HYDROGRAPH CLEAN POWER INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2022 and 2021

(Expressed in United States Dollars)

Independent Auditor's Report

To the Shareholders of HydroGraph Clean Power Inc.:

Opinion

We have audited the consolidated financial statements of HydroGraph Clean Power Inc. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2022 and September 30, 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2022 and September 30, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss and negative cash flows during the year ended September 30, 2022 and, as of that date, the Company had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephen Bonnell.

Calgary, Alberta

MNP LLP

January 27, 2023

Chartered Professional Accountants

HYDROGRAPH CLEAN POWER INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in United States Dollars)

	Notes	September 30, 2022	September 30, 2021
ASSETS			
CURRENT ASSETS			
Cash		$ 2,801,029	$ 276,809
Restricted cash	9	-	5,146,981
Deposits and prepaids		506,781	3,112
Tax receivable		92,219	28,929
Shares subscriptions receivable	9	71,851	-
Other receivable		-	5,000
		3,471,880	5,460,831
NON-CURRENT ASSETS			
Technology and development costs	4	3,178,078	2,344,701
Right-of-use asset	5	286,097	345,289
Fixed assets	6	1,002,680	123,124
		4,466,855	2,813,114
TOTAL ASSETS		$ 7,938,735	$ 8,273,945
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	8	$ 134,260	$ 500,653
Subscriptions received	9	-	5,141,123
Lease liability - current	5	74,750	61,083
		209,010	5,702,859
NON-CURRENT LIABILITIES			
Lease liability - long term	5	224,073	298,823
CEBA loan	7	19,265	19,423
		243,338	318,246
TOTAL LIABILITIES		452,348	6,021,105
SHAREHOLDERS' EQUITY			
Share capital	9	10,352,648	3,857,765
Reserves	9	2,443,330	300,500
Accumulated other comprehensive loss		(421,654)	-
Deficit		(4,887,937)	(1,905,425)
TOTAL SHAREHOLDERS' EQUITY		7,486,387	2,252,840
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 7,938,735	$ 8,273,945

Nature and continuance of operations	1
Commitments	10
Subsequent events	15

Approved on Behalf of the Board of Directors

"Stuart Jara"
Stuart Jara, CEO, Director

"Kjirstin Breure"
Kjirstin Breure, President, Director

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

HYDROGRAPH CLEAN POWER INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in United States dollars)

	Notes		September 30, 2022		September 30, 2021
			$		$
Sales			5,099		7,980
Cost of sales			(3,431)		-
Gross Profit			1,668		7,980
Expenses					
Depreciation	5,6		189,941		24,291
Exchange and filing fees			25,003		11,213
Finance costs	7		1,808		2,184
Insurance			9,518		-
Lease accretion	5		26,126		4,920
License maintenance fees			71,902		150,363
Office and miscellaneous			215,153		58,966
Professional fees			913,256		239,974
Rent and occupancy			43,604		55,774
Research			177,058		235,943
Salaries			416,818		338,523
Stock-based compensation	9		536,416		292,000
Travel and promotion			290,191		162,684
Total Expenses			2,916,794		1,576,835
Loss before other items			(2,915,126)		(1,568,855)
Fair value change in derivative liability	14		(285,231)		-
Foreign exchange gain (loss)			211,206		59,864
Other income			6,639		-
Net loss			(2,982,512)		(1,508,991)
Other comprehensive loss					
Item that will not be reclassified to profit or loss					
Foreign exchange translation adjustment			(421,654)		-
Comprehensive loss		$	(3,404,166)	$	(1,508,991)
Net loss per share, basic and diluted			(0.03)		(0.02)
Weighted average common shares outstanding			117,227,253		73,255,641

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

HYDROGRAPH CLEAN POWER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(Expressed in United States Dollars)

	Note	Shares Issued	Share Capital	Reserves	Other comprehensive loss	Accumulated Deficit	Total
			$	$	$	$	$
Balance, September 30, 2020		53,677,100	1,432,200	22,500	-	(396,434)	1,058,266
Shares issued for cash	9	8,056,292	402,815	-	-	-	402,815
Units issued for cash	9	25,350,000	1,681,250	115,000	-	-	1,796,250
Penalty warrants converted	9	2,182,500	106,500	(106,500)	-	-	-
Warrants exercised	9	4,250,000	274,000	(61,500)	-	-	212,500
Share issue costs	9	-	(39,000)	39,000	-	-	-
Share-based payments	9	-	-	292,000	-	-	292,000
Net loss		-	-	-	-	(1,508,991)	(1,508,991)
Balance, September 30, 2021		93,515,892	3,857,765	300,500	-	(1,905,425)	2,252,840
Shares issued for cash	9	61,171,666	7,171,848	1,465,916	-	-	8,637,764
Share issue costs	9	-	(676,965)	140,498	-	-	(536,467)
Share-based payments	9	-	-	536,416	-	-	536,416
Foreign currency translation adjustment		-	-	-	(421,654)	-	(421,654)
Net loss		-	-	-	-	(2,982,512)	(2,982,512)
Balance, September 30, 2022		154,687,558	10,352,648	2,443,330	(421,654)	(4,887,937)	7,486,387

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

HYDROGRAPH CLEAN POWER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars)

	September 30, 2022	September 30, 2021
	$	$
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss and comprehensive loss	(2,982,512)	(1,508,991)
Add back non-cash items:		
Stock-based compensation	536,416	292,000
Unrealized foreign exchange loss	(421,654)	(59,864)
Depreciation	189,941	24,291
Finance costs	(158)	7,104
Accrued interest	26,126	-
Changes in non-cash working capital balances:		
Tax receivable	(63,290)	(28,929)
Other receivable	5,000	(4,506)
Deposits	(503,669)	(3,112)
Accounts payable and accrued liabilities	(366,393)	360,755
Cash used in operating activities	(3,580,193)	(921,252)
INVESTING ACTIVITIES		
Technology and development costs	(833,377)	(1,177,031)
Acquisition of fixed assets	(1,010,305)	(125,410)
Cash used in investing activities	(1,843,682)	(1,302,441)
FINANCING ACTIVITIES		
Shares issued for cash, net	2,888,323	402,815
Warrants issued for cash	-	212,500
Units issued for cash	-	1,796,250
Subscriptions received	-	5,141,123
Repayments of lease liability	(87,209)	(12,796)
Cash provided by financing activities	2,801,114	7,539,892
Foreign currency translation differences on cash	-	59,864
Increase (decrease) in cash	(2,622,761)	5,376,063
Cash, beginning	5,423,790	47,727
Cash, ending	2,801,029	5,423,790

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

1. NATURE AND CONTINUANCE OF OPERATIONS

HydroGraph Clean Power Inc. (the "Company") was incorporated under the Laws of the Province of British Columbia on June 26, 2017. The address of the Company's corporate office and its principal place of business is 1 King Street West, Suite 4800-118, Toronto, ON, Canada.

The Company's principal business activity is the acquisition and development of graphene and hydrogen related products and services. The Company is listed on the Canadian Stock Exchange (the "CSE") under the ticker symbol HG.

The Company has never generated profit or positive cash flows from operations. For the year ended September 30, 2022, the Company reported a net loss of $2,982,512 (2021 – $1,508,991) negative cash flow from operating activities of $3,580,193 (2021 – $921,252), and an accumulated deficit of $4,887,937 (2021 – $1,905,425). These conditions indicate that a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue its operations as intended are dependent on its ability to obtain necessary financing and raise capital sufficient to cover its development and operating costs.

In early March 2020, there was a global outbreak of coronavirus (COVID-19) that has resulted in changes in global supply and demand of certain mineral and energy products. These changes, including a potential economic downturn and any potential resulting direct and indirect negative impact to the Company cannot be determined, but they could have a prospective material impact to the Company's project activities, cash flows and liquidity. COVID-19 has not had a significant impact on the Company's operations to date and is not expected to have a significant impact in the future.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these condensed consolidated financial statements.

2. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved and authorized for issue by the Board of Directors on January 27, 2023.

b) Measurement basis

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. BASIS OF PRESENTATION (continued)

c) Functional and presentation currency

Determination of functional currency may involve certain judgments to determine the primary economic environment. Management reconsiders the functional currency of our entities if there is a change in events and conditions which determine the primary economic environment. Effective July 1, 2022, the Company determined that the functional currency of its parent company had changed from the United States dollar (“USD) to the Canadian dollar (“CAD”). The Company made the determination due to the incorporation of HydroGraph USA, Inc. which is expected to hold all USD sales contracts in the future and incur the majority of the United States dollar expenses. The change in functional currency is treated prospectively.

Transactions of the Company’s individual entities are recorded in their own functional currency based on the primary economic environment in which they operate. The functional currency and location of each entity is as follows:

Entity	**Location**	**Functional Currency**
HydroGraph Clean Power Inc.	Canada	Canada
HydroGraph USA, Inc.	United States	United States
Carbon-2D Graphene Corp. (dormant)	Canada	Canada
HydroGraph Clean Power Ontario Inc. (dormant)	Canada	Canada

These consolidated financial statements are presented in United States dollars which is consistent with prior years presentation.

d) Basis of consolidation

These consolidated financial statements include the accounts on the Company and its wholly owned subsidiaries, HydroGraph USA Inc., incorporated in the state of Delaware. o, Carbon-2D Graphene Corp., incorporated in the province of British Columbia and HydroGraph Clean Power Ontario Inc. incorporated in the province of Ontario.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity to obtain benefits from its activities.

In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company transactions, balances and unrealized gains or losses with the subsidiaries are eliminated. The financial statements of the subsidiaries are prepared using consistent accounting policies with that of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial Instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value along with, in the case of a financial asset or liability not at fair value through profit and loss (“FVTPL”), transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit and loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company classifies its financial assets and financial liabilities in the following measurement categories:

i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
ii) those to be measured at amortized cost.

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income.

Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL. Any fair value changes attributable to changes in credit risk for liabilities designated at FVTPL are recorded in other comprehensive income and any fair value change in excess of the amount attributable to changes in credit risk is recognized in profit and loss.

The Company's financial instruments consist of cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, subscriptions received and CEBA loan. Except for cash and cash equivalents, all financial instruments held by the Company are measured at amortized cost. Nevertheless, the fair values of these financial instruments approximate their carrying value due to their short-term maturities. The fair values of cash are measured at FVTPL and any changes to fair value after initial recognition are recorded in profit or loss for the period in which they occur.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

IFRS 9 introduced a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods, if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Use of estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

The more significant areas where management estimate has been applied are:

(i) Fair market share price

Prior to the Company's share becoming listed on the CSE, management had to make estimates of the fair market share price. Management estimated the fair market share price by reference to the most recent share issuance price.

(ii) Fair value of warrants and stock options

The fair value of warrants and regular stock options is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The fair value of stock options with market performance conditions are determined using the Black-Scholes option pricing model incorporating the Monte Carlo simulation. Inputs to the models are subject to various estimates regarding volatility, interest rates, dividend yields, forfeiture rates and expected life of the units issued.

(iii) Leases

The application of IFRS 16 requires the Company to make judgments and estimates that affect the measurement of right-of-use assets and lease liabilities. In determining the lease term, all facts and circumstances that create an economic incentive to exercise renewal options (or not exercise termination options) are considered. The Company has estimated an incremental borrowing rate of 8% to determine the fair value of the right-to-use assets and the associated lease liability.

(iv) CEBA loan

CEBA loan forgiveness is not recognized until there is a reasonable assurance that the Company will comply with the conditions attached to them and that the forgiveness will be received. The Company expects to have the ability to comply with the provisions and plans to do so. The Company has estimated an effective interest rate of 12% for the CEBA loan benefit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v)Impairment of fixed assets and technology and development costs

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less cost of disposal and value in use. The value in use calculation is based on a discounted cash flow model. The estimated future cash flows are derived from management estimates and budgets. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and growth rate used for extrapolation purposes.

c) Use of judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments with a significant risk of material adjustment in the next year. The more significant areas where management judgement has been applied are:

(i) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. The directors monitor future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 1.

The application of the Company's accounting policy for technology and product development costs requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Technology and product development costs are not yet available for use. Estimates and assumptions made may change if new information becomes available. If information becomes available after expenditures are capitalized suggesting that the recovery of the expenditures are unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available.

(ii) Determination of the functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions within the reporting entity.

d) Technology and development costs

All expenditures related to technology and product development including acquisition costs for technology interests and are classified as intangible assets.

The recoverability of technology and product development costs is dependent on the existence of economically viable markets and the profitability of future operations. Amounts capitalized to technology and development costs do not necessarily reflect present or future values.

At the end of each reporting period, the Company reviews the carrying amounts of the technology and development costs to determine whether those assets have suffered an impairment loss. The recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of loss and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of loss and comprehensive loss.

The Company's technology and development assets are not yet ready for intended use and therefore no amortization has been recorded.

Recorded costs of technology and development costs are not intended to reflect the present or future values. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.

e) Fixed assets

Fixed assets are recorded at historical cost less accumulated amortization. Historical cost includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset, as well as interest related to financing during construction. When historical cost records were not available, other methods were used to estimate the costs and accumulated amortization.

The Company assesses at the end of each reporting period, whether there is an indication that an asset may be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the asset. If the carrying amount of the asset, or its respective cash generating unit, exceeds the recoverable amount, the difference is recognized as an impairment charge.

Leasehold improvements are amortized over the expected term of the lease, including the two renewal options.

Manufacturing equipment and furniture is depreciated on a straight-line basis over 6 years.

Computer equipment is depreciated on a straight-line basis over 3 years.

f) Leases

Leases are accounted for using IFRS 16. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone process. However, for the leases of land and buildings in which it is the lessee, the Company has elected not to separate non-lease components and account for the non-lease components as a single component.

The Company recognizes the right-of-use asset and a lease liability at the commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term over the term of the lease. In addition, right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate as the discount rate.

g) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

h) Share-based payments

The stock option plan allows the Company to issue stock options to the Company's officers, directors, employees, management companies and consultants to acquire shares of the Company. The fair value of options granted is recognized as an expense with a corresponding increase in equity.

The fair value of options granted are measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model and the Monte Carlo simulation for stock options with market performance conditions taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

All share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

i) Share capital

The fair value of the common shares issued in the private placements was determined to be the residual between the proceeds and the fair value of the warrants. The fair value of the warrants is determined using the Black-Scholes option pricing model. Warrants that are issued as payment for an agency fee or other transaction costs are accounted for as share-based payments.

j) Share issue costs

Share issue costs are charged to share capital when the related shares are issued.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the net loss and comprehensive loss attributed to ordinary shareholders and the weighted average number of common shares outstanding for the dilutive effect of the potential exercise of warrants as though they occurred at the beginning of the year.

l) Foreign exchange

The functional currency of the Company is the Canadian dollar. The presentation currency of the Company is the US dollar. Transactions in currencies other than the Canadian dollar are recorded at the rates of exchange prevailing on the dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date.

Foreign exchange gains and losses resulting from the settlement of transactions and the translation of monetary assets and liabilities in currencies other than the Canadian dollars are recognized in the consolidated statement of loss and comprehensive loss.

m) Income tax

Income tax expense comprises current and deferred income tax. Tax is recognized in the income statement except to the extent that it relates to items recognized directly into equity, in which case the related tax effect is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax expense is calculated using tax rates, laws and government policies that were enacted or substantively enacted at the Statements of Financial Position date.

Deferred tax is accounted for using a temporary difference approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable income. Deferred tax is calculated based on the expected manner in which temporary differences related to the carrying amounts of assets and liabilities are expected to reverse using tax rates and laws enacted or substantively enacted which are expected to apply in the period of reversal. Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and which do not affect accounting or taxable profit or loss at the time of the transaction.

n) Impairment of financial assets

The measurement of impairment of financial assets is based on expected credit losses. Accounts receivable that are considered collectable within one year or less are not considered to have a significant financing component and a lifetime expected credit loss (“ECL”) is measured at the date of initial recognition of the receivable.

The Company applies the simplified approach to providing for ECL’s prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Company will consider historical industry default rates as well as credit ratings of major customers.

(Expressed in United States Dollars unless otherwise stated)

4. TECHNOLOGY AND DEVELOPMENT COSTS

The Company has executed a multiple license agreement with Kansas State University Research Foundation ("KSURF") which grants the Company access to the technology developed including hydrogen and graphene detonation technology and certain applications of graphene technology (the "License Agreement"). The License Agreement carries several future commitments as disclosed in Note 10.

The Company has incurred the following technology acquisition and development costs:

	$
Balance, September 30, 2020	1,167,670
Additions	1,177,031
Balance, September 30, 2021	2,344,701
Additions	833,377
Balance, September 30, 2022	3,178,078

Technology and development costs will not commence being amortized until the assets are put into production. Accordingly, the Company performs an impairment test on an annual basis, or whenever there are indicators of impairment. As of September 30, 2022, and September 30, 2021, no impairment was required.

5. LEASE LIABILITY AND RIGHT OF USE ASSET

(a) Right of use asset

	September 30, 2022	September 30, 2021
	$	$
Balance, beginning of the year	345,289	12,140
Additions	–	355,154
Depreciation charge for the year	(59,192)	(22,005)
Balance, end of the year	286,097	345,289

(b) Lease liability

	September 30, 2022	September 30, 2021
	$	$
Balance, beginning of the year	359,906	12,628
Additions	–	355,154
Lease payments	(87,209)	(12,796)
Interest	26,126	4,920
Balance, end of the year	298,823	359,906
Current portion	74,750	61,083
Balance, end of year, non-current portion	224,073	298,823

(Expressed in United States Dollars unless otherwise stated)

6. FIXED ASSETS

	Manufacturing Equipment	Leasehold Improvements	Furniture	Computer	Equipment in Process	Total
Cost	$	$	$	$	$	$
Balance, September 30, 2020	-	-	-	-	-	-
Additions	-	109,622	15,788	-	-	125,410
Balance, September 30, 2021	-	109,622	15,788	-	-	125,410
Additions	292,475	650,436	4,300	5,561	57,533	1,010,305
Balance, September 30, 2022	292,475	760,058	20,088	5,561	57,533	1,135,715
Accumulated depreciation						
Balance, September 30, 2020	-	-	-	-	-	-
Additions	-	1,841	445	-	-	2,286
Balance, September 30, 2021	-	1,841	445	-	-	2,286
Additions	46,275	81,148	2,863	463	-	130,749
Balance, September 30, 2022	46,275	82,989	3,308	463	-	133,035
Net book value						
Balance, September 30, 2021	-	107,781	15,343	-	-	123,124
Balance, September 30, 2022	246,200	677,069	16,780	5,098	57,533	1,002,680

7. CEBA LOAN

On September 20, 2020, the Company received a $30,068 Canada Emergency Business Account loan (“CEBA Loan”). The CEBA Loan bears 0% interest until December 31, 2022. If the balance is not paid by December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest paid monthly, commencing January 1, 2023.

The loan was recognized at fair value on an estimated market interest rate of 12% and the expected repayment of $22,551 before December 31, 2022. The difference between the repayable portion of the loan of $22,551 and the fair value of the repayable portion of the loan of $19,265 will be recognized over the term of the loan. During the year ended September 30, 2022, $1,808 (2021 - $2,184) of accretion related to the CEBA loan was recorded and included in finance costs in the consolidated statement of loss and comprehensive loss.

(Expressed in United States Dollars unless otherwise stated)

8. RELATED PARTY TRANSACTIONS AND BALANCES

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the board of directors, the Chief Executive Officer and the Chief Financial Officer. During the years ended September 30, 2022 and 2021, key management compensation included the following:

	September 30, 2022	September 30, 2021
	$	$
Management and director compensation	358,061	125,160
Share-based payments	536,416	169,077
Total	894,477	294,237

As at September 30, 2022, $12,443 (2021 – $36,882) was due to related parties of the Company and has been included in accounts payable and accrued liabilities on the condensed consolidated statement of financial position.

9. SHARE CAPITAL

(a) Authorized Share Capital

The Company is authorized to issue an unlimited number of common shares without par value.

(i) During the year ended September 30, 2022, the Company converted the $5,141,123 of subscription receipts received in 2021 into 26,020,000 units. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of $0.60 ($0.75 CAD) per common share. The warrants were ascribed a value of $92,590 using the Black Scholes pricing model with the following inputs: volatility of 100%, share price on grant date of $0.05 interest rate of 1.04%, expected life of two years and 0% dividend yield. The warrants expire two years from date of issuance and were recorded as a derivative liability (Note 14). The Company incurred cash share issuance costs of $359,180 in connection with the financing and issued 1,821,400 broker warrants as finders fees. The broker warrants have an exercise price of $0.25 CAD, expire two years from the date of issuance and were ascribed a value of $20,539; and

(ii) On September 14, 2022, the Company issued 35,151,666 units at a price of $0.12 CAD per unit for gross proceeds of $3,209,045. Each unit is comprised of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of $0.20 CAD per common share. The warrants were ascribed a value of $1,085,730 using the Black Scholes pricing model with the following inputs: volatility of 100%, share price on grant date of $0.17 CAD interest rate of 3.72%, expected life of two years and 0% dividend yield. The warrants expire two years from the date of issuance. In connection with the financing, the Company issued 1,942,033 broker warrants with an ascribed value of $119,959 and incurred $177,287 in cash finders' fees. As at September 30, 2022, $71,851 from the unit issuance had yet to be received is included in share subscriptions receivable.

9. SHARE CAPITAL (continued)

During the year ended September 30, 2021, the Company:

(i) Issued 8,056,292 common shares at a price of $0.05 ($0.065 CAD) per share for gross proceeds of $402,815. In connection with the financing, the Company incurred share issue costs of $39,000 from the issuance of 1,492,750 broker warrant. The warrants have an exercise price of $0.05 ($0.065 CAD) expiring 2 years from the earlier of date of issue or December 31, 2021. The fair value was calculated as $39,000 using the Black Scholes pricing model with the following inputs: volatility of 84%, share price on grant date of $0.05, interest rate of 0.74%, expected life of 2.00 years and 0% dividend yield;

(ii) Issued 21,825,000 units at a price of $0.05 ($0.065 CAD) per unit for total proceeds of $1,091,250. Each unit consisted of one common share and one Penalty Warrant. Each 10 Penalty Warrants automatically convert into one common share with no further consideration if the Company has not completed a Liquidity Event within 180 days from the date issued. The warrants were ascribed a value of $106,500 using the Black Scholes pricing model with the following inputs: volatility of 84%, share price on grant date of $0.05, interest rate of 0.74%, expected life of 0.5 years and 0% dividend yield. As the Company had not completed a Liquidity Event within 180 days, 2,182,500 common shares were issued pursuant to conversion of the penalty warrants;

(iii) Received $5,141,123 in exchange for 26,020,000 subscription receipts to acquire units at a price of $0.20 per unit. The cash received is restricted until they are converted into units on listing. Each unit is comprised of one common share and common share purchase warrant. Each warrant will entitle the holder thereof to purchase one common share at a price of $0.60 ($0.065 CAD) per common share. The shares and warrants were issued on December 2, 2021, on listing of the Company's shares on a Canadian stock exchange.

(iv) Issued 3,525,000 units at a price of $0.20 per unit for total proceeds of $705,000. Each unit is comprised of one common share and one common share purchase warrant. Each full warrant will entitle the holder thereof to purchase one common share at a price of $0.60 per common share. The warrants were ascribed a value of $8,500 using the Black Scholes pricing model with the following inputs: volatility of 95%, share price on grant date of $0.20 interest rate of 0.74%, expected life of two years and 0% dividend yield. The warrants expire two years from date of issuance; and

(v) Issued 4,250,000 common shares upon the exercise of 4,250,000 warrants for gross proceeds of $212,500.

(c) Stock Options

The Company has a stock option plan (the "Plan") under which it is authorized to grant options to its directors, officers, employees, management companies and consultants enabling them to acquire up to 15% of the issued and outstanding shares of the Company. Under the Plan, the exercise price of options granted is determined by the Board of Directors, provided that the exercise price is not less than the price permitted by an exchange or a quotation system on which the Company's shares may be listed or quoted for trading. The term of any options granted under the Plan is fixed by the Board of Directors and may not exceed ten years from the date of grant. Vesting, if any, and other terms and conditions relating to such options shall be determined by the Board of Directors of the Company. Any options granted pursuant to the Plan will terminate generally within ninety days of the option holder ceasing to act as a director, officer, employees, or consultant. All stock options which have been issued are equity settled.

(Expressed in United States Dollars unless otherwise stated)

9. SHARE CAPITAL (continued)

On June 14, 2021 and June 30, 2021, the Company granted 8,700,000 and 4,350,000 stock options respectively. The stock options have an exercise price of $0.20 and expire 5 years from the date of grant. The options were fully vested at the date of grant. The fair value was calculated as $253,000 using the Black Scholes pricing model. On January 14, 2022, 9,550,000 of the stock options were terminated per mutual agreement and returned to the option pool.

During 2022, the Company granted a total of 7,880,000 stock options to employees and directors of the Company. 3,532,200 of these stock options vest at various dates between the date of issuance and 3 years after the grant date. The remaining 4,347,800 will vest based on the Company meeting certain performance conditions. The stock options will expire after 10 years from the date of grant and have an exercise price of $0.25 CAD.

The fair value of each option granted is estimated on the date of grant with the following assumptions:

For the year ended September 30,	2022	2021
Risk-free interest rate (%)	1.52- 2.79	0.74
Expected life (years)	10	5
Expected volatility (%)	84-100	84
Forfeiture rate (%)	-	-
Expected dividends	-	-

The weighted average fair value at the grant date for the year ended December 31, 2022 was $0.22 CAD per option and the total share-based compensation recognized during the year for stock options was $536,416.

As at September 30, 2022, the following stock options are outstanding:

	Options	Weighted average exercise price (CAD)
		$
Balance, September 30, 2020	–	-
Granted	13,050,000	0.25
Cancelled	-	0.25
Balance, September 30, 2021	13,050,000	0.25
Granted	7,880,000	0.25
Cancelled	(9,550,000)	0.25
Balance, September 30, 2022	11,380,000	0.25

(Expressed in United States Dollars unless otherwise stated)

9. SHARE CAPITAL (continued)

Outstanding	Exercisable	Exercise Price (CAD)	Expiry Date	Weighted average remaining life (in years)
		$		
1,500,000	1,500,000	0.25	14-Jun-26	3.71
2,000,000	2,000,000	0.25	30-Jun-26	3.75
1,000,000	500,000	0.25	04-Jan-32	9.27
1,500,000	500,000	0.25	28-Feb-32	9.42
5,300,000	104,167	0.25	20-Apr-32	9.56
80,000	1,333	0.25	01-Aug-32	9.84
11,380,000	4,605,500			

(d) Warrants

As at September 30, 2022, the following warrants are outstanding:

	Number of warrants	Weighted average exercise price (CAD)
		$
Balance, September 30, 2020	3,000,000	0.05
Granted	6,267,750	0.36
Exercised	(4,250,000)	0.05
Balance, September 30, 2021	5,017,750	0.44
Granted	45,537,866	0.51
Balance, September 30, 2022	50,555,616	0.51

Outstanding	Exercise Price (CAD)	Expiry Date	Weighted average remaining life (in years)
	$		
3,525,000	0.60	10-Sep-23	0.95
1,492,750	0.05	02-Dec-23	1.17
26,020,000	0.60	02-Dec-23	1.17
19,517,866	0.20	15-Sep-24	1.96
50,555,616			

(e) Shares held in escrow

As at September 30, 2022, the Company has 77,064,758 common shares held in escrow (2021 – 89,990,892). These escrow shares are subject to escrow trading restrictions pursuant to the Escrow agreement and are released as follows: 17,425,678 six months after the Company's securities are listed on a Canadian exchange ("Listing"), 15,708,178 nine months after Listing, 17,425,678 twelve months after Listing, 19,635,223 fifteen months after Listing, 1,717,500 eighteen months after Listing, 1,717,500 twenty four months after Listing, 1,717,500 thirty months after Listing and 1,717,500 thirty six months after Listing.

10. COMMITMENTS

On June 1, 2021, the Company signed an Amendment to the KSURF MOA for Sponsored Research to amend the statement of work milestone payments. The Company has the following remaining future funding requirements from this amendment:

Phase 3: $1,517,376, due in 4 quarterly instalments of $600,000 due June 1, 2021, $305,792 due September 1, 2021, $305,792 due December 1, 2021, and $305,792 due March 1, 2022, plus a success fee of $300,000 due on achieving defined milestones. All payments have been made as of September 30, 2022.

The commitments of the Company related to the License Agreements with KSURF are as follows:

The 2017 licensing agreement as amended in July 2022
(i) The Company will pay annual maintenance fees of:
   i. $10,000 per calendar years 2020 to 2022
   ii. $25,000 per calendar year 2023
   iii. $35,000 per calendar year 2024
   iv. $25,000 per calendar year 2025 and every subsequent year The annual license maintenance fees in a given year will be credited against any running royalty payments due.
(ii) the Company will pay a running royalty of 4% of net sales by the Company or its affiliates (the 4% royalty shall be reduced by ½ of royalties paid to third parties but shall not be less than 3.5%),
(iii) the Company will pay 40% of any non-royalty payments received by the Company from sub-licensed products,
(iv) the Company may purchase the 4% running royalty for $12,000,000 in four annual 1% increments.

11. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern (see Note 1). The Company does not have any externally imposed capital requirements to which it is subject.

As at September 30, 2022, the Company had capital resources consisting of all components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue common shares.

12. FINANCIAL INSTRUMENTS

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values:

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:
Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

12. FINANCIAL INSTRUMENTS (continued)

Level 3 – Inputs that are not based on observable market data.

As at September 30, 2022, the Company's financial instruments consisted of cash, tax receivable, accounts payable and accrued liabilities, lease liabilities, and the CEBA loan. Cash is measured at fair value in accordance with Level 1. The fair value of tax receivable, accounts payable and accrued liabilities, lease liabilities, and the CEBA loan approximate their carrying values because of the short-term nature of these instruments.

Financial risk management objectives and policies

The risks associated with financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) *Currency risk*

The Company's expenses are denominated in United States Dollars. The Company's corporate office is based in Canada. At September 30, 2022, with other variables unchanged, a 1% movement in the US dollar against the Canadian dollar would not have a material impact on the net loss and comprehensive loss.

(ii) *Interest rate risk*

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term. The Company has not entered into any derivative instruments to manage interest rate fluctuations.

(iii) *Credit risk*

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and GST receivable. To minimize the credit risk on cash, the Company places the instrument with a chartered financial institution.

(iv) *Liquidity risk*

In the management of liquidity risk, the Company maintains a balance between continuity of funding and development activity. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations.

At September 30, 2022, the contractual maturities of the Company's obligations are as follows:

	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1-2 Years
	$	$	$	$
Accounts payable and accrued liabilities	134,260	134,260	134,260	-
CEBA loan	19,265	19,265	19,265	-
	153,525	153,525	153,525	-

(Expressed in United States Dollars unless otherwise stated)

13. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	2022	2021
	$	$
Net loss and comprehensive loss	2,982,512	1,508,991
Combined statutory rate	27%	27%
Expected income tax recovery	(805,278)	(407,427)
Permanent differences	144,832	79,891
Share issue costs	(182,781)	(10,530)
Change in unrecognized deductible temporary differences	843,227	338,066
	–	–

The following is the analysis of the deferred tax liabilities and assets:

	Balance September 30, 2021	Recognized in net loss	Balance September 30, 2022
	$	$	$
CEBA loan	(845)	(42)	(887)
Non-capital loss carry-forward	845	42	887
	–	–	–

The following provides the details of federal unrecognized deductible temporary differences; unused losses; and unused tax credits for which no deferred tax asset has been recognized:

	2022	2021
	$	$
Non-current assets and lease	465,761	336,903
Share issuance costs	592,692	51,120
Non-capital losses	4,065,380	1,612,749

14. DERIVATIVE LIABILITY

In November 2021, the Company issued 26,020,000 units which included 26,020,000 common share purchase warrants exercisable into common shares at an exercise price of $0.75 CAD. As the exercise price of the common share purchase warrants is fixed in CAD and the functional currency of the Company was USD, the common share purchase warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. On issuance, the fair value of the derivative liability was calculated as $92,590. The warrants are re-measured at fair value at each statement of financial position date with the change in fair value recorded in earnings during the period of change. The change in fair value for the period was a loss of $285,231. On July 1, 2022, the Company changed its functional currency from USD to CAD and the common share purchase warrants were no longer considered a liability. On July 1, 2022, the fair value of the common share purchase warrants of $380,186 was reclassified to reserves.

15. SUBSEQUENT EVENT

Subsequent to September 30, 2022, the Company granted 4,010,000 options to officers of the Company. The stock options have an exercise price of CAD$0.25 and expire 10 years from the date of grant.