

CEYLON GRAPHITE CORP.

Yearly Report
March 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

1.1 Date of Report: July 30, 2018

The following management's discussion and analysis ("MD&A") should be read together with the condensed audited consolidated financial statements and accompanying notes for the year ended March 31, 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 year:

- The Company announced that Sarcon Development (PVT) Ltd its wholly owned subsidiary had 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 commenced drilling operations.
- The Company announced that it had 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 one of the 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 abandoned mine shafts and adits, and is inundated with dump material.

- The Company announced that Sarcon Development (PVT) Ltd its wholly owned subsidiary had 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 showed a carbon content of over 90 %.
- The Company has issued 311,500 common shares through the exercise of warrants.
- The Company 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.
- 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 from H.H. Drill-Tech Drilling Machinery Co. Ltd., an arm’s length party, based in Lianyungang, Jiangsu Province, China. Thirty (30%) percent of the purchase price of the rig was payable on signing of the definitive purchase agreement, and the balance will be paid on delivery. Upon completion of the acquisition, Ceylon Graphite will own two drilling rigs in Sri Lanka.
- The Company announced significant advancements in the clearing and refurbishment of the graphite shaft and adit at its K1 site. The upgraded and refurbished shaft has now reached a depth of 150 ft. and continued to the current bottom of the shaft which is anticipated at around 200 ft. Drilling operations simultaneously continued as previously announced.
- The Company received assay results of laboratory testing of graphite samples taken from the overburden of its exploration GRIDs in the Malsiripura and Katuwana areas in Sri Lanka. These results indicate carbon content ranging from 98.89% to 78.43% (w/w). The laboratory testing was done by Kahatagaha Graphite Lanka Ltd. (Government owned mining company) and SGS India Pvt Ltd.

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 \$981,320 for the year ended March 31, 2018, as compared to a net loss of \$3,657,931 for the year ended March 31, 2017. The net loss includes a gain on forgiveness of debt of \$152,227.

During the year, the Company incurred professional fees in the amount of \$437,207 compared to \$612,937 during the prior year due to decreased third party consulting services and operational activities of the Company. The professional fees include all consulting services and related expenses.

Office and administrative expenses incurred were \$86,149 compared to the prior year of \$67,112 mainly due to more activity during the year compared to the prior year. The Company has \$83,864 in wages and benefits for the year compared to prior year of \$3,200. The increase of \$19,037 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.

Travel expensed increased to \$127,757 during to the year compared to the prior year of \$13,462 due to extensive travel to Sri Lanka for site visit and related operational activities. The transfer fees increased to \$14,114 due to the transfer fees since the completion of the RTO.

During the year ended March 31, 2018, the Company recorded \$14,900 in foreign exchange translation losses 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, 2018	December 31, 2017	September 30, 2017	June 30, 2017
	\$	\$	\$	\$
Expenses	480,454	236,339	188,011	255,843
Net Loss	(345,304)	(236,339)	(188,011)	(211,666)
Loss per Share	(0.01)	(0.00)	(0.00)	(0.00)

	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
	\$	\$	\$	\$
Expenses	762,958	10,645	66,603	68,651
Net Loss	(2,095,339)	(1,431,612)	(57,864)	(83,359)
Loss per Share	(0.05)	(0.18)	(3.75)	(3.87)

1.6 Liquidity

The Company has total assets of \$3,182,922 as at March 31, 2018 consisting of cash, amounts receivable, prepaid expenses, equipment, and exploration and evaluation assets. The Company has negative working capital of \$1,271,976. At March 31, 2018, the Company had cash of \$180,787. 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 year ended March 31, 2018, the Company used \$365,158 on acquisition of equipment, acquisition of exploration and evaluation assets in JADS and other exploration and evaluation expenditures.

At March 31, 2018, share capital was \$5,216,542 comprising of 54,766,181 issued and outstanding Common Shares. During the year, share capital increased by \$120,399. The increase was related to the exercising of warrants and the issuance of common shares for debts and services.

At March 31, 2018, the value of exploration and evaluation assets was \$2,672,674. The decrease is due to the effect of foreign exchange.

During the year ended March 31, 2018, certain creditors forgave amounts payable of \$44,177 (2017 - \$304,159) and as a result the Company recognized a gain on the forgiveness for the same amount. In addition 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 \$108,050 as a gain on debts settlement.

At present, the Company's operations do not generate cash inflows and its financial success after March 31, 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 March 31, 2018, the principal amount of \$130,760 (US\$100,000) bears interest of 6% per annum, unsecured and due on demand. Subsequent to the year ended March 31, 2018, the Company repaid the principal plus interest amounts.

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 March 31, 2018, the Company had 25,393,500 Special Warrants outstanding and 15,087,500 warrants outstanding.

1.9 Stock Options

As of March 31, 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:

	March 31, 2018	March 31, 2017
Consulting fees	\$ -	\$ 157,560
Rent	-	7,823

During the year ended March 31, 2018, the Company paid rental expense of \$nil (March 31, 2017- \$7,823) to a director of Sarcon, and consulting fees of \$Nil (March 31, 2017- \$157,560) 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 year as follows:

	March 31, 2018	March 31, 2017
Consulting fees - CEO	\$ 63,000	\$ 36,242
Consulting fees - CFO	54,000	9,280
Share-based payments	231,995	77,959

The Company has an amounts payable of \$1,288,700 (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 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 April 5th, 2018, 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.
- On April 12, 2018, 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(shown in the pictures below).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 89.2 %.These samples will also be sent to laboratories for micronization to 20 microns and then spheroidization tests.

- On April 16, 2018, the Company announced that it intends to complete a non-brokered private placement offering (“Offering”) of units (“Units”), at a purchase price of CDN\$1.00 per Unit for aggregate gross proceeds of CDN\$2,000,000. Each Unit will be comprised of CDN\$1.00 in principal amount of convertible debentures (“Convertible Debenture”) and two common share purchase warrants (each warrant a “Warrant”). Each Convertible Debenture shall be unsecured, bear interest at the rate of 6% per annum, calculated and payable three years from the date of closing.
- On May 23, 2018, the Company announced that it has 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 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.

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.⁷

Effective for annual periods beginning on or after 1, 2018.

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 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.

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.

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, 2018, the Company had cash of \$180,787 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](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, 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:

Number

Balance, March 31, 2018

54,766,181

As at March 31, 2018, there were 15,236,098 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 year ended March 31, 2018 of \$981,320 and has a deficit of \$5,993,192 as at March 31, 2018. Management is continuing it's 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.