

Graphene Manufacturing Group Ltd

ACN 614 164 877

**Condensed consolidated interim financial statements for
the three and six months ended 31 December 2021**

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Corporate information

The condensed consolidated interim financial statements of Graphene Manufacturing Group Ltd (“**GMG**” or the “**Company**”) are for the three and six months ended 31 December 2021. The Company is a limited liability company incorporated and domiciled in Australia, and whose shares are publicly traded on the TSX Venture Exchange (the “**TSXV**”).

The unaudited consolidated interim financial statements are presented in Australian dollars (**\$** or **A\$**), except for certain references to Canadian dollars (**C\$**) where specifically stated.

Directors

Guy Outen
Craig Nicol
Christopher Ohlrich
Robbert De Weijer
Robert Shewchuk
William Ollerhead

Registered office

Graphene Manufacturing Group Ltd
5/848 Boundary Road
Richlands QLD 4077
Australia

Principal place of business

Graphene Manufacturing Group Ltd
5/848 Boundary Road
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Share registrar and transfer agent

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510 Burrard Street
Vancouver BC V6C 3B9
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Auditors

BDO Audit Pty Ltd
Level 10, 12 Creek Street
Brisbane QLD 4000
Australia

Notice of no auditor review of condensed consolidated interim financial statements

The accompanying unaudited interim financial report of Graphene Manufacturing Group Ltd for the three and six months ended 31 December 2021 has been prepared by management and is the responsibility of the Company's management. The Company's independent auditor has not performed a review of this interim financial report.

“Craig Nicol”

“Christopher Ohlrich”

Craig Nicol
Managing Director and Chief Executive Officer

Christopher Ohlrich
Executive Director and Chief Financial Officer

Graphene Manufacturing Group Ltd
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the three and six months ended 31 December 2021

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

(Unaudited)	Note	Three months ended 31 December		Six months ended 31 December	
		2021 \$	2020 \$	2021 \$	2020 \$
Revenue	6	15,048	44,296	28,068	94,623
Other income	7(a)	39,147	48,741	43,234	213,970
Employee benefit expenses	7(b)	(933,080)	(644,364)	(1,829,167)	(1,146,275)
Professional and consulting fees		(501,549)	(146,333)	(911,870)	(351,835)
Depreciation and amortisation expense	14,15	(71,014)	(53,811)	(107,269)	(99,253)
Travel expenses		(14,206)	(1,917)	(15,117)	(1,917)
Raw materials and production inputs		(15,826)	(6,670)	(24,224)	(12,559)
Occupancy and utilities expenses		(44,404)	(37,182)	(81,847)	(62,488)
Factory costs		(53,123)	(35,685)	(89,144)	(62,233)
Share based payments expense		(295,175)	(29,945)	(340,073)	(42,469)
Other expenses	7(b)	(179,558)	(58,168)	(282,899)	(115,914)
Finance costs	7(c)	(7,986)	(4,512)	(13,381)	(5,534)
Loss on change in fair value of warrants	18(a)	(14,190,454)	-	(11,787,805)	-
Loss before income tax		(16,252,180)	(925,550)	(15,411,494)	(1,591,884)
Income tax expense	8	-	-	-	-
Loss for the period		(16,252,180)	(925,550)	(15,411,494)	(1,591,884)
Other comprehensive income (OCI)					
Foreign currency translation differences		367	-	367	-
Net OCI that may be reclassified to profit or loss in subsequent periods		367	-	367	-
OCI for the period, net of tax		367	-	367	-
Total comprehensive loss for the period		(16,251,813)	(925,550)	(15,411,127)	(1,591,884)
Loss per share attributable to the ordinary equity holders of the Group:					
Basic and diluted (cents)	9	(21.22)	(1.57)	(20.81)	(2.78)
Weighted average number of ordinary shares outstanding (Basic and diluted)	9	76,585,046	58,768,487	74,060,473	57,299,898

The above condensed consolidated interim statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Condensed Consolidated Interim Statement of Financial Position

(Unaudited)	Note	31 December 2021 \$	30 June 2021 \$
ASSETS			
Current assets			
Cash and cash equivalents	10	15,117,179	3,359,087
Trade and other receivables	11	75,614	56,281
Inventories	12	357,863	335,632
Research and development grants receivables		-	736,055
Other current assets	13	193,462	183,584
		15,744,118	4,670,639
Non-current assets			
Property, plant and equipment	14	1,647,328	224,733
Intangible assets	15	46,086	48,799
		1,693,414	273,532
Total assets		17,437,532	4,944,171
LIABILITIES			
Current liabilities			
Trade and other payables	16	369,102	538,691
Lease liabilities	17	126,146	-
Financial liabilities	18	13,089,718	2,188,625
Employee benefit liabilities	19	178,227	162,432
Provisions	20	20,000	20,000
		13,783,193	2,909,748
Non-current liabilities			
Lease liabilities	17	956,706	-
Provisions	20	100,000	-
		1,056,706	-
Total liabilities		14,839,899	2,909,748
Net assets		2,597,633	2,034,423
EQUITY			
Share capital	21	29,072,404	13,851,483
Reserves	22	1,276,157	563,476
Accumulated losses		(27,750,928)	(12,380,536)
Total equity		2,597,633	2,034,423

The above condensed consolidated interim statement of financial position should be read in conjunction with the accompanying notes.

Graphene Manufacturing Group Ltd
Condensed Consolidated Interim Statement of Changes in Equity
For the three and six months ended 31 December 2021

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)	Note	Share capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2020		5,768,589	186,181	(4,270,092)	1,684,678
Loss for the period		-	-	(1,591,884)	(1,591,884)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the period		-	-	(1,591,884)	(1,591,884)
Transactions with owners of the Company					
Shares issued	21	2,395,937	-	-	2,395,937
Transaction costs on issued shares	21	(497,155)	15,010	-	(482,145)
Share based payments	22	-	42,469	-	42,469
		1,898,782	57,479	-	1,956,261
Balance at 31 December 2020		7,667,371	243,660	(5,861,976)	2,049,055
Balance at 1 July 2021		13,851,483	563,476	(12,380,536)	2,034,423
Loss for the period		-	-	(15,411,494)	(15,411,494)
Other comprehensive income	22	-	(40,735)	41,102	367
Total comprehensive loss for the period		-	(40,735)	(15,370,392)	(15,411,127)
Transactions with owners of the Company					
Shares issued	21	9,694,304	-	-	9,694,304
Transaction costs on issued shares	21	(1,554,816)	-	-	(1,554,816)
Share options and warrants exercised	21	7,081,433	-	-	7,081,433
Share based payments	22	-	753,416	-	753,416
		15,220,921	753,416	-	15,974,337
Balance at 31 December 2021		29,072,404	1,276,157	(27,750,928)	2,597,633

The above condensed consolidated interim statement of changes in equity should be read in conjunction with the accompanying notes.

Graphene Manufacturing Group Ltd
Condensed Consolidated Interim Statement of Cash Flows
For the three and six months ended 31 December 2021

Condensed Consolidated Interim Statement of Cash Flows

(Unaudited)	Note	Six months ended 31 December	
		2021 \$	2020 \$
Operating activities			
Receipts from customers and government subsidies		64,995	404,657
Payments to suppliers and employees		<u>(3,441,838)</u>	<u>(2,105,686)</u>
		(3,376,843)	(1,701,029)
Research and development tax incentive received		736,055	933,821
Interest received		1,168	347
Interest paid		<u>(5,541)</u>	<u>(897)</u>
Net cash from / (used in) operating activities	26	(2,645,161)	(767,758)
Investing activities			
Acquisition of property, plant and equipment		<u>(318,777)</u>	<u>(172,985)</u>
Acquisition of intangibles		-	<u>(6,792)</u>
Net cash used in investing activities		(318,777)	(179,777)
Financing activities			
Proceeds from issue of shares		9,694,304	2,126,025
Proceeds from issue of share warrants		3,634,424	-
Proceeds from exercise of share options		200,158	-
Proceeds from exercise of share warrants		2,360,139	-
Share issue transaction costs		<u>(1,141,473)</u>	<u>(212,233)</u>
Payment of lease liabilities		<u>(25,522)</u>	<u>-</u>
Net cash from financing activities		14,722,030	1,913,792
Net increase in cash and cash equivalents		11,758,092	966,257
Cash and cash equivalents at 1 July		<u>3,359,087</u>	<u>658,560</u>
Cash and cash equivalents at 31 December	10	15,117,179	1,624,817

The above condensed consolidated interim statement of cash flows should be read in conjunction with the accompanying notes.

1. Reporting entity

Graphene Manufacturing Group Ltd (“**GMG**” or the “**Company**”) and its subsidiaries (collectively, the “**Group**”) is a for-profit company and is primarily involved in the development of technology and the manufacture and sale of graphene and energy saving and energy storage solutions enabled by graphene. The Company is a limited liability company incorporated and domiciled in Australia, and whose shares are publicly traded on the TSX Venture Exchange (the “**TSXV**”).

2. Basis of preparation

These condensed consolidated interim financial statements (“interim financial statements”) as at and for the three and six months ended 31 December 2021 have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group’s last annual consolidated financial statements as at and for the year ended 30 June 2021 (“last annual financial statements”). They do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRS**”). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual financial statements.

These interim financial statements were authorised for issue by the Company’s board of directors on 11 February 2022.

(a) Going concern

These interim financial statements were prepared on a going concern basis of accounting, which assumes that the Company will continue operations for the foreseeable future and be able to realise the carrying value of its assets and discharge its liabilities and commitments in the normal course of business. The Company generated revenue from operations of \$28,068 and incurred an adjusted loss (excluding the impact of the change in fair value of warrants) of \$3,623,689 for the six months ended 31 December 2021. However, the directors believe that the existing cash resources following the successful completion of both the marketed offering and private placement, as disclosed in note 21, are sufficient to meet its obligations for at least twelve months from the end of the reporting period.

(b) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars (\$ or A\$), except for certain references to Canadian dollars (C\$) where specifically stated. The Company’s functional and presentation currency is Australian dollars.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities, as well as revenue and expense items denominated in foreign currencies, are translated into the functional currency at the exchange rate at the date of the respective transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of profit or loss and other comprehensive income (“OCI”).

3. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, revenue and expense. Actual results may differ from these estimates.

Significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

3. Use of judgements and estimates (continued)

(a) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, in conjunction with direct input from the Chief Financial Officer.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then Management assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the Standards, including the level in the fair value hierarchy in which the valuations should be classified.

Significant valuation issues are reported to the Company's audit committee.

When measuring the fair values of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1:* quoted prices in active markets for identical assets or liabilities (unadjusted).
- *Level 2:* observable direct or indirect inputs (as prices) for the asset or liability, other than Level 1 inputs.
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring the fair values is included in note 24.

(b) COVID-19

The impact of the COVID-19 global pandemic ("pandemic") on these interim financial statements for the three and six months ended 31 December 2021 has been limited. While the long-term impact of the pandemic cannot be fully determined or quantified at this time, we continually assess the current and anticipated future impacts on our operations and results. As estimates and assumptions about future events and their potential effects cannot be determined with certainty, the exercise of judgement is required. The Group is not aware of any specific event or circumstance that would require a change in the information provided within these interim financial statements at the date of issuance. Future estimates, assumptions and judgements will continue to be assessed and may change as developments in the state of the pandemic actualise. Any such changes will be reflected in the consolidated financial statements prospectively in the period in which they become known.

4. Change in accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's last annual financial statements for the year ended 30 June 2021, except for the adoption of new standards effective as of 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(a) New standards, interpretations and amendments adopted

Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (“**IBOR**”) is replaced with an alternative nearly risk-free interest rate (“**RFR**”).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the interim condensed consolidated financial statements of the Group.

The Group intends to use the practical expedients in future periods if they become applicable.

5. Operating segments

The Company's senior management represent the Chief Operating Decision Makers (“**CODM**”). The CODM analyses the company information as a whole and as such, have determined that the Company has only one operating segment. Revenue from operating segments is not significant enough to be separately measured, and all sales come from energy saving and energy storage solutions mainly in Australia or are otherwise for minor amounts. Assets are all based in Australia.

Graphene Manufacturing Group Ltd
Notes to the condensed consolidated interim financial statements
For the three and six months ended 31 December 2021
(continued)

	Three months ended 31 December		Six months ended 31 December	
	2021	2020	2021	2020
	\$	\$	\$	\$
6. Revenue from contracts with customers				
Sale of goods	15,048	44,296	28,068	94,623

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods as follows:

Timing of revenue recognition

At a point in time	15,048	24,296	28,068	54,623
Over time	-	20,000	-	40,000
	15,048	44,296	28,068	94,623

7. Income and expenses

(a) Other income

Government COVID-19 subsidies	-	48,500	-	213,500
Interest income	473	241	1,168	347
Other income	25,074	-	28,466	123
Foreign exchange gains	13,600	-	13,600	-
	39,147	48,741	43,234	213,970

(b) Notable expenses

Employee benefit expenses include the following notable item:

Superannuation	80,408	52,544	153,208	92,726
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Other expenses include the following notable items:

Share registry and other listing expenses	19,206	-	30,255	-
Testing and quality control	20,220	17,159	35,966	20,200
Insurance	40,506	6,063	72,188	12,065
Information technology expenses	16,183	10,691	32,848	21,879

(c) Finance costs

Foreign exchange losses	-	4,089	4,364	4,637
Interest expense – lease liabilities	5,541	-	5,541	-
Finance and other interest charges	2,445	423	3,476	897

8. Income tax expense

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The unused tax losses incurred by the Company are not recognised as there is uncertainty on when the Company is likely to generate taxable income in the foreseeable future. They can be carried forward indefinitely. As a consequence, there is no income tax expense.

Graphene Manufacturing Group Ltd
Notes to the condensed consolidated interim financial statements
For the three and six months ended 31 December 2021
(continued)

9. Earnings per share

Basic earnings or loss per share (“EPS”) calculations have been based on the following loss attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding.

Diluted EPS calculations have been based on the following loss attributable to ordinary equity holders and weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

Due to the net loss recognised for the years, all outstanding stock options, warrants and broker warrants were excluded from the calculation of diluted EPS due to their anti-dilutive effect.

	Three months ended		Six months ended	
	31 December		31 December	
<i>In Australian dollars (\$) unless otherwise stated</i>	2021	2020	2021	2020
	\$	\$	\$	\$
Basic and diluted EPS (cents) ⁽ⁱ⁾	(21.22)	(1.57)	(20.81)	(2.78)
Loss attributable to ordinary equity holders of the Company for basic earnings – continuing operations	(16,252,180)	(925,550)	(15,411,494)	(1,591,884)
Loss attributable to ordinary equity holders of the Company adjusted for the effect of dilution	(16,252,180)	(925,550)	(15,411,494)	(1,591,884)
	2021	2020	2021	2020
	Number	Number	Number	Number
(a) Weighted average number of ordinary shares (“WANOS”)				
WANOS used in basic and diluted EPS ⁽ⁱ⁾	76,585,046	58,768,487	74,060,473	57,299,898

Items excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive:

	31 December Number	
	2021	2020
Stock options	5,278,427	248,574
Warrants	3,456,977	-
Broker warrants	199,544	-
Restricted and performance share units	274,981	-
	9,209,929	248,574

(i) Adjusted for the additional shares issued under the Share Split transaction per note 21(a)(ii).

Graphene Manufacturing Group Ltd
Notes to the condensed consolidated interim financial statements
For the three and six months ended 31 December 2021
(continued)

	31 December 2021	30 June 2021
	\$	\$
10. Cash and cash equivalents		
Cash at bank	15,117,179	3,359,087
11. Trade and other receivables		
Trade receivables	17,601	22,000
Goods and services tax receivable	58,013	34,281
	75,614	56,281
12. Inventories		
Energy saving products	347,313	325,268
Graphene powder	10,550	10,364
	357,863	335,632
13. Other current assets		
Prepayments	177,751	168,263
Other assets	15,711	15,321
	193,462	183,584

14. Property, plant and equipment

	Right-of-use ⁽ⁱ⁾	Property, plant and equipment			Total
	Leased buildings	Plant and equipment	Leasehold improvements	Capital work in progress	
	\$	\$	\$	\$	\$
Cost					
At 30 June 2021	--	1,309,705	6,645	-	1,316,350
Additions	1,208,374	28,553	-	290,224	1,527,151
Transfers	-	85,265	-	(85,265)	-
At 31 December 2021	1,208,374	1,423,523	6,645	204,959	2,843,501
Accumulated depreciation					
At 30 June 2021	-	1,088,639	2,978	-	1,091,617
Depreciation	33,566	70,320	670	-	104,556
At 31 December 2021	33,566	1,158,959	3,648	-	1,196,173
Net book value					
At 30 June 2021	-	221,066	3,667	-	224,733
At 31 December 2021	1,174,808	264,564	2,997	204,959	1,647,328

(i) Right-of-use asset recognised in respect of the Company's new head office leased premises in Richlands, Queensland, as disclosed in note 17.

Graphene Manufacturing Group Ltd
Notes to the condensed consolidated interim financial statements
For the three and six months ended 31 December 2021
(continued)

15. Intangible assets

	Patents, trademarks and other rights \$	Computer software \$	Total \$
Cost			
At 30 June 2021	49,352	12,916	62,268
Additions	-	-	-
At 31 December 2021	49,352	12,916	62,268
Accumulated amortisation			
At 30 June 2021	11,352	2,117	13,469
Amortisation	1,411	1,302	2,713
At 31 December 2021	12,763	3,419	16,182
Net book value			
At 30 June 2021	38,000	10,799	48,799
At 31 December 2021	36,589	9,497	46,086

31 December 2021 \$	30 June 2021 \$
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16. Trade and other payables

Trade payables	100,002	197,179
Accrued expenses	75,343	203,998
Other payables	193,757	137,514
	369,102	538,691

17. Lease liabilities

Maturity analysis of contractual undiscounted cash flows:

Within one year	187,470	-
Between one and five years	889,259	-
More than five years	211,821	-
	1,288,550	-

Lease liabilities included in the condensed consolidated interim statement of financial position:

Current	126,146	-
Non-current	956,706	-
	1,082,852	-

Right-of-use asset and lease liability

In November 2021, the Company entered into a three-year lease agreement for a new head office leased premises in Richlands, Queensland. The lease agreement includes two options to extend, each for an additional three-year period. A right-of-use asset of \$1,208,374 has been recognised, as disclosed in note 14, initially assessed on a six-year lease term, which is subject to annual review. The corresponding lease liability of \$1,108,374 has been recognised together with a provision for make good of \$100,000, as disclosed in note 20.

Graphene Manufacturing Group Ltd
Notes to the condensed consolidated interim financial statements
For the three and six months ended 31 December 2021
(continued)

31 December 2021	30 June 2021
\$	\$

18. Financial liabilities

Warrant liability:

Traded warrants	8,156,107	-
Non-traded warrants	4,933,611	2,188,625
	13,089,718	2,188,625

(a) Warrant liability

The Company has issued certain share purchase warrants which have a fixed exercise price in Canadian dollars. As the functional currency of the Company is the Australian dollar, these warrants are considered a derivative as a variable amount of cash in the Company's functional currency will be received on exercise. The share purchase warrants were not issued for goods or services rendered. Accordingly, these warrants are classified and accounted for as a derivative financial liability at fair value through profit or loss. The fair value of the warrants is determined using the quoted market trading data for the Company's traded warrants, and the Black-Scholes option pricing model for non-traded warrants.

	Warrant Liability \$
At 30 June 2021	2,188,625
Issued during the period	3,634,424
Exercised	(4,521,136)
Change in fair value	11,787,805
At 31 December 2021	13,089,718

No warrants expired during the same period and further details of the warrants issued are disclosed in note 21(d).

Non-traded warrants

The fair value of non-traded warrants and stock options classified as derivative financial liabilities was calculated with the following weighted average assumptions:

	31 December 2021	30 June 2021
Share price	C\$5.44	C\$2.09
Exercise price	C\$1.00 – C\$2.60	C\$1.00
Expected volatility	61%	100%
Expected life (years)	0.78 – 2.67	1.29
Risk-free interest rate	0.54% - 0.96%	0.06%

18. Financial liabilities (continued)

(a) Warrant liability (continued)

Traded warrants

The Compensation Warrants issued on 2 September 2021 commenced trading on the TSXV on 9 September 2021. On initial recognition and prior to active market trading data being available for use, the Compensation Warrants were valued using the Black Scholes option pricing model based on the inputs below:

	On initial recognition
Share price	C\$2.73
Exercise price	C\$2.60
Expected volatility	61%
Expected life (years)	2.99
Risk-free interest rate	0.20%

Once trading of the warrants commenced, the quoted market trading data on the TSXV was available for use as a Level 1 input to determine the fair value. At 31 December 2021 the fair value of traded warrants was based on the market price of C\$3.16 per warrant at the end of the reporting period.

31 December 2021	30 June 2021
\$	\$

19. Employee benefit liabilities

Liabilities for employee benefits below are current and comprise:

Annual leave liability	178,227	162,432
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20. Provisions

	Lease Provision
	\$
At 30 June 2021	20,000
Raised during the year	100,000
Utilised	-
Reversals	-
Unwinding of discount	-
At 31 December 2021	120,000

Categorised as:

Current	20,000
Non-current	100,000

Graphene Manufacturing Group Ltd
Notes to the condensed consolidated interim financial statements
For the three and six months ended 31 December 2021
(continued)

21. Share capital

	Six months ended 31 December			
	2021	2021	2020	2020
	Note	Number	\$	Number
		\$		\$
Ordinary shares	77,385,326	29,072,404	2,706,853	7,667,371
(a) Movement in ordinary shares				
At 1 July	69,545,092	13,851,483	2,515,178	5,768,589
Shares issued – before listing	(i) -	-	191,675	2,395,937
Shares issued – Marketed Offering	(ii) 5,635,000	8,903,056	-	-
Shares issued - Private Placement	(iii) 425,000	791,248	-	-
Share options exercised	(iv) 460,652	200,158	-	-
Warrants exercised	(v) 1,319,582	6,881,275	-	-
Transaction costs for issued shares	-	(1,554,816)	-	(497,155)
At 31 December	77,385,326	29,072,404	2,706,853	7,667,371

(i) *Shares issued – before listing*

Shares issued for contributions of equity prior to listing on the TSXV.

(ii) *Share issue – Marketed Offering*

On September 2, 2021, GMG completed a marketed public offering of units (the “**Offering Units**”) of the Company, including exercise in full of the over-allotment option (the “**Offering**”). A total of 5,635,000 Offering Units were sold at a price of C\$2.05 per Offering Unit (the “**Offering Price**”) for gross proceeds of approximately C\$11.55 million. Each Offering Unit is comprised of one ordinary share in the capital of the Company (each, an “**Ordinary Share**”) and one-half of one Ordinary Share purchase warrant (each, an “**Offering Warrant**”). Each Offering Warrant entitles the holder to purchase one Ordinary Share at C\$2.60 at any time until September 2, 2024.

The TSX Venture Exchange also accepted for listing the 2,817,500 Offering Warrants underlying the Offering Units issued pursuant to the Offering. GMG share warrants trade on TSXV under the ticker “GMG.WT”.

(iii) *Share issue – Private Placement*

The Company completed a non-brokered private placement for gross proceeds of \$909,500 through the sale of 425,000 units (“**PP Units**”) at a price of C\$2.14 per PP Unit (the “**Private Placement**”). Each PP Unit was comprised of one Ordinary Share and one-half of one warrant (“**PP Warrant**”). Each PP Warrant shall entitle the holder to purchase one Ordinary Share at C\$2.60 at any time on or before the date which is 36 months from the date of issuance.

(iv) *Share options exercised*

Shares issued upon the exercise of options allocated under the Stock Option Plan detailed in note 23(a).

(v) *Warrants exercised*

Shares issued upon the exercise of warrants detailed in note 21(d).

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21. Share capital (continued)

(b) Dividends

No dividends were declared or paid by the Company during the six month period ended 31 December 2021 (31 December 2020: Nil).

(c) Options

Share options outstanding at the end of the period have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price ⁽ⁱ⁾	31 December 2021 ⁽ⁱ⁾	30 June 2021 ⁽ⁱ⁾
6 November 2018	4 November 2025	\$0.36	2,222,654	2,546,654
18 February 2019	16 February 2026	\$0.61	220,000	220,000
15 March 2019	13 March 2026	\$0.61	220,000	220,000
20 March 2019	18 March 2026	\$0.61	29,326	29,326
12 May 2019	10 May 2026	\$0.61	73,348	210,000
26 June 2019	24 June 2026	\$0.61	110,000	110,000
2 December 2019	30 November 2026	\$0.42	440,000	440,000
6 April 2020	5 April 2027	\$0.61	29,326	29,326
21 April 2020	20 April 2027	\$0.61	770,000	770,000
23 December 2020	22 December 2027	\$0.82	868,648	868,648
12 March 2021	10 March 2028	\$0.94	44,000	44,000
15 April 2021	12 March 2024	C\$0.4963	151,125	151,125
16 April 2021	15 April 2024	C\$1.00	100,000	100,000
Total			5,278,427	5,739,079

The number and weighted average exercise price (“WAEP”) of share options were as follows:

	WAEP ⁽ⁱ⁾	Number
Outstanding at 1 July 2021	\$0.53	5,739,079
Granted	-	-
Exercised	\$0.44	(460,652)
Expired or forfeited	-	-
Outstanding at 31 December 2021	\$0.54	5,278,427
Exercisable at 31 December 2021	\$0.48	4,011,387

(i) Adjusted for the additional shares issued under the Share Split transaction, as disclosed per note 21(a)(ii) of the last annual financial statements for the year ended 30 June 2021.

21. Share capital (continued)

(d) Warrants

Warrants, including broker warrants, outstanding at the end of the period have the following expiry dates and exercise prices:

Issue date	Expiry date	Note	Exercise price	31 December 2021	30 June 2021
24 March 2021	24 September 2022		C\$0.65	105,114	161,430
13 April 2021	13 October 2022		C\$1.00	863,877	1,538,500
2 September 2021	2 September 2024	(i)	C\$2.60	2,380,600	-
2 September 2021	2 September 2024	(ii)	C\$2.05	26,323	-
2 September 2021	2 September 2024	(iii)	C\$2.60	212,500	-
2 September 2021	2 September 2024	(iv)	C\$2.14	5,760	-
9 November 2021	2 September 2024	(v)	C\$2.60	62,347	-
Total				3,656,521	1,699,930

Details of warrants issued since the end of the last reporting year, and during the six month period ended December 31, 2021 were as follows:

- (i) *Warrants – Marketed Offering*
These warrants were issued in connection with the Offering as disclosed in note 21(a)(ii).
- (ii) *Broker Warrants – Marketed Offering*
In connection with the Offering disclosed in note 21(a)(ii), the Company has paid to the Underwriters a cash commission of \$693,105 and issued to the Underwriters 169,050 (“Compensation Warrants”). Each Compensation Warrant is exercisable into a unit, with equivalent terms to an Offering Unit, at the Offering Price until September 2, 2024.
- (iii) *Warrants – Private Placement*
These warrants were issued in connection with the Private Placement as disclosed in note 21(a)(iii).
- (iv) *Broker Warrants – Private Placement*
In connection with the Private Placement disclosed in note 21(a)(iii), the Company has paid to certain arms’ length finders, finders’ compensation comprised of an aggregate cash commission of \$24,652.80, and an aggregate of 5,760 warrants. The warrants are exercisable into one (1) Ordinary Share at a price of C\$2.14 per unit until September 2, 2024.
- (v) *Broker Warrants – Compensation Warrants*
In connection with the Offering disclosed in note 21(a)(ii), and the initial exercising of Compensation Warrants in note 21(d)(ii), the Company recognised the share based payment expense in respect of the 84,525 warrants anticipated to be issued in full in accordance with the Offering Unit terms. At the end of the period, 13,162 of the 84,525 warrants are yet to be issued.

The number and weighted average exercise price (“WAEP”) of warrants, which are all exercisable, were as follows:

	WAEP	Number
Outstanding at 1 July 2021	\$0.53	1,699,930
Issued	\$2.77	3,276,173
Exercised	\$1.79	(1,319,582)
Expired or forfeited	-	-
Outstanding at 31 December 2021	\$2.34	3,656,521

21. Share capital (continued)

(e) Restricted share units (“RSUs”) and performance share units (“PSUs”)

Equity settled

Under the terms of the share incentive plan (“Share **Incentive Plan**”) the Board of Directors may, from time to time, grant to directors, executive officers, employees and consultants, RSUs and PSUs in such numbers and on such terms as determined by the board. RSUs and PSUs granted under the Share Incentive Plan, are exercisable into ordinary shares for no additional consideration, after the vesting conditions specified within the terms of each participants’ agreement are met.

The fair value of RSUs and PSUs was determined based on the Company’s share price on the date of grant.

The RSUs vest in three tranches with vesting conditions based on time and share price performance over a three-year period. The PSUs vest in three tranches with vesting conditions based on time and performance targets over a three-year period.

Share-based payments expense related to the RSUs and PSUs are recorded over the three-year vesting period and the amount is adjusted at each reporting period to reflect the number of RSUs and PSUs expected to vest.

RSUs and PSUs, outstanding at the end of the period, have the following expiry dates:

Grant date	Expiry date	Plan Type	31 December 2021	30 June 2021
20 October 2021	20 October 2026	RSU	181,960	-
20 October 2021	20 October 2026	PSU	77,359	-
5 December 2021	5 December 2026	RSU	15,662	-
Total			274,981	-

The number and weighted average share price (“**WASP**”) of RSUs and PSUs were as follows:

	RSUs		PSUs	
	WASP ⁽ⁱ⁾	Number	WASP ⁽ⁱ⁾	Number
Outstanding at 1 July 2021	-	-	-	-
Granted	\$6.24	197,623	\$6.28	77,359
Exercised	-	-	-	-
Expired or forfeited	-	-	-	-
Outstanding at 31 December 2021	\$6.24	197,623	\$6.28	77,359
Exercisable at 31 December 2021	-	-	-	-

(i) Further details of fair value measurement are included in note 23(f).

Further details of the RSUs and PSUs are included in note 23(a), and the related share-based payments expense is disclosed at note 22(a).

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22. Reserves

	31 December 2021	30 June 2021
	\$	\$
Share-based payment reserve	842,167	497,118
Warrants reserve	433,990	25,623
Foreign currency translation reserve	-	40,735
	1,276,157	563,476

(a) Movements in reserves

	Share-Based Payment	Warrants	Foreign Currency Translation	Total
	\$	\$	\$	\$
At 30 June 2021	497,118	25,623	40,735	563,476
Share option plan expense	80,260	-	-	80,260
RSUs expense	189,942	-	-	189,942
PSUs expense	74,847	-	-	74,847
Warrants issued	-	408,367	-	408,367
Foreign currency translation differences	-	-	(40,735)	(40,735)
At 31 December 2021	842,167	433,990	-	1,276,157

23. Share-based payments

(a) Stock option plan and Share Incentive Plan

The establishment of the stock option plan and the Share Incentive Plan were approved by resolutions of shareholders dated 19 September 2018 and 25 November 2021 respectively. The plans are designed to provide eligible participants with an opportunity to share in the ownership of the Company in order to:

- promote the long-term success of the Company;
- provide a strategic, value based reward for eligible persons who make a key contribution to that success;
- align eligible persons' interests with the interests of the Company's shareholders; and
- promote the retention of eligible participants.

Eligible participants under each plan is any director, executive officer, employee or consultant of the Company as decided upon by the board to be eligible under the terms of the respective plan.

Options, RSUs and PSUs may be granted on commercial terms approved by the board, which may include but are not limited to vesting conditions based on length of service and performance of the eligible participant, or the Company's share price. Participation in each plan is at the board's discretion.

Options, RSUs and PSUs are granted under the respective plan for no consideration and carry no dividend or voting rights. Upon exercise or settlement, each option, RSU and PSU is convertible into one ordinary share.

23. Share-based payments (continued)

(b) Reconciliation of outstanding share options

Share options, granted as share based payments, outstanding at the end of the period have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price ⁽ⁱ⁾	31 December 2021 ⁽ⁱ⁾	30 June 2021 ⁽ⁱ⁾
6 November 2018	4 November 2025	\$0.36	2,222,654	2,546,654
18 February 2019	16 February 2026	\$0.61	220,000	220,000
15 March 2019	13 March 2026	\$0.61	220,000	220,000
20 March 2019	18 March 2026	\$0.61	29,326	29,326
12 May 2019	10 May 2026	\$0.61	73,348	210,000
26 June 2019	24 June 2026	\$0.61	110,000	110,000
2 December 2019	30 November 2026	\$0.42	440,000	440,000
6 April 2020	5 April 2027	\$0.61	29,326	29,326
21 April 2020	20 April 2027	\$0.61	770,000	770,000
23 December 2020	22 December 2027	\$0.82	868,648	868,648
12 March 2021	10 March 2028	\$0.94	44,000	44,000
15 April 2021	12 March 2024	C\$0.4963	151,125	151,125
16 April 2021	15 April 2024	C\$1.00	100,000	100,000
Total			5,278,427	5,739,079

The number and weighted average exercise price ("WAEP") of share options representing share based payments, were as follows:

	WAEP ⁽ⁱ⁾	Number
Outstanding at 1 July 2021	\$0.53	5,739,079
Granted	-	-
Exercised	\$0.44	(460,652)
Expired or forfeited	-	-
Outstanding at 31 December 2021	\$0.54	5,278,427
Exercisable at 31 December 2021	\$0.48	4,011,387

(i) Adjusted for the additional shares issued under the Share Split transaction, as disclosed per note 21(a)(ii) of the last annual financial statements for the year ended 30 June 2021.

23. Share-based payments (continued)

(c) Reconciliation of outstanding broker warrants

Broker warrants, issued as share based payments, outstanding at the end of the period have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price	31 December 2021	30 June 2021
24 March 2021	24 September 2022	C\$0.65	105,114	161,430
2 September 2021	2 September 2024	C\$2.05	26,323	-
2 September 2021	2 September 2024	C\$2.14	5,760	-
9 November 2021	2 September 2024	C\$2.60	62,347	-
Total			199,544	161,430

The number and weighted average exercise price (“WAEP”) of warrants, which are all exercisable, were as follows:

	WAEP	Number
Outstanding at 1 July 2021	\$0.70	161,430
Issued	\$2.39	246,173
Exercised	\$1.84	(208,059)
Expired or forfeited	-	-
Outstanding at 31 December 2021	\$1.61	199,544

Further details in respect of broker warrants held at reporting date are provided in note 21(d).

(d) Reconciliation of outstanding RSUs and PSUs

RSUs and PSUs, granted as share based payments, outstanding at the end of the period, have the following expiry dates:

Grant date	Expiry date	Plan Type	31 December 2021	30 June 2021
20 October 2021	20 October 2026	RSU	181,960	-
20 October 2021	20 October 2026	PSU	77,359	-
5 December 2021	5 December 2026	RSU	15,662	-
Total			274,981	-

23. Share-based payments (continued)

(d) Reconciliation of outstanding RSUs and PSUs (continued)

The number and weighted average share price (“WASP”) of RSUs and PSUs were as follows:

	RSUs		PSUs	
	WASP ⁽ⁱ⁾	Number	WASP ⁽ⁱ⁾	Number
Outstanding at 1 July 2021	-	-	-	-
Granted	\$6.24	197,623	\$6.28	77,359
Exercised	-	-	-	-
Expired or forfeited	-	-	-	-
Outstanding at 31 December 2021	\$6.24	197,623	\$6.28	77,359
Exercisable at 31 December 2021	-	-	-	-

(i) Further details of fair value measurement are included in note 23(f).

Further details in respect of RSUs and PSUs held at reporting date are provided in note 21(e).

(e) Fair value measurement of options and warrants granted

The assessed fair value of options granted during the six months ended 31 December 2021 was nil (\$340,594 for the year ended 30 June 2021). The assessed fair value of warrants granted during the six months ended 31 December 2021 was \$408,367 (\$25,623 for the year ended 30 June 2021).

The fair value at grant date is determined using an adjusted form of the Black-Scholes Model that takes into account the exercise price, the term of the option, the market price of a share at grant date and expected price volatility of the underlying share, the risk-free interest rate for the term of the option and the volatilities of certain peer group companies.

The fair value of options granted and warrants issued during the six months ended 31 December 2021, and the year ended 30 June 2021, was calculated using the exercise price, grant date and expiry date as per above with the following weighted average assumptions:

On initial recognition	Options		Warrants	
	31 December 2021	30 June 2021	31 December 2021	30 June 2021
Share price at grant date	-	\$0.72 ⁽ⁱ⁾	\$3.19	\$0.67
Expected volatility	-	100%	61%	49%
Risk-free interest rate	-	0.52% - 0.97%	0.18%	0.15%

(i) Weighted average share price at grant date includes options granted prior to listing on the TSXV, adjusted for the impact of the Share Split Transaction per note 21(a)(ii) of the last annual financial statements for the year ended 30 June 2021.

Options are granted for no consideration and vested options are exercisable until the expiry date which is between two to seven years after grant date. The expected price volatility is based on the historic volatility of certain peer group companies, and since the listing of the Company’s traded warrants, the implied volatility of the Company’s shares calculated by reference to those warrants.

23. Share-based payments (continued)

(f) Fair values of RSUs and PSUs granted

The assessed fair value of RSUs and PSUs granted during the six months ended 31 December 2021 was \$1,719,295 (nil for the year ended 30 June 2021), and is based on the Company's share price on the date of grant.

The RSUs vest in three tranches with vesting conditions based on time and share price performance over a three-year period. The PSUs vest in three tranches with vesting conditions based on time and performance targets over a three-year period.

Share-based payments expense related to the RSUs and PSUs are recorded over the three-year vesting period and the amount is adjusted at each reporting period to reflect the number of RSUs and PSUs expected to vest.

The fair value of RSUs and PSUs granted during the six months ended 31 December 2021, and the year ended 30 June 2021, was calculated at the grant date based on the following weighted average assumptions:

On initial recognition	RSUs		PSUs	
	31 December 2021	30 June 2021	31 December 2021	30 June 2021
Share price at grant date	\$6.24 ⁽ⁱ⁾	-	\$6.28 ⁽ⁱ⁾	-

(i) The fair value of RSUs and PSUs granted on 20 October 2021, was based on the share price at the date on which shareholder approval was obtained for the Company's Share Incentive Plan, at the Annual General Meeting held on 25 November 2021 (Eastern Standard Time).

(g) Share-based payments accounting policy

The share-based accounting policy, as disclosed in note 23(e) of the last annual financial statements for the year ended 30 June 2021, has been consistently applied in the six months period ended December 31, 2021 together with the additional disclosure below.

Restricted share units ("RSUs") and performance share units ("PSUs")

The Company grants to directors, executive officers, employees and consultants, RSUs and PSUs in such numbers and for such terms as determined by the Board of Directors. RSUs and PSUs granted under the Company's Share Incentive Plan, are exercisable into common shares for no additional consideration, after the vesting conditions specified within the terms of each participants' agreement are met.

RSUs are measured at fair value on the date of grant and the corresponding share-based payment is recognised in profit or loss, over the vesting period, as applicable.

In addition to service conditions, RSUs and PSUs may have performance-based vesting conditions. Market conditions, such as a target share price upon which vesting is conditioned, is included in the fair value assessment of the share-based payment at grant date.

Vesting conditions, other than market conditions, are included in the measurement of the transaction amount by adjusting the number of equity instruments included, so that ultimately, the cumulative value of the share-based payment shall be based on the number of equity instruments that eventually vest.

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24. Financial risk management

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes party to the contractual provisions of the financial instrument. No financial assets and financial liabilities have been offset and presented in the balance sheet. The Group has derivative financial liabilities that are recorded at fair value through profit and loss ("FVTPL"). The remaining categories of financial assets and financial liabilities are reported at amortised cost:

	31 December 2021	30 June 2021
	\$	\$
Financial assets		
Cash and cash equivalents	15,117,179	3,359,087
Financial assets at amortised cost		
Trade and other receivables	75,614	56,281
Research and development grants receivables	-	736,055
	<u>75,614</u>	<u>792,336</u>
	<u>15,192,793</u>	<u>4,151,423</u>
Financial liabilities		
Liabilities at amortised cost		
Trade and other payables	(293,759)	(334,693)
Lease liabilities	(1,082,852)	-
	<u>(1,376,611)</u>	<u>(334,693)</u>
Liabilities at FVTPL ⁽ⁱ⁾		
Traded warrants	(8,156,107)	-
Non-traded warrants	(4,933,611)	(2,188,625)
	<u>(13,089,718)</u>	<u>(2,188,625)</u>

(i) The fair value of traded and non-traded warrants is measured on the basis described in note 18.

The Company's financial risk management is consistent with the disclosure in note 24 of the last annual financial statements reported as at 30 June 2021, with the exception of the additional lease liability maturity analysis included in note 17.

25. Acquisition Accounting

As disclosed in Note 28 of the last annual financial statements for the year ended 30 June 2021, the dissolution of Cuspis Capital Ltd was completed on 12 August 2021.

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26. Reconciliation of cash flows from operating activities

	Six months ended	
	31 December	
	2021	2020
	\$	\$
Loss for the period	(15,411,494)	(1,591,884)
Adjustments for:		
Depreciation and amortisation	107,269	99,253
Share-based payments – share plan	340,073	42,469
Change in fair value of warrants	11,787,805	-
Change in operating assets and liabilities:		
Decrease in trade and other receivables	721,462	885,732
Increase in inventories	(22,231)	(94,656)
Increase in other current assets	(9,878)	(261,720)
Increase / (decrease) in trade and other payables	(169,589)	24,938
Increase in provisions and employee benefits liabilities	15,795	48,660
Increase in deferred income	-	80,000
Net interest received / (paid)	(4,373)	(550)
Net cash in / (outflow) from operating activities	(2,645,161)	(767,758)

(a) Non-cash investing and financing activities

Share-based payments charged to share issue costs:		
Warrants issued	408,367	-
Share plan expense	4,976	269,913
	413,343	269,913

27. Commitments and contingencies

The Company's commitments and contingencies are consistent with those reported in the last annual financial statements as at 30 June 2021.

Additional information regarding subsequent events which will impact the Company's future position and operations are disclosed in note 28.

28. Subsequent events

No matters or circumstances have occurred since the end of the reporting period and up until the date of this report, which significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent reporting periods.