

Black Swan Graphene Inc.

Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

**(Expressed in Canadian Dollars)
(Unaudited)**

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the interim consolidated financial statements have not been reviewed by an auditor.

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

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada (CPA Canada) for a review of interim financial statements by an entity's auditor.

Black Swan Graphene Inc.

Statements of Financial Position

Expressed in Canadian Dollars - Unaudited

As at:		September 30, 2022	December 31, 2021
	Note	\$	\$
ASSETS			
Current			
Cash		10,115,904	4,899,620
Amounts receivable		159,319	38,598
Prepaid expenses		3,607	20,691
Total current assets		10,278,830	4,958,909
Non-current assets			
Intangible assets	4	8,434,518	9,143,966
Total assets		18,713,348	14,102,875
LIABILITIES			
Current			
Accounts payable and accrued liabilities		327,151	100,000
Total liabilities		327,151	100,000
SHAREHOLDERS' EQUITY			
Share capital	5	25,697,912	14,539,384
Contributed surplus		390,128	390,128
Option reserve	5	1,014,183	1,014,183
Deficit		(8,716,027)	(1,940,820)
Total shareholders' equity		18,386,197	14,002,875
Total liabilities and shareholders' equity		18,713,348	14,102,875

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 9)

Approved on behalf of the Board of Directors:

Signed: "Simon Marcotte", Director

Signed: "Peter Damouni", Director

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

Black Swan Graphene Inc.
Statements of Loss and Comprehensive Loss
Expressed in Canadian Dollars - Unaudited

For the period ended:	Note	Three - Months	Three - Months	Nine - Months	Nine - Months
		Ended	Ended	Ended	Ended
		September 30,	September 30,	September 30,	September 30,
		2022	2021	2022	2021
		\$	\$	\$	\$
Expenses					
Management, director and consulting fees	8	198,000	-	570,000	-
Project development expenses		76,258	-	223,838	-
Amortization of intangible assets	4	236,482	390,888	709,448	390,888
Professional fees		513,543	-	723,317	-
Investor relations		67,339	-	67,339	-
Office and general		15,822	58	27,557	58
Reverse acquisition transaction costs	5	4,478,164	-	4,478,164	-
Interest income		(24,454)	-	(24,454)	-
Net loss and comprehensive loss for the period		(5,561,154)	(390,946)	(6,775,208)	(390,946)
Basic and diluted loss per share		(0.02)	(0.09)	(0.03)	(0.28)
Weighted average number of common shares outstanding					
Basic and diluted		251,515,719	4,137,361	224,143,367	1,394,276

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

Black Swan Graphene Inc.
Statements of Changes in Shareholders' Equity
Expressed in Canadian Dollars - Unaudited

	Common Shares #	Share Capital \$	Contributed Surplus \$	Option Reserve \$	Deficit \$	Shareholders' Equity \$
Balance, December 31, 2020	1	1	-	-	(1)	-
Private placement financings	117,799,985	7,706,200	-	-	-	7,706,200
Shares issued for patent acquisition	58,900,000	3,853,100	-	-	-	3,853,100
Contribution from a parent entity	-	-	390,128	-	-	390,128
Loss for the period	-	-	-	-	75,634	75,634
Balance, September 30, 2021	176,699,985	11,559,300	390,128	-	75,634	12,025,062
Balance, December 31, 2021	210,230,343	14,539,384	390,128	1,014,183	(1,940,819)	14,002,875
Private placement financings	46,669,665	7,000,450	-	-	-	7,000,450
Share issue costs	-	(107,100)	-	-	-	(107,100)
Stock-based compensation modification	-	-	-	-	-	-
Reverse takeover transaction	17,707,523	2,656,128	-	-	-	2,656,129
Transaction costs - Finder's fee	10,727,000	1,609,050	-	-	-	1,609,050
Loss for the period	-	-	-	-	(6,775,208)	(6,775,208)
Balance, September 30, 2022	285,334,531	25,697,912	390,128	1,014,183	(8,716,027)	18,386,197

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

Black Swan Graphene Inc.

Statements of Cash Flows

Expressed in Canadian Dollars - Unaudited

For the period ended:	September 30, 2022	September 30, 2021
	\$	\$
Cash (used in)/provided by:		
Operating activities		
Net loss	(5,166,158)	(390,946)
Items not involving cash		
Share based compensation	-	-
Amortization of patents	709,448	75,576
Transaction costs	2,869,114	
Changes in non-cash working capital		
Change in amounts receivable	(120,721)	200
Change in prepaid expenses	17,085	-
Change in accounts payable and accrued liabilities	(976)	-
Net cash flow (used in) operating activities	(1,692,207)	(315,170)
Investing activities		
Cash acquired from reverse takeover transaction	15,141	-
Acquisition of patents	-	(4,900,738)
Net cash flow provided by/(used in) investing activities	15,141	(4,900,738)
Financing activities		
Proceeds from private placement of common shares	-	7,706,200
Proceeds from subscription receipt issuance	7,000,450	-
Payment of share issue costs related to subscription receipts	(107,100)	-
Net cash flow provided by financing activities	6,893,350	7,706,200
Net (decrease) increase in cash during the period	5,216,284	2,490,292
Cash, beginning of period	4,899,620	-
Cash, end of period	10,115,904	2,490,292

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

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

Black Swan Graphene Inc., (formerly Dragonfly Capital Corp.) (the “Company”, or “Black Swan”) is focused on the large scale production and commercialization of patented high-performance and low-cost graphene products aimed at several industrial sectors, including concrete, polymers, Li-ion batteries, and others, which are expected to require large volumes of graphene and, in turn, require large volumes of graphite.

The Company is listed on the TSXV as a Tier 2 Industrial Issuer under the name “Black Swan Graphene Inc.” The Common Shares trade on the TSXV under the symbol “SWAN”.

On August 2, 2022, Black Swan closed its Qualifying Transaction (as such term is defined in TSX Venture Exchange (the “TSXV”) Policy 2.4 – Capital Pool Companies) with Black Swan Graphene Inc. (“PrivCo”), a private Ontario company, pursuant to the terms of a share exchange agreement dated January 17, 2022 as amended, with PrivCo and the shareholders of PrivCo (the “Transaction”). In connection with the Transaction, the Company changed its name from “Dragonfly Capital Corp.” to “Black Swan Graphene Inc.” The Transaction was completed by way of a share exchange whereby the Company acquired all of the outstanding common shares in the capital of PrivCo (each, a “PrivCo Share”) from the shareholders of PrivCo (collectively, the “PrivCo Shareholders”) in consideration for the issuance of an aggregate 210,230,343 common shares (each, a “Common Share”) in the capital of the Company to the PrivCo Shareholders, at a deemed price of \$0.15 per Share. In addition, the 18,620,000 options to purchase PrivCo Shares (each, a “PrivCo Option”) which were outstanding immediately prior to closing of the Transaction were cancelled and the holders thereof were granted an aggregate of 15,175,000 options to purchase Common Shares (each, an “Option”) and 7,875,000 restricted share units (each, a “RSU”) of the Company, under the terms of an omnibus equity incentive plan which was adopted by the board of directors of the Company immediately after closing the Transaction.

The Company will have future needs for equity financing for working capital and the development of its business. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

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

2. BASIS OF PRESENTATION

Statement of compliance

These interim financial statements for the nine months ended September 30, 2022, including comparatives, have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting. They do not include all of the information required by IFRS for annual financial statements and should be read in conjunction with the financial statements for the fiscal year ended December 31, 2021.

Basis of presentation

These financial statements have been prepared using the accrual basis of accounting, except for cash flow information, and have been prepared using the historical cost basis. Furthermore, these financial statements

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

are presented in Canadian dollars, which is the functional currency of the Company. All values are rounded to the nearest dollar.

Approval of the financial statements

These financial statements of the Company for the period ended September 30, 2022 were reviewed, approved and authorized for issue by the Board of Directors of the Company on November 29, 2022.

3. SIGNIFICANT ACCOUNTING POLICIES

Critical judgements and estimation uncertainties

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based share awards is determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. The value of shares of a private entity are generally determined based on the previous private placement finance price. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Intangible assets

The Company makes use of experience and assumptions in estimating the useful lives and residual values of intangible assets. Management reviews annually at December 31, whether any indications of impairment exist for intangible assets. Information that the Company considers includes changes in the market, economic and legal environment in which the Company operates as well as internal sources of information. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's intangible assets, costs to sell the assets and the appropriate discount rate. Changes in projected future revenues, estimated future costs of sales, estimated future capital costs, and/or adverse current economics are some factors that could result in a write-down of the carrying amounts of the intangible assets.

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events. See Notes 1 and 9.

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments

Financial Assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as “financial assets at fair value”, as either fair value through profit or loss (“FVPL”) or fair value through other comprehensive income (“FVOCI”), and “financial assets at amortized costs”, as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company’s business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Subsequent measurement- financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in the statements of loss. The Company’s cash and amounts receivable are recorded at amortized cost.

Subsequent measurement – financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the statements of financial position with changes in fair value recognized in other income or expense in the statements of earnings (loss). The Company does not measure any financial assets at FVPL.

Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the statements of comprehensive income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Company's only financial assets subject to impairment are amounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, amounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases, and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Financial Liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities, which are measured at amortized cost. All financial liabilities are recognized initially at fair value.

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in the statements of loss. The Company's accounts payable and accrued liabilities are recorded at amortized cost.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the statement of loss.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Common shares

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Foreign currency translation

The presentation and functional currency of the Company is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Exchange differences are recognized in operations in the period in which they arise.

Income taxes

Any income tax on profit or loss for the period presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income/loss, in which case the income tax is recognized in equity or other comprehensive income/loss.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, on a non-discounted basis using tax rates at the end of the reporting period applicable to the period of expected realization. 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.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded vesting basis over the period during which the employee becomes unconditionally entitled to equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For those options and warrants that expire after vesting, the recorded value is transferred to deficit.

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share

The Company presents basic and diluted loss per share data 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. The diluted loss per share calculation assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. 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. All the Company's outstanding options were anti-dilutive to September 30, 2022.

Impairment of non-financial assets

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is charged to loss to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in loss.

Intangible assets

Intangible assets that are acquired separately are initially recorded at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses, if applicable. The useful life of intangible assets is assessed as being either finite or indefinite. Fixed-life intangible assets are amortized over their useful life and are tested for impairment whenever there is any indication that the intangible asset may have depreciated. The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at each closing date. Changes in the expected useful life or in the consumption of future economic benefits of the asset are considered to be factors modifying the depreciation period or method, if any, and are treated as changes in accounting estimates. Depreciation expense for finite life intangible assets is recognized in the statements of loss and comprehensive loss.

Identifiable intangible assets are recorded at cost and are amortized using a straight-line basis over 10 years.

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by IASB or IFRIC that are mandatory for accounting periods beginning on or after December 1, 2021. Updates that are not applicable or are not consequential to the Company have been excluded thereof. The following have not yet been adopted and are being evaluated to determine their impact on the financial statements.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was revised in January 2020 and July 2020 to (i) clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months and make explicit that only rights in place “at the end of the reporting period” should affect the classification of a liability; (ii) clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and (iii) make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

4. INTANGIBLE ASSETS

The Company acquired certain intangible asset related to a patented graphene processing technology from Thomas Swan, and a license from Trinity College Dublin for the production of exfoliated defect-free, non-oxidized 2-D materials in large quantities (the “TCD License”), which license was previously held by Thomas Swan. In addition, Black Swan Graphene and Thomas Swan have entered into a License Agreement and a Sub-License Agreement, pursuant to which Black Swan Graphene has granted Thomas Swan a license to graphene processing technology for production of up to 1,000 tonnes per year and Black Swan Graphene has sub-licensed the TCD License to Thomas Swan, respectively.

The TCD License is subject to an incremental royalty rate ranging from 3.0% up to 9.0% of net sales when greater than €20,000,000 (\$27,345,000) and have lives of 15 or 20 years from the commencement of commercial sales related to such licenses.

To acquire the licenses, the Company paid Thomas Swan £3,000,000 (\$5,216,050) and issued 3,875,000 common shares of the Company valued at \$3,853,100, based on the value of the common shares in the previous private placement financing. Mason Graphite Inc., (Note 8) incurred transaction fees totaling \$390,128, which have been recorded within intangible assets and as a contribution from owner and presented within equity.

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

5. REVERSE TAKEOVER TRANSACTION

To record the Transaction, whereby under acquisition accounting rules, Black Swan acquired Dragonfly. The Transaction is assumed to constitute an asset acquisition, as Dragonfly did not meet the definition of a business in accordance with IFRS 3. The number of shares issued to Dragonfly shareholders was 17,707,523. This includes 16,311,000 Dragonfly shares outstanding as at January 31, 2022, and 1,396,523 Dragonfly issued in conjunction with certain debt settlement arrangements that took place subsequent to January 31, 2022 and prior to the Transaction. The value of the shares issued for the purchase price has been based on the price of the shares in the subscription receipt financing as the concurrent subscription receipt price was assessed as being the best estimate of the fair value of the shares.

As part of the acquisition, the Company acquired a working capital deficiency of \$212,986. Transaction costs, being the excess of the value of the shares issued over net assets, were \$2,869,114.

In addition to the terms of the Finder's Fee Agreement, Black Swan agreed to issue 10,727,000 shares at a deemed price of \$0.15 per Resulting Issuer Share, as a finder's fee in consideration for the finder's services in facilitating the identification, negotiation and implementation of the reverse takeover of Dragonfly by Black Swan with a value of \$1,609,050.

Details of the allocation of the estimated fair values of identifiable assets acquired and liabilities assumed, and price consideration are as follows:

Consideration paid:

Shares, 16,311,000 + 1,396,523 shares valued at \$0.15	\$	2,656,128
Options, 235,849 valued at \$0.12		0
	\$	2,656,128

Purchase price allocation:

Cash	\$	15,141
Accounts payable		(228,127)
Transaction costs		2,869,114
	\$	2,656,128

6. SHARE CAPITAL

Authorized

On September 30, 2022, the authorized share capital consisted of an unlimited number of common shares, each carrying one vote.

As part of the reverse acquisition transaction (Note 1), an exchange ratio was applied whereby each share of Black Swan was exchanged for 15.2 shares. The share and per share quantities and values have been retroactively updated to reflect this share exchange ratio.

Issued and Outstanding

On September 30, 2022, the Company had 285,334,531 common shares issued.

Common share activity during the period ended September 30, 2022 is as follows:

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

6. SHARE CAPITAL (continued)

	Number of shares outstanding	Amount
	1	\$ 1
Balance, December 31, 2020		
Private placement financings	151,330,342	10,706,283
Share issue costs	-	(20,000)
Shares issued for patent acquisition	58,900,000	3,853,100
Balance, December 31, 2021	210,230,343	14,539,384
Private placement financings	46,669,665	7,000,450
Share issue costs	-	(107,000)
Transaction costs - Finder's fee	10,727,000	1,609,050
Reverse takeover transaction	17,707,523	2,656,128
Balance, September 30, 2022	285,334,531	25,698,012

- i. In connection with the reverse acquisition transaction completed on August 2, 2022, 17,707,523 shares were issued to the former shareholders of Dragonfly Capital Corp. valued at a price of \$0.15 which was the value of common shares issued as part of the subscription receipt financing that closed as part of the closing of the reverse takeover transaction.(Note 1)
- ii. On August 2, 2022, the Company completed a non-brokered financing (“the Subscription Receipt Financing”) of 46,669,665 subscription receipts at a price of \$.15 per Subscription Receipt to raise gross proceeds of \$7,000,450. Each Subscription Receipt has been exchanged for one Common Share on completion of the reverse acquisition transaction (Note 1).
- iii. Pursuant to the terms of the Finder’s Fee Agreement, Black Swan agreed to issue 10,727,000 shares at a deemed price of \$0.15 per Resulting Issuer Share, as a finder’s fee in consideration for the finder’s services in facilitating the identification, negotiation and implementation of the reverse takeover of Dragonfly by Black Swan.
- iv. On November 8 2021, the Company completed a private placement financing by issuing 33,530,349 common shares at a price of \$.09 per share for gross proceeds of \$3,000,083. Directors and or officers subscribed for 3,352,953 common shares for gross proceeds of \$300,000.
- v. On August 26, 2021, the Company acquired a portfolio of patents from Thomas Swan through the issuance of 58,900,000 common shares valued at \$3,853,100 based on the value of the common shares in the previous private placement financing.
- vi. On July 21, 2021, the Company issued 117,799,985 common shares to Mason Graphite Inc. (Note 8) for gross proceeds of \$7,706,200.

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

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6. SHARE CAPITAL (continued)

Stock Options & Restricted Share Units

Black Swan established an equity incentive plan to be known as the Omnibus Equity Incentive Plan (as the same may be amended from time to time in accordance with its terms, (the "Plan"). The Plan permits the grant of Options to purchase common shares, Restricted Share Units, Deferred Share Units and Performance Share Units. The Plan was approved by the Board on August 2, 2022. The exercise price and vesting period of any option is fixed by the Board of Directors on the date of grant, in accordance with applicable stock exchange or other regulatory requirements, if applicable. The maximum aggregate number of common shares under option at any time under the Plan cannot exceed 10% of the issued shares.

The following schedule details stock options outstanding as at September 30, 2022:

Expiry	Exercise Price	Outstanding	Exercisable	Remaining life (years)
October 25, 2031	0.15	13,000,000	13,000,000	9.07
November 12, 2026	0.15	2,175,000	2,175,000	4.12
Balance, June 30, 2022		15,175,000	15,175,000	

On the Transaction date, outstanding options of Black Swan were cancelled and replaced with 15,175,000 options exercisable at \$0.15 per share, and 7,875,000 Restricted Share Units, vesting over one year. The cancellation and replacement of these share-based payment instruments is identified as a modification for accounting purposes in accordance with IFRS2, Share-based payment.

In accordance with modification accounting, the value of the share based payments previously outstanding was re-estimated at the modification date using the Black-Scholes option pricing model and the following assumptions: expected life of 9.6 years or 4.6 years, expected volatility of 83%, risk free interest rate of 3%, current stock price based on the price of the shares in the subscription receipt financing ((Note 3(b), as the concurrent subscription receipt price was assessed as being the best estimate of the fair value of the shares), and expected dividend yield of 0%); - the value of the share based payments outstanding after the modification were estimated at the modification date whereby: the value of options was estimated using the Black-Scholes option pricing model and the following assumptions: expected life of 9.6 years or 4.6 years, expected volatility of 83%, risk free interest rate of 3%, current stock price based on the price of the shares in the subscription receipt financing ((Note 3(b), as the concurrent subscription receipt price was assessed as being the best estimate of the fair value of the shares), and expected dividend yield of 0%); and on the value of the RSUs was estimated based on the price of the shares in the subscription receipt financing ((Note 3(b), as the concurrent subscription receipt price was assessed as being the best estimate of the fair value of the shares). Based on this analysis, it is estimated that an incremental fair value of \$600,000 results due to the modification.

This incremental fair value is less than the estimated fair value of the RSUs, and is to be recorded over the vesting period of the RSUs, with no additional expense to be recorded at the time of the modification and Transaction.

Restricted Share Units

On August 2, 2022, the Company granted 7,875,000 restricted share units ("RSU's") to Directors, Officers and Consultants of the Company. The RSU's vest immediately after a one year term.

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

7. CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of mineral properties. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to consist of common shares.

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 significant changes in the Company's approach to capital management during the periods ended September 30, 2022 and 2021.

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

8. FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Company's financial instruments include cash, restricted cash, amounts receivable, accounts payable and accrued liabilities, notes payable and subscription receipt liability. The carrying values of these financial instruments reported in the statement of financial position approximate their respective fair values due to the relatively short-term nature of these instruments. As at September 30, 2022 and 2021, the Company had no instruments to classify in the fair value hierarchy.

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

8. FINANCIAL INSTRUMENTS (continued)

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

(a) *Credit risk*

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

a. *Trade credit risk*

The Company is not exposed to significant trade credit risk.

b. *Cash*

In order to manage credit and liquidity risk the Company's policy is to invest only in highly rated investment grade instruments that have maturities of three months or less. Limits are also established based on the type of investment, the counterparty and the credit rating.

(b) *Currency risk*

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's foreign currency risk arises primarily with respect to UK sterling and US dollars from operations. Fluctuations in the exchange rates between these currencies and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

(c) *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At September 30, 2022, the Company had a cash balance of \$10,115,904 to settle current liabilities of \$327,151. The Company's trade payables have contractual maturities of less than 30 days and are subject to normal trade terms.

Black Swan Graphene Inc.

Notes to the Financial Statements

For the periods ending June 30, 2021 and June 30, 2022

Expressed in Canadian Dollars

9. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Company

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. During the nine-month period ended September 30, 2022, the remuneration of directors and other key management personnel was \$229,500 (2021 - \$324,500).

10. COMMITMENTS AND CONTINGENCIES

Management Contracts

The Company is party to certain management contracts. These contracts require payments of \$1,170,000 upon the occurrence of a change in control of the Company, as defined by each officer's respective consulting agreement. The Company is also committed to payments upon termination of \$540,000 pursuant to the terms of these contracts. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

Intangible Assets

See Note 4.

GEIC Membership Agreement

On March 9, 2022, BSG and the University of Manchester entered into the GEIC Membership Agreement, granting the Company a "Tier 2" membership in the Graphene Engineering Innovation Centre ("GEIC") established by the University. The GEIC Membership Agreement grants the Company a license to occupy a shared laboratory space and book hot desk space at the University. BSG shall retain or be passed title to all intellectual property, know-how and results generated from such collaborative projects with the University of Manchester, subject to a 5% royalty, Black Swan must pay to the University for a period of 15 years if BSG commercially exploits such intellectual property, know-how or results. Pursuant to the terms and conditions set out in the GEIC Membership Agreement, the University of Manchester may publish the results obtained from the collaborative projects.