

## **CEYLON GRAPHITE CORP.**

Quarterly Report

June 30, 2018

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

#### **1.1 Date of Report: August 27, 2018**

*The following management's discussion and analysis ("MD&A") should be read together with the unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended June 30, 2018 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 for the exploration and mining of 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 quarter:

- The Company announced that the Company was named the Asia Pacific Exploration Mining Company of the Year for 2018 by Mines and Money at their conference in Hong Kong. The Company owns the majority of the known graphite deposits in Sri Lanka, the home of the purest graphite in the world. Graphite is the largest mineral component in lithium-ion batteries.
- The Company announced the discovery of two new large graphite veins at a depth of over 200ft at their K1 site. Each vein is around 18 inches (46 cm) across and is situated in ceiling of a drive on the North side of the tunnel. Samples were taken from the veins and sent to the Geological

Survey and Mining Bureau of the Government of Sri Lanka for carbon testing. Laboratory tests indicate a Cg level of over 90%. Samples will also be sent to Dorfner ANZAPLAN laboratories in Germany for upgrading and purification testing and then spheroidization tests.

- The Company completed a non-brokered private placement offering of units, at a purchase price of CDN\$1.00 per Unit for aggregate gross proceeds of CDN\$2,000,000 led by a strategic investment from Mr. Sasha Jacob. Each Unit will be comprised of CDN\$1.00 in principal amount of convertible debentures and two common share purchase warrants. The principal amount of the Convertible Debentures is unsecured and 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 three years, at a conversion price of CDN\$0.25 per share. This is a premium of 25% to the current share price of CDN\$0.20. Each whole warrant will be exercisable into one common share on or before the maturity of convertible debentures at an exercise price of \$0.25 per share. The convertible debenture bears interest at 6% per annum, payable upon maturity.

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

The condensed consolidated interim financial statements are presented as a continuance of Plumbago Refining Corp. B.V. ("Plumbago"). The condensed consolidated interim financial statements include the assets and operations of the Company and its wholly owned subsidiaries Plumbago and Sarcon Development (PVT) Limited, C Y L Lanka (Private) limited and JADS Enterprise (Private) Limited. Sarcon, CYL Lanka and JADS are incorporated in Sri Lanka.

The Company reported a net loss of \$402,071 for the period ended June 30, 2018, as compared to a net loss of \$211,666 for the period ended June 30, 2017.

During the period, the Company incurred professional fees in the amount of \$87,073 compared to \$80,917 during the prior year due to increased third party consulting services and operational activities of the Company. The professional fees include all consulting services and related expenses.

Advertising and promotion increased to \$67,624 mainly due to more marketing and promotional efforts and actively promoting its business and market awareness during the quarter.

Office and administrative expenses incurred were \$96,547 compared to the prior year of \$48,207 mainly due to more activities during the period compared to the prior year. The increase of \$48,340 in office and administration expenses can be generally attributed to an increase in office-related costs and costs incurred at new and/or expanded facilities including incremental employment levels to support the growth in the business with operations.

Interest expense increased from \$1,902 in 2017 to \$21,440 in 2018 mainly due to the interest accretion of the convertible debentures. The transfer fees decreased to \$2,476 from \$4,857 during the prior year due to a decreased in transfer related transactions.

During the period ended June 30, 2018, the Company recorded \$130,309 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

	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
	\$	\$	\$	\$
Expenses	402,071	480,454	236,339	188,011
Net Loss	(402,071)	(345,304)	(236,339)	(188,011)
Loss per Share	(0.01)	(0.01)	(0.00)	(0.00)

	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
	\$	\$	\$	\$
Expenses	255,843	762,958	10,645	66,603
Net Loss	(211,666)	(2,095,339)	(1,431,612)	(57,864)
Loss per Share	(0.00)	(0.05)	(0.18)	(3.75)

### 1.6 Liquidity

The Company has total assets of \$4,524,370 as at June 30, 2018 consisting of cash, amounts receivable, prepaid expenses, equipment, and exploration and evaluation assets. The Company has positive working capital of \$218,483. During the quarter, 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 less finders and filing fees. Each Unit is comprised of \$1.00 in principal amount of convertible debentures and two common share purchase warrants.

At June 30, 2018, the Company had cash of \$1,546,381. 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 mining activities and receives revenues from the sale of graphite.

During the period ended June 30, 2018, the Company used \$6,985 on acquisition of equipment, \$2,775 on acquisition of exploration and evaluation assets in JADS and other exploration and evaluation expenditures.

At June 30, 2018, share capital was \$5,216,542 comprising of 54,766,181 issued and outstanding Common Shares. During the period, there were no share issued.

At June 30, 2018, the value of exploration and evaluation assets was \$2,658,400. The decrease is due to the effect of foreign exchange.

At present, the Company's operations do not generate cash inflows and its financial success after June 30, 2018 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.

As at June 30, 2018, the Company fully repaid the principal and interest portion of a US \$100,000 loan which bears interest of 6% per annum.

### **1.7 Share Capital**

The Company had 54,766,181 common shares issued and outstanding and as of the date of this report the Company had 54,766,181 common shares issued and outstanding.

### **1.8 Share Purchase Warrants**

As at June 30, 2018, the Company had 25,393,500 Special Warrants outstanding and 19,087,500 warrants outstanding.

### **1.9 Stock Options**

As of June 30, 2018, the Company has 2,836,441 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:

	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Consulting fees	\$ -	\$ -
Rent	-	2,380

During the period ended June 30, 2018, the Company paid rental expense of \$nil (June 30, 2017- \$2,380) to a director of Sarcon, and consulting fees of \$nil (June 30, 2017- \$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 for this period as follows:

	June 30, 2018	June 30, 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) (June 30, 2017 - \$1,299,055 or US\$1,000,000) due to the former shareholder of Sarcon in connection with the Agreement described in Note 7 of the notes to the condensed consolidated financial statements.. The amounts are unsecured and non-interest bearing.

### 1.13 Commitment

The Company does not have any commitments outside of the normal course of business other than those already disclosed in the audited financial statements.

### 1.14 Subsequent events

- On July 17, 2018, the Company announced that it has sent 30 kilograms of high carbon (Cg) content (90%+) natural graphite from its K1 mine site to Dorfner ANZAPLAN for advanced testing.
- On August 24, 2018, the Company announced that it has received assay results of laboratory testing of graphite samples taken from the overburden of its exploration GRID no 23, under Exploration License No EL/222/R/2 in the Pasyala area in Sri Lanka.

### 1.15 Critical Accounting Estimates

#### *Critical Estimates and Assumptions*

The preparation of the condensed consolidated interim 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

### 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*

### 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 condensed consolidated interim 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.

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 condensed consolidated interim financial statements of the Company has not been determined.

## 1.17 Financial Instruments and Other Instruments

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

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 June 30, 2018, the Company had cash of \$1,546,381 to settle accounts payable, amounts payable and 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 [Ceylon Graphite website at http://www.ceylongraphite.com](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 period ended June 30, 2018 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:

	<u>Number</u>
Balance, June 30, 2018	<u>54,766,181</u>

As at June 30, 2018, there were 11,427,072 common shares held in escrow. As of reporting date, the Company has 54,766,181 issued and outstanding.

(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 period ended June 30, 2018 of \$402,071 and has a deficit of \$6,395,263 as at June 30, 2018. Management is continuing its 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.