# SRG Graphite Inc.

Interim Condensed Consolidated Financial Statements

**(“Financial Statements”)**

For the three-month period ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

(Unaudited)

TSX-V: SRG

# NOTICE TO READER

The accompanying unaudited Financial Statements of SRG Graphite Inc. (the "Company") for the three-month periods ended on March 31, 2019 and 2018 have been prepared by the management and are its responsibility. These unaudited Financial Statements, together with the accompanying notes, have been reviewed and approved by the members of the Company's Board of Directors. These unaudited Financial Statements have not been reviewed by the Company's auditors.

# SRG GRAPHITE INC.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**As at March 31, 2019 and December 31, 2018** **(Unaudited - in Canadian dollars)**

| | Notes | March 31, 2019 | As adjusted - See Note 3 December 31, |
|---|---|---|---|
| | | $ | $ |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 1,981,357 | 4,524,482 |
| Sales taxes and other receivables | | 343,659 | 203,552 |
| Prepaid expenses and deposits | | 216,292 | 463,118 |
| | | 2,541,308 | 5,191,152 |
| **Non-current assets** | | | |
| Property and equipment | | 1,158,058 | 934,321 |
| | | 1,158,058 | 934,321 |
| **Total assets** | | 3,699,366 | 6,125,473 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | 2,054,019 | 1,739,049 |
| Short-term portion of lease liability | 6 | 100,712 | - |
| Due to a related company, without interest, due on demand | | 10,581 | 63,190 |
| **Total current liabilities** | | 2,165,312 | 1,802,239 |
| Long-term portion of lease liability | 6 | 156,987 | - |
| **Total liabilities** | | 2,322,299 | 1,802,239 |
| **SHAREHOLDERS' EQUITY** | | | |
| Capital | 7 | 17,061,734 | 17,061,734 |
| Contributed surplus | 8 | 5,052,540 | 4,647,663 |
| Deficit | | (20,737,207) | (17,386,163) |
| **Total shareholders' equity** | | 1,377,067 | 4,323,234 |
| **Total liabilities and shareholders' equity** | | 3,699,366 | 6,125,473 |

Nature of operations and going concern (Note 1)
Subsequent events (Note 15)

On behalf of the Board of Directors,

**Signed: "Benoit La Salle" , Director**

**Signed: "Yves Grou" , Director**



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

# SRG GRAPHITE INC.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

**For the three-month periods ended on March 31, 2019 and 2018** **(unaudited - in Canadian dollars)**

| | Notes | March 31, 2019 (3 months) | As restated - see Note 3<br>March 31, 2018 (3 months) |
|---|---|---|---|
| | | $ | $ |
| **Expenses** | | | |
| Exploration and evaluation | 4 | 1,919,714 | 1,019,948 |
| General and administrative | 5 | 1,075,886 | 689,700 |
| Graphite production for customers and tests | | 352,585 | 59,601 |
| | | 3,348,185 | 1,769,249 |
| **Other expenses (income)** | | | |
| Interest revenue | | (11,607) | (4,595) |
| Interest expense | | 5,615 | - |
| Foreign exchange loss | | 8,851 | (22,566) |
| **Total other expenses (income)** | | 2,859 | (27,161) |
| **Net loss and comprehensive loss for the period** | | 3,351,044 | 1,742,088 |
| **Net loss per common share, basic and diluted** | | 0.05 | 0.03 |
| **Weighted average number of common shares outstanding** | | 69,422,152 | 61,439,813 |

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

# SRG GRAPHITE INC.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

**For the three-month periods ended on March 31, 2019 and 2018** **(unaudited - in Canadian dollars)**

| | Notes | Capital | | Shares to be issued | Contributed surplus | As restated - see note 3 Deficit | Total |
|---|---|---|---|---|---|---|---|
| | | Number | $ | $ | $ | $ | $ |
| **Balance on January 1st, 2018** | | 61,279,719 | 7,044,172 | - | 3,050,139 | (7,102,493) | 2,991,818 |
| Exercise of stock options | 7 and 8 | 225,000 | 175,260 | - | (79,635) | - | 95,625 |
| Stock-based compensation | 8 | - | - | - | 284,907 | - | 284,907 |
| Net loss and comprehensive loss | | - | - | - | - | (1,742,088) | (1,742,088) |
| **Balance on March 31, 2018** | | 61,504,719 | 7,219,432 | - | 3,255,411 | (8,844,581) | 1,630,262 |
| **Balance on January 1st, 2019** | | 69,422,152 | 17,061,734 | - | 4,647,663 | (17,386,163) | 4,323,234 |
| Net loss and comprehensive loss | | - | - | - | - | (3,351,044) | (3,351,044) |
| Stock-based compensation | 8 | - | - | - | 404,877 | - | 404,877 |
| **Balance on March 31, 2019** | | 69,422,152 | 17,061,734 | - | 5,052,540 | (20,737,207) | 1,377,067 |

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

# SRG GRAPHITE INC.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

**For the three-month periods ended on March 31, 2019 and 2018** **(Unaudited - in Canadian dollars)**

| | Notes | March 31, 2019 (3 months) | As Adjusted - See Note 3 March 31, 2018 (3 months) |
|---|---|---|---|
| | | $ | $ |
| **CASH PROVIDED FROM (USED FOR):** | | | |
| **OPERATING ACTIVITIES** | | | |
| Net loss for the period | | (3,351,044) | (1,742,088) |
| Items not affecting cash | | | |
| Depreciation | | 73,171 | 18,552 |
| Accreted Interest on lease liability | 6 | 5,615 | - |
| Foreign Exchange on lease liability | 6 | (2,703) | - |
| Stock-based compensation | 8 | 404,877 | 284,907 |
| | | (2,870,084) | (1,438,629) |
| Change in non-cash working capital items | | | |
| Accounts receivable | | - | (1,584) |
| Sales taxes receivable | | (140,107) | (85,002) |
| Prepaid expenses and deposits | | 246,826 | (171,597) |
| Accounts payables and accrued liabilities | | 314,970 | 239,589 |
| | | 421,689 | (18,594) |
| | | (2,448,395) | (1,457,223) |
| **INVESTING ACTIVITIES** | | | |
| Deposits on property and equipment | | - | (30,585) |
| Property and equipment additions | | (6,731) | (197,843) |
| | | (6,731) | (228,428) |
| **FINANCING ACTIVITIES** | | | |
| Payment of lease liability | 6 | (35,390) | - |
| Share issuance costs | | - | (14,356) |
| Exercise of stock options | 7 and 8 | - | 95,625 |
| Due to a related company | | (52,609) | 28,008 |
| | | (87,999) | 109,277 |
| **Increase (decrease) in cash during the period** | | (2,543,125) | (1,576,374) |
| **Cash and cash equivalents, beginning of period** | | 4,524,482 | 3,251,456 |
| **Cash and cash equivalents, end of period** | | 1,981,357 | 1,675,082 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN ASSUMPTION

SRG Graphite Inc. ("SRG" or the "Company") is a Canadian-based mineral exploration and development business with activities in Africa. The Company was incorporated on April 16, 1996 under the *Canada Business Corporations Act*. The Company's common shares are listed on the TSX Venture Exchange (the "TSX-V") under the trading symbol "SRG.V". The Company's principal office is located at #132 – 1320 Graham Blvd., Mont-Royal, Quebec, Canada, H3P 3C8.

These Financial Statements were authorized for publication by the Board of Directors on May 30, 2019.

Based on the information available to date, the Company has not yet determined whether its mineral properties contain economically recoverable reserves.

The Company's mining properties are located in the Republic of Guinea ("Guinea"), Africa, and hence are subject to the risks normally associated with unanticipated changes in taxes and royalties, renegotiation of contracts, foreign currency fluctuations and political uncertainties.

**Going concern uncertainty**

These consolidated financial statements have been prepared on a going concern basis, which presumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business for the foreseeable future. The use of these principles may not be appropriate. The Company is in its early stages, and as is common with similar companies, it raises financing for its exploration and evaluation activities. The Company has incurred a net loss and comprehensive loss for the period ended March 31, 2019 of $3,351,264 (March 31, 2018 – $1,742,088) and has an accumulated deficit of $20,737,427 (December 31, 2018 – $17,386,163). In addition, the Company had working capital of $375,835 as at March 31, 2019 (December 31, 2018 – $3,388,913), including cash and cash equivalents of $1,981,357 (December 31, 2018 – $4,524,482 ). To date, the Company has financed its cash requirements primarily by issuing common shares or units. The Company's ability to continue as a going concern is subject to its ability to raise additional financing or reduce its expenditure levels. The Company's discretionary activities do have some scope for flexibility in terms of the amount and timing of expenditures, and to a certain extent, expenditures may be adjusted accordingly. Based on the extent of the Company's current plan and anticipated explorations, the Company will need to raise additional financing within the next 3 months to complete the feasibility study of the Lola Graphite Property.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. Management has assessed its liquidity needs and estimates that these funds will not be sufficient to meet its obligations, budgeted expenditures and commitments for the next 12 months. Based on the extent of the Company's current stage and anticipated plan, it will need to raise additional financing, which cast significant doubt on its ability to continue as a going concern. While management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future, that such sources of funding will be available to the Company or that they will be available on terms acceptable to it.

If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these consolidated financial statements.

These Financial Statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary if the Company is unable to continue as a going concern. Such adjustments could be material.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of presentation

The Company's unaudited Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board "IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

The unaudited Financial Statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2018.

The preparation of condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Companys accounting policies.

The Company has consistently applied the same accounting policies throughout all the periods presented in these unaudited Financial Statements, except for the new accounting standards and the new accounting policy adopted (Note 3).

The Company reviewed the classification of its expenses in the unaudited interim condensed consolidated statement of loss and comprehensive loss. Management believes that this new classification provides a clearer picture of the Company's operations. Comparative periods have been presented accordingly (Note 3). There is no other effect of this change in presentation. Refer to Note 4 for the desagregated amounts by nature of expenses.

### (b) Basis of measurement

These Financial Statements have been prepared on a historical cost basis. In addition, these Financial Statements have been prepared using the accrual basis of accounting except for cash flow information.

### (c) Basis of consolidation

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all companies over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Intercompany transactions and balances are eliminated upon consolidation. They are deconsolidated from the date that control by the Company ceases.

The subsidiaries of the Company, all of which are wholly owned, are as follows:

| **Subsidiaries** | **Jurisdiction of incorporation** |
|---|---|
| SRG Guinée SARL ("SRG Guinée") | Guinea |
| SRG Graphite International Inc. ("SRG Intl") | Cayman Islands |

## 3. CHANGE IN ACCOUNTING POLICIES

### (a) E&E

The Company had historically capitalized expenditures on E&E activities after they had reached a certain stage in accordance with IFRS 6, *Exploration and Evaluation of Mineral Resources*.

During the fiscal year ended December 31, 2018, the Company adopted a voluntary change in accounting policy with respect to E&E expenses. The Company's new policy is to expense E&E expenses in the consolidated statement of loss until such time as the technical feasibility and commercial viability has been established that supports the future development of the property, and such development receives the Board of Directors' approval.

The Company has determined that such a voluntary change in accounting policy results in consolidated financial statements providing reliable and more relevant information and that it brings the Company in line with a similar accounting policy adopted by its peers. This change has been applied to all of the Company's E&E activities on all properties.

The Company has also regrouped in the consolidated statement of loss and comprehensive loss the line items comprising general and administrative expenses.

In accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the changes in accounting policies have been made retrospectively and the comparatives have been adjusted accordingly to all periods presented, as if the policy had always been applied.

The following tables summarize the impact of the change in accounting policy on affected line items within the Company's consolidated statements of loss and comprehensive loss and cash flows, respectively for the three months period ended March 31, 2018:

(Expressed in Canadian dollars)

**Consolidated statements of loss and comprehensive loss:**

| **As previously reported**<br>**Three months ended March 31, 2018** | **As previously reported**<br>**$** | **Reclassification**<br>**$** | **Before adjustment**<br>**$** | **Adjustment**<br>**$** | **Adjusted**<br>**$** |
|---|---|---|---|---|---|
| Expenses: | | | | | |
| Exploration and evaluation | - | - | | 1,019,948 | 1,019,948 |
| General and adminstrative | - | 689,700 | 689,700 | - | 689,700 |
| Graphite production for customers and tests | - | 59,601 | 59,601 | - | 59,601 |
| | - | 749,301 | 749,301 | 1,019,948 | 1,769,249 |
| Operating expenses: | | | | | |
| Salaries and benefits | 110,510 | (110,510) | - | - | - |
| Consulting fees | 144,807 | (144,807) | - | - | - |
| Travel and representation | 93,674 | (93,674) | - | - | - |
| General and office expenses | 57,309 | (57,309) | - | - | - |
| Natural graphite production for customer test | 59,601 | (59,601) | | | |
| Professional fees | 47,079 | (47,079) | - | - | - |
| Investor relation fees | 15,000 | (15,000) | - | - | - |
| Transfert agent and filing fees | 8,531 | (8,531) | - | - | - |
| Shareholders' information | 3,580 | (3,580) | - | - | - |
| Depreciation | 465 | (465) | - | - | - |
| Stock based compensation | 208,624 | (208,624) | - | - | - |
| **Total operating expenses** | **749,301** | **(749,301)** | - | - | - |

**Consolidated statements of cash flows:**

| **CASH PROVIDED FROM (USED FOR):**<br>**Three months ended March 31, 2018** | **As previously reported**<br>**$** | **Adjustment**<br>**$** | **Adjusted**<br>**$** |
|---|---|---|---|
| **Operating activities** | | | |
| Net loss for the year | (722,140) | (1,019,948) | (1,742,088) |
| Items not affecting cash | | | |
| Depreciation | 465 | 18,087 | 18,552 |
| Stock-based compensation | 208,624 | 76,283 | 284,907 |
| Change in non-cash working capital items | | | |
| Accounts payable and accrued liabilities | 107,289 | 132,300 | 239,589 |
| **Investing activities** | | | |
| Exploration and evaluation expenditures | (793,278) | 793,278 | - |

### (b) Impact of adoption of new accounting standards that have been applied starting January 1, 2019

*Overview of IFRS 16 Leases*

The Company has adopted IFRS 16 *Leases* as of January 1, 2019 using the modified retrospective application method and has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore reflected as of January 1, 2019.

The Company leases real estate properties. Lease contracts are typically made for fixed periods of one to six years but may have extension options. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants on the Company and leased assets are not used as security for borrowing purposes.

Until the end of 2018, leases of property were classified as operating leases. Payments made under operating leases were charged to the Consolidated Statements of Profit and Comprehensive Profit on a straight-line basis over the period of the lease.

*Effects of Adoption of IFRS 16*

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the individual lease, if the rate could be readily determined, or the Company's incremental borrowing rates, if the rate could not be readily determined, as of January 1, 2019. According to IFRS 16, each lease payment is allocated between the lease liability and finance cost. The finance cost, or amortization of the discount, on the lease lability is charged to the Consolidated Statements of Profit and Comprehensive Profit using the effective interest method so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period.

The Company has considered the net present value of the following lease payments in the calculation of the lease liability on January 1, 2019:

• Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
• Where a lease contains an extension option, the lease payments for the extension period were included in the calculation of the lease liability if the Company was reasonably certain that it would exercise the option; and
• Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

The weighted average discount rate applied to the lease liabilities on January 1, 2019 was 8.9%.

No adjustments were required upon adoption of IFRS 16 for finance leases as the Company did not have any leases previously classified as such as of December 31, 2018.

The effects of adoption of IFRS 16 as reflected on January 1, 2019 were to recognize a lease liability of $290.177. The short and long-term lease liabilities as at March 31, 2019 and upon adoption of IFRS 16 on January 1, 2019 are shown in the table below:

(Expressed in Canadian dollars)

| | Balance at March 31, 2019 $ | Balance at January 1, 2019 $ |
|---|---|---|
| Short-term portion of lease liability | 100,712 | 119,464 |
| Long-term portion of lease liability | 156,987 | 170,713 |
| **Total lease liability** | **257,699** | **290,177** |

As shown in the table above, the total lease liability recognized as at January 1, 2019 was $290,177. The right-of-use assets were measured at an amount equal to the lease liability.

As shown in Note 6, the right-of-use assets are now shown as part of Property and equipment in the Consolidated Statements of Financial Position. Depreciation of right-of use assets are now included within general and administrative and exploration and evaluation expenses on the Consolidated Statements of Loss and Comprehensive Loss. The right-of-use asset is depreciated over the the lease term on a straight-line basis. Depreciation of right-of use assets are now included within the Accreted interest on lease liability in the Operating activities section of the Consolidated Statements of Cash Flows.

The right-of-use assets relate to the following types of assets:

| | Balance at March 31, 2019 $ | Balance at January 1, 2019 $ |
|---|---|---|
| Real estate properties | 265,996 | 290,177 |
| **Total right-of-use assets** | **265,996** | **290,177** |

As shown in Note 6, leases are now included within current and long-term liabilities in the Consolidated Statements of Financial Position. Interest expense on lease liabilities are now included within Interest expense on the Consolidated Statements of Loss and Comprehensive Loss. Cash payments for the interest and principal portions of lease liabilities are shown as cash flows from financing activities in the Consolidated Statements of Cash Flows.

The effects of adoption of IFRS 16 by segments, as reflected on January 1, 2019 are shown in the table below:

| **Segments** | **SRG Guinée** | **SRG** | **Total** |
|---|---|---|---|
| Right-of-use assets | 105,171 | 185,006 | 290,177 |
| Lease liabilities | (105,171) | (185,006) | 290,177 |

Until the end of 2018, payments made under operating leases were charged to the Consolidated Statements of Loss and Comprehensive Loss on a straight-line basis over the period of the lease and thus operating lease payments were fully included in calculations of earnings per share. On adoption of IFRS 16, only depreciation charged from right-of-use assets and interest expense on lease liabilities are now included in the Consolidated Statements of Loss and Comprehensive Loss; and therefore, included in calculations of basic and diluted earnings per share. Principal portions of lease payments are not included in the Consolidated Statements of Loss and Comprehensive Loss and are instead applied against the lease liability in the Consolidated Statements of Financial Position.

Short-term lease payments and payments for leases of low-value assets are not included in the measurement of lease liabilities and are not shown in the Consolidated Statements of Financial Position in accordance with IFRS 16. These payments are shown within Exploration and evaluation or General and administrative expenses within the Consolidated Statements of Loss and Comprehensive Loss and also within the Operating activities section of the Consolidated Statements of Cash Flows. The net increase/decrease in cash and cash equivalents did not change as a result of adoption of IFRS 16.

*Practical expedients applied*

In applying IFRS 16 for the first time, the Company has considered the following practical expedients permitted by the standard:

• The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
• The accounting for operating leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
• The exclusion of low value leases (i.e. those with a value of less than US$5,000);
• The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
• The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The significant judgments, estimates, and assumptions made by management applied in the preparation of these financial statements, specifically as they relate to IFRS 16 *Leases,* primarily included evaluating the appropriate discount rate to use to discount the lease liability for each lease or groups of assets covered under leases, as well as determining the lease term, when the lease contained an extension option, and assessing if the Company was reasonably certain that it would exercise the extension option. Significant judgments, estimates, and assumptions over both of these factors would affect the present value of the lease liabilities upon adoption of the new accounting standard, as well as the associated value of the right-of-use assets.

*IFRIC 23 - Uncertainty over Income Tax Treatments*

IFRIC 23 provides guidance on the accounting for curret and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The adoption of IFRIC 23 did not have a material impact on the financial statements.

**(c) Accounting standards and interpretations issued but not yet adopted**

*IAS 1 – Presentation of Financial Statements*

Presentation of Financial Statements, has been revised to incorporate a new definition of “material” and IAS 8 has been revised to refer to this new definition in IAS1. The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. The Company is evaluating the impact of the adoption of these amendments on its consolidated financial statements.

(Expressed in Canadian dollars)

**4. EXPLORATION AND EVALUATION EXPENSES**

The Company has two projects currently under evaluation which are named Lola and Gogota; they are so named as the prospective deposits are close to the Guineaian communities of Lola and Gogota.

On August 10, 2018, the Government of Guinea awarded SRG Guinée, through ministerial order N°A2018/5349/MMG/SGG, the Lola Graphite research permit for a final two-year period, and, as per the legislation, the surface area was reduced to 94.38 square kilometers (from 187 square kilometers). SRG Guinée has agreed to complete an exploration program of US$4,532,445 (approximately $6,050,000) by August 9, 2020, of which US$2,388,114 ($3,296,952) has not yet been spent.

On March 22, 2019, the Company announced that it had received its Environmental Conformity Certificate for the Lola Graphite Property from the Government of Guinea. This certificate is the only environmental and social permit required to move forward with the construction of the project on the property.

On April 1, 2019, the Company submitted its application for a mining licence for the Lola project, which approval is necessary for construction to start on the mine. The Company is waiting for the Government of Guinea to officially provide the mining license to the Company.

On May 15, 2018, the Company filed for a new research permit for the Gogota property. The Company is waiting for the Government of Guinea to officially provide the research permit to the Company. The Gogota permit was initially part of the 187 square kilometers of the Lola Graphite permit.

| Lola Graphite Property | March 31, 2019 | (Adjusted) March 31, 2018 |
|---|---|---|
| | $ | $ |
| Geology and prospecting | 153,625 | 51,633 |
| Geophysics | - | 26,491 |
| Geochemistry | 8,074 | 108,622 |
| Drilling | 2,237 | 494,456 |
| Camp operations, field supplies and other expenses | 195,088 | 134,713 |
| Engineering study | 694,432 | 98,964 |
| Technical consulting services | 5,850 | - |
| Assaying | 12,271 | - |
| Metallurgical tests | 329,725 | - |
| Environmental study | 279,987 | 28,786 |
| Topography | - | - |
| Stock-based compensation | 73,521 | 76,283 |
| Salaries and wages | 80,096 | - |
| Amortization | 37,339 | - |
| Amortization right-of-use | 5,068 | - |
| **Total Lola Graphite Property** | **1,877,313** | **1,019,948** |

| Gogota Property | March 31, 2019 | (Adjusted) March 31, 2018 |
|---|---|---|
| | $ | $ |
| Geology and prospecting | 41,590 | - |
| Geochemistry | 27,880 | - |

(Expressed in Canadian dollars)

| | | |
|---|---|---|
| Metallurgical tests | 44,173 | - |
| Engineering study | 18,256 | - |
| **Total Gogota Property** | **131,899** | **-** |
| **Total E&E expenses** | **1,919,714** | **1,019,948** |

## 5. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of expenditures required to administer the business but which are not directly linked to the sale of goods, the provision of services, and to the carrying out of construction or E&E activities.

| | **March 31, 2019** | **(Adjusted) March 31, 2018** |
|---|---|---|
| | **$** | **$** |
| **Operating expenses** | | |
| Salaries and benefits | 307,788 | 110,631 |
| Consulting fees | 56,648 | 144,807 |
| Travel and representation | 119,535 | 93,674 |
| General and office expenses | 116,681 | 57,309 |
| Professional fees | 45,170 | 47,079 |
| Investor relation fees | 57,041 | 15,000 |
| Transfer agent and filling fees | 10,872 | 8,531 |
| Shareholder information | 31 | 3,580 |
| Stock-based compensation | 331,356 | 208,624 |
| Amortization | 11,651 | 465 |
| Amortization right-of-use | 19,113 | - |
| **Total general and administrative expenses** | **1,075,886** | **689,700** |

## 6. LEASE LIABILITIES

| | **March 31, 2019** | **December 31, 2018** |
|---|---|---|
| | **$** | **$** |
| **Balance at inception (1/1/2019)** | 290,177 | |
| Lease payments | (35,390) | - |
| Accreted interest | 5,615 | - |
| Foreign exchange gain | (2,703) | - |
| **Balance, end of period** | **257,699** | **-** |

As noted in Note 3b, the Company adopted IFRS 16 Leases on January 1, 2019. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments as of January 1, 2019, discounted using the interest rate implicit in the individual lease if the rate could be readily determined, or the Company’s incremental borrowing rates, if the rate could not be readily determined. The weighted average discount rate applied to the lease liability on January 1, 2019 was 8.9%. Lease liabilities are now included within current and long-term liabilities in the Consolidated Statements of Financial Position.

(Expressed in Canadian dollars)

The finance cost or amortization of the discount on the lease liability is charged to the Consolidated Statements of Loss and Comprehensive Loss using the effective interest method.

The following table is a summary of the carrying amounts of the Company's lease liabilities measured at the present value of the remaining lease payments that are recognized in the Consolidated Statements of Financial Position as of:

| | March 31, 2019<br>$ | January 1, 2019<br>$ |
|---|---|---|
| Short-term portion of lease liability | 100,712 | - |
| Long-term portion of lease liability | 156,987 | - |
| **Total lease liability** | **257,699** | **-** |

The table below analyzes the Company's lease liabilities into relevant contractual maturity date groupings based on the remaining period at the Consolidated Statements of Financial Position date to the contractual maturity date of the lease. The amounts shown in the table below are the contractual undiscounted cash flows related to lease liabilities.

| **Maturity analysis – contractual undiscounted cash flows** | **March 31, 2018** |
|---|---|
| Less than one year | $104,508 |
| One to two years | $111,843 |
| Two to three years | $70,716 |
| More than three years | - |
| **Total undiscounted lease liabilities at March 31, 2019** | **$287,067** |
| Effect of discounting | $(29,368) |
| **Total lease liabilities at March 31, 2019** | **$257,699** |
| Current | $100,712 |
| Non-current | $156,987 |

The difference between the total contractual undiscounted cash flows related to lease payments to lessors and the carrying amount of the lease liability is the amortization of the discount related to the lease liability.

## 7. SHARE CAPITAL

### 2018

During the first quarter ended March 31, 2018, a total of 125,000 stock options were exercised at a price of $0.365 per stock option and 100,000 stock options were exercised at a price of $0.50 per stock option for total proceeds of $95,625.

### 2019

During the first quarter ended March 31, 2019, there was no transaction on the share capital of the Company.

(Expressed in Canadian dollars)

**Warrants**

The following table shows the changes in warrants:

| | Number of warrants | March 31, 2019 Weighted average exercice price $ | Number of warrants | December 31, 2018 Weighted average exercice price $ |
|---|---|---|---|---|
| Outstanding, beginning of period | 8,960,479 | 2.04 | 1,125,000 | 0.50 |
| Issued | - | - | 7,835,479 | 2.26 |
| Exercised | - | - | - | - |
| Outstanding and exercisable, end of period | 8,960,479 | 2.04 | 8,960,479 | 2.04 |

The number of outstanding warrants that could be exercised for an equal number of common shares is as follows:

| | 2019 | |
|---|---|---|
| Expiry date | Exercise price $ | Number of warrants outstanding |
| October 24, 2019 | 0.50 | 1,125,000 |
| May 18, 2019 | 2.30 | 7,467,433 |
| May 18, 2019 | 1.50 | 368,046 |
| | | 8,960,479 |

On May 17, 2019, the Warrants with an exercise price of $2.30 have been re-priced and the expiry date has been extended. See Note 15 for more details.

## 8. STOCK OPTIONS

The Company has a rolling stock option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The exercise price of each option ("Option") shall not be less than the closing price of the common shares on the trading day immediately preceding the day on which the Option is granted, less any discount permitted by the TSX-V and, in any event, the exercise price per Option will not be less than $0.05, being the minimum exercise price allowable under TSX-V policy.

(Expressed in Canadian dollars)

The following table shows the changes in stock options:

| | Number of stock options | March 31, 2019 Weighted average exercise price $ | Number of stock options | December 31, 2018 Weighted average exercise price $ |
|---|---|---|---|---|
| Outstanding, beginning of period | 6,208,000 | 0.75 | 4,233,000 | 0.45 |
| Granted | - | - | 2,650,000 | 1.13 |
| Exercised | - | - | (675,000) | 0.39 |
| Expired | - | - | - | - |
| Forfeited | - | - | - | - |
| Outstanding, end of period | 6,208,000 | 0.75 | 6,208,000 | 0.75 |
| Excercisable, end of period | 3,578,000 | 0.48 | 3,544,250 | 0.47 |

Weighted average share price at the date of exercise was $1.46 for the year ended December 31, 2018. No options were exercised during the period ended March 31, 2019.

The number of outstanding stock options that could be exercised for an equal number of common shares is as follows:

| | | | March 31, 2019 |
|---|---|---|---|
| **Expiry date** | **Exercise price $** | **Number outstanding** | **Number exercisable** |
| June 21, 2022 | 0.41 | 200,000 | 200,000 |
| October 24, 2023 | 1.20 | 150,000 | - |
| February 20, 2027 | 0.365 | 2,808,000 | 2,808,000 |
| March 31, 2027 | 0.50 | 100,000 | 100,000 |
| April 25, 2027 | 0.50 | 100,000 | 100,000 |
| June 14, 2027 | 0.36 | 25,000 | 25,000 |
| November 22, 2027 | 1.30 | 325,000 | 243,750 |
| January 14, 2028 | 1.72 | 135,000 | 101,250 |
| August 8, 2028 | 1.10 | 2,285,000 | - |
| October 30, 2028 | 0.89 | 80,000 | - |
| | | 6,208,000 | 3,578,000 |

A stock-based compensation expense of $404,877 was recognized during the period ended March 31, 2019 (2018 – $284,907). Amount of $73,521 and $331,356 (2018 – $76,283 and $208,624) was recognized in E&E expenses and in general and administrative expenses, respectively, in the consolidated statement of loss and comprehensive loss.

(Expressed in Canadian dollars)

## 9. ADDITIONAL CASH FLOW INFORMATION

The following significant non-cash transactions have been excluded from the consolidated statements of cash flows:

| | March 31, 2019<br>$ | March 31, 2018<br>$ |
|---|---|---|
| Change in short-term lease liabilities | 100,712 | - |
| Change in long-term lease liabilities | 156,987 | - |
| Change in accounts payable and accrued liabilities included in P&E | - | |

## 10. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern (note 1) and to maintain a flexible capital structure, which will allow it to pursue its E&E activities.

The Company considers its capital structure to include shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets and capital markets. In order to facilitate the management of capital, the Company prepares annual expenditure budgets, which are monitored and updated as considered necessary.

To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms, sell off permits and enter into joint venture arrangements.

The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the period ended March 31, 2019.

The changes in the Company's capital are disclosed in the consolidated equity.

## 11. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact of these exposures on the Company's financial instruments are summarized below:

**Credit risk**

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit concentration risk by holding cash and cash equivalents. This risk is minimized by holding cash and cash equivalents balances with large Canadian financial institutions and a minimal amount with local banks in Africa.

**Liquidity risk**

The Company manages its liquidity risk by using budgets that enable it to determine the amounts required to fund its E&E programs. The Company also ensures that it has sufficient working capital available to meet its day-to-day commitments.

As at March 31, 2019, the Company had cash and cash equivalents of $1,981,357 to settle accounts payable and accrued liabilities of $2,054,019 and a due to a related company, without interest, due on demand of $10,581.

As at March 31, 2019, management does not consider current funds to be sufficient for the Company to continue operating considering the intention to complete the feasability study on the Lola Graphite Property (Note 1). Any funding shortfall may be met in the future in a number of ways including, but not limited to, the issuance of new equity instruments, further expenditure reductions, or other measures. While management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these consolidated financial statements.

**Fair value**

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and other information about financial instruments.

The Company's financial instruments as at March 31, 2019 consist of cash and cash equivalents, accounts payable and accrued liabilities and due to a related company. The Company's financial assets and financial liabilities approximate their fair values due to their relatively short periods to maturity.

**Market risk**

Foreign exchange risk

Currency risk is the risk that future cash flows or fair value of financial instruments will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign exchange (''FX'') risk as cash is primarily held in Canadian dollars, while a significant portion of expenditures are denominated in US dollars and Guinean francs and, to a lesser extent, euros, Australian dollars and British pounds.

| **Accounts payable and accrued liabilities** | **March 31, 2019 in CAD** | **Impact of 10% change in FX** | **December 31, 2018 in CAD** | **Impact of 10% change in FX** |
|---|---|---|---|---|
| United States dollar | 68,951 | + / - $6,951 | 138,047 | + / - $13,805 |
| Guinea franc | 507,179 | + / - $50,718 | 472,838 | + / - $47,284 |
| Euro | 10,000 | + / - $1,000 | 19,492 | + / - $1,949 |
| Australian dollar | 11,666 | + / - $1,167 | 23,712 | + / - $2,371 |
| British pound | 23,600 | + / - $2,360 | 32,638 | + / - $3,264 |

| **Cash and cash equivalents** | **March 31, 2019 in CAD** | **Impact of 10% change in FX** | **December 31, 2018 in CAD** | **Impact of 10% change in FX** |
|---|---|---|---|---|
| United States dollar | $68,213 | + / - $6,821 | $63,622 | + / - $6,362 |
| Guinea franc | $14,951 | + / - $1,495 | $18,441 | + / - $1,844 |

Commodity price risk

Commodity price risk is the risk that the fair value or expected future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and other currencies, as outlined above. As the Company has not yet developed commercial mineral interests, the Company is not a party to financial instruments exposed to the price of commodities. However, the Company is indirectly exposed to commodity price risk, as it impacts the Company's access to capital and funding.

## 12. RELATED PARTIES

Related parties include the Company's key management personnel and related companies. Unless otherwise stated, balances are usually settled in cash.

**Transactions with key management personnel**

Key management personnel are the members of the Board of Directors, the President and the Chief Financial Officer ("CFO"), the Vice-President Corporate and Legal Affairs, and the Vice-President Operations, Metallurgy, and Process Design.

Remuneration of key management personnel

During the period ended March 31, 2018, the Company incurred accounting fees of $18,000 with the former CFO. These fees are recorded under professional fees in the consolidated statement of loss and comprehensive loss. During the period ended March 31, 2019, no fees were incurred with the former CFO. As at March 31, 2019, and March 31, 2018, no amount was due to the former CFO.

During the period ended March 31, 2019, the Company incurred fees of $29,125 (for the three-month period ended March 31, 2018 – $26,250) with two officers. These fees are recorded under legal fees in administration expenses. As at March 31, 2019 and March 31, 2018, no amounts are due to these officers.

During the period ended March 31, 2019, the Company incurred salaries of $88,000 (for the three-month period ended March 31, 2018 – $76,650) to two employees who are officers of the Company, which was recorded in E&E expenses as well as under general and administrative expenses. As at March 31, 2019, and March 31, 2018, no amounts are due to these officers.

During the period ended March 31, 2019, the Company recognized stock-based compensation of $319,745 (for the three-month period ended March 31, 2018 – $135,756) in connection with stock options granted to officers and directors solely, of which $27,920 was expensed under E&E expenses (for the three-month period ended March 31, 2018 – Nil) and $291,824 was expensed under general and administrative expenses (for the three-month period ended March 31, 2018 – $135,756).

**Transactions with related parties**

During the period ended March 31, 2019, the Company incurred fees of $15,000 from a consultant who is also a director and the Qualified Person under National Instrument NI 43-101 (for the three-month period ended March 31, 2018 – $15,808). This expense was recorded in E&E expenses under geology and prospecting. As at March 31, 2019, $5,748 (March 31, 2018 – $15,000) was due to that consultant.

(Expressed in Canadian dollars)

During the period ended March 31, 2019, a corporation where the Company's Executive Chairman is also the President and Chief Executive Officer, charged a total amount of $3,010 (for the three-month period ended March 31, 2018 – $23,623) to the Company. This amount was expensed in consulting fees. These fees were for technical services which were rendered by a consultant of that corporation. As at March 31, 2019, and March 31, 2018 no amount is due to that corporation.

During the period ended March 31, 2018, the Company paid a salary of $10,000 to an individual related to the Company's Executive Chairman. This expense was recorded under salaries and benefits in administrative expenses. No amounts were paid to the individual in 2019. As at March 31, 2019, and March 31, 2018 no amounts were due to that individual.

During the period ended March 31, 2019, the Company incurred fees of $44,028 (for the three-month period ended March 31, 2018 – $28,104) with a corporation where the Company's Executive Chairman is also a shareholder of that corporation. As at March 31, 2019, $4,449 was due to that corporation (March 31, 2018 – $3,500).

During the period ended March 31, 2019, a subsidiary of Sama Resources Inc. charged the Company $20,144 for services recorded as E&E expenses as well as services recorded as general and administrative expenses (for the three-month period ended March 31, 2018 – $119,917). As at March 31, 2019, $12,206 was owing to Sama Resources Inc. and its subsidiary (March 31, 2018 – Nil).

## 13. COMMITMENTS

The Company has lease commitments for office premises, exploration camps and land in Guinea, which call for total payments of GNF460,250,000 (approximately: $13,277 in 2019, $24,206 in 2020 and 2021, $3,631 in 2022, $1,760 in 2023 and $440 in 2024).

The Company has lease commitments for office premises in Canada, which expire at the end of 2019 and call for a payment of $50,544 in 2019.

The Company has entered into a consulting agreement expiring August 15, 2019, which will call for a total payment of $22,750 in 2019 and another one expiring on March 14, 2020 for total payment of $49,451 in 2019 and $13,013 in 2020.

Minimum annual payments relating to the above commitments in the next five fiscal years and thereafter are as follows:

| **Year** | **Leases**<br>**$** | **Other**<br>**$** |
|---|---:|---:|
| 2019 | 63,821 | 71,951 |
| 2020 | 24,206 | 13,013 |
| 2021 | 24,206 | - |
| 2022 | 3,631 | - |
| 2023 | 1,760 | - |
| Thereafter | 440 | - |

**Termination and change of control provisions**

Certain agreements between the executive team and the Company contain termination without cause and change of control provisions. Assuming that these agreements would be terminated without cause during the year ending December 31, 2019, the total amounts payable in respect of severance would amount to $827,750. If a change of control would occur during the year ending December 31, 2019, the total amounts payable in respect of severance, if elected by the executive members, would amount to $827,750.

## 14. OPERATING SEGMENT

The Company operates in one reportable business segment: the exploration and evaluation of mineral properties. As at March 31, 2019, $903,424 of the Company's non-current assets are located in Guinea, Africa, and $254,634 are located in Montréal, Canada. As at March 31, 2018, $233,135 of the Company's non-current assets were located in Guinea, Africa and $1,466 were located in Montréal, Canada.

## 15. SUBSEQUENT EVENTS

**Warrants**

On May 15, 2019, the Company has filed an application with the TSX-Venture Exchange of its intention to re-price and extend the expiry date of the Warrant Indenture dated May 18, 2018 made between the Company and Computershare Trust Company of Canada (the "**Warrant Agent**"). These adjustments have been incorporated into the terms of a Supplemental Warrant Indenture dated May 15, 2019 and have became effective May 17, 2019 between the Company and the Warrant Agent amending the Warrant Indenture.

A total of 6,134,100 share purchase warrants (the "**Warrant**") were issued by the Company under the Warrant Indenture pursuant to a Prospectus offering announced on May 1, 2018. Each Warrant entitled the holder to purchase one common share of the Company at the price of $2.30 per common share and are scheduled to expire on May 18, 2019. The term will be extended to 4:00 p.m. (Montreal time) on March 30, 2020. The exercise price of the Warrants has been amended to $1.20. (the "**Amended Warrant**"). The Amended Warrants will be subject to an accelerated expiry date which will be reduced to 30 days, if, for any ten consecutive trading days during the unexpired term of the Amended Warrant (the "**Premium Trading Days**"), the closing price of the Company's shares is $1.44, and for more certainty, the reduced exercise period of 30 days will begin no more than 7 calendar days after the tenth Premium Trading Day. All other terms of the Warrant Indenture will remain unchanged.

Concurrent with the issuance of the Warrants pursuant to the Warrant Indenture, 1,333,333 warrants were issued by the Company pursuant to the closing of an equity offering announced on May 1, 2018 (the "**Equity Financing Warrants**"). Each Equity Financing Warrant entitled the holder to purchase one common share of the Company at the price of $2.30 per common share and are scheduled to expire on May 18, 2019. The term will be extended to 4:00 p.m. (Montreal time) on March 30, 2020. The exercise price of the Equity Financing Warrants has been amended to $1.20 (the "**Amended Equity Financing Warrants**"). The Amended Equity Financing Warrants will be subject to an accelerated expiry date which will be reduced to 30 days, if, for any ten consecutive trading days during the unexpired term of the Amended Warrant (the "**Premium Trading Days**"), the closing price of the Company's is $1.44, and for more certainty, the reduced exercise period of 30 days will begin no more than 7 calendar days after the tenth Premium Trading Day.