

QUANTUM eMOTION CORP.

**Condensed financial statements
September 30, 2023 and 2022
(Unaudited, in Canadian dollars)**

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QUANTUM eMOTION CORP.
Statements of financial position
As at September 30, 2023 and December 31, 2022
(Unaudited, in Canadian dollars)

	Notes	September 30, 2023	December 31, 2022
		\$	\$
Assets			
Current assets:			
Cash		1,125,677	2,594,051
Taxes receivable		58,412	118,891
Prepaid expenses and other		78,350	35,848
Investments	3	545,703	915,141
		1,808,142	3,663,931
Non-current assets:			
Intangible assets	4	707,320	374,003
Total assets		2,515,462	4,037,934
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		308,403	337,754
Loan payable		40,000	40,000
		348,403	377,754
Total liabilities		348,403	377,754
Shareholders' Equity			
Share capital	5	13,413,478	13,413,478
Contributed surplus	5	1,120,314	1,019,612
Deficit		(12,366,733)	(10,772,910)
		2,167,059	3,660,180
Total liabilities and Shareholders' equity		2,515,462	4,037,934

See accompanying notes to condensed financial statements.

Approved on behalf of the Board:

"Francis Bellido"

Francis Bellido CEO

"Marc Rousseau"

Marc Rousseau CFO

QUANTUM eMOTION CORP.
Statements of loss and comprehensive loss
Periods ended September 30, 2023 and 2022
(Unaudited, in Canadian dollars)

		Three months ended September 30		Nine months ended September 30	
	Notes	2023	2022	2023	2022
Expenses					
Research and development		\$ 153,917	\$ 89,826	\$ 401,674	\$ 142,786
Management fees	6	122,419	119,312	362,458	386,250
Professional fees		35,730	93,713	217,379	170,854
Salaries		44,704	20,461	121,472	62,596
Share-based payments	5	40,259	37,906	100,702	413,730
Promotion expenses		24,166	17,516	76,122	17,516
Office		29,798	21,604	74,636	77,858
Travel		14,397	20,602	52,355	48,279
Investor relations		13,765	5,750	52,271	63,016
Filing and listing fees		7,631	19,078	38,021	42,371
Consulting fees		32,750	20,000	32,750	41,880
Product development		-	-	26,415	-
Information technology		7,064	1,386	25,572	120,760
Insurance		6,026	5,033	17,498	14,651
Amortization	4	5,622	5,622	16,683	16,683
Other		-	-	-	3,689
		\$ 538,248	\$ 477,809	\$ 1,616,008	\$ 1,622,919
Other items					
Gain (loss) on fair value remeasurement of investments	3	(29,136)	(58,282)	(23,480)	(157,939)
Government grant		-	514	-	1,527
Financial expenses		(3,611)	(6,932)	(11,212)	(18,725)
Financial income		17,650	27,286	61,437	51,256
Foreign currency loss		(3,031)	(2,527)	(4,560)	(3,799)
		\$ (18,128)	\$ (39,941)	\$ 22,185	\$ (127,680)
Net loss and comprehensive loss					
		\$ 556,376	\$ 517,750	\$ 1,593,823	\$ 1,750,599
Basic and diluted loss per share					
		\$ 0,004	\$ 0,004	\$ 0,012	\$ 0,013
Weighted average number of common shares outstanding					
		135,502,838	135,447,999	135,502,838	133,128,369

See accompanying notes to condensed financial statements.

QUANTUM eMOTION CORP.

Statements of changes in Shareholders' equity

Periods ended September 30, 2023 and 2022

(Unaudited, in Canadian dollars)

	Notes	Number of shares	Number of shares to be issued	Share capital	Units to be issued	Contributed surplus	Deficit	Total equity
				\$	\$	\$	\$	\$
Balance as of December 31, 2022		135,502,838	-	13,413,478	-	1,019,612	(10,772,910)	3,660,180
Share-based payments	5	-	-	-	-	100,702	-	100,702
Net loss		-	-	-	-	-	(1,593,823)	(1,593,823)
Balance as of September 30, 2023		135,502,838	-	13,413,478	-	1,120,314	(12,366,733)	2,167,059
Balance as of December 31, 2021		114,012,838	-	10,173,156	-	506,603	(7,968,340)	2,711,419
Share-based payments	5	-	-	-	-	413,730	-	413,730
Share issue costs	5	-	-	340	-	-	-	340
Exercise of options	5	250,000	-	53,982	-	(28,982)	-	25,000
Exercise of warrants	5	21,240,000	-	3,186,000	-	-	-	3,186,000
Net loss		-	-	-	-	-	(1,750,599)	(1,750,599)
Balance as of September 30, 2022		135,502,838	-	13,413,478	-	891,351	(9,781,939)	4,585,890

See accompanying notes to condensed financial statements.

QUANTUM eMOTION CORP.
Statements of cash flows
Periods ended September 30, 2023 and 2022
(Unaudited, in Canadian dollars)

	Notes	Three months ended September 30		Nine months ended September 30	
		2023	2022	2023	2022
		\$	\$	\$	\$
Operating Activities					
Net loss		(556,376)	(517,750)	(1,593,823)	(1,750,599)
Adjustments to net loss for non-cash items					
Share-based payments	5	40,259	37,906	100,702	413,730
Amortization	4	5,622	5,622	16,683	16,683
Accretion expense		-	1,628	-	4,751
Government grant		-	(514)	-	(1,527)
Change in fair value of investments	3	28,635	58,410	21,996	158,067
Net changes in non-cash working capital items					
Taxes receivable		(4,814)	3,623	60,479	(31,237)
Prepaid expenses and other		(9,270)	27,941	(42,502)	10,394
Accounts payable and accrued liabilities		(73,778)	(25,770)	(29,351)	(140,265)
		(569,722)	(408,904)	(1,465,816)	(1,320,003)
Investing Activities					
Additions to intellectual property	4	-	-	(350,000)	(7,725)
Acquisition of investments	3	(11,751)	(67,875)	(136,752)	(1,216,458)
Proceeds from sale of investments	3	10,571	525,688	484,194	1,202,984
		(1,180)	457,813	(2,558)	(21,199)
Financing Activities					
Share issuance costs		-	-	-	340
Exercise of options	5	-	10,000	-	25,000
Exercise of warrants	5	-	-	-	3,186,000
		-	10,000	-	3,211,340
Increase (decrease) in cash		(570,902)	58,909	(1,468,374)	1,870,138
Cash, beginning of period		1,696,579	2,832,781	2,594,051	1,021,552
Cash, end of period		1,125,677	2,891,690	1,125,677	2,891,690

See accompanying notes to condensed financial statements.

QUANTUM eMOTION CORP.
Notes to condensed financial statements
Periods ended September 30, 2023 and 2022
(Unaudited, in Canadian dollars)

1. Nature of operations and going concern

Quantum eMotion Corp. (the “Company” or “Quantum”) was incorporated under the *Business Corporations Act* of Ontario on July 19, 2007.

The head office, principal address and records office of the Company are located at 2300 Alfred Nobel, bureau 209, Montreal, Qc, H4S 2A4. The Company is a developer of a new generation of cryptographic solutions pursuant to the acquisition of licenses (note 4).

The business of technology involves a high degree of risk and there can be no assurance that projects under research and development will proceed through to achieve commercialization. Risks are related to the value of the Company's intangible assets, completing proof of concept studies, protecting intellectual property rights, the ability of the Company to raise additional financing, and risks inherent to new technologies, such as risk of obsolescence, slow adoption and competing technological advances. Changes in future conditions could require material impairment of assets.

These condensed financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. For the nine months ended September 30, 2023, the Company incurred a net loss of \$1,593,823 (2022 - \$1,750,599) and had negative cash flows from operations of \$1,465,816 (2022 - \$1,320,003). In addition, the Company had accumulated deficit of \$12,366,733 as at September 30, 2023.

Management expects that the working capital of \$1,459,739 (current assets in excess of current liabilities) available to the Company at September 30, 2023 will provide the Company with adequate funding to meet its short-term obligations for the next 12 months and to meet the timelines of its development programs and pay its overhead and administrative costs. However, the Company does not expect to generate revenue from product sales unless and until it successfully completes development of its cryptographic solutions, which may take a number of years and is subject to significant uncertainty. The Company expects to incur significant development and commercialization expenses related to product sales, marketing and distribution. As a result, the Company will need additional financing in the future to support its continuing operations. Until such time that it can generate significant revenue from product sales, if ever, the Company expects to finance its operations through a combination of public or private equity or debt financings or other sources. The Company currently has no committed sources of financing available. While the Company has been successful in securing financing in the past, raising additional funds is dependent on a number of factors outside the Company's control, and as such there is no assurance that it will be able to do so in the future. The ability of the Company to meet its commitments and discharge its liabilities as they become due and become profitable is dependent on the completion of the development of its technology and its commercial production, and on its ability to raise additional funding to finance these activities. The conditions mentioned above indicate the existence of a material uncertainty that may cast a significant doubt as to the Company's ability to continue as a going concern.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company were unable to realize its assets or discharge its obligations in anything other than the ordinary course of operations.

QUANTUM eMOTION CORP.
Notes to condensed financial statements
Periods ended September 30, 2023 and 2022
(Unaudited, in Canadian dollars)

2. Basis of preparation

These condensed financial statements have been prepared by management in accordance with IAS 34 *Interim Financial Reporting* and using the same accounting policies and methods of computation as those used in preparing the audited annual consolidated financial statements for the year ended December 31, 2022. The unaudited condensed financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes for the year ended December 31, 2022, which have been prepared in accordance with IFRS as issued by the IASB.

The Board of Directors approved and authorized for issue these condensed financial statements on November 28, 2023.

3. Investments

	September 30, 2023	December 31, 2022
Balance, beginning of the year	915,141	1,014,919
Additions	136,752	1,170,934
Dispositions	(484,194)	(1,157,630)
Change in fair value	(21,996)	(113,082)
Balance, end of the period	\$ 545,703	\$ 915,141

As at September 30, 2023, the Company holds 52% in Canadian equity listed companies and 48% in foreign equity listed companies.

As at December 31, 2022, the Company holds 74% in Canadian equity listed companies and 26% in foreign equity listed companies.

4. Intangible assets

	Licenses \$	Rights on royalties \$	Total \$
Cost			
December 31, 2022	446,112	-	446,112
Additions	-	350,000	350,000
September 30, 2023	446,112	350,000	796,112
Accumulated amortization			
December 31, 2022	72,109	-	72,109
Amortization	16,683	-	16,683
September 30, 2023	88,792	-	88,792
Net book value			
September 30, 2023	357,320	350,000	707,320

QUANTUM eMOTION CORP.
Notes to condensed financial statements
Periods ended September 30, 2023 and 2022
(Unaudited, in Canadian dollars)

4. Intangible assets (Continued)

On August 3, 2016, the Company entered into an intellectual assignment agreement (“IP agreement”) with Societe de Commercialisation des Produits de la recherche appliquée SOCPRA Sciences et Genie SEC (“SOCPRA”) and its investors. Until the expiry of the last patent rights, which is expected in May 2035, the Company will pay to SOCPRA a royalty of 5% calculated on the net sales price of products sold by the Company. The Company may have an option to buy back the royalties in the future at terms and conditions to be agreed upon by both parties.

On February 4, 2023, the Company entered into a broad commercial and technical agreement with Greybox Solutions, of Montreal (“Greybox”). As part of the agreement, the Company will pay \$700,000 as pre-commercial expenses to Greybox. The first installment of \$350,000 was completed on March 8, 2023 to support the delivery of the use-case in Quebec and Germany. In exchange of its financial commitment, QeM will receive 5% of all initial sales obtained by Greybox with TakeCare platform up to a maximum of 350,000\$ CAD, in addition to further royalties.

As part of the agreement, Greybox will award a contract to the Company for the development of the Sentry-Q technology. Moreover, the Company will receive royalties on all sales completed by Greybox in which the Company’s technology will be used. Rights on royalties are not amortized as they have an indefinite life.

5. Share capital

(a) Stock options

The Company's share options are as follows for the reporting periods presented:

	September 30, 2023		December 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance outstanding, beginning of year	10,930,000	0.12	10,930,000	0.13
Granted	1,350,000	0.07	1,100,000	0.15
Exercised	-	-	(250,000)	0.10
Expired	(650,000)	0.22	(850,000)	0.20
Forfeited	(300,000)	0.08	-	-
Balance outstanding, end of period	11,330,000	0.12	10,930,000	0.12
Balance exercisable, end of period	7,736,250	0.12	8,329,375	0.11

The weighted average remaining contractual life for options outstanding at September 30, 2023 is 1.80 (December 31, 2022 – 2.18) years.

Share-based compensation recognized under this plan amounted to \$40,259 and \$100,702 respectively, for the three-month and nine-month periods ended September 30, 2023 (2022 - \$37,906 and \$413,730). 1,350,000 stock options granted during the nine-month period ended September 30, 2023 vest over a period of zero to three year. Stock options expire after an average period of two years.

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Notes to condensed financial statements
Periods ended September 30, 2023 and 2022
(Unaudited, in Canadian dollars)

6. Related party transactions

The Company's related parties include companies owned by key management.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with key management

The remuneration for the nine-month period of key management (including the amounts above) is as follows:

	Nine months ended September 30	
	2023	2022
	\$	\$
Management fees	362,458	386,250
Share-based payments	57,204	327,626
Other fees	7,588	-
	<u>427,249</u>	<u>713,876</u>

As at September 30, 2023, an amount of \$787 is due to key management and is included in accounts payable and accrued liabilities (December 31, 2022 - \$787).