



GRATOMIC INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Gratomic Inc.

Opinion

We have audited the consolidated financial statements of Gratomic Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and December 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's 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 audit of the consolidated 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 in the consolidated financial statements, which indicates that the Company recorded a net loss of \$ 3,643,639 and, as at December 31, 2020, the Company had an accumulated deficit of \$ 20,542,115 and a working capital of \$ 437,199. 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. The other information comprises the information included in Management's Discussion and Analysis.

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 audit 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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 in this auditor's report. 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, 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.

Auditor's 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 auditor's 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 audit. 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 audit 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 auditor's 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 auditor's 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 consolidated 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.



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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit 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 audit resulting in this independent auditor's report is Gordon Cummings.

Vancouver, B.C.
February 24, 2021

A handwritten signature in black ink that reads 'D&H Group LLP'.

Chartered Professional Accountants

GRATOMIC INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian Dollars

		December 31,	
	Notes	2020	2019
		\$	\$
Assets			
Current			
Cash		1,102,848	127,100
Amounts receivable	3	367,182	262,788
Prepays		262,096	17,440
		1,732,126	407,328
Exploration and evaluation assets	4	5,713,285	5,619,111
Long term prepaids		-	154,515
Property and equipment	5	2,516,412	2,460,672
		9,961,823	8,641,626
Liabilities			
Current			
Amounts payable and accrued liabilities	9	737,392	1,117,355
Convertible debentures	7	557,535	-
		1,294,927	1,117,355
Long Term			
Decommissioning liability		100,000	50,000
Total liabilities		1,394,927	1,167,355
Shareholders' equity			
Share capital	8	23,562,864	19,769,634
Reserves		3,915,985	3,004,584
Deficit		(20,542,115)	(16,898,476)
Equity attributable to owners of the Company		6,936,734	5,875,742
Non- controlling interest	6	1,630,162	1,598,529
Total equity		8,566,896	7,474,271
Total shareholders' equity and liabilities		9,961,823	8,641,626
Nature of operations and going concern	1		
Commitments and contingencies	14		
Subsequent event	15		
"Arno Brand"		"Walter Luke"	
Director		Director	

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

GRATOMIC INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Expressed in Canadian Dollars

		Years ended December 31,	
	Notes	2020	2019
		\$	\$
Operating expenses			
Consulting		7,029	638,911
Filing fees and permits		56,945	47,456
Investor relations		5,526	37,636
Interest		200,350	-
Management fees		321,739	728,000
Marketing		499,431	697,592
Office and other		485,394	672,327
Professional fees		239,127	183,691
Share-based compensation	8(II)	624,000	44,033
Travel, meals and accomodation		22,353	225,957
Net loss before the following		(2,461,894)	(3,275,603)
Impairment of fixed assets	5	(541,470)	-
Shareholder indemnification	14	(150,000)	-
Gain (loss) on debt settlement	8(I)	(490,275)	72,310
Loss on disposal of marketable securities		-	(40,995)
Net loss and comprehensive (loss) for the year		(3,643,639)	(3,244,288)
Comprehensive loss for the year attributable to:			
Owners of the Company		(3,643,639)	(3,244,288)
Non-controlling interests		-	-
		(3,643,639)	(3,244,288)
Basic and diluted loss per share		(0.07)	(0.09)
Weighted average number of shares outstanding		49,534,340	34,217,504

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

GRATOMIC INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
Expressed in Canadian Dollars

	2020	2019
	\$	\$
Operating Activities		
Net loss for the year	(3,643,639)	(3,244,288)
Non-cash items:		
(Gain) loss on disposal of fixed assets	(4,175)	3,686
Share-based compensation	624,000	44,033
Loss on disposal of marketable securities	-	40,995
(Gain) Loss on debt settlement	489,509	(72,310)
Accretion expense	127,084	-
Impairment of fixed assets	541,470	-
Change in receivable	(104,394)	233,204
Change in prepaid expenses	(244,655)	435,927
Change in accounts payable and accrued liabilities	(26,879)	632,382
Cash used for operating activities	(2,241,681)	(1,926,371)
Investing Activities		
Exploration and evaluation expenditures	(47,882)	(545,342)
Long term prepaids	154,515	(154,515)
Purchase of property and equipment	(657,655)	(508,145)
Proceeds on disposal of marketable securities	-	59,000
Cash used for investing activities	(551,022)	(1,149,002)
Financing Activities		
Proceeds on disposal of fixed assets	18,328	71,333
Proceeds from issuance of common shares from private placements	873,188	502,812
Share issuance costs - cash	(109,133)	(28,346)
Convertible debenture proceeds	1,500,000	-
Convertible debenture cash issue costs	(202,477)	-
Options exercised	79,500	-
Warrants exercised	1,609,044	98,130
Cash provided by financing activities	3,768,450	643,929
Increase (decrease) in cash	975,748	(2,431,444)
Cash, beginning of year	127,100	2,558,544
Cash, end of year	1,102,848	127,100
Supplemental information		
Non-cash transactions	\$	\$
Warrants issued in payment of agent's fee	148,714	11,305
Amortization included in exploration and evaluation assets	46,292	70,707
Debt settled with shares	525,588	-
Non-controlling interest carried interest	31,633	227,939
Debentures converted to common shares	797,000	-

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

GRATOMIC INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
Expressed in Canadian Dollars

		Share	Share-based		Attributable	Non-controlling	Total	
	Notes	Number of	capital	payment reserves	Deficit	to owners	Interest	Equity
		shares	\$	\$	\$	\$	\$	\$
December 31, 2018		33,735,739	19,196,978	3,179,500	(13,654,188)	8,722,290	1,370,590	10,092,880
Shares issued for warrants exercised	8(I)	198,600	98,130	-	-	98,130	-	98,130
Original estimated fair value of warrants exercised	8(I)	-	2,315	(2,315)	-	-	-	-
Shares issued for private placements	8(I)	8,938,888	502,812	-	-	502,812	-	502,812
Share issuance costs - cash	8(I)	-	28,346	-	-	(28,346)	-	(28,346)
Share issuance costs - broker warrants	8(III)	-	(11,305)	11,305	-	-	-	-
Shares issued on debt settlement	8(I)	180,991	9,050	-	-	9,050	-	9,050
Share-based compensation		-	-	44,033	-	44,033	-	44,033
Non-controlling interests carried interest	6	-	-	(227,939)	-	(227,939)	227,939	-
Net loss for the year		-	-	-	(3,244,288)	(3,244,288)	-	(3,244,288)
December 31, 2019		43,054,228	19,769,634	3,004,584	(16,898,476)	5,875,742	1,598,529	7,474,271
Shares issued on unit private placements	8(I)	14,689,996	873,188	-	-	873,188	-	873,188
Private placement share issue cash costs	8(I)	-	(109,133)	-	-	(109,133)	-	(109,133)
Share issuance costs, broker warrants	7(III)	-	(179,748)	179,748	-	-	-	-
Private placement allocation of proceeds to warrants	8(I)	-	(59,916)	59,916	-	-	-	-
Estimated value of the debenture conversion option	7	-	-	162,301	-	162,301	-	162,301
Debenture conversion option cash issue costs		-	-	(21,908)	-	(21,908)	-	(21,908)
Debenture conversion option non-cash issue costs		-	-	(12,966)	-	(12,966)	-	(12,966)
Valuation of warrants underlying the debenture	8(I)	-	-	119,831	-	119,831	-	119,831
Shares issued for debt settlement	8(I)	4,450,079	756,513	-	-	756,513	-	756,513
Shares issued for services	8(I)	294,514	36,080	-	-	36,080	-	36,080
Options exercised	8(II)	530,000	79,500	-	-	79,500	-	79,500
Original estimated fair value of options exercised	8(II)	-	68,900	(68,900)	-	-	-	-
Warrants exercised	8(I)	16,192,371	1,609,044	-	-	1,609,044	-	1,609,044
Original estimated fair value of warrants exercised	8(I)	-	12,753	(12,753)	-	-	-	-
Debentures converted to share capital	8(I) & 7	13,283,333	619,814	-	-	619,814	-	619,814
Original estimated fair value of debentures converted	8(I)	-	86,235	(86,235)	-	-	-	-
Share-based compensation	8(II)	-	-	624,000	-	624,000	-	624,000
Non-controlling interests carried interest	6	-	-	(31,633)	-	(31,633)	31,633	-
Net loss for the year		-	-	-	(3,643,639)	(3,643,639)	-	(3,643,639)
December 31, 2020		92,494,521	23,562,864	3,915,985	(20,542,115)	6,936,734	1,630,162	8,566,896

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

GRATOMIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1. NATURE OF OPERATIONS AND GOING CONCERN

Gratomic Inc. (hereafter the “Company”) was incorporated under the Business Corporations Act (Ontario), and is listed on the TSX Venture Exchange (TSX-V: GRAT). The Company’s corporate office is located at Bay Adelaide Centre - East Tower, 22 Adelaide Street West, Suite 3600, Toronto, Ontario M5H 4E3. The Company is a junior exploration company engaged in the acquisition and exploration of assets located primarily in Canada and Namibia.

The Company’s ability to realize the costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation assets and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory, environmental and social requirements.

These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The Company has incurred a loss for the years ended December 31, 2020 of \$3,643,639 and has an accumulated deficit of \$20,542,115. The Company is a junior mining company and is subject to risks and challenges similar to other companies in a comparable stage. These risks include, but are not limited to, dependence on key individuals, investment risks, market risks, and the ability to maintain adequate cash flows, and continuing as a going concern. Cash on hand is currently not adequate to cover expected expenditures for the next 12-months and therefore the Company will be required to secure additional funding. These challenges and the continued cumulative operating losses cast significant doubt on the Company’s ability to continue as a going concern. These consolidated statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern. Such adjustments can be material.

On March 11, 2020 the World Health Organization declared the outbreak of a novel coronavirus, identified as “COVID-19”, as a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets. The Company has implemented safety and physical distancing procedures, including working from home where possible and limited travel within Namibia and internationally. The Company will continue to monitor the impact of the COVID-19 outbreak, the duration and impact which is unknown at this time, as is the efficacy of any intervention. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods.

GRATOMIC INC.
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The consolidated financial statements of the Company for the years ended December 31, 2020 and 2019 were authorized for issuance in accordance with a resolution of the board of directors on February 24, 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company.

These consolidated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS represents standards and interpretations approved by the IASB, and are comprised of IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") and the former Standing Interpretations Committee ("SICs").

The consolidated financial statements are prepared on a going concern basis, under the historical cost convention, except for certain financial assets and liabilities which have been measured at fair value.

Critical judgements and sources of estimation uncertainty

Critical judgements exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

i) Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flows, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

ii) Capitalization of deferred exploration costs

Minority interest and equity are adjusted to reflect the ownership interest of consolidated subsidiaries in which a minority interest shareholder has a carried interest.

Management is required to assess impairment of intangible exploration and evaluation assets and property and equipment. The triggering events are defined in IFRS 6 and IAS 36 respectively. In making the assessment, management is required to make judgments on the status of each project and the future plans toward finding commercial reserves to which the exploration and evaluation assets and property and equipment relate to.

Management has determined that there were no triggering events present as at December 31, 2020 and 2019, as defined in IFRS 6 and IAS 36, as such, no impairment test was performed.

Critical estimates are as follows:

i) Valuation of share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rates, and forfeiture rate. Changes in the input assumptions can materially affect the fair value

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estimate and the Company's earnings and equity settled benefits.

ii) Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

iii) Useful life of property and equipment

Depreciation expense is allocated based on assumed useful life of property and equipment. Should the useful life differ from the initial estimate, an adjustment would be made to the statement of loss and comprehensive loss.

iv) Valuation of convertible debentures

The Company allocates the total proceeds received from the issuance of convertible debentures, net of issuance costs, to debt and equity. The fair value of the debt is estimated using discounted cash flows using an estimated cost of borrowing. The estimated cost of borrowing represents what the Company may borrow secured debt at without a conversion option. The residual was allocated to equity.

Basis of consolidation

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accordingly, the consolidated financial statements include the accounts of the following subsidiary companies, for which all significant inter-company transactions and balances have been eliminated.

Name	Place of incorporation	Ownership %
Gratomic Graphite (Pty) Ltd.	Namibia	100%
Ludbay Properties (Pty) Ltd.	Namibia	100%
Luxury Investments Two Hundred and Sixty Four (Pty) Ltd.	Namibia	90%
Gazania Investments Two Hundred and Forty Two (Pty) Ltd	Namibia	63%

Financial instruments

(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 ("FVOCI") 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 FVOCI. 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 if the Company has opted to measure them at FVTPL.

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(ii) Measurement

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 carried at FVTPL are initially recorded at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

Financial assets and liabilities carried at FVOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVOCI are included in comprehensive income or loss in the period in which they arise.

(iii) Impairment of Financial Assets at Amortized Cost

The Company recognizes 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 has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of net (loss) income, 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.

(iv) Derecognition

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. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are generally recognized in the statements of net (loss) income.

(v) Measurement Hierarchy

Financial instruments that are measured at fair value, which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency for the Company and each of its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors in IAS 21, *The Effects of Change in Foreign Exchange Rates*.

For companies in the consolidated group whose presentation currency is the Canadian Dollar, transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period balances recorded in currencies other than

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the Canadian dollar are recorded at the period end rate of exchange and exchange gains and losses arising on translation are reflected in profit or loss for the year.

For companies in the consolidated group whose presentation currency is other than the Canadian Dollar translations to Canadian Dollars are done as follows: At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the year.

Loss per share

The Company presents basic loss per share 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.

Exploration and evaluation assets

Upon acquiring the legal right to explore a property, costs related to the acquisition, exploration and evaluation are capitalized by property. If commercially profitable ore reserves are developed, capitalized costs of the related exploration and evaluation assets are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable over the estimated economic life of the exploration and evaluation assets, or the exploration and evaluation assets are abandoned, or management deems there to be an impairment in value, the exploration and evaluation assets are written down to its net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the period received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

Decommissioning and restoration provision

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the year.

During the year ended December 31, 2020 the Company estimated and recorded its decommissioning liability at an amount of \$100,000 (2019 - \$50,000).

Property and equipment

Property and equipment includes acquisition costs, capitalized development costs and pre-production expenditures that are recorded as cost less accumulated depreciation and accumulated impairment losses, if any. Costs of property and equipment are incurred while construction is in progress and before the commencement of commercial production. Once the construction of an asset is substantially complete, and the asset is ready for its intended use, these costs are depreciated.

Depreciation is calculated using a straight-line method to write-off the cost of the assets. The depreciation rates applicable to each category of property and equipment are as follows:

<u>Asset</u>	<u>Basis of depreciation</u>
Buildings	Straight-line over 10 years
Plant & equipment	Straight-line over 3 years
Vehicles	30% declining balance

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in a private placement was determined to be the more easily measurable component and were valued at their fair value. The balance, if any, is allocated to the attached warrants. Any value attributed to the warrants is recorded in reserves.

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Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee.

The fair value of stock options, compensatory warrants and agent options are measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options, is credited to share capital.

In situations where equity instruments, compensatory warrants and agent options are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Share issue costs

Costs directly identifiable with the raising of capital will be charged against the related share capital. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share capital or charged to operations if the shares are not issued.

Flow-through shares

Canadian income tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby any premium paid for the flow through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to flow-through premium liability and included in profit or loss at the same time the qualifying expenditures are made.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Adoption of new standards

IFRS 16 is a new standard effective January 1, 2019, that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The adoption of IFRS 16 resulted in no impact on the opening accumulated deficit at January 1, 2019.

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3. AMOUNTS RECEIVABLE

Amounts receivable:

The amounts receivable balance in the amount of \$367,182 (December 31, 2019 - \$262,788) is due from the Canadian and Namibian governments.

4. EXPLORATION AND EVALUATION ASSETS

Following is a summary of the exploration and evaluation assets

For the year ended December 31, 2020	Beginning Balance (\$)	Exploration costs (\$)	Ending Balance (\$)
Aukam Namibia project	4,320,348	85,497	4,405,845
Montpellier Quebec project	321,399	933	322,332
Buckingham Quebec project	977,364	7,744	985,108
	5,619,111	94,174	5,713,285

For the year ended December 31, 2019	Beginning Balance (\$)	Exploration costs (\$)	Ending Balance (\$)
Aukam Namibia project	3,704,299	616,049	4,320,348
Montpellier Quebec project	321,399	-	321,399
Buckingham Quebec project	977,364	-	977,364
	5,003,062	616,049	5,619,111

Montpellier, Quebec

The Montpellier property consists of claims located in the Hartwell Township, Casse Laurentides Region in Quebec. The vendors have been granted a 2% net smelter royalty ("NSR"). The Company has the right to repurchase a 1% NSR from the vendors for \$1,000,000.

Buckingham, Quebec

The Company has acquired a 100% interest in the Buckingham properties located in the Province of Quebec.

Aukam Graphite Project, Namibia

The Aukam Graphite project is a property located in Namibia's Karas Region in Africa. The rights to explore and develop parts of the property, which are of primary interest, are owned by Gazania Investments Two Hundred and Forty Two (Pty) Ltd ("Gazania"). The Company purchased a 63% interest in Gazania. Under certain terms of the purchase agreements, the Company is required to complete the plant and infrastructure set up (which is in progress) necessary to process 5,000 tonnes of graphite per year, and obtain government authorization to begin commercial operations (in progress); the timeline for these activities is referred to herein as the Farm-Out period.

Should completion of the plant and infrastructure set up necessary to process 5,000 tonnes of graphite per year extend beyond receipt of the mining license, the vendor will be paid USD\$25,000, per quarter

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that it is so extended, until the plant and infrastructure set-up are complete. In the event that the necessary plant and infrastructure set up is extended, and the revenue is less than USD\$100,000 per month, the Company will loan the vendor US\$25,000 per quarter. Interest on the loan will be compounded monthly at a rate equal to one-month term LIBOR plus one.

Should the Company fail to make any required payments until the Farm-Out period is complete or fail to complete the plant infrastructure 6 months after receipt of the mining license, it will forfeit 2% of its interest for each 30-day delay.

Following conclusion of the Farm-Out period the Company will fund all operations to run all plant related activities and expenditures for the first five months. Thereafter, the Company and the vendor will contribute funding proportionate to their respective holdings.

The Company has the option to buy an incremental 10% of the vendor's remaining interest for a cash payment of USD\$180,000.

A 2% revenue royalty is payable to the individual who farms the property.

Under Namibian laws royalties are payable in connection with the Aukam Graphite Project as follows:

- a) A 3% revenue royalty is payable to the Namibian government.
- b) A 6% net profit incentive, required under the Namibian Economic Empowerment Framework, is payable to employees working on the project.

5. PROPERTY AND EQUIPMENT

	Land	Buildings	Plant and equipment	Vehicles	Total
	\$	\$	\$	\$	\$
Cost					
At December 31, 2018	369,434	286,404	1,176,764	339,773	2,172,375
Additions	-	93,641	337,326	77,178	508,145
Disposals	-	-	-	(107,480)	(107,480)
At December 31, 2019	369,434	380,045	1,514,090	309,471	2,573,040
Additions	-	714	653,954	2,987	657,655
Disposals/impairment (1)	-	-	(541,470)	(30,426)	(571,896)
At December 31, 2020	369,434	380,759	1,626,574	282,032	2,658,799
Accumulated Depreciation					
At December 31, 2018	-	7,160	38,568	28,393	74,121
Additions	-	33,009	820	36,878	70,707
Disposals	-	-	-	(32,460)	(32,460)
At December 31, 2019	-	40,169	39,388	32,811	112,368
Additions	-	32,081	726	13,485	46,292
Disposals	-	-	-	(16,272)	(16,272)
At December 31, 2020	-	72,250	40,114	30,024	142,388
Carrying Value					
At December 31, 2019	369,434	339,876	1,474,702	276,660	2,460,672
At December 31, 2020	369,434	308,509	1,586,460	252,009	2,516,412

(1) During the year ended December 31, 2020 graphene reactors owned by the Company were determined to no longer have any value and as a result a \$541,470 impairment loss was recorded.

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6. NON-CONTROLLING INTEREST

The Company owns 63% of Gazania, and Next Graphite owns 37%. Next Graphite has a free carried interest in the Gazania until a specified period after the conclusion of the Farm-Out period as disclosed in Note 4. Next Graphite's interest in Gazania has been accounted for as a non-controlling interest in these financial statements. Changes to the non-controlling interest have been offset to reserves.

A reconciliation of the non-controlling interest is as follows:

	December 31, 2020	December 31, 2019
	\$	\$
Opening balance /Initial recognition of NCI	1,598,529	1,370,590
NCI free carried interest	31,633	227,939
Ending balance	1,630,162	1,598,529

See note 15.

7. CONVERTIBLE DEBENTURE

On June 11, 2020, the Company issued convertible debentures for total proceeds of \$1,500,000. The debentures are re-payable on December 11, 2021. The estimated fair value of the debt portion of the convertible debenture was determined to be \$1,337,699 and the residual of \$162,301 was allocated to the equity portion and credited to contributed surplus. The convertible debentures bear interest at 10% per annum, and are convertible into common shares of the Company at:

- a) \$0.06 per share for the first twelve months from the closing of the offering, and thereafter at \$0.10 until maturity on December 11, 2021, and
- b) 8,333 share purchase warrants with each warrant entitling the holder to purchase one additional Share at an exercise price of \$0.10 per Share until December 11, 2021.

In the event of default or upon maturity of the Debenture Certificates, the Debenture Certificates will bear interest at the rate of 18% per annum. The Company will have the right to prepay or redeem a part or the entire principal amount of the Debenture Certificates at any time by providing a minimum of 30 days and a maximum of 60 days of redemption notice prior to the redemption date.

Issuance costs totaling \$287,435 were incurred as follows:

- i. Cash costs totaling \$180,569 were incurred.
- ii. In connection with both the working capital private placement (Note 8) and the issuance of the convertible debentures, the Company issued 2,000,000 compensation debenture warrants and 1,000,000 compensation unit warrants. Each compensation debenture warrant is exercisable at \$0.06 until June 11, 2022 to acquire one share and one half of one debenture warrant. Each compensation unit warrant is exercisable at \$0.06 until June 11, 2022 to acquire one working capital unit. The estimated value of the portion of these non-cash costs that were attributable to the convertible debenture amounted to \$106,866.

The Company allocated the total proceeds received from the issuance of the convertible debentures, net of the issuance costs, to debt and equity. The fair value of the debt was based on discounted cash flows using an estimated cost of borrowing of 18% representing an estimate of what the Company may borrow secured debt at without a conversion option. The residual was allocated to equity.

Each reporting period, the Company is required to accrete the carrying value of the convertible debentures such that at maturity, the carrying value of the debentures will be their face value of \$1,500,000. The accretion expense is calculated based on an implicit interest rate on the debt component

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of the convertible debenture of 54.3%. For the year ended December 31, 2020, the Company recognized \$127,084 in accretion expense.

The Company's obligations under the debenture certificates are secured by substantially all of the Company's assets, including a pledge of the shares of the Company's subsidiaries to the debenture holders as security. Any income generated from the sale of graphite from the Company's Aukam Graphite Mine will first be allocated to repay the debenture certificates.

The carrying value of the convertible debenture on the date it was issued (June 11, 2020) is analyzed as follows:

	Convertible debenture As at June 30, 2020 \$
Issue proceeds	1,500,000
Allocation of proceeds to equity	(162,301)
Cash costs	(180,569)
Non-cash costs	(106,866)
Convertible debenture	1,050,264

During the year ended December 31, 2020 convertible debentures with a face value of \$797,000 were converted to 13,283,333 common shares of the Company. The common shares had a value of \$797,000, being the value of the conversion agreed to when the debentures were issued. The carrying value of the debentures so converted at the date of conversion was \$619,814. The value of the remaining debentures with a face value of \$703,000 amounts to \$557,535 analyzed as follows:

	Convertible debenture As at December 31, 2020 \$
Issue proceeds	703,000
Allocation of proceeds to equity	(76,066)
Cash costs	(84,626)
Non-cash costs	(50,085)
Accretion to December 31, 2020	65,312
Convertible debenture	557,535

8. SHARE CAPITAL, OPTIONS, AND WARRANTS

Share consolidation:

On December 10, 2019, the Company consolidated its outstanding common shares on a one-new-for-five-old basis. All share and per share figures in these consolidated financial statements have been presented on a retroactive basis showing the effect of this share-consolidation.

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(I) Common Shares

Authorized - An unlimited number of common shares

The following summarizes the share issuance transactions:

On February 11, 2020 the third tranche of a non-brokered private placement of 2,190,000 units at a price of \$0.05625 per unit for gross proceeds of \$123,188 was completed. Each unit consisted of one common share and one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share in the Company at a price of \$0.10 per share until the earlier of December 18, 2022, or in the event that the closing price of the common shares is at least \$0.30 for twenty consecutive trading days, and the twentieth trading day (the "Final Trading Day") is at least four months from the closing date, the date which is thirty days from the Final Trading Day.

On May 20, 2020 141,250 common shares were issued in settlement of a debt. The shares were valued at \$12,713, being the market value of the shares on the settlement date.

On June 11, 2020, under a private placement, 12,499,996 working capital units at a price of \$0.06 per unit for gross proceeds of \$750,000 was completed. Each unit comprised (a) one share, and (b) one share purchase warrant. Each warrant entitles the holder to acquire one share at \$0.10 per warrant until June 11, 2022. Share issue costs were as follows:

- a) In connection with the private placement cash share issue costs in the amount of \$109,133 were incurred.
- b) In connection with both the working capital private placement and the issuance of the convertible debentures (Note 7), the Company issued 2,000,000 compensation debenture warrants and 1,000,000 compensation unit warrants. Each compensation debenture warrant is exercisable at \$0.06 until June 11, 2022 to acquire one share and one half of one debenture warrant. Each compensation unit warrant is exercisable at \$0.06 until June 11, 2022 to acquire one working capital unit. The estimated value of the portion of these non-cash costs that were attributable to the working capital private placement amounted to \$59,916.

On June 11, 2020 4,450,079 common shares were issued in settlement of outstanding debts. The shares were valued at \$756,513, being the market value of the shares on the settlement date. The total amount of the debts settled amounted to \$266,238, giving rise to a loss on debt settlement of \$490,275.

On August 7, 2020 77,931 common shares were issued in settlement of a debt. The shares were valued at \$11,690, being the market value of the shares on the settlement date.

On November 5, 2020 75,333 common shares were issued in settlement of a debt. The shares were valued at \$11,677, being the market value of the shares on the settlement date.

During the year ended December 31, 2020:

- a) 16,192,378 common shares were issued as a result of warrants exercised for gross proceeds of \$1,609,044. The original fair value of the warrants of \$12,753 was transferred to share capital.
- b) 530,000 common shares were issued as a result of options exercised for gross proceeds of \$79,500.
- c) 13,283,333 common shares were issued as a result of debenture conversions. The shares were valued at \$797,000 being the agreed conversion value when the debentures were issued. The estimated value of the debentures on the dates of conversion amounted to \$619,814. The original fair value of the warrant conversion option of \$86,235 was transferred to share capital.

During the year ended December 31, 2019:

- i) Warrants were exercised and 198,600 common shares were issued for proceeds of \$98,130. The original estimated fair value of the warrants exercised, in the amount of \$2,315, was transferred from the share-based payments reserve to share capital.

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- ii) A shares for debt settlement was negotiated with a supplier as result of which an amount owing to the supplier of \$81,360 was settled by the issuing 180,992 common shares of the Company. The common shares have been valued at \$9,050, being the market value of the shares on the date they were issued, and a gain on debt settlement of \$72,310 was recorded.
- iii) On December 18 and 23, 2019 the first two tranches of a non-brokered private placement of 8,938,888 units at a price of \$0.05625 per unit for aggregate gross proceeds of \$502,812 was completed. Each unit consisted of one common share and one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share in the Company at a price of \$0.10 per share until the earlier of December 18, 2022, or in the event that the closing price of the common shares is at least \$0.30 for twenty consecutive trading days, and the twentieth trading day (the "Final Trading Day") is at least four months from the closing date, the date which is thirty days from the Final Trading Day. Officers, directors, and the wife of one of the former co-CEO's, participated in the private placement in the amount of \$241,875. The Company paid cash share issue costs of \$28,346 and issued 161,500 broker warrants in relation to the sale of the units. Each broker unit entitles the holder to acquire one common share of the Company at a price of \$0.05625 until December 18, 2022.

(II) Stock Options

The Company has adopted an incentive stock option plan in accordance with the policies of the TSX-V (the "Stock Option Plan") which provides that the Board of Directors of the Company may from time to time, at its discretion, grant to directors, officers, employees and consultants of the Company options to purchase common shares, provided that the number of shares reserved for the issuance under the Stock Option Plan shall not exceed ten percent (10%) of the issued and outstanding common shares, and the exercise price to be determined by the Board at the time the option is granted.

During the year ended December 31, 2020, the Company granted 4,800,000 stock options, exercisable immediately, with an exercise price of \$0.15 and an estimated fair value of \$624,000, to management, directors and consultants of the Company. The fair value of the options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	Nil
Stock price volatility	130%
Risk-free interest rate	0.35%
Expected life of options	5 years

During the year ended December 31, 2019, the Company granted 80,000 stock options with an exercise price of \$0.60 and an estimated fair value of \$19,770, to consultants of the Company. The fair value of the options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	Nil
Stock price volatility	153.7%
Risk-free interest rate	1.600%
Expected life of options	3 years

The options granted vest 25% on March 20, 2019 and 25% every year to December 20, 2019.

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A summary of option transactions is as follows:

	Number of options	Weighted average exercise price \$
Balance December 31, 2018	3,250,000	0.642
Granted	80,000	0.600
Expired	(325,000)	0.625
Balance December 31, 2019	3,005,000	0.642
Expired	(1,620,000)	0.637
Granted	4,800,000	0.150
Exercised	(530,000)	0.150
Balance December 31, 2020	5,655,000	0.262

The original fair value of the 530,000 options exercised during 2020 amounted to \$68,900 which amount was transferred to share capital.

A summary of options outstanding at December 31, 2020 is as follows:

Exercise price	Number outstanding and exercisable	Remaining contractual life in months	Weighted average exercise price \$
0.500	40,000	2	0.500
0.850	205,000	15	0.850
0.350	90,000	20	0.350
0.500	430,000	24	0.500
0.700	50,000	24	0.700
0.575	40,000	33	0.575
0.650	530,000	36	0.650
0.150	4,270,000	55	0.150
	5,655,000		0.262

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(III) Warrants

The Company has a total of 35,163,486 warrants outstanding, comprised of 29,922,505 retail warrants and 5,240,981 broker warrants. Warrant activity is analyzed as follows.

	Number of Warrants	Weighted average exercise price \$
Balance, December 31, 2018	20,114,787	0.80
Exercised	(198,600)	0.50
Expired	(364,900)	0.45
Issued	9,100,388	0.10
Balance, December 31, 2019	28,651,675	0.59
Expired	(9,485,306)	0.64
Issued	32,189,496	0.09
Exercised	(16,192,379)	0.10
Balance, December 31, 2020	35,163,486	0.35

A summary of retail warrants outstanding is as follows:

Expiry Date	Number of Retail Warrants	Weighted Average Exercise Price \$	Fair Value \$
August 10, 2021	4,685,000	1.00	-
December 11, 2021	5,000,000	1.00	-
December 18, 2022	1,631,111	0.10	-
February 11, 2023	2,190,000	0.10	-
June 11, 2022	9,958,331	0.10	-
December 11, 2021	6,458,063	0.10	-
	29,922,505	0.39	

A summary of broker warrants outstanding is as follows:

Expiry Date	Number of Broker Warrants	Number of underlying Broker Warrants	Total Number of Broker Warrants Outstanding	Weighted Average Exercise Price \$	Fair Value \$
August 10, 2021	188,500	-	188,500	0.50	83,848
December 11, 2021	192,480	-	192,480	0.50	98,881
December 11, 2021	-	953,334	953,334	0.10	29,586
June 11, 2022	1,000,000	1,000,000	2,000,000	0.06	71,500
June 11, 2022	1,906,667	-	1,906,667	0.06	77,214
	3,287,647	1,953,334	5,240,981	0.10	

The fair value of 161,500 broker warrants issued during the year ended December 31, 2019 had an estimated value of \$11,305 on the date of the grant. The value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	0.00%
Stock price volatility	159.0%
Risk-free interest rate	1.72%
Expected life of warrants	3 Years

The fair value of 2,000,000 broker warrants issued during the years ended December 31, 2020 had an estimated value of \$77,214 on the date of the grant. The value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

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Expected dividend yield	0.00%
Stock price volatility	130.1%
Risk-free interest rate	0.251%
Expected life of warrants	2 Years

The fair value of 1,000,000 underlying broker warrants issued during the year ended December 31, 2020 had an estimated value of \$31,034 on the date of the grant. The value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	0.00%
Stock price volatility	142.7%
Risk-free interest rate	0.240%
Expected life of warrants	1.5 Years

The fair value of 1,000,000 broker warrants and 1,000,000 underlying broker warrants issued during the year ended December 31, 2020 had a total estimated value of \$71,500 (\$38,606 and \$32,894 respectively) on the date of the grant. The value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	0.00%
Stock price volatility	130.1%
Risk-free interest rate	0.251%
Expected life of warrants	2 Years

9. RELATED PARTY DISCLOSURES

The Company has determined that key management consists of the Company's Board of Directors and corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer. The Company paid or accrued the following amounts to key management, and private corporations owned by them:

	For the years ended December 31,	
	2020	2019
	\$	\$
Fees charged to:		
Management fees	496,438	728,000
Professional and other expenses	188,548	97,511
Exploration and evaluation assets	-	75,000
Share-based payments	455,000	-
	<u>1,139,986</u>	<u>900,511</u>

During the year ended December 31, 2020, legal fees in the amount of \$188,548 (2019 – \$119,618) were paid or payable to a law firm whose partner is an officer of the Company.

Included in accounts payable and accrued liabilities at December 31, 2020 was \$197,197 (2019 – \$381,622) owing for services to directors, and officers, companies owned by directors and officers, and a law firm whose partner is a director and an officer of the Company.

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10. SEGMENTED INFORMATION

The Company's primary business activity is the acquisition and exploration of mineral properties in Canada and Namibia. The location of the Company's assets are as follows at December 31, 2020 and 2019:

	2020	2019
	\$	\$
Exploration and evaluation assets		
Canada	1,307,440	1,298,763
Namibia	4,405,845	4,320,348
	<u>5,713,285</u>	<u>5,619,111</u>
Property and equipment		
United Kingdom	-	541,470
Namibia	2,516,412	1,919,202
	<u>2,516,412</u>	<u>2,460,672</u>

11. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2019 - 26.5%) were as follows:

	2020	2019
	\$	\$
Combined Canadian statutory income tax rate	26.50%	26.50%
Loss before income taxes	(3,643,639)	(3,244,288)
Expected income tax recovery based on statutory rate	(966,000)	(860,000)
Adjustment to expected income tax benefit:		
Share issue costs and other	(55,000)	(37,000)
Permanent differences	5,000	-
Change in unrecognized temporary differences	1,016,000	897,000
Deferred income tax recovery	-	-

b) The tax effects of temporary differences that give rise to deferred income tax assets and liabilities at December 31, 2020 and 2019 are as follows:

	2020	2019
	\$	\$
Deferred tax assets (liabilities):		
Capital assets	129,000	49,000
Share issue costs	121,000	92,000
Non-capital losses carried forward	4,140,000	3,300,000
Mining interests	(45,000)	105,000
Unrecognized deferred tax assets	(4,345,000)	(3,546,000)
Net deferred income tax liability	-	-

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c) Losses Carried Forward

As at December 31, 2020, the Company had estimated non-capital losses for Canadian income tax purposes of approximately \$15,617,000 (2019 - \$11,757,000) available to use against future taxable income. The non-capital losses expire between 2026 and 2040 as follows.

Expiry	Canada \$
2026 to 2030	758,000
2031	899,000
2032	701,000
2033	750,000
2034	596,000
2035	582,000
2036	813,000
2037	1,059,000
2038	3,464,000
2039	2,971,000
2040	3,024,000
	<u>15,617,000</u>

12. CAPITAL MANAGEMENT

The Company's objective when managing capital, defined as all components of equity, is to safeguard its ability to continue as a going concern, and to pursue the exploration and evaluation of its properties. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets and seeks to retain sufficient equity to ensure that cash flows from assets will be sufficient to meet future cash flow requirements. In order to maintain or adjust the capital structure, the Company may from time-to-time issue shares and adjust its capital spending. To assess capital and operating efficiency and financial strength, the Company continually monitors its net cash and working capital. The Company's capital management objectives, policies and processes have remained unchanged since December 31, 2019.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair value of cash is measured on level 1 of the fair value hierarchy. The carrying amounts for amounts receivable, and accounts payable and accrued liabilities approximate their estimated fair value due to the short-term nature of these financial instruments.

Amounts receivable is classified as amortized cost and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

The Company's risk exposures and the impact on its financial investments, as summarized below, have not changed significantly during the year.

Credit Risk

The Company's credit risk is primarily attributable to amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instrument included in amounts receivable is remote.

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Liquidity Risk

As at December 31, 2020, the Company had current assets of \$1,732,126 (December 31, 2019 \$407,328) to settle current liabilities of \$1,294,927 (December 31, 2019 \$1,117,355). The Company's financial liabilities generally have contractual maturities that are subject to normal trade terms.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment grade short term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

Market Risk

Foreign Currency Risk

The Company's functional and reporting currency is the Canadian dollar and all expenditures are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. As the Company's properties are in the exploration stage and to date do not contain any identified mineral resources or reserves, the Company does not hedge against commodity price risk.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period:

- (i) The Company receives low interest rates on its cash and cash equivalent balances and, as such, the Company does not have significant interest rate risk.
- (ii) The Company holds balances in foreign currencies that give rise to exposure to foreign exchange risk, however at any point in time the balances are not significant. The Company estimates that a 10% increase or decrease in the foreign currency would give rise to a gain or loss of approximately \$20,000 respectively.

14. COMMITMENTS AND CONTINGENCIES

The Company's exploration and evaluation activities are subject to government laws and regulations, including tax laws, and laws and regulations governing the protection of the environment. The Company believes that its operations comply in all material respects with all applicable past and present laws and regulations. The Company records provisions for any identified obligations, based on management's estimate at the time. Such estimates are, however, subject to changes in laws and regulations.

The Company has a consulting agreement with its CEO providing for a monthly retainer of \$26,667. The agreement:

- a) Is terminable by the Company on years' notice.
- b) Contains a change of control clause providing that, in the event of a change in control, a lump sum payment equivalent to 24 months retainer fees will be paid.

The Company has a consulting agreement with its CFO providing for a monthly retainer of \$12,500. The agreement is terminable by either party on one month's notice.

The Company has indemnified the subscribers of flow-through share offerings pursuant to subscription agreements with investors for amounts that may become payable by the shareholder as a result of the Company not having met its expenditure commitments on qualified items.

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During 2019 the Company's 2015 to 2018 taxation years were audited by the Canada Revenue Agency ("the CRA"). As a result of the audit the CRA has disallowed flow through expenditures in the amount of \$243,000 that were renounced by the Company in favour of flow through share investors. The Company estimates that it has a liability of \$150,000 to the flow through share investors as a result of indemnifications provided to them, which amount has been recorded in these financial statements.

15. SUBSEQUENT EVENTS

The Company entered into an agreement with Next Graphite, Inc. ("NextG") dated November 12, 2020, and amended January 25, 2021, for the acquisition of NextG's 37% interest in Gazania 242 Pty Ltd., the Namibian company which holds the licenses on the Aukam property. Upon completion of the acquisition, Gratomic will hold 100% of the rights and interests in the Aukam Mining License (ML215) and exploration License (EPL 3895).

In consideration for the interest, Gratomic will, upon closing of the acquisition, issue a total of 25,758,915 common shares in the capital of Gratomic and a cash payment of \$100,000. The shares will be subject to an 18-month escrow subject to the release of 1/3 of the original balance every 6 months.

Gratomic has also granted the recipients of the shares the right to participate in any future financings of Gratomic at the same price as any other participants on a pro rata basis to their percentage holding in Gratomic at the time of any such fundraise.

On February 22, 2021, the Company announced that the entire convertible debenture issued on June 11, 2020, in the amount of \$1,500,000, had been liquidated. All of the debentures were converted into common shares.

Since December 31, 2020, the Company has issued 31,573,900 common shares in satisfaction of debenture conversions and warrants and options exercised as follows; there have been 18,077,233 warrants exercised; 1,780,000 options exercised; 11,716,667 common shares have been issued in satisfaction of debenture conversions.

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For the year ended December 31, 2020



This Management Discussion and Analysis is dated February 24, 2021.

Gratomic Inc. (hereafter the “Company” or “Gratomic Inc.”), was incorporated under the Business Corporations Act (Ontario), R.S.O. 1990, on February 27, 2007 and is listed on the TSX Venture Exchange (TSX-V: GRAT). The Company’s corporate office is located at Bay Adelaide Centre - East Tower, 22 Adelaide Street West, Suite 3600, Toronto, Ontario M5H 4E3. The Company is a junior exploration company primarily engaged in the acquisition and exploration of exploration assets located in Canada and Namibia.

The following is the management discussion and analysis (“MD&A”) of the financial condition, changes in financial condition and results of operations of Gratomic Inc. for the year ended December 31, 2020. The MD&A should be read in conjunction with the Company’s interim unaudited condensed consolidated financial statements for the year ended December 31, 2020 (www.sedar.com) which have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Company’s ability to realize the costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation assets and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis. These conditions indicate the existence of material uncertainties which cast significant doubt on the Company’s ability to continue as a going concern. Changes in future conditions could require material write downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory, environmental and social requirements.

The consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The Company has incurred a loss for the year ended December 31, 2020 of \$3,643,639 and has an accumulated deficit of \$20,542,115. The Company is a junior mining company and is subject to risks and challenges similar to other companies in a comparable stage. These risks include, but are not limited to, dependence on key individuals, investment risks, market risks, and the ability to maintain adequate cash flows, and continuing as a going concern. Cash on hand is currently not adequate to cover expected expenditures for the next 12 months and therefore the Company will be required to secure additional

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funding. These challenges and the continued cumulative operating losses cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern. Such adjustments can be material.

Unless otherwise specified, all dollar amounts herein are expressed in Canadian currency.

Additional information on the Company may be found on SEDAR on www.sedar.com

Forward-Looking Information

In making and providing the forward-looking information included in this MD&A the Company's assumptions may include among other things: (i) assumptions about the price of metals; (ii) that there are no material delays in the optimisation of operations at the exploration and evaluation assets; (iii) assumptions about operating costs and expenditures; (iv) assumptions about future production and recovery; (v) that there is no unanticipated fluctuation in foreign exchange rates; and (vi) that there is no material deterioration in general economic conditions. Although management believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements, or results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include among other things the following: (i) decreases in the price of base metals; (ii) the risk that the Company will continue to have negative operating cash flow; (iii) the risk that additional financing will not be obtained as and when required; (iv) material increases in operating costs; (v) adverse fluctuations in foreign exchange rates; and (vi) environmental risks and changes in environmental legislation.

This MD&A (See "Risks and Uncertainties") contains information on risks, uncertainties and other factors relating to the forward-looking information. Although the Company has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking information, there may be other factors that cause actual results, performances, achievements or events not to be anticipated, estimated or intended. Also, many of the factors are beyond the Company's control. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to reissue or update forward looking information as a result of new information or events after the date of this MD&A except as may be required by law. All forward-looking information disclosed in this document is qualified by this cautionary statement.

Outlook and Performance Highlights

Outlook

Gratomic Inc. is an advanced materials company focused on mine to market commercialization of graphite products most notably high value graphene based components for a range of mass market products. With its unique Aukam graphite asset the Company is poised to replace a large part of declining production capacity of vein graphite from Sri Lanka

Aukam Graphite Asset

Gratomic currently owns 63% of the historical Aukam graphite mine in Southern Namibia. Aukam graphite has been tested in several high value applications including nano engineered graphenes. The Aukam graphite when converted to graphenes have proven suitable for inks & pastes for the printed electronics industry, super hydrophobic graphene variants for architectural and marine coatings, elastomers for cycle and passenger vehicle tires, and elements for resistive heaters. There is year round road access to the Aukam project from paved Highway B4 that runs between Luderitz and Keetmanshoop via district gravel roads south from the Highway. The infrastructure in the area is good with nearby power from the national grid, water from

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underground aquifers and a rail link to Luderitz and Keetmanshoop adjacent to Highway B4 approximately 70 km north of the project.

In addition to the underground workings on the Aukam property, there are five unprocessed stockpiles that remain from the historical mining. These stockpiles still contain significant graphite with assays of samples taken during detailed sampling on a 10m x 10m grid ranged between 3.98 and 57.07% Cg (carbon as graphite) and averaged 20.04% Cg (see Technical Report on the Aukam Graphite Deposit, Bethanie District, Karas Region, Namibia - September 12, 2016, gratomic.ca). The stockpiles provide the company with a supply of high grade graphite that is ready to be processed.

Performance highlights

During the year ending December 31, 2020 –

- During March, 2020 Gratomic Inc accepted the resignations of Sheldon Inwentash, Gerry Feldman, and Jakson Inwentash, appointed Arno Brand as President and Chief Executive Officer and announced the appointment of Mr. Walter Luke and Alex Helmelt to the Board of Directors.
- May 6, 2020, Gratomic receives confirmation from the Ministry of Mines and Energy of Namibia that the Minister has issued Mining Licence 215 (ML215) for the Company's Aukam Graphite Property in Namibia.
- May 21, 2020, the Company extended delivery schedules against TODAQ's current Purchase Orders for Aukam graphite and continues to work with TODAQ to execute the existing off-take agreement.
- June 11, 2020 the Company completed financings for \$2,250,000 and shares for debt settlements in the amount of \$267,005.
- July 15, 2020, Gratomic appointed Armando Farhate as Chief Operations Officer and Head of Graphite Marketing and Sales.
- July 23, 2020 the Company granted 4,800,000 options to Directors, Officers and Consultants exercisable at \$0.15 per share with a 5 year term to July 23, 2025.
- October 6th, 2020, The Gratomic team completed the excavations intended to contain the concrete foundations that will accommodate the custom designed processing equipment including material thickener, cyclone, material hopper, settling reservoir, and filter press.
- On November 5th, the Company has secured the consultancy services of Karl Trudeau to oversee final assembly, commissioning and operational readiness of its Aukam graphite processing plant in Namibia, Africa.
- December 30th, 2020, Gratomic announces completion of civil construction work and begins final equipment assembly, with metal structures and support frames being supplied by a local vendor.

Exploration and Evaluation Expenditures

Exploration and evaluation expenditures for the year ended December 31, 2020 are summarized as follows:

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Outlays by expenditure category, by project, for the three months ended December 31, 2020 and 2019 are as follows:

	<u>Aukam Namibia project</u>		<u>Montpellier Quebec project</u>		<u>Buckingham Quebec project</u>		<u>Total</u>	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$
Field work, supplies and other	-	2,816	-	-	-	-	-	2,816
	-	2,816	-	-	-	-	-	2,816

Outlays by expenditure category, by project, for the years ended December 31, 2020 and 2019 are as follows:

	<u>Aukam Namibia project</u>		<u>Montpellier Quebec project</u>		<u>Buckingham Quebec project</u>		<u>Total</u>	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$
Drilling	-	1,698	-	-	-	-	-	1,698
Field work, supplies and other	-	246,976	-	-	-	-	-	246,976
Geological and other consulting	85,497	316,293	933	-	7,744	-	94,174	316,293
Travel and accommodation	-	51,082	-	-	-	-	-	51,082
	85,497	616,049	933	-	7,744	-	94,174	616,049

Results of Operations

The following table provides selected financial information for the three months and years ended December 31, 2020 and 2019.

	For the three months ended December 31,		For the years ended December 31,	
	\$	\$	2020	2019
	2020	2019	\$	\$
Operating expenses	(610,651)	(729,882)	(2,461,894)	(3,275,603)
Net loss	(1,302,498)	(729,882)	(3,643,639)	(3,244,288)
Net loss per share	(0.02)	(0.02)	(0.07)	(0.09)
Exploration and evaluation assets	5,713,285	5,619,111	5,713,285	5,619,111
Total assets	9,961,823	8,641,626	9,961,823	8,641,626

Comments on source and use of funds

During the year ended December 31, 2020

1. During the year ended \$3,591,264 was raised as a result of; private placements \$873,188, convertible debenture \$1,500,000, less cash issue costs of \$311,610; warrants exercised \$1,609,044; options exercised \$79,500, asset disposal proceeds of \$18,328, and loss on debenture conversions of \$177,186.
2. Cash used in operating activities amounted to \$1,909,979 comprised of a loss of \$3,643,639 plus non-cash items \$1,777,886, and \$44,226 used in working capital.

The Company has cash of \$1,102,848 at December 31, 2020 and will need to raise additional cash to meet its operating plans over the next 12 months.

Revenues

At this time, the Company has no sales or revenues.

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Expenses

The major expense items for the years ended December 31, 2020 and 2019 are summarized as follows:

	For the three months ended December 31,		For the years ended December 31,	
	\$	\$	\$	\$
	2020	2019	2020	2019
Consulting	(126,262)	216,334	7,029	638,911
Filing fees and permits	10,063	14,966	56,945	47,456
Investor relations	801	9,180	5,526	37,636
Management fees	132,501	111,999	321,739	728,000
Marketing	228,058	53,307	499,431	697,592
Office and other	107,111	363,745	485,394	672,327
Professional fees	152,634	73,408	239,127	183,691
Share-based compensation	-	-	624,000	44,033
Travel, meals and accomodation	22,353	(113,055)	22,353	225,957
	610,650	729,882	2,461,894	3,275,603

Comments on the year ended December 31, 2020:

The lower twelve month expenses of \$2,461,894 (2019 - \$3,275,603) are indicative of minimal operating activities due to covid and plant shut-down, and efforts to contain costs. The lower costs are explained by; reduced consulting fees by \$631,882; reduced management fees by \$406,261 due to there being only one CEO (2019 – there were two); reduced marketing fees by \$188,161; reduced travel meals and accommodation by \$203,604; increased share based compensation \$579,967.

Exploration and Evaluation Assets

The technical content of the mineral property disclosure in this MD&A has been reviewed and approved by Steven Gray, B.Sc., P. Geo, Gratomic's QP and a qualified person as defined by National Instrument 43-101. Except where noted the property disclosure in this MD&A has not been the subject of a National Instrument 43-101 report.

Description of properties:

Aukam Graphite Project, Namibia

The Aukam Graphite project is a property located in Namibia's Karas Region in Africa. The Aukam property is comprised of Exclusive Prospecting Licences EPL 3895, EPL 6710, EPL 7512, EPL 7513, in respect of base and rare metals, industrial minerals, and precious metals. Located in the district of Bethanie, Karas region of southern Namibia, the licence areas total 137,473 hectares, are contiguous and include the farm Aukam104 and Harichab121.

Graphite in the Aukam area is hosted by altered Garub Sequence granite that is exposed in an erosional window in the Nama cover. Graphite mineralization at Aukam occurs as massive lenses and veins, and as disseminated patches mostly associated with strong alteration. It is hosted by an east-west trending shear zone traceable on surface for about 400 metres along with mapping indicating the mineralization may extend for four kilometres.

The rights to explore and develop parts of the property, which are of primary interest, are owned by Gazania Investments Two Hundred and Forty Two (Pty) Ltd ("Gazania"). The Company purchased a 63% interest in Gazania. Under certain terms of the purchase agreements, the Company is required to complete the plant and infrastructure set up (in progress) necessary to process 5,000 tonnes of graphite per year, and obtain government authorization to begin commercial operations (completed); the timeline for these activities is

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referred to herein as the Farm-Out period. Should completion of the plant and infrastructure set up necessary to process 5,000 tonnes of graphite per year extend beyond receipt of the mining license, the vendor will be paid USD\$25,000, per quarter that it is so extended, until the plant and infrastructure set-up are complete. In the event that the necessary plant and infrastructure set up is extended, and the revenue is less than USD\$100,000 per month, the Company will loan the vendor US\$25,000 per quarter. Interest on the loan will be compounded monthly at a rate equal to one-month term LIBOR plus one. Should the Company fail to make any required payments until the Farm-Out period is complete or fail to complete the plant infrastructure 6 months after receipt of the mining license, it will forfeit 2% of its interest for each 30-day delay. Following conclusion of the Farm-Out period the Company will fund all operations to run all plant related activities and expenditures for the first five months. Thereafter, the Company and the vendor will contribute funding proportionate to their respective holdings. The Company has the option to buy an incremental 10% of the vendor's remaining interest for a cash payment of USD\$180,000.

A 2% revenue royalty is payable to the individual who farms the property.

Under Namibian laws royalties are payable in connection with the Aukam Graphite Project as follows:

- a) A 3% revenue royalty is payable the Namibian government.
- b) A 6% net profit incentive, required under the Namibian Economic Empowerment Framework, is payable to employees working on the project.

Montpellier Graphite Property, Quebec

The Montpellier property consists of claims located in the Hartwell Township, Casse Laurentides Region in Quebec. The property hosts graphite mineralization in a zone 15 meters wide, and has been delineated over a strike length of 250 meters by historical drilling and trenching. Graphite occurs disseminated in marble and paragneiss and within veins hosted in pegmatite, diopside skarn, marble and gneiss.

The historical drilling at Montpellier included one drill hole with a weighted average of 10.47% Cg (Carbon as graphite) over 44.97 meters and 12.33% Cg over 21.64 meters. (1984, Ministère de l'Énergie et de Ressources Québec, Report Nos. GM42965, 80p; GM41744, 41p.). Note that estimates of true thickness were not determined in the historical drilling. Two other graphite zones occur 575 meters east of the main zone of mineralization.

During 2016 an airborne electromagnetic and magnetic survey was carried out over the property to determine possible extensions to the graphite mineralization. Results of the survey indicate a single, wide, prospective area defined by electromagnetic conductors and associated magnetic anomalies that appear to be folded into a "C" shape about an east-west trending axis. The strike length of the folded conductors and associated magnetic anomalies is more than 2.2 kilometres.

The vendors have been granted a 2% net smelter royalty ("NSR"). The Company has the right to repurchase a 1% NSR from the vendors for \$1,000,000.

Buckingham Property, Quebec

The 100%-owned Buckingham Graphite Property is located 7 kilometres northwest of the town of Buckingham, Quebec, Canada and 82 km north of Imerys Graphite & Carbon's operating Lac des Îles graphite mine. The property consists of eight claim blocks totaling 480 hectares and is accessed by well maintained bush roads.

The property is located within the Central Metasedimentary Belt of the Grenville Geologic Province. It is underlain by paragneiss and marble, with associated pegmatite, and amphibolite. Graphite occurs disseminated in marble and paragneiss and within veins hosted in pegmatite, diopside skarn, marble and gneiss. Two graphitic zones, the Uncle Zone and the Case Zone have been discovered to date, with both zones showing high grade occurrences of disseminated flake and vein type graphite and yielding assay values as high as 81.1% Cg. Initial crushing and flotation of two samples from the Uncle Zone has achieved purity of up to 99.4% Cg from a single flotation test without process optimization (see news release dated February 17, 2015).

Airborne time domain electromagnetic (TDEM) survey flown over the Buckingham project in 2016 outlined several anomalies. The largest conductor stretches over 1.54 kilometres in a northeast-southwest direction.

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The northeastern portion of this conductor is coincident with graphite mineralization in the Case Zone from which 35 grab samples collected in 2015, yielded values ranging from 1.6% Cg to 28.7% Cg (See news releases dated May 22, 2015 and November 4, 2015). The length of the conductor suggests that the Case Zone may be longer than previously thought.

Trenching during Q4-2016 along the TDEM conductor uncovered zones of graphite mineralization hosted primarily by paragneiss. Highlights of the trench sampling include 8.33% Cg over 11.3 metres, 2.76% Cg over 15 metres, 2.23% Cg over 27 metres and 1.52% Cg over 65.5 metres. Individual samples assayed between 0.02% Cg and 17.3% Cg, with an average of 1.92% Cg for the 158 samples.

In 2017 additional trenching and diamond drilling were executed to follow up on the successful results of the 2016 trenching program. Highlights of the work included trench results of 15.0% Cg over 8.0 metres, and diamond drill results of 7.4% Cg over 12.0 metres, in hole CK17-01, and 6.1% Cg over 88.0 metres beginning at nine metres, included a higher-grade interval of 20.7% Cg over 8.0 metres in hole CK17-02

Summary of Quarterly Results

The following table sets out selected consolidated quarterly information for the last eight quarters.

	December 31 2020 \$	September 30 2020 \$	June 30 2020 \$	March 31 2020 \$
Exploration and evaluation assets	5,713,285	5,651,999	5,641,361	5,630,716
Deficit	20,542,115	19,239,617	18,008,093	17,086,830
Total Assets	9,961,823	9,545,496	10,082,587	8,516,915
Net and Comprehensive Loss	1,302,498	1,231,524	921,263	188,354
Basic and Diluted Loss Per Share	0.02	0.02	0.02	0.01

	December 31 2019 \$	September 30 2019 \$	June 30 2019 \$	March 31 2019 \$
Exploration and evaluation assets	5,619,111	5,616,296	5,486,661	5,274,462
Deficit	16,898,476	16,168,593	15,626,318	14,991,051
Total Assets	8,641,626	8,591,572	8,874,783	9,106,428
Net and Comprehensive Loss	729,882	542,275	635,267	1,336,863
Basic and Diluted Loss Per Share	0.01	0.02	0.02	0.04

Q4 2020

The 2020 Q4 loss of \$1,302,498 (2019 - \$729,882) includes an impairment loss of \$541,470 (2019 - \$Nil), interest expense \$83,391 (2019 - Nil), shareholder indemnification \$150,000 (2019 - Nil) and operating expenses \$610,651 (2019 - \$729,882).

Q3 2020

The 2020 Q3 loss of \$1,231,524 (2019 - \$542,275) includes share based compensation \$624,000 (2019 \$8,492) and interest expense \$99,045 (2019 - Nil).

Q2 2020

The 2019 Q2 loss of \$921,263 (2019 - \$635,267) includes a loss on debt settlement of \$489,509 (2019 - Nil) which is the major reason for the variance in 2020 vs 2019. Operating expenses of \$413,841 (2019 - \$647,764) reflect cost reduction actions taken, and reduced operating activities due to plant shut-down and the impact of covid-19; in addition, during 2019 share based compensation was incurred \$138,150 (2020 - Nil).

Q1 2020

The lower 2020 Q1 expenses of \$188,354 (2019 - \$1,394,331) are indicative of efforts to contain costs. The lower costs are explained by; reduced consulting fees by \$195,515; reduced management fees by \$383,763

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due to bonus in the prior year; reduced marketing fees by \$358,868; reduced share based compensation \$35,541; reduced travel meals and accommodation by \$123,488.

Liquidity

Presently the Company has a working capital of \$437,199 and will need funding to meet its operating plans over the next 12 months.

Future exploration and development programs will depend on the Company's ongoing ability to raise funds. Gratomic Inc. is an exploration stage company and continues to rely on equity offerings and other partnership arrangements to fund its activities. There can be no assurance that funds will be available.

Capital Resources

There were no unusual factors that affected the Company's capital resources during the year ended December 31, 2020 except the private placements and convertible debenture raises noted herein.

Off Balance Sheet Arrangements

The Company is not a party to any off balance sheet arrangements or transactions.

Transactions With Related Parties

The Company has determined that key management consists of the Company's Board of Directors and corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer. The Company paid or accrued the following amounts to key management, and private corporations owned by them:

	For the three months ended December 31,		For the years ended December 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Fees charged to:				
Management fees	229,501	112,000	496,438	728,000
Professional and other expenses	94,531	16,544	188,548	97,511
Exploration and evaluation assets	-	-	-	75,000
Share-based payments	-	-	455,000	-
	324,032	128,544	1,139,986	900,511

During the year ended December 31, 2020, legal fees in the amount of \$188,548 (2019 – \$119,618) were paid or payable to a law firm whose partner is an officer of the Company.

Included in accounts payable and accrued liabilities at December 31, 2020 was \$197,197 (2019 – \$381,622) owing for services to directors, and officers, companies owned by directors and officers, and a law firm whose partner is a director and an officer of the Company.

Events Affecting the Company's Financial Condition

During the year ended December 31, 2020, there were no unusual factors that affected the Company's financial condition.

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Subsequent Events –

The Company entered into an agreement with Next Graphite, Inc. (“NextG”) dated November 12, 2020, and amended January 25, 2021, for the acquisition of NextG’s 37% interest in Gazania 242 Pty Ltd., the Namibian company which holds the licenses on the Aukam property. Upon completion of the acquisition, Gratomic will hold 100% of the rights and interests in the Aukam Mining License (ML215) and exploration License (EPL 3895).

In consideration for the interest, Gratomic will, upon closing of the acquisition, issue a total of 25,758,915 common shares in the capital of Gratomic and a cash payment of \$100,000. The shares will be subject to an 18-month escrow subject to the release of 1/3 of the original balance every 6 months.

Gratomic has also granted the recipients of the shares the right to participate in any future financings of Gratomic at the same price as any other participants on a pro rata basis to their percentage holding in Gratomic at the time of any such fundraise.

On February 22, 2021, the Company announced that the entire convertible debenture issued on June 11, 2020, in the amount of \$1,500,000, had been liquidated. All of the debentures were converted into common shares.

Since December 31, 2020, the Company has issued 31,573,900 common shares in satisfaction of debenture conversions and warrants and options exercised as follows; there have been 18,077,233 warrants exercised; 1,780,000 options exercised; 11,716,667 common shares have been issued in satisfaction of debenture conversions.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Critical judgements exercised in applying accounting policies that have the most significant effect on the amounts recognized in the interim unaudited condensed consolidated financial statements are as follows:

i) Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flows, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

ii) Capitalization of deferred exploration costs

Minority interest and equity are adjusted to reflect the ownership interest of consolidated subsidiaries in which a minority interest shareholder has a carried interest.

Management is required to assess impairment of intangible exploration and evaluation assets and property and equipment. The triggering events are defined in IFRS 6 and IAS 36 respectively. In making the assessment, management is required to make judgments on the status of each project and the future plans toward finding commercial reserves to which the exploration and evaluation assets and property and equipment relate to.

Management has determined that there were no triggering events present as at December 31, 2020 and 2019, as defined in IFRS 6 and IAS 36, as such, no impairment test was performed.

Critical estimates exercised are as follows:

i) Valuation of share-based compensation

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The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rates, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity settled benefits.

ii) Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

iii) Property and equipment

Management reviews the carrying value of long lived assets including plant and equipment and amortizable intangible assets for impairment to determine if the carrying value of an asset may not be recoverable due to changes in the current and expected future use of the asset, external valuations of the asset, and the obsolescence or physical damage to the asset. If such indicators of impairment exist, the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash generating unit exceeds its estimated recoverable amount.

iv) Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities, referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby any premium paid for the flow through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to flow-through premium liability and included in profit or loss at the same time the qualifying expenditures are made.

v) Valuation of convertible debentures

The Company allocates the total proceeds received from the issuance of convertible debentures, net of issuance costs, to debt and equity. The fair value of the debt is estimated using discounted cash flows using an estimated cost of borrowing. The estimated cost of borrowing represents what the Company may borrow secured debt at without a conversion option. The residual was allocated to equity.

Recent Accounting Pronouncements

Adoption of new standards

IFRS 16 is a new standard effective January 1, 2019, that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The adoption of IFRS 16 resulted in no impact on the opening accumulated deficit at January 1, 2019.

Risk Management

Credit Risk

The Company's credit risk is primarily attributable to amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instrument included in amounts receivable is remote.

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Liquidity Risk

The Company's main source of liquidity is derived from common stock issuances. As at December 31, 2020, the Company had current assets of \$1,732,126 (December 31, 2019 - \$407,328) to settle current liabilities of \$1,294,927 (December 31, 2019 - \$1,117,355). All of the Company's accounts payable and accrued liabilities have contractual maturities that are subject to normal trade terms.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment grade short term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

Market Risk

Foreign Currency Risk

The Company's functional and reporting currency is the Canadian dollar and all expenditures are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. As the Company's properties are in the exploration stage and to date do not contain any identified mineral resources or reserves, the Company does not hedge against commodity price risk.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period:

- (i) The Company receives low interest rates on its cash and cash equivalent balances and, as such, the Company does not have significant interest rate risk.
- (ii) The Company holds balances in foreign currencies that give rise to exposure to foreign exchange risk, however at any point in time the balances are not significant. The Company estimates that a 10% increase or decrease in the foreign currency would give rise to a gain or loss of approximately \$20,000 respectively.

Mining License Update

On May 6, 2020, Gratomic received confirmation from the Ministry of Mines and Energy of Namibia that the Minister has issued Mining Licence 215 (ML215) for the Company's Aukam Graphite Property in Namibia.

We would like to thank the Ministry for their co-operation and hard work to assist Gratomic's progression into a mining company from a junior exploration company.

Operations Update

October 19th, 2020, 100% of Gratomic owned drills were mobilized to execute a strategic diamond drill program targeting areas proximal to known graphite mineralization previously defined by mining, diamond drilling, and surface sampling. The drill program will also incorporate exploratory drilling, testing known structures along strike and optimized targets indicated by recent Geophysical Surveys.

November 9th, 2020, local concrete and brick crews have recently arrived on-site at Aukam. The local contractors have been employed to construct the foundations for the custom designed and constructed water filtration deionization unit, settling reservoir, and product thickener tanks, along with various smaller non-structural components of the processing plant build-out. Gratomic is very pleased to include local, independent builders in the construction of its Aukam Graphite Project. This collaborative effort will allow

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the Company to adhere to its strict timelines, while simultaneously providing opportunities to local businesses and community members. The workers have been commissioned from the nearby town of Aus to complete construction work on various foundations and tanks.

On November 20th, 2020, Gratomic announced that Fanie Barnard arrived to the Aukam Graphite project in Namibia. Mr Barnard was been appointed to complete onsite construction and oversee the concrete work on the Aukam Graphite processing plant which is expected to be completed by the end of this month. Also, a local company, Pro Edge Steel, in Keetmanshoop was commissioned for designing and supplying various structural base plates and steel frames.

With excavation work completed on Aukam, the team has begun installing concrete forms and rebar in preparation for the final construction phase. The structural base plates and hold-down bolts are being carefully positioned into the concrete foundations during the pouring process. Once the concrete has been properly cured, the equipment structures and support frames will be assembled and installed onto the new foundations.

Fanie Barnard, and Gratomic's Aukam team have begun work on the installation of rebar and pouring of concrete on all required foundations.

On December 30th, 2020, Gratomic announces completion of civil construction work and final equipment assembly on its Aukam Processing Plant in Namibia.

Gratomic has engaged the services of 12 additional temporary workers, through the local community of Aus, to relieve the Company's Aukam workers and to allow them time-off during the Holiday Season. This is one of the many additional steps that the team has undertaken to ensure that time constraints are met according to the strict construction timeline.

Final equipment assembly has started on metal structures and support frames, manufactured locally by Pro-Edge Steel. Each piece of equipment is being assembled over its custom designed structure.

Simultaneously, the onsite team is setting up water, slurry, hydraulic, and electrical installation in preparation of the commissioning phase that comes thereafter.

On October 28, 2020, the Company announced that it is in the process of submitting 243 Kg of high purity graphite concentrate obtained from its pilot testing program for characterization for use as anode material in Lithium Ion battery cells. The graphite will initially be put through an Air Classification process in Toronto, Ontario and from there will be sent to Dorfner Anzaplan in Germany to undergo spherical micronization and classification. This verification process should establish Gratomic as a leader among its peers in proving that its graphite will be suitable for the anode material supply chain for North American battery manufacturers like Tesla, Panasonic, and others.

On December 22nd 2020, Gratomic uploaded its updated December 2020 corporate presentation to its website. The updated Presentation outlines the new strategic focus of the Company on the electric vehicle battery market and an emphasis on the near negligible environmental impact of its processing facility, which is currently nearing its commissioning phase. The Presentation also outlines information on the EV battery market, which gives investors a much more well-rounded understanding of the Company's new strategic plan. Gratomic's previous focus had been applications of graphenes for use in a variety of different products including tires. This has now become a secondary focus, along with the exploration and development of assets outside of its core Aukam Graphite Project.

The Company announced the filing of a Technical Report on its Buckingham Graphite Project on December 22, 2020 and intends to pursue the further exploration of this valuable property. Information on the Buckingham Graphite Project is included in the Presentation. The Presentation also provides current information about the status of the Company's processing plant at its Aukam Graphite property in Namibia.

On December 31st, 2020, Gratomic applied to trade its graphite product M97 on a technology metals trading

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platform that will provide global institutional liquidity in a number of US proclaimed critical metals products including graphite. Product M97 is a grade of graphite that Gratomic is developing and testing as a suitable product for battery grade graphite. The metals exchange, which must remain unnamed until its own launch in the first quarter of 2021, has impeccable corporate governance, and regulatory credentials. The metals exchange is headquartered in the UK and boasts strategic support from a leading globally known securities trading platform. That company provides full security to the underlying stock, in the manner of other international commodities exchanges.

Gratomic has been developing Product M97 from Graphite process in its pilot plant at its Aukam Property and its analysis to date indicates that the grade of graphite can be obtained once its Aukam processing plant is operating. Product M97 will not be listed for trading until the metals exchange is satisfied with the specifications of the product, has accepted Product M97 for trading and sufficient quantities of the product are available for trading.

Engineering Update

The final layout for the processing plant has been completed. The plant was designed in a east-north-east direction 220m linear distance from the main adit.

The grinding circuit equipment;

Jaw crusher – to reduce the material size for the horizontal impact crusher. Completed
8m conveyer – Transport material to the horizontal impact crusher. Completed
Horizontal Impact crusher – reduce material size to below 2.2mm for the mill. Completed
8m conveyer – transport crushed material to the vibrating screen. Completed
3 Layer vibrating screen – split the material in under and oversize. Completed
2× 12m Conveyers transporting the oversize material to the horizontal impact crusher. Completed
3m conveyer – transport the undersize material to storage.
87ton capacity material storage – catchment area for the undersize material
6.6m screw conveyer - to transport material from storage to the rod mill
Rod mill – grind the material to optimal flotation size. Completed
3× Cyclone – sorts the mill discharge in under and oversize, under size will be transported to the thickner and oversize reground in the mill.

The flotation circuit;

9m Thickner – the undersize material from the cyclone will settle in the thickner before entering the flotation circuit.
3× mixing tanks – one for each flotation step, each including its own chemicals dosing system
2× rougher columns 6475mm high × Ø1377 – initial flotation
2× cleaner columns 6475mm high × Ø1377 – final flotation
2× scavenger columns 6475mm high × Ø1377 – recover graphite missed by the rougher and cleaner columns.
6m thickner – the cleaner columns feed into the thickner for the final concentrate to settle.

The drying circuit;

Filter press – the 6m thickner feeds the filter press to remove 90-95% of the liquids from the concentrate.
Chipper – the filter press produces a 1000 × 1000 graphite concentrate cake. The chipper breaks the cake for efficient drying.
Rotating dryer – Dries the final product to less than 0.5% moisture content.

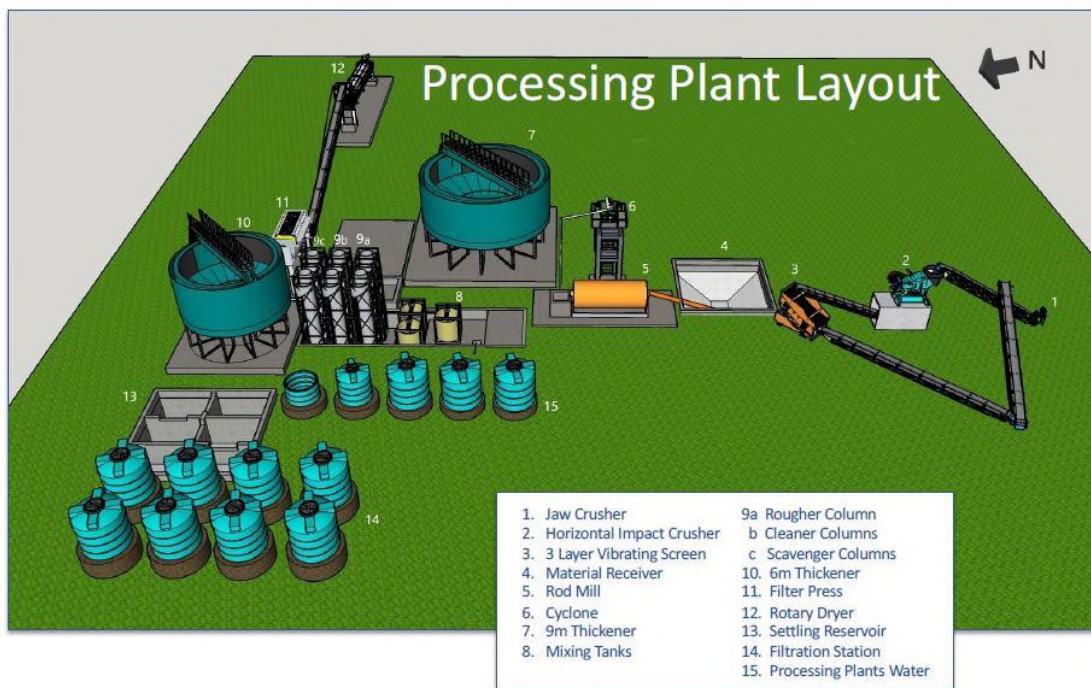
Filtration station;

Three Settling pond are employed to settle out all the material in the water:
7200 × 7200 × 2500 settling pond

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7200 × 7200 × 2000 settling pond
7200 × 7200 × 1500 settling pond

8 × 10 000L water tanks will act as the sand-based filtration system to recover most of the water for re-use in the plant.



Management Update

In March, 2020, Arno Brand was appointed President and Chief Executive Officer eliminating the Co-CEO designation, replacing Sheldon Inwentash who stepped down. The company announced the appointment of Mr. Walter Luke to the Board of Directors replacing Gerry Feldman and Jakson Inwentash who resigned. Mr. Luke is a professional project manager with over 29 years of global experience directing projects for tech giants such as Nortel, Bell Mobility, Nigeria Multilink, Australia Optus, and New Zealand Clear. Mr. Luke's successful private enterprise has taken him to over 40 countries and has brought international recognition (several Chairman's and President's awards) for his contributions to new business developments worldwide. Mr. Luke holds a project manager professional certification from the Project Management Institute.

On Apr 8, 2020, Gratomic appointed Armando Farhate as Executive Management and Head of Advisory Board to advise and oversee the construction and commissioning of the processing plant, Grade and Quality Control Management, and Head of the Company's Advisory Board. He will focus on product quality control and will advise on plant construction at the Aukam Graphite Mine in Namibia. In addition to holding an MBA and a Degree in Mechanical Engineering, Armando's brings over thirty years' professional experience in various capacities including CEO, COO, Industrial Director, VP/Director/Sales Manager. As Operations and Product Director for Imerys Graphite & Carbon, Armando was directly responsible for the mining and processing facilities at the two sites in Quebec, Canada. He coordinated a joint venture project in Northern Namibia with a market capitalization of 40 million dollars USD and was responsible for ensuring market demand was accommodated. Mr. Farhate was directly responsible for the establishment of new product lines, production processes, pricing, sales management, and marketing campaigns. He established the long term

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strategy for Natural Graphite, which included sourcing strategy and the definition of new production sites.

Prior to his tenure at Imerys Graphite & Carbon, Mr. Farhate was the Chief Operating Officer at Nacional De Grafite, Ltda. In his capacity as COO for this prestigious graphite company, Armando was directly responsible for the management and overseeing of 650 employees in various areas including geology, mine planning, mining, processing, engineering and projects, research and development, quality systems, environmental management, and sales and marketing.

During his time with Nacional De Grafite, Ltda., Mr. Farhate coordinated the opening of new mines, obtaining all necessary permits and licensing. In addition to the evaluation of all mineral assets, Armando was also responsible for the introduction of controls on production, efficiency, costs and inventory levels of three different plants and more than 20 product lines. He optimized the management of working capital and generated gains of up to BRL 5 million/yr in the industrial units. Mr. Farhate led the development of new products and processes, including negotiating partnerships with public and private universities in Brazil and abroad. He placed an emphasis on obtaining graphite oxide and graphene from natural crystalline graphite, and on developing process technology for lithium-ion battery anodes.

On November 5th, the Company has secured the consultancy services of Karl Trudeau to oversee final assembly, commissioning and operational readiness of its Aukam graphite processing plant. Based in the province of Québec, Canada, Karl Trudeau possesses unique experience achieved through the operation of natural graphite facilities. He was Plant Director for six years at Imerys Graphite et Carbonne (formerly Timcal) in Lac-Des-Îles, QC, Canada. Imerys is the largest graphite producer in North America. His next role would occur with Nouveau Monde Graphite, where he became the Chief Operations Officer. This role would last for over two years.

Additional experience in the mining industry includes the exploration and mining of various types of minerals. Karl previously occupied the position of Vice President at Minera Planet, in Mexico, and was directly responsible for the implementation of a greenfield project. He has a degree in Industrial Management, supplemented with over 20 years of professional experience in various roles within the mining industry.

On December 30th, 2020, Andre Bennet was appointed as Mechanic and maintenance Supervisor for the Aukam Graphite Project.

TODA Notes Update

On October 17, 2019, Gratomic announced the Supply Agreement with TODAQ Holdings (“TODAQ”) to supply TODAQ with an aggregate of USD \$25,000,000 of graphite, payable in TODA Notes (“TDN”), and on December 20, 2019 Gratomic announced it had received its first of two purchase orders from TODAQ. Following is an update on the current status of TDN trading. TDN has been trading on BitForex, a digital asset exchange, with a 30-day average price and volume of approximately USD \$0.24 and USD \$950,000, respectively. TDN first started trading on Bitforex on November 1, 2019 at a price of USD \$0.10 and a volume of USD \$300,000. To follow TDN, please click the following link: https://www.bitforex.com/en/spot/tdn_btc. No TDN will be issued to the Company until the equipment and the processing plant is in production.

Other Disclosures

Share Capital

Common Shares -

As at December 31, 2020, and the date hereof, there were 92,494,521 and 124,068,421 common shares respectively of the Company issued and outstanding.

Warrants -

At December 31, 2020 and the date hereof there were a total of 35,163,486 and 17,086,253 warrants respectively outstanding.

Options -

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At December 31, 2020, and the date hereof, there were a total of 5,655,000 and 3,875,000 stock options respectively outstanding.

Additional Information -

Additional information about the Company including the financial statements, press releases and other filings are available on the internet at www.sedar.com and additional supplemental information is available on the Company website at www.gratomic.ca.



GRATOMIC INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Gratomic Inc.

Opinion

We have audited the consolidated financial statements of Gratomic Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's 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 audit of the consolidated 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 in the consolidated financial statements, which indicates that the Company recorded a net loss of \$ 3,244,288 and, as at December 31, 2019, the Company had an accumulated deficit of \$ 16,898,476 and a working capital deficit of \$ 710,027. 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. The other information comprises the information included in Management's Discussion and Analysis.

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 audit 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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 in this auditor's report. 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, 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.

Auditor's 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 auditor's 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 audit. 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 audit 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 auditor's 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 auditor's 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 consolidated 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.



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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit 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 audit resulting in this independent auditor's report is Gordon Cummings.

Vancouver, B.C.
June 15, 2020

Chartered Professional Accountants

GRATOMIC INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian Dollars

	Notes	December 31, 2019	December 31, 2018
		\$	\$
Assets			
Current			
Cash		127,100	2,558,544
Amounts receivable	3	262,788	495,992
Prepays		17,440	453,367
		407,328	3,507,903
Exploration and evaluation assets	4	5,619,111	5,003,062
Long term prepays		154,515	-
Property and equipment	5	2,460,672	2,098,255
		8,641,626	10,609,220
Liabilities			
Current			
Amounts payable and accrued liabilities	8	1,117,355	466,340
Long Term			
Decommissioning liability		50,000	50,000
Total liabilities		1,167,355	516,340
Shareholders' equity			
Share capital	7	19,769,634	19,196,978
Reserves		3,004,584	3,179,500
Deficit		(16,898,476)	(13,654,188)
Equity attributable to owners of the Company		5,875,742	8,722,290
Non- controlling interest	6	1,598,529	1,370,590
Total equity		7,474,271	10,092,880
Total shareholders' equity and liabilities		8,641,626	10,609,220
Nature of operations and going concern	1		
Commitments and contingencies	13		
Subsequent events	14		

"Arno Brand"

 Director

"Walter Luke"

 Director

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

GRATOMIC INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Expressed in Canadian Dollars

		Years ended December 31,	
	Notes	2019	2018
		\$	\$
Operating expenses			
Consulting		638,911	123,920
Filing fees and permits		47,456	34,015
Investor relations		37,636	190,628
Management fees	8	728,000	621,500
Marketing		697,592	754,302
Office and other		672,327	329,828
Professional fees		183,691	190,983
Share-based compensation		44,033	795,782
Travel, meals and accommodation		225,957	381,620
Reversal of flow-through premium liability		-	(25,409)
Net loss before the following		(3,275,603)	(3,397,169)
Gain on debt settlement	7	72,310	-
Loss on disposal of marketable securities		(40,995)	-
Net loss and comprehensive (loss) for the year		(3,244,288)	(3,397,169)
Comprehensive loss for the year attributable to:			
Owners of the Company		(3,244,288)	(3,397,169)
Non-controlling interests		-	-
		(3,244,288)	(3,397,169)
Basic and diluted loss per share		(0.09)	(0.14)
Weighted average number of shares outstanding		34,217,504	25,029,877

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

GRATOMIC INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
Expressed in Canadian Dollars

	2019	2018
	\$	\$
Operating Activities		
Net loss for the year	(3,244,288)	(3,397,169)
Non-cash items:		
Loss on disposal of fixed assets	3,686	-
Change in restricted cash	-	16,329
Shares for services	9,050	16,000
Share-based compensation	44,033	795,782
Loss on disposal of marketable securities	40,995	-
Gain on debt settlement	(72,310)	-
Reversal of flow through premium	-	(25,409)
Change in receivable	233,204	290,624
Change in prepaid expenses	435,927	(453,367)
Change in accounts payable and accrued liabilities	623,332	213,359
Cash used for operating activities	(1,926,371)	(2,543,851)
Investing Activities		
Exploration and evaluation expenditures	(545,342)	(737,452)
Long term prepaids	(154,515)	-
Purchase of property and equipment	(508,145)	(1,475,841)
Proceeds on disposal of marketable securities	59,000	-
Cash used for investing activities	(1,149,002)	(2,213,293)
Financing Activities		
Proceeds on disposal of fixed assets	71,333	-
Proceeds from issuance of common shares from private placements	502,812	4,206,500
Share issuance costs - cash	(28,346)	(267,906)
Proceeds from issuance of common shares from options exercised	-	27,000
Proceeds from issuance of common shares from warrants exercised	98,130	1,032,873
Cash provided by financing activities	643,929	4,998,467
Decrease in cash	(2,431,444)	241,323
Cash, beginning of year	2,558,544	2,317,221
Cash, end of year	127,100	2,558,544
Supplemental information		
Non-cash transactions	\$	\$
Amortization included in exploration and evaluation assets	70,707	30,437
Warrants issued in payment of agent's fee	11,305	182,729
Exploration and evaluation expenditure in accounts payable	-	79,017
Non-controlling interest carried interest	227,939	210,285

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

GRATOMIC INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
Expressed in Canadian Dollars

	Notes	Number of shares	Share capital \$	Share-based payment reserves \$	Deficit \$	Attributable to owners \$	Non-controlling Interest \$	Total Equity \$
December 31, 2017		22,213,398	13,693,171	2,463,343	(10,257,019)	5,899,495	1,160,305	7,059,800
Shares issued for private placements	7	9,685,000	4,842,500	-	-	4,842,500	-	4,842,500
Share issuance costs - cash	7	-	(267,906)	-	-	(267,906)	-	(267,906)
Share issuance costs - broker warrants	7	-	(182,729)	182,729	-	-	-	-
Shares issued for warrants exercised		1,777,350	1,032,873	-	-	1,032,873	-	1,032,873
Shares issued for options exercised		60,000	27,000	-	-	27,000	-	27,000
Transfer of share based payment reserve to share capital for warrants and options exercised	7	-	52,069	(52,069)	-	-	-	-
Share-based compensation	7	-	-	795,782	-	795,782	-	795,782
Non-controlling interests carried interest	6	-	-	(210,285)	-	(210,285)	210,285	-
Net loss for the year		-	-	-	(3,397,169)	(3,397,169)	-	(3,397,169)
December 31, 2018		33,735,748	19,196,978	3,179,500	(13,654,188)	8,722,290	1,370,590	10,092,880
Shares issued for warrants exercised	7	198,600	98,130	-	-	98,130	-	98,130
Transfer of reserves to share capital for the original estimated fair value of warrants exercised	7	-	2,315	(2,315)	-	-	-	-
Shares issued for private placements		8,938,888	502,812	-	-	502,812	-	502,812
Share issuance costs - cash		-	(28,346)	-	-	(28,346)	-	(28,346)
Share issuance costs - broker warrants		-	(11,305)	11,305	-	-	-	-
Shares issued on debt settlement	7	180,992	9,050	-	-	9,050	-	9,050
Share-based compensation		-	-	44,033	-	44,033	-	44,033
Non-controlling interests carried interest	6	-	-	(227,939)	-	(227,939)	227,939	-
Net loss for the year		-	-	-	(3,244,288)	(3,244,288)	-	(3,244,288)
December 31, 2019		43,054,228	19,769,634	3,004,584	(16,898,476)	5,875,742	1,598,529	7,474,271

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

GRATOMIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
Expressed in Canadian Dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

Gratomic Inc. (hereafter the “Company”) was incorporated under the Business Corporations Act (Ontario), and is listed on the TSX Venture Exchange (TSX-V: GRAT). The Company’s corporate office is located at 130 Spadina Avenue, Suite 401, Toronto ON, M5V 2L4. The Company is a junior exploration company engaged in the acquisition and exploration of assets located primarily in Canada and Namibia.

The Company’s ability to realize the costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation assets and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory, environmental and social requirements.

These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The Company has incurred a loss for the year ended December 31, 2019 of \$3,244,288 and has an accumulated deficit of \$16,898,476. The Company is a junior mining company and is subject to risks and challenges similar to other companies in a comparable stage. These risks include, but are not limited to, dependence on key individuals, investment risks, market risks, and the ability to maintain adequate cash flows, and continuing as a going concern. Cash on hand is currently not adequate to cover expected expenditures for the 12-month period ended December 31, 2020 and therefore the Company will be required to secure additional funding. These challenges and the continued cumulative operating losses cast significant doubt on the Company’s ability to continue as a going concern. These consolidated statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern. Such adjustments can be material.

The consolidated financial statements of the Company for the years ended December 31, 2019 and 2018 were authorized for issuance in accordance with a resolution of the board of directors on June 15, 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. All financial information is presented in Canadian dollars except as otherwise noted.

GRATOMIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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The consolidated financial statements are prepared on a going concern basis, under the historical cost convention, except for certain financial assets and liabilities which have been measured at fair value.

Critical judgements and sources of estimation uncertainty

Critical judgements exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

i) Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flows, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

ii) Capitalization of deferred exploration costs

Minority interest and equity are adjusted to reflect the ownership interest of consolidated subsidiaries in which a minority interest shareholder has a carried interest.

Management is required to assess impairment of intangible exploration and evaluation assets and property and equipment. The triggering events are defined in IFRS 6 and IAS 36 respectively. In making the assessment, management is required to make judgments on the status of each project and the future plans toward finding commercial reserves to which the exploration and evaluation assets and property and equipment relate to.

Management has determined that there were no triggering events present as at December 31, 2019 and 2018, as defined in IFRS 6 and IAS 36, as such, no impairment test was performed.

Critical estimates are as follows:

i) Valuation of share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rates, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity settled benefits.

ii) Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

iii) Useful life of property and equipment

Depreciation expense is allocated based on assumed useful life of property and equipment. Should the useful life differ from the initial estimate, an adjustment would be made to the statement of loss and comprehensive loss.

Basis of consolidation

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included

GRATOMIC INC.
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in the consolidated financial statements from the date that control commences until the date that control ceases. Accordingly, the consolidated financial statements include the accounts of the following subsidiary companies, for which all significant inter-company transactions and balances have been eliminated.

Name	Place of incorporation	Ownership %
Gratomic Graphite (Pty) Ltd.	Namibia	100%
Ludbay Properties (Pty) Ltd.	Namibia	100%
Luxury Investments Two Hundred and Sixty Four (Pty) Ltd.	Namibia	90%
Gazania Investments Two Hundred and Forty Two (Pty) Ltd	Namibia	63%

Financial instruments

(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 (“FVOCI”) 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 FVOCI. 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 if the Company has opted to measure them at FVTPL.

(ii) Measurement

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 carried at FVTPL are initially recorded at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

Financial assets and liabilities carried at FVOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVOCI are included in comprehensive income or loss in the period in which they arise.

(iii) Impairment of Financial Assets at Amortized Cost

The Company recognizes 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 has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of net (loss) income, 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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(iv) Derecognition

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. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are generally recognized in the statements of net (loss) income.

(v) Measurement Hierarchy

Financial instruments that are measured at fair value, which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency for the Company and each of its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors in IAS 21, *The Effects of Change in Foreign Exchange Rates*.

For companies in the consolidated group whose presentation currency is the Canadian Dollar, transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period balances recorded in currencies other than the Canadian dollar are recorded at the period end rate of exchange and exchange gains and losses arising on translation are reflected in profit or loss for the year.

For companies in the consolidated group whose presentation currency is other than the Canadian Dollar translations to Canadian Dollars are done as follows: At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the year.

Loss per share

The Company presents basic loss per share 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.

Exploration and evaluation assets

Upon acquiring the legal right to explore a property, costs related to the acquisition, exploration and evaluation are capitalized by property. If commercially profitable ore reserves are developed, capitalized costs of the related exploration and evaluation assets are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable over the estimated economic life of the

GRATOMIC INC.
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exploration and evaluation assets, or the exploration and evaluation assets are abandoned, or management deems there to be an impairment in value, the exploration and evaluation assets are written down to its net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the period received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

Decommissioning and restoration provision

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the year.

During the year ended December 31, 2019 and 2018 the Company estimated and recorded its decommissioning liability at an amount of \$50,000.

GRATOMIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
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Property and equipment

Property and equipment includes acquisition costs, capitalized development costs and pre-production expenditures that are recorded as cost less accumulated depreciation and accumulated impairment losses, if any. Costs of property and equipment are incurred while construction is in progress and before the commencement of commercial production. Once the construction of an asset is substantially complete, and the asset is ready for its intended use, these costs are depreciated.

Depreciation is calculated using a straight-line method to write-off the cost of the assets. The depreciation rates applicable to each category of property and equipment are as follows:

<u>Asset</u>	<u>Basis of depreciation</u>
Buildings	Straight-line over 10 years
Plant & equipment	Straight-line over 3 years
Vehicles	30% declining balance

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in a private placement was determined to be the more easily measurable component and were valued at their fair value. The balance, if any, is allocated to the attached warrants. Any value attributed to the warrants is recorded in reserves.

Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee.

The fair value of stock options, compensatory warrants and agent options are measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options, is credited to share capital.

In situations where equity instruments, compensatory warrants and agent options are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Share issue costs

Costs directly identifiable with the raising of capital will be charged against the related share capital. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share capital or charged to operations if the shares are not issued.

Flow-through shares

Canadian income tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby any premium paid for the flow through shares in excess of the market value of the shares without flow-through features at the

GRATOMIC INC.
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time of issue is credited to flow-through premium liability and included in profit or loss at the same time the qualifying expenditures are made.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Adoption of new standards

IFRS 16 is a new standard effective January 1, 2019, that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The adoption of IFRS 16 resulted in no impact on the opening accumulated deficit at January 1, 2019.

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 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. 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 table below summarizes the classification and carrying amount changes upon transition from IAS 39 to IFRS as at January 1, 2018.

<u>Original under IAS 39</u>			<u>New under IFRS</u>	
	<u>Classification</u>	<u>Carrying amount</u>	<u>Classification</u>	<u>Carrying amount</u>
Cash	FVTPL	2,317,221	FVTPL	2,317,221
Restricted cash	FVTPL	16,329	FVTPL	16,329
Amounts receivable	Loans and receivables	166,616	Amortized cost	166,616
Amounts payable	Other financial liability	267,871	Amortized cost	267,871

As the standard permits on transition to IFRS 9, the Company has not restated prior periods with respect to the new amortized cost measurement for financial assets and impairment requirements.

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit or to the opening deficit on January 1, 2018.

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") which superseded IAS 18 Revenue. IFRS 15 establishes a single five-step model framework for

GRATOMIC INC.
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determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual period beginning on or after January 1, 2018. The Company adopted the standard on January 1, 2018 using the cumulative effect adjustment method without applying any practical expedients.

The adoption of IFRS 15 resulted in no impact to the opening accumulated deficit or to the opening deficit on January 1, 2018.

3. AMOUNTS RECEIVABLE

Amounts receivable:

The amounts receivable balance in the amount of \$262,788 (December 31, 2018 - \$495,992) is due from the Canadian and Namibian governments.

4. EXPLORATION AND EVALUATION ASSETS

Following is a summary of the exploration and evaluation assets

For the year ended December 31, 2018	Beginning Balance	Exploration costs	Ending Balance
	(\$)	(\$)	(\$)
Aukam Namibia project	3,135,959	568,340	3,704,299
Montpellier Quebec project	317,240	4,159	321,399
Buckingham Quebec project	746,864	230,500	977,364
	4,200,063	802,999	5,003,062

For the year ended December 31, 2019	Beginning Balance	Exploration costs	Ending Balance
	(\$)	(\$)	(\$)
Aukam Namibia project	3,704,299	616,049	4,320,348
Montpellier Quebec project	321,399	-	321,399
Buckingham Quebec project	977,364	-	977,364
	5,003,062	616,049	5,619,111

Montpellier, Quebec

The Montpellier property consists of claims located in the Hartwell Township, Casse Laurentides Region in Quebec. The vendors have been granted a 2% net smelter royalty ("NSR"). The Company has the right to repurchase a 1% NSR from the vendors for \$1,000,000.

Buckingham, Quebec

The Company has acquired a 100% interest in the Buckingham properties located in the Province of Quebec.

Aukam Graphite Project, Namibia

The Aukam Graphite project is a property located in Namibia's Karas Region in Africa. The rights to explore and develop parts of the property, which are of primary interest, are owned by Gazania Investments Two Hundred and Forty Two (Pty) Ltd ("Gazania"). The Company purchased a 63% interest in Gazania. Under certain terms of the purchase agreements, the Company is required to

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complete the plant and infrastructure set up (which is in progress) necessary to process 5,000 tonnes of graphite per year, and obtain government authorization to begin commercial operations (in progress); the timeline for these activities is referred to herein as the Farm-Out period.

Should completion of the plant and infrastructure set up necessary to process 5,000 tonnes of graphite per year extend nine months beyond receipt of the mining license, the vendor will be paid USD\$25,000, per quarter that it is so extended, until the plant and infrastructure set-up are complete. In the event that the necessary plant and infrastructure set up is extended, and the revenue is less than USD\$100,000 per month, the Company will loan the vendor US\$25,000 per quarter. Interest on the loan will be compounded monthly at a rate equal to one-month term LIBOR plus one.

Should the Company fail to make any required payments until the Farm-Out period is complete or fail to complete the plant infrastructure 6 months after receipt of the mining license, it will forfeit 2% of its interest for each 30-day delay.

Following conclusion of the Farm-Out period the Company will fund all operations to run all plant related activities and expenditures for the first five months. Thereafter, the Company and the vendor will contribute funding proportionate to their respective holdings.

The Company has the option to buy an incremental 10% of the vendor's remaining interest for a cash payment of USD\$180,000.

A 2% revenue royalty is payable to the individual who farms the property.

Under Namibian laws royalties are payable in connection with the Aukam Graphite Project as follows:

- a) A 3% revenue royalty is payable to the Namibian government.
- b) A 6% net profit incentive, required under the Namibian Economic Empowerment Framework, is payable to employees working on the project.

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5. Property and Equipment

	Land \$	Buildings \$	Plant and equipment \$	Vehicles \$	Total \$
Cost					
At December 31, 2017	369,434	69,904	238,435	18,762	696,535
Additions	-	216,500	938,329	321,011	1,475,840
At December 31, 2018	369,434	286,404	1,176,764	339,773	2,172,375
Additions	-	93,641	337,326	77,178	508,145
Disposals	-	-	-	(107,480)	(107,480)
At December 31, 2019	369,434	380,045	1,514,090	309,471	2,573,040
Accumulated Depreciation					
At December 31, 2017	-	-	38,055	5,629	43,684
Depreciation	-	7,160	513	22,764	30,437
At December 31, 2018	-	7,160	38,568	28,393	74,121
Depreciation	-	33,009	820	36,878	70,707
Disposals	-	-	-	(32,460)	(32,460)
At December 31, 2019	-	40,169	39,388	32,811	112,368
Carrying Value					
At December 31, 2018	369,434	279,244	1,138,196	311,380	2,098,255
At December 31, 2019	369,434	339,876	1,474,702	276,660	2,460,672

6. NON-CONTROLLING INTEREST

The Company owns 63% of Gazania, and Next Graphite owns 37%. Next Graphite has a free carried interest in the Gazania until a specified period after the conclusion of the Farm-Out period as disclosed in Note 4. Next Graphite's interest in Gazania has been accounted for as a non-controlling interest in these financial statements. Changes to the non-controlling interest have been offset to reserves.

A reconciliation of the non-controlling interest is as follows:

	December 31, 2019	December 31, 2018
	\$	\$
Opening balance /Initial recognition of NCI	1,370,590	1,160,305
NCI free carried interest	227,939	210,285
Ending balance	1,598,529	1,370,590

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7. SHARE CAPITAL, OPTIONS, AND WARRANTS

Share consolidation:

On December 10, 2019, the Company consolidated its outstanding common shares on a one-new-for-five-old basis. All share and per share figures in these consolidated financial statements have been presented on a retroactive basis showing the effect of this share-consolidation.

(I) Common Shares

Authorized - An unlimited number of common shares

The following summarizes the share issuance transactions:

During the year ended December 31, 2019:

- i) Warrants were exercised and 198,600 common shares were issued for proceeds of \$98,130. The original estimated fair value of the warrants exercised, in the amount of \$2,315, was transferred from the share-based payments reserve to share capital.
- ii) A shares for debt settlement was negotiated with a supplier as result of which an amount owing to the supplier of \$81,360 was settled by the issuing 180,992 common shares of the Company. The common shares have been valued at \$9,050, being the market value of the shares on the date they were issued, and a gain on debt settlement of \$72,310 was recorded.
- iii) On December 18 and 23, 2019 the first two tranches of a non-brokered private placement of 8,938,888 units at a price of \$0.05625 per unit for aggregate gross proceeds of \$502,812 was completed. Each unit consisted of one common share and one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share in the Company at a price of \$0.10 per share until the earlier of December 18, 2022, or in the event that the closing price of the common shares is at least \$0.30 for twenty consecutive trading days, and the twentieth trading day (the "Final Trading Day") is at least four months from the closing date, the date which is thirty days from the Final Trading Day. Officers, directors, and the wife of one of the former co-CEO's, participated in the private placement in the amount of \$241,875. The Company paid cash share issue costs of \$28,346 and issued 161,500 broker warrants in relation to the sale of the units. Each broker unit entitles the holder to acquire one common share of the company at a price of \$0.05625 until December 18, 2022.

During the year ended December 31, 2018:

- i) A non-brokered private placement of 4,685,000 units at a price of \$0.50 per unit for aggregate gross proceeds of \$2,342,500 was completed. Each unit consisted of one common share and one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share in the Company at a price of \$1.00 per share until the earlier of August 10, 2021, or in the event that the closing price of the common shares is at least \$1.50 for ten consecutive trading days, and the tenth trading day (the "Final Trading Day") is at least four months from the closing date, the date which is thirty (30) days from the Final Trading Day. Officers, directors, the wife and daughter of one of the co-CEO's, and a company of which one of the Company's co-CEO's is the CEO, participated in the private placement in the amount of \$876,500.

The Company paid cash share issue costs of \$129,971 and issued 188,500 broker warrants in relation to the sale of the units. Each broker unit entitles the holder to acquire one common share of the company at a price of \$0.50 for a period of three years.

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- ii) A non-brokered private placement of 5,000,000 units at a price of \$0.50 per unit for aggregate gross proceeds of \$2,500,000 was completed. Each unit consisted of one common share and one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share in the Company at a price of \$1.00 per share until the earlier of December 11, 2021, or in the event that the closing price of the common shares is at least \$1.50 for ten consecutive trading days, and the tenth trading day (the “Final Trading Day”) is at least four months from the closing date, the date which is thirty (30) days from the Final Trading Day. Officers, directors and the wife of one of the co-CEO’s participated in the private placement in the amount of \$284,200.

The Company paid cash share issue costs of \$137,934 and issued 192,480 broker warrants in connection with the sale of the units. Each broker warrant entitles the holder to acquire one common share of the company at a price of \$0.50 for a period of three years.

(II) Stock Options

The Company has adopted an incentive stock option plan in accordance with the policies of the TSX-V (the “Stock Option Plan”) which provides that the Board of Directors of the Company may from time to time, at its discretion, grant to directors, officers, employees and consultants of the Company options to purchase common shares, provided that the number of shares reserved for the issuance under the Stock Option Plan shall not exceed ten percent (10%) of the issued and outstanding common shares, and the exercise price to be determined by the Board at the time the option is granted.

During the year ended December 31, 2019, the Company granted 80,000 stock options with an exercise price of \$0.60 and an estimated fair value of \$19,770, to consultants of the Company. The fair value of the options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	Nil
Stock price volatility	153.7%
Risk-free interest rate	1.600%
Expected life of options	3 years

The options granted vest 25% on March 20, 2019 and 25% every three months to December 20, 2019.

During the year ended December 31, 2018, the Company granted 1,450,000 stock options with a weighted average exercise price of \$0.65 and an estimated fair value of \$795,782, of which 1,120,000 stock options with a value of \$637,920 were issued to directors and officers. The fair value of the options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	Nil
Stock price volatility	145.0%
Risk-free interest rate	2.020%
Expected life of options	5 years

All of the options granted vested immediately, except for 130,000 which vested 25% on October 2, 2018 and 25% every six months to March 10, 2020.

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A summary of option transactions is as follows:

	Number of options	Weighted average exercise price
Balance December 31, 2017	2,112,667	0.650
Granted	1,450,000	0.650
Exercised	(60,000)	0.450
Expired/Cancelled	(252,667)	0.675
Balance December 31, 2018	3,250,000	0.642
Granted	80,000	0.600
Expired/Cancelled	(325,000)	0.625
Balance December 31, 2019	3,005,000	0.642

A summary of options outstanding at December 31, 2019 is as follows:

Exercise price	Number outstanding	Number exercisable	Remaining contractual life in months	Weighted average exercise price
0.500	50,000	50,000	14	0.500
0.850	705,000	705,000	27	0.850
0.350	180,000	180,000	32	0.350
0.500	680,000	680,000	36	0.500
0.700	50,000	50,000	36	0.700
0.725	120,000	120,000	40	0.725
0.725	60,000	60,000	41	0.725
0.575	130,000	97,500	45	0.575
0.650	950,000	950,000	48	0.650
0.600	80,000	80,000	27	0.600
	3,005,000	2,972,500		0.642

(III) Warrants

Following is a summary of warrant activity for the years ended December 31, 2019 and 2018:

	Number of Warrants	Weighted average exercise price \$
Balance, December 31, 2017	11,833,557	0.60
Issued	10,058,580	1.00
Exercised	(1,777,350)	0.60
Balance, December 31, 2018	20,114,787	0.80
Exercised	(198,600)	0.50
Expired	(364,900)	0.45
Issued	9,100,388	0.10
Balance, December 31, 2019	28,651,675	0.59

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As at December 31, 2019 the following share purchase warrants were outstanding and exercisable:

Expiry Date	Number of Warrants	Weighted Average Exercise Price \$	Fair Value \$
March 29, 2020	19,200	1.00	-
March 29, 2020	2,689,000	1.00	-
November 24, 2020	6,451,829	0.50	-
November 24, 2020	325,278	0.35	76,078
August 10, 2021	4,685,000	1.00	-
August 10, 2021	188,500	0.50	83,848
December 11, 2021	5,000,000	1.00	-
December 11, 2021	192,480	0.50	98,881
December 18, 2022	8,938,888	0.10	-
December 18, 2022	161,500	0.10	11,305
	28,651,675	0.59	

The fair value of 161,500 warrants issued during the year ended December 31, 2019 had an estimated value of \$11,305 on the date of the grant. The value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	0.00%
Stock price volatility	159.0%
Risk-free interest rate	1.72%
Expected life of warrants	3 Years

The fair value of 380,980 warrants issued during the year ended December 31, 2018 had an estimated value of \$192,729 on the date of the grant. The value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	0.00%
Stock price volatility	103.4%
Risk-free interest rate	2.08%
Expected life of warrants	3 Years

8. RELATED PARTY DISCLOSURES

The Company has determined that key management consists of the Company's Board of Directors and corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer. The Company paid or accrued the following amounts to key management, and private corporations owned by them:

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	For the three months ended December 31,		For the years ended December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Fees charged to:				
Management fees	112,000	377,200	728,000	621,500
Professional and other expenses	16,544	65,549	97,511	65,549
Exploration and evaluation assets	-	160,000	75,000	160,000
Prepaid expenses	-	216,667	-	216,667
Share-based payments	-	469,993	-	637,720
	128,544	1,289,409	900,511	1,701,436

During the year ended December 31, 2019, legal fees in the amount of \$119,618 (2018 – \$84,418) were paid or payable to a law firm whose partner is an officer of the Company and are included in professional fees totaling \$183,691.

Included in accounts payable and accrued liabilities at December 31, 2019 was \$381,622 (2018 – \$81,639) owing for services to directors, and officers, companies owned by directors and officers, and a law firm whose partner is a director and an officer of the Company.

During the year ended December 31, 2019 the Company paid office rent to Three D Capital Inc., a company of which one of the Company's co-CEO's is the CEO, an amount of \$100,000 (2018 - \$36,000).

9. SEGMENTED INFORMATION

The Company's primary business activity is the acquisition and exploration of mineral properties in Canada and Namibia. The location of the Company's assets are as follows at December 31, 2019:

	2019	2018
	\$	\$
Exploration and evaluation assets		
Canada	1,298,763	1,298,763
Namibia	4,320,348	3,704,299
	5,619,111	5,003,062
Property and equipment		
United Kingdom	541,470	541,470
Namibia	1,919,202	1,556,785
	2,460,672	2,098,255

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10. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2018 - 26.5%) were as follows:

	2019	2018
	\$	\$
Combined Canadian statutory income tax rate	26.50%	26.50%
Loss before income taxes	(3,244,288)	(3,397,169)
Expected income tax recovery based on statutory rate	(860,000)	(900,000)
Adjustment to expected income tax benefit:		
Share issue costs and other	(37,000)	(36,000)
Permanent differences	-	211,000
Change in unrecognized temporary differences	897,000	732,000
Impact of flow through shares	-	(7,000)
Deferred income tax recovery	-	-

b) The tax effects of temporary differences that give rise to deferred income tax assets and liabilities at December 31, 2019 and 2018 are as follows:

	2019	2018
	\$	\$
Deferred tax assets (liabilities):		
Capital assets	49,000	78,000
Share issue costs	92,000	122,000
Non-capital losses carried forward	3,300,000	2,371,000
Mining interests	105,000	283,000
Unrecognized deferred tax assets	(3,546,000)	(2,854,000)
Net deferred income tax liability	-	-

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c) Losses Carried Forward

As at December 31, 2019, the Company had estimated non-capital losses for Canadian income tax purposes of approximately \$11,757,000 (2018 - \$8,948,000) available to use against future taxable income. The non-capital losses expire between 2026 and 2039 as follows.

Expiry	Canada \$
2026	40,000
2027	9,000
2028	126,000
2029	267,000
2030	316,000
2031	899,000
2032	701,000
2033	750,000
2034	596,000
2035	582,000
2036	823,000
2037	1,078,000
2038	2,761,000
2039	2,809,000
	<u>11,757,000</u>

11. CAPITAL MANAGEMENT

The Company's objective when managing capital, defined as all components of equity, is to safeguard its ability to continue as a going concern, and to pursue the exploration and evaluation of its properties. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets and seeks to retain sufficient equity to ensure that cash flows from assets will be sufficient to meet future cash flow requirements. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending. To assess capital and operating efficiency and financial strength, the Company continually monitors its net cash and working capital. The Company's capital management objectives, policies and processes have remained unchanged since December 31, 2018.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair value of cash is measured on level 1 of the fair value hierarchy. The carrying amounts for amounts receivable, and accounts payable and accrued liabilities approximate their estimated fair value due to the short-term nature of these financial instruments.

Amounts receivable is classified as amortized cost and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

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The Company's risk exposures and the impact on its financial investments, as summarized below, have not changed significantly during the year.

Credit Risk

The Company's credit risk is primarily attributable to amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instrument included in amounts receivable is remote.

Liquidity Risk

As at December 31, 2019, the Company had current assets of \$407,328 (December 31, 2018 \$3,507,903) to settle current liabilities of \$1,117,355 (December 31, 2018 \$466,340). The Company's financial liabilities generally have contractual maturities that are subject to normal trade terms.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment grade short term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

Market Risk

Foreign Currency Risk

The Company's functional and reporting currency is the Canadian dollar and all expenditures are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. As the Company's properties are in the exploration stage and to date do not contain any identified mineral resources or reserves, the Company does not hedge against commodity price risk.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period:

- (i) The Company receives low interest rates on its cash and cash equivalent balances and, as such, the Company does not have significant interest rate risk.
- (ii) The Company holds balances in foreign currencies that give rise to exposure to foreign exchange risk, however at any point in time the balances are not significant. The Company estimates that a 10% increase or decrease in the foreign currency would give rise to a gain or loss of approximately \$20,000 respectively.

13. COMMITMENTS AND CONTINGENCIES

The Company's exploration and evaluation activities are subject to government laws and regulations, including tax laws, and laws and regulations governing the protection of the environment. The Company believes that its operations comply in all material respects with all applicable past and present laws and regulations. The Company records provisions for any identified obligations, based on management's estimate at the time. Such estimates are, however, subject to changes in laws and regulations.

The Company has indemnified the subscribers of flow-through share offerings pursuant to subscription agreements with investors for amounts that may become payable by the shareholder as a result of the Company not having met its expenditure commitments on qualified items.

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The Company has a consulting agreement with its CEO providing for a monthly retainer of \$16,667. The agreement:

- a) Is terminable by the Company on nine months' notice.
- b) Contains a change of control clause providing that, in the event of a change in control, a lump sum payment equivalent to 24 months retainer fees will be paid.

The Company has a consulting agreement with its CFO providing for a monthly retainer of \$4,000. The agreement is terminable by either party on one month's notice.

During 2019 the Company's 2015 to 2018 taxation years were audited by the Canada Revenue Agency ("the CRA"). As a result of the audit the CRA has proposed to disallow certain flow through expenditures that were renounced by the Company in favour of flow through share investors. The Company is in discussion with the CRA and has not been re-assessed at this time. Should the CRA proceed with the proposed re-assessment, the Company estimates that it could have a liability of up to \$250,000 to the flow through share investors as a result of indemnifications provided to them; as the Company has not been re-assessed, the liability has not been recorded in these financial statements.

14. SUBSEQUENT EVENTS

On February 11, 2020, a non-brokered private placement of 2,190,000 units at a price of \$0.05625 per unit for aggregate gross proceeds of \$123,188 was completed. Each unit consisted of one common share and one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share in the Company at a price of \$0.10 per share until the earlier of December 18, 2022, or in the event that the closing price of the common shares is at least \$0.30 for twenty consecutive trading days, and the twentieth trading day (the "Final Trading Day") is at least four months from the closing date, the date which is thirty days from the Final Trading Day.

On May 6, 2020, the Company announced that it received confirmation from the Ministry of Mines and Energy of Namibia that it has issued Mining Licence 215 for the Company's Aukam Graphite Property in Namibia. The Licence covers Base and Rare Metals, Industrial Minerals and Precious Metals. The Licence area falls within the proximity of the Aukam Processing Plant and the Graphite bearing shear zone for a total of 5002 hectares. Securing the mining licence is a critical step towards moving the Aukam Mine into commercial production.

On June 12, 2020, the Company closed a non-brokered financing and raised \$2,250,000 as follows:

- a) \$1,500,000 aggregate principal amount of convertible debenture units were placed. The debenture units consist of 1,500 senior secured convertible debentures, with each debenture unit priced at \$1,000 consisting of (i) one \$1,000 face value convertible debenture, convertible at the option of the holder into common shares of the Company at \$0.06 per share for the first twelve months from the closing of the offering, and thereafter at \$0.10 for a further six months, which will bear interest at 10% per year, paid quarterly in cash, until maturity, being December 11, 2021; and (ii) 8,333 share purchase warrants with each debenture warrant entitling the holder to purchase one additional share at an exercise price of \$0.10 per share until December 11, 2021.
- b) In addition, 12,499,996 working capital units were placed at a price of \$0.06 per working capital unit for gross proceeds of \$750,000. Each working capital unit comprises (i) one share, and (ii) one share purchase warrant. Each working capital warrant entitles the holder to acquire one share at \$0.10 per working capital warrant until June 11, 2022.

On June 12, 2020 the Company completed debt settlements aggregating \$267,005 of debt for the issuance of an aggregate of 4,450,079 Shares at a price of \$0.06 per Share including an aggregate \$149,607 of debt owed to arm's length parties, one director and two entities related to insiders of the Company, for the issuance of 2,493,444 Shares.

The Company's operations could be significantly adversely affected by the effects of a widespread global

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outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

On March 29, 2020, 2,708,200 warrants that had been issued by the Company expired.

Gratomic Inc.
MANAGEMENT DISCUSSION AND ANALYSIS
(Form 51-102F1)
For the year ended December 31, 2019



This Management Discussion and Analysis is dated June 15, 2020.

Gratomic Inc. (hereafter the “Company” or “Gratomic Inc.”), was incorporated under the Business Corporations Act (Ontario), R.S.O. 1990, on February 27, 2007 and is listed on the TSX Venture Exchange (TSX-V: GRAT). The Company’s corporate office is located at 130 Spadina Avenue, Suite 401, Toronto ON, M5V 2L4. The Company is a junior exploration company primarily engaged in the acquisition and exploration of exploration assets located in Canada and Namibia.

The following is the management discussion and analysis (“MD&A”) of the financial condition, changes in financial condition and results of operations of Gratomic Inc. for the three and twelve months ended December 31, 2019. The MD&A should be read in conjunction with the Company’s financial statements for the year ended December 31, 2019 and its consolidated financial statements for the twelve months ended December 31, 2019, (www.sedar.com) which have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Company’s ability to realize the costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation assets and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis. These conditions indicate the existence of material uncertainties which cast significant doubt on the Company’s ability to continue as a going concern. Changes in future conditions could require material write downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory, environmental and social requirements.

The consolidated statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The Company has incurred a loss for the twelve months ended December 31, 2019 of \$3,244,288 and has an accumulated deficit of \$16,898,476. The Company is a junior mining company and is subject to risks and challenges similar to other companies in a comparable stage. These risks include, but are not limited to, dependence on key individuals, investment risks, market risks, and the ability to maintain adequate cash flows, and continuing as a going concern. Cash on hand is currently not adequate to cover

Gratomic Inc.
MANAGEMENT DISCUSSION AND ANALYSIS
(Form 51-102F1)
For the year ended December 31, 2019

expected expenditures for the 12-month period ended December 31, 2020 and therefore the Company will be required to secure additional funding. These challenges and the continued cumulative operating losses cast significant doubt on the Company's ability to continue as a going concern. These consolidated statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern. Such adjustments can be material.

Unless otherwise specified, all dollar amounts herein are expressed in Canadian currency.

Additional information on the Company may be found on SEDAR on www.sedar.com

Forward-Looking Information

In making and providing the forward-looking information included in this MD&A the Company's assumptions may include among other things: (i) assumptions about the price of metals; (ii) that there are no material delays in the optimisation of operations at the exploration and evaluation assets; (iii) assumptions about operating costs and expenditures; (iv) assumptions about future production and recovery; (v) that there is no unanticipated fluctuation in foreign exchange rates; and (vi) that there is no material deterioration in general economic conditions. Although management believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements, or results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include among other things the following: (i) decreases in the price of base metals; (ii) the risk that the Company will continue to have negative operating cash flow; (iii) the risk that additional financing will not be obtained as and when required; (iv) material increases in operating costs; (v) adverse fluctuations in foreign exchange rates; and (vi) environmental risks and changes in environmental legislation.

This MD&A (See "Risks and Uncertainties") contains information on risks, uncertainties and other factors relating to the forward-looking information. Although the Company has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking information, there may be other factors that cause actual results, performances, achievements or events not to be anticipated, estimated or intended. Also, many of the factors are beyond the Company's control. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to reissue or update forward looking information as a result of new information or events after the date of this MD&A except as may be required by law. All forward-looking information disclosed in this document is qualified by this cautionary statement.

Outlook and Performance Highlights

Outlook

Gratomic Inc. is an advanced materials company focused on mine to market commercialization of graphite products most notably high value graphene based components for a range of mass market products. With its unique Aukam graphite asset the Company is poised to replace a large part of declining production capacity of vein graphite from Sri Lanka

Aukam Graphite Asset

Gratomic currently owns 63% of the historical Aukam graphite mine in Southern Namibia. Aukam graphite has been tested in several high value applications including nano engineered graphenes. The Aukam graphite when converted to graphenes have proven suitable for inks & pastes for the printed electronics industry, super hydrophobic graphene variants for architectural and marine coatings, elastomers for cycle and passenger vehicle tires, and elements for resistive heaters. There is year round road access to the Aukam project from paved Highway B4 that runs between Luderitz and Keetmanshoop via district gravel roads south from the

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Highway. The infrastructure in the area is good with nearby power from the national grid, water from underground aquifers and a rail link to Luderitz and Keetmanshoop adjacent to Highway B4 approximately 70 km north of the project.

In addition to the underground workings on the Aukam property, there are five unprocessed stockpiles that remain from the historical mining. These stockpiles still contain significant graphite with assays of samples taken during detailed sampling on a 10m x 10m grid ranged between 3.98 and 57.07% Cg (carbon as graphite) and averaged 20.04% Cg (see Technical Report on the Aukam Graphite Deposit, Bethanie District, Karas Region, Namibia - September 12, 2016, gratomic.ca). The stockpiles provide the company with a supply of high grade graphite that is ready to be processed.

Performance highlights

During the three months ending December 31, 2019 –

- On October 17, 2019 the Company signed an agreement with Todaq Star Program Phase 1 Corp. (“Todaq”), a subsidiary of TODAQ Holdings Inc. (“TODAQ Holdings”), to supply Todaq with an aggregate of 5000 tonnes of Graphite at US\$25,000,000 from its Aukam project over 33 months.
- October 18, 2019, the Company was granted a three year exploration license for both EPL 7512 & EPL 7513 and was granted a 2 year renewal on EPL licensing extension on EPL 6710.
- On October 24, 2019, the Company completed the crushing and grinding circuit enhancing the circuit’s capacity to 50 metric tonnes per hour which included the completion, installation and setup of the Processing Plant’s Rougher, Cleaner and Scavenger flotation columns.
- In addition to 350 tonnes of graphitic material stockpiled at the processing site ready for beneficiation, the Company has put 178 tonnes of stockpile material through the existing pilot plant systematically increasing the grade to commercially desirable 95% – 98.6% Cg (Carbon in Graphite).
- On October 29, 2019, the Company received positive results from extensive testing of its graphene enhanced tires, versus globally recognized, premium brand tires. The Company believes these results represent a breakthrough in tire technology that warrants deployment into the global tire market.
- The Company announced that it put on hold updating the drying circuit pending financing. The Company will utilize the existing drying circuit which can manage the material drying requirements in the interim.
- November 25, 2019 Gratomic announced the consolidation of the Company’s outstanding capital on the basis of one (1) post-consolidated common share for each five (5) currently issued and outstanding common shares was approved by the required majority of Shareholders.
- On December 20, 2019 Gratomic received the first two purchase orders for pre-graphene graphite from TODAQ.

Q1/Q2 - 2020

- During March, 2020 Gratomic Inc accepted the resignations of Sheldon Inwentash, Gerry Feldman, and Jakson Inwentash, appointed Arno Brand as President and Chief Executive Officer and announced the appointment of Mr. Walter Luke and Alex Hemmel to the Board of Directors.
- April 8, 2020, Gratomic Appoints Armando Farhate as Executive Management and Head of Advisory Board to advise and oversee the construction and commissioning of the processing plant, Grade and Quality Control Management.
- May 6, 2020, Gratomic receives confirmation from the Ministry of Mines and Energy of Namibia that the Minister has issued Mining Licence 215 (ML215) for the Company’s Aukam Graphite Property in Namibia.

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- The Company completed a financing for \$2,250,000 and shares for debt settlements in the amount of \$267,005 subsequent to December 31, 2019 – see Subsequent Events herein.

Exploration and Evaluation Expenditures

Exploration and evaluation expenditures for the twelve months ended December 31, 2019 are summarized as follows:

Outlays by expenditure category, by project, for the three months ended December, 2019 and 2018 are as follows:

	<u>Aukam Namibia project</u>		<u>Montpellier Quebec project</u>		<u>Buckingham Quebec project</u>		<u>Total</u>	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Drilling	-	8,736	-	-	-	-	-	8,736
Field work, supplies and other	2,816	54,923	-	-	-	-	2,816	54,923
Assays	-	-	-	-	-	-	-	-
Geological and other consulting	-	-	-	-	-	4,579	-	4,579
Bulk sampling	-	-	-	-	-	-	-	-
Transport	-	60,523	-	-	-	-	-	60,523
Travel and accommodation	-	-	-	-	-	-	-	-
	2,816	124,182	-	-	-	-	2,816	128,761

Outlays by expenditure category, by project, for the years ended December 31, 2019 and 2018 are as follows:

	<u>Aukam Namibia project</u>		<u>Montpellier Quebec project</u>		<u>Buckingham Quebec project</u>		<u>Total</u>	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Drilling	1,698	8,736	-	-	-	-	1,698	8,736
Field work, supplies and other	246,976	283,394	-	-	-	-	246,976	283,394
Assays	-	-	-	-	-	-	-	-
Geological and other consulting	316,293	149,129	-	4,159	-	230,500	316,293	383,788
Bulk sampling	-	-	-	-	-	-	-	-
Transport	-	89,565	-	-	-	-	-	89,565
Travel and accommodation	51,082	37,516	-	-	-	-	51,082	37,516
	616,049	568,340	-	4,159	-	230,500	616,049	802,999

Results of Operations

The following table provides selected financial information for the three and twelve months ended December 31, 2019 and 2018.

	For the three months ended December 31,		For the twelve months ended December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Operating expenses	(729,882)	(1,870,426)	(3,275,603)	(3,397,169)
Net loss	(729,882)	(1,870,426)	(3,244,288)	(3,397,169)
Net loss per share	(0.02)	(0.06)	(0.09)	(0.14)
Exploration and evaluation assets	5,619,111	5,003,062	5,619,111	5,003,062
Total assets	8,641,626	10,609,220	8,641,626	10,609,220

Comments on source and use of funds

During the twelve months ended December 31, 2019

1. During the twelve months ended \$643,929 was raised as a result of; warrants exercised \$98,130; private placements \$474,466; and disposals of fixed assets \$71,333.
2. Cash used in operating activities amounted to \$1,926,370 comprised of a loss of \$3,244,288 of which \$25,454 were non-cash items, and \$1,292,464 generated from working capital.

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3. Investment in plant and equipment, long term prepaids, and exploration and evaluation assets, amounted to \$1,208,003 and proceeds on sale of investment amounted to \$59,000.
The Company has cash of \$127,100 at December 31, 2019 and will need to raise additional cash during 2020 to meet its operating plans for the next twelve months.

Revenues

At this time, the Company has no sales or revenues.

The major expense items for the three and twelve months ended December 31, 2019 and 2018 are summarized as follows:

	For the three months ended December 31,		For the twelve months ended December 31,	
	\$	\$	\$	\$
	2019	2018	2019	2018
Consulting	216,334	102,060	638,911	123,920
Filing fees and permits	14,966	5,662	47,456	34,015
Investor relations	9,180	(28,898)	37,636	190,628
Management fees	111,999	377,200	728,000	621,500
Marketing	53,307	365,949	697,592	754,302
Office and other	363,745	171,063	672,327	329,828
Professional fees	73,408	56,800	183,691	190,983
Share-based compensation	-	628,055	44,033	795,782
Travel, meals and accommodation	(113,057)	192,535	225,957	381,620
Other	-	-	-	(25,409)
	729,882	1,870,426	3,275,603	3,397,169

Comments on the three months ended December 31, 2019:

The lower 2019 Q4 expenses of \$729,882 (2018 - \$1,870,426) are indicative of efforts to contain costs. The lower costs are explained by; reduced consulting fees by \$108,988; management fees \$111,999 (2018 - \$377,200) due to bonus in the prior year; reduced marketing fees by \$312,642; share based compensation Nil (2018 - \$628,055); reduced travel meals and accommodation by \$305,588.

Comments on the twelve months ended December 31, 2019:

Operating expenses for 2019 amounted to \$3,275,603 (2018 - \$3,397,169). Explanations of significant line items driving costs are as follows –

- Consulting includes fees for business consultants, marketing consultants, and graphene product consulting as a result of further developing the Company's business model.
- Marketing during both years include fees for; advertising services; marketing services for email data base generation; on-line and social media marketing, email and website services; European marketing services; advertising campaign services; marketing campaign services in line with making the market aware of the Company's progress.
- Share based compensation \$44,033 (2018 - \$795,782).
- Higher office and other expenses in 2019 due to approximately \$250,000 of idle facility costs reflected in this category in 2019. The idle facility costs relate to the Namibian operations idled during Q4 2019 – those costs were capitalized during 2018.

Exploration and Evaluation Assets

The technical content of the mineral property disclosure in this MD&A has been reviewed and approved by Steven Gray, B.Sc., P. Geo, Gratomic's QP and a qualified person as defined by National Instrument 43-101.

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Except where noted the property disclosure in this MD&A has not been the subject of a National Instrument 43-101 report.

Description of properties:

Aukam Graphite Project, Namibia

The Aukam Graphite project is a property located in Namibia's Karas Region in Africa. The Aukam property is comprised of Exclusive Prospecting Licences EPL 3895, EPL 6710, EPL 7512, EPL 7513, in respect of base and rare metals, industrial minerals, and precious metals. Located in the district of Bethanie, Karas region of southern Namibia, the licence areas total 137,473 hectares, are contiguous and include the farm Aukam104 and Harichab121.

Graphite in the Aukam area is hosted by altered Garub Sequence granite that is exposed in an erosional window in the Nama cover. Graphite mineralization at Aukam occurs as massive lenses and veins, and as disseminated patches mostly associated with strong alteration. It is hosted by an east-west trending shear zone traceable on surface for about 400 metres along with mapping indicating the mineralization may extend for four kilometres.

The rights to explore and develop parts of the property, which are of primary interest, are owned by Gazania Investments Two Hundred and Forty Two (Pty) Ltd ("Gazania"). The Company purchased a 63% interest in Gazania. Under certain terms of the purchase agreements, the Company is required to complete the plant and infrastructure set up (in progress) necessary to process 5,000 tonnes of graphite per year, and obtain government authorization to begin commercial operations (completed); the timeline for these activities is referred to herein as the Farm-Out period. Should completion of the plant and infrastructure set up necessary to process 5,000 tonnes of graphite per year extend twelve months beyond receipt of the mining license, the vendor will be paid USD\$25,000, per quarter that it is so extended, until the plant and infrastructure set-up are complete. In the event that the necessary plant and infrastructure set up is extended, and the revenue is less than USD\$100,000 per month, the Company will loan the vendor US\$25,000 per quarter. Interest on the loan will be compounded monthly at a rate equal to one-month term LIBOR plus one. Should the Company fail to make any required payments until the Farm-Out period is complete or fail to complete the plant infrastructure 6 months after receipt of the mining license, it will forfeit 2% of its interest for each 30-day delay. Following conclusion of the Farm-Out period the Company will fund all operations to run all plant related activities and expenditures for the first five months. Thereafter, the Company and the vendor will contribute funding proportionate to their respective holdings. The Company has the option to buy an incremental 10% of the vendor's remaining interest for a cash payment of USD\$180,000.

A 2% revenue royalty is payable to the individual who farms the property.

Under Namibian laws royalties are payable in connection with the Aukam Graphite Project as follows:

- a) A 3% revenue royalty is payable the Namibian government.
- b) A 6% net profit incentive, required under the Namibian Economic Empowerment Framework, is payable to employees working on the project.

Montpellier Graphite Property, Quebec

The Montpellier property consists of claims located in the Hartwell Township, Casse Laurentides Region in Quebec. The property hosts graphite mineralization in a zone 15 meters wide, and has been delineated over a strike length of 250 meters by historical drilling and trenching. Graphite occurs disseminated in marble and paragneiss and within veins hosted in pegmatite, diopside skarn, marble and gneiss.

The historical drilling at Montpellier included one drill hole with a weighted average of 10.47% Cg (Carbon as graphite) over 44.97 meters and 12.33% Cg over 21.64 meters. (1984, Ministère de l'Énergie et de Ressources Québec, Report Nos. GM42965, 80p; GM41744, 41p.). Note that estimates of true thickness were not determined in the historical drilling. Two other graphite zones occur 575 meters east of the main zone of mineralization.

During 2016 an airborne electromagnetic and magnetic survey was carried out over the property to determine possible extensions to the graphite mineralization. Results of the survey indicate a single, wide, prospective

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area defined by electromagnetic conductors and associated magnetic anomalies that appear to be folded into a “C” shape about an east-west trending axis. The strike length of the folded conductors and associated magnetic anomalies is more than 2.2 kilometres.

The vendors have been granted a 2% net smelter royalty (“NSR”). The Company has the right to repurchase a 1% NSR from the vendors for \$1,000,000.

No exploration activities were undertaken during 2019.

Buckingham Property, Quebec

The 100%-owned Buckingham Graphite Property is located 7 kilometres northwest of the town of Buckingham, Quebec, Canada and 82 km north of Imerys Graphite & Carbon’s operating Lac des Iles graphite mine. The property consists of eight claim blocks totaling 480 hectares and is accessed by well maintained bush roads.

The property is located within the Central Metasedimentary Belt of the Grenville Geologic Province. It is underlain by paragneiss and marble, with associated pegmatite, and amphibolite. Graphite occurs disseminated in marble and paragneiss and within veins hosted in pegmatite, diopside skarn, marble and gneiss. Two graphitic zones, the Uncle Zone and the Case Zone have been discovered to date, with both zones showing high grade occurrences of disseminated flake and vein type graphite and yielding assay values as high as 81.1% Cg. Initial crushing and flotation of two samples from the Uncle Zone has achieved purity of up to 99.4% Cg from a single flotation test without process optimization (see news release dated February 17, 2015).

Airborne time domain electromagnetic (TDEM) survey flown over the Buckingham project in 2016 outlined several anomalies. The largest conductor stretches over 1.54 kilometres in a northeast-southwest direction. The northeastern portion of this conductor is coincident with graphite mineralization in the Case Zone from which 35 grab samples collected in 2015, yielded values ranging from 1.6% Cg to 28.7% Cg (See news releases dated May 22, 2015 and November 4, 2015). The length of the conductor suggests that the Case Zone may be longer than previously thought.

Trenching during Q4-2016 along the TDEM conductor uncovered zones of graphite mineralization hosted primarily by paragneiss. Highlights of the trench sampling include 8.33% Cg over 11.3 metres, 2.76% Cg over 15 metres, 2.23% Cg over 27 metres and 1.52% Cg over 65.5 metres. Individual samples assayed between 0.02% Cg and 17.3% Cg, with an average of 1.92% Cg for the 158 samples.

In 2017 additional trenching and diamond drilling were executed to follow up on the successful results of the 2016 trenching program. Highlights of the work included trench results of 15.0% Cg over 8.0 metres, and diamond drill results of 7.4% Cg over 12.0 metres, in hole CK17-01, and 6.1% Cg over 88.0 metres beginning at nine metres, included a higher-grade interval of 20.7% Cg over 8.0 metres in hole CK17-02

No exploration activities were undertaken during 2019.

Activities during Q4-2019

- The Company signed an agreement with Todaq Star Program Phase 1 Corp. (“Todaq”), a subsidiary of TODAQ Holdings Inc. (“TODAQ Holdings”), October 17, 2019, to supply Todaq with an aggregate of US\$25,000,000 of graphite from its Aukam project in Namibia over approximately 39 months (the “Supply Agreement”). The initial order will be for 600 tonnes of graphite valued at US\$3,000,000 payable in TODA Notes (“TDN”), a digital asset created as a medium for exchange and store of value, at a price of US\$0.10 per TDN for an aggregate of 30 million TDN. For further details see the Company’s October 17, 2019 press release on www.SEDAR.com.
- October 18, 2019, the Company was granted a three year exploration license for both EPL 7512 & EPL 7513 and was granted a 2 year renewal on EPL licensing extension on EPL 6710. Total Exploration license area is 137,473 hectares.

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- October 24, 2019, the Company reported that it completed the crushing and grinding circuit enhancing the circuit's capacity to 50 metric tonnes per hour. The Company also completed the installation and setup of the Processing Plant's Rougher, Cleaner and Scavenger flotation columns. The cumulative capacity of the columns combined with the Rougher Mixing Tank and slurry line is initially 2.8 tonnes per hour.
- In addition to 350 tonnes of graphitic material stockpiled at the processing site ready for beneficiation, the Company has put 178 tonnes of product through the existing pilot plant systematically increasing the grade to commercially desirable 95% – 98.6% Cg (Carbon in Graphite). It has further indicated that it is able to upgrade this material through air classification to over 99% Cg.
- Operationally, the Company decided to put on hold an updated drying circuit pending financing of the Company. The drying circuit will be shipped to Namibia after the final payment of CAD \$75,000 is made and will arrive within 39 days of the payment. The Company has decided to delay this upgrade in the short term in order to preserve available capital and will utilize the existing drying circuit which can manage the material drying requirements in the interim.
- Management curtailed ongoing mining costs by temporarily reducing non-critical staff as a means to decrease monthly capital requirements by approximately 75%. The non-critical mine staff that are not directly affiliated with mine construction will be rehired upon the completion of a financing to resume mining and processing activities.
- October 29, 2019, the Company announced the receipt of positive results from extensive testing of its graphene enhanced tires, versus globally recognized, premium brand tires. The Company believes these results represent a breakthrough in tire technology that warrants deployment into the global tire market. The 18 month development program included a 6-month terrain test in which graphenes enhanced tires ("Gratomic Tires") and premium tires from a globally recognized tire brands ("Brand Tires") were fitted to high mileage, commercial light vehicles, which primarily travelled on A and B roads within the UK. Performance of the tires was data logged throughout the entire test period. The results of the road test concluded the Gratomic Tires, enhanced with surface engineered graphenes, produced a greater than 30% increase in wear resistance over the competing Brand Tires, equating to an additional +30% mileage before the tire was needed to be replaced.

Gratomic's graphite derived graphenes used in tire terrain tests on small commercial high mileage vehicles 15 inch tires in Europe and Asia



- Gratomic announced that at the Special Meeting of Shareholders held November 25, 2019, the consolidation of the Company's outstanding capital on the basis of one (1) post-consolidated common share for each five (5) currently issued and outstanding common shares (the "Consolidation") was approved by the required majority of Shareholders with 71.73% of the shares represented at the meeting voting in favour of the Consolidation.

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- The Company consolidated its outstanding common shares. Commencing at the open of the market on Tuesday, December 10, 2019, the common shares of the Company traded on a post-consolidation basis on the TSX Venture Exchange on the basis of one post-consolidation common share for each five preconsolidation common shares (the “Consolidation”).
- The Company announced that it settled an aggregate of \$81,360 of debt owed to an arm’s length creditor in consideration for the issuance of 904,963 common shares of the Company at a deemed price of \$0.0899 per share. The securities issued for the settlement of debt was legended and restricted from trading until March 26, 2020.

Licensing Activities

During 2019 a renewal application for EPL 3895 was prepared and submitted to the Ministry of Mines and Energy (MME) together with all supporting documentations.

- EPL 3895 was granted on 4 April 2008 with a surface area total of 27 820.4515Ha. The licence was granted a two year renewal and expires 3 April 2021.
- EPL 6710 was granted a three year exploration licence on 13 February 2018 with a surface area comprising a total of 35 201.1195Ha.
- EPL 7512 was granted a three year exploration licence on 21 October 2019 with a surface area comprising a total of 24 479.6005Ha.
- EPL 7513 was granted a three year exploration licence on 21 October 2019 with a surface area comprising a total of 49 972.0706Ha.

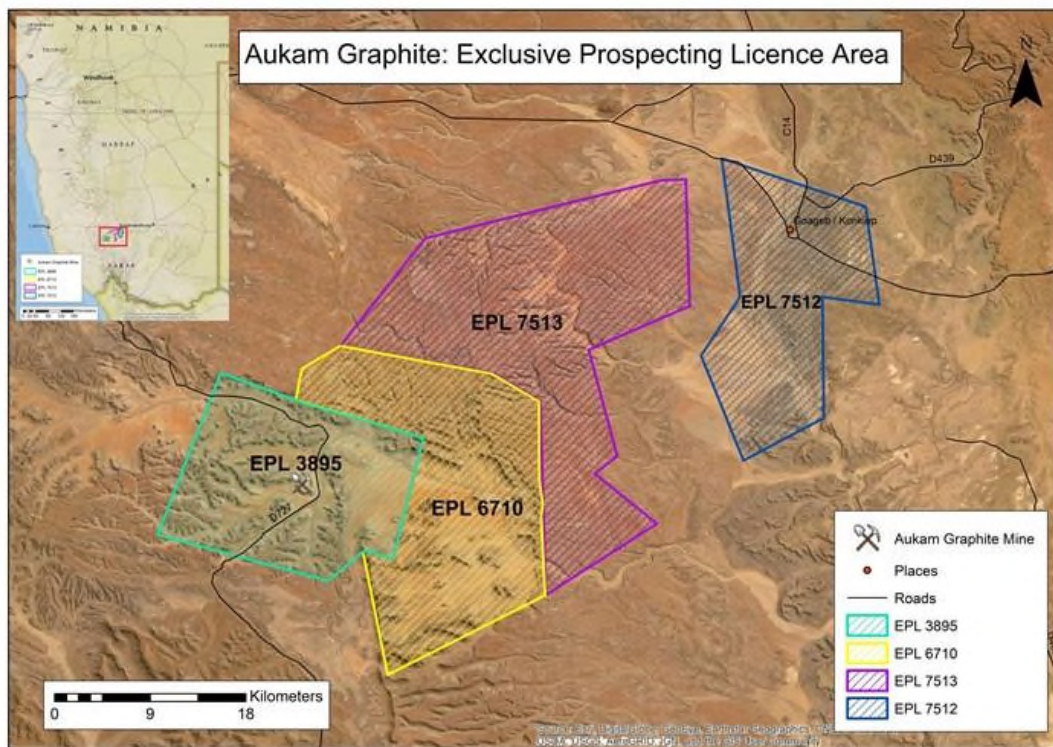


Figure 1 showing Exclusive Prospecting License EPL 3895, EPL 6710, EPL 7512, EPL 7513

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Summary of Quarterly Results

The following table sets out selected consolidated quarterly information for the last eight quarters.

	December 31 2019 \$	September 30 2019 \$	June 30 2019 \$	March 31 2019 \$
Exploration and evaluation assets	5,619,111	5,616,296	5,486,661	5,274,462
Deficit	16,898,476	16,168,593	15,626,318	14,991,051
Total Assets	8,641,626	8,591,572	8,874,783	9,106,428
Net and Comprehensive Loss	729,882	542,275	635,267	1,336,863
Basic and Diluted Loss Per Share	0.01	0.02	0.02	0.04

	December 31 2018 \$	September 30 2018 \$	June 30 2018 \$	March 31 2018 \$
Exploration and evaluation assets	5,003,062	5,577,891	4,643,188	4,683,366
Deficit	13,654,188	11,783,761	11,259,275	10,636,523
Total Assets	10,609,220	8,698,001	6,884,582	7,343,276
Net and Comprehensive Loss	1,870,426	524,486	655,020	347,237
Basic and Diluted Loss Per Share	0.09	0.02	0.03	0.000

Q4 2019

The lower 2019 Q4 expenses of \$729,882 (2018 - \$1,870,426) are indicative of efforts to contain costs. The lower costs are explained by; reduced consulting fees by \$108,988; management fees \$111,999 (2018 - \$377,200) due to bonus in the prior year; reduced marketing fees by \$312,642; share based compensation Nil (2018 - \$628,055); reduced travel meals and accommodation by \$305,588.

Q3 2019

In general the 2019 Q3 loss of \$542,275 (2018 - \$524,486) is in line with 2018. Notable differences include investor relations expense of \$5,600 (2018 - \$140,755); marketing expenses \$143,500 (2018 - \$37,389); gain on debt settlement \$72,310 (2018 – nil); loss on disposal of marketable securities \$98,463 (2018 – nil).

Q2 2019

During the quarter the Company incurred a loss of \$635,267 (2018 – \$655,020). Major differences are explained as follows; expenditures on consulting fees amounted to \$174,020 (2018 - nil); expenditures on marketing fees amounted to \$129,543 (2018 - \$230,200); share based compensation amounted to Nil (2018 - \$138,150); and travel meals and accomodation amounted to \$123,755 (2018 – \$76,576).

Q1 2019

During the quarter the Company incurred a loss of \$1,336,853 (2018 – \$379,504). Major differences are explained as follows; expenditures on consulting fees amounted to \$198,515 (2018 - \$600); management fees amounted to \$442,000 (2018 - \$69,000); expenditures on marketing fees amounted to \$371,242 (2018 - \$120,764) and travel meals and accomodation amounted to \$123,488 (2018 – \$11,440).

Liquidity

Presently the Company has a working capital deficit of \$710,027 and needs funding to continue its operations. The Company completed a financing for \$2,373,188 and shares for debt settlements in the amount of \$267,005 subsequent to December 31, 2019 – see Subsequent Events herein.

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Future exploration and development programs will depend on the Company's ongoing ability to raise funds. Gratomic Inc. is an exploration stage company and continues to rely on equity offerings and other partnership arrangements to fund its activities. There can be no assurance that funds will be available.

Capital Resources

There were no unusual factors that affected the Company's capital resources during the twelve months ended December 31, 2019.

Off Balance Sheet Arrangements

The Company is not a party to any off balance sheet arrangements or transactions.

Transactions With Related Parties

The Company has determined that key management consists of the Company's Board of Directors and corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer. The Company paid or accrued the following amounts to key management, and private corporations owned by them:

	For the three months ended		For the years ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Fees charged to:				
Management fees	112,000	377,200	728,000	621,500
Professional and other expenses	16,544	65,549	97,511	65,549
Exploration and evaluation assets	-	160,000	75,000	160,000
Prepaid expenses	-	216,667	-	216,667
Share-based payments	-	469,993	-	637,720
	128,544	1,289,409	900,511	1,701,436

During the year ended December 31, 2019, legal fees in the amount of \$119,618 (2018 – \$84,418) were paid or payable to a law firm whose partner is an officer of the Company and are included in professional fees totaling \$183,691.

Included in accounts payable and accrued liabilities at December 31, 2019 was \$381,622 (2018 – \$81,639) owing for services to directors, and officers, companies owned by directors and officers, and a law firm whose partner is a director and an officer of the Company.

During the year ended December 31, 2019 the Company paid office rent to Three D Capital Inc., a company of which one of the Company's co-CEO's is the CEO, an amount of \$100,000 (2018 - \$36,000).

Events Affecting the Company's Financial Condition

During 2019, there were no unusual factors that affected the Company's financial condition.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Critical judgements exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

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i) Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flows, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

ii) Capitalization of deferred exploration costs

Minority interest and equity are adjusted to reflect the ownership interest of consolidated subsidiaries in which a minority interest shareholder has a carried interest.

Management is required to assess impairment of intangible exploration and evaluation assets and property and equipment. The triggering events are defined in IFRS 6 and IAS 36 respectively. In making the assessment, management is required to make judgments on the status of each project and the future plans toward finding commercial reserves to which the exploration and evaluation assets and property and equipment relate to.

Management has determined that there were no triggering events present as at December 31, 2019 and 2018, as defined in IFRS 6 and IAS 36, as such, no impairment test was performed.

Critical estimates exercised are as follows:

i) Valuation of share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rates, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity settled benefits.

ii) Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Property and equipment

Management reviews the carrying value of long lived assets including plant and equipment and amortizable intangible assets for impairment to determine if the carrying value of an asset may not be recoverable due to changes in the current and expected future use of the asset, external valuations of the asset, and the obsolescence or physical damage to the asset. If such indicators of impairment exist, the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash generating unit exceeds its estimated recoverable amount.

Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities, referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby any premium paid for the flow through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to flow-through premium liability and included in profit or loss at the same time the qualifying expenditures are made.

Gratomic Inc.
MANAGEMENT DISCUSSION AND ANALYSIS
(Form 51-102F1)
For the year ended December 31, 2019

Recent Accounting Pronouncements

Adoption of new standards

IFRS 16 is a new standard effective January 1, 2019, that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The adoption of IFRS 16 resulted in no impact on the opening accumulated deficit at January 1, 2019.

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 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. 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 table below summarizes the classification and carrying amount changes upon transition from IAS 39 to IFRS as at January 1, 2018.

<u>Original under IAS 39</u>			<u>New under IFRS</u>	
	<u>Classification</u>	<u>Carrying amount</u>	<u>Classification</u>	<u>Carrying amount</u>
Cash	FVTPL	2,317,221	FVTPL	2,317,221
Restricted cash	FVTPL	16,329	FVTPL	16,329
Amounts receivable	Loans and receivables	166,616	Amortized cost	166,616
Amounts payable	Other financial liability	267,871	Amortized cost	267,871

As the standard permits on transition to IFRS 9, the Company has not restated prior periods with respect to the new amortized cost measurement for financial assets and impairment requirements.

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit or to the opening deficit on January 1, 2018.

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") which superseded IAS 18 Revenue. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual period beginning on or after January 1, 2018. The Company adopted the standard on January 1, 2018 using the cumulative effect adjustment method without applying any practical expedients.

The adoption of IFRS 15 resulted in no impact to the opening accumulated deficit or to the opening deficit on January 1, 2018.

Risk Management

Credit Risk

The Company's credit risk is primarily attributable to amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instrument included in amounts receivable is remote.

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MANAGEMENT DISCUSSION AND ANALYSIS
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For the year ended December 31, 2019

Liquidity Risk

The Company's main source of liquidity is derived from common stock issuances. As at December 31, 2019, the Company had current assets of \$407,328 (December 31, 2018 - \$3,507,903) to settle current liabilities of \$1,117,355 (December 31, 2018 - \$466,340). All of the Company's accounts payable and accrued liabilities have contractual maturities that are subject to normal trade terms.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment grade short term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

Market Risk

Foreign Currency Risk

The Company's functional and reporting currency is the Canadian dollar and all expenditures are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. As the Company's properties are in the exploration stage and to date do not contain any identified mineral resources or reserves, the Company does not hedge against commodity price risk.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period:

- (i) The Company receives low interest rates on its cash and cash equivalent balances and, as such, the Company does not have significant interest rate risk.
- (ii) The Company holds balances in foreign currencies that give rise to exposure to foreign exchange risk, however at any point in time the balances are not significant. The Company estimates that a 10% increase or decrease in the foreign currency would give rise to a gain or loss of approximately \$20,000 respectively.

Subsequent Events

On February 11, 2020, a non-brokered private placement of 2,190,000 units at a price of \$0.05625 per unit for aggregate gross proceeds of \$123,188 was completed. Each unit consisted of one common share and one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share in the Company at a price of \$0.10 per share until the earlier of December 18, 2022, or in the event that the closing price of the common shares is at least \$0.30 for twenty consecutive trading days, and the twentieth trading day (the "Final Trading Day") is at least four months from the closing date, the date which is thirty days from the Final Trading Day.

On May 6, 2020, the Company announced that it received confirmation from the Ministry of Mines and Energy of Namibia that it has issued Mining Licence 215 for the Company's Aukam Graphite Property in Namibia. The Licence covers Base and Rare Metals, Industrial Minerals and Precious Metals. The Licence area falls within the proximity of the Aukam Processing Plant and the Graphite bearing shear zone for a total of 5002 hectares. Securing the mining licence is a critical step towards moving the Aukam Mine into commercial production.

On June 12, 2020, the Company closed a non-brokered financing and raised \$2,250,000 as follows:

- a) \$1,500,000 aggregate principal amount of convertible debenture units were placed. The debenture units consist of 1,500 senior secured convertible debentures, with each debenture unit priced at

Gratomic Inc.
MANAGEMENT DISCUSSION AND ANALYSIS
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- \$1,000 consisting of (i) one \$1,000 face value convertible debenture, convertible at the option of the holder into common shares of the Company at \$0.06 per share for the first twelve months from the closing of the offering, and thereafter at \$0.10 for a further six months, which will bear interest at 10% per year, paid quarterly in cash, until maturity, being December 11, 2021; and (ii) 8,333 share purchase warrants with each debenture warrant entitling the holder to purchase one additional share at an exercise price of \$0.10 per share until December 11, 2021.
- b) In addition, 12,499,996 working capital units were placed at a price of \$0.06 per working capital unit for gross proceeds of \$750,000. Each working capital unit comprises (i) one share, and (ii) one share purchase warrant. Each working capital warrant entitles the holder to acquire one share at \$0.10 per working capital warrant until June 11, 2022.

On June 12, 2020 the Company completed debt settlements aggregating \$267,005 of debt for the issuance of an aggregate of 4,450,079 Shares at a price of \$0.06 per Share including an aggregate \$149,607 of debt owed to arm's length parties, one director and two entities related to insiders of the Company, for the issuance of 2,493,444 Shares.

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

On March 29, 2020, 2,708,200 warrants that had been issued by the Company expired.

Mining License Update

On May 6, 2020, Gratomic received confirmation from the Ministry of Mines and Energy of Namibia that the Minister has issued Mining Licence 215 (ML215) for the Company's Aukam Graphite Property in Namibia.

We would like to thank the Ministry for their co-operation and hard work to assist Gratomic's progression into a mining company from a junior exploration company.

Operations Update

The Chinese manufacturing facility that is supplying the last pieces of equipment that make up the greater part of the drying circuit for the Aukam mine graphite processing plant has experienced significant delays due to the impact of the Coronavirus and has been unable to ship the equipment. The Company has been waiting for correspondence from the manufacturer on the platform designs that are required to be poured at the same time as the shipment leaves China to provide a sufficient curing period for the concrete platforms. The minimum shipping time from China to Namibia is 39 days once the equipment leaves port. We foresee further delays at both the port of China and the port of Walvis Bay given strict quarantine restrictions at both ports currently.

On the 19th of February the Company received feed-back from the manufacturer on the platform designs and confirmation that some of the staff have returned back to the factory and it is now able to proceed with shipping of the remaining equipment.

The List of Equipment from China includes the following:

Cyclone Cluster
10 m Electrical Dryer

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Thickener
600 mm conveyor belt
Filter press
Slurry pumps and lines

The equipment was specifically designed and built to accommodate mass balance pull and the treatment of Aukam Graphite based on the results of our pilot testing programs.

Management Update

In an effort to reduce the Company's expenditures, the majority of Namibian staff and management has agreed to go to 50% remuneration as per SECTION 12 (6) OF THE NAMIBIAN LABOUR ACT NO 11 OF 2007 until the granting of ML215. The Canadian management team has lead by example by doing the same in an effort to preserve capital for operations.

In March, 2020, Arno Brand was appointed President and Chief Executive Officer eliminating the Co-CEO designation, replacing Sheldon Inwentash who stepped down. The company announced the appointment of Mr. Walter Luke to the Board of Directors replacing Gerry Feldman and Jakson Inwentash who resigned. Mr. Luke is a professional project manager with over 29 years of global experience directing projects for tech giants such as Nortel, Bell Mobility, Nigeria Multilink, Australia Optus, and New Zealand Clear. Mr. Luke's successful private enterprise has taken him to over 40 countries and has brought international recognition (several Chairman's and President's awards) for his contributions to new business developments worldwide. Mr. Luke holds a project manager professional certification from the Project Management Institute.

On Apr 8, 2020, Gratomic appointed Armando Farhate as Executive Management and Head of Advisory Board to advise and oversee the construction and commissioning of the processing plant, Grade and Quality Control Management, and Head of the Company's Advisory Board. He will focus on product quality control and will advise on plant construction at the Aukam Graphite Mine in Namibia. In addition to holding an MBA and a Degree in Mechanical Engineering, Armando's brings over thirty years' professional experience in various capacities including CEO, COO, Industrial Director, VP/Director/Sales Manager. As Operations and Product Director for Imerys Graphite & Carbon, Armando was directly responsible for the mining and processing facilities at the two sites in Quebec, Canada. He coordinated a joint venture project in Northern Namibia with a market capitalization of 40 million dollars USD and was responsible for ensuring market demand was accommodated. Mr. Farhate was directly responsible for the establishment of new product lines, production processes, pricing, sales management, and marketing campaigns. He established the long term strategy for Natural Graphite, which included sourcing strategy and the definition of new production sites.

Prior to his tenure at Imerys Graphite & Carbon, Mr. Farhate was the Chief Operating Officer at Nacional De Grafite, Ltda. In his capacity as COO for this prestigious graphite company, Armando was directly responsible for the management and overseeing of 650 employees in various areas including geology, mine planning, mining, processing, engineering and projects, research and development, quality systems, environmental management, and sales and marketing.

During his time with Nacional De Grafite, Ltda., Mr. Farhate coordinated the opening of new mines, obtaining all necessary permits and licensing. In addition to the evaluation of all mineral assets, Armando was also responsible for the introduction of controls on production, efficiency, costs and inventory levels of three different plants and more than 20 product lines. He optimized the management of working capital and generated gains of up to BRL 5 million/yr in the industrial units. Mr. Farhate led the development of new products and processes, including negotiating partnerships with public and private universities in Brazil and abroad. He placed an emphasis on obtaining graphite oxide and graphene from natural crystalline graphite, and on developing process technology for lithium-ion battery anodes.

TODA Notes Update

On October 17, 2019, Gratomic announced the Supply Agreement with TODAQ Holdings ("TODAQ") to supply TODAQ with an aggregate of USD \$25,000,000 of graphite, payable in TODA Notes ("TDN"), and

Gratomic Inc.
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(Form 51-102F1)
For the year ended December 31, 2019

on December 20, 2019 Gratomic announced it had received its first of two purchase orders from TODAQ. Following is an update on the current status of TDN trading. TDN has been trading on BitForex, a digital asset exchange, with a 30-day average price and volume of approximately USD \$0.24 and USD \$950,000, respectively. TDN first started trading on Bitforex on November 1, 2019 at a price of USD \$0.10 and a volume of USD \$300,000. To follow TDN, please click the following link: https://www.bitforex.com/en/spot/tdn_btc . No TDN will be issued to the Company until the equipment arrives from China and the processing plant is in production.

Other Disclosures

Share Capital

Common Shares -

As at December 31, 2019, and the date hereof, there were 43,054,228 and 62,194,303 common shares respectively of the Company issued and outstanding (December 31, 2018 – 33,735,748).

Warrants -

At December 31, 2019 and the date hereof there were a total of 28,651,675 and 53,132,971 warrants respectively outstanding (December 31, 2018 – 20,114,787).

Options -

At December 31, 2019, and the date hereof, there were a total of 3,005,000 stock options outstanding (December 31, 2018 – 3,250,000).

Convertible debentures, option to convert to common shares –

At the date hereof there was a total of \$1,500,000 convertible debentures outstanding for which the debenture holders have the option to convert to 25,000,000 common shares.

Additional Information -

Additional information about the Company including the financial statements, press releases and other filings are available on the internet at www.sedar.com and additional supplemental information is available on the Company website at www.gratomic.ca .



GRATOMIC INC.
(formerly CKR Carbon Corporation)
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Gratomic Inc.

Opinion

We have audited the consolidated financial statements of Gratomic Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the statement of loss and comprehensive loss, statement of cash flows and statement of shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's 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 audit of the consolidated 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.

Comparative Information

The consolidated financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 30, 2018.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that as at December 31, 2018, the Company had an accumulated deficit of \$ 13,654,188 and working capital of \$ 3,041,563. 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. The other information comprises the information included in the Management's Discussion and Analysis.

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 audit 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.



We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. 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 in this auditor's report. 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, 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.

Auditor's 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 auditor's 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 audit. 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 audit 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 auditor's 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 auditor's 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 consolidated 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 audit 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 audit resulting in this independent auditor's report is Gordon Cummings.

Vancouver, B.C.
April 30, 2019

"D&H Group LLP"

Chartered Professional Accountants

GRATOMIC INC.
(formerly CKR Carbon Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

Expressed in Canadian Dollars

	Notes	2018	2017
		\$	\$
Assets			
Current			
Cash		2,558,544	2,317,221
Restricted cash		-	16,329
Amounts receivable		495,992	166,616
Prepays	7	453,367	-
		3,507,903	2,500,166
Exploration and evaluation assets	3	5,003,062	4,200,063
Property and equipment	4	2,098,255	652,851
		10,609,220	7,353,080
Liabilities			
Current			
Amounts payable and accrued liabilities	7	466,340	267,871
Flow through premium liability		-	25,409
		466,340	293,280
Long Term			
Decommissioning liability		50,000	-
Total liabilities		516,340	
Shareholders' equity			
Share capital	6	19,196,978	13,693,171
Reserves		3,179,500	2,463,343
Deficit	6	(13,654,188)	(10,257,019)
Equity attributable to owners of the Company		8,722,290	5,899,495
Non- controlling interest	5	1,370,590	1,160,305
Total equity		10,092,880	7,059,800
Total shareholders' equity and liabilities		10,609,220	7,353,080
Nature of operations and going concern	1		
Commitments and contingencies	12		
Subsequent events	13		

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

"Arno Brand"

Director

"Daniel Bloch"

Director

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

GRATOMIC INC.
(formerly CKR Carbon Corporation)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED
Expressed in Canadian Dollars

		December 31,	
	Notes	2018	2017
		\$	\$
Operating expenses			
Consulting		123,920	49,000
Filing fees and permits		34,015	16,482
Investor relations		190,628	27,616
Management fees		621,500	249,323
Marketing		754,302	212,699
Office and other		329,828	59,409
Professional fees		190,983	152,196
Share-based compensation	6(II)	795,782	1,041,000
Travel, meals and accomodation		381,620	59,191
Reversal of flow-through premium liability		(25,409)	(28,924)
Net loss and comprehensive (loss) for the year		(3,397,169)	(1,837,992)
Comprehensive loss for the year attributable to :			
Owners of the Company		(3,397,169)	(1,837,992)
Non-controlling interests		-	-
		(3,397,169)	(1,837,992)
Basic and diluted loss per share		(0.03)	(0.03)
Weighted average number of shares outstanding		125,149,387	70,112,422

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

GRATOMIC INC.
(formerly CKR Carbon Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,
Expressed in Canadian Dollars

	2018	2017
	\$	\$
Operating Activities		
Net loss for the year	(3,397,169)	(1,837,992)
Non-cash items:		
Amortization	-	43,864
Share-based compensation	795,782	1,041,000
Shares for services	16,000	8,000
Flow through premium	(25,409)	(28,924)
Change in restricted cash	16,329	-
Change in receivable	290,624	(86,696)
Change in prepaid expenses	(453,367)	5,000
Changes in accounts payable and accrued liabilities	213,359	(113,916)
Cash used for operating activities	(2,543,851)	(969,664)
Investing Activities		
Exploration and evaluation expenditures	(737,452)	(921,194)
Purchase of property and equipment	(1,475,841)	(202,648)
Deferred acquisition costs	-	(169,964)
Cash used for investing activities	(2,213,293)	(1,293,806)
Financing Activities		
Proceeds from issuance of common shares from private placements	4,206,500	4,557,690
Share issuance costs	(267,906)	(410,000)
Proceeds from issuance of common shares from options exercised	27,000	-
Proceeds from issuance of common shares from warrants exercised	1,032,873	129,931
Cash provided by financing activities	4,998,467	4,277,621
Changes in cash	241,323	2,014,151
Cash, beginning of year	2,317,221	303,170
Cash, end of year	2,558,544	2,317,321
Supplemental information		
Non-cash transactions	\$	\$
Allocation of equipment from deferred acquisition costs to property, plant and equipment	-	43,422
Amortization included in exploration and evaluation assets	30,437	-
Warrants issued in payment of agent's fee	182,729	298,860
Exploration and evaluation expenditure in accounts payable	79,017	64,127
Flow through premium	-	41,000
Acquisition of control of Gazania	-	1,216,472
Conversion of deferred acquisition cost in Gazania	-	1,357,871
Acquisition of equity in Gazania	-	316,932
Fair value of warrants and options exercised	-	26,337
Non-controlling interest carried interest	210,285	260,765
Property, plant and equipment in accounts payable	-	11,570

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

GRATOMIC INC.
(formerly CKR Carbon Corporation)
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
Expressed in Canadian Dollars

	Notes	Number of shares	Share capital \$	Share-based payment reserves \$	Deficit \$	Attributable to owners \$	Non-controlling Interest \$	Total Equity \$
December 31, 2016								
Shares issued for private placements	6(I)	50,531,892	9,721,073	1,093,653	(8,419,027)	2,395,699	-	2,395,699
Shares issued for services		59,054,143	4,557,690	-	-	4,557,690	-	4,557,690
Share issuance costs - cash	6(I)	139,077	8,000	-	-	8,000	-	8,000
Share issuance costs - broker warrants	6(I)		(410,000)	-	-	(410,000)	-	(410,000)
Shares issued for warrants exercised	6(I)	1,341,877	(298,860)	298,860	-	-	-	-
Flow through share premium liability		-	(41,000)	(26,337)	-	129,931	-	129,931
Share-based compensation	6(II)	-	-	1,041,000	-	(41,000)	-	(41,000)
Acquisition of control of subsidiary	5	-	-	-	-	1,041,000	-	1,041,000
Equity acquisition of subsidiary	5	-	-	316,932	-	-	1,216,472	1,216,472
Non-controlling interests carried interest	5	-	-	(260,765)	-	(260,765)	260,765	-
Loss for the year		-	-	-	(1,837,992)	(1,837,992)	-	(1,837,992)
December 31, 2017		111,066,989	13,693,171	2,463,343	(10,257,019)	5,899,495	1,160,305	7,059,800
Shares issued for private placements	6(I)	48,425,000	4,842,500	-	-	4,842,500	-	4,842,500
Share issuance costs - cash	6(I)	-	(267,906)	-	-	(267,906)	-	(267,906)
Share issuance costs - broker warrants	6(I)	-	(182,729)	182,729	-	-	-	-
Shares issued for warrants exercised		8,886,750	1,032,873	-	-	1,032,873	-	1,032,873
Shares issued for options exercised		300,000	27,000	-	-	27,000	-	27,000
share capital for warrants and options exercised	6(II) and (III)	-	52,069	(52,069)	-	-	-	-
Share-based compensation	6(II)	-	-	795,782	-	795,782	-	795,782
Non-controlling interests carried interest	5	-	-	(210,285)	-	(210,285)	210,285	-
Loss for the year		-	-	-	(3,397,169)	(3,397,169)	-	(3,397,169)
December 31, 2018		168,678,739	19,196,978	3,179,500	(13,654,188)	8,722,290	1,370,590	10,092,880

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

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1. NATURE OF OPERATIONS AND GOING CONCERN

On December 22, 2017, the Company changed its name to Gratomic Inc. (formerly CKR Carbon Corporation) (hereafter the “Company”). The Company was incorporated under the Business Corporations Act (Ontario), and is listed on the TSX Venture Exchange (TSX-V: GRAT). The Company’s corporate office is located at 130 Spadina Avenue, Suite 401, Toronto ON, M5V 2L4. The Company is a junior exploration company engaged in the acquisition and exploration of assets located primarily in Canada and Namibia.

The Company’s ability to realize the costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation assets and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis. These conditions indicate the existence of material uncertainties which cast significant doubt on the Company’s ability to continue as a going concern. Changes in future conditions could require material write downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory, environmental and social requirements.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. It is not possible to predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations.

Details of deficit and working capital of the Company are as follows;

	December 31,	
	2018	2017
	\$	\$
Deficit	(13,654,188)	(10,257,019)
Working capital	3,041,563	2,206,886

The consolidated financial statements of the Company for the years ended December 31, 2018 and 2017 were authorized for issuance in accordance with a resolution of the board of directors on April 30, 2019.

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2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company.

These consolidated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS represents standards and interpretations approved by the IASB, and are comprised of IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") and the former Standing Interpretations Committee ("SICs").

Critical judgements and sources of estimation uncertainty

Critical judgements exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

i) Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flows, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

ii) Capitalization of deferred exploration costs

Minority interest and equity are adjusted to reflect the ownership interest of consolidated subsidiaries in which a minority interest shareholder has a carried interest.

Management is required to assess impairment of intangible exploration and evaluation assets and property and equipment. The triggering events are defined in IFRS 6 and IAS 36 respectively. In making the assessment, management is required to make judgments on the status of each project and the future plans toward finding commercial reserves to which the exploration and evaluation assets and property and equipment relate to.

Management has determined that there were no triggering events present as at December 31, 2018 and 2017, as defined in IFRS 6 and IAS 36, as such, no impairment test was performed.

Critical estimates exercised are as follows:

i) Valuation of share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rates, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity settled benefits.

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ii) Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Basis of consolidation

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accordingly, the consolidated financial statements include the accounts of the following subsidiary companies, for which all significant inter-company transactions and balances have been eliminated.

Name	Place of incorporation	Ownership %
Gratomic Graphite (pty) Limited	Namibia	100%
Ludbay Properties Pty Ltd.	Namibia	100%
Luxury Investments	Namibia	100%
Gazania Investments Two Hundred and Forty Two (Pty) Ltd	Namibia	63%
Gratomic UK Ltd	UK	100%

Financial instruments

(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 ("FVOCI") 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 FVOCI. 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 if the Company has opted to measure them at FVTPL.

(ii) Measurement

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 carried at FVTPL are initially recorded at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

Financial assets and liabilities carried at FVOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVOCI are included in comprehensive income or loss in the period in which they arise.

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(iii) Impairment of Financial Assets at Amortized Cost

The Company recognizes 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 has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of net (loss) income, 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.

(iv) Derecognition

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 statements of net (loss) income.

Financial instruments that are measured at fair value, which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency for the Company and each of its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors in IAS 21, *The Effects of Change in Foreign Exchange Rates*.

For companies in the consolidated group whose presentation currency is the Canadian Dollar, transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period balances recorded in currencies other than the Canadian dollar are recorded at the period end rate of exchange and exchange gains and losses arising on translation are reflected in profit or loss for the year.

For companies in the consolidated group whose presentation currency is other than the Canadian Dollar translations to Canadian Dollars are done as follows: At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the year.

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Loss per share

The Company presents basic loss per share 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.

Exploration and evaluation assets

Upon acquiring the legal right to explore a property, costs related to the acquisition, exploration and evaluation are capitalized by property. If commercially profitable ore reserves are developed, capitalized costs of the related exploration and evaluation assets are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable over the estimated economic life of the

exploration and evaluation assets, or the exploration and evaluation assets are abandoned, or management deems there to be an impairment in value, the exploration and evaluation assets are written down to its net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the period received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

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Decommissioning and restoration provision

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the year.

During the year ended December 31, 2018 and 2017 the Company estimated and recorded its decommissioning liability at an amount of \$50,000 (2017 – Nil).

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance are charged to profit or loss during the fiscal period in which they occur.

Depreciation is calculated using a straight-line method to write-off the cost of the assets. The depreciation rates applicable to each category of property and equipment are as follows:

<u>Asset</u>	<u>Basis of depreciation</u>
Buildings	Straight-line over 10 years
Plant & equipment	Straight-line over 3 years
Vehicles	30% declining balance

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in a private placement was determined to be the more easily measurable component and were valued at their fair value. The balance, if any, is allocated to the attached warrants. Any value attributed to the warrants is recorded in reserves.

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Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options, compensatory warrants and agent options are measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options, is credited to share capital.

In situations where equity instruments, compensatory warrants and agent options are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Share issue costs

Costs directly identifiable with the raising of capital will be charged against the related share capital. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share capital or charged to operations if the shares are not issued.

Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby any premium paid for the flow through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to flow-through premium liability and included in profit or loss at the same time the qualifying expenditures are made.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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Adoption of new standards

The Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) as of January 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. 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 table below summarizes the classification and carrying amount changes upon transition from IAS 39 to IFRS as at January 1, 2018.

<u>Original under IAS 39</u>			<u>New under IFRS</u>	
	<u>Classification</u>	<u>Carrying amount</u>	<u>Classification</u>	<u>Carrying amount</u>
Cash	FVTPL	2,317,221	FVTPL	2,317,221
Restricted cash	FVTPL	16,329	FVTPL	16,329
Amounts receivable	Loans and receivables	166,616	Amortized cost	166,616
Amounts payable	Other financial liability	267,871	Amortized cost	267,871

As the standard permits on transition to IFRS 9, the Company has not restated prior periods with respect to the new amortized cost measurement for financial assets and impairment requirements.

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit or to the opening deficit on January 1, 2018.

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) which superseded IAS 18 Revenue. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual period beginning on or after January 1, 2018. The Company adopted the standard on January 1, 2018 using the cumulative effect adjustment method without applying any practical expedients.

The adoption of IFRS 15 resulted in no impact to the opening accumulated deficit or to the opening deficit on January 1, 2018.

New accounting pronouncements not yet adopted

Certain standards were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning on or after January 1, 2019 or later periods. The following has not yet been adopted and is being evaluated to determine its impact on the Company.

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. The Company is evaluating the effect that this standard will have on its consolidated financial statements.

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3. EXPLORATION AND EVALUATION ASSETS

Following is a summary of the exploration and evaluation assets

For the year ended December 31, 2018	Beginning Balance (\$)	Acquisition costs (\$)	Exploration costs (\$)	Ending Balance (\$)
Aukam Namibia project	3,135,959	-	568,340	3,704,299
Montpellier Quebec project	317,240	-	4,159	321,399
Buckingham Quebec project	746,864	-	230,500	977,364
	4,200,063	-	802,999	5,003,062

For the year ended December 31, 2017	Beginning Balance (\$)	Acquisition costs (\$)	Exploration costs (\$)	Ending Balance (\$)
Aukam Namibia project	-	2,553,888	582,071	3,135,959
Montpellier Quebec project	292,359	-	24,881	317,240
Buckingham Quebec project	489,088	-	257,776	746,864
	781,447	2,553,888	864,728	4,200,063

Montpellier, Quebec

The Company has satisfied all requirements under a December 9, 2013 option agreement and has acquired certain claims located in the Hartwell Township, Casse Laurentides Region in Quebec. The vendors have been granted a 2% net smelter royalty ("NSR"). The Company has the right to repurchase a 1% NSR from the vendors for \$1,000,000.

Buckingham, Quebec

The Company has satisfied all requirements under a February 2013 option agreement and has acquired a 100% interest in the Buckingham properties located in the Province of Quebec.

Aukam Graphite Project, Namibia

The Aukam Graphite project is a property located in Namibia's Karas Region in Africa, which the Company is exploring for graphite mineral resources.

Under the terms of a Joint Venture Agreement dated June 8, 2015, and amended July 17, 2015, between the Company and Next Graphite Pty. Ltd. ("Next"), and a subsequent Farm-out Agreement dated September 12, 2016, between the Company, and Next, the Company acquired 63% of Gazania Investments Two Hundred and Forty Two (Pty) Ltd ("Gazania") from Next by spending USD \$1,100,000 on the property (completed March 31, 2017). The agreements require the Company to:

- a) Complete the plant and infrastructure set up (in progress), and
- b) Obtain government authorization to begin commercial operations (in progress); and
- c) Make quarterly payments for a total of USD\$180,000 (completed).

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Should the Farm-out period need to be extended beyond six months following receipt of a mining license, Next will continue to be paid USD\$25,000 per quarter until the plant and infrastructure set-up are complete. In the case where the Farm-out period is extended as above and the revenue is less than USD\$100,000 per month, the Company will loan Next US\$25,000 per quarter. Interest on the loan will be compounded monthly at a rate equal to one-month term LIBOR plus one.

Should the Company fail to provide payment or work expenditures for any farm-out period or fail to complete the plant infrastructure 6 months after receipt of the mining license, it will forfeit 2% of its interest for each 30-day delay.

Following conclusion of the Farm-out period the Company will fund all operations to run all plant related activities and expenditures for the first five months. Thereafter, each party will contribute funding proportionate to their respective holdings.

Gazania holds an Exclusive Prospecting License (EPL) number 3895 (the "License") for the Aukam Graphite Project located in Namibia's Karas Region, Africa. The Company has the option to buy an incremental 10% of Next's remaining interest for a cash payment of USD\$180,000.

A 2% revenue royalty is payable to the individual who farms the property.

Under Namibian laws royalties are payable in connection with the Aukam Graphite Project as follows:

- a) A 3% revenue royalty is payable the Namibian government.
- b) A 6% net profit incentive, required under the Namibian Economic Empowerment Framework, is payable to employees working on the project.

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4. Property Plant and Equipment

	Land	Buildings	Furniture, fixtures and equipment	Vehicles	Total
	\$	\$	\$	\$	\$
Cost					
At December 31, 2016	369,434	-	69,461	-	438,895
2017 Additions	-	69,904	168,974	18,762	238,880
At December 31, 2017	369,434	69,904	238,435	18,762	696,535
2018 Additions	-	216,500	938,329	321,011	1,475,841
At December 31, 2018	369,434	286,404	1,176,764	339,773	2,172,376
Accumulated Depreciation					
At December 31, 2016	-	-	-	-	-
2017 Depreciation	-	-	38,055	5,629	43,684
At December 31, 2017	-	-	38,055	5,629	43,684
2018 Depreciation	-	7,160	513	22,764	30,437
At December 31, 2018	-	7,160	38,568	28,393	74,121
Carrying Value					
At December 31, 2017	369,434	69,904	200,380	13,133	652,851
At December 31, 2018	369,434	279,244	1,138,196	311,381	2,098,255

5. NON-CONTROLLING INTEREST

The Company gained control of Gazania, whose sole asset was a license to mine the Aukam project, by earning a 52% interest on February 24, 2017. Up to the acquisition date, the Company had incurred acquisition and exploration costs (deferred acquisition costs) of \$1,317,844 which were reallocated to exploration and evaluation assets upon acquisition and consolidation of Gazania in accordance with IFRS 10. Concurrent with the recognition of \$1,317,844 as exploration and evaluation assets, the exploration and evaluation assets were grossed up by an amount of \$1,216,620 to account for the recognition of the non-controlling interests.

The Company thereafter obtained an additional 11% of Gazania on March 31, 2017, at which time the non-controlling interest was decreased by \$316,932, representing the value of the exploration and evaluation asset given up by the non-controlling interest.

Next Graphite has a free carried interest in the Company until a specified period after the conclusion of the farm-in period. Accordingly, the non-controlling interest has been increased by \$210,285 (2017 - \$260,765) to reflect their interest in the funding. Changes to the non-controlling interest have been offset to reserves.

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A reconciliation of the non-controlling interest is as follows:

	December 31, 2018	December 31, 2017
Opening balance /Initial recognition of NCI	\$ 1,160,305	\$ 1,216,620
NCI dilution of interest	-	(316,932)
NCI free carried interest	210,285	260,765
Ending balance	\$ 1,370,590	\$ 1,160,305

6. SHARE CAPITAL, OPTIONS, AND WARRANTS

(I)Common Shares

Authorized - An unlimited number of common shares

The following summarizes the share issuance transactions:

(a)During the year ended December 31, 2018:

- i) A non-brokered private placement of 23,425,000 units at a price of \$0.10 per unit for aggregate gross proceeds of \$2,342,500 was completed. Each unit consisted of one common share and one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share in the Company at a price of \$0.20 per share until the earlier of August 10, 2021, or in the event that the closing price of the common shares is at least \$0.30 for ten consecutive trading days, and the tenth trading day is at least four months from the closing date, the date which is thirty (30) days from the tenth trading day. Officers, directors, the wife and daughter of one of the co-CEO's, and a company of which one of the Company's co-CEO's is the CEO, participated in the private placement in the amount of \$876,500.

The Company paid cash share issue costs of \$129,971 and issued 942,500 broker warrants in relation to the sale of the units. Each broker unit entitles the holder to acquire one common share of the company at a price of \$0.10 for a period of three years.

- ii) A non-brokered private placement of 25,000,000 units at a price of \$0.10 per unit for aggregate gross proceeds of \$2,500,000 was completed. Each unit consisted of one common share and one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share in the Company at a price of \$0.20 per share until the earlier of December 11, 2021, or in the event that the closing price of the common shares is at least \$0.30 for ten consecutive trading days, and the tenth trading day is at least four months from the closing date, the date which is thirty (30) days from the tenth trading day. Officers, directors and the wife of one of the co-CEO's participated in the private placement in the amount of \$284,200.

The Company paid cash share issue costs of \$137,934 and issued 962,400 broker warrants in connection with the sale of the units. Each broker warrant entitles the holder to acquire one common share of the company at a price of \$0.10 for a period of three years.

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(b) During the year ended December 31, 2017:

- i) A private placement of 15,045,000 units at a price of \$0.09 per unit for aggregate gross proceeds of \$1,354,050 and 4,100,000 flow through shares at a price of \$0.10 for gross proceeds of \$410,000 was completed. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share in the capital of the Company at a price of \$0.20 until the March 29, 2020 subject to an acceleration clause.

A value of \$41,000 was attributed to a flow through premium liability.

The Company issued to the finders 1,504,500 broker warrants valued at \$156,843 which entitles the holder to acquire one unit of the Company at \$0.09 for a period of two years from the closing of the placement. Each unit comprises one common share of the Company and a share purchase warrant exercisable at \$0.20 for a period of three years from the initial financing. The Company also issued 410,000 broker warrants valued at \$41,022 which entitles the holder to acquire one common share of the Company at \$0.10 for a period of two years from the closing of the placement. In addition, the Company paid cash commissions to the finders totaling \$176,405.

- ii) Completed a private placement of 39,909,143 units at a price of \$0.07 per unit for aggregate gross proceeds of \$2,793,640. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share in the capital of the Company at a price of \$0.10 until November 24, 2020, subject to an acceleration clause

The Company issued to the finders 2,160,140 broker warrants valued at \$100,995. Each broker warrant entitles the holder to acquire one common share of the Company at \$0.07 for a period of three years. In addition, the Company paid cash commissions to the finders totaling \$151,210.

(II) Stock Options

The Company has adopted an incentive stock option plan in accordance with the policies of the TSX-V (the "Stock Option Plan") which provides that the Board of Directors of the Company may from time to time, at its discretion, grant to directors, officers, employees and consultants of the Company options to purchase common shares, provided that the number of shares reserved for the issuance under the Stock Option Plan shall not exceed ten percent (10%) of the issued and outstanding common shares, and the exercise price to be determined by the Board at the time the option is granted.

(a) During the year ended December 31, 2018, the Company:

Granted 7,250,000 stock options with an estimated fair value of \$795,782, of which 5,600,000 stock options with a value of \$637,920 were issued to directors and officers. The fair value of the options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	Nil
Stock price volatility	145.0%
Risk-free interest rate	2.020%
Expected life of options	5 years

All of the options granted vested immediately, except for 650,000 which vested 25% on October 2, 2018 and 25% every six months to March 10, 2020.

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(b) During the year ended December 31, 2017, the Company:

Granted 9,950,000 stock options with a fair value of \$1,041,000, of which \$824,243 relates to 7,725,000 stock options being issued to directors, officers and consultants recorded as share based compensation, were granted. The fair value of options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	Nil
Stock price volatility	89.2%
Risk-free interest rate	0.008%
Expected life of options	5 years

A summary of option transactions is as follows:

	Number of options	Weighted average exercise price
Balance, December 31, 2016	2,250,000	0.110
Granted	9,950,000	0.130
Expired/Cancelled	(1,636,666)	0.140
Balance, December 31, 2017	10,563,334	0.130
Granted	7,250,000	0.130
Exercised	(300,000)	0.090
Expired/Cancelled	(1,263,334)	0.135
Balance, December 31, 2018	16,250,000	0.128

A summary of options outstanding at December 31, 2018 is as follows:

Exercise price	Number outstanding	Number exercisable	Remaining contractual life in months	Weighted average exercise price
0.100	450,000	450,000	26	0.100
0.170	3,750,000	3,750,000	39	0.170
0.070	900,000	900,000	44	0.070
0.100	3,900,000	3,900,000	48	0.100
0.140	250,000	250,000	48	0.100
0.145	850,000	850,000	52	0.145
0.145	300,000	300,000	53	0.145
0.115	650,000	162,500	57	0.115
0.130	5,200,000	5,200,000	60	0.130
	16,250,000	15,762,500		0.128

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(III) Warrants

Following is a summary of warrant activity for the years ended December 31, 2018 and 2017:

	Number of Warrants	Weighted average exercise price \$
Balance, December 31, 2016	15,070,021	0.13
Granted	59,028,783	0.12
Exercised	(1,341,877)	0.10
Expired	(13,589,144)	0.13
Balance, December 31, 2017	59,167,783	0.12
Granted	50,329,900	0.20
Exercised	(8,886,750)	0.12
Balance, December 31, 2018	100,610,933	0.16

As at December 31, 2018 the following share purchase warrants were outstanding and exercisable:

Expiry Date	Number of Warrants	Weighted Average Exercise Price \$	Fair Value \$
March 29, 2019	1,420,500	0.09	147,461
March 29, 2020	96,000	0.20	-
March 29, 2020	13,445,000	0.20	-
March 29, 2019	410,000	0.10	41,022
November 24, 2020	33,209,143	0.10	-
November 24, 2020	1,700,390	0.07	77,770
August 10, 2021	23,425,000	0.20	-
August 10, 2021	942,500	0.10	83,848
December 11, 2021	25,000,000	0.20	-
December 11, 2021	962,400	0.10	98,881
	100,610,933	0.16	

The fair value of the 1,904,900 warrants granted during the year ended December 31, 2018 (2017 – 4,074,640) had an estimated value of \$182,729 (2017 - \$298,860) on the date of the grant, valued using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31,
	2018 2017
Expected dividend yield	0.00% 0.00%
Stock price volatility	103.4% 92.3%
Risk-free interest rate	2.08% 1.10%
Expected life of warrants	3 Years 2 years

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7. RELATED PARTY TRANSACTIONS

The Company has determined that key management consists of the Company's Board of Directors and corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer. The Company paid or accrued the following amounts to key management, and private corporations owned by them:

	2018	2017
	\$	\$
Consulting fees of key management expensed	687,049	318,667
Consulting fees of key management charged to exploration and evaluation assets and property and equipment	160,000	67,746
Consulting fees of key management charged to prepaid expenses (1)	216,667	-
Share-based payments	637,720	824,243
	<u>1,701,436</u>	<u>1,210,656</u>

(1) All of 2019 fees for one of the co-CEO's, and one month for the other, were prepaid at December 31, 2018.

Legal fees in the amount of \$84,418 (2017 – Nil) were paid or payable to a law firm whose partner is an officer of the Company.

Included in accounts payable and accrued liabilities at December 31, 2018 and 2017 was \$81,639 (2017 – 133,745) owing to directors, and officers, companies owned by directors and officers, and a law firm whose partner is a director and an officer of the Company. These amounts are unsecured, non-interest bearing and due on demand.

During 2018 the Company paid office rent to ThreeD Capital Inc., a company of which one of the Company's co-CEO's is the CEO, an amount of \$36,000.

Officers, directors, the wife and daughter of one of the co-CEO's, and a company of which one of the Company's co-CEO's is the CEO, participated in the private placements during the year in the amount of \$1,160,700.

8. SEGMENTED INFORMATION

The Company's primary business activity is the acquisition and exploration of mineral properties in Canada and Namibia. The assets used in each location are as follows at December 31, 2018:

	2018	2017
	\$	\$
Exploration and evaluation assets		
Canada	1,298,763	1,064,104
Namibia	3,704,299	3,135,959
	<u>5,003,062</u>	<u>4,200,063</u>
Property and equipment		
United Kingdom	541,470	-
Namibia	1,556,785	652,851
	<u>2,098,255</u>	<u>652,851</u>

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9. CAPITAL MANAGEMENT

The Company's objective when managing capital, defined as its equity, is to safeguard its ability to continue as a going concern, and to pursue the exploration and evaluation of its properties. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets and seeks to retain sufficient equity to ensure that cash flows from assets will be sufficient to meet future cash flow requirements. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending. The Company is subject to flow-through obligations to investors, which require it to use the funds raised through the issue of "flow-through shares" on exploration expenditures. To assess capital and operating efficiency and financial strength, the Company continually monitors its net cash and working capital. The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2018 and 2017.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body.

10. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2017 - 26.5%) were as follows:

	2018	2017
	\$	\$
Combined Canadian statutory income tax rate	26.50%	26.50%
Loss before income taxes	(3,397,169)	(1,837,992)
Expected income tax recovery based on statutory rate	(900,000)	(478,000)
Adjustment to expected income tax benefit:		
Share issue costs and other	(36,000)	(238,000)
Permanent differences	211,000	263,000
Change in unrecognized temporary differences	732,000	381,000
Impact of flow through shares	(7,000)	72,000
Deferred income tax recovery	-	-

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b) The tax effects of temporary differences that give rise to deferred income tax assets and liabilities at December 31, 2018 and 2017 are as follows:

	2018	2017
	\$	\$
Deferred tax assets (liabilities):		
Capital assets	78,000	16,000
Share issue costs	122,000	127,000
Non-capital losses carried forward	2,371,000	1,677,000
Mining interests	283,000	303,000
Unrecognized deferred tax assets	(2,854,000)	(2,123,000)
Net deferred income tax liability	-	-

c) Losses Carried Forward

As at December 31, 2018, the Company had estimated non-capital losses for Canadian income tax purposes of approximately \$8,948,000 (2017 - \$6,150,000) available to use against future taxable income. The non-capital losses expire between 2026 and 2038 as follows.

Expiry	Canada \$
2026	40,000
2027	9,000
2028	126,000
2029	267,000
2030	316,000
2031	899,000
2032	701,000
2033	750,000
2034	596,000
2035	582,000
2036	823,000
2037	1,078,000
2038	2,761,000
	<u>8,948,000</u>

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair value of cash is measured on level 1 of the fair value hierarchy. The carrying amounts for amounts receivable, and accounts payable and accrued liabilities approximate their estimated fair value due to the short-term nature of these financial instruments.

Amounts receivable is classified as amortized cost and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

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The Company's risk exposures and the impact on its financial investments, as summarized below, have not changed significantly during the year.

Credit Risk

The Company's credit risk is primarily attributable to amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instrument included in amounts receivable is remote.

Liquidity Risk

The Company's main source of liquidity is derived from its common stock issuances. As at December 31, 2018 and 2017, the Company had current assets of \$2,904,232 (December 31, 2017 \$2,500,166) to settle current liabilities of \$482,669 (December 31, 2017 \$293,280). The Company's financial liabilities generally have contractual maturities that are subject to normal trade terms.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment grade short term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

Market Risk

Foreign Currency Risk

The Company's functional and reporting currency is the Canadian dollar and all expenditures are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. As the Company's properties are in the exploration stage and to date do not contain any identified mineral resources or reserves, the Company does not hedge against commodity price risk.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period:

- (i) The Company receives low interest rates on its cash and cash equivalent balances and, as such, the Company does not have significant interest rate risk.
- (ii) The Company holds balances in foreign currencies that give rise to exposure to foreign exchange risk, however at any point in time the balances are not significant. The Company estimates that a 10% increase or decrease in the foreign currency would give rise to a gain or loss of approximately \$20,000 respectively.

12. COMMITMENTS AND CONTINGENCIES

The Company's exploration and evaluation activities are subject to government laws and regulations, including tax laws, and laws and regulations governing the protection of the environment. The Company believes that its operations comply in all material respects with all applicable past and present laws and regulations. The Company records provisions for any identified obligations, based on management's estimate at the time. Such estimates are, however, subject to changes in laws and regulations.

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The Company has indemnified the subscribers of flow-through share offerings pursuant to subscription agreements with investors for amounts that may become payable by the shareholder as a result of the Company not having met its expenditure commitments on qualified items.

The Company has consulting agreements with each of its co-CEO's providing for a monthly retainer of \$16,667 each. The agreements:

- a) Are terminable by the Company on six months' notice.
- b) Contain a change of control clause providing that, in the event of a change in control, a lump sum payment equivalent to 24 months retainer fees will be paid.

The Company has a consulting agreement with its CFO providing for a monthly retainer of \$4,000. The agreement is terminable by either party on one month's notice.

13. SUBSEQUENT EVENTS

1,824,500 warrants to purchase common shares of the Company with a weighted average exercise price of \$0.09 per share expired, and 993,000 warrants to purchase common shares were exercised at a weighted average exercise price of \$0.099.

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(Formerly CKR Carbon Corporation)
MANAGEMENT DISCUSSION AND ANALYSIS
(Form 51-102F1)
For the year ended December 31, 2018



This MD&A is dated April 30, 2019

On December 22, 2017, the Company changed its name to Gratomic Inc. (formerly CKR Carbon Corporation) (hereafter the “Company” or “Gratomic Inc.”), which was incorporated under the Business Corporations Act (Ontario), R.S.O. 1990, on February 27, 2007 and is listed on the TSX Venture Exchange (TSX-V: GRAT). The Company’s corporate office is located at 130 Spadina Avenue, Suite 401, Toronto ON, M5V 2L4. The Company is a junior exploration company primarily engaged in the acquisition and exploration of exploration and evaluation assets located in Canada and Namibia.

The following is the management discussion and analysis (“MD&A”) of the financial condition, changes in financial condition and results of operations of Gratomic Inc. for the year ended December 31, 2018. The MD&A should be read in conjunction with the consolidated financial statements of the Company for the year ended December 31, 2018 (www.sedar.com) which have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Company’s ability to realize the costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation assets and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis. These conditions indicate the existence of material uncertainties which cast significant doubt on the Company’s ability to continue as a going concern. Changes in future conditions could require material write downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory, environmental and social requirements.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. It is not

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possible to predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations.

Unless otherwise specified, all dollar amounts herein are expressed in Canadian currency.

Additional information on the Company may be found on SEDAR on www.sedar.com

Forward-Looking Information

In making and providing the forward-looking information included in this MD&A the Company's assumptions may include among other things: (i) assumptions about the price of metals; (ii) that there are no material delays in the optimisation of operations at the exploration and evaluation assets; (iii) assumptions about operating costs and expenditures; (iv) assumptions about future production and recovery; (v) that there is no unanticipated fluctuation in foreign exchange rates; and (vi) that there is no material deterioration in general economic conditions. Although management believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements, or results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include among other things the following: (i) decreases in the price of base metals; (ii) the risk that the Company will continue to have negative operating cash flow; (iii) the risk that additional financing will not be obtained as and when required; (iv) material increases in operating costs; (v) adverse fluctuations in foreign exchange rates; and (vi) environmental risks and changes in environmental legislation.

This MD&A (See "Risks and Uncertainties") contains information on risks, uncertainties and other factors relating to the forward-looking information. Although the Company has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking information, there may be other factors that cause actual results, performances, achievements or events not to be anticipated, estimated or intended. Also, many of the factors are beyond the Company's control. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to reissue or update forward looking information as a result of new information or events after the date of this MD&A except as may be required by law. All forward-looking information disclosed in this document is qualified by this cautionary statement.

Annual Information

	2018	2017	2016
	\$	\$	\$
Revenue	-	-	-
Loss and comprehensive loss for the year	(3,397,169)	(1,837,992)	(612,313)
Loss per common share	(0.03)	(0.03)	(0.02)
Working capital (deficit)	3,041,563	2,206,886	(15,945)
Total assets	10,609,220	7,353,080	2,816,063
Weighted average number of common shares	125,149,387	70,112,442	32,858,114

Outlook and Performance Highlights

Outlook

Gratomic Inc. is an advanced materials company focused on mine to market commercialization of graphite products most notably high value graphene based components for a range of mass market products. With its

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unique Aukam graphite asset the Company is poised to replace a large part of declining production capacity of vein graphite from Sri Lanka

Aukam graphite asset

Gratomic currently owns 63% of the historical Aukam graphite mine in Southern Namibia. Aukam graphite has been tested in several high value applications including nano engineered graphenes. The Aukam graphite when converted to graphenes have proven suitable for inks & pastes for the printed electronics industry, super hydrophobic graphene variants for architectural and marine coatings, elastomers for cycle, passenger vehicle tires and elements for resistive heaters. There is year round road access to the Aukam project from paved Highway B4 that runs between Luderitz and Keetmanshoop via district gravel roads south from the Highway. The infrastructure in the area is good with nearby power from the national grid, water from underground aquifers and a rail link to Luderitz and Keetmanshoop adjacent to Highway B4 approximately 70 km north of the project.

In addition to the underground workings on the Aukam property, there are five unprocessed stockpiles that remain from the historical mining. These stockpiles still contain significant graphite and assays of samples taken during detailed sampling on a 10m x 10m grid ranged between 3.98 and 57.07% Cg (carbon as graphite) and averaged 20.04% Cg. The stockpiles provide the company with a supply of high grade graphite that is ready to be processed in the near term.

Performance highlights

Subsequent to year end –

- On January 19, 2019, the Company announced the development of Gratomic's new Graphene Ultra Fuel Efficient Tires with certification and terrain testing targeted for completion in Q3, 2019.
- On February 5, 2019 the Company announced the submission of two additional Exclusive Prospecting License applications along the strike from its Aukam Graphite mine in Namibia.
- On March 4, 2019, company announced it had submitted a full mining license application to the Namibian Ministry of Mines and Energy.

During 2018 private placements of 48,425,000 units at a price of \$0.10 per unit for aggregate gross proceeds of \$4,842,500 were completed.

During 2018 operations have been focussed on:

1. Building a prototype graphite flotation processing line and testing its output to ensure quality graphite can be produced with the purity needed for the manufacture of graphene.
2. Building the infrastructure necessary to provide offices, lab facilities, warehousing, and housing facilities for staff at the mine.
3. Exploration activities to identify new resources

The Company and its joint venture partner, Perpetuus Carbon Technologies Limited ("Perpetuus"), a wholly owned subsidiary of Perpetuus Advanced Materials, are planning a development program primarily targeted towards elastomer and polymer tire markets.

Perpetuus and Gratomic executed a letter of collaboration pursuant to which Perpetuus undertook to build three specialized process tooling chambers ("Chambers") to be used solely for manufacturing Graphite from Gratomic's historical Aukam Graphite mine in Namibia. The Chambers have been financed by Gratomic Inc. The first one has passed the testing phase and is ready to process the Aukam sourced graphite. The second Chamber is built and the third is in the construction in progress stage.

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Exploration and Evaluation Expenditures

Exploration and evaluation expenditures for the years ended December 31, 2018 and 2017 are summarized as follows:

Outlays by expenditure category, by project, for the years ended December 31, 2018 and 2017 are as follows:

	<u>Aukam Namibia project</u>		<u>Montpellier Quebec project</u>		<u>Buckingham Quebec project</u>		<u>Total</u>	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$
Drilling	8,736	44,356	-	-	-	106,798	8,736	151,154
Field work, supplies and other	283,394	68,116	-	23,722	-	150,978	283,394	242,816
Assays	-	56,406	-	-	-	-	-	56,406
Geological and other consulting	149,128	289,282	4,159	1,159	230,500	-	383,788	290,441
Transport	89,565	28,021	-	-	-	-	89,565	28,021
Travel and accommodation	37,517	95,890	-	-	-	-	37,517	95,890
	568,340	582,071	4,159	24,881	546	257,776	802,999	864,728

Results of Operations

The following table provides selected financial information for the three months and years ended December 31, 2018 and 2017.

	For the three months ended December 31,		For the years ended December 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Operating expenses	(1,870,426)	(842,041)	(3,397,169)	(1,837,992)
Net loss	(1,870,426)	(842,041)	(3,397,169)	(1,837,992)
Net loss per share	(0.008)	(0.010)	(0.027)	(0.026)
Mining interests	5,003,062	4,200,063	5,003,062	4,200,063
Total assets	10,609,220	7,353,080	10,609,220	7,353,080

Comments on source and use of funds

During 2018

1. The Company raised \$4,998,467 through the issuance of shares, and the exercise of options and warrants.
2. Cash used in operating activities amounted to \$2,453,851 comprised of a loss of \$3,397,169 of which \$786,373 were non-cash items, and \$66,945 generated from changes in working capital.
3. Investment in plant and equipment and exploration and evaluation assets amounted to \$1,475,841 and \$737,453 respectively.

The Company has cash of \$2,558,544 at December 31, 2018 and will need to raise additional cash during 2019 to meet its operating plans for the year.

Revenues

None of the Company's properties have advanced to the point where a production decision can be made. As a consequence, the Company has no producing properties and no sales or revenues. From time to time the Company will earn interest from funds on deposit and other income.

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The major expense items for the three months and years ended December 31, 2018 and 2017 are summarized as follows:

	Three months ended December 31, \$		Years ended December 31, \$	
	2018	2017	2018	2017
Consulting	102,060	7,000	123,920	49,000
Filing fees and permits	5,662	8,752	34,015	16,482
Investor relations	(28,898)	13,312	190,628	27,616
Management fees	377,200	152,000	621,500	249,323
Marketing	365,949	98,819	754,302	212,699
Office and other	171,063	48,420	329,828	59,409
Professional fees	56,800	56,216	190,983	152,196
Share-based compensation	628,055	453,000	795,782	1,041,000
Travel, meals and accommodation	192,536	17,494	381,620	59,191
Other	-	(12,972)	(25,409)	(28,924)
	1,870,426	842,041	3,397,169	1,837,992

Exploration and Evaluation Assets

The technical content of the mineral property disclosure in this MD&A has been reviewed and approved by Steven Gray, B.Sc., P. Geo, Gratomic's QP and a qualified person as defined by National Instrument 43-101. Except where noted the property disclosure in this MD&A has not been the subject of a National Instrument 43-101 report.

Aukam Graphite Project, Namibia

The Aukam property is comprised of Exclusive Prospecting License (EPL) 3895 in respect of base and rare metals, industrial minerals, and precious metals. The license covers an area of 27,870 hectares on the farm Aukam104 and Harichab121 located in the district of Bethanie, Karas region of southern Namibia.

Under the terms of a Joint Venture Agreement dated June 8, 2015, and amended July 17, 2015, between the Company and Next Graphite Pty. Ltd. ("Next"), and a subsequent Farm-out Agreement dated September 12, 2016, between the Company, and Next, the Company acquired 63% of Gazania Investments Two Hundred and Forty Two (Pty) Ltd ("Gazania") from Next by spending USD \$1,100,000 on the property (completed March 31, 2017) and making payments to Next totaling USD\$180,000. Gazania holds an Exclusive Prospecting License (EPL) number 3895 (the "License") for the Aukam Graphite Project.

The agreements also require the Company to: (a) complete the plant and infrastructure set up for a 5000 tonne/yr operational processing plant (in progress), and (b) obtain government authorization to begin commercial operations (in progress), during the Farm-out period within 6 months following the granting of a mining licence.

The Company has the option to buy an incremental 10% of Next's remaining interest for a cash payment of USD\$180,000 if mutually agreed by the parties.

Should the Farm-out period be extended beyond six months following receipt of a mining license, except in the case of delay by government authorization to start operations, Next will continue to be paid USD\$25,000 per quarter until the plant and infrastructure set-up are complete and government authorization to begin

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commercial operations is obtained. In the case where the Farm-out period is extended as above and the revenue is less than USD\$100,000 per month, the Company will loan Next US\$25,000 per quarter. Interest on the loan will be compounded monthly at a rate equal to one-month term LIBOR plus one.

Should the Company fail to complete the plant infrastructure and obtain government authorization to begin commercial operations 6 months after receipt of the mining license, it will forfeit 2% of its interest for each 30-day delay.

Following conclusion of the Farm-out period, the Company will fund all operations to run all plant related activities and expenditures for the first five months. Thereafter, each party will contribute funding proportionate to their respective holdings, failing which, a party's interest will be diluted.

A 2% revenue royalty is payable to the individual who farms the property.

Under Namibian laws royalties are payable in connection with the Aukam Graphite Project as follows:

- a) A 3% revenue royalty is payable the Namibian government.
- b) A 6% net profit incentive, required under the Namibian Economic Empowerment Framework, is payable to employees working on the project.

Exploration

During 2018, Gratomic contracted Gregory Symons Geophysics (GSG) to perform Horizontal Loop Electromagnetics (HLEM) and magnetic surveys in continuation of previous geophysical surveys undertaken in 2016/2017. During the 2018 geophysical survey, ground electromagnetic and magnetic surveys were completed in two areas of identified as Grid 1 and Grid 2. (see Figure 1)

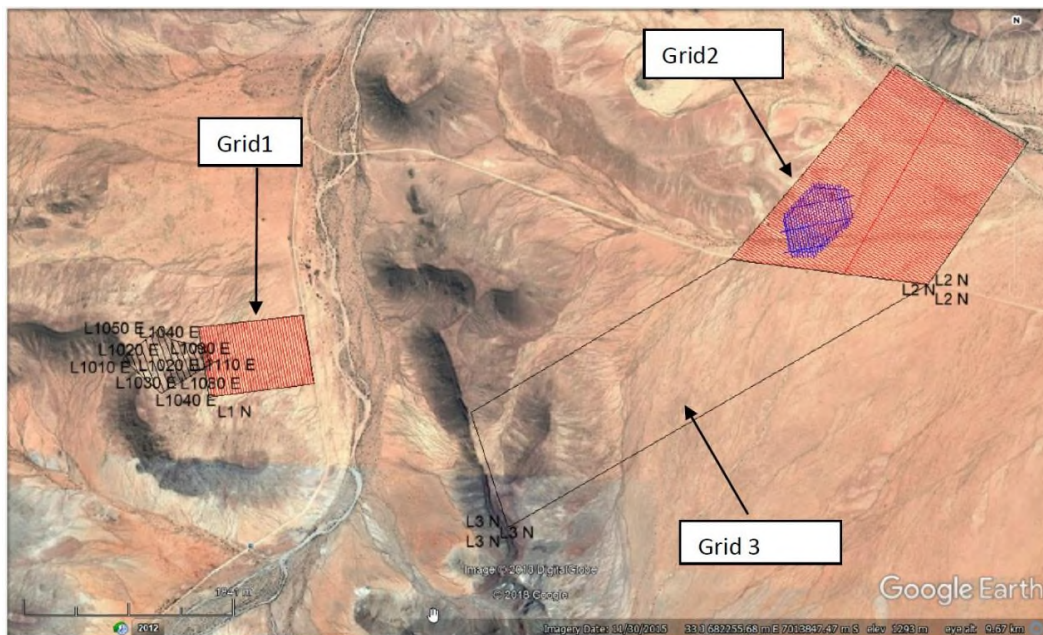


Figure 1 showing 2016 survey in black, Grid 1 & Grid 2 completed in 2018, Grid 3 proposed for 2019

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Grid 1 adjoins the previous survey over the mine area at Aukam and extends the strike length covered to 1.6 kilometres to the East. Significant interpretations pertaining to Grid 1 include:

- Graphite identified at surface occurs both as massive graphite veins and widespread disseminated graphite over an area of 550 metres east-west by 190 metres north-south,
- Surface graphite showings are located sub-parallel to known electromagnetic anomalies,
- Electromagnetic anomalies extend those depicted by the original survey by approximately 550 metres,
- Current strike length of anomaly now stands at 1.3 kilometres,
- Distinct drill targets have been identified along the trend,
- Surveyed area appears to be under rather shallow sand cover,
- Prospective areas identified are conducive to surface trenching.

Grid 2 of the completed geophysical survey covers the Snyman graphite occurrence in the northeastern portion of EPL3895. The Snyman graphite occurrence covers an area of 7.5 ha and lies approximately 6.5 kilometres east of the Aukam mine. Significant interpretations pertaining to Grid 2 include:

- Graphitic interpreted mineralization is depicted by a predominant EM anomaly in the northwest part of the grid extending over 150 metres,
- A second weaker EM further to the east extends over 600 metres is thought to be associated with graphite mineralization in the area
- The grid area appears to be covered with thin overburden,
- Areas have been identified as prospective areas conducive to surface trenching

During 2018 Gratomic was granted additional Exclusive Prospecting License, Number 6710 (EPL 6710) by the Namibian Ministry of Mines and Energy, with an initial exclusivity of three years. The license area is contiguous with EPL 3895, which covers the Aukam graphite deposit and the Snyman graphite (see Figure 2). The application for EPL 6710 was submitted in order to cover the potential strike extension of the Snyman graphite occurrence to the east. In addition, EPL 6710 covers an additional area considered prospective for graphite within the “Aukam window” where rocks hosting the Aukam and Snyman graphite are exposed beneath the regional unconformity at the base of the Nama Group sedimentary rocks. When the addition of the new EPL is approved it will increase the area of prospective geology covered from 27,870 hectares to 63,072 hectares (630 square kilometres) .

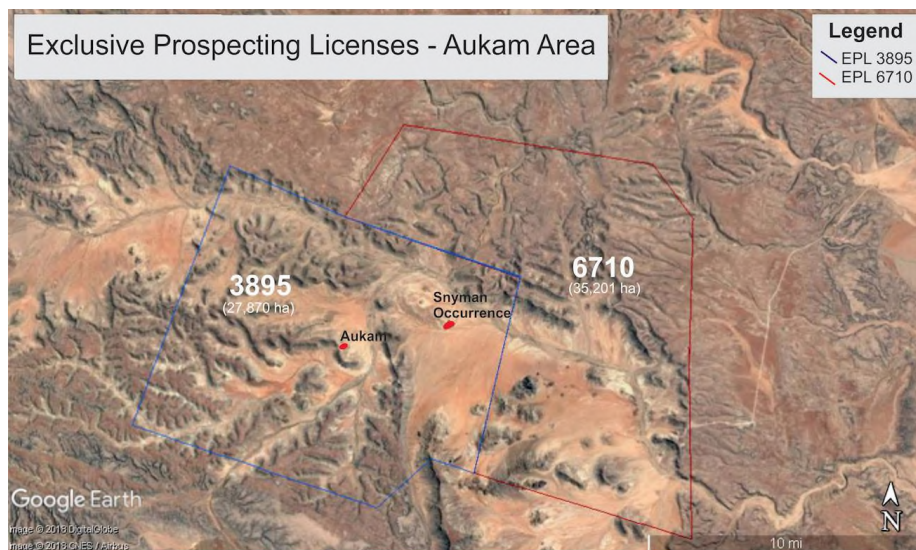


Figure 2 showing Exclusive Prospecting License EPL 3895 & EPL 6710

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Regional exploration in 2018 included mapping and sampling of graphite occurrences throughout the Company's license areas with emphasis on the 400 hectares encompassing both the Snyman occurrence and the area east of the Aukam Mine. Compilation, interpretation and presentation of all available geologic data allowed for subsequent diamond drill targeting with initial drilling planned for the area immediately east of the existing underground workings of the Aukam Mine.

Processing Plant

During 2018 Gratomic completed the construction and start-up of its prototype processing plant to test and refine the processes that will be used when commercial production commences. The Aukam processing plant uses a simple crushing, grinding and flotation system. Graphite feed for the prototype plant was obtained from screening and sorting of existing stockpiles from historical mining. The processing plant operated for 26 days during April and for all 31 days in May. While operational, data was collected at each phase of the process and test results from samples were sent to Gecko labs with the subsequent results used to optimize plant processes. The following tests and optimization were conducted:

- Liberation analysis
- Flake size distribution analysis
- Mixing velocity optimization
- Screen size analysis and optimization
- Air flow analysis in columns and optimization
- Drying analysis and optimization
- Silica dispersant ratio optimization
- Reagent optimization
- Product flow rate optimization
- Grade optimization
- Staff recruitment, training, and manhour analysis
- Economic sensitivity analysis on pilot processing facility
- Feed stock optimization and process

The Company continued to optimize the pilot plant processing stockpiled graphite mineralization throughout 2018. To date, the plant has processed 9 tonnes of the graphite mineralization with 5.5 tonnes of graphite concentrate grading between 88% and 96% Cg shipped to Perpetuus Carbon Technologies ("Perpetuus") for the manufacture of graphene to be used in the automobile and bicycle tire industry. Graphene made from Aukam graphite continues to be tested in Europe and Asia with good results.

Gratomic and Perpetuus are currently in collaboration to build on Perpetuus' capability to initially provide 500 tonnes of surfaced modified graphene per annum to support the volumes required by the tire manufacturing industry. Additional applications that have now been generated in a preproduction format include radiant heating membranes and super hydrophobic coatings with an addressable market that include; graphene inks, marine, oil & gas, power generation, industrial (repair & maintenance), infrastructure (new build) and automotive & transportation among others.

Plant expansion to increase capacity to 20,000 tonnes per annum began 2018. Initial activities included construction of a platform for drying graphite product and of a washing bay for equipment, complete with a containment system to collect impacted water. Steel drying pans, an oven, and two screens were also assembled and successfully tested. Continued upgrades involved the extension of the working area on the pilot plant by another 35 metres to the north-west to accommodate new crushing equipment and conveyor belts. Analysis of all plant processes continues to optimize efficiencies of each process such as rod mills, flotation columns, and reagent introduction. Four different tests were run with the first test being used as a base line. Samples were taken from the rod mill feed, mill discharge, and screen under-and-over size. Calculations were made to determine the amount of chemicals needed to be introduced into the mixers according to the density and volume of the mixer feed.

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Recent upgrades to the processing plant continue with the arrival of additional commercial scale equipment including; industrial sized generator, screw conveyors, shaker screens, rod mill, conveyors, and boom truck.



Photo 1 showing commercial scale rod mill, screeners and conveyance systems

Gratomic is continuing with its' systematic assembly of the commercial scale graphite processing plant. Next steps will include:

- Completion of the pilot acid wash. This circuit will be used to collect engineering data to design the industrial scale plant. This is an addition to the plant that will allow the company to produce upwards of 98.5% graphite based on its latest pilot testing results in the lab. All clients to the point of completion will take grades of between 88 %-92 %,
- Modifications are currently being made to the jaw crusher to allow it to more effectively crush graphite,
- Rod mill support systems such as maintenance cradles and cranes, rod loading equipment and control systems are currently being engineered,
- Flotation circuit mass balances are being explored using pilot plant data in order to size the pumps and flow lines of the flotation system,
- Dewatering circuit equipment are currently being specified,
- Water conditioning systems are currently being designed to allow close to 100% recycle of water. This includes pH control, removal of fine suspended solids and removal of dissolved iron,
- Control systems are being designed for each sub-circuit of the industrial scale plant.

Camp Construction

Construction of the onsite Management Camp consisting of offices, laboratory, kitchen, and living quarters, is ongoing. Work began with two of the larger structures during Q4/2018.

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Montpellier Graphite Property, Quebec

The Company has satisfied all requirements under a December 9, 2013 option agreement and has acquired certain claims located in the Hartwell Township, Casse Laurentides Region in Quebec. The vendors have been granted a 2% net smelter royalty ("NSR"). The Company has the right to repurchase a 1% NSR from the vendors for \$1,000,000.

The vendors were granted a 2% Net Smelter Royalty ("NSR"). The Company has the right to repurchase a 1% NSR from the vendors for \$1,000,000.

The property hosts graphite mineralization in a zone 15 meters wide, and has been delineated over a strike length of 250 meters by historical drilling and trenching. The historical drilling at Montpellier included one drill hole with a weighted average of 10.47% Cg (Carbon as graphite) over 44.97 meters and 12.33% Cg over 21.64 meters. (1984, *Ministere de l'Energie et de Ressources Quebec, Report Nos. GM42965, 80p; GM41744, 41p.*). Note that estimates of true thickness were not determined in the historical drilling. Two other graphite zones occur 575 meters east of the main zone of mineralization.

During 2016 an airborne electromagnetic and magnetic survey was carried out over the property to determine possible extensions to the graphite mineralization. Results of the survey indicate a single, wide, prospective area defined by electromagnetic conductors and associated magnetic anomalies that appear to be folded into a "C" shape about an east-west trending axis. The strike length of the folded conductors and associated magnetic anomalies is more than 2.2 kilometres.

During 2017, work carried out at Montpellier, included prospecting and searching for historical drill hole collars. The work was carried out in preparation for a drilling program, but ultimately it was decided to focus drilling on the Buckingham property (see below).

Exploration 2018

Minor work was carried out on the property during 2018.

Buckingham, Quebec

Property Details

The 100%-owned Buckingham Graphite Property is located 7 kilometres northwest of the town of Buckingham, Quebec, Canada and consists of eight claim blocks totaling 480 hectares. Well-maintained bush roads provide easy access to the property. The property lies within the Central Metasedimentary Belt of the Grenville Geologic Province 82 km south of Imerys Graphite & Carbon's operating Lac des Iles graphite mine. Graphite occurs disseminated in marble and paragneiss and within veins hosted in pegmatite, diopside skarn, marble and gneiss. Two graphitic zones, the Uncle Zone and the Case Zone have been discovered to date, with both zones showing high grade occurrences of disseminated flake and vein type graphite and yielding assay values as high as 81.1% Cg. Initial crushing and flotation of two samples from the Uncle Zone has achieved purity of up to 99.4% Cg from a single flotation test without process optimization (see news release dated February 17, 2015).

The Company has satisfied all requirements under a February 2013 option agreement and has acquired a 100% interest in the Buckingham. The vendor has been granted a 3% NSR. The Company has the right to repurchase a 1% NSR from the vendor for \$1,000,000.

Airborne time domain electromagnetic (TDEM) survey flown over the Buckingham project in 2016 outlined several anomalies. The largest conductor stretches over 1.54 kilometres in a northeast-southwest direction. The northeastern portion of this conductor is coincident with graphite mineralization in the Case Zone from which 35 grab samples collected in 2015, yielded values ranging from 1.6% Cg to 28.7% Cg (See news

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releases dated May 22, 2015 and November 4, 2015). The length of the conductor suggests that the Case Zone may be longer than previously thought.

Trenching during Q4-2016 along the TDEM conductor uncovered zones of graphite mineralization hosted primarily by paragneiss. Highlights of the trench sampling include 8.33% Cg over 11.3 metres, 2.76% Cg over 15 metres, 2.23% Cg over 27 metres and 1.52% Cg over 65.5 metres. Individual samples assayed between 0.02% Cg and 17.3% Cg, with an average of 1.92% Cg for the 158 samples.

In 2017 additional trenching and diamond drilling were executed to follow up on the successful results of the 2016 trenching program. Highlights of the work included trench results of 15.0% Cg over 8.0 metres, and diamond drill results of 7.4% Cg over 12.0 metres, in hole CK17-01, and 6.1% Cg over 88.0 metres beginning at nine metres, included a higher-grade interval of 20.7% Cg over 8.0 metres in hole CK17-02

2018 Exploration

During 2018 diamond drilling continued at Buckingham with the completion of six additional holes. Highlights of the results received to date include grades of; 6.9% Cg over 62.0 metres in hole CK18-07 starting at a depth of 57 metres (including 12.8% Cg over 29.0 metres which includes a 16.6% Cg interval over 18.0 metres), 4.9% Cg was over 66.0 metres in Hole CK18-09 from six metres (includes 14.52% Cg over 4.0 metres and 13.52% Cg over 3.0 metres).

Hole CK-18-06 was drilled to the northwest to test the thickest portion of the 1.54 kilometre long northeast-southwest trending electromagnetic (EM) conductor and intersected low grade graphite mineralization associated with carbonate horizons in quartzo-feldspatic gneiss. Hole CK 18-07 was drilled to the southeast through the conductor and intersected three graphite zones between 30.0 and 146.0 metres, with the highest grades associated with marble zones within gneiss. It has been noted that several graphite horizons are present that are typically associated with carbonate horizons in the widespread quartzo-feldspatic gneiss. The highest graphite grades are generally found within marble zones in the gneiss.

Hole CK18-08 was collared approximately 50m north of hole CK18-06 and drilled to the southeast. It intersected two graphite zones from 46.0 to 63.0 metres and from 95.0 to 108.0 metres with higher grades again associated with marble horizons. Hole CK18-09 was drilled to the northwest across a narrowing of the EM anomaly and intersected three graphite zones between 6.0 metres and 157.0 metres. Graphite mineralization in the near surface zone is associated with intervals of marble within the gneiss. Holes CK18-10 and CK18-11 were drilled across conductors where both holes showed relatively narrow intervals of graphite associated with marble.

The Company is preparing an NI-43-101 technical report on the property, that is expected to be completed during 2019.

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Summary of Quarterly Results

The following table sets out selected consolidated quarterly information for the last eight quarters.

Three Months Ended	December 31 2018 \$	September 30 2018 \$	June 30 2018 \$	March 31 2018 \$
Interest Income	-	-	-	-
Exploration and evaluation assets	5,003,062	5,577,891	4,643,188	4,683,366
Deficit	13,654,188	11,783,761	11,259,275	10,636,523
Total Assets	10,609,220	8,698,001	6,884,582	7,343,276
Net and Comprehensive Loss	1,870,427	524,486	622,752	379,504
Basic and Diluted Loss Per Share	0.018	0.006	0.006	0.000

Three Months Ended	December 31 2017 \$	September 30 2017 \$	June 30 2017 \$	March 31 2017 \$
Interest Income	-	-	-	34
Exploration and evaluation assets	4,200,063	2,850,842	2,407,074	2,228,463
Deficit	10,257,019	9,415,008	9,181,470	8,504,488
Total Assets	7,353,080	3,931,211	4,055,982	4,318,132
Net and Comprehensive Loss	841,914	233,634	676,983	85,461
Basic and Diluted Loss Per Share	0.010	0.003	0.010	0.000

Q4 2018

During the quarter the Company incurred a loss of \$1,870,427 (2017 – \$841,914). During the quarter expenditures on consulting fees amounted to \$102,060 for graphene compound development fees (2017 - \$7,000); management fees amounted to \$377,200 (2017 - \$152,000); indicative of the Company actively raising money during the quarter, expenditures on marketing fees amounted to \$365,949 (2017 - \$98,819) and travel meals and accommodation amounted to \$192,536 (2017 – 17,494); share-based compensation amounted to \$628,055 (2017 - \$473,000).

Q3 2018

During the quarter the Company incurred a loss of \$524,486 (2017 – 233,634). The loss is indicative of the Company's efforts to make investors more aware of the positive prospects it has with its Aukam graphite project. In addition the Company was actively raising money during the quarter which also increased costs in a number of areas. During the quarter expenditures on investor relations amounted to \$140,755 (2017 - \$33,910); management fees amounted to \$93,800 (2017 - \$33,910); expenditures on travel meals and accommodation amounted to \$101,069 (2017 – Nil); office and other expenses amounted to \$108,839 (2017 – a recovery of \$1,181) which includes a foreign exchange loss of \$59,000; stock based compensation amounted to Nil (2017 - \$48,000).

Q2 2018

During the three months ended June 30, 2018, the Company incurred a loss and comprehensive loss of \$655,020 (2017 - \$676,983).

- i) \$808,159 was invested in exploration and evaluation and infrastructure at the Company's Aukam graphite project in Namibia to bring the total investment in the property to \$3,349,003.
- ii) \$541,470 was invested in the purchase of three specialized process tooling chambers to be used solely for processing graphite from the Aukam property.
- iii) Investor relations fees paid during the quarter were \$42,076 compared to \$3,137 paid during the second quarter of 2017.
- iv) Marketing expenses of \$230,200 were incurred during the quarter to develop markets and products for the Company's graphite. Marketing expenses incurred in the same period in 2017 totaled \$2,000.

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- v) Management fees paid during the quarter totalled \$81,500 compared to management fees of \$30,413 incurred in the same three months of 2017.
- vi) During the quarter the Company issued 1,150,000 stock options with a fair value \$138,150 to purchase common shares of the Company at a weighted average exercise price of \$0.145. The options vested immediately and have a term of five years.

Q1 2018

During the three months ended March 31, 2018, the Company incurred a loss and comprehensive loss of \$379,504 (2017 - \$85,461).

- i) \$330,095 was invested in exploration and evaluation and infrastructure at the Company's Aukam graphite project in Namibia to bring the total investment in the property to \$4,107,091 at the end of the period.
- ii) \$225,921 was spent in exploration and evaluation activity at the Company's Buckingham property in Quebec.
- iii) Marketing expenses, that were primarily related to the marketing and development of graphite derived graphenes hybrids for use in tire elastomers and other advanced materials totaling \$120,764 were incurred during the period. Marketing expenses incurred in the same period in 2017 totaled \$11,344.
- iv) Management fees paid during the period totalled \$69,000 compared to management fees of \$33,000 incurred in the first quarter of 2017.
- v) During the period the Company issued 250,000 stock options with a fair value \$29,577 to purchase common shares of the Company to a director of the Company at an exercise price of \$0.14. The options vested immediately and have a term of five years.
- vi) \$328,100 was received from the issue of 1,600,000 shares upon the exercise of warrants and \$27,000 was received from the issuance of 390,000 shares upon the exercise of stock options.

Liquidity

The Company has no significant revenues and no expectation of significant revenues in the near term. In order to manage this risk, the Company closely monitors its cash requirements and expenditures to maintain sufficient liquidity.

As at December 31, 2018, the Company had current assets of \$2,904,232 (December 31, 2017 - \$2,500,166) to settle current liabilities of \$482,669 (December 31, 2017 - \$293,280). All of the Company's accounts payable and accrued liabilities have contractual maturities that are subject to normal trade terms.

Future exploration programs will depend on the Company's ongoing ability to raise funds. Gratomic Inc. is an exploration stage company and continues to rely on equity offerings and other partnership arrangements to fund its exploration activities. There can be no assurance that funds will be available.

Capital Resources

Other than the private placement as disclosed under Performance Highlights herein, during 2018 there were no unusual factors that affected the Company's capital resources.

Off Balance Sheet Arrangements

The Company is not a party to any off balance sheet arrangements or transactions.

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Transactions With Related Parties

The Company has determined that key management consists of the Company's Board of Directors and corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer. The Company paid or accrued the following amounts to key management, and private corporations owned by them:

	2018	2017
	\$	\$
Consulting fees of key management expensed	687,049	318,667
Consulting fees of key management charged to exploration and evaluation assets and property and equipment	160,000	67,746
Consulting fees of key management charged to prepaid expenses (1)	216,667	-
Share-based payments	637,720	824,243
	<u>1,701,436</u>	<u>1,210,656</u>

(1) All of 2019 fees for one of the co-CEO's, and one month for the other, were prepaid at December 31, 2018.

Legal fees in the amount of \$84,418 (2017 – Nil) were paid or payable to a law firm whose partner is an officer of the Company.

Included in accounts payable and accrued liabilities at December 31, 2018 and 2017 was \$81,639 (2017 – 133,745) owing to directors, and officers, companies owned by directors and officers, and a law firm whose partner is a director and an officer of the Company. These amounts are unsecured, non-interest bearing and due on demand.

During 2018 the Company paid office rent to ThreeD Capital Inc., a company of which one of the Company's co-CEO's is the CEO, an amount of \$36,000.

Officers, directors, the wife and daughter of one of the co-CEO's, and a company of which one of the Company's co-CEO's is the CEO, participated in the private placements during the year in the amount of \$1,160,700.

Events Affecting the Company's Financial Condition

During 2018, other than the private placements discussed herein under Performance Highlights, there were no unusual factors that affected the Company's financial condition.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Critical judgements exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

i) Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flows, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

ii) Capitalization of deferred exploration costs

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Minority interest and equity are adjusted to reflect the ownership interest of consolidated subsidiaries in which a minority interest shareholder has a carried interest.

Management is required to assess impairment of intangible exploration and evaluation assets and property and equipment. The triggering events are defined in IFRS 6 and IAS 36 respectively. In making the assessment, management is required to make judgments on the status of each project and the future plans toward finding commercial reserves to which the exploration and evaluation assets and property and equipment relate to.

Management has determined that there were no triggering events present as at December 31, 2018 and 2017, as defined in IFRS 6 and IAS 36, as such, no impairment test was performed.

Critical estimates exercised are as follows:

i) Valuation of share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rates, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity settled benefits.

ii) Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Property and equipment

Management reviews the carrying value of long lived assets including plant and equipment and amortizable intangible assets for impairment to determine if the carrying value of an asset may not be recoverable due to changes in the current and expected future use of the asset, external valuations of the asset, and the obsolescence or physical damage to the asset. If such indicators of impairment exist, the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash generating unit exceeds its estimated recoverable amount.

Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities, referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby any premium paid for the flow through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to flow-through premium liability and included in profit or loss at the same time the qualifying expenditures are made.

Recent Accounting Pronouncements

Adoption of new standards

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 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

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looking “expected loss” impairment model. 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 table below summarizes the classification and carrying amount changes upon transition from IAS 39 to IFRS as at January 1, 2018.

	Original under IAS 39		New under IFRS	
	<u>Classification</u>	<u>Carrying amount</u>	<u>Classification</u>	<u>Carrying amount</u>
Cash	FVTPL	2,317,221	FVTPL	2,317,221
Restricted cash	FVTPL	16,329	FVTPL	16,329
Amounts receivable	Loans and receivables	166,616	Amortized cost	166,616
Amounts payable	Other financial liability	267,871	Amortized cost	267,871

As the standard permits on transition to IFRS 9, the Company has not restated prior periods with respect to the new amortized cost measurement for financial assets and impairment requirements.

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit or to the opening deficit on January 1, 2018.

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) which superseded IAS 18 Revenue. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual period beginning on or after January 1, 2018. The Company adopted the standard on January 1, 2018 using the cumulative effect adjustment method without applying any practical expedients.

The adoption of IFRS 15 resulted in no impact to the opening accumulated deficit or to the opening deficit on January 1, 2018.

New accounting pronouncements not yet adopted

Certain standards were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning on or after January 1, 2019 or later periods. The following has not yet been adopted and is being evaluated to determine its impact on the Company.

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. The Company is evaluating the effect that this standard will have on its financial statements.

Financial Instruments

(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 (“FVOCI”) 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

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instrument-by-instrument basis) to designate them as at FVOCI. 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 if the Company has opted to measure them at FVTPL.

(ii) Measurement

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 carried at FVTPL are initially recorded at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

Financial assets and liabilities carried at FVOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVOCI are included in comprehensive income or loss in the period in which they arise.

(iii) Impairment of Financial Assets at Amortized Cost

The Company recognizes 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 has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of net (loss) income, 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.

(iv) Derecognition

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 statements of net (loss) income.

Financial instruments that are measured at fair value, which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability
either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

Credit Risk

The Company's credit risk is primarily attributable to amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instrument included in amounts receivable is remote.

Liquidity Risk

The Company's main source of liquidity is derived from its common stock issuances. As at December 31, 2018, the Company had current assets of \$3,507,903 (December 31, 2017 \$2,500,166) to settle current

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liabilities of \$466,340 (December 31, 2017 \$293,280). The Company's financial liabilities generally have contractual maturities that are subject to normal trade terms.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment grade short term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

Market Risk

Foreign Currency Risk

The Company's functional and reporting currency is the Canadian dollar and all expenditures are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. As the Company's properties are in the exploration stage and to date do not contain any identified mineral resources or reserves, the Company does not hedge against commodity price risk.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period:

- (i) The Company receives low interest rates on its cash and cash equivalent balances and, as such, the Company does not have significant interest rate risk.
- (ii) The Company holds balances in foreign currencies that give rise to exposure to foreign exchange risk, however at any point in time the balances are not significant. The Company estimates that a 10% increase or decrease in the foreign currency would give rise to a gain or loss of approximately \$20,000 respectively.

Subsequent Events

1,824,500 warrants to purchase common shares of the Company with a weighted average exercise price of \$0.09 per share expired, and 993,000 warrants were exercised at a weighted average price of \$0.099 per share.

Other Disclosures

Share Capital

Common Shares -

As at December 31, 2018, and the date hereof, there were 168,678,739 and 169,671,739 common shares of the Company respectively outstanding (December 31, 2017 – 111,066,989).

Warrants -

At December 31, 2018 and the date hereof there were a total of 100,610,933 and 97,793,433 warrants respectively outstanding (December 31, 2017 – 59,028,783).

Options -

At December 31, 2018, and the date hereof, there were a total of 16,250,000 stock options outstanding (December 31, 2017 – 10,563,334).

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Directors and officers of the Company -
Sheldon Inwentash, Co-Chief Executive Officer and Director
Arno Brand, Co-Chief Executive Officer and Director
Daniel Bloch, Director
Gerry Feldman, Director
Steven Gray, Director
Bill Johnstone, Corporate Secretary
Rodger Roden, Chief Financial Officer

Additional Information -
Additional information about the Company including the financial statements, press releases and other filings are available on the internet at www.sedar.com and additional supplemental information is available on the Company website at www.gratomic.ca.