Gratomic

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

(Expressed in Canadian Dollars)

D&H Group LLP
Chartered Professional Accountants
10th Floor, 1333 West Broadway
Vancouver, BC V6H 4C1

dhgroup.ca
t 604.731.5881
f 604.731.9923

Independent Auditor's Report

To the Shareholders of Gratomic Inc.

Opinion

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

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company recorded a net loss of $ 3,244,288 and, as at December 31, 2019, the Company had an accumulated deficit of $ 16,898,476 and a working capital deficit of $ 710,027. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

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

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

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Gordon Cummings.

D&H Group LLP

Vancouver, B.C.
June 15, 2020

Chartered Professional Accountants

GRATOMIC INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian Dollars

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

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"Arno Brand" — Director

"Walter Luke" — Director

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

GRATOMIC INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Expressed in Canadian Dollars

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

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

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

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

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

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

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

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

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

Critical judgements and sources of estimation uncertainty

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

i) Determination of functional currency

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

ii) Capitalization of deferred exploration costs

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

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

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

Critical estimates are as follows:

i) Valuation of share-based compensation

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

ii) Income taxes

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

iii) Useful life of property and equipment

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

Basis of consolidation

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

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

Financial instruments

(i) Classification

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

(ii) Measurement

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

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

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

(iii) Impairment of Financial Assets at Amortized Cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are generally recognized in the statements of net (loss) income.

(v) Measurement Hierarchy

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

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

Foreign exchange

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

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

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

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Exploration and evaluation assets

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

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

Impairment

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

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

Decommissioning and restoration provision

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

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

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

Property and equipment

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

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

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

Valuation of equity units issued in private placements

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

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

Share-based compensation

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

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

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

Share issue costs

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

Flow-through shares

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

Expressed in Canadian Dollars

Income taxes

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

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

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

Adoption of new standards

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

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

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward looking "expected loss" impairment model. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application.

The table below summarizes the classification and carrying amount changes upon transition from IAS 39 to IFRS as at January 1, 2018.

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

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

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

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

Expressed in Canadian Dollars

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

3. AMOUNTS RECEIVABLE

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

4. EXPLORATION AND EVALUATION ASSETS

Following is a summary of the exploration and evaluation assets

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

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

Montpellier, Quebec

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

Buckingham, Quebec

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

Aukam Graphite Project, Namibia

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

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

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

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

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

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

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

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

Expressed in Canadian Dollars

5. Property and Equipment

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

6. NON-CONTROLLING INTEREST

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

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

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

7. SHARE CAPITAL, OPTIONS, AND WARRANTS

Share consolidation:

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

(I)Common Shares

Authorized - An unlimited number of common shares

The following summarizes the share issuance transactions:

During the year ended December 31, 2019:

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

ii) A shares for debt settlement was negotiated with a supplier as result of which an amount owing to the supplier of $81,360 was settled by the issuing 180,992 common shares of the Company. The common shares have been valued at $9,050, being the market value of the shares on the date they were issued, and a gain on debt settlement of $72,310 was recorded.

iii) On December 18 and 23, 2019 the first two tranches of a non-brokered private placement of 8,938,888 units at a price of $0.05625 per unit for aggregate gross proceeds of $502,812 was completed. Each unit consisted of one common share and one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share in the Company at a price of $0.10 per share until the earlier of December 18, 2022, or in the event that the closing price of the common shares is at least $0.30 for twenty consecutive trading days, and the twentieth trading day (the "Final Trading Day") is at least four months from the closing date, the date which is thirty days from the Final Trading Day. Officers, directors, and the wife of one of the former co-CEO's, participated in the private placement in the amount of $241,875. The Company paid cash share issue costs of $28,346 and issued 161,500 broker warrants in relation to the sale of the units. Each broker unit entitles the holder to acquire one common share of the company at a price of $0.05625 until December 18, 2022.

During the year ended December 31, 2018:

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

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

Expressed in Canadian Dollars

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

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

(II)Stock Options

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

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

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

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

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

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

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

Expressed in Canadian Dollars

A summary of option transactions is as follows:

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

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

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

(III)Warrants

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

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

Expressed in Canadian Dollars

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

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

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

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

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

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

8. RELATED PARTY DISCLOSURES

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

Expressed in Canadian Dollars

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

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

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

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

9. SEGMENTED INFORMATION

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

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

Expressed in Canadian Dollars

10. INCOME TAXES

a) Provision for Income Taxes

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

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

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

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

Expressed in Canadian Dollars

c) Losses Carried Forward

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

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

11. CAPITAL MANAGEMENT

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

Sensitivity Analysis
Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period:
(i) The Company receives low interest rates on its cash and cash equivalent balances and, as such, the Company does not have significant interest rate risk.
(ii) The Company holds balances in foreign currencies that give rise to exposure to foreign exchange risk, however at any point in time the balances are not significant. The Company estimates that a 10% increase or decrease in the foreign currency would give rise to a gain or loss of approximately $20,000 respectively.

13. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

14. SUBSEQUENT EVENTS

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

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

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

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

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

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

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