

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

FOR THE SIX MONTH ENDED JUNE 30, 2018

UNAUDITED – PREPARED BY MANAGEMENT

(Expressed in Canadian Dollars)

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 43 (3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been review by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**GRATOMIC INC.**  
**(formerly CKR Carbon Corporation)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND DECEMBER 31, 2017**

(In Canadian dollars, unaudited)	Notes	2018	2017
		\$	\$
<b>Assets</b>			
<b>Current</b>			
Cash		602,854	2,317,221
Restricted cash	5	16,329	16,329
Receivable		185,484	166,616
		804,667	2,500,166
Exploration and evaluation assets	4	4,643,188	4,200,063
Property, plant and equipment	5	1,436,727	652,851
		6,884,582	7,353,080
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	6,7	170,417	267,871
Flow through premium liability		2,401	25,409
		172,818	293,280
<b>Shareholders' equity</b>			
<b>Share capital</b>		14,201,300	13,693,171
<b>Reserves</b>		2,530,607	2,463,343
<b>Deficit</b>		(11,259,275)	(10,257,019)
<b>Equity attributable to owners of the Company</b>		5,472,632	5,899,495
<b>Non- controlling interests</b>	8	1,239,132	1,160,305
<b>Total equity</b>		6,711,764	7,059,800
<b>Total shareholders' equity and liabilities</b>		6,884,582	7,353,080

Nature of Operations and Going Concern 1

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

"Arno Brand"  
 \_\_\_\_\_  
 Director

"Daniel Bloch"  
 \_\_\_\_\_  
 Director

See accompanying notes to consolidated financial statements.

**GRATOMIC INC.**  
**(formerly CKR Carbon Corporation)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**FOR THE THREE AND SIX AND MONTHS ENDED JUNE 30, 2018 and 2017**

( In Canadian dollars, unaudited)	Notes	Three months ended		Six months ended	
		2018	2017	2018	2017
		\$	\$	\$	\$
<b>Operating expenses</b>					
Consulting		-	21,000	-	21,000
Filing fees and permits		5,311	315	19,990	7,388
Investor relations		42,076	3,137	78,771	4,421
Insurance		16,700	-	16,700	-
Management fees		81,500	30,413	150,500	63,413
Marketing		230,200	2,000	350,964	13,344
Office and other		11,923	6,698	22,254	12,205
Professional fees		40,770	31,722	106,714	58,974
Share-based compensation		138,150	540,000	167,727	540,000
Travel, meals and accomodation		76,576	41,698	88,016	41,698
Amortization	<b>5</b>	11,814	-	23,628	-
		(655,020)	(676,983)	(1,025,264)	(762,443)
Reversal of flow-through premium liability		-	-	23,008	-
<b>Loss and comprehensive loss for the year</b>		(655,020)	(676,983)	(1,002,256)	(762,443)
<b>Loss and comprehensive loss for the year attributable to :</b>					
Owners of the Company		(655,020)	(676,983)	(1,002,256)	(762,443)
Non-controlling interests		-	-	-	-
		(655,020)	(676,983)	(1,002,256)	(762,443)
<b>Basic and diluted loss per share</b>		(0.006)	(0.010)	(0.009)	(0.013)
<b>Weighted average number of shares outstanding</b>		113,916,981	70,767,189	112,896,267	60,916,986

See accompanying notes to consolidated financial statements

**GRATOMIC INC.**  
**(formerly CKR Carbon Corporation)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**SIX MONTHS ENDED JUNE 30,**

(In Canadian dollars, unaudited)	2018	2017
	\$	\$
<b>Operating Activities</b>		
Loss for the period	(1,002,256)	(762,443)
Non-cash items:		
Amortization	23,628	-
Share-based compensation	167,727	540,000
Foreign exchange loss(gain)	-	4,239
Reversal of flow through premium	(23,008)	-
Change in receivable	(18,868)	17,709
Changes in accounts payable and accrued liabilities	(97,454)	(215,541)
<b>Cash used for operating activities</b>	<b>(950,231)</b>	<b>(416,036)</b>
<b>Investing Activities</b>		
Exploration and evaluation expenditures, net of recoveries	(443,125)	(434,325)
Purchase of property and equipment	(807,504)	(13,053)
Loans receivable	-	(3,477)
<b>Cash used for investing activities</b>	<b>(1,250,629)</b>	<b>(450,855)</b>
<b>Financing Activities</b>		
Proceeds from issuance common shares	-	1,764,050
Share issuance costs	-	(212,826)
Proceeds from issuance of common shares from options exercised	27,000	-
Proceeds from issuance of common shares from warrants exercised	459,493	126,669
<b>Cash provided by financing activities</b>	<b>486,493</b>	<b>1,677,893</b>
Foreign exchange gain (loss) on foreign denominated cash	-	(4,229)
Changes in cash	(1,714,367)	806,773
Cash beginning of period	2,317,221	303,170
<b>Cash end of period</b>	<b>602,854</b>	<b>1,109,943</b>

See accompanying notes to consolidated financial statements

**GRATOMIC INC.**  
**(formerly CKR Carbon Corporation)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY**  
**SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

(In Canadian dollars, unaudited)	Number of shares	Share capital	Share-based payment reserves	Deficit	Attributable to owners	Non-controlling Interest	Total Equity
<b>December 31, 2016</b>	50,531,892	9,721,073	1,093,653	(8,419,027)	2,395,699	-	2,395,699
Shares issued for private placements	19,145,000	1,764,050	-	-	1,764,050	-	1,764,050
Share issuance costs - cash	-	(212,826)	-	-	(212,826)	-	( 212,826)
Share issuance costs - broker warrants	-	(70,460)	70,460	-	-	-	-
Shares issued for warrants exercised	1,316,877	153,018	(26,340)	-	126,678	-	126,678.00
Flow through share premium liability	-	(41,000)	-	-	(41,000)	-	( 41,000)
Acquisition of control of subsidiary	-	-	-	-	-	1,216,472	1,216,472
Equity acquisition of subsidiary	-	-	316,932	-	316,932	( 316,932)	-
Non-controlling interests carried interest	-	-	-	-	-	-	-
Share-based compensation	-	-	540,000	-	540,000	-	540,000
Loss for the period	-	-	-	(762,443)	(762,443)	-	( 762,443)
<b>June 30, 2017</b>	70,993,769	11,313,855	1,994,705	(9,181,470)	4,127,090	899,540	5,026,630
<b>December 31, 2017</b>	111,066,989	13,693,171	2,463,343	(10,257,019)	5,899,495	1,160,305	7,059,800
Shares issued for warrants exercised	2,962,750	459,493	-	-	459,493	-	459,493
Shares issued for options exercised	390,000	27,000	-	-	27,000	-	27,000
Transfer of share based payment reserve to share capital for warrants and options exercised	-	21,636	( 21,636)	-	-	-	-
Share-based compensation	-	-	167,727	-	167,727	-	167,727
Non-controlling interests carried interest	-	-	(78,827)	-	(78,827)	78,827	-
Loss for the period	-	-	-	( 1,002,256)	(1,002,256)	-	(1,002,256)
<b>June 30, 2018</b>	114,419,739	14,201,300	2,530,607	(11,259,275)	5,472,632	1,239,132	6,711,764

See accompanying notes to consolidated financial statements.

## **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” or “Gratomic”). The Company was incorporated under the Business Corporations Act (Ontario), and is listed on the TSX Venture Exchange (“TSX-V”). The Company’s corporate office is located at 69 Yonge St Suite 1010, Toronto, Ontario, Canada. The Company is a junior exploration company primarily engaged in the acquisition and exploration of exploration and evaluation assets located primarily in Canada and Namibia.

These condensed consolidated interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation for the foreseeable future. The operations of the Company are primarily funded by the issue of share capital and loans. The continued operations of the Company are dependent on its ability to develop a sufficient financing plan, receive continued financial support from related parties, complete sufficient public equity financing, or generate profitable operations in the future. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

The Company is in the business of exploring for minerals that by its nature involves a high degree of risk. There can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of the 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, the ability of the Company to obtain financing or, alternatively, upon the Company’s ability to dispose of its interest on an advantageous basis. Additionally, the Company estimates that it will need additional capital to operate for the upcoming year. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

## **2. SUMMARY OF ACCOUNTING POLICIES**

### **Basis of presentation**

These condensed consolidated interim 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.

In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The policies applied in the financial statements are presented below and are based on IFRS’ issued and outstanding as of March 31, 2018. The consolidated financial statements were approved by the Board of Directors on August 29, 2018.

**GRATOMIC INC.**  
**(formerly CKR Carbon Corporation)**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

**2. SUMMARY OF ACCOUNTING POLICIES (cont'd....)**

**Estimates**

Critical judgements exercised in applying accounting policies that have the most significant effect on the amounts recognized in the 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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

ii) Capitalization of deferred exploration costs

The Company has entered into an agreement to acquire a company holding a mineral licence. The acquisition is being accounted for as advances toward the purchase of a company interest in accordance with IFRS 10 and capitalized to the statement of financial position. Upon attaining control of such company the Company will consolidate as a subsidiary. Subsequent to consolidation, and where a minority interest shareholder has a carried interest for deferred exploration costs, minority interest and equity are adjusted to reflect the ownership interest.

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.

iii) Economic recoverability and probability of future benefits of exploration and evaluation costs

Management has determined that exploration, evaluation and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including, geologic and other technical information, history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, scoping and feasibility studies, accessible facilities and existing permits.



**GRATOMIC INC.**  
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**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

**2. SUMMARY OF ACCOUNTING POLICIES (cont'd....)**

**Basis of consolidation**

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries (which are wholly owned by the Company) are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases. Accordingly, the condensed consolidated interim financial statements include the accounts of Micron Investments Pty Ltd and Ludbay Properties Pty Ltd from the date of acquisition on November 6, 2016 and Gazania Investments Two Hundred and Forty Two (Pty) Ltd (“Gazania”); on July 28, 2017. All significant inter-company transactions and balances have been eliminated.

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Micron Investments Pty Ltd.	Namibia	100%
Ludbay Properties Pty Ltd.	Namibia	100%
Gazania Investments Two Hundred and Forty Two Pty Ltd	Namibia	63%

**Financial instruments**

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit and loss (FVTPL)* - Financial assets classified as FVTPL are measured at fair value with gains and losses recognized through profit or loss.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through profit or loss.

*Loans and receivables* -All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified cash and restricted cash as fair value through profit or loss. Receivables are classified as loans and receivables.

**GRATOMIC INC.**  
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**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

**2. SUMMARY OF ACCOUNTING POLICIES (cont'd...)**

Financial liabilities

The Company classifies its financial liabilities into one of two categories. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities:* This category includes accounts payables and accrued liabilities which are recognized at amortized cost using the effective interest method.

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*.

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, 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.

**GRATOMIC INC.**  
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**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

**2. SUMMARY OF ACCOUNTING POLICIES (cont'd...)**

**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.

**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.

**GRATOMIC INC.**  
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**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

**2. SUMMARY OF ACCOUNTING POLICIES (cont'd...)**

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 years presented, the Company does not have any decommissioning or restoration obligations.

**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. The carrying amount of the replaced part is derecognized. 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:

Asset	Basis	Period
Land	nil	nil
Buildings	Straight-line	10 years
Plant & equipment	Straight-line	3 years
Vehicles	Declining balance	30%

**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 measurable 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.

**GRATOMIC INC.**  
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**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

**2. SUMMARY OF ACCOUNTING POLICIES (cont'd...)**

**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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**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

**2. SUMMARY OF ACCOUNTING POLICIES (cont'd...)**

**New accounting pronouncements not yet adopted**

The international Accounting Standards Board has issued the following Standards, interpretations and amendments to Standards that are not yet effective and while considered relevant to the Company have not yet been adopted by the Company.

**Effective for annual periods beginning on or after January 1, 2018**

**IFRS 9, Financial Instruments – Classification and Measurement**

IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

**IFRS 15, Revenue from Contracts with Customers:**

IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service.

The Company does not expect these standards to have a significant effect on these financial statements other than increased disclosure.

**Effective for annual periods beginning on or after January 1, 2019**

**IFRS 16, Leases**

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.

**3. EXPLORATION AND EVALUATION ASSETS**  
**Exploration and evaluation assets summary**

	June 30, 2018			
	<b>Montpellier Quebec</b>	<b>Buckingham Quebec</b>	<b>Aukam Namibia</b>	<b>Total</b>
Acquisition costs, beginning of period	\$ 250,993	\$ 66,357	\$ 2,553,888	\$ 2,871,238
Additions	-	-	-	-
Acquisition costs, end of period	250,993	66,357	2,553,888	2,871,238
Exploration costs, beginning of year	66,247	680,507	582,071	1,328,825
Additions				
Drilling	-	-	-	-
Field work, supplies and other	4,160	225,921	32,908	262,989
Assays	-	-	-	-
Geological and other consulting	-	-	79,202	79,202
Bulk sampling	-	-	-	-
Transport	-	-	29,042	29,042
Travel and accomodation	-	-	71,892	71,892
Exploration costs, end of year	70,407	906,428	795,115	1,771,950
<b>Total, end of period</b>	<b>321,400</b>	<b>972,785</b>	<b>3,349,003</b>	<b>4,643,188</b>

	December 31, 2017			
	<b>Montpellier Quebec</b>	<b>Buckingham Quebec</b>	<b>Aukam Namibia</b>	<b>Total</b>
Acquisition costs, beginning of year	\$ 250,993	\$ 66,357	\$ -	\$ 317,350
Additions	-	-	1,317,844	1,317,844
Recognition of NCI ownership in asset	-	-	1,216,472	1,216,472
Other additions	-	-	19,572	19,572
Acquisition costs, end of year	250,993	66,357	2,553,888	2,871,238
Exploration costs, beginning of year	41,366	422,731	-	464,097
Additions				
Drilling	-	106,798	44,356	151,154
Field work, supplies and other	23,722	150,978	68,012	242,712
Assays	-	-	56,406	56,406
Geological and other consulting	1,159	-	289,282	290,441
Bulk sampling	-	-	104	104
Transport	-	-	28,021	28,021
Travel and accomodation	-	-	95,890	95,890
Exploration costs, end of year	66,247	680,507	582,071	1,328,825
<b>Total, end of year</b>	<b>317,240</b>	<b>746,864</b>	<b>3,135,959</b>	<b>4,200,063</b>

#### **4. EXPLORATION AND EVALUATION ASSETS (cont'd...)**

##### **Montpellier, Quebec**

On December 9, 2013, the Company entered into an option agreement, with a corporation that is related by virtue of a common director, to acquire certain claims located in the Hartwell Township, Casse Laurentides Region in Quebec. As consideration, the Company must:

- i) issue 400,000 common shares (issued at a value of \$210,000);
- ii) issue 66,667 common shares by December 9, 2014 (issued at a value of \$6,000);
- iii) incur \$50,000 in exploration expenditures by December 9, 2015. (The Company issued 400,000 common shares at a value of \$34,000 on October 12, 2016 in satisfaction of this condition.)

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.

##### **Tac, Lac Vert and Buckingham, Quebec**

In February 2013, the Company entered into an option agreement, amended on April 22, 2014, to acquire a 100% interest in the Tac, Lac Vert and Buckingham properties located in the Province of Quebec.

During the year ended December 31, 2016, the Company decided not to continue exploring the Tac and Lac Vert properties and wrote off all costs associated with the properties resulting in the amount of \$162,821.

##### **Aukam Graphite Project, Namibia**

During the year ended December 31, 2015, the Company acquired 100% of the issued and outstanding share capital of Micron Investment Pty. Ltd. (“Micron”) which held an option to acquire 63% of Gazania which holds the Aukam Exclusive Prospecting License (EPL) 3895 (the “License”) located in Namibia’s Karas Region, Africa, which has been accounted for as an asset acquisition. In consideration for transfer of the option and net assets of \$39,255, the Company issued 3,500,000 common shares (issued at a value of \$350,000) and agreed to pay \$30,000 in cash. The excess amounts paid over net assets acquired were allocated to the mineral property for deferred acquisition costs.

As per a Joint Venture Agreement dated June 8, 2015, amended July 17, 2015 between Micron and Next Graphite Pty. Ltd. (“Next”) and a subsequent Farm-out Agreement dated September 12, 2016, between the Company, and Next, the Company can earn 63% of Gazania by:

- i) Spending USD \$1,100,000 on the property (completed); or
- ii) Completing the plant and infrastructure set up; (completed subsequent to year end) and
- iii) Obtaining government authorization to begin commercial operations; and
- iv) Making quarterly payments for a total of USD\$180,000 (USD\$180,000 paid (\$225,000 CDN) during the farm-out period (from June 8, 2015 until i, ii and iii are complete).

The Company shall have the option to buy an incremental 10% of Next’s remaining interest for a cash payment of USD\$180,000 if mutually agreed to by the parties. Should the Farm-out period need to be extended beyond six months following receipt of a mining license, Next will continue to be paid

#### **4. EXPLORATION AND EVALUATION ASSETS (cont'd...)**

USD\$25,000 until ii and iii are completed. 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 ii) and iii) above 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 for the first 5 months fund all operations to run all plant related activities and expenditures. Thereafter, each party will contribute funding proportionate to their respective holdings.

As at March 31, 2018, the Company had earned a 63% participating interest in Gazania.

There is a 2% gross revenue royalty on the Aukam Mine.

## 5. Property Plant and Equipment

	Land	Buildings	Plant & Equipment	Vehicles	Total
<b>Cost</b>					
At December 31, 2016	369,434	-	69,461	-	438,895
2017 Additions	-	69,904	168,974	18,762	238,878
At December 31, 2017	369,434	69,904	238,435	18,762	696,535
2018 Additions	-	110,825	668,507	28,172	807,504
At June 30, 2018	369,434	180,729	906,942	46,934	1,504,039
<b>Accumulated Depreciation</b>					
At December 31, 2016	-	-	-	-	-
2017 Depreciation	-	-	38,055	5,629	43,684
At December 31, 2017	-	-	38,055	5,629	43,684
2018 Depreciation	-	546	22,144	938	23,628
At March 31, 2018	-	546	60,199	6,567	67,312
<b>Carrying Value</b>					
At March 31, 2018	369,434	180,183	846,743	40,367	1,436,727
At December 31, 2017	369,434	69,904	200,380	13,133	652,851

During the year end December 31, 2016, the Company acquired property in the town of Luderitz, Namibia in the acquisition of Ludbay Properties Pty Ltd. which has been accounted for as an asset acquisition. In consideration for all the outstanding shares of Ludbay, the Company issued 3,500,000 shares valued at \$315,000, paid cash of \$50,000, assumed restricted cash of \$16,329, accounts payable of \$20,743 with the net amount of \$ 369,434 allocated to land.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2018	December 31, 2017
Trade payables	\$ 54,083	\$ 316,539
Accrued liabilities	117,094	90,492
	\$ 171,177	\$ 407,031

## 7. SEGMENTED INFORMATION

The Company's primary business activity is the acquisition and exploration of mineral properties in Canada and Namibia.

	<b>June 30</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Exploration and evaluation assets		
Canada	1,294,185	1,064,104
Namibia	3,349,003	3,135,959
	<u>4,643,188</u>	<u>4,200,063</u>
Property and equipment		
Wales	541,470	-
Namibia	895,257	652,851
	<u>1,436,727</u>	<u>652,851</u>

## 8. NON-CONTROLLING INTERESTS

The Company gained control of Gazania by earning a 52% interest on February 24, 2017 and consolidated Gazania. The mineral property was its sole asset and deferred acquisition costs of \$1,317,844 were reallocated to exploration and evaluation assets upon acquisition and consolidation of Gazania in accordance with IFRS 10 concurrent with the gross-up of the exploration and evaluation asset of \$1,256,620 to account for the recognition of the non-controlling interests.

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

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 \$260,765 to reflect their interest in the funding completed by the Company.

Each of the decrease of \$316,932 and increase of \$260,765 related to the change in minority interest have been offset to reserves.

As at June 30, 2018, the Company had earned a 63% participating interest in Gazania.

A reconciliation of the non-controlling is as follows:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
Opening balance /Initial recognition of NCI	\$ 1,160,305	\$ 1,216,620
NCI dilution of interest	-	(316,932)
NCI free carried interest	78,827	260,765
Ending balance	<u>\$ 1,239,132</u>	<u>\$ 1,160,305</u>

## 9. SUBSEQUENT EVENT

Subsequent to June 30, 2018 the Company:

Completed a private placement of 23,425,000 working capital units at a price of \$0.10 per unit for aggregate gross proceeds of \$2,342,500. 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 “Final Trading Date”), the date which is 30 days from the Final Trading Date.

The Company paid to finders cash compensation of \$50,650 and issued 474,000 broker warrants in relation to the sale of the units. The Company also paid First Republic Capital Corporation (“First Republic”) a corporate finance fee of \$46,850 and issued to First Republic 468,500 corporate finance broker warrants. 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.