

# **Black Swan Graphene Inc.**

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## **Interim Financial Statements**

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**For the six months ended June 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:		June 30, 2022	December 31, 2021
	Note	\$	\$
<b>ASSETS</b>			
Current			
Cash		4,125,463	4,899,620
Amounts receivable		79,481	38,598
Prepaid expenses		11,901	20,691
<b>Total current assets</b>		<b>4,216,845</b>	<b>4,958,909</b>
Non-current assets			
Intangible assets	4	8,671,000	9,143,966
<b>Total assets</b>		<b>12,887,845</b>	<b>14,102,875</b>
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities		99,025	100,000
<b>Total liabilities</b>		<b>99,025</b>	<b>100,000</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	5	14,539,384	14,539,384
Contributed surplus		390,128	390,128
Option reserve	5	1,014,183	1,014,183
Deficit		(3,154,875)	(1,940,820)
<b>Total shareholders' equity</b>		<b>12,788,820</b>	<b>14,002,875</b>
<b>Total liabilities and shareholders' equity</b>		<b>12,887,845</b>	<b>14,102,875</b>

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 9)

Subsequent events (Note 10)

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 ended		Six months ended	
		June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
		\$	\$	\$	\$
<b>Expenses</b>					
Management, director and consulting fees	8	198,000	-	372,000	-
Project development expenses		47,149	-	147,580	-
Amortization of intangible assets	4	236,482	-	472,966	-
Professional fees		175,561	-	209,774	-
Office and other		10,770	-	11,735	-
<b>Net loss and comprehensive loss for the period</b>		(667,962)	-	(1,214,055)	-
<b>Basic and diluted loss per share</b>		(0.05)	-	(0.09)	-
<b>Weighted average number of common shares outstanding</b>					
Basic and diluted		13,830,944	1	13,830,944	1

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 Share: #	Share Capital \$	Contributed Surplus \$	Option Reserve \$	Deficit \$	Shareholders' Equity \$
<b>Balance, December 31, 2020</b>	1	1	-	-	(1)	-
<b>Balance, June 30, 2021</b>	1	1	-	-	(1)	-
<b>Balance, December 31, 2021</b>	<b>13,830,944</b>	<b>14,539,384</b>	<b>390,128</b>	<b>1,014,183</b>	<b>(1,940,820)</b>	<b>14,002,875</b>
Loss for the period	-	-	-	-	(1,214,055)	(1,214,055)
<b>Balance, June 30, 2022</b>	<b>13,830,944</b>	<b>14,539,384</b>	<b>390,128</b>	<b>1,014,183</b>	<b>(3,154,875)</b>	<b>12,788,820</b>

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

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# Black Swan Graphene Inc.

## Statements of Cash Flows

Expressed in Canadian Dollars - Unaudited

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For the period ended:	June 30, 2022	June 30, 2021
	\$	\$
<b>Cash (used in)/provided by:</b>		
<b>Operating activities</b>		
Net loss	(1,214,055)	-
Items not involving cash		
Share based compensation	-	-
Amortization of patents	472,966	-
Changes in non-cash working capital		
Change in amounts receivable	(40,883)	-
Change in prepaid expenses	8,789	-
Change in accounts payable and accrued liabilities	(975)	-
<b>Net cash flow (used in) operating activities</b>	<b>(774,157)</b>	<b>-</b>
<b>Investing activities</b>		
Acquisition of patents	-	-
<b>Net cash flow (used in) investing activities</b>	<b>-</b>	<b>-</b>
<b>Financing activities</b>		
Proceeds from private placement of common shares	-	-
Payment of share issue costs related to private placement	-	-
<b>Net cash flow provided by financing activities</b>	<b>-</b>	<b>-</b>
<b>Net decrease in cash during the period</b>	<b>(774,157)</b>	<b>-</b>
<b>Cash, beginning of period</b>	<b>4,899,620</b>	<b>-</b>
<b>Cash, end of period</b>	<b>4,125,463</b>	<b>-</b>

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

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# **Black Swan Graphene Inc.**

## **Notes to the Financial Statements**

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

*Expressed in Canadian Dollars - Unaudited*

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Black Swan Graphene Inc. (the “Company”, or “BSG”) was incorporated on July 2, 2019 under the laws of the Province of Ontario and is a privately owned Company. The Company is currently engaged in the production and commercialization of graphene. The head office and principal address of the Company is 1410-120 Adelaide Street West, Toronto, Ontario, M5H 1T1. As a result of the July 2021 financing, the Company was initially wholly owned by Mason Graphite Inc. As at June 30, 2022, Mason owned approximately 56% of the Company.

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 six months ended June 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 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 June 30, 2022 were reviewed, approved and authorized for issue by the Board of Directors of the Company on August 29, 2022.

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# Black Swan Graphene Inc.

## Notes to the Financial Statements

For the periods ending June 30, 2022 and 2021

Expressed in Canadian Dollars - Unaudited

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### 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.

#### 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.

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# **Black Swan Graphene Inc.**

## **Notes to the Financial Statements**

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

*Expressed in Canadian Dollars - Unaudited*

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### **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.

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# **Black Swan Graphene Inc.**

## **Notes to the Financial Statements**

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

*Expressed in Canadian Dollars - Unaudited*

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### **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.

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# **Black Swan Graphene Inc.**

## **Notes to the Financial Statements**

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

*Expressed in Canadian Dollars - Unaudited*

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### **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.

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# **Black Swan Graphene Inc.**

## **Notes to the Financial Statements**

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

*Expressed in Canadian Dollars - Unaudited*

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### **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 June 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.

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# **Black Swan Graphene Inc.**

## **Notes to the Financial Statements**

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

*Expressed in Canadian Dollars - Unaudited*

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### **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.

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# Black Swan Graphene Inc.

## Notes to the Financial Statements

For the periods ending June 30, 2022 and 2021

Expressed in Canadian Dollars - Unaudited

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### 5. SHARE CAPITAL

#### Authorized

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

#### Issued and Outstanding

On June 30, 2022, the Company had 13,830,944 common shares issued.

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

	Number of shares outstanding	Amount
<b>Balance, December 31, 2020</b>	<b>1</b>	<b>\$ 1</b>
Private placement financings	9,955,943	10,706,283
Share issue costs	-	(20,000)
Shares issued for patent acquisition	3,875,000	3,853,100
<b>Balance, December 31, 2021</b>	<b>13,830,944</b>	<b>14,539,384</b>
<b>Balance, June 30, 2022</b>	<b>13,830,944</b>	<b>14,539,384</b>

- (i) On November 8 2021, the Company completed a private placement financing by issuing 2,205,944 common shares at a price of \$1.36 per share for gross proceeds of \$3,000,083. Directors and or officers subscribed for 220,589 common shares for gross proceeds of \$300,000.
- (ii) On August 26, 2021, the Company acquired a portfolio of patents from Thomas Swan through the issuance of 3,875,000 common shares valued at \$3,853,100 based on the value of the common shares in the previous private placement financing.
- (iii) On July 21, 2021, the Company issued 7,749,999 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, 2022 and 2021

Expressed in Canadian Dollars - Unaudited

### 5. SHARE CAPITAL (continued)

#### Stock Options

The Company has a stock option plan (the "Plan") pursuant to which the Company's Board of Directors may grant incentive stock options to directors, officers, employees and consultants at the discretion of the Board of Directors. 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 June 30, 2022:

Expiry	Exercise Price	Outstanding	Exercisable	Remaining life (years)
October 25, 2031	1.00	1,050,000	1,050,000	9.33
November 12, 2026	1.36	175,000	175,000	4.37
Balance, June 30, 2022		1,225,000	1,225,000	

Below is a summary of changes to stock options for the period ended June 30, 2022:

	Number	Weighted average exercise price
Outstanding, December 31, 2019	-	\$ -
Granted	-	\$ -
Exercised	-	\$ -
Cancelled	-	\$ -
Expired	-	\$ -
Outstanding, December 31, 2020	-	\$ -
Granted	1,225,000	\$ 1.05
Exercised	-	\$ -
Cancelled	-	\$ -
Expired	-	\$ -
Outstanding, December 31, 2021	1,225,000	\$ 1.05
Granted	-	\$ 1.05
Exercised	-	\$ -
Cancelled	-	\$ -
Expired	-	\$ -
Outstanding, June 30, 2022	-	\$ 1.05

On October 25, 2021, a total of 1,050,000 stock options were granted to certain directors, officers, and consultants of the Company with an exercise at a price of \$1.00 expiring October 25, 2031. The options have been valued using a Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; share price of \$0.99 based on the prior private placement price; expected volatility of 83% based on industry comparable entities, and risk-free rate of 1.54%.

On November 12, 2021, a total of 175,000 stock options were granted to certain directors, officers, and consultants of the Company with an exercise price of \$1.36 expiring November 12, 2026. The options have been valued using a Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; share price of \$1.36; based on the prior private placement price; expected volatility of 83% based on industry comparable entities, and risk-free rate of 1.54%.

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# **Black Swan Graphene Inc.**

## **Notes to the Financial Statements**

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

*Expressed in Canadian Dollars*

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### **6. 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 June 30, 2022 and 2021.

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

### **7. 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 June 30, 2022 and 2021, the Company had no instruments to classify in the fair value hierarchy.

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# Black Swan Graphene Inc.

## Notes to the Financial Statements

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

Expressed in Canadian Dollars

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### 7. 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 June 30, 2022, the Company had a cash balance of \$4,125,463 to settle current liabilities of \$99,025. The Company's trade payables have contractual maturities of less than 30 days and are subject to normal trade terms.

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# **Black Swan Graphene Inc.**

## **Notes to the Financial Statements**

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

*Expressed in Canadian Dollars*

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### **8. RELATED PARTY TRANSACTIONS**

#### ***Parent Entity***

The Company was initially a wholly owned subsidiary of Mason Graphite Inc. ("Mason"). Mason completed a private placement financing for gross proceeds of \$7,706,200 on July 21, 2021 (Note 5). As at June 30, 2022, the Company was owned approximately 56% by Mason.

#### ***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 six-month period ended June 30, 2022, the remuneration of directors and other key management personnel was \$153,000 (2021 - \$nil).

#### ***Private placement***

See Note 5(i).

### **9. 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.

#### ***Novel Coronavirus ("COVID-19")***

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

#### ***Intangible Assets***

See Note 4.

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# **Black Swan Graphene Inc.**

## **Notes to the Financial Statements**

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

*Expressed in Canadian Dollars*

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### **9. COMMITMENTS AND CONTINGENCIES (continued)**

#### ***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.

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# **Black Swan Graphene Inc.**

## **Notes to the Financial Statements**

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

*Expressed in Canadian Dollars*

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### **10. SUBSEQUENT EVENTS**

#### ***Reverse Takeover Transaction and Financing***

On January 27, 2022 Dragonfly Capital Corp. ("Dragonfly") announced that Dragonfly, BSG, and the shareholders of BSG (collectively, the "Black Swan Shareholders") entered into a share exchange agreement (the "Share Exchange Agreement"), pursuant to which Dragonfly will acquire all of the issued and outstanding common shares (each, a "Black Swan Share") of BSG and grant certain options (each, a "Replacement Option") in exchange for those outstanding options (each, a "Black Swan Option") of BSG (the "Transaction"). It is expected that the Transaction will represent the reverse acquisition of Dragonfly by BSG for accounting purposes.

In connection with the Transaction, on March 14, 2022, Dragonfly completed a subscription receipt financing (the "Subscription Receipt Financing") for gross proceeds of approximately \$7,000,500. Dragonfly completed the Subscription Receipt Financing pursuant to the terms of a Subscription Receipt Agreement (the "Subscription Receipt Agreement") among Dragonfly, BSG, and Endeavour Trust Corporation, as Subscription Receipt Agent, and, in connection therewith, issued an aggregate of 46,669,665 subscription receipts (each, a "Subscription Receipt") at a price of \$0.15 per Subscription Receipt. Each Subscription Receipt, subject to the fulfillment of the Escrow Release Condition (as defined below), entitles the holder thereof to receive one common share in the capital of Dragonfly.

The gross proceeds from the Subscription Receipt Financing (collectively, the "Escrowed Funds"), less the reasonable expenses of the Subscription Receipt Agent incurred in connection with the Subscription Receipt Financing, will be held in escrow pursuant to the terms of the Subscription Receipt Agreement and shall be released immediately prior to completion of the Transaction (as defined below) upon the satisfaction, amongst other things, of (collectively, the "Escrow Release Condition"): (i) all conditions to the completion of the Transaction, other than the release of the Escrowed Funds; (ii) the receipt of all shareholder and regulatory approvals required for the Transaction; and (iii) the conditional approval for listing of the common shares of the issuer resulting from the Transaction (the "Resulting Issuer") having been received from the TSX Venture Exchange ("TSXV"). In the event the Escrow Release Condition is not satisfied on or before 5:00 p.m. (Vancouver time) on July 31, 2022, subject to extension at the request of Dragonfly and BSG, the Subscription Receipt Agent shall return to the holders of the Subscription Receipts their pro rata share of the Escrowed Funds plus any accrued interest earned thereon (less applicable withholding tax) and the Subscription Receipts will be cancelled and of no further force and effect. The Company also paid aggregate cash finder's fees of \$110,999.97 to certain eligible finders in connection with the closing of the Subscription Receipt Financing. The finder's fees will be held by the Escrow Agent in trust and released to the finders following the satisfaction of the Escrow Release Condition.

On August 2, 2022, the Company announced the closing of its Qualifying Transaction with Dragonfly Capital Corp. On August 9, 2022, the Company's common shares commenced trading on the TSX Venture Exchange (the "TSXV") under the ticker symbol "SWAN" at the open of market trading. As a result, the Transaction was completed, the Escrow Release Conditions were met, the Subscription Receipts were converted into common shares, and the Escrow Funds were released.