

CEYLON GRAPHITE CORP.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MARCH 31, 2019 AND 2018
(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Ceylon Graphite Corp.

Opinion

We have audited the consolidated financial statements of Ceylon Graphite Corp. and its subsidiaries (the "Company") which comprise the consolidated statements of financial position as at March 31, 2019 and 2018, and the consolidated statements operations and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying financial statements, which indicates that the Company incurred a net loss of \$1,397,294 for the year ended March 31, 2019 and, as of that date, the Company had an accumulated deficit of \$7,390,486. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audits. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audits resulting in this independent auditors' report is Fernando Costa.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
July 29, 2019

CEYLON GRAPHITE CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MARCH 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	Note	2019	2018
		\$	\$
ASSETS			
Current			
Cash		441,640	180,787
Amount receivable		29,031	5,425
Prepaid expenses and advances		202,059	23,047
		672,730	209,259
Equipment	6	258,480	300,989
Exploration and evaluation assets	7	2,915,819	2,672,674
		3,847,029	3,182,922
LIABILITIES			
Current			
Accounts payable and accrued liabilities		64,963	58,315
Amounts payable	7	1,336,300	1,288,700
Other		8,822	-
Loan payable	11	-	130,760
Current portion of capital lease obligations		3,926	3,460
		1,414,011	1,481,235
Capital lease obligations		10,881	15,813
Convertible debentures	8	1,613,085	-
		3,037,977	1,497,048
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	-
Contributed surplus		2,454,607	2,285,743
Deficit		(7,390,486)	(5,993,192)
Accumulated other comprehensive income		83,678	126,781
		809,052	1,685,874
		3,847,029	3,182,922

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

Approved by the Board of Directors on July 29, 2019

"Bharat Parashar"

Bharat Parashar, Director

"Kevin Aylward"

Kevin Aylward, Director

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

CEYLON GRAPHITE CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	2019	2018
	\$	\$
Expenses		
Advertising and promotion	166,030	29,644
Amortization	63,054	33,575
Interest, finance and bank charges (Note 8)	245,945	15,351
Office and administrative	127,091	86,149
Professional fees (Note 10)	403,798	437,207
Rent (Note 10)	6,016	2,982
Repair and maintenance	8,874	28,238
Share-based payments (Note 9)	168,864	292,918
Transfer agents	11,471	14,114
Travel	203,909	127,757
Vehicle	15,146	8,848
Wages and benefits	156,830	83,864
	1,577,028	1,160,647
Loss before other items	(1,577,028)	(1,160,647)
Other items:		
Other income	16,222	42,000
Foreign exchange gain (loss)	17,523	(14,900)
Gain on forgiveness of debt	-	152,227
	33,745	179,327
Loss before deferred income tax recovery	(1,543,283)	(981,320)
Deferred income tax recovery	145,989	-
Net loss	(1,397,294)	(981,320)
Other comprehensive loss		
Item that may be reclassified subsequently to loss:		
Unrealized foreign exchange translation	43,103	(33,716)
Comprehensive loss	(1,440,397)	(1,015,036)
Loss per share – basic and diluted	(0.03)	(0.02)
Weighted average number of shares outstanding	54,766,181	54,671,139

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

CEYLON GRAPHITE CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	2019	2018
	\$	\$
Net loss	(1,397,294)	(981,320)
Items not involving cash:		
Accretion of convertible debentures	221,285	-
Amortization	63,054	33,575
Deferred income tax recovery	(145,989)	-
Gain on forgiveness of debt	-	(152,227)
Finance charges	-	3,600
Share issued for consulting and finance services	-	7,000
Foreign exchange	(84,744)	-
Share-based payments	168,864	292,918
	(1,174,824)	(796,454)
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	24,934	(29,149)
Amounts receivable	(23,606)	38,910
Prepaid expenses and advances	(179,012)	(4,570)
Cash used in operating activities	(1,352,508)	(791,263)
INVESTING ACTIVITIES		
Acquisition of exploration and evaluation assets in JADS	-	(19,061)
Proceeds on disposal of assets	15,955	-
Purchase of property and equipment	(36,500)	(302,764)
Expenditures on exploration and evaluation assets	(147,945)	(43,333)
	(168,490)	(365,158)
FINANCING ACTIVITIES		
Issuance of common shares	-	93,450
Payments on capital lease obligation	-	(32,042)
Loan repayment	(130,760)	-
Proceeds of convertible debt	1,911,200	-
Proceeds of loan payable	-	130,760
Cash provided by financing activities	1,780,440	192,168
CHANGE IN CASH DURING THE YEAR	259,442	(964,253)
CASH, BEGINNING OF YEAR	180,787	1,136,621
EFFECT OF TRANSLATING FOREIGN CURRENCY	1,411	8,419
CASH, END OF YEAR	441,640	180,787
SUPPLEMENTAL CASH DISCLOSURES		
Interest paid	-	3,600
Income taxes paid	-	-
NON-CASH TRANSACTIONS		
Shares for debts settlement and services	-	26,950

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

CEYLON GRAPHITE CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	<u>Common Shares</u>		Share subscriptions	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
	Number	Amount						
		\$	\$	\$	\$	\$	\$	\$
Balances as at March 31, 2017	54,314,681	5,096,142	50,000	-	1,992,825	(5,011,872)	160,497	2,287,592
Shares issued for warrants exercised	311,500	93,450	-	-	-	-	-	93,450
Shares issued for debts and services	140,000	26,950	-	-	-	-	-	26,950
Share-based payments	-	-	-	-	292,918	-	-	292,918
Net loss and comprehensive loss	-	-	-	-	-	(981,320)	(33,716)	(1,015,036)
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	-	-	-	394,711	-	-	-	394,711
Share-based payments	-	-	-	-	168,864	-	-	168,864
Net loss and comprehensive loss	-	-	-	-	-	(1,397,294)	(43,103)	(1,440,397)
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

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

CEYLON GRAPHITE CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018
(Expressed in Canadian Dollars)

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

Ceylon Graphite Corp. (the "Company or Ceylon") was incorporated on April 3, 1986 under the Canada Business 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 March 31, 2019, the Company incurred a net loss of \$1,397,294 and had a deficit of \$7,390,486, 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. The 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 consolidated 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

The consolidated financial statements were authorized for issue in accordance with a resolution from the Board of Directors on July 29, 2019.

CEYLON GRAPHITE CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of presentation

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

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

c) Cash and cash equivalents

Cash in the statements of financial position is comprised of cash in banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. As of March 31, 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.

CEYLON GRAPHITE CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

CEYLON GRAPHITE CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Income taxes (continued)

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 consolidated 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.

CEYLON GRAPHITE CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018
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3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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 AND RECENT ACCOUNTING PRONOUNCEMENTS

a) New accounting standards issued and effective

Accounting policies adopted during the year

IFRS 9 Financial Instruments ("IFRS 9")

The Company has adopted the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of February 1, 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged.

As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9.

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

CEYLON GRAPHITE CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

4. NEW ACCOUNTING STANDARDS AND RECENT ACCOUNTING PRONOUNCEMENTS (continued)

The Company completed a detailed assessment of its financial assets and liabilities as at February 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9.

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash	FVTPL	FVTPL
Advances	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Loan payable	Other financial liabilities	Amortized cost
Other payables	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost

a) New accounting standards issued and effective (continued)

Change in accounting policies (continued)

The adoption of IFRS 9 had no impact to the opening accumulated deficit on April 1, 2018.

(ii) Measurement

Financial assets at FVTOCI - Elected investments in equity investments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive loss.

Financial assets and liabilities at amortized cost - Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL - Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs expensed in the consolidated statements of net loss. Realized and unrealized gains or losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net loss.

(iii) Impairment of financial assets at amortized cost

The Company recognized a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset at an amount equal to the twelve months expected credit losses. The Company shall recognize in the consolidated statements of net loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

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4. NEW ACCOUNTING STANDARDS AND RECENT ACCOUNTING PRONOUNCEMENTS (continued)

(iv) Derecognition

Financial assets - The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of net loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

Financial liabilities - The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of net loss.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 is a new standard 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. This standard is effective for annual periods beginning on or after January 1, 2018. The change has no impact to the Company's consolidated financial statements.

b) New accounting standards issued but not yet effective

A number of new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the year ended March 31, 2019 and have not been applied in preparing these consolidated financial statements. The Company is currently considering the possible effects of the new and revised standards which will be effective to the Company's consolidated financial statements later:

IFRS 16 - Leases

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 will have no impact on the Company's consolidated financial statements.

CEYLON GRAPHITE CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

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

	Plant and Machinery	Furniture and Fixtures	Tools and Equipment	Motor Vehicles	Total
	\$	\$	\$	\$	\$
Cost					
At March 31, 2017	-	299	2,494	51,324	54,117
Additions	164,079	9,276	105,570	54,407	333,332
Disposals	-	-		(48,931)	(48,931)
Exchange rate movements	178	9	114	43	344
At March 31, 2018	164,257	9,584	108,178	56,843	338,862
Additions	13,271	4,406	13,663	-	31,340
Disposals	-	-	-	(10,795)	(10,795)
At March 31, 2019	177,528	13,990	121,841	46,048	359,407
At March 31, 2017	-	224	2,043	50,962	53,229
Additions	15,067	979	12,255	5,274	33,375
Disposals	-	-	-	(48,931)	(48,931)
At March 31, 2018	15,067	1,203	14,298	7,305	37,873
Additions	23,690	1,990	28,059	9,315	63,054
At March 31, 2019	38,757	3,193	42,357	16,620	100,927
Net book value					
At March 31, 2018	149,190	8,381	93,880	49,538	300,989
At March 31, 2019	138,772	10,797	79,484	29,428	258,480

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7. EXPLORATION AND EVALUATION ASSETS

Expenditures for the years ended March 31, 2019 and March 31, 2018 are as follows:

	April 1, 2018	Acquisition and exploration costs	Effect of foreign exchange	March 31, 2019
	\$	\$	\$	\$
Sri Lanka	2,672,674	147,945	95,200	2,915,819

	April 1, 2017	Acquisition and exploration costs	Effect of foreign exchange	March 31, 2018
	\$	\$	\$	\$
Sri Lanka	2,694,550	62,394	(84,270)	2,672,674

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
	<u>2,000,000</u>

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 March 31, 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.

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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 March 31, 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	221,285
Balance at March 31, 2019	1,613,085
Equity Component of Debentures	
Equity component initially recognized	540,700
Deferred income tax liabilities recognized	(145,989)
Balance at March 31, 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.

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9. SHARE CAPITAL

a) Authorized:

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

b) As at March 31, 2019, there were 7,618,046 common shares in escrow.

c) Issued and Outstanding as at March 31, 2019 and March 31, 2018: 54,766,181 common shares.

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

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

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

e) Share options

The Company has a stock option plan under which directors, officers, employees and consultants of the Company and its subsidiary are eligible to receive stock options. The total number of shares which are at any one time reserved and set aside for issuance under the stock option plan, and under all other management options outstanding, shall not exceed 10% of the shares issued and outstanding. The maximum number of common shares reserved for issuance to any one person pursuant to stock options shall not exceed 5% of the common shares outstanding at the time of the grant, or such greater amount as may be permitted pursuant to the rules of any regulatory authority having jurisdiction. The option price of a stock option granted shall be fixed by the Board of Directors but shall not be less than the market price of the shares at the time the option is granted, or such lesser price as may be permitted by the rules of the regulatory authority having jurisdiction. Stock options may be granted for a period not exceeding five years. Unless the Board determines otherwise, a stock option shall vest immediately upon being granted.

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

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

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9. SHARE CAPITAL (continued)

f) Share options (continued)

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

As at March 31, 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, 2017	1,186,441	\$0.34	3.12
Options granted	1,650,000	\$0.30	4.88
Outstanding, March 31, 2018	2,836,441	\$0.32	4.62
Expired	(128,571)	\$0.02	-
Outstanding, March 31, 2019	2,707,870	\$0.30	3.80

Details of stock options outstanding and exercisable at March 31, 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	3.96	March 15, 2022
200,000	200,000	\$0.20	3.99	March 27, 2022
1,650,000	1,650,000	\$0.30	4.88	February 15, 2023
507,870	507,870	\$0.20	5.42	August 31, 2023
2,707,870	2,707,870			

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9. SHARE CAPITAL (continued)

f) Warrants

A summary of the status of the Company's outstanding and exercisable warrants as at March 31, 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, 2017	16,103,246	\$0.30	1.61
Exercised	(311,500)	\$0.30	-
Expired	(704,246)	\$0.20	-
Balance, March 31, 2018	15,087,500	\$0.30	1.61
Granted	4,000,000	\$0.25	2.15
Expired	(15,087,500)	\$0.30	-
Balance, March 31, 2019	4,000,000	\$0.25	2.15

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 is as follows:

	2019	2018
	\$	\$
Consulting fees - CEO	81,000	63,000
Consulting fees - CFO	63,500	54,000
Share-based payments	-	231,995

The Company has an amounts payable of \$1,336,300 (US\$1,000,000) (March 31, 2018 - \$1,288,700 or US\$1,000,000) due to the former shareholder of Sarcon in connection with the Agreement described in Note 7. The amounts are unsecured and non-interest bearing.

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11. GAIN ON DEBTS FORGIVENESS

During the year ended March 31, 2018, certain creditors forgave amounts payable of \$44,177 and as a result the Company recognized a gain on the forgiveness of debt 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 (see Note 8d). As a result, the Company recognized \$108,050 as a gain on debts settlement on the consolidated statements of comprehensive loss.

12. LOAN PAYABLE

As at March 31, 2018, the principal amount of \$130,760 (US\$100,000) bears interest at 6% per annum, is unsecured and due on demand. The loan was fully repaid during the year ended March 31, 2019. The Company has recorded interest expense of \$1,757 for this loan.

13. INCOME TAXES

The Company has non-capital losses carried forward of approximately \$9.6 million available to reduce income taxes in future years which expire between 2026 to 2039.

The Company has not recognized any deferred income tax assets. The Company recognizes deferred income tax assets based on the extent to which it is probable that sufficient taxable income will be realized during the carry forward periods to utilize all deferred tax assets. The following table reconciles the amount of income tax recoverable on application of the statutory

Canadian federal and provincial income tax rates: The temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2019 not recognized are presented below:

	2019	2018
Statutory income tax rate	26%	26%
	\$	\$
Income tax recovery at statutory rate	410,000	257,393
Effect of income taxes of:		
Non-deductible items for tax purposes and other	(95,527)	35,679
Difference in tax rates in other tax jurisdictions	9,100	51,593
Change in deferred tax assets not recognized and other	(177,584)	(344,665)
Deferred income tax recoverable	145,989	-

The temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2019 not recognized are presented below:

	2019	2018
	\$	\$
Non-capital loss carry-forwards	2,484,227	2,186,529
Equipment	10,924	10,924
Exploration and valuation assets	960,207	960,207
Share issue costs	78,062	97,578
Convertible debenture	(100,598)	-
Deferred tax assets not recognized	(3,432,822)	(3,255,238)
	-	-

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14. 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.

15. 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, accounts payable, amounts payable, other, 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			Total
	Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
March 31, 2019:				
Cash	\$ 441,640	\$ -	\$ -	\$ 441,640
March 31, 2018:				
Cash	\$ 180,787	\$ -	\$ -	\$ 180,787

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15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

Fair value

The fair value of the Company's financial instruments approximates their carrying value as at March 31, 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 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:

	March 31, 2019	March 31, 2019	March 31, 2018	March 31, 2018
	Rupee	US\$	Rupee	US\$
Cash	7,082,229	11,534	1,619,144	6,266
Advances to affiliates	18,550,000	-	-	-
Accounts payable	(3,913,899)	(6,174)	(2,442,921)	(1,995)
Amounts payable	-	(1,000,000)	-	(1,000,000)
Total in foreign currency	21,718,330	(994,640)	(823,777)	(995,729)
Net exposure	(21,553,271)	(334,497)	830,615	(287,467)
Canadian dollar equivalents	160,059	(1,329,137)	6,838	(1,283,196)

Based on the net Canadian dollar denominated asset and liability exposures as at March 31, 2019, a 10% fluctuation in the Canadian/US exchange rates would impact the Company's earnings for the year ended March 31, 2019 by \$132,900 (2018 - \$128,320). A 10% fluctuation in the Canadian/Rupee exchange rates would impact the Company's earnings for the year ended March 31, 2019 by \$16,000 (2018 - \$683). 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.

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15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

(iii) *Credit risk*

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

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

(iv) *Liquidity risk*

In managing of liquidity risk, the Company maintains a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations. As at March 31, 2019, the Company had working capital deficiency of \$882,261. As at March 31, 2019, the Company had cash of \$441,640 to settle accounts payable, current portion of capital lease obligation and amounts payable and loan payable of \$1,414,011 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	14,807	3,296	10,881	-	14,807
Convertible loans	1,613,085	-	2,360,000	-	2,360,000