

CEYLON GRAPHITE CORP.

Quarterly Report

June 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

1.1 Date of Report: August 27, 2019

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 period ended June 30, 2019 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 guaranteeing 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 Landhuis Joonchi, Kaya Richard J. Beaujon z/n Willemstad, Curacao.

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") and JADS Enterprise (Pvt) Limited ("JADS")

1.3 Overall Performance

Announcements and highlights during the quarter:

- The Company announced the discovery of a new, natural crystalline graphite vein over 30 cm in width, 10 feet downhole at its M1 site in the Malsiripura area in Sri Lanka. This vein was discovered in the normal course of digging a ventilation shaft at the M1 site and samples from the discovery have been sent to the Sri Lanka Government's Geological Survey and Mines Bureau's laboratory for testing.

- The Company announced that further to its report on the 14th of May 2019, the needle type crystalline graphite vein it discovered 10 feet downhole at its M1 site in the Malsiripura area in Sri Lanka has increased 2x in size with depth at 20/25ft. The discovery of the widest graphite vein found to date was made in the course of driving a new ventilation shaft at the M1 site and has continued to grow in width as the digging progresses deeper into the rock.
- Management continued to actively focus on capital raising to support the company's business, marketing initiatives and general working capital.

1.4 Results of Operations

Selected Annual Information and Result 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 \$403,314 for the period ended June 30, 2019, as compared to a net loss of \$402,071 for the period ended June 30, 2018.

During the period, the Company incurred professional fees in the amount of \$66,795 compared to \$87,073 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.

Advertising and promotion decreased to \$nil from \$67,624 in the prior year mainly due to less marketing and promotional efforts as the Company focused more on the mining operation during the quarter.

Office and administrative expenses incurred were \$109,356 compared to the prior year of \$96,547 mainly due to more activities during the period compared to the prior year. The increase of \$12,809 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 \$21,440 in 2018 to \$76,968 in 2019 mainly due to the interest expense and interest accretion of the convertible debentures. The transfer fees increased to \$9,767 from \$2,476 during the prior year due to an increased in transfer related transactions.

During the period ended June 30, 2019, the Company incurred travel expense in the amount of \$32,944 (period ended June 30, 2018 –\$31,740) related to extensive travel to Sri Lanka and other locations. The Company had \$44,713 wages and benefits (period ended June 30, 2018 –\$32,702) due to an increase in employees and engages consultants on an as needed basis.

During the period ended June 30, 2019, the Company recorded \$90,668 in foreign exchange translation loss to its cumulative translation account due to the changes resulting from the fluctuation of foreign exchange rates.

Summary of Quarterly Results

| | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 |
|----------------|------------------|-------------------|----------------------|-----------------------|
| | \$ | \$ | \$ | \$ |
| Expenses | 403,396 | 503,262 | 332,678 | 339,017 |
| Net Loss | (403,314) | (323,528) | (332,678) | (339,017) |
| Loss per Share | (0.01) | (0.01) | (0.01) | (0.01) |

| | 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) |

1.5 Liquidity

The Company has total assets of \$3,429,578 as at June 30, 2019 consisting of cash, amounts receivable, prepaid expenses, equipment and exploration and evaluation assets. The Company has working capital deficiency of \$1,088,961.

At June 30, 2019, the Company had cash of \$123,847. The current liabilities in the amount of \$1,308.700 (USD \$1,000,000) was payable to the former shareholders of Sarcon, which is contingently payable when the Company begins mining activities and receives revenues from the sale of graphite.

During the period ended June 30, 2019, the Company used \$54,386 in investing activities.

At June 30, 2019, share capital was \$5,216,542 comprising of 54,766,181 issued and outstanding Common Shares. During the period ended June 30, 2019, there were no share issued.

At June 30, 2019, the value of exploration and evaluation assets was \$2,858,931. The decrease is due to fluctuation of foreign exchange during the quarter.

At present, the Company's operations do not generate cash inflows and its financial success after June 30, 2019 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.

1.6 Share Capital

The Company had 54,766,181 common shares issued and outstanding on June 30, 2019 and as of the date of this report.

1.7 Share Purchase Warrants

As at June 30, 2019, the Company had 25,393,500 Special Warrants outstanding and 4,000,000 warrants outstanding.

1.8 Stock Options

During the period ended June 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.

As of June 30, 2019, the Company has 2,987,870 stock options outstanding.

1.9 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.

1.10 Off Balance Sheet Arrangements

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

1.11 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.

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:

| | 2019 | 2018 |
|-----------------------|-------------|-------------|
| | \$ | \$ |
| Consulting fees - CEO | 21,000 | 18,000 |
| Consulting fees - CFO | 15,000 | 13,500 |
| Share-based payments | 38,059 | 47,871 |

The Company has an amounts payable of \$1,308,700 (US\$1,000,000) (June 30, 2018 - \$1,312,760 or US\$1,000,000) due to the former shareholder of Sarcon. The amounts are unsecured and non-interest bearing.

1.12 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.

1.13 Subsequent events

- On July 3, 2019, the Company at the request of the Investment Industry Regulatory Organization of Canada, the Company hereby retracts and corrects certain statements made in its news release dated July 2, 2019. The Company has only received exploration rights for its mineral properties (121) in Sri Lanka, has not yet received any mining permits for such properties, and has not, to date, performed a NI 43-101 compliant preliminary economic assessment, pre-feasibility study, or feasibility study, to support the technical feasibility or economic viability of the project.
- On August 2, 2019, the Company announced that its subsidiary JADs Enterprises (PVT) Ltd has been awarded an IMLB license by the Geological Survey and Mines Bureau (“GSMB”) of the Government of Sri Lanka for its M1 site in Malsiripura, Sri Lanka.
- On August 21, 2019, the Company announced that its wholly owned subsidiary Sarcon Development (Pvt) Ltd has received Environmental Approval for its K1 Graphite Mining Project at Karasnagala, Sri Lanka from the Central Environmental Authority (“CEA”) of the Government of Sri Lanka. This approval is under Regulation 9 (i) of the National Environmental (Procedure for approval of projects) Regulation No 1 of 1993 as amended by Gazette (Extra-Ordinary) No 1159/22 dated 22.11.2000.
- On August 22, 2019, the Company announced that it has received assay results of laboratory testing of graphite samples taken down hole in the shaft at its M1 site in the Malsiripura area in Sri Lanka.
- On August 26, 2019, the Company announced that its wholly owned subsidiary Sarcon Development (Pvt) Ltd has been granted an Industrial Mining License Category A for its K1 Graphite Mining Project at Karasnagla, Sri Lanka from the Geological Survey and Mines Bureau (“GSMB”) under provisions of the Mines and Minerals Act No 33 of 1992 as amended by the Mines and Minerals (Amendment) Act No 66 of 2009, of the Government of Sri Lanka. The GSMB is the Mining Regulator in Sri Lanka and was established by an Act of Parliament.

1.14 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 the estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that a rebelieved 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 assessment of decommissioning provision, valuation of share-based provisions, assessment of impairment of exploration and evaluation assets 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.

1.15 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, 2019. The adoption of these standard and amendment did not have a material impact on the condensed interim consolidated financial statements of the Company.

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.

1.16 Financial Instruments and Other Instruments

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

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

(i) *Currency risk*

The Company is exposed to foreign currency risk on fluctuations related to cash, 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:

| <u>June 30, 2019</u> | <u>June 30, 2019</u> | <u>March 31, 2019</u> | <u>March 31, 2019</u> |
|----------------------|----------------------|-----------------------|-----------------------|
| Rupee | US\$ | Rupee | US\$ |

| | | | | |
|------------------------------------|------------------|--------------------|-------------------|--------------------|
| Cash | 5,054,689 | 13,524 | 7,082,229 | 11,534 |
| Advances to affiliates | - | - | 18,550,000 | - |
| Accounts payable | (2,781,640) | (6,174) | (3,913,899) | (6,174) |
| Amounts payable | - | (1,000,000) | - | (1,000,000) |
| Total in foreign currency | 2,273,049 | (992,650) | 21,718,330 | (994,640) |
| Net exposure | (2,256,206) | (306,431) | (21,553,271) | (334,497) |
| Canadian dollar equivalents | 16,843 | (1,299,081) | 160,059 | (1,329,137) |

Based on the net Canadian dollar denominated asset and liability exposures as at June 30, 2019, a 10% fluctuation in the Canadian/US exchange rates would impact the Company's earnings for the period ended June 30, 2019 by \$129,909 (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.

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 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, 2019, the Company had working capital deficiency of \$1,088,961. As at June 30, 2019, the Company had cash of \$123,847 to settle accounts payable, current portion of capital lease obligation and amounts payable of \$1,378,714 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 | 11,455 | 1,608 | 9,847 | - | 11,455 |
| Convertible loans | 1,687,888 | - | 2,360,000 | - | 2,360,000 |

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.

1.17 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

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, 2019 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 and Outstanding:

Number

Balance, June 30, 2019

54,766,181

As at June 30, 2019, there were 3,809,020 common shares held in escrow.

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

Not applicable.

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

Not applicable.

Risk Factors

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

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

The Company has incurred a net loss for the period ended June 30, 2019 of \$403,314 and has a deficit of \$7,793,800 as at June 30, 2019. 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 the seagoing 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.