

# **GRAPHANO ENERGY LTD.**

## **FINANCIAL STATEMENTS**

**YEAR ENDED JULY 31, 2023 AND 2022**

**AUDITED**

**(Expressed in Canadian dollars)**

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## **MANAGEMENT'S RESPONSIBILITY**

To the Shareholders of Graphano Energy Ltd.:

Management is responsible for the preparation and presentation of the accompanying annual financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee is composed of Directors who are neither management nor employees of the Company. The Committee is responsible for overseeing management in the performance of its financial reporting responsibilities. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Corporation's external auditors.

Wasserman Ramsay, Chartered Professional Accountants has been appointed to audit the financial statements and their report follows. The external auditors have full and free access to, and meet periodically and separately with, the Board, the Audit Committee and management to discuss their audit findings.

November 24, 2023

*Dr. Luisa Moreno*  
Chief Executive Officer

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Graphano Energy Ltd.:

### Opinion

We have audited the financial statements of Graphano Energy Ltd. (the "Company"), which comprise the statements of financial position as at July 31, 2023 and 2022, and the statements of changes in equity, loss and comprehensive loss, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audits 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 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 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 2 in the financial statements, which indicates that for the year ended July 31, 2023 the Company incurred losses of \$1,027,711 and had an accumulated deficit of \$4,089,935 at year end. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, 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:

- Management's Discussion and Analysis

Our opinion on the 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 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements**

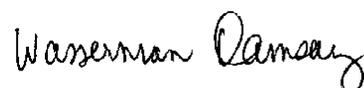
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 auditors' report is Kevin Ramsay.



Markham, Ontario  
November 24, 2023

Chartered Professional Accountants  
Licensed Public Accountants

**GRAPHANO ENERGY LTD.**  
**STATEMENTS OF FINANCIAL POSITION**  
(Audited, expressed in Canadian dollars)

As at,	July 31, 2023	July 31, 2022
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash & cash equivalents (note 6)	2,080,644	3,353,722
Prepayments and other receivables	130,539	85,935
Sales taxes receivable	233,952	191,050
<b>Total current assets</b>	<b>2,445,135</b>	<b>3,630,707</b>
<b>Long-term assets</b>		
<b>Total assets</b>	<b>2,445,135</b>	<b>3,630,707</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 7)	24,902	55,045
Flow through share premium liability	-	138,718
<b>Total liabilities</b>	<b>24,902</b>	<b>193,763</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 8)	4,200,129	4,189,129
Reserves	2,310,039	2,310,039
Deficit	(4,089,935)	(3,062,224)
<b>Total shareholders' equity</b>	<b>2,420,233</b>	<b>3,436,944</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>2,445,135</b>	<b>3,630,707</b>

Going concern (Note 2) and subsequent events (Note 16)

The Company's board of directors approved the financial statements on November 24, 2023.

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

Signed "James Richardson" Director and CFO

Signed "Luisa Moreno" Director and CEO

The accompanying notes form an integral part of the financial statements.

**GRAPHANO ENERGY LTD.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED JULY 31, 2023 AND 2022**  
**(Audited, expressed in Canadian dollars)**

	SHARE CAPITAL		RESERVES	DEFICIT	TOTAL
	#	\$	\$	\$	\$
<b>Balance, as at July 31, 2021 (restated)</b>	<b>15,559,049</b>	<b>776,443</b>	<b>-</b>	<b>(782,443)</b>	<b>(6,000)</b>
Private placements	81,945,660	2,453,505	1,643,474	-	4,096,979
<b>Consolidation of shares (6.5:1), Sep 3, 2021</b>	<b>15,000,720</b>	<b>3,229,948</b>	<b>1,643,474</b>	<b>(782,443)</b>	<b>4,090,979</b>
Issue of shares for acquisition of Royalty	153,846	50,000	-	-	50,000
Share issue costs	-	(145,000)	-	-	(145,000)
Flow-through Private placements	1,562,500	907,706	267,294	-	1,175,000
Warrants exercised	188,462	119,314	(21,314)	-	98,000
Options issued	-	-	649,591	-	649,591
Cancellation of shares	(1,875)	-	-	-	-
Adjustment w.r.t volatility	-	219,437	(219,437)	-	-
Warrants exercised	84,615	53,569	(9,569)	-	44,000
Issue of shares for option on property	50,000	10,875	-	-	10,875
Flow-through share premium	-	(256,720)	-	-	(256,720)
Net loss for the period	-	-	-	(2,279,781)	(2,279,781)
<b>Balance, as at July 31, 2022 (restated)</b>	<b>17,038,268</b>	<b>4,189,129</b>	<b>2,310,039</b>	<b>(3,062,224)</b>	<b>3,436,944</b>
Issue of shares for option on property	50,000	11,000	-	-	11,000
Net loss for the period	-	-	-	(1,027,711)	(1,027,711)
<b>Balance, as at July 31, 2023</b>	<b>17,088,268</b>	<b>4,200,129</b>	<b>2,310,039</b>	<b>(4,089,935)</b>	<b>2,420,233</b>

The accompanying notes form an integral part of the financial statements.

**GRAPHANO ENERGY LTD.**  
**STATEMENTS OF COMPREHENSIVE LOSS/(INCOME)**  
**FOR THE YEARS ENDED JULY 31, 2023 AND 2022**  
(Audited, expressed in Canadian dollars)

For the period ended July 31,	Year ended	
	2023	2022
	\$	\$
<b>Revenues</b>	-	-
<b>Operating Expenses/(Income)</b>		
Expenditures on E&E properties	750,754	751,192
Management fees	306,000	358,200
Professional and consulting fees	61,820	401,412
Advertising and marketing	87,606	194,409
Foreign exchange loss	1,494	853
Other operating expenses	62,455	77,615
Stock-based compensation	-	649,591
	<b>1,270,129</b>	<b>2,433,272</b>
<b>Other Expenses/(Income)</b>		
Deferred income tax recovery	(138,718)	(118,002)
Interest income	(103,700)	(35,489)
	<b>(242,418)</b>	<b>(153,491)</b>
<b>Net loss and comprehensive loss</b>	<b>1,027,711</b>	<b>2,279,781</b>
Loss per share - basic & diluted	<b>0.060</b>	<b>0.139</b>
Weighted average number of shares outstanding	<b>17,043,488</b>	<b>16,383,273</b>

The accompanying notes form an integral part of the financial statements.

**GRAPHANO ENERGY LTD.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED JULY 31, 2023 AND 2022**  
**(Audited, expressed in Canadian dollars)**

<b>For the year ended,</b>	<b>July 31, 2023</b>	<b>July 31, 2022</b>
	<b>\$</b>	<b>\$</b>
<b>Cash used in operating activities</b>		
Net loss for the period	(1,027,711)	(2,279,781)
<i>Adjustments for items not involving cash:</i>		
Stock based compensation	-	649,591
Shares issued for Exploration properties	11,000	60,875
Reversal of Flow through share liability	(138,718)	(118,002)
<i>Changes in non-cash working capital items:</i>		
Receivables and other	(44,604)	(191,050)
Prepayments and other receivables	(42,902)	(85,935)
Accounts payable and accrued liabilities	(30,143)	49,045
	<b>(1,273,078)</b>	<b>(1,915,257)</b>
<b>Cash used in investing activities</b>	-	-
<b>Cash flows from financing activities</b>		
Proceeds from private placement	-	5,127,169
Warrants exercised	-	142,000
Loans and advances	-	(4,097,169)
	-	1,172,000
Increase (decrease) in cash and cash equivalents	(1,273,078)	(743,257)
Cash and cash equivalents, beginning of the period	3,353,722	4,096,979
<b>Cash and cash equivalents, end of the period</b>	<b>2,080,644</b>	<b>3,353,722</b>

The accompanying notes form an integral part of the financial statements.

**GRAPHANO ENERGY LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JULY 31, 2023 AND 2022**  
**(Audited, expressed in Canadian dollars)**

**1. GENERAL INFORMATION**

Graphano Energy Ltd (the "Company", "Graphano" or "GEL") was incorporated as a private company by Certificate of Incorporation issued pursuant to the provisions of the *Business Corporation Act* (British Columbia) on October 5, 2020 by its then parent company, Manganese X Energy ("MN"). It is a mining company that is focused on evaluating, acquiring and developing graphite resources with potential—from exploration to production.

The Company's shares were accepted for listing in September 2021 and are listed under the symbol 'GEL' on the TSX Venture Exchange (the "Exchange"), '97G0' on the Frankfurt Exchange and 'GELEF' on the OTCQB Marketplace in the United States. The registered office of the Company is located at 1000 - 595 Burrard Street, Vancouver, British Columbia, and the Company maintains a business office at 120 Carlton Street, Suite 219, Toronto, Ontario.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 24, 2023.

**2. GOING CONCERN DISCLOSURE**

The business of mining exploration 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 properties 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 to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. Although the Company has taken steps to verify title to the properties on which it is conducting exploration and 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 unregistered prior agreements, aboriginal claims and non-compliance with regulatory requirements.

The ability of the Company to continue as a going concern (as is assumed in the presentation of these statements) is uncertain and is dependent upon its ability to fund its working capital, complete the development of its explorations, and eventually to generate positive cash flows from operations. Management may explore alternative possible means to assist in its development, including joint ventures, debt and equity financings, and merger opportunities.

Several adverse conditions and events cast substantial doubt upon the validity of this assumption. Graphano is not currently generating any revenue from its operations. For the year ended July 31, 2023, the Company recorded a net comprehensive loss of \$1,027,711 and had an accumulated deficit of \$4,089,935 but a positive shareholders' equity of \$2,420,233 and cash and GICs of \$15,644 and \$2,065,000, respectively. Management is of the opinion that the Company has enough funds to operate for the next 12-month period without the need to raise additional capital.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

**GRAPHANO ENERGY LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JULY 31, 2023 AND 2022**  
**(Audited, expressed in Canadian dollars)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of Compliance**

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and effective as of July 31, 2023.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. These financial statements of the Company have been prepared using historical costs and fair values of certain items. Items measured at fair value include cash and cash equivalents, warrants, and share based payments.

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

**(b) Basis of Measurement**

These financial statements have been prepared on an historical cost basis using the accrual basis of accounting except for cash flow information.

**(c) Functional and Presentation Currency**

The Company's functional and presentation currency is the Canadian dollar ("\$").

**(d) Cash and Cash Equivalents**

Cash and cash equivalents consists of cash, demand deposits and cashable high-interest savings vehicles.

**(e) Prepaid financing costs:**

Prepaid financing costs will be netted against the proceeds of the related financings when the Subscription Receipts are converted to Units.

**(f) Impairment of Non-Financial Assets**

The Company's tangible assets are reviewed for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated. Long-lived assets that are not amortized are subject to an annual impairment assessment.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating, or other logical unit, exceeds its recoverable amount. A "cash-generating unit" is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company considers each mineral property to be a "cash-generating unit". Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

**GRAPHANO ENERGY LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JULY 31, 2023 AND 2022**  
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The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. 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. 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.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

**(g) Share-based Payments**

The Company may grant stock options to buy common shares of the Company to directors, officers, employees and services providers. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of share purchase options granted is recognized as an expense or charged to an asset as appropriate, with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those usually performed by a direct employee.

The fair value for share purchase options granted to employees or those providing services similar to those provided by a direct employee is measured at the grant date and each tranche is recognized using the accelerated method basis over the period during which the share purchase options vest. The fair value of the share purchase options granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the share purchase options were granted.

The fair value for share purchase options granted to non-employees for services provided is measured at the date the services are received. The fair value of the share purchase options granted is measured at the fair value of the services received, unless the fair value of services received cannot be estimated reliably, in which case the fair value of the share purchase options is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the share purchase options were granted.

**(h) Income Taxes**

Income tax on the profit or loss consists of current and deferred tax. Income tax expense 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 periods.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

**GRAPHANO ENERGY LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
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The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit;
- goodwill not deductible for tax purposes; and
- investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

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.

**(i) Loss per Share**

Loss per share is computed by dividing the net loss attributable to common shareholders by the weighted average number of shares outstanding during the period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

**(j) Comprehensive Loss**

Comprehensive loss is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in net profit such as unrealized gains or losses on fair value through other comprehensive income, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive loss, components of other comprehensive income and cumulative translation adjustments are presented in the statement of comprehensive loss and the statement of changes in shareholders equity.

**(k) Financial Instruments**

The Company does not have any derivative financial instruments.

**Financial assets**

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI") or amortized cost. The Company determines the classification of financial assets at initial recognition.

**GRAPHANO ENERGY LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JULY 31, 2023 AND 2022**  
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**Financial assets at Fair-value through profit or loss**

Financial instruments classified as fair value through profit and loss are reported at fair value at each reporting date, and any change in fair value is recognized in the statement of operations in the period during which the change occurs. Realized and unrealized gains or losses from assets held at FVPTL are included in losses in the period in which they arise.

**Financial assets at Fair-value through other comprehensive income**

Financial assets carried at FVTOCI are initially recorded at fair value plus transaction costs with all subsequent changes in fair value recognized in other comprehensive income (loss). For investments in equity instruments that are not held for trading, the Company can make an irrevocable election (on an instrument-by-instrument bases) at initial recognition to classify them as FVTOCI. On the disposal of the investment, the cumulative change in fair value remains in other comprehensive income (loss) and is not recycled to profit or loss.

**Financial assets at amortized cost**

Financial assets are classified at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. The Company's accounts receivable are recorded at amortized cost as they meet the required criteria. A provision would be recorded based on the expected credit losses for the financial asset and reflects changes in the expected credit losses at each reporting period. None is presently expected as the receivable amount is from governments in Canada.

**Financial liabilities**

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost, unless they are required to be measured at FVTPL (such as derivatives) or the Company has elected to measure at FVTPL. The Company's financial liabilities include trade and other payables which are classified at amortized cost.

**Exploration and evaluation assets**

The Company is in the exploration stage with respect to its investment in mineral claims. The Company follows the practice of expensing all costs relating to the acquisition of, exploration for, and development of mineral claims until the receipt of a feasibility study confirming the economic viability of the project. Although the Company has taken steps to verify the title to mineral properties in which it has an interest in accordance with general industry standards, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and, as such, title may be affected.

**Flow-through shares**

The Company will, from time to time, issue flow-through common shares to finance a portion of its exploration program. Pursuant to the terms of the flow-through share subscription agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders and the premium liability is reversed. The reversal of the premium liability and the deferred tax liability are recognized as tax recoveries to the extent that suitable deferred tax assets are available.

**GRAPHANO ENERGY LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JULY 31, 2023 AND 2022**  
**(Audited, expressed in Canadian dollars)**

**Impairment**

IFRS 9 requires an ‘expected credit loss’ model to be applied which requires a loss allowance to be recognized based on expected credit losses (none presently). This applies to financial assets measured at amortized cost. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in initial recognition.

**Fair value hierarchy:**

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to the valuation technique used to measure fair value as per IFRS 7. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company has valued all of its financial instruments using Level 1 measurements.

**(I) Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance expense (“notional interest”).

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic benefits will be required, the provision is reversed. The Company presently does not have any amounts considered to be provisions.

**4. SUMMARY OF ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and notes. By their nature, these estimates, judgments and assumptions are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The more significant areas are as follows:

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**Critical accounting estimates**

Deferred income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values. Deferred income tax assets also result from unused loss carry-forwards and other deductions. The valuation of Deferred income tax assets is adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

**Critical accounting judgments**

The following accounting policies involve judgments or assessments made by management:

- The determination of categories of financial assets and financial liabilities;
- The determination of a cash-generating or, other logical unit for assessing and testing impairment.
- The determination of when an exploration and evaluation property becomes a development property.

**5. FUTURE ACCOUNTING PRONOUNCEMENTS**

The following standards had been issued but not yet adopted at the date of approval of Financial Statements for year ended July 31, 2023.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined; however, early adoption is permitted.

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Earlier application is permitted. The Company plans to adopt the new standard retrospectively on the required effective date.

The amendments are not expected to have an impact on the Company’s financial statements.

**6. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are as follows:

	<b>July 31, 2023</b>	July 31, 2022
	\$	\$
Cash Canadian banks	<b>15,644</b>	36,868
Cash held in Solicitors' Trust Account(s)	-	16,854
GIC's	<b>2,065,000</b>	3,300,000
	<b>2,080,644</b>	3,353,722

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The GIC's are issued by a major Canadian Chartered Bank.

## **7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Trade payables as at July 31, 2023, are \$24,902. Accounts payable includes \$2,036 due to related parties (see Note 10).

## **8. SHARE CAPITAL**

### **A Authorized share capital**

An unlimited number of common shares, without par value.

An unlimited number of preferred shares (note: none issued as of July 31, 2023).

### **B Common Shares Issued**

- a) On September 3, 2021 the Company consolidated its shares on a 1:6.5 basis.
- b) On September 1, 2021, the Company issued 76,923 post consolidation common shares to each of Lawrence Nemeth and Geomap Exploration Inc. at \$0.325 per share to repurchase the royalty they previously held on the Lac Aux Bouleaux graphite property. The property is now free of royalty interests and held 100% by the Company.

On December 23, 2021, the Company issued 1,562,500 Flow through units ("FT Unit") at a price of \$0.80 per FT Unit for aggregate gross proceeds of \$1,250,000. Each FT Unit consists of one common share of the Company and one-half of one common share purchase warrant (a "Warrant") of the Company, whereby each whole Warrant of the Company entitles the holder thereof to purchase a common share of the Company at an exercise price of \$1.10 until December 23, 2023. In connection with the Offering, the Company paid a cash finder's fee of \$75,000, representing 6% of the Proceeds raised from investors introduced to the Company by GloRes Securities Inc., and issued an aggregate of 93,750 finders' warrants, representing 6% of the number of FT Units sold under the Offering. Each finder's warrant is exercisable into a Share at an exercise price of \$1.10 until December 23, 2023. The fair value of the warrants at issue date (including the finder's warrants) was \$267,294, as calculated using a Black-Scholes option pricing model with the following assumptions: 24 months expected average life; share price of \$0.53; 125% expected volatility (estimated on assumed volatility of 125%, as 'Graphano' did not have volatility history), risk free interest rate of 1.04%; and an expected dividend yield of 0%. Volatility is estimated based on the experience of similar companies owing to the Company's very short trading history.

The common shares were issued at a premium on the date of issuance resulting in a flow through share liability in the amount of \$256,720. The liability was being reversed on a pro-rata basis as the funds were expended, and as a result of the Company completing the required expenditures as of December 31, 2022, the liability was fully reversed as at July 31, 2023.

There were 50,000 shares issued at \$0.22 in June 2023 in connection with mineral claims purchase agreement for the Standard mine (see Note 9 below for more details).

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**C Share purchase warrants**

The movement in the number of warrants outstanding and their weighted average exercise prices are as follows:

	Warrants #	Weighted average exercise price \$
<b>Balance - July 31, 2021</b>	-	-
Re: Private Placement	12,607,019	0.52
Re: Private Placement	781,250	1.10
Warrants issued	93,750	1.10
Warrants exercised	(188,462)	0.52
Warrants exercised	(84,615)	0.52
<b>Balance - July 31, 2022</b>	<b>13,208,942</b>	<b>0.56</b>
	-	-
<b>Balance - July 31, 2023</b>	<b>13,208,942</b>	<b>0.56</b>

The fair value of the 12,607,019 (81,945,660 pre-consolidation) warrants at issue date was \$1,424,038, as calculated using a Black-Scholes option pricing model with the following assumptions: 24 months expected average life; share price of \$0.05/.325 post consolidation; strike price of \$0.52; 125% expected volatility (based on a peer company, as 'Graphano' did not have volatility history); risk free interest rate of 0.31%; and an expected dividend yield of 0%. The allocation of the total proceeds to share capital and warrant reserve was effected by pro-rating the then current trading value of the shares with the Black-Scholes calculated value of the warrants over the total purchase consideration. During the current year the expiry date of these warrants was extended by 2 years to August 27, 2025. All other terms of the Warrants, including the post-consolidation exercise price, remained the same.

The fair value of the 781,250 warrants at issue date was \$243,280, as calculated using a Black-Scholes option pricing model with the following assumptions: 24 months expected average life; share price of \$0.53; strike price of \$1.10; 125% expected volatility (as above); risk free interest rate of 1.04%; and an expected dividend yield of 0%. The allocation of the total proceeds to share capital and warrant reserve was effected by pro-rating the then current trading value of the shares with the Black-Scholes calculated value of the warrants over the total purchase consideration.

The fair value of the 93,750 warrants issued as part of Units with a strike price of \$1.10 was \$24,015, as calculated using a Black-Scholes option pricing model with the following assumptions: 24 months expected average life; share price of \$0.53; strike price of \$1.10; 125% expected volatility (as above); risk free interest rate of 1.04%; and an expected dividend yield of 0% and pro-rated similarly as above.

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As at July 31, 2023 and 2022, the outstanding share purchase warrants were as follows:

Exercise price	Number outstanding and exercisable	Weighted average remaining contractual life (years)	Expiry dates
\$0.52	12,333,942	2.08	Aug 2025
\$1.10	781,250	0.38	Dec 2023
\$1.10	93,750	0.38	Dec 2023
<b>Balance - July 31, 2023</b>		<b>13,208,942</b>	<b>1.97</b>

Exercise price	Number outstanding and exercisable	Weighted average remaining contractual life (years)	Expiry dates
\$0.52	12,333,948	1.1	Aug 2023
\$1.10	781,250	1.4	Dec 2023
\$1.10	93,750	1.4	Dec 2023
<b>Balance - July 31, 2022</b>		<b>13,208,948</b>	<b>1.1</b>

#### D Stock options

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. As such, the Plan is subject to review and approval by shareholders annually at the Annual General Meeting. Under the plan, the exercise price of each option equals the market price of the Company's stock, not less than the previous day's Closing Price, as calculated on the date of grant. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors. The option activity, under the share option plan and information concerning outstanding and exercisable options is as follows:

	No. of Options Vested	Weighted Average Exercise Price (\$)
<b>Balance - July 31, 2021</b>	-	-
Options issued	1,500,000	0.50
<b>Balance - July 31, 2022</b>	<b>1,500,000</b>	<b>0.50</b>
-	-	-
<b>Balance - July 31, 2023</b>	<b>1,500,000</b>	<b>0.50</b>

The fair value of the 1,500,000 stock options at the issue date (November 11, 2021) was \$649,591 calculated using the Black-Scholes option pricing model with the following assumptions: 60 months expected average life; share price and strike price of \$0.50; 132.80% expected volatility (estimated based on a peer company, as 'Graphano' did not have volatility history); risk free interest rate of 1.10%; and an expected dividend yield of 0%.

As at July 31, 2023 and 2022, stock options issued and outstanding are as follows:

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	Options granted	Options exercisable	Weighted Average Exercise Price (\$)	Expiry dates
	1,500,000	1,500,000	0.50	Nov 2026
<b>Balance - July 31, 2023</b>	<b>1,500,000</b>	<b>1,500,000</b>	<b>0.50</b>	

	Options granted	Options exercisable	Weighted Average Exercise Price (\$)	Expiry dates
	1,500,000	1,500,000	0.50	Nov 2026
<b>Balance - July 31, 2022</b>	<b>1,500,000</b>	<b>1,500,000</b>	<b>0.50</b>	

## 9. EXPLORATION PROPERTIES

### Lac Aux Bouleaux Property

The Company acquired its Lac Aux Bouleaux graphite property (the “LAB Graphite Property”) project from its former parent Company, Manganese X Energy Corp. (“MN”), which entered into an arrangement agreement (the “Arrangement Agreement”) with its wholly-owned subsidiary to effect the divesting out of the LAB Graphite Property project to its shareholders through GEL. The Arrangement resulted in the creation of Graphano as an independent public company, which is initially focused on the exploration of the LAB Graphite Property for graphite. On September 1, 2021, the Company issued 76,923 common shares to each of Lawrence Nemeth and Geomap Exploration Inc. at \$0.325 per share to purchase the royalty they previously held on the Lac Aux Bouleaux graphite property. The property is now free of royalty interests and held 100% by the Company.

### Standard Graphite Mine

During the year the Company entered into an option agreement pursuant to which the Company has been granted the exclusive right and option to acquire 100% of the Standard graphite historical mine (“Standard”) subject to a 2% NSR, located 32 km northeast of the Company’s Lac Aux Bouleaux graphite project. The Option Agreement covers six claims totalling 355 hectares. At the closing of the Option Agreement the Vendor will receive 50,000 common shares of the Company (issued). In order to complete the option agreement and acquire a 100% interest in the property the Company is required to issue/pay the following: a further 50,000 common shares on the first anniversary (issued) and a further 100,000 common shares and \$20,000 in cash on the second anniversary. The Company will have the option to purchase the royalty for \$600,000 cash at any time.

In addition to the claims noted above the Company has staked two additional claims nears its Lac Aux Bouleaux Property.

## 10. RELATED PARTY TRANSACTIONS AND BALANCES

In addition to share issuances to which many of its Insiders were Subscribers, transactions with related parties were as follows:

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<b>For the year ended July 31,</b>	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Management and other fees paid to companies controlled by Officers and Directors	<b>306,000</b>	347,700
Share issue costs	-	145,000
Exploration expenditures paid to an officer as geological consultant to the company	<b>44,572</b>	-
Legal and professional fees paid to a firm of which Company's Secretary is a partner	<b>3,665</b>	-
Stock-Based compensation expense - directors and officers	-	562,979
	<b>354,237</b>	1,055,679

Amounts payable to related parties included in the non-current liabilities and in the accounts payable and accrued liabilities were as follows:

<b>Included in the accounts payable and accrued liabilities</b>	<b>July 31, 2023</b>	<b>July 31, 2022</b>
	<b>\$</b>	<b>\$</b>
Exploration expenditures due to directors	-	2,013
Owing to a legal firm in which the corporate secretary is a partner	<b>2,036</b>	-
	<b>2,036</b>	2,013

## 11. INCOME TAX

The Company's effective income tax rate differs from the amount that would be computed by applying the combined Federal and Provincial statutory tax rate of 26.50% (2022 - 26.50%) to the net loss for the year for reasons noted below:

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Income tax recovery based on statutory rate	<b>272,343</b>	<b>672,512</b>
Actual provision per financial statements		
Non-deductible items for tax purposes	<b>(200,830)</b>	<b>(373,380)</b>
Valuation allowance	<b>67,205</b>	<b>(181,130)</b>
Net income tax recovery (expense)	<b>138,718</b>	<b>118,002</b>

The Company has incurred tax losses of \$705,168 (2022 - \$435,307) which may be used to reduce future taxable income. This potential benefit will expire in the fiscal years ended September 30, if unused, as follows:

	<b>Amount</b>
	<b>\$</b>
2041	6,190
2042	429,117
2043	269,861
	705,168

In addition to the above losses the Company has available approximately 1,527,000 in cumulative exploration expenditures and cumulative development expenditures which can be used to offset future taxable income.

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The components of future income tax asset (liability) are as noted below:

	2023 \$	2022 \$
Non-capital losses	186,869	115,462
Exploration and evaluation assets and other	404,657	205,707
Valuation allowance	(591,526)	(321,169)
Net deferred income tax liability	-	-

## 12. EARNINGS PER SHARE (“EPS”)

### (a) Basic EPS

Basic EPS is computed by dividing net income for a period by the weighted average number of common shares outstanding during that period.

### (b) Diluted EPS

Diluted EPS is computed by dividing net income for a period by the diluted number of common shares. Diluted common shares includes the effects of instruments, such as share options, which could cause the number of common shares outstanding to increase.

The Company reported net losses for the year ended July 31, 2023; the Company has accordingly presented basic and diluted EPS, which are the same, on a single line in the statements of comprehensive loss. Diluted loss per share did not include the effect of share purchase options and warrants as they would be anti-dilutive.

## 13. CAPITAL MANAGEMENT

The Company considers its capital to include all components of Shareholders’ Equity. The Company currently manages its capital structure and makes adjustments to it, based on cash and other resources expected to be available to the Company, and required by the Company in order to support the planned exploration and development of mineral property interests and meet its obligations as they fall due. Management has not established quantitative targets for its capital structure. Capital needs are reviewed on a regular basis by management.

The Company, beyond its present cash resources, currently is dependent on externally provided equity financing to fund its future activities. In order to carry out planned exploration and development and fund administrative costs, the Company will allocate its existing capital and plans to raise additional amounts as needed through equity and related party advances if available. Management reviews the capital management approach on an ongoing basis and believes that this approach is reasonable for the current state of the markets and its place in its activities.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 12 months. As of July 31, 2023, the Company appears to be compliant with the policies of the TSXV.

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Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the periods covered in these statements.

#### **14. FINANCIAL INSTRUMENTS**

At July 31, 2023, the Company's financial instruments include cash and cash equivalents, other receivable, related party receivables and accounts payable for which there are no differences in the carrying values and fair values, due to their short-term nature. The types of risk exposure are detailed below.

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents are measured using Level 1 inputs, the warrant liability and other captions above are measured using Level 2 inputs.

#### **15. FINANCIAL RISK FACTORS**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow and fair value interest rate risk); credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company does not use derivative financial instruments to hedge these risks.

##### ***Market risk***

***Foreign exchange risk:*** the Company conduct its business primarily in Canada and is therefore exposed to only a nominal amount of financial risk that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The company recorded a foreign exchange loss of \$1,494 related to its foreign currency transactions for the year ended July 31, 2023.

***Commodity price risk:*** while the value of the Company's core mineral asset is related to the price of graphite (natural and synthetic) and other battery metals (e.g., lithium), the Company currently does not have any operating mines and hence does not have any commodity-based risks in respect of its operational activities. Graphite and other battery metals prices have historically fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative trading activities, electric vehicles present and projected sales, advances in technology, prices and availability of substitutes, actions taken by governments, global economic and political developments (including, global events such as the COVID-19 pandemic) and certain other factors. Adverse movements in the prices of graphite and other battery metals may also negatively affect the Company's ability to raise capital and meet its financial commitments.

***Cash flow and fair value interest rate risk:*** the Company could be exposed to fluctuations in its future cash flows arising from changes in interest rates through variable rate financial assets and liabilities. Other liabilities

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negotiated at a fixed rate could expose the Company to fair value interest rate risk. The Company does not hold or owe any interest-bearing debt.

**Credit risk**

Credit risk arises from cash with banks and financial institutions and amounts receivable. The Company reduces this risk by dealing only with the most creditworthy financial institutions but may be exposed to such risk with respect to other counterparties. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through Cash and cash equivalents, and receivables but minimizes such risks by dealing with a major Schedule A Canadian Chartered Bank and its solicitor's Trust account and monitoring its modest receivables, most of which are from Canadian Governments in respect of Sales Taxes refundable.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuance. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. The liquidity risk for the junior resource sector which the Company is in is usually considered high, but the Company's present cash and cash equivalents resources appear to have effectively eliminated this risk for now.

**16. SUBSEQUENT EVENTS**

There are no significant or material events to report since July 31, 2023 and the Company will continue to issue press releases on all material events on a timely basis.