

Black Swan Graphene Inc.

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2023 and 2022

(Expressed in Canadian Dollars)

(unaudited)

NOTICE OF NO AUDITOR REVIEW

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.

Condensed Interim Consolidated Statements of Financial Position

Expressed in Canadian Dollars

As at:		September 30, 2023	December 31, 2022
	Note	\$	\$
ASSETS			
Current			
		6,030,879	8,874,657
Cash and cash equivalents		470,442	301,214
Amounts receivable		7,027	626
Prepaid expenses		6,508,348	9,176,497
Total current assets			
Non-current assets			
	4	7,488,590	8,198,036
Intangible assets		2,455,726	-
Investment		16,452,665	17,374,533
Total assets			
LIABILITIES			
Current			
		410,006	649,109
Accounts payable and accrued liabilities		410,006	649,109
Total liabilities			
SHAREHOLDERS' EQUITY			
	6	28,114,107	25,487,912
Share capital		390,128	390,128
Contributed surplus	6	1,300,167	1,279,523
Option reserve		(13,761,742)	(10,432,138)
Deficit		16,042,659	16,725,425
Total shareholders' equity			
Total liabilities and shareholders' equity		16,452,665	17,374,533

Nature of operations and going concern (Note 1)

Commitments and contingencies (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.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Expressed in Canadian Dollars

For the periods ended:	Note	Three Months	Three Months	Nine Months	Nine Months
		Ended	Ended	Ended	Ended
		September 30,	September 30,	September 30,	September 30,
		2023	2022	2023	2022
		\$	\$	\$	\$
Expenses					
Management, director and consulting fees	9	294,828	198,000	973,352	570,000
Stock-based compensation	6	-	-	20,644	-
Project development expenses		236,392	76,257	605,060	223,838
Amortization of intangible assets	4	236,482	236,482	709,446	709,448
Professional fees		105,883	513,543	206,247	723,317
Investor relations		63,333	67,339	747,055	67,339
Office and general		72,376	15,821	147,000	27,557
Reverse acquisition transaction costs	5	-	4,478,164	-	4,478,164
Interest income		(36,800)	-	(79,200)	(24,454)
Net loss and comprehensive loss for the period		(972,494)	(5,585,606)	(3,329,604)	(6,775,209)
Basic and diluted loss per share		(0.00)	(1.35)	(0.01)	(0.03)
Weighted average number of common shares outstanding					
Basic and diluted		303,119,086	4,137,361	303,533,355	224,143,367

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

Black Swan Graphene Inc.

Condensed interim Consolidated Statements of Changes in Shareholders' Equity

Expressed in Canadian Dollars

	Common Shares #	Share Capital \$	Contributed Surplus \$	Option Reserve \$	Deficit \$	Shareholders' Equity \$
Balance, December 31, 2021	210,230,343	14,539,384	390,128	1,014,183	(1,940,820)	14,002,875
Private placement financings	46,669,665	7,000,450	-	-	-	7,000,450
Share issue costs		(107,000)	-	-	-	(107,000)
Reverse takeover transaction	17,707,523	2,656,128	-	-	-	2,656,128
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	25,698,012	390,128	1,014,183	(8,716,028)	18,386,295
Balance, December 31, 2022	283,938,008	25,487,912	390,128	1,279,523	(10,432,138)	16,725,424
Shares issued for debt	1,420,571	170,469	-	-	-	170,469
Shares issued for investment	16,371,504	2,455,726	-	-	-	2,455,726
Stock-based compensation	-	-	-	20,644	-	20,644
Loss for the period	-	-	-	-	(3,329,604)	(3,329,604)
Balance, September 30, 2023	301,730,083	28,114,107	390,128	1,300,167	(13,761,742)	16,042,659

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

Black Swan Graphene Inc.
Condensed Interim Consolidated Statements of Cash Flows
Expressed in Canadian Dollars

For the periods ended:	September 30, 2023	September 30, 2022
	\$	\$
Cash (used in)/provided by:		
Operating activities		
Net loss	(3,329,604)	(5,166,158)
Items not involving cash		
Share based compensation	20,644	-
Amortization of patents	709,446	709,448
Transaction costs		2,869,114
Consulting fees settled in shares	170,469	-
Changes in non-cash working capital		
Change in amounts receivable	(169,228)	(120,721)
Change in prepaid expenses	(6,401)	17,085
Change in accounts payable and accrued liabilities	(239,103)	(976)
Net cash flow (used in) operating activities	(2,843,778)	(1,692,207)
Investing activities		
Cash acquired from reverse takeover transaction	-	15,141
Net cash flow provided by/(used in) investing activities	-	15,141
Financing activities		
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
Net decrease in cash during the period	(2,843,778)	5,216,284
Cash, beginning of period	8,874,657	4,899,620
Cash, end of period	6,030,879	10,115,904

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

Black Swan Graphene Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the periods ending September 30, 2023 and September 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 condensed interim consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of 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 condensed interim consolidated financial statements. Such adjustments could be material.

Black Swan Graphene Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the periods ending September 30, 2023 and September 30, 2022

Expressed in Canadian Dollars

2. BASIS OF PRESENTATION

Statement of compliance

These condensed interim consolidated financial statements are in compliance with IAS 34, *Interim Financial Reporting*. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed. These condensed interim consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2022.

Basis of presentation

These condensed interim consolidated 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 condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries. All values are rounded to the nearest dollar.

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Approval of the consolidated financial statements

These condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2023 and 2022 were reviewed, approved and authorized for issue by the Board of Directors of the Company on November 27, 2023.

Black Swan Graphene Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the periods ending September 30, 2023 and September 30, 2022

Expressed in Canadian Dollars

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. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Contingencies (see Note 12)

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 January 1, 2023. 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 consolidated financial statements.

IAS 1 – In February 2021, the IASB issued 'Disclosure of Accounting Policies' with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

Black Swan Graphene Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the periods ending September 30, 2023 and September 30, 2022

Expressed in Canadian Dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future accounting changes (continued)

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.

IAS 12 – Income Taxes (“IAS 12”) was amended in September 2021 to narrow the scope of the recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

IAS 8 – Definition of Accounting Estimates (“IAS 8”) was amended in February 2021 to replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to management uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves management uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. IAS 8 is effective for annual periods beginning on or after January 1, 2023.

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 Condensed Interim Consolidated Financial Statements For the periods ending September 30, 2023 and September 30, 2022

Expressed in Canadian Dollars

4. INTANGIBLE ASSETS (Continued)

Intangible assets are amortized over a ten-year period.

	Intangible Assets
Balance December 31, 2021	9,143,969
Amortization of Intangible assets	(945,933)
Balance December 31, 2022	8,198,036
Balance December 31, 2022	8,198,036
Amortization of Intangible assets	(709,446)
Balance September 30, 2023	7,488,590

5. REVERSE TAKEOVER TRANSACTION

On August 2, 2022, Black Swan completed a reverse takeover transaction pursuant to which it acquired all of the issued and outstanding common shares of Black Swan Graphene Inc.

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.

Black Swan Graphene Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the periods ending September 30, 2023 and September 30, 2022

Expressed in Canadian Dollars

5. REVERSE TAKEOVER TRANSACTION (Continued)

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

Consideration paid:		
16,311,000 shares issued with value of \$.15	\$	2,446,128
10,727,000 shares issued as finder's fees		1,609,050
	\$	<u>4,055,178</u>
Purchase price allocation:		
Cash	\$	15,140.52
Accounts payable		(528,127)
Transaction costs		4,568,164
	\$	<u>4,055,178</u>

6. SHARE CAPITAL

Authorized

On September 30, 2023, 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 and 5), 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, 2023, the Company had 301,730,083 common shares issued.

Common share activity during the period ended September 30, 2023 is as follows:

	Number of shares	
	outstanding	Amount
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	16,311,000	2,446,128
Balance, December 31, 2022	283,938,008	25,488,012
Shares issued for debt	1,420,571	170,469
Shares issued for investment	16,371,504	2,455,726
Balance, September 30, 2023	301,730,083	28,114,207

Black Swan Graphene Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the periods ending September 30, 2023 and September 30, 2022

Expressed in Canadian Dollars

6. SHARE CAPITAL (continued)

- i. On April 5, 2023, under an Equity Swap, NERD issued to Black Swan 7,177 seed preferred shares (the "**NERD Shares**"), ranking senior to all other shares in the share capital of NERD, at a deemed price per share of £220 for an aggregate deemed subscription price of approximately £1.58 million or approximately CAD\$2.65M (the "**Subscription Amount**") and representing a 5.0% ownership stake in NERD on a post-money, fully diluted basis. Black Swan paid for the NERD Shares by way of issuance of 16,371,504 common shares in the capital of Black Swan (the "**Black Swan Shares**"), representing a 5.0% ownership stake in Black Swan on a fully diluted basis. The Black Swan Shares are subject to a hold period of four months under Canadian securities laws and a 36-month lock-up undertaking.
- ii. On March 14, 2021, 1,420,571 common shares were issued as part of a debt settlement for services provided to the Company,
- iii. 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 5)
- iv. 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 \$0.15 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. A member of management subscribed for 266,667 shares at a value of \$40,000. (Note 5).
- v. 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 (Note 5).
- vi. On November 8 2021, the Company completed a private placement financing by issuing 33,530,349 common shares at a price of \$0.09 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.
- vii. 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.
- viii. On July 21, 2021, the Company issued 117,800,000 common shares to Mason Graphite Inc. (Note 8) for gross proceeds of \$7,706,200.

Black Swan Graphene Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the periods ending September 30, 2023 and September 30, 2022

Expressed in Canadian Dollars

6. SHARE CAPITAL (continued)

Stock Options and 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, 2023:

Expiry	Exercise Price	Outstanding	Exercisable	Remaining life (years)
October 25, 2031	0.15	13,000,000	13,000,000	8.07
November 12, 2026	0.15	2,175,000	2,175,000	3.12
November 7, 2027	0.15	700,000	233,333	4.11
November 25, 2027	0.15	350,000	116,667	4.16
May 2, 2028	0.17	500,000	166,667	4.59
Balance, September 30, 2023		16,725,000	15,691,667	

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 was determined that an incremental fair value of \$600,000 results due to the modification.

During the year ended December 31, 2022, \$265,340 was recorded as share based payments.

Black Swan Graphene Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the periods ending September 30, 2023 and September 30, 2022

Expressed in Canadian Dollars

6. SHARE CAPITAL (continued)

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 vesting terms have been amended whereby by the RSU’s vested on August 2, 2023 and expire on August 2, 2025. No RSU’s have been exercised as at September 30, 2023.

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, 2023 and 2022.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange (“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 6 months.

As of September 30, 2023 and 2022, the Company believes it is compliant with the policies of the TSXV.

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, amounts receivable and accounts payable and accrued liabilities. The carrying values of these financial instruments reported in the statements of financial position approximate their respective fair values due to the relatively short-term nature of these instruments. As at September 30, 2023 and December 31, 2022, the Company had no instruments to classify in the fair value hierarchy.

Black Swan Graphene Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the periods ending September 30, 2023 and September 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, 2023, the Company had a cash balance of \$6,030,879 (December 31, 2022 - \$8,874,657) to settle current liabilities of \$410,106 (December 31, 2022 - \$449,109). 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 Condensed Interim Consolidated Financial Statements For the periods ending September 30, 2023 and September 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 period ended September 30, 2023, the remuneration of directors and other key management personnel was \$482,994 (September 30, 2022 - \$229,500). A total of \$nil was recorded in share-based payments expense for stock options and RSU's issued to directors and officers.

10. COMMITMENTS AND CONTINGENCIES

Management Contracts

The Company is party to certain management contracts. These contracts require payments of approximately \$1,405,000 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 approximately \$815,000 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.