

## **QUANTUM eMOTION CORP.**

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

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

	Notes	June 30, 2023	December 31, 2022
		\$	\$
<b>Assets</b>			
Current assets:			
Cash		1,696,579	2,594,051
Taxes receivable		53,598	118,891
Prepaid expenses and other		69,080	35,848
Investments	3	573,158	915,141
		2,392,415	3,663,931
Non-current assets:			
Intangible assets	4	712,942	374,003
<b>Total assets</b>		<b>3,105,357</b>	<b>4,037,934</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities		382,181	337,754
Loan payable		40,000	40,000
		422,181	377,754
<b>Total liabilities</b>		<b>422,181</b>	<b>377,754</b>
<b>Shareholders' Equity</b>			
Share capital	5	13,413,478	13,413,478
Contributed surplus	5	1,080,056	1,019,612
Deficit		(11,810,358)	(10,772,910)
		2,683,176	3,660,180
<b>Total liabilities and Shareholders' equity</b>		<b>3,105,357</b>	<b>4,037,934</b>

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 June 30, 2023 and 2022**  
**(Unaudited, in Canadian dollars)**

		Three months ended June 30		Six months ended June 30	
	Notes	2023	2022	2023	2022
<b>Expenses</b>					
Research and development		\$ 122,273	\$ 27,000	\$ 247,757	\$ 52,960
Management fees	6	120,047	111,438	240,039	266,938
Professional fees		120,510	58,677	181,649	77,141
Salaries		45,946	23,269	76,768	42,135
Share-based payments	5	27,175	43,422	60,444	375,824
Promotion expenses		20,154	-	51,956	-
Office		12,413	42,839	44,838	56,254
Investor relations		13,691	18,062	38,506	57,266
Travel		16,548	5,042	37,958	27,677
Filing and listing fees		23,824	17,380	30,390	23,293
Product development		2,101	-	26,415	-
Information technology		6,988	52,763	18,508	119,374
Insurance		6,439	9,618	11,472	9,618
Amortization	4	5,561	5,561	11,061	11,061
Consulting fees		-	16,120	-	21,880
Other		-	-	-	3,689
		\$ 543,670	\$ 431,191	\$ 1,077,761	\$ 1,145,110
<b>Other items</b>					
Gain (loss) on fair value remeasurement of investments	3	(5,447)	(123,017)	5,656	(99,657)
Government grant		-	509	-	1,013
Financial expenses		(3,631)	(5,220)	(7,601)	(11,793)
Financial income		19,032	18,375	43,787	23,970
Foreign currency loss		(760)	(504)	(1,529)	(1,272)
		\$ 10,714	\$ (109,857)	\$ 40,313	\$ (87,739)
<b>Net loss and comprehensive loss</b>		\$ 532,956	\$ 541,048	\$ 1,037,448	\$ 1,232,849
<b>Basic and diluted loss per share</b>		\$ 0.004	\$ 0.004	\$ 0.008	\$ 0.009
<b>Weighted average number of common shares outstanding</b>		135,502,838	135,355,012	135,502,838	133,457,368

See accompanying notes to condensed financial statements.

**QUANTUM eMOTION CORP.**

**Statements of changes in Shareholders' equity**

**Periods ended June 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
				\$	\$	\$	\$	\$
<b>Balance as of December 31, 2022</b>		135,502,838	-	13,413,478	-	1,019,612	(10,772,910)	3,660,180
Share-based payments	5	-	-	-	-	60,444	-	60,444
Net loss		-	-	-	-	-	(1,037,448)	(1,037,448)
<b>Balance as of June 30, 2023</b>		135,502,838	-	13,413,478	-	1,080,056	(11,810,358)	2,683,176
<b>Balance as of December 31, 2021</b>		114,012,838	-	10,173,156	-	506,603	(7,968,340)	2,711,419
Share-based payments	5	-	-	-	-	375,824	-	375,824
Share issue costs	5	-	-	340	-	-	-	340
Exercise of options	5	150,000	-	38,209	-	(23,209)	-	15,000
Exercise of warrants	5	21,240,000	-	3,186,000	-	-	-	3,186,000
Net loss		-	-	-	-	-	(1,232,849)	(1,232,849)
<b>Balance as of June 30, 2022</b>		135,402,838	-	13,397,705	-	859,218	(9,201,189)	5,055,734

See accompanying notes to condensed financial statements.

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

	Notes	Three months ended June 30		Six months ended June 30	
		2023	2022	2023	2022
		\$	\$	\$	\$
<b>Operating Activities</b>					
Net loss		(532,956)	(541,048)	(1,037,448)	(1,232,849)
Adjustments to net loss for non-cash items					
Share-based payments	5	27,175	43,422	60,444	375,824
Amortization	4	5,561	5,561	11,061	11,061
Accretion expense		-	1,584	-	3,123
Government grant		-	(509)	-	(1,013)
Change in fair value of investments	3	4,464	123,017	(6,639)	99,657
Net changes in non-cash working capital items					
Taxes receivable		130,210	(49,501)	65,293	(34,860)
Prepaid expenses and other		6,208	(1,141)	(33,232)	(17,547)
Accounts payable and accrued liabilities		51,648	(19,250)	44,427	(114,495)
		(307,690)	(437,865)	(896,094)	(911,099)
<b>Investing Activities</b>					
Additions to intellectual property	4	-	-	(350,000)	(7,725)
Acquisition of investments	3	(121,415)	(140,605)	(125,001)	(1,148,583)
Proceeds from sale of investments	3	470,013	136,539	473,623	677,296
		348,598	(4,066)	(1,378)	(479,012)
<b>Financing Activities</b>					
Share issuance costs		-	-	-	340
Exercise of options	5	-	-	-	15,000
Exercise of warrants	5	-	-	-	3,186,000
		-	-	-	3,201,340
Increase (decrease) in cash		40,908	(441,931)	(897,472)	1,811,229
Cash, beginning of period		1,655,671	3,274,712	2,594,051	1,021,552
<b>Cash, end of period</b>		<b>1,696,579</b>	<b>2,832,781</b>	<b>1,696,579</b>	<b>2,832,781</b>

See accompanying notes to condensed financial statements.

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

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**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 six months ended June 30, 2023, the Company incurred a net loss of \$1,037,448 (2022 - \$1,232,849) and had negative cash flows from operations of \$896,094 (2022 - \$911,099). In addition, the Company had accumulated deficit of \$11,810,358 as at June 30, 2023.

Management expects that the working capital of \$1,970,234 (current assets in excess of current liabilities) available to the Company at June 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 June 30, 2023 and 2022**  
**(Unaudited, in Canadian dollars)**

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**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 August 29, 2023.

**3. Investments**

	June 30, 2023	December 31, 2022
Balance, beginning of the year	915,141	1,014,919
Additions	125,001	1,170,934
Dispositions	(473,623)	(1,157,630)
Change in fair value	6,639	(113,082)
Balance, end of the period	<u>\$ 573,158</u>	<u>\$ 915,141</u>

As at June 30, 2023, the Company holds 54% in Canadian equity listed companies and 46% 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 \$
<b>Cost</b>			
December 31, 2022	<u>446,112</u>	-	<u>446,112</u>
Additions	-	<u>350,000</u>	<u>350,000</u>
June 30, 2023	<u>446,112</u>	<u>350,000</u>	<u>796,112</u>
<b>Accumulated amortization</b>			
December 31, 2022	<u>72,109</u>	-	<u>72,109</u>
Amortization	<u>11,061</u>	-	<u>11,061</u>
June 30, 2023	<u>83,170</u>	-	<u>83,170</u>
<b>Net book value</b>			
June 30, 2023	<u>362,942</u>	<u>350,000</u>	<u>712,942</u>

**QUANTUM eMOTION CORP.**  
**Notes to condensed financial statements**  
**Periods ended June 30, 2023 and 2022**  
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**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:

	June 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	350,000	0.08	1,100,000	0.15
Exercised	-	-	(250,000)	0.10
Expired	<u>(650,000)</u>	0.22	<u>(850,000)</u>	0.20
Balance outstanding, end of period	<u>10,630,000</u>	0.13	<u>10,930,000</u>	0.12
Balance exercisable, end of period	<u>7,765,625</u>	0.11	<u>8,329,375</u>	0.11

The weighted average remaining contractual life for options outstanding at June 30, 2023 is 1.84 (December 31, 2022 – 2.18) years.

Share-based compensation recognized under this plan amounted to \$27,175 and \$60,444 respectively, for the three-month and six-month periods ended June 30, 2023 (2022 - \$43,422 and \$375,824). 350,000 stock options granted during the six-month period ended June 30, 2023 vest over a period of zero to three year. Stock options expire after an average period of two years.

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

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**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 six-month period of key management (including the amounts above) is as follows:

	Six months ended June 30	
	2023	2022
	\$	\$
Management fees	240,039	266,938
Share-based payments	41,189	297,198
Other fees	7,588	-
	<u>288,816</u>	<u>564,136</u>

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