payments*
- IFRS 9 – *Financial Instruments*
- IFRS 15 – *Revenue from Contracts with Customers*

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Standards issued, but not yet effective, up to the date of issuance of the Company's condensed consolidated interim 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, 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 is not expected to be significant.

5. ACQUISITIONS

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 was 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 was accounted for in accordance with IFRS 2 *Share-based Payment* whereby Plumbago was deemed to have issued common shares, 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 were issued under the legal parent, Ceylon Graphite Corp., but were 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 were 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 was considered within the scope of IFRS 2, and the Company could not 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 was 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.

(Expressed in Canadian Dollars)

5. ACQUISITIONS (continued)

REVERSE TAKE OVER (continued)

The listing expense is summarized as follows:

Net assets acquired:

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

Consideration:

Common shares deemed to be issued	$	1,508,062
Stock options issued		15,948
Warrants issued		814,000
Legal and other transaction costs		340,858
	$	2,678,868

The Company had 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 warrants amounted to $814,000. The fair value was estimated using the Black-Scholes pricing model.

LANKA and JADS

In March 2018, Plumbago acquired 40% interest in Lanka for consideration of Rupees 2,849,925 (paid) as an equity contribution. As Plumbago is the sole decision maker in the operations of Lanka, for accounting purposes, Plumbago has control over Lanka and thus the operating results of Lanka have been consolidated. As at June 30, 2018, the amount due to the non-controlling interest is nominal.

Subsequent to the acquisition of Lanka, Lanka entered into an acquisition agreement with the sole shareholder ("transferor") of JADS whereby Lanka acquired all issued and outstanding shares of JADS for total purchase price of Rupees 2,296,536 (paid). Pursuant to the terms and conditions of the acquisition agreement, the transferor is entitled to 5% of net profits, which will be paid out in the form of the tradable shares of Lanka or its nominee, for the first 5 years and 3% for the next 5 years. As at the date of acquisition, JADS had exploration licenses on 5 grids in Sri Lanka. The Company recorded the transaction as an asset acquisition as JADS did not meet the definition of a business under IFRS 3 "Business Combinations".

6. EQUIPMENT

As of June 30, 2018, the equipment of $281,670 (March 31, 2018 - $300,989) consists of a drilling equipment. During the period ended June 30, 2018, the Company recorded $10,938 in amortization (2017 - $5,458).

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets in Sri Lanka as of June 30, 2018 are as follows

	Beginning	**Acquisition and exploration costs**	**Effect of foreign exchange**	**Ending**
June 30, 2018	2,672,674	2,775	(17,049)	2,658,400
June 30, 2017	2,694,550	-	(63,560)	2,630,990

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
On or before July 1, 2017, or in the event that the third payment (US$650,000 noted above) was not made for reason other than breach of this Agreement, then the date of the fourth instalment (US$350,000) shall be adjusted to a date acceptable to both parties.	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 June 30, 2018 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 consolidated statements of financial position. They are non-interest bearing and unsecured.

(Expressed in Canadian Dollars)

8. CONVERTIBLE DEBENTURES

On May 23, 2018, the Company closed a non-brokered private placement offering of units, at a purchase price $1.00 per Unit for aggregate gross proceeds of $2,000,000. Each Unit is comprised of $1.00 in principal amount of convertible debentures and two common share purchase warrants. The principal amount of the convertible debentures will be convertible at the holder's option into fully-paid common shares in the capital of the Company at any time prior to Maturity in in three years, at a conversion price of CDN$0.25 per share. Each whole warrant will be exercisable into one Common Share on or before Maturity at an exercise price of $0.25 per share. Interest on the Debentures shall be paid upon maturity, at an annual rate of interest of 6% per annum. The Company paid $67,500 finders' fees in this transaction.

The following table summarizes accounting for the convertible debentures and the amounts recognized in the liability and equity during the period:

	$
Principal	
Issued during the period ended June 30, 2018	2,000,000
Liability	
Gross proceeds received	2,000,000
Issue costs	(67,013)
Equity component less issue costs allocated	(14,417)
Liability component initially recognized	1,918,570
Accretion expense	13,890
Balance at June 30, 2018	1,932,460
Equity	
Equity component initially recognized	14,417
Issue costs	(487)
Balance at June 30, 2018	13,930

For accounting purposes, the convertible debentures are separated into their liability and equity components using the residual method. The fair value of the liability component at the time of issue was determined based on an estimated rate of 17% for convertible debentures without the conversion feature. The fair value of the equity component was determined as the difference between the face value of the convertible debentures and the fair value of the liability component. After initial recognition the liability component is carried on an amortized cost basis and will be accreted to its face value over the term to maturity of the convertible debenture at an effective interest rate of approximately 6.95%.

9. SHARE CAPITAL

a) Authorized:

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

b) As at June 30, 2018, there were 11,427,072 common shares in escrow.

c) Issued and Outstanding as at June 30, 2018: 54,766,181 common shares.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL

d) During the year ended March 31, 2018, the Company issued the following common shares:

On May 23, 2017, the Company issued 311,500 common shares for gross proceeds of $93,450 from warrants exercised.

On August 8, 2017, the Company issued 105,000 common shares with a fair value of $19,950 to settle accounts payable of $128,000. As a result, the Company recognized a gain of $108,050 on debts settlement on the consolidated statements of comprehensive loss. In addition, the Company also issued 35,000 common shares with a fair value of $7,000 for consulting services.

e) 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 year ended March 31, 2018, the Company granted 1,200,000 stock options to its officers of the Company. Options are exercisable for 5 years at $0.30 per share and vest one year after the grant date. The Company also grant 450,000 stock options to directors and consultant of the Company. Options vested on grant date, are exercisable at $0.30 per share for 5 years. The Company recorded a share-based payment of $97,826. The Company also recognized the remaining fair value of $134,169 as share-based payment related to the 350,000 stock options granted in prior year. The fair values of the stock options were estimated using the Black-Scholes option pricing model with the following assumptions:

Share price	$0.18
Weighted average risk free interest rate	2.15%
Weighted expected life	5 years
Weighted average expected volatility	182%
Weighted expected dividends	Nil
Forfeiture rate	Nil

During the year ended March 31, 2018, the Company modified the terms for the 507,870 stock options by reducing the exercise price from $0.40 to $0.20 per share and extending the expiry date from August 31, 2018 to August 31, 2023. As a result, the Company recorded an incremental fair value of $60,923 using the Black-Scholes option pricing model with the following assumptions:

Share price	$0.18
Risk free interest rate	2.18%
Weighted expected life	5 years
Weighted average expected volatility	182%
Weighted expected dividends	Nil
Forfeiture rate	Nil

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

As at June 30, 2018, 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	1.42
Options deemed to be issued on reverse take-over	128,571	$0.76	1.42
Options granted	550,000	$0.20	4.99
Outstanding, March 31, 2017	1,186,441	$0.34	3.12
Granted	1,650,000	$0.30	4.88
Exercisable, June 30, 2018	2,836,441	$0.32	4.37

Details of stock options outstanding and exercisable at June 30, 2018 are as follows:

Number of Stock Options Outstanding	Number of Stock Options Exercisable	Exercise Price	Remaining Contractual Life (years)	Expiry Date
71,429	71,429	$0.70	0.54	January 14, 2019
14,286	14,286	$0.70	0.75	March 31, 2019
42,856	42,856	$0.88	0.75	March 31, 2019
350,000	350,000	$0.20	3.71	March 15, 2022
200,000	200,000	$0.20	3.74	March 27, 2022
1,650,000	450,000	$0.30	4.63	February 15, 2023
507,870	507,870	$0.20	5.17	August 31, 2023
2,836,441	1,636,441			

f) Warrants

The Company issued 4,000,000 warrants in accordance to the offerings from convertible debentures. No value has been allocated to these warrants.

In connection with the acquisition of Plumbago (see Note 5), the Company issued 704,246 warrants with various exercisable price ranging between US$0.07 and US$0.30 to certain individuals, with expiry date of December 1, 2017, in exchange for the Plumbago's warrants.

As the acquisition was considered as a reverse take over transaction (see Note 5), the Company recorded the fair value of $814,000 for the 5,994,000 warrants and was estimated using the Black-Scholes option pricing model with the following assumptions:

Weighted average risk free interest rate	0.70%
Weighted expected life	1.5 years
Weighted average expected volatility	182%
Weighted expected dividends	Nil
Forfeiture rate	Nil

The Company recorded the amount of $814,000 as listing expense for the acquisition of Plumbago (see Note 5).

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (continued)

A summary of the status of the Company's outstanding and exercisable warrants as at June 30, 2018 and the changes during the year then ended are as follows:

	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Remaining (in years)
Balance, March 31, 2018	15,087,500	$0.30	1.36
Issued – convertible debentures	4,000,000	$0.25	2.90
Balance, June 30, 2018	19,087,500	$0.30	2.48

Details of warrants outstanding at June 30, 2018 are as follows:

Number of Warrants	Exercise Price	Remaining Contractual Life (in years)	Expiry Date
5,994,000	$0.30	0.50	September 29, 2018
9,093,500	$0.30	0.75	December 28, 2018
4,000,000	$0.25	2.90	May 23, 2021
15,087,500			

As part of the RTO transaction described in Note 5, the Company issued 25,393,500 special warrants. The special warrants can be converted to common shares for no further consideration once certain performance milestones are reached.

10. 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:

	June 30, 2018	**June 30, 2017**
	$	**$**
Consulting fees	-	-
Rent	-	2,380

During the period ended June 30, 2018, the Company paid rental expense of $2,206 (June 30, 2018 $2,380) to a director of Sarcon, and consulting fees of $nil 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:

(Expressed in Canadian Dollars)

10. RELATED PARTY BALANCES AND TRANSACTIONS

		2018		**2017**
Consulting fees - CEO	$	18,000	$	15,000
Consulting fees - CFO		13,500		13,500
Share-based payments		47,871		34,984

The Company has an amounts payable of $1,312,760 (US$1,000,000) (March 31, 2018 - $1,288,700 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.

11. LOAN PAYABLE

As at March 31, 2018, the principal amount of $130,760 (US$100,000) bears interest at 6% per annum, is unsecured and due on demand. During the period ended June 30, 2018, the Company repaid the principal plus interest amounts.

12. 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.

13. 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).

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts payable, amounts payable and convertible debentures.

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

	Fair Value Measurements Using			
	Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
June 30, 2018:				
Cash	$ 1,546,381	$ -	$ -	$ 1,546,381
March 31, 2018:				
Cash	$ 180,787	$ -	$ -	$ 180,787

Fair value

The fair value of the Company's financial instruments approximates their carrying value as at June 30, 2018 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, amounts receivable, 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:

	June 30, 2018 Rupee	**June 30, 2018 US$**	**March 31, 2018 Rupee**	**March 31, 2018 US$**
Cash	2,896,611	6,266	1,619,144	6,266
Amounts receivable	1,736	-	-	-
Accounts payable	(2,055,292)	(1,995)	(2,442,921)	(1,995)
Amounts payable	-	(1,000,000)	-	(1,000,000)
Total in foreign currency	(843,055)	(995,729)	(823,777)	(995,729)
Net exposure	837,727	(287,467)	816,939	(287,467)
Canadian dollar equivalents	**(5,328)**	**(1,307,153)**	**(6,838)**	**(1,283,196)**

Based on the net Canadian dollar denominated asset and liability exposures as at June 30 ,2018, a 10% fluctuation in the Canadian/US exchange rates would impact the Company's earnings for the period ended June 30, 2018 by $130,715 (March 31, 2018 - $128,320). The exposure to fluctuations in the Rupee is minimal. The Company has not entered into any foreign currency contracts to mitigate this risk.

13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

(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 managing 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 June 30, 2018, the Company had working capital of $218,483. As at June 30, 2018, the Company had cash of $1,546,381 to settle accounts payable, capital lease obligation and amounts payable and loan payable of $1,3465,817 which fall due for payment within twelve months of the financial position date.