

# **CEYLON GRAPHITE CORP.**

## **For the Period ended December 31, 2023**

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

**Date of Report: February 28, 2024**

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the period ended December 31, 2023 should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the period ended December 31, 2023. The reader should also refer to the audited consolidated financial statements for the year ended March 31, 2023 which were prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated. The MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors of the Company.

For more information about the Company, see Ceylon Graphite website at <http://www.ceylongraphite.com>. The Company has not filed an AIF Annual Information Form.

#### **Forward Looking Statements**

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.

#### **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.

On July 13, 2019, the Company incorporated a subsidiary BPA Lanka (Private) Limited ("BPA") in Sri Lanka and retained 49% interest. As at March 31, 2023, the shareholder of the remaining 51% interest has relinquished their interest in favor of Plumbago and management is in the process of reallocating the 51% interest. As Plumbago is the sole decision maker in the operations of BPA, for accounting purposes, Plumbago has control over BPA and thus the operating results of BPA have been consolidated.

On July 19, 2021, the Company incorporated a subsidiary Ceylon Graphite Technologies Ltd. ("CGT"), in the United Kingdom. This subsidiary is inactive as of the date of these consolidated financial statements.

The address of the Company's corporate office is #250 – 750 West Pender St. Vancouver, BC, V6C 2T7 and its principal place of business is in Canada with its mining assets being in Sri Lanka. This is done through a wholly owned subsidiary Sarcon Development (Private) Limited ("Sarcon"), JADS Enterprise (Pvt) Limited ("JADS"), C Y L Lanka (Private) Limited ("Lanka"), JADS Enterprise (Private) Limited ("JADS"), Mine Street (Private) Limited ("Mine Street"), BPA and CGT.

### **Going concern**

During the period ended December 31, 2023, the Company incurred a net loss of \$1,165,822 and as at December 31, 2023 had a deficit of \$21,698,729 which has been funded by the issuance of equity and a working capital deficiency of \$4,483,070. 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 has 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 form a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern.

The Company has been able to fund operations and mineral property exploration through equity financings. The continued uncertainty in the financial equity markets may make it difficult to raise capital through the private placement of shares. The junior mining industry is considered speculative in nature which could make it more difficult to fund. While the Company is using its best efforts to achieve its business plans by examining various financing alternatives, there is no assurance that the Company will be successful with its financing ventures.

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.

### **Results of Operations**

#### ***Nine months ended December 31, 2023***

These condensed interim consolidated financial statements include the assets and operations of the Company and entities it controls, Plumbago, Sarcon Development (PVT) Limited ("Sarcon"), C Y L Lanka (Private) Limited ("Lanka"), JADS Enterprise (Private) Limited ("JADS"), Mine Street (Private) Limited ("Mine Street"), BPA and CGT.

The Company reported a net loss of \$1,235,382 for the period ended December 31, 2023, as compared to a net loss of \$1,885,991 for the period ended December 31, 2022. The net loss included share-based compensation of \$52,503 during the period ended December 31, 2023 (2022 - \$431,054).

During the period, the Company incurred professional fees of \$445,242 compared to \$390,852 during the period ended December 31, 2022 due to increased third party consulting services and operational activities. The professional fees include legal fees and other related matters in Canada and Sri Lanka. The professional fees also include fees paid to officers. See related party section.

Advertising and marketing decreased to \$25,177 from \$192,799 in the period ended December 31, 2023 mainly due to less marketing efforts as the Company focused more on the operational activities during the period. This included corporate presentation, corporate materials and marketing and promotional efforts and actively promoting its business and market awareness during the period.

During the period, the Company incurred consulting fees of \$47,127 compared to \$292,450 during the period ended December 31, 2022 due to decreased third party consulting and operational activities.

Office and administrative expenses incurred were \$103,796 compared to the prior period of \$159,015 mainly due to decreased activities during the period compared to the prior period.

Rent expenses incurred were \$9,188 compared to the prior period of \$41,133 mainly due to activities in UK subsidiary during the period compared to the prior period.

Interest expense increased to \$804,499 during the period in 2023 from \$151,716 in 2022 mainly due to the interest expense and interest accretion of the convertible debentures and derivative liability.

During the period ended December 31, 2023, the Company incurred travel expenses in the amount of \$17,269 (2022 - \$71,218) related to extensive travel to Sri Lanka and other locations during the comparative period.

During the period ended December 31, 2023, the Company recorded a \$69,560 gain (2022 –\$483,892 loss) in foreign exchange translation loss to its cumulative translation account due to the changes resulting from the fluctuation of foreign exchange rates.

Wage and benefits incurred were \$23,719 compared to the prior period of \$41,909 mainly due to wage and benefits for an employee during the period compared to the prior period.

### ***Three months ended December 31, 2023***

The Company reported a net loss of \$282,452 for the period ended December 31, 2023, as compared to a net loss of 622,272 for the period ended December 31, 2022. The net loss included share-based compensation of \$48,025 during the period ended December 31, 2023 (2022 - \$115,167).

During the period, the Company incurred professional fees of \$169,140 compared to \$185,981 during the period ended December 31, 2022 due to third party consulting services and operational activities. The professional fees include legal fees and other related matters in Canada and Sri Lanka. The professional fees also include fees paid to officers. See related party section.

Advertising and marketing decreased to recovery of \$2,079 from \$66,678 expense in the period ended December 31, 2022 mainly due to less marketing efforts as the Company focused more on the operational activities during the period. This included corporate presentation, corporate materials and marketing and promotional efforts and actively promoting its business and market awareness during the period.

During the period, the Company incurred consulting fees of \$6,026 compared to \$92,711 during the period ended December 31, 2022 due to decreased third party consulting and operational activities.

Rent expenses incurred were \$Nil compared to the prior period of \$10,231 mainly due to activities in UK subsidiary during the period compared to the prior period.

Interest expense increased to \$279,277 during the quarter in 2023 from \$45,753 in 2022 mainly due to the interest expense and interest accretion of the convertible debentures and derivative liability.

During the period ended December 31, 2023, the Company incurred travel expenses in the amount of \$12,117 (2022 - \$27,676) related to travel to Sri Lanka and other locations during the comparative period.

During the period ended December 31, 2023, the Company recorded a gain of \$33,302 (2022 – loss of \$114,914) 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

	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
	\$	\$	\$	\$
Net Loss	(282,452)	(456,621)	(496,303)	(1,596,913)
Loss per Share	(0.00)	(0.00)	(0.00)	(0.01)

  

	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
	\$	\$	\$	\$
Net Loss	(622,272)	(608,257)	(625,462)	(843,144)
Loss per Share	(0.00)	(0.00)	(0.00)	(0.01)

Significant factors and trends that have impacted Ceylon’s results during the years presented above include the following:

- a) The Company incurred \$1,279,684 of stock-based compensation in the year ended March 31, 2022 for issuing stock options, to consultants, directors and officers of the Company.
- b) The Company incurred the \$238,841 of stock-based compensation in the year ended March 31, 2023 for issuing stock options, to consultants, directors and officers of the Company.
- c) The Company incurred the \$821,493 of loss on settlement of liability in the year ended March 31, 2023.

### Liquidity

The Company has total assets of \$4,884,388 as at December 31, 2023 consisting of cash, amounts receivable, prepaid expenses, equipment and exploration and evaluation assets. The Company has negative working capital of \$4,483,070.

At December 31, 2023, the Company had cash of \$229,283. The Company has an amount payable of \$1,049,896 (US\$1,125,000) (March 31, 2023 - \$875,836 or US\$1,375,000) and a derivative liability of \$399,735 (US\$301,535) (March 31, 2023 - \$788,310 (US\$582,703)) related the amount due to the former shareholder of Sarcon in connection with the Agreement described in Note 6 in the unaudited

condensed consolidated interim financial statements for the period ended December 31, 2023 on [www.sedarplus.ca](http://www.sedarplus.ca). The amount is unsecured and non-interest bearing.

During the nine month period ended December 31, 2023, the Company:

- i) used cash of \$137,345 in operating activities.
- ii) used cash of \$200,812 in investing activities, consisting primarily of \$192,362 on exploration expenditures.
- iii) had cash provided by financing activities of \$365,000, primarily from proceeds received from convertible debentures, net of \$9,996 paid on capital leases.

## **Capital Resources**

### **Convertible Debentures #1**

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 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 in finders' fees related to the convertible debentures.

On February 5, 2021, the Company modified the maturity date of the convertible debentures from May 23, 2021 to November 23, 2021. In addition, the interest rate increased from 6% to 8%. In connection with the modification, the Company issued 1,000,000 warrants exercisable at \$0.22 per warrant, expiring in one year, as compensation to the debenture holders. The value of the warrants arising from the debt modification was \$273,168, which was recorded as a transaction cost and applied against the carrying value of the debt.

On November 24, 2021, the maturity date of the convertible debentures was extended to November 23, 2022 and the expiry date of the original 4,000,000 warrants issued was extended to November 23, 2022.

On November 1, 2022, the maturity date of the convertible debentures was further extended to November 23, 2023 and the expiry date of the original 4,000,000 warrants issued was further extended to November 23, 2023.

On November 23, 2023, the Company amended the conversion price of an aggregate principal amount of \$1,750,000 of the 2018 convertible debentures to \$0.15 and amended the maturity date to November 23, 2024. In addition, the Company has agreed to issue 5,833,333 warrants, valued at \$95,682 to replace the warrants originally issued. Each replacement warrant is exercisable for one common share of the Company at a price of \$0.15 until November 23, 2024. A total principal amount of \$100,000 of the convertible debentures were not extended and matured on November 23, 2023. All securities issued and issuable in connection with the Replacement Warrants are subject to a four month and one day hold period from the dated of issuance in accordance with Canadian securities laws.

## **Convertible Debentures #2**

On October 27, 2023, the Company closed a non-brokered private placement of C\$365,000 (the “Financing”) of 9% senior secured convertible debenture units of the Company (the “Debenture Units”). The net proceeds from the Financing shall be used for operating expenses for the Company’s mining projects and deposits for the renewal of mining licenses in Sri Lanka, and for working capital and general corporate purposes. Each Debenture Unit consists of: (i) C\$1,000 principal amount of 9% senior secured convertible debenture of the Company (each, a “Debenture”); and (ii) 20,000 common share purchase warrants of the Company (each, a “Warrant”), with each Warrant exercisable for one common share of the Company (a “Warrant Share”) at an exercise price of C\$0.06 per Warrant Share for a period of one year from the date of issuance. A total of 7,300,000 Warrants were issued and are exercisable for 7,300,000 Warrant Shares. An aggregate of C\$365,000 principal amount of Debentures was subscribed for and are convertible for up to 7,300,000 common shares of the Company (each, a “Debenture Share”) at the option of the holder thereof at any time prior to the date that is one year from the date of issuance at a conversion price of C\$0.05 per Debenture Share. The Debentures shall bear interest at an annual rate of 9%, payable in cash semi-annually in arrears. Interest on the Debentures may alternatively be paid in common shares of the Company (the “Common Shares”) at the Company’s option, subject to the approval of the TSXV. An entity controlled by the Company’s CEO has pledged publicly traded shares of a third party to secure the Company’s obligations under the Debentures. In addition, the Debentures are secured against all of the present and after acquired personal property of the Company. In connection with the Financing, the Company has issued to eligible finders an aggregate of: (i) 455,000 finders warrants (the “Finder’s Warrants”) entitling the holder to acquire one unit of the Corporation (a “Finder Unit”) at an exercise price of \$0.05 at any time up to one year from the date of issuance, with each Finder Unit comprised of one Common Share and one Warrant, with each such Warrant exercisable for one Warrant Share at a price of \$0.06 per Warrant Share for a period of one year from the date of issuance of the Finder Unit, and (ii) 455,000 Finder Units.

## **Off Balance Sheet Arrangements**

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

## **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:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
	\$	\$
Consulting fees – CEO	90,000	12,500
Consulting fees – CFO	20,000	85,500
Consulting fees – Former CFO	52,250	114,300
Consulting fees – Director	-	116,199
Directors’ fees	27,000	27,000
Share-based payments	52,080	286,742
	<b>241,330</b>	<b>642,241</b>

The Company has an amount payable of \$1,049,896 (US\$1,125,000) (March 31, 2023 - \$875,836 or US\$1,375,000) and a derivative liability of \$399,735 (US\$301,535) (March 31, 2023 - \$788,310 (US\$582,703)) related to amounts due to the former shareholder of Sarcon in connection with the Agreement described in Note 6. The amount is unsecured and non-interest bearing.

As at December 31, 2023, the Company has amounts payable of \$144,401 (March 31, 2023 - \$56,750) due to certain directors and officers of the Company. The amounts payable are unsecured and non-interest bearing.

### **Commitment and Contingencies**

From time to time, the Company is engaged in various legal proceedings and claims that have arisen in the normal course of business. The outcome of all the proceedings and claims against the Company is subject to future resolution, including the uncertainties of litigation. Management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Company.

In March 2018, Plumbago acquired 40% interest in Lanka by paying 2,849,925 Rupees. 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 by paying 2,296,536 Rupees. 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 shares of Lanka or its nominee, for the first 5 years and 3% for the next 5 years. To date, no profit has been earned and as a result no shares have been issued.

### **Overview**

On July 6, 2023, the Company announced the Company has received new inbound sales inquiries and continues to advance commercial discussions with a range of buyers including those seeking direct ship material, others for value-added end products, graphene products and anode material production.

On July 19, 2023, the Company announced that Ceylon graphite achieved new concentration and conductivity records when studied in the manufacture of an adaptable sensing platform for chemical sensing. The research, published in the Royal Society of Chemistry’s “Nanoscale” Journal, was conducted by partners at the Molecular Sciences Research Hub at Imperial College London and specifically incorporated Ceylon’s vein graphite to produce a low-surface-tension sprayable graphene ink that was key to the sensor’s functionality.

August 2, 2023 - Ceylon Graphite Corp. ("Ceylon") (TSX-V: CYL) (OTC: CYLYF) (FSE: CCY) is pleased to announce it has entered into a distribution agreement dated August 1, 2023, with Advanced Performance Materials LLC (“APM”), a materials and chemical technology specialist company.

### **Changes in Accounting Policies**

There was no change in accounting policies for the period ended December 31, 2023.

### **Financial Instruments and Other Instruments**

Please refer to Note 12 in the unaudited condensed consolidated interim financial statements for the period ended December 31, 2023 on [www.sedarplus.ca](http://www.sedarplus.ca)

## Outstanding Shares, Options, Warrants and Debentures

### Common Shares

As at February 28, 2024, the Company had 174,009,123 common shares outstanding.

### Stock Options

As at February 28, 2024, the Company had options outstanding enabling holders to acquire the following:

Number of Stock Options Outstanding	Number of Stock Options Exercisable	Exercise Price	Expiry Date
50,000	50,000	\$0.20	15-May-24
2,750,000	2,750,000	\$0.22	19-Nov-25
1,000,000	1,000,000	\$0.36	20-Jan-26
100,000	100,000	\$0.22	1-Mar-26
85,714	85,714	\$0.14	2-Sep-26
4,000,000	4,000,000	\$0.20	26-Jan-27
500,000	500,000	\$0.16	20-May-27
2,500,000	1,250,000	\$0.05	22-Nov-28
<b>10,985,714</b>	<b>9,735,714</b>		

### Warrants convertible into shares

As at February 28, 2024, the Company had warrants outstanding enabling holders to acquire the following:

Number of Warrants	Exercise Price	Remaining Contractual Life (in years)	Expiry Date
29,663,566	\$0.15	0.81	October 22, 2024*
7,300,000	\$0.06	0.82	October 26, 2024
455,000	\$0.06	0.82	October 26, 2024
21,265,000	\$0.15	0.83	October 28, 2024**
5,833,333	\$0.15	0.90	November 23, 2024
21,875,000	\$0.25	1.36	May 10, 2025
1,640,625	\$0.16	1.36	May 10, 2025
88,032,524	\$0.19	0.97	

\* expiry date extended from October 22, 2023 to October 22, 2024

\*\*expiry date extended from October 28, 2023 to October 28, 2024

### Warrants convertible into Units

As at February 28, 2024, the Company had 455,000 warrants outstanding enabling holders to acquire one unit of the Company at an exercise price of \$0.05 for one year. Each unit comprised is comprised of one common share and one share purchase warrant exercisable at a price of \$0.06 per for a period of one year from the date of issuance.

### Debentures

Please refer to the unaudited condensed consolidated interim financial statements for the period ended December 31, 2023 on [www.sedarplus.ca](http://www.sedarplus.ca)

## **Loans Payable**

During the year ended March 31, 2021, the Company received a \$40,000 loan from the Canada Emergency Business Account (CEBA). The loan has 0% interest until January 18, 2024, thereafter interest is at 5% per annum starting on January 19, 2024. No principal repayments are required before January 18, 2024, and if the loan remains outstanding after January 18, 2024, only interest payments are required until full principal is due on December 31, 2025. Payment of the loan balance on or before January 18, 2024 will result in loan forgiveness of 25% (up to \$10,000).

As at December 31, 2023, the Company had a loan payable of \$6,041 (March 31, 2023 - \$1,541) due to the CEO of the Company. The loan is unsecured, non-interest bearing with no fixed term for repayment.

## **RISK FACTORS**

An investment in Ceylon Graphite is subject to risks and uncertainties. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the value of any investment in the Company and the business, prospects, financial position, financial condition or operating results of the Company. Prospective investors should carefully consider the information presented in this Annual Information Form, including the following risk factors, which are not an exhaustive list of all risk factors associated with an investment in the Company or the Company's shares or in connection with the operations of the Company:

### *General Exploration & Mining Risks*

The Company is engaged in the business of mineral exploration and production of graphite in historic resource jurisdictions in Sri Lanka. Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs and its development of its properties, which may be affected by a number of factors beyond its control.

Any exploration, development and operation of a mine is inherently dangerous and involves many risks, that even a combination of experience, knowledge and careful evaluation may not be able to reduce or eliminate, including: unusual or unexpected geological formations; metallurgical and other processing problems; metal losses; environmental hazards; power outages; labour disruptions; industrial accidents; periodic interruptions due to inclement or hazardous weather conditions; flooding, explosions, fire, rock bursts, cave-ins and landslides; mechanical equipment and facility performance problems; and the availability of materials and equipment. These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury or death, including to the Company's employees, environmental damage, delays in mining, increased production costs, asset write-downs, monetary losses and possible legal liability. The Company may become subject to liability for such matters against which it cannot insure or against which it may elect not to insure. The payment of such liabilities may have a material, adverse effect on its financial position.

The Company will continue to rely upon consultants and others for exploration and development expertise. Expenditures will be required to establish ore reserves through drilling, to develop processes to extract minerals from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. The economics of developing mineral properties is affected by many factors including the cost of operations, variations in the grade of minerals mined, fluctuations in precious and base metal markets, production limits, importing and exporting of minerals and environmental protection.

#### *Dependence on the Property*

The Company is an early production stage company with several exploration stage properties and as such does not anticipate receiving significant revenue from its mineral properties for some time. The Company is focused on the exploration and development of its exploration stage properties, which may not have any identified mineral resources or reserves. Any adverse developments affecting its current properties could have a material adverse effect upon the Company and would materially and adversely affect any profitability, financial performance and results of operations of the Company.

Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development programs at its exploration stage properties will result in the definition of bodies of commercial mineralization. There is also no assurance that even if commercial quantities of mineralization are discovered that any of these properties will be brought into commercial production. Failure to do so will have a material adverse impact on the Company's operations and potential future profitability. The discovery of bodies of commercial mineralization is dependent upon a number of factors, not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit once discovered is also dependent upon a number of factors, some of which are the particular attributes of the deposit (such as size, grade and proximity to infrastructure), metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Most of the above factors are beyond the Company's control.

#### *Limited Operating History*

The Company is an early stage company and owns certain producing properties as well as exploration stage properties. As such, the Company will be subject to all of the business risks and uncertainties associated with any new business enterprise, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. The current state of the Company's properties may require additional expenditures before cash flow may be generated. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of its success must be considered in light of its early stage of operations.

#### *Mining Decision*

The Company may choose to initiate mining operations on any part of its various current or future properties, without basing its production decision on a feasibility study, preliminary economic assessment or mining study of mineral reserves demonstrating economic and technical viability, and therefore be subject to a higher risk of uncertainty. There is no assurance, given all of the known and potentially unknown risks associated with such properties that the Company will be able to profitably carry on mining operations. In addition, there is no assurance that continued exploration of the properties will demonstrate adequate additional mineralization which can be mined economically, such that mining operations on those properties may not be sustainable.

#### *Mining Operations and Insurance*

Mining operations generally involve a high degree of risk. The Company's operations will be subject to all of the hazards and risks normally encountered in mineral exploration and development. Such risks include unusual and unexpected geological formations, seismic activity, rock bursts, cave-ins, water inflows, fires and other conditions involved in the drilling and removal of material, environmental hazards, industrial accidents, periodic interruptions due to adverse weather conditions, labor disputes, political unrest and theft. The occurrence of any of the foregoing could result in damage to, or destruction of, mineral properties or interests, production facilities, personal injury, damage to life or property, environmental damage, delays or interruption of operations, increases in costs, monetary losses, legal liability and adverse government action. The Company does not currently carry insurance against these risks and there is no assurance that such insurance will be available in the future, or if available, at economically feasible premiums or acceptable terms. The potential costs associated with

losses or liabilities not covered by insurance coverage may have a material adverse effect upon the Company's financial condition.

*Cost Overruns, Delays and Construction Risk*

Subject to securing future mine development financing, the Company may encounter risks associated to potential cost overruns, delays and construction.

*Governmental and Environmental Regulation, Permits and Compliance*

The future operations of the Company, including exploration and development activities and the commencement and continuation of commercial production, require licenses, permits or other approvals from various federal, provincial and local governmental authorities and such operations are or will be governed by laws and regulations relating to prospecting, development, mining, production, exports, taxes, labor standards, occupational health and safety, waste disposal, toxic substances, land use, water use, environmental protection, land claims of indigenous people and other matters. The Company believes that all of its properties are in compliance with all material laws and regulations which currently apply to its activities. There can be no assurance, however, that the Company will obtain on reasonable terms or at all the permits and approvals, and the renewals thereof, which it may require for the conduct of its future operations or that compliance with applicable laws, regulations, permits and approvals will not have an adverse effect on plans to develop the M1 and K1 properties. Possible future environmental and mineral tax legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delay on the Company's planned exploration and operations, the extent of which cannot be predicted.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

*Reliance on Management and Experts*

The success of the Company will be largely dependent upon the performance of its senior management and directors. Due to the relative small size of the Company, the loss of these persons or the inability of the Company to attract and retain additional highly skilled employees may adversely affect its business and future operations. The Company has not purchased any "key-man" insurance nor has it entered into any non-competition or non-disclosure agreements with any of its directors, officers or key employees and has no current plans to do so

The Company has hired and may continue to rely upon consultants and others for geological and technical expertise. The Company's current personnel may not include persons with sufficient technical expertise to carry out the future development of the Company's properties. There is no assurance that suitably qualified personnel can be retained or will be hired for such development.

*Competition*

The mineral exploration and mining business is competitive in all of its phases. The Company competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources, in the search for and the acquisition of attractive mineral properties. The mining industry is facing a shortage of equipment and skilled personnel and there is intense competition for experienced geologists, field personnel, contractors and management. There is no assurance that the Company will be able to compete successfully with others in acquiring such equipment or personnel.

### *Conflicts of Interest*

Certain of the directors and officers of the Company also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently, there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company should be made in accordance with their fiduciary duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders.

In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the *Canada Business Corporations Act* and other applicable laws.

### *Competitive Conditions*

The mineral exploration and mining business is competitive in all phases of exploration, development and production. The Company competes with a number of other entities in the search for and acquisition of productive mineral properties. As a result of this competition, the majority of which is with companies with greater financial resources than the Company, the Company may be unable to acquire attractive properties in the future on terms it considers acceptable. The Company also competes for financing with other resources companies, many of whom have greater financial resources and/or more advanced properties. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company.

### *Country Risks*

The Company's mineral properties are located in and its activities are conducted in Sri Lanka and as such the Company is and will be exposed to various levels of political, economic and other risks and uncertainties associated with carrying on business in Sri Lanka. These risks include but are not limited to, political instability, an unpredictable legal system, civil unrest, inconsistent and unsophisticated land tenure system, government land policy and government ownership of or participation in mining projects, high levels of corruption, significant delays in permitting and approvals, fluctuations in currency exchange rates, high rates of inflation, excessive import duties and taxes on the importation of equipment, expropriation and nationalization, restrictions on foreign ownership, possible future restrictions on foreign exchange and repatriation, changes in taxation, labour and mining regulations and policies, and changing political conditions, currency controls, and government regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ local citizens.

Changes, if any, in mining or investment policies, or shifts in political attitude in Sri Lanka, may adversely affect the Company's operations or profitability. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications, and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

Recent political instability in Sri Lanka has resulted in an environment of uncertainty surrounding the Company's ability to procure sufficient resources in order to continue its exploration activities and to renew or maintain its exploration and mining licenses in good standing. To address the risk associated with the uncertainty, management is working pro-actively to secure supplies required for the Company's operations in bulk using foreign currency. For any licenses currently under renewal, the Company continues to make the required maintenance payments while awaiting the issuance of the new licenses.

#### *Title Risks*

Title to mineral properties, as well as the location of boundaries on the ground may be disputed. While the Company has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. There can be no assurance that the Company's interests in such properties will not be subject to undetected defects including but not limited to prior unregistered agreements or transfers or native land claims which may affect title. Management believes that the Company has sufficient contractual, statutory, or common law rights to all of its properties in order to carry out its activities.

#### *Commodity Prices*

The price of the Company's securities, its financial results and its exploration, development and mining activities have previously been, or may in the future be, significantly adversely affected by declines in the price of graphite. Industrial mineral prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of industrial minerals by various dealers, interest rates, exchange rates, inflation or deflation, currency exchange fluctuation, global and regional supply and demand, production and consumption patterns, speculative activities, increased production due to improved mining and production methods, government regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, environmental protection, the degree to which a dominant producer uses its market strength to bring supply into equilibrium with demand, and international political and economic trends, conditions and events. The prices of industrial minerals have fluctuated widely in recent years, and future price declines could cause continued exploration and development of all of its properties to be impracticable.

Further, reserve calculations and life-of-mine plans using significantly lower graphite prices could result in material write-downs of the Company's investment in all of its properties and increased amortization, reclamation and closure charges.

In addition to adversely affecting reserve estimates and the Company's financial condition, declining graphite prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

#### *Market for Securities*

In recent years, securities markets in Canada and elsewhere have from time to time experienced high levels of price and volume volatility. Consequently, the market prices of the securities of many public companies have experienced significant fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Factors such as commodity prices, government regulation, interest rates, share price movements of the Company's peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of the Company's securities.

#### *Financing Risks*

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. Management is continuing in its efforts to attract additional equity and capital investors and implement cost control measures to maintain adequate levels of working capital. Nevertheless, there can be no assurance provided with respect to the successful outcome of these ongoing actions nor can there be assurance that additional funding will be available to it for further exploration and development of its projects or to fulfill its obligations under any applicable agreements. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite

postponement of further exploration and development of its projects and could cause the Company to reduce or terminate its operations. Additional funds raised by the Company from treasury share issuances may result in further dilution to the shareholders of the Company or a change of control.

#### *Infrastructure*

Exploration, development and processing activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important elements of infrastructure, which affect access, capital and operating costs. The lack of availability on acceptable terms or the delay in the availability of any one or more of these items could prevent or delay exploration or development of the properties. If adequate infrastructure is not available in a timely manner, there can be no assurance that the exploration or development of the properties will be commenced or completed on a timely basis, if at all. Furthermore, unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of necessary infrastructure could adversely affect the Company's operations.

#### *Corruption and Anti-Bribery*

The Company must comply with anti-corruption and anti-bribery laws, including the Canadian Corruption of Foreign Public Officials Act as well as similar laws in the countries in which the Company conducts its business. Such laws apply to all directors, officers, employees, consultants and agents of the Company and each subsidiary thereof. If the Company finds itself subject to an enforcement action or is found to be in violation of such laws, this may result in significant penalties, fines and/or sanctions imposed on the Company, which may have a material adverse effect on it.

#### *No Assurances*

There is no assurance that economic mineral deposits will ever be discovered, or if discovered, subsequently put into production. Most exploration activities do not result in the discovery of commercially mineable deposits. The Company's future growth and profitability will depend, in part, on its ability to identify and expand its mineral reserves through additional exploration of its properties and on the costs and results of continued exploration and development programs.

Mining exploration is highly speculative in nature, involves many risks and frequently is not productive. Most exploration projects do not result in the discovery of commercially mineable ore deposits and no assurance can be given that any anticipated level of recovery of mineral reserves will be realized or that any identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body which can be legally and economically exploited. There can be no assurance that the Company's exploration efforts at its properties will be successful.

#### *Operating Hazards, Uninsurable Risks and Insurance*

The ownership, exploration, operation and development of a mine or mineral property involves many risks which even a combination of experience, knowledge and careful evaluation may not be able to reduce or eliminate. These risks include environmental hazards, industrial accidents, explosions and third-party accidents, the encountering of unusual or unexpected geological formations, ground falls and cave-ins, mechanical failure, unforeseen metallurgical difficulties, power interruptions, flooding, earthquakes and periodic interruptions due to inclement or hazardous weather conditions. These occurrences could result in environmental damage and liabilities, work stoppages, delayed production and resultant losses, increased production costs, damage to, or destruction of, mineral properties or production facilities and resultant losses, personal injury or death and resultant losses, asset write downs, monetary losses, claims for compensation of loss of life and/or damages by third parties in connection with accidents (for loss of life and/or damages and related pain and suffering) that occur on Company property, and punitive awards in connection with those claims and other liabilities.

It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise they could reduce or eliminate any future profitability and result in an increase in costs and a decline in

value of the Company's securities. Liabilities that the Company incurs may exceed the policy limits of insurance coverage or may not be covered by insurance, in which event the Company could incur significant costs that could adversely impact its business, operations, potential profitability or value. Despite efforts to attract and retain qualified personnel, as well as the retention of qualified consultants, to manage the Company's interests, even when those efforts are successful, people are fallible and human error could result in significant uninsured losses. These could include loss or forfeiture of mineral interests or other assets for non-payment of fees or taxes, significant tax liabilities in connection with any tax planning effort the Company might undertake and legal claims for errors or mistakes by personnel.

#### *Environmental Risks and Hazards*

All phases of the Company's operations will be subject to environmental regulation in the jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation and provide for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry activities and operations. They also set forth limitations on the generation, transportation, storage and disposal of hazardous waste. A breach of such regulation may result in the imposition of fines and penalties. In addition, certain types of mining operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.

While management of the Company believes that the Company is in compliance with all material laws and regulations which currently apply to the activities of the Company. There is no assurance that, notwithstanding the precautions and limited history of activities of the Company, breaches of environmental laws (whether inadvertent or not) or environmental pollution will not result in additional costs or curtailment of planned activities and investments, which could have a material and adverse effect on future cash flows, earnings, results of operations and financial condition of the Company. Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Companies engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws even where there has been no intentional wrong-doing.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or any future production costs or require abandonment or delays in the development of new mining properties. Companies engaged in the exploration and development of mineral properties may from time to time experience increased costs and delays in exploration and production as a result of the need to comply with applicable laws, regulations and permits.

#### *General Economic Conditions*

The unprecedented events in global financial markets in the past several years have had a profound impact on the global economy. Many industries, including the mining industry, continue to be negatively impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations, high volatility in global equity, commodity, foreign exchange and devalued precious and base metal markets combined with a lack of market liquidity. A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment

rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, tax rates and base and precious metals pricing may adversely affect the Company's growth and profitability.

#### *Land Reclamation Requirements*

Land reclamation requirements are generally imposed on mineral exploration companies (as well as companies with mining operations) in order to minimize long term effects of land disturbance. Reclamation may include requirements to: control dispersion of potentially deleterious effluents; and reasonably re-establish pre-disturbance land forms and vegetation. In order to carry out reclamation obligations imposed on the Company in connection with exploration, development and production activities, the Company must allocate financial resources, including funds required to post reclamation bonds, that might otherwise be spent on further exploration and development programs.

#### *Dilution*

The Company may sell additional equity securities in subsequent offerings (including through the sale of securities convertible into Common Shares) and may issue additional equity securities to finance its operations, exploration, development, acquisitions or other projects. The Company cannot predict the size of future sales and issuances of equity securities or the effect, if any, that future sales and issuances of equity securities will have on the market price of the Company's shares.

#### *Future Sale of Shares*

Future sales of the Company's shares by large shareholders or other shareholders could decrease the value of the Company's shares. Sales of a substantial number of Company's Common Shares, or the perception that such sales could occur, may adversely affect prevailing market prices for the Company's Common Shares.

#### *Dividends*

The Company has not declared or paid any dividends on the Company's Common Shares. The Company intends to retain future earnings, if any, to finance the growth and development of its business and does not intend to pay cash dividends on the Company's Common Shares in the foreseeable future.

#### *The Company may Incur Losses for the Foreseeable Future*

The Company expects to incur losses unless and until such time as the Company's operations generate sufficient revenues to fund continuing operations. The Company cannot provide assurance that it will ever achieve profitability.

#### *Litigation*

The Company and/or its directors and officers may be subject to a variety of civil or other legal proceedings, with or without merit. From time to time in the ordinary course of its business, the Company may become involved in various legal proceedings, including commercial, employment and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause the Company to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any such actions may have a material adverse effect on the Company's business, operating results or financial condition.

#### *Global COVID-19 Outbreak & Future Pandemic*

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses in Canada and throughout the world as a result of the restrictions put in place by the federal, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel

restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, this outbreak may also hinder the Company's ability to raise financing due to uncertain capital markets, reduced customer demand, supply chain disruptions, increased government regulations and other unanticipated factors, all of which may also negatively impact the Company's business and financial condition. In addition, it is unclear what further impact COVID-19 or any other future pandemic may have on the Company's future operations in Sri Lanka. There can be no assurance that COVID-19 or any future pandemic will not disrupt the mining operations of the Company. Increased government regulations, mandatory quarantine orders and other health and safety protocols may result in reduced or limited operations, temporary or permanent closures of properties, loss of personnel or other unanticipated results.