CEYLON GRAPHITE CORP.

Condensed Consolidated Interim Financial Statements

For the Six Months Ended

September 30, 2019 and 2018

(Expressed in Canadian dollars)

(Unaudited)

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	September 30, 2019 (Unaudited)	March 31, 2019 (Audited)
		$	$
ASSETS			
Current			
Cash		29,308	441,640
Amount receivable		9,455	29,031
Prepaid expenses and advances		164,834	202,059
		203,587	672,730
Equipment	6	269,483	258,480
Exploration and evaluation assets	7	2,889,447	2,915,819
		3,362,517	3,847,029
LIABILITIES			
Current			
Accounts payable and accrued liabilities		72,459	64,963
Amounts payable	7	1,324,000	1,345,122
Current portion of capital lease obligations		3,133	3,926
Loan payable	11	158,000	-
		1,557,892	1,414,011
Capital lease obligations		6,659	10,881
Convertible debentures	8	1,767,020	1,613,085
		3,331,571	3,037,977
EQUITY			
Share capital	9	5,216,542	5,216,542
Share subscriptions	9	50,000	50,000
Equity component of convertible debenture	8	394,711	394,711
Contributed surplus		2,492,666	2,454,607
Deficit		(8,080,209)	(7,390,486)
Accumulated other comprehensive income		(42,764)	83,678
		30,946	809,052
		3,362,517	3,847,029

CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS (Note 1)
SUBSEQUENT EVENT (Note 15)

Approved by the Board of Directors on November 13, 2019

"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 SIX MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(Expressed in Canadian Dollars)
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2019	**2018**	**2019**	**2018**
	$	$	$	$
Expenses				
Advertising and promotion	-	-	-	67,624
Amortization	14,537	18,773	32,130	29,711
Interest, finance and bank charges (Note 8)	98,714	42,012	175,682	63,452
Office and administrative	91,120	84,657	200,394	181,204
Professional fees (Note 9)	25,170	73,757	91,965	160,830
Rent	3,075	1,951	4,578	4,157
Repair and maintenance	3,408	1,218	9,106	2,525
Share-based payments (Note 9)	-	-	38,059	47,871
Transfer agents	-	1,143	9,767	3,619
Travel	8,375	61,983	41,319	93,722
Vehicle	-	4,753	-	4,901
Wages and benefits	42,010	48,770	86,723	81,472
Net loss for the period	(286,409)	(339,017)	(689,723)	(741,087)
OTHER COMPREHENSIVE LOSS				
Item that may be reclassed subsequently				
Unrealized foreign exchange translation	(35,774)	63,716	(126,442)	(66,593)
Net comprehensive loss for the period	(322,183)	(275,301)	(816,165)	(807,680)
Net loss per share – basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)
Weighted average number of common shares outstanding	54,766,181	54,766,181	54,766,181	54,766,181

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

CEYLON GRAPHITE CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(Expressed in Canadian Dollars)
(Unaudited)

	September 30, 2019	**September 30, 2018**
	$	$
Net loss	(689,723)	(741,087)
Items not involving cash:		
Accretion of convertible debentures	153,935	29,711
Amortization	32,130	47,721
Share-based payments	38,059	47,871
	(465,599)	(615,784)
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	4,728	(18,433)
Amounts receivable	19,572	(17,430)
Prepaid expenses and advances	(45,139)	(36,633)
	(486,438)	(688,280)
INVESTING ACTIVITIES		
Purchase of property and equipment	(56,935)	(58,791)
Expenditures on exploration and evaluation assets	(12,047)	(18,962)
	(68,982)	(77,753)
FINANCING ACTIVITIES		
Payments on capital lease obligation	(4,424)	(2,954)
Loan repayment	-	(130,760)
Proceeds of loan payable	158,000	1,932,500
	153,576	1,798,786
CHANGE IN CASH DURING THE YEAR	(401,844)	1,032,753
CASH, BEGINNING OF YEAR	432,811	180,787
EFFECT OF TRANSLATING FOREIGN CURRENCY	(1,659)	(37,186)
CASH, END OF YEAR	29,308	1,176,354
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 SIX MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(Expressed in Canadian Dollars)
(Unaudited)

	Common Shares							
	Number	Amount	Share subscriptions	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
		$	$	$	$	$	$	$
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	-	-	-	-	-	(741,087)	(66,593)	(807,680)
Balances as at September 30, 2018	54,766,181	5,216,542	50,000	13,930	2,333,614	(6,734,279)	60,188	939,995

	Common Shares							
	Number	Amount	Share subscriptions	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
		$	$	$	$	$	$	$
Balances as at March 31, 2019	54,766,181	5,216,542	50,000	394,711	2,454,607	(7,390,486)	83,678	809,052
Share-based payments	-	-	-	-	38,059	-	-	38,059
Net loss and comprehensive loss	-	-	-	-	-	(689,723)	(126,442)	(816,165)
Balances as at September 30, 2019	54,766,181	5,216,542	50,000	394,711	2,492,666	(8,080,209)	(42,764)	30,946

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

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. 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 September 30, 2019, the Company incurred a net loss of $689,723 and had a deficit of $8,080,209, 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 sufficient revenues 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 consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

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 November 13, 2019.

b) Basis of presentation

These condensed consolidated interim 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 September 30, 2019, and 2018, 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.

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.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

i) Equipment

Equipment is recorded at cost less accumulated amortization, less any accumulated impairment losses. Amortization is taken on a straight line basis at the following rates:

Plant and machinery	8 years
Furniture and fixtures	5 years
Tools and equipment	4 years
Motor vehicles	5 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 consolidated 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.

Critical accounting estimates

i) the inputs used in accounting for share-based payment expense and for the convertible debentures;

ii) the assessment of indications of impairment of exploration and evaluation properties and related determination of net realizable values and write-down of the properties where applicable;

iii) expected future tax rates used in the deferred income tax disclosures.

Critical accounting judgments

i) the determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management;

ii) the determination of whether it is likely that future taxable profits will be available to utilize against any deferred tax assets; and

iii) the determination of the Company's ability to continue as a going concern.

4. NEW ACCOUNTING STANDARDS

Accounting policy adopted during the year

IFRS 16 - Leases ("IFRS 16")

Leases specifies the recognition, measurement, presentation and disclosure of leases. This standard is effective for annual periods beginning on or after January 1, 2019. The adoption of IFRS 16 had no impact on the Company's condensed consolidated interim financial statements.

5. ACQUISITION

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 March 31, 2019, 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 September 30, 2019, the equipment of $269,483 (September 30, 2018 - $303,473) consists of a drilling equipment. During the period ended September 30, 2019, the Company recorded $32,130 in amortization (September 30, 2018 - $29,711).

7. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets in Sri Lanka as of September 30, 2019 and 2018 are as follows:

	Beginning	Acquisition and exploration costs	Effect of foreign exchange	Ending
	$	$	$	$
September 30, 2019	2,915,819	(12,207)	9,264	2,894,348
September 30, 2018	2,672,674	58,791	(34,561)	2,696,9904

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 September 30, 2019, 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.

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 $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 related to the convertible debentures.

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 year ended September 30, 2019	2,000,000
Liability	
Gross proceeds received	2,000,000
Issue costs	(67,500)
Equity component less issue costs allocated	(540,700)
Liability component initially recognized	1,391,800
Accretion expense	375,220
Balance at September 30, 2019	1,767,020
Equity Component of Debentures	
Equity component initially recognized	540,700
Deferred income tax liabilities recognized	(145,989)
Balance at September 30, 2019	394,711

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 interest 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 fair value of the liability component of $1,391,800 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 18.6% per annum.

9. SHARE CAPITAL

a) Authorized:

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

b) As at September 30, 2019, there were 3,809,020 common shares in escrow.

c) Issued and Outstanding as at September 30, 2019 and March 31, 2019: 54,766,181 common shares.

d) 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 period ended September 30, 2019, the Company granted 280,000 stock options to an officer and directors at an exercise price of $0.20 per share, expire in 5 years and vested immediately. Share-based compensation of $38,059 was recorded using the Black-Scholes option pricing model with the following assumptions:

Share price	$0.14
Risk free interest rate	1.56%
Weighted expected life	5 years
Weighted average expected volatility	200%
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

9. SHARE CAPITAL (continued)

d) Share options (continued)

During the year ended March 31, 2018, the Company granted a total of 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 a consultant of the Company. Options vested on grant date, are exercisable at $0.30 per share for 5 years. During the year ended March 31, 2019, the Company recorded the remaining share-based payment of $168,864 for options granted to directors and consultant of the Company with vesting period 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

As at September 30, 2019, 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, 2018	2,836,441	$0.32	4.12
Expired	(128,571)	$0.02	-
Outstanding, March 31, 2019	2,707,870	$0.30	3.30
Options granted	280,000	$0.20	3.92
Outstanding, September 30, 2019	2,987,870	$0.26	3.42

Details of stock options outstanding and exercisable at September 30, 2019 are as follows:

Number of Stock Options Outstanding	Number of Stock Options Exercisable	Exercise Price	Remaining Contractual Life (years)	Expiry Date
350,000	350,000	$0.20	2.46	March 15, 2022
200,000	200,000	$0.20	2.49	March 27, 2022
1,650,000	1,650,000	$0.30	3.38	February 15, 2023
507,870	507,870	$0.20	3.92	August 31, 2023
280,000	280,000	$0.20	4.63	May 15, 2024
2,987,870	2,987,870			

9. SHARE CAPITAL (continued)

f) Warrants

A summary of the status of the Company's outstanding and exercisable warrants as at September 30, 2019 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	1.11
Exercised	4,000,000	$0.25	1.65
Expired	(15,087,500)	$0.30	
Balance, September 30, 2019 and March 31, 2019	4,000,000	$0.25	1.40

As part of the reverse take-over transaction previously entered into, 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.

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 for the period is as follows:

	2019	**2018**
	$	$
Consulting fees - CEO	42,000	36,000
Consulting fees - CFO	30,000	27,000
Share-based payments	38,059	47,871

The Company has an amounts payable of $1,324,300 (US$1,000,000) (September 30, 2019 - $1,294,500 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 September 30, 2019, the principal amount of $158,000 bears interest at 6% per annum, is unsecured and due on demand. For the period ended September 30, 2019, no interest has been recorded for this loan.

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).

Fair Value of Financial Instruments

The Company's financial instruments include cash, amounts payable, loan 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
	$	$	$	$
September 30, 2019:				
Cash	29,308	-	-	29,308
March 31, 2019:				
Cash	441,640	-	-	441,640

13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

Fair value

The fair value of the Company's financial instruments approximates their carrying value as at September 30, 2019 because of the demand nature or short-term maturity of these instruments.

Financial risk management objectives and policies

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

(i) *Currency risk*

The Company is exposed to foreign currency risk on fluctuations related to cash, accounts payable, amounts payable, loan 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:

	September 30, Rupee	**September 30, US$**	**March 31, 2019 Rupee**	**March 31, 2019 US$**
Cash	3,284,290	(188)	7,082,229	11,534
Advances to affiliates	-	-	18,550,000	-
Accounts payable	(3,403,002)	(6,174)	(3,913,899)	(6,174)
Amounts payable	-	(1,000,000)	-	(1,000,000)
Total in foreign currency	(118,712)	(1,006,362)	21,718,330	(994,640)
Net exposure	(117,855)	326,363	(21,553,271)	(334,497)
Canadian dollar equivalents	**(857)**	**(1,332,725)**	**160,059**	**(1,329,137)**

Based on the net Canadian dollar denominated asset and liability exposures as at September 30, 2019, a 10% fluctuation in the Canadian/US exchange rates would impact the Company's earnings for the period ended September 30, 2019 by $133,273 (March 31, 2019 - $132,914). The exposure to fluctuations in the Rupee is minimal. The Company has not entered into any foreign currency contracts to mitigate this risk.

(ii) *Interest rate risk*

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

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

(iii) *Credit risk*

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

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

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

(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 September 30, 2019, the Company had working capital deficiency of $1,354,305. As at September 30, 2019, the Company had cash of $29,308 to settle accounts payable, current portion of capital lease obligation and amounts payable and loan payable of $1,557,892 which fall due for payment within twelve months of the financial position date.

	Carrying value $	Less than 1 year $	Between 2 – 5 years $	More than 5 years $	Total
Capital lease obligations	9,792	3,133	6,659	-	9,792
Convertible loans	1,767,020	-	2,360,000	-	2,360,000

15. SUBSEQUENT EVENT

- On October 17, 2019, the Company announced that it has closed the first tranche of its previously announced non-brokered private placement of units. The Company has issued a total of 10,000,000 units ("Units") at a price of $0.08 per Unit for aggregate gross proceeds of $800,000. Each Unit is comprised of one (1) Ceylon Common Share and one warrant ("Warrant"), with each Warrant entitling the holder thereof to acquire one (1) Ceylon Common Share at a price of $0.15 per share for a period of two (2) years from the date of Closing, subject to acceleration.

- On November 11, 2019, the Company announced that its wholly owned subsidiary Sarcon Development (Pvt) Ltd ("Sarcon") has been granted an Environmental Protection License ("EPL") for its K1 Graphite Mining Project at Karasnagla, Sri Lanka from the Central Environmental Authority bearing No 17501 (R0) dated 14th October 2019 under provisions of the National Environmental Act 47 of 1980 and amended by Acts No 56 of 1988 and No 53 of 2000, of the Government of Sri Lanka. The CEA is the Environmental Regulator in Sri Lanka and was established by an Act of Parliament.