

Graphene Manufacturing Group Ltd

ACN 614 164 877

**Unaudited Condensed Consolidated Interim Financial
Statements for the three and six months ended 31
December 2022 and 2021**

Graphene Manufacturing Group Ltd
Unaudited Condensed Consolidated Interim Financial Statements
For the three and six months ended 31 December 2022 and 2021

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Corporate information

The unaudited condensed consolidated interim financial statements (“interim financial statements”) of Graphene Manufacturing Group Ltd (“**GMG**” or the “**Company**”) for the three and six months ended 31 December 2022 and 2021 were authorised for issue in accordance with a resolution of the directors on 22 February 2023. 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 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
Robbert De Weijer (resigned 15 July 2022)
Robert Shewchuk
William Ollerhead
Emma FitzGerald (appointed 1 July 2022)
Frederick Kotzee (appointed 22 August 2022)

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
Richlands QLD 4077
Australia

Share registrar and transfer agent

Computershare Investor Services Inc.
510 Burrard Street
Vancouver BC V6C 3B9
Canada

Auditors

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

Graphene Manufacturing Group Ltd
Unaudited Condensed Consolidated Interim Statement of Profit or Loss
and Other Comprehensive Income
For the three and six months ended 31 December 2022 and 2021

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

| | Note | Three months ended 31 December | | Six months ended 31 December | |
|--|-------|-----------------------------------|--------------|---------------------------------|--------------|
| | | 2022 A\$ | 2021 A\$ | 2022 A\$ | 2021 A\$ |
| Revenue | 6 | 3,510 | 15,048 | 89,400 | 28,068 |
| Other income | 7(a) | 156 | 39,147 | 142,795 | 43,234 |
| Employee benefit expenses | 7(b) | (1,600,670) | (933,080) | (3,167,465) | (1,829,167) |
| Professional and consulting fees | | (689,532) | (501,549) | (1,122,643) | (911,870) |
| Depreciation and amortisation expense | 10,11 | (275,958) | (71,014) | (493,423) | (107,269) |
| Travel expenses | | (41,415) | (14,206) | (119,530) | (15,117) |
| Raw materials and production inputs | | (2,529) | (15,826) | (27,732) | (24,224) |
| Occupancy and utilities expenses | | (94,782) | (44,404) | (178,614) | (81,847) |
| Factory costs | | (150,720) | (53,123) | (250,190) | (89,144) |
| Share based payments expense | | (827,456) | (295,175) | (1,106,006) | (340,073) |
| Other expenses | 7(b) | (275,369) | (179,558) | (558,791) | (282,899) |
| Finance costs | 7(c) | (94,295) | (7,986) | (122,584) | (13,381) |
| Gain / (loss) on change in fair value of warrants | 13(a) | 2,267,219 | (14,190,454) | 1,574,309 | (11,787,805) |
| Loss before income tax | | (1,781,841) | (16,252,180) | (5,340,474) | (15,411,494) |
| Income tax expense | 8 | - | - | - | - |
| Loss for the period | | (1,781,841) | (16,252,180) | (5,340,474) | (15,411,494) |
| Other comprehensive income (OCI) | | | | | |
| Foreign currency translation differences | | - | - | - | 367 |
| Net OCI that may be reclassified to profit or loss in subsequent periods | | - | - | - | 367 |
| OCI for the period, net of tax | | - | - | - | 367 |
| Total comprehensive loss for the period | | (1,781,841) | (16,252,180) | (5,340,474) | (15,411,127) |
| Earnings / (loss) per share attributable to the ordinary equity holders of the Group: | | | | | |
| Basic and diluted (cents) | 9 | (2.22) | (21.22) | (6.71) | (20.81) |
| Weighted average number of ordinary shares outstanding (Basic and diluted) | 9 | 80,343,896 | 76,585,046 | 79,629,869 | 74,060,473 |

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

Graphene Manufacturing Group Ltd
Unaudited Condensed Consolidated Interim Statement of Financial Position
As at 31 December 2022 and 30 June 2022

Unaudited Condensed Consolidated Interim Statement of Financial Position

| | Note | 31 December 2022 A\$ | 30 June 2022 A\$ |
|---|------|----------------------------|------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 12,547,541 | 12,258,018 |
| Trade and other receivables | | 159,696 | 142,876 |
| Inventories | | 339,908 | 350,388 |
| Research and development grants receivables | | - | 1,411,926 |
| Other current assets | | 284,876 | 317,884 |
| | | 13,332,021 | 14,481,092 |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 3,502,894 | 2,162,174 |
| Intangible assets | 11 | 1,897,758 | 32,663 |
| | | 5,400,652 | 2,194,837 |
| Total assets | | 18,732,673 | 16,675,929 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 1,201,311 | 804,078 |
| Lease liabilities | 12 | 256,672 | 136,622 |
| Financial liabilities | 13 | 4,109,594 | 4,410,364 |
| Employee benefit liabilities | | 194,085 | 207,064 |
| Provisions | | 20,000 | 20,000 |
| | | 5,781,662 | 5,578,128 |
| Non-current liabilities | | | |
| Lease liabilities | 12 | 1,171,731 | 897,627 |
| Provisions | | 200,000 | 100,000 |
| | | 1,371,731 | 997,627 |
| Total liabilities | | 7,153,393 | 6,575,755 |
| Net assets | | 11,579,280 | 10,100,174 |
| EQUITY | | | |
| Share capital | 14 | 30,326,039 | 26,435,310 |
| Share capital warrant premium | 14 | 7,618,373 | 5,971,671 |
| Reserves | 15 | 3,085,042 | 1,802,893 |
| Accumulated losses | | (29,450,174) | (24,109,700) |
| Total equity | | 11,579,280 | 10,100,174 |

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

Graphene Manufacturing Group Ltd
Unaudited Condensed Consolidated Interim Statement of Changes in Equity
For the six months ended 31 December 2022 and 2021

Unaudited Condensed Consolidated Interim Statement of Changes in Equity

| | Note | Share capital A\$ | Reserves A\$ | Accumulated losses A\$ | Total equity A\$ |
|--|-------|----------------------|------------------|---------------------------|---------------------|
| 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 / (loss) | | - | (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 | 14 | 9,694,304 | - | - | 9,694,304 |
| Transaction costs on issued shares | 14 | (1,554,816) | - | - | (1,554,816) |
| Share options and warrants exercised | 14 | 7,081,433 | - | - | 7,081,433 |
| Share based payments | | - | 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 |
| Balance at 1 July 2022 | | 32,406,981 | 1,802,893 | (24,109,700) | 10,100,174 |
| Loss for the period | | - | - | (5,340,474) | (5,340,474) |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive loss for the period | | - | - | (5,340,474) | (5,340,474) |
| Transactions with owners of the Company | | | | | |
| Shares issued | 14 | 3,382,287 | - | - | 3,382,287 |
| Transaction costs on issued shares | 14 | (449,037) | - | - | (449,037) |
| Share options and warrants exercised | 14 | 957,479 | - | - | 957,479 |
| Share capital warrant premium | 14 | 1,646,702 | - | - | 1,646,702 |
| Share based payments | 15(a) | - | 1,282,149 | - | 1,282,149 |
| | | 5,537,431 | 1,282,149 | - | 6,819,580 |
| Balance at 31 December 2022 | | 37,944,412 | 3,085,042 | (29,450,174) | 11,579,280 |

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

Graphene Manufacturing Group Ltd
Unaudited Condensed Consolidated Interim Statement of Cash Flows
For the three and six months ended 31 December 2022 and 2021

Unaudited Condensed Consolidated Interim Statement of Cash Flows

| | | Six months ended 31 December | |
|---|-------|---------------------------------|--------------------|
| | Note | 2022 A\$ | 2021 A\$ |
| Operating activities | | | |
| Receipts from customers and government subsidies | | 107,930 | 64,995 |
| Payments to suppliers and employees | | (5,540,476) | (3,441,838) |
| | | (5,432,546) | (3,376,843) |
| Research and development tax incentive received | | 1,554,070 | 736,055 |
| Interest received | | 651 | 1,168 |
| Interest paid | | (45,906) | (5,541) |
| Net cash from / (used in) operating activities | | (3,923,731) | (2,645,161) |
| Investing activities | | | |
| Acquisition of property, plant and equipment | 10 | (1,053,424) | (318,777) |
| Acquisition of intangibles | 11 | (1,024,617) | - |
| Net cash used in investing activities | | (2,078,041) | (318,777) |
| Financing activities | | | |
| Proceeds from issue of shares | 14(a) | 2,882,287 | 9,694,304 |
| Proceeds from issue of share warrants | 13(a) | 3,445,656 | 3,634,424 |
| Proceeds from exercise of share options | 14(a) | 22,781 | 200,158 |
| Proceeds from exercise of share warrants | 14(a) | 934,698 | 2,360,139 |
| Share issue transaction costs | | (809,699) | (1,141,473) |
| Payment of lease liabilities | | (127,043) | (25,522) |
| Net cash from financing activities | | 6,348,680 | 14,722,030 |
| Net increase in cash and cash equivalents | | 346,908 | 11,758,092 |
| Cash and cash equivalents at 1 July | | 12,258,018 | 3,359,087 |
| Net foreign exchange difference on cash held | | (57,385) | - |
| Cash and cash equivalents at 31 December | | 12,547,541 | 15,117,179 |

The above unaudited 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 primarily involved in the development of technology and manufacture of graphene powder 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 unaudited condensed consolidated interim financial statements (“interim financial statements”) as at 31 December 2022 and for the three and six months ended 31 December 2022 and 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 2022 (“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 as issued by the International Accounting Standards Board (“**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 22 February 2023.

(a) Going concern

The interim financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of operations.

For the six month period ended 31 December 2022, the Group incurred a loss of \$5,340,474 after income tax and net cash used in operating activities of \$3,923,731. At 31 December 2022, the Group had net current assets of \$7,550,359.

The ability of the Group to continue as a going concern is principally dependent upon current cash funding held and the ability to raise additional capital or secure other forms of financing, as and when necessary to meet the levels of expenditure required for the Group. This is required to continue its ongoing development and commercialisation of energy saving and energy storage solutions and to meet the consolidated Group’s working capital requirements.

These conditions give rise to material uncertainty which may cast significant doubt over the Group’s ability to continue as a going concern.

Whilst acknowledging these uncertainties, the Directors have concluded that the going concern basis of preparation of the interim financial statements is appropriate considering the following circumstances:

- As at 31 December 2022, the Group had cash on hand of \$12,547,541, which is anticipated to be sufficient to meet the ongoing corporate costs and expected project expenditure for twelve (12) months; and
- As at the date of this report there are 4,417,929 options and 4,360,480 warrants on issue with exercise prices ranging from AUD\$0.36 to AUD\$3.10. If exercised these could raise up to \$16,471,184 in additional capital.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial report. This financial report does not include any adjustments related to the recoverability and classification of recorded asset amounts or classification of liabilities and appropriate disclosures that may be necessary should the Group be unable to continue as a going concern.

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.

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 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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 the operating segment is not significant enough to be separately measured, and all sales come from energy saving and energy storage solutions mainly in Australia. Assets are all based in Australia.

Graphene Manufacturing Group Ltd
Notes to the unaudited condensed consolidated interim financial statements
For the three and six months ended 31 December 2022 and 2021
(continued)

| | Three months ended 31 December | | Six months ended 31 December | |
|--|-----------------------------------|-------------|---------------------------------|-------------|
| | 2022 A\$ | 2021 A\$ | 2022 A\$ | 2021 A\$ |
| 6. Revenue from contracts with customers | | | | |
| Sale of goods | 3,510 | 15,048 | 89,400 | 28,068 |
| (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 | 3,510 | 15,048 | 89,400 | 28,068 |
| Over time | - | - | - | - |
| | 3,510 | 15,048 | 89,400 | 28,068 |
| 7. Income and expenses | | | | |
| (a) Other income | | | | |
| Research and development tax incentive | - | - | 142,144 | - |
| Interest income | 156 | 473 | 651 | 1,168 |
| Other income | - | 25,074 | - | 28,466 |
| Foreign exchange gains | - | 13,600 | - | 13,600 |
| | 156 | 39,147 | 142,795 | 43,234 |
| (b) Notable expenses | | | | |
| <i>Employee benefit expenses include the following notable item:</i> | | | | |
| Superannuation | 134,813 | 80,408 | 257,505 | 153,208 |
| <i>Other expenses include the following notable items:</i> | | | | |
| Insurance | 87,988 | 40,506 | 141,683 | 72,188 |
| Filing fee expenses | 33,245 | 23,267 | 105,390 | 25,816 |
| Testing and quality control | 38,012 | 20,220 | 78,376 | 35,966 |
| Share registry and other listing expenses | 27,327 | 19,206 | 33,404 | 30,255 |
| Information technology expenses | 27,297 | 16,183 | 54,469 | 32,848 |
| Research and development expenses | 10,644 | 32,723 | 21,288 | 32,723 |
| Licensing and registration expenses | 3,674 | - | 57,889 | 5,734 |
| (c) Finance costs | | | | |
| Foreign exchange losses | 63,642 | - | 72,097 | 4,364 |
| Interest expense – lease liabilities | 26,936 | 5,541 | 45,510 | 5,541 |
| Finance and other interest charges | 3,717 | 2,445 | 4,977 | 3,476 |
| | 94,295 | 7,986 | 122,584 | 13,381 |

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 the expected timing in which the Company is likely to generate taxable income in the foreseeable future. Subject to satisfying certain tests under the relevant legislation they can be carried forward indefinitely. As a consequence, there is no income tax expense.

9. Earnings per share

Basic earnings or loss per share (“**EPS**”) calculations have been based on the following profit/(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, and the ongoing non-cash impact on profit and loss due to the change in the fair value of warrants, to ensure consistency and relevance of reporting, 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 | |
| | 2022 | 2021 | 2022 | 2021 |
| | A\$ | A\$ | A\$ | A\$ |
| Basic and diluted EPS (cents) | (2.22) | (21.22) | (6.71) | (20.81) |
| Profit / (loss) attributable to ordinary equity holders of the Company for basic earnings – continuing operations | (1,781,841) | (16,252,180) | (5,340,474) | (15,411,494) |
| Profit / (loss) attributable to ordinary equity holders of the Company adjusted for the effect of dilution | (1,781,481) | (16,252,180) | (5,340,474) | (15,411,494) |
| | 2022 | 2021 | 2022 | 2021 |
| | Number | Number | Number | Number |
| (a) Weighted average number of ordinary shares (“WANOS”) | | | | |
| WANOS used in basic and diluted EPS | 80,343,896 | 76,585,046 | 79,629,869 | 74,060,473 |

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

| | Number as at | |
|--|---------------------|-----------|
| | 31 December | |
| | 2022 | 2021 |
| Stock options | 4,491,233 | 5,278,427 |
| Warrants | 4,273,450 | 3,456,977 |
| Broker warrants | 87,030 | 199,544 |
| Restricted and performance share units | 1,172,669 | 274,981 |
| | 10,024,382 | 9,209,929 |

Graphene Manufacturing Group Ltd
Notes to the unaudited condensed consolidated interim financial statements
For the three and six months ended 31 December 2022 and 2021
(continued)

10. Property, plant and equipment

| | Right-of-use ⁽ⁱ⁾ | Property, plant and equipment | | | Total A\$ |
|---------------------------------|-----------------------------|---|----------------------------------|------------------------------------|------------------|
| | Leased buildings A\$ | Plant and equipment ⁽ⁱⁱ⁾ A\$ | Leasehold improvements A\$ | Capital work in progress A\$ | |
| Cost | | | | | |
| At 30 June 2022 | 1,208,374 | 1,722,603 | 412,438 | 253,375 | 3,596,790 |
| Additions | 475,654 | 11,280 | - | 1,053,424 | 1,540,358 |
| Transfers | - | 163,697 | 107,227 | (270,924) | - |
| At 31 December 2022 | 1,684,028 | 1,897,580 | 519,665 | 1,035,875 | 5,137,148 |
| Accumulated depreciation | | | | | |
| At 30 June 2022 | 134,264 | 1,285,276 | 15,076 | - | 1,434,616 |
| Remeasurement | (134,264) | - | - | - | (134,264) |
| Depreciation | 168,403 | 123,843 | 41,656 | - | 333,902 |
| At 31 December 2022 | 168,403 | 1,409,119 | 56,732 | - | 1,634,254 |
| Net book value | | | | | |
| At 30 June 2022 | 1,074,110 | 437,327 | 397,362 | 253,375 | 2,162,174 |
| At 31 December 2022 | 1,515,625 | 488,461 | 462,933 | 1,035,875 | 3,502,894 |

- (i) Right-of-use ("ROU") asset recognised in respect of the Company's head office and warehouse leased premises in Brisbane, Australia, as disclosed in note 12, with the corresponding lease accounting policy as described in note 31 of the last annual financial statements for the year ended 30 June 2022.
- (ii) Plant and equipment cost includes \$24,246 of leased office equipment recognised as a ROU asset as the lease term exceeds 12 months.

11. Intangible assets

| | Patents, trademarks and other rights A\$ | Computer software A\$ | Total A\$ |
|---------------------------------|---|-----------------------------|------------------|
| | Cost | | |
| At 30 June 2022 | 37,609 | 16,266 | 53,875 |
| Additions | 2,024,616 | - | 2,024,616 |
| At 31 December 2022 | 2,062,225 | 16,266 | 2,078,491 |
| Accumulated amortisation | | | |
| At 30 June 2022 | 16,459 | 4,753 | 21,212 |
| Amortisation | 157,881 | 1,640 | 159,521 |
| At 31 December 2022 | 174,340 | 6,393 | 180,733 |
| Net book value | | | |
| At 30 June 2022 | 21,150 | 11,513 | 32,663 |
| At 31 December 2022 | 1,887,885 | 9,873 | 1,897,758 |

Graphene Manufacturing Group Ltd
Notes to the unaudited condensed consolidated interim financial statements
For the three and six months ended 31 December 2022 and 2021
(continued)

| | 31 December 2022 A\$ | 30 June 2022 A\$ |
|---|-------------------------------------|---------------------------------|
| 12. Lease liabilities | | |
| Maturity analysis of contractual undiscounted cash flows: | | |
| Within one year | 351,984 | 193,758 |
| Between one and five years | 1,328,886 | 931,627 |
| More than five years | - | 84,729 |
| | 1,680,870 | 1,210,114 |

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

| | | |
|-------------|------------------|------------------|
| Current | 256,672 | 136,622 |
| Non-current | 1,171,731 | 897,627 |
| | 1,428,403 | 1,034,249 |

Right-of-use asset and lease liability

In July 2022, the Company replaced its prior three-year lease agreement for the existing head office leased premises in Brisbane, Australia, with a five-year lease agreement including an additional warehouse in the same location. A right-of-use asset of \$1,684,028 has been recognised, as disclosed in note 10, assessed on its five-year lease term, which is subject to annual review. The corresponding lease liability of \$1,531,451 has been recognised together with a provision for make good of \$200,000.

| | 31 December 2022 A\$ | 30 June 2022 A\$ |
|--|-------------------------------------|---------------------------------|
| 13. Financial liabilities | | |
| Warrant liabilities: | | |
| Traded warrants | 1,640,091 | 2,919,815 |
| Non-traded warrants | 2,994,918 | 1,490,549 |
| | 4,635,009 | 4,410,364 |
| Transaction costs | (525,415) | - |
| Carrying amount of warrant liabilities | 4,109,594 | 4,410,364 |

(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.

The changes in the Company's outstanding warrant liability during the six month period ended 31 December 2022 and 2021 were as follows:

| | 2022 A\$ | 2021 A\$ |
|--------------------------|---------------------|---------------------|
| At 1 July | 4,410,364 | 2,188,625 |
| Issued during the period | 3,445,656 | 3,634,424 |
| Exercised | (1,646,702) | (4,521,136) |
| Expired | - | - |
| Fair value adjustment | (1,574,309) | 11,787,805 |
| At 31 December | 4,635,009 | 13,089,718 |

Further details of the warrants issued are disclosed in note 14(b).

13. Financial liabilities (continued)

(a) Warrant liability (continued)

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 2022 | 30 June 2022 |
|-------------------------|-------------------------|---------------------|
| Share price | C\$2.37 | C\$2.73 |
| Exercise price | C\$2.60 – C\$3.35 | C\$1.00 – C\$2.60 |
| Expected volatility | 79.6% | 79.6% |
| Expected life (years) | 1.68 – 3.92 | 0.29 – 2.18 |
| Risk-free interest rate | 3.41% - 3.51% | 2.73% - 3.16% |

Traded warrants

The Marketed Offering 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 Marketed Offering 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 2022 the fair value of traded warrants was based on the market price of C\$0.76 per warrant at the end of the reporting period.

Graphene Manufacturing Group Ltd
Notes to the unaudited condensed consolidated interim financial statements
For the three and six months ended 31 December 2022 and 2021
(continued)

14. Share capital

| | Six months ended 31 December | | | | |
|--|-------------------------------------|------------------------|---------------------|------------------------|---------------------|
| | Note | 2022 Number | 2022 A\$ | 2021 Number | 2021 A\$ |
| Ordinary shares | | 81,791,728 | 37,944,412 | 77,385,326 | 29,072,404 |
| (a) Movement in ordinary shares | | | | | |
| At 1 July | | 78,764,797 | 32,406,981 | 69,545,092 | 13,851,483 |
| Shares issued – Marketed Offering | | - | - | 5,635,000 | 8,903,056 |
| Shares issued – Private Placement | | - | - | 425,000 | 791,248 |
| Shares issued – OzKem Transaction | (i) | 125,207 | 500,000 | - | - |
| Shares issued – Bought Deal Offering | (ii) | 2,091,850 | 2,882,287 | - | - |
| Share options exercised | (iii) | 37,348 | 22,781 | 460,652 | 200,158 |
| Warrants exercised | (iv) | 727,246 | 934,698 | 1,319,582 | 6,881,275 |
| RSUs exercised | (iv) | 45,280 | - | - | - |
| Transaction costs for issued shares | | - | (449,037) | - | (1,554,816) |
| | | 81,791,728 | 36,297,710 | 77,385,326 | 29,072,404 |
| Share capital warrant premium | | - | 1,646,702 | - | - |
| At 31 December | | 81,791,728 | 37,944,412 | 77,385,326 | 29,072,404 |

(i) *Share issue - OzKem Transaction*

On 15 August 2022, GMG and OzKem Pty Ltd (“**OzKem**”) signed a binding agreement for GMG to acquire the manufacturing intellectual property and brand rights of OzKem’s THERMAL-XR® coating products for a cash consideration of \$1 million, in addition to \$1 million in ordinary shares of GMG (the “**OzKem Transaction**”). GMG paid OzKem an initial A\$1 million cash and issued 125,207 ordinary shares of GMG (“**Shares**”) to OzKem upon the receipt of certain deliverables and equipment from OzKem on 8 September 2022 and 22 September 2022 respectively. GMG will issue an additional 125,206 Shares (the “**Additional Shares**”) to OzKem, conditional on a successful commercial batch blend of the THERMAL XR® product being completed by GMG.

(ii) *Share issue – Bought Deal Offering*

On November 30, 2022, GMG completed its bought deal prospectus offering of units (the “**Units**”) of the Company, including exercise in full of the over-allotment option (the “**Offering**”). A total of 2,091,850 Units were sold at a price of C\$2.75 per Unit (the “**Offering Price**”) for gross proceeds of approximately C\$5.75 million. Each Unit is comprised of one ordinary share in the capital of the Company (each, an “**Ordinary Share**”) and one Ordinary Share purchase warrant (each, a “**Warrant**”). Each Warrant entitles the holder to purchase one Ordinary Share at C\$3.35 at any time until November 30, 2026.

(iii) *Share options exercised*

Shares issued upon the exercise of options allocated under the Stock Option Plan detailed in note 16(a).

(iv) *Warrants exercised*

Shares issued upon the exercise of warrants detailed in note 14(b).

(v) *Restricted share units (RSUs) exercised*

Shares issued upon the exercise of RSUs allocated under the Amended Restricted Share Unit and Performance Share Stock Option Plan detailed in note 16(a).

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(continued)

14. Share capital (continued)

(b) Warrants

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

| Issue date | Expiry date | Exercise price | 31 December 2022 | 30 June 2022 |
|------------------|-------------------|----------------|---------------------|------------------|
| 24 March 2021 | 24 September 2022 | C\$0.65 | - | 40,050 |
| 13 April 2021 | 13 October 2022 | C\$1.00 | - | 621,377 |
| 2 September 2021 | 2 September 2024 | C\$2.60 | 1,994,100 | 1,996,100 |
| 2 September 2021 | 2 September 2024 | C\$2.05 | 16,180 | 18,718 |
| 2 September 2021 | 2 September 2024 | C\$2.60 | 187,500 | 187,500 |
| 2 September 2021 | 2 September 2024 | C\$2.14 | 5,760 | 5,760 |
| 9 November 2021 | 2 September 2024 | C\$2.60 | 2,335 | 62,347 |
| 30 November 2022 | 30 November 2026 | C\$3.35 | 2,091,850 | - |
| 30 November 2022 | 30 November 2024 | C\$2.75 | 62,755 | - |
| Total | | | 4,360,480 | 2,931,852 |

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

| | Six months ended 31 December | | | |
|-----------------------------------|------------------------------|------------------|---------------|------------------|
| | 2022 WAEP | 2022 Number | 2021 WAEP | 2021 Number |
| Outstanding at 1 July | \$2.51 | 2,931,852 | \$0.53 | 1,699,930 |
| Issued | \$3.66 | 2,155,874 | \$2.77 | 3,276,173 |
| Exercised | \$1.27 | (727,246) | \$1.79 | (1,319,582) |
| Outstanding at 31 December | \$3.20 | 4,360,480 | \$2.34 | 3,656,521 |

There were no warrants forfeited or expired since the end of the last reporting year ended 30 June 2022 and during the six month period ended 31 December 2022.

15. Reserves

| | 31 December 2022 A\$ | 30 June 2022 A\$ |
|-----------------------------|----------------------------|------------------------|
| Share-based payment reserve | 2,474,909 | 1,368,903 |
| Warrants reserve | 610,133 | 433,990 |
| | 3,085,042 | 1,802,893 |

(a) Movements in reserves

| | Share-Based Payment A\$ | Warrants A\$ | Total A\$ |
|----------------------------|-------------------------------|-----------------|------------------|
| At 30 June 2022 | 1,368,903 | 433,990 | 1,802,893 |
| Stock option plan expense | 5,387 | - | 5,387 |
| RSUs expense | 976,891 | - | 976,891 |
| PSUs expense | 123,728 | - | 123,728 |
| Warrants issued | - | 176,143 | 176,143 |
| At 31 December 2022 | 2,474,909 | 610,133 | 3,085,042 |

16. Share-based payments

(a) Stock option plan and Share Incentive Plan

Amendments to the stock option plan (established 19 September 2018) and the Share Incentive Plan (established 25 November 2021) were approved by resolutions of shareholders on 25 November 2022. 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 are 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.

(b) 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 one to three tranches with vesting conditions based on time and share price performance over its respective one to 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 respective one to three-year vesting period and the amount is adjusted at each reporting period to reflect the number of RSUs and PSUs expected to vest.

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(continued)

16. Share-based payments (continued)

(c) 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 2022 ⁽ⁱ⁾ | 30 June 2022 ⁽ⁱ⁾ |
|------------------|------------------|-------------------------------|------------------------------------|--------------------------------|
| 6 November 2018 | 4 November 2025 | \$0.36 | 2,222,654 | 2,222,654 |
| 18 February 2019 | 16 February 2026 | \$0.61 | 220,000 | 220,000 |
| 15 March 2019 | 13 March 2026 | \$0.61 | 200,000 | 200,000 |
| 20 March 2019 | 18 March 2026 | \$0.61 | 29,326 | 29,326 |
| 12 May 2019 | 10 May 2026 | \$0.61 | - | 37,348 |
| 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 | 285,000 | 285,000 |
| 23 December 2020 | 22 December 2027 | \$0.82 | 784,454 | 868,648 |
| 12 March 2021 | 10 March 2028 | \$0.94 | 29,348 | 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 | | | 4,491,233 | 4,627,427 |

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

| | Six months ended 31 December | | | |
|-----------------------------------|------------------------------|------------------|-----------------------------|------------------|
| | 2022 WAEP ⁽ⁱ⁾ | 2022 Number | 2021 WAEP ⁽ⁱ⁾ | 2021 Number |
| Outstanding at 1 July | \$0.52 | 4,627,427 | \$0.53 | 5,739,079 |
| Exercised | \$0.61 | (37,348) | \$0.44 | (460,652) |
| Forfeited | \$0.84 | (98,846) | - | - |
| Outstanding at 31 December | \$0.52 | 4,491,233 | \$0.54 | 5,278,427 |
| Exercisable at 31 December | \$0.50 | 4,232,887 | \$0.48 | 4,011,387 |

(i) Adjusted for the impact of the Share Split Transaction per note 22(a)(ii) of the last annual financial statements for the year ended 30 June 2022.

There were no options granted or expired since the end of the last reporting year ended 30 June 2022 and during the six month period ended 31 December 2022.

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(continued)

16. Share-based payments (continued)

(d) 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 2022 | 30 June 2022 |
|------------------|-------------------|----------------|---------------------|-----------------|
| 24 March 2021 | 24 September 2022 | C\$0.65 | - | 40,050 |
| 2 September 2021 | 2 September 2024 | C\$2.05 | 16,180 | 18,718 |
| 2 September 2021 | 2 September 2024 | C\$2.14 | 5,760 | 5,760 |
| 9 November 2021 | 2 September 2024 | C\$2.60 | 2,335 | 62,347 |
| 30 November 2022 | 30 November 2024 | C\$2.75 | 62,755 | - |
| Total | | | 87,030 | 126,875 |

The number and weighted average exercise price (“**WAEP**”) of broker warrants, issued as share based payments which are all exercisable, were as follows:

| | Six months ended 31 December | | | |
|-----------------------------------|------------------------------|----------------|---------------|----------------|
| | 2022 WAEP | 2022 Number | 2021 WAEP | 2021 Number |
| Outstanding at 1 July | \$2.12 | 126,875 | \$0.70 | 161,430 |
| Issued | \$3.02 | 64,024 | \$2.39 | 246,173 |
| Exercised | \$2.00 | (103,869) | \$1.84 | (208,059) |
| Outstanding at 31 December | \$2.79 | 87,030 | \$1.61 | 199,544 |

There were no broker warrants forfeited or expired since the end of the last reporting year ended 30 June 2022 and during the six month period ended 31 December 2022.

Further details in respect of broker warrants held at reporting date are provided in note 14(b).

16. Share-based payments (continued)

(e) 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 2022 | 30 June 2022 |
|--------------------------------|-------------------|-----------|---------------------|-----------------|
| 20 October 2021 ⁽ⁱ⁾ | 23 December 2023 | RSU | 24,212 | - |
| 20 October 2021 ⁽ⁱ⁾ | 18 July 2023 | RSU | 14,528 | - |
| 20 October 2021 ⁽ⁱ⁾ | 20 October 2026 | RSU | 97,940 | 181,960 |
| 20 October 2021 | 20 October 2026 | PSU | 77,359 | 77,359 |
| 5 December 2021 | 5 December 2026 | RSU | 15,662 | 15,662 |
| 14 September 2022 | 14 September 2027 | RSU | 401,227 | - |
| 20 September 2022 | 20 September 2027 | RSU | 253,651 | - |
| 12 October 2022 | 12 October 2027 | RSU | 36,186 | - |
| 14 October 2022 | 14 October 2027 | RSU | 7,306 | - |
| 20 October 2022 | 20 October 2027 | RSU | 189,138 | - |
| 21 October 2022 | 21 October 2027 | RSU | 20,952 | - |
| 27 October 2022 | 27 October 2027 | PSU | 34,508 | - |
| Total | | | 1,172,669 | 274,981 |

(i) The vesting and expiry dates for 38,740 RSUs granted on 20 October 2021, with an original expiry date of 20 October 2026, were accelerated following the approval of the amendments by the Board.

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

| | Six months ended 31 December | | | |
|-----------------------------------|------------------------------|------------------|---------------|----------------|
| | 2022 WASP ⁽ⁱⁱ⁾ | 2022 Number | 2021 WAEP | 2021 Number |
| RSUs | | | | |
| Outstanding at 1 July | \$6.24 | 197,622 | - | - |
| Granted | \$4.20 | 962,001 | \$6.24 | 197,622 |
| Exercised | \$6.28 | (45,280) | - | - |
| Forfeited | \$4.20 | (53,541) | - | - |
| Outstanding at 31 December | \$4.49 | 1,060,802 | \$6.24 | 197,622 |
| Exercisable at 31 December | \$6.28 | 34,745 | - | - |
| PSUs | | | | |
| Outstanding at 1 July | \$6.28 | 77,359 | - | - |
| Granted | \$3.62 | 34,508 | \$6.28 | 77,359 |
| Outstanding at 31 December | \$5.46 | 111,867 | \$6.28 | 77,359 |
| Exercisable at 31 December | - | - | - | - |

(ii) Further details of fair value measurement are included in note 16(g).

Since the end of the last reporting year ended 30 June 2022 and during the six month period ended 31 December 2022 there were no:

- RSUs expired; and
- PSUs exercised, forfeited or expired.

16. Share-based payments (continued)

(f) Fair value measurement of options and warrants granted

The assessed fair value of options granted during the six months ended 31 December 2022 was nil (year ended 30 June 2022: nil). The assessed fair value of warrants issued during the six months ended 31 December 2022 was \$176,143 (year ended 30 June 2022: \$408,367).

The fair value of options and warrants (excluding Compensation Warrants) at grant date is determined using a Black-Scholes Model (BSM) 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 2022, and the year ended 30 June 2022, were calculated using the exercise price, grant date and expiry date as per above with the following weighted average assumptions:

| On initial recognition using BSM | Options | | Warrants | |
|----------------------------------|------------------|--------------|------------------|--------------|
| | 31 December 2022 | 30 June 2022 | 31 December 2022 | 30 June 2022 |
| Share price at grant date | - | - | - | \$3.19 |
| Expected volatility | - | - | - | 61% |
| Risk-free interest rate | - | - | - | 0.18% |

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.

Compensation Warrants

For the Compensation Warrants issued on 30 November 2022 that contain a second level of warrants upon exercise of the first level, the Monte Carlo Simulation (MCS) Methodology has been used to determine the fair value of each level, that takes into account the exercise price, the term of the warrant, the market price of a share at grant date, the price volatility of the underlying share and the risk-free rate for the term of the warrant.

The fair value of Compensation Warrants issued during the six months ended 31 December 2022, was calculated using the following assumptions:

| On initial recognition using MCS | Compensation Warrants ⁽ⁱ⁾ | |
|----------------------------------|--------------------------------------|----------------|
| | Level 1 | Level 2 |
| Share price at grant date | C\$2.70 | Not applicable |
| Exercise price | C\$2.75 | C\$3.35 |
| Term | 2 years | 4 years |
| Risk-free rate | 3.914% | 3.408% |
| Dividend yield | - | - |
| Volatility (rounded) | 80% | 80% |

- (i) 62,755 broker warrants were issued on 30 November 2022 in respect of the Bought Deal Offering completed, as detailed in Note 14(a)(ii). The warrants have two levels of value whereby upon exercise, each initial warrant (Level 1) grants its holder an ordinary share in the Company, as well as a second warrant (Level 2). The Level 2 warrants entitle the holder to purchase an additional ordinary share in the Company at a new exercise price as listed in the table.

16. Share-based payments (continued)

(g) Fair values of RSUs and PSUs granted

The assessed fair value of RSUs and PSUs granted during the six months ended 31 December 2022 was \$4,164,189 (year ended 30 June 2022: \$1,692,837) and is based on the Company's share price on the date of grant.

The RSUs vest in one to three tranches with vesting conditions based on time and share price performance over its respective one to three-year period. The PSUs vest in one to 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 respective one to 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 2022, and the year ended 30 June 2022, was calculated at the grant date based on the following weighted average assumptions:

| On initial recognition | RSUs | | PSUs | |
|---------------------------|-----------------------|------------------------|-------------------------|------------------------|
| | 31 December 2022 | 30 June 2022 | 31 December 2022 | 30 June 2022 |
| Share price at grant date | \$4.20 ⁽ⁱ⁾ | \$6.24 ⁽ⁱⁱ⁾ | \$3.62 ⁽ⁱⁱⁱ⁾ | \$6.28 ⁽ⁱⁱ⁾ |

- (i) The fair value of RSUs granted during the six month period ended 31 December 2022, was based on the share price on 25 August 2022 and 2 September 2022 in accordance with employment agreement terms and the Share Incentive Plan.
- (ii) 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).
- (iii) The fair value of PSUs granted during the six month period ended 31 December 2022, was based on the share price on 24 February 2022 in accordance with employment agreement terms and the Share Incentive Plan.

17. Commitments and contingencies

The Company's commitments and contingencies are consistent with those reported in the last annual financial statements as at 30 June 2022.

18. Subsequent events

With the exception of the matter noted below, no other matters or circumstances have occurred since the end of the reporting period, 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.

(a) Australian Industrial Chemicals Introduction Scheme (AICIS) Approval

On 13 February 2023, GMG announced the full and final approval of all GMG's Graphene enhanced products from the Australian Industrial Chemicals Introduction Scheme (AICIS) of the Australian Government Department of Health and Aged Care under, and subject to the conditions of, Assessment statement CA09624.