

QUANTUM eMOTION CORP.

**Financial Statements
December 31, 2023 and 2022
(in Canadian dollars)**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Quantum eMotion Corp.

Opinion

We have audited the financial statements of Quantum eMotion Corp. (the "Entity"), which comprise:

- the statements of financial position as at December 31, 2023 and December 31, 2022
- the statements of net loss and comprehensive loss for the years then ended
- the statements of changes in shareholders' equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of material accounting policy information

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2023 and December 31, 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit 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 Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the 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 financial statements, which indicates that the Entity has incurred losses and has negative cash flow from operations for the year ended December 31, 2023, has a deficit as at December 31, 2023, and that its operations are dependent on obtaining additional financing.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters as set forth in Note 1 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the "***Material Uncertainty related to Going Concern***" section of the auditor's report, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Valuation of the Rights on Royalties Intangible Assets

Description of the matter

We draw attention to Notes 3 (c) and 5 of the financial statements. During the year, the Entity recognized an impairment charge of \$350,000 related to rights on royalties intangible assets.

At each reporting date, the Entity assesses whether there is an indication that the intangible assets are impaired. Intangible assets with indefinite useful lives or those not yet available for use are reviewed for impairment at least annually or more frequently if circumstances indicate that it is more likely than not that the asset might be impaired. An impairment is recognized when the carrying amount of an asset exceeds its recoverable amount.

The Company performed its annual impairment test for its rights on royalties intangible assets. The recoverable amount of the asset was determined based on the higher of its value-in-use and fair value less costs of disposal. The value-in-use, which was determined to be of an approximately equal amount with the fair value less costs of disposal, was determined using discounted cash flow model, taking into consideration management's best estimates of future revenues and discount rates.



The Company determined that the recoverable amount of the rights on royalties intangible assets using a discount rate of 50% was approximately nil and therefore recognized an impairment charge of \$350,000. The recoverable amount reflects the Company's inability to demonstrate, in the foreseeable future, that the asset will generate future revenues, primarily due to the third party's delays in securing contracts. The uncertainties surrounding the deployment and initial sales of its product, in the context of a market which is not readily responsive and of financial difficulties, increase the risks of generating future sales.

Why the matter is a key audit matter

We identified the valuation of the rights on royalties intangible assets as a key audit matter.

This matter represented a significant risk of misstatement given the high degree of estimation uncertainty in determining the recoverable amount of the rights on royalties. In addition, significant auditor judgment and specialized skills and knowledge were required in evaluating the results of our audit procedures due to the sensitivity to the Entity's determination of the recoverable amount of the rights on royalties to minor changes to certain significant assumptions.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We evaluated the appropriateness of the Entity's future royalty revenues assumption by comparing the third party's projected sales underlying the future royalty payments to contracts secured by the third party. We took into account changes in conditions and events affecting the third party to assess the adjustments made by the Entity in arriving at future royalty revenues.

We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the discount rate assumption used in the determination of the recoverable amount by comparing it against an independently developed discount rate range using publicly available market reports of comparable entities.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.



We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at 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 in the auditor's report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the 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 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 Entity'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 Entity'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 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Marc-André Fontaine.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Montréal, Canada

May 1, 2024

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

	Notes	2023	2022
		\$	\$
Assets			
Current assets:			
Cash		315,626	2,594,051
Accounts receivable		53,850	-
Taxes receivable		105,566	118,891
Prepaid expenses and other		53,153	35,848
Investments	4	765,858	915,141
		1,294,053	3,663,931
Non-current assets:			
Intangible assets	5	351,696	374,003
Total assets		1,645,749	4,037,934
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		186,811	337,754
Loan payable	7	-	40,000
Total current liabilities		186,811	377,754
Non-current liabilities:			
Loan payable	7	40,000	-
Total liabilities		226,811	377,754
Shareholders' Equity			
Share capital	8	13,413,478	13,413,478
Contributed surplus	8	1,165,145	1,019,612
Deficit		(13,159,685)	(10,772,910)
		1,418,938	3,660,180
Total liabilities and Shareholders' equity		1,645,749	4,037,934

Nature of operations and going concern (note 1)
Subsequent event (note 13)

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
Years ended December 31, 2023 and 2022
(in Canadian dollars)

	Notes	2023	2022
		\$	\$
Expenses			
Research and development	9	577,108	271,804
General and administrative	9	1,142,557	1,210,154
Marketing		229,008	146,218
Share-based payments	8,9	145,533	541,991
Impairment of intangible assets	5	350,000	-
Loss on derecognition of intangible assets	5	-	568,580
		2,424,206	2,738,747
Other items			
Amortization	5	22,307	22,305
Net financial (income) expense	10	(59,738)	43,518
		(37,431)	65,823
Net loss and comprehensive loss		2,386,775	2,804,570
Basic and diluted loss per share		0.018	0.021
Weighted average number of common shares outstanding		135,502,838	134,474,811

QUANTUM eMOTION CORP.
Statements of changes in Shareholders' equity
Years ended December 31, 2023 and 2022
(in Canadian dollars)

	Notes	Number of shares	Share capital	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	8	-	-	145,533	-	145,533
Net loss		-	-	-	(2,386,775)	(2,386,775)
Balance as of December 31, 2023		135,502,838	13,413,478	1,165,145	(13,159,685)	1,418,938
Balance as of December 31, 2021		114,012,838	10,173,156	506,603	(7,968,340)	2,711,419
Share-based payments	8	-	-	541,991	-	541,991
Share issue costs		-	340	-	-	340
Exercise of options	8	250,000	53,982	(28,982)	-	25,000
Exercise of warrants	8	21,240,000	3,186,000	-	-	3,186,000
Net loss		-	-	-	(2,804,570)	(2,804,570)
Balance as of December 31, 2022		135,502,838	13,413,478	1,019,612	(10,772,910)	3,660,180

See accompanying notes to financial statements.

QUANTUM eMOTION CORP.
Statements of cash flows
Years ended December 31, 2023 and 2022
(in Canadian dollars)

		2023	2022
	Notes	\$	\$
Operating Activities			
Net loss		(2,386,775)	(2,804,570)
Adjustments to net loss for non-cash items			
Share-based payments	8	145,533	541,991
Impairment of intangible assets	5	350,000	-
Loss on derecognition of intangible assets	5	-	568,580
Amortization	5	22,307	22,305
Accretion expense		-	6,428
Government grant		-	(22,041)
Change in fair value of investments	4,10	(3,914)	113,082
Net changes in non-cash working capital items			
Taxes receivable		13,325	(61,861)
Accounts receivable		(53,850)	-
Prepaid expenses and other		(17,305)	14,340
Accounts payable and accrued liabilities		(150,943)	3,936
		(2,081,622)	(1,617,810)
Investing Activities			
Additions to intangible assets	5	(350,000)	(7,727)
Acquisition of investments	4	(336,418)	(1,170,934)
Proceeds from sale of investments	4	489,615	1,157,630
		(196,803)	(21,031)
Financing Activities			
Share issuance costs		-	340
Exercise of options	8	-	25,000
Exercise of warrants	8	-	3,186,000
		-	3,211,340
(Decrease) increase in cash		(2,278,425)	1,572,499
Cash, beginning of year		2,594,051	1,021,552
Cash, end of year		315,626	2,594,051

QUANTUM eMOTION CORP.
Notes to financial statements
Years ended December 31, 2023 and 2022
(in Canadian dollars)

1. Nature of operations and going concern

Quantum eMotion Corp. (the "Company") 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.

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 related to the value of the Company's intangible assets, completing proof of concept studies, protecting intangible assets 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 financial statements have been prepared in accordance with IFRS Accounting 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 year ended December 31, 2023, the Company incurred a net loss of \$2,386,775 (2022 - \$2,804,570) and had negative cash flows from operations of \$2,081,622 (2022 - \$1,617,810). In addition, the Company had accumulated deficit of \$13,159,685 as at December 31, 2023.

Management expects that the working capital of \$1,107,242 (current assets in excess of current liabilities) available to the Company at December 31, 2023, combined with the financing completed subsequent to year-end (note 13), may not provide the Company with adequate funding to meet its short-term obligations for the next 12 months and to meet the timelines of its research and development programs and pay its overhead and administrative costs. 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 financial statements
Years ended December 31, 2023 and 2022
(in Canadian dollars)

2. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

The Board of Directors approved and authorized for issue these financial statements on May 1, 2024.

Basis of measurement

These financial statements have been prepared on a historical cost basis, except for:

- Investments which are measured at fair value; and
- Stock-based compensation transactions, which are measured at fair value at grant date pursuant to IFRS 2, Share-Based Payment.

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Key sources of estimation uncertainty include impairment of intangible assets which require significant assumptions as discussed in note 5 and accounting for share-based payments, which require determining the most appropriate inputs to the valuation model as discussed in note 8 (d).

While management believes that these estimates and judgments are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

The key areas of judgment applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenses, meet its liabilities for the ensuing year, to fund planned and contractual research and development programs and commercialize its technology involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

3. Summary of material accounting policies

The Company's principal accounting policies are outlined below and have been applied consistently to all periods presented.

(a) Foreign currency

The Company's functional currency is the Canadian dollar. Transactions in foreign currencies are translated into the functional currency of the Company at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate as at December 31.

Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction. Translation gains and losses are recognized in the statement of net loss.

(b) Share-based payments

The Company grants stock options to employees and non-employees to exercise common shares of the Company. The Board of Directors grants such options for periods of up to ten years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period. The fair value of both employee and non-employee options is recognized as an expense with a corresponding increase in contributed surplus. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. When options are exercised, the related amount in contributed surplus is transferred to share capital.

The fair value of options granted to non-employees is recognized and measured at the date the goods and services are received based on the fair value of such goods and services. If it is determined such goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments using the Black-Scholes option pricing model.

(c) Intangible assets

Intangible assets acquired separately are measured on initial recognition at fair value. Following initial recognition, intangible assets with finite useful lives are carried at cost less any accumulated amortization and accumulated impairment losses, if any. The Company amortizes its development costs intangible assets on a straight-line basis over the life of the patent which is 20 years.

At each reporting date, the Company assesses whether there is an indication that the intangible assets are impaired. Intangible assets with indefinite useful lives or those not yet available for use are reviewed for impairment at least annually or more frequently if circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that the asset might be impaired.

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An impairment is recognized when the carrying amount of an asset, or its cash generating unit ("CGU"), exceeds its recoverable amount. The recoverable amount is the greater of the asset's/CGU's fair value less costs of disposal and value in use. The carrying amount of the intangible assets are reduced by this amount. Impairment losses are reversed in subsequent periods only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized. Intangible assets are derecognized on disposal or when no future economic benefits are expected from their use or disposal.

(d) Research and development expenditures

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Expenditures capitalized may include the cost of materials and services, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in the statement of loss as incurred.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss when incurred.

(e) Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share using the treasury stock method whereby the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. The diluted loss per share is equal to the basic loss per share where the effect of stock options and warrants is antidilutive as it would decrease loss per share.

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(f) *Financial instruments*

i) Classification

The following table shows the classification and measurement bases of the Company's financial instruments under IFRS 9:

<u>Financial Assets/Liabilities</u>	<u>Classification and Measurement</u>
Cash	Financial assets at amortized cost
Accounts receivable	Financial assets at amortized cost
Investments	Fair value through profit and loss ("FVTPL")
Accounts payable and accrued liabilities	Financial liabilities at amortized cost
Loan payable	Financial liabilities at amortized cost

The Company determines the classification of financial assets at initial recognition. The classification of its instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them at fair value through other comprehensive income ("FVTOCI"). Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

ii) Measurement

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise. Fair value of the investments is determined based on prices on the stock exchange on the relevant valuation date. Where the Company has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company recognizes in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

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Notes to financial statements
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(in Canadian dollars)

iv) Fair value hierarchy

IFRS 7 Financial Instruments: Disclosures requires classification of fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs for assets or liabilities that are not based on observable market data.

(g) Changes in accounting policies:

On January 1, 2023, the Corporation adopted the following new standards and interpretations: Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

On February 12, 2021, the IASB issued Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements). The key amendments include:

- (i) Requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- (ii) Clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such do not need to be disclosed;
- (iii) Clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements

The adoption of these amendments to accounting policies had no material impact on the financial statements.

(h) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

At the date of authorization of these financial statements, management believes that there are no new standards, amendments and interpretations to existing standards that have been published by the IASB, but are not yet effective, which could materially impact the Company's financial statements.

4. Investments

	2023	2022
	\$	\$
Balance, beginning of the year	915,141	1,014,919
Additions	336,418	1,170,934
Dispositions	(489,615)	(1,157,630)
Change in fair value	3,914	(113,082)
Balance, end of the year	765,858	915,141

As at December 31, 2023, the Company holds 65% in Canadian equity listed companies and 35% in foreign equity listed companies.

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

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(in Canadian dollars)

5. Intangible assets

	Licenses ⁽¹⁾	Rights on royalties ⁽³⁾	Development costs ⁽²⁾	Total
	\$	\$	\$	\$
Cost				
December 31, 2021	446,112	-	560,853	1,006,965
Additions	-	-	7,727	7,727
Derecognition	-	-	(568,580)	(568,580)
December 31, 2022	446,112	-	-	446,112
Additions	-	350,000	-	350,000
December 31, 2023	446,112	350,000	-	796,112
Accumulated amortization and impairment				
December 31, 2021	49,804	-	-	49,804
Amortization	22,305	-	-	22,305
December 31, 2022	72,109	-	-	72,109
Amortization	22,307	-	-	22,307
Impairment	-	350,000	-	350,000
December 31, 2023	94,416	350,000	-	444,416
Net book value				
December 31, 2022	374,003	-	-	374,003
December 31, 2023	351,696	-	-	351,696

(1) On August 3, 2016, the Company entered into an intellectual assignment agreement (“IP agreement”) with Société de commercialisation des produits de la recherche appliquée SOCPRA Sciences et Génie S.E.C. (“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.

(2) The development costs capitalized related to the development of portable quantum random number generator prototypes. During the year ended December 31, 2022, the Company derecognized these development costs as a result of the decision to focus on the development of a cloud-based version of the prototypes in order to maximize the economic benefits of the technology. As a result, the Company no longer had the intention to commercialize the first iteration of these prototypes. The decision was taken in light of discussions with stakeholders and management assessment of most efficient and market receptive path to commercialization.

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- (3) On February 4, 2023, the Company entered into a commercial and technical agreement with a third party. As part of the agreement, the third party 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 the third party in which the Company's technology will be used.

Rights on royalties are not amortized as they have an indefinite life and are subject to an annual impairment test.

The Company performed its annual impairment test for its rights on royalties intangible asset through the assessment of the recoverable amount of the asset.

The recoverable amount of the asset was determined based on the higher of its value-in-use and fair value less costs of disposal. The value-in-use, which was determined to be of an approximately equal amount with the fair value less costs of disposal, was determined using discounted cash flow model, taking into consideration management's best estimates of future royalty revenues and discount rates.

The Company determined that the recoverable amount of the rights on royalties intangible asset using a discount rate of 50% was approximately nil and therefore recognized an impairment charge of \$350,000. The recoverable amount reflects the Company's inability to demonstrate, in the foreseeable future, that the asset will generate future royalty revenues, primarily due to the third party's delays in securing contracts. The uncertainties surrounding the deployment and initial sales of its product, in a context of a market which is not readily responsive and of financial difficulties increase the risks of the third party generating future sales.

6. Income taxes

The income tax expense differs from the amounts computed by applying the combined federal and provincial statutory income tax rate to the loss before income taxes due to the following:

	2023	2022
	\$	\$
Loss before income taxes	(2,386,775)	(2,804,570)
Statutory tax rate	26.5%	26.5%
Expected income tax recovery	(632,496)	(743,211)
Share-based payments	38,566	143,628
Items not deductible (taxable) for income tax purposes	94,736	(1,017)
Non-taxable change in fair value of investments	(5,288)	25,023
Unrecognized benefit of deferred tax assets	504,482	575,577
Income tax recovery	-	-

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The Company's deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2023		2022	
	Federal	Quebec	Federal	Quebec
	\$	\$	\$	\$
Intangible assets	655,270	655,270	72,107	72,107
Share issue costs	28,684	28,864	43,026	43,026
Non-capital losses carried forward	9,838,135	9,982,345	8,067,951	8,391,754
Cumulative Canadian development expense	524,273	366,991	-	-
	<u>11,046,362</u>	<u>11,033,290</u>	<u>8,183,084</u>	<u>8,506,887</u>

The Company's unrecognized non-capital tax losses have the following expiry dates:

	Federal	Quebec
	\$	\$
2029	426,995	426,995
2030	104,746	104,746
2031	478,770	478,770
2032	239,462	239,462
2033	116,890	116,890
2034	81,539	81,539
2035	83,953	83,953
2036	172,967	172,967
2037	950,030	950,026
2038	677,480	677,480
2039	638,211	638,211
2040	669,043	665,594
2041	1,282,492	1,609,748
2042	2,145,373	1,609,748
2043	1,770,184	2,126,216
	<u>9,838,135</u>	<u>9,982,345</u>

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7. Loan payable

On February 12, 2021 and April 29, 2020, the Company received respectively a \$20,000 and \$40,000 loan from the Canada Emergency Business Account (“CEBA Loan”). The CEBA Loan bears 0% interest until January 18, 2024. If the balance is not paid by January 18, 2024, the remaining balance will be converted to a 3-year term loan at 5% annual interest paid monthly, effective January 19, 2024. The full balance must be repaid by no later than December 31, 2026. No principal payments required until January 18, 2024. Principal repayments can be voluntarily made at any time without fees or penalties.

During the year ended December 31, 2022, a grant revenue of \$20,000 was recognized with regards to the loan forgiveness available.

As at December 31, 2023, based on the Company’s cash flow position (refer to note 1), the Company had no longer the ability to repay the loan by January 18, 2024. Consequently, the Company revised its financial strategy concerning the loan payable and opted to not repay the loan, thereby forfeiting opportunities for debt forgiveness. Following those changes, the loan payable was remeasured to consider the new terms and conditions.

The modification was deemed to be substantial and the existing loan payable with book value of \$60,000 (consisting of the notional of \$40,000 and the reversal of the \$20,000 grant revenues recognized in 2022) was derecognized and a new instrument recognised based on its fair value. On the date of modification, the fair value of the loan payable was estimated at \$40,000 based on a 12.7% market discount rate. The difference between the carrying value of the existing loan and the new loan of \$20,000 with the carrying value at that date was recorded in the statements of loss under Net financial (income) expense (note 10).

8. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of:

- voting Class A preferred shares
- voting Class B preferred shares
- voting Class C preferred shares
- voting Class D preferred shares
- special shares (non-voting)
- common shares (voting)

without nominal or par value.

Class A preferred shares are ranked senior to Class B preferred shares, Class B preferred shares are ranked senior to Class C preferred shares, Class C preferred shares are ranked senior to Class D preferred shares, Class D preferred shares are ranked senior to special shares, and special shares are ranked senior to common shares in priority of receiving dividends declared by the Company.

Holders of special shares and common shares shall be entitled to receive pro-rata for the remaining property of the Company after distribution to the holders of Class A, Class B, Class C and Class D preferred shares, on a pro-rata basis.

Dividends for Class A, Class B, Class C and Class D preferred shares are preferential and non-cumulative and are declared in accordance with their respective priority. Dividend rate per share for Class B, Class C and Class D preferred shares is 7% per annum. Dividends are declared at the discretion of the Company’s Board of Directors.

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No Class A, Class B, Class C or Class D preferred shares and special shares were issued by the Company as at December 31, 2023 (2022 – nil).

As at December 31, 2023, no dividends were declared or unpaid (2022 – nil).

(b) Issued and outstanding

During the year ended December 31, 2023, the Company did not issue common.

During the year ended December 31, 2022, the Company issued 21,240,000 common shares for a total amount of \$3,186,000 following the exercise of 21,240,000 warrants at an exercise price of \$0.15.

During the year ended December 31, 2022, the Company issued 250,000 common shares for a total of \$25,000 following the exercise of 250,000 options at an average exercise price of \$0.10. The fair value of the exercised options amounted to \$28,982.

In 2022, during the period in which the warrants and options were exercised, the minimum market share price of the Company was \$0.065 while the maximum was \$0.485.

(c) Stock options

The Company has adopted an incentive stock option plan in accordance with the policies of the TSX Venture Exchange (the “Exchange”), which provides for the Board of Directors of the Company to grant to directors, officers, employees and consultants of the Company non-transferrable stock options to purchase common shares, provided the number of shares reserved for issuance under the stock option plan shall not exceed 2%, for consultants and investor relations and 10% for insiders of the issued and outstanding common shares, exercisable for a period of up to ten years from the date of grant up to a maximum of 15,000,000 shares. The Board of Directors determines the price per common share and the number of common shares that may be allotted to directors, officers, employees and consultants of the Company and all other terms and conditions of the stock option, subject to the rules of the Exchange.

The option exercise price is set by the Board of Directors at the time the option is allocated and cannot be less than the discounted market price. The options are exercisable over a maximum period of ten years. In the absence of a vesting schedule, the options shall vest immediately. Amongst the outstanding options, none are subject to an escrow agreement.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options.

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

	2023		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	0.08	1,100,000	0.15
Exercised	-	-	(250,000)	0.10
Expired	(4,000,000)	0.08	(850,000)	0.20
Forfeited	(300,000)	0.08	-	-
Balance outstanding, end of year	7,980,000	0.15	10,930,000	0.12
Balance exercisable, end of year	4,481,875	0.16	8,329,375	0.11

The weighted average remaining contractual life for options outstanding at December 31, 2023 is 2.22 (2022 – 2.18) years.

During the year ended December 31, 2023, the Company recognized share-based compensation expense for an amount of \$145,533 (2022 - \$541,991) related to officers, employees and consultants mainly related to general and administrative expenses

As at December 31, 2023, stock options expire after an average period of 2.22 years.

The weighted average fair value of the granted options was determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

	2023	2022
Average share price at date of grant	\$0.07	\$0.15
Expected dividends	-	-
Expected volatility	140.26%	103.78%
Risk-free interest rate	3.50%	2.47%
Expected average life	6.37	4.82
Average exercise price at date of grant	\$0.08	\$0.15

The underlying expected volatility was determined by reference to historical data of the Company. No special features inherent to the options granted were incorporated into measurement of fair value.

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Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0% (2022 - 0%) in determining the share-based expense recorded in the statements of loss. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate. Outstanding and exercisable options are as follows:

Expiry date	Exercise price	2023	
		Outstanding	Exercisable
	\$		
February 2, 2024	0.14	2,500,000	2,500,000
September 12, 2024	0.12	250,000	250,000
March 31, 2025	0.10	150,000	150,000
March 31, 2025	0.12	50,000	50,000
March 31, 2025	0.18	650,000	446,875
September 30, 2025	0.15	150,000	150,000
October 25, 2025	0.24	80,000	35,000
March 31, 2026	0.08	300,000	-
April 21, 2026	0.24	500,000	500,000
June 30, 2026	0.10	300,000	-
January 26, 2028	0.14	500,000	125,000
March 12, 2028	0.215	500,000	125,000
August 23, 2028	0.265	500,000	250,000
March 16, 2028	0.10	50,000	-
July 21, 2028	0.07	500,000	-
February 14, 2029	0.225	500,000	-
45 days post departure from the Company	0.07	500,000	100,000
		7,980,000	4,481,875

(e) Share purchase warrants

There are no outstanding warrants as at December 31, 2023. The Company's warrants movement for the year ended December 31, 2022 are as follows:

	Number of warrants	Weighted average exercise price
		\$
Balance outstanding, beginning of year	28,115,000	0.15
Granted	-	-
Exercised	(21,240,000)	0.15
Expired	(6,875,000)	0.15
Balance outstanding, end of year	-	-

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9. Related party transactions

The Company's related parties include companies owned by key management. The Company paid Management fees to key management through their management companies as follows:

Management fees of \$60,000 to LVR Capital (December 31, 2022 - \$58,500), a company owned by the Chief Financial Officer. As at December 31, 2023, nil (December 31, 2022 – nil) was due to that company.

Management fees of \$300,000 to Aurakle Research (December 31, 2022 - \$460,000), a company owned by the Chief Executive Officer. As at December 31, 2023, nil (December 31, 2022 – nil) was due to that company.

Management fees of \$30,000 and other fees of \$39,305 to Baystream Corporation (December 31, 2022 - \$30,000), a company owned by a Director. As at December 31, 2023, nil (December 31, 2022 – nil) was due to that company.

Management fees of \$28,719 to Red River Solutions and I4C Realty LLC (December 31, 2022 – \$22,496), companies owned by a Director. As at December 31, 2023, nil (December 31, 2022 – nil) was due to that company.

Management fees of \$30,000 to a Director (December 31, 2022 – \$37,500). As at December 31, 2023, nil (December 31, 2022 – nil) was due to that company.

Management fees of \$30,000 to SLT Solutions (December 31, 2022 – \$26,250), a company owned by a Director. As at December 31, 2023, nil (December 31, 2022 – nil) was due to that company.

Research and development of \$347,036 to Fileglobal (December 31, 2022 – \$98,326), a company owned by a Director. As at December 31, 2023, nil (December 31, 2022 – nil) was due to that company.

Transactions with key management

The key management of the Company are the members of senior management and the Board. The remuneration and other expenses for the year of key management (including the amounts above) is as follows:

	2023	2022
	\$	\$
Research and development	347,036	98,362
Share-based payments	72,311	356,168
General and administrative:		
Management fees	478,719	634,746
Other fees	39,305	-
	937,371	1,089,240

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10. Net financial (income) expense

	2023	2022
	\$	\$
Financial income	(70,429)	(76,995)
Government grant	-	(22,041)
Change in fair value of investments (note 4)	(3,914)	113,082
Financial expense	12,044	24,924
Foreign currency loss	2,561	4,548
	(59,738)	43,518

11. Financial instruments and risk management

(a) Management of capital

The capital structure of the Company consists of equity attributable to shareholders, comprising issued share capital, contributed surplus and deficit. The Company's objectives when managing capital are to: (i) preserve capital; (ii) obtain the best available net return; and (iii) maintain liquidity.

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 new shares. There were no changes to the Company's approach to capital management during the year ended December 31, 2023.

The Company is not subject to externally imposed capital requirements.

(b) Fair value of financial instruments

The classification of financial instruments as well as their carrying amounts are presented in the table below:

	December 31, 2023		
	Amortized cost \$	FVTPL \$	Total \$
Financial assets			
Cash	315,626	—	315,626
Accounts receivable ¹	53,850	—	53,850
Current financial assets	369,476	—	369,476
Financial liabilities			
Accounts payable and accrued liabilities ²	186,811	—	186,811
Loan payable	40,000	—	40,000
Total	226,811	—	226,811
Current	40,000	—	40,000
Non-current	186,811	—	186,811

¹ Excluding taxes receivable, as these amounts do not represent a contractual right to receive cash or another financial asset.

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Financial assets and liabilities measured at fair value through profit or loss are presented in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities as defined in Note 3.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The fair value of the investments is measured under Level 1.

There have been no transfers between levels in the reporting periods.

The techniques and evaluation methods used to measure fair value were not changed compared to previous years.

(c) Credit risk

Credit risk is the risk of a loss if a counter party to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk is limited to its cash balance and accounts receivable. Cash is maintained with high-credit quality Canadian financial institutions. Management considers the risk of non-performance related to cash to be minimal.

As at December 31, 2023, the balance receivable from one client represents 100% of accounts receivable (December 31, 2022 – nil).

An impairment analysis is performed at each reporting date on individual basis for major items. Generally, the Company does not require collateral or other security from customers for trade accounts receivable; credit is extended following an evaluation of creditworthiness.

(d) Liquidity risk

The Company attempts to manage liquidity risk by maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term obligations. As at December 31, 2023, the Company had a cash balance of \$315,626 (2022 - \$2,594,051) and investments of \$765,858 (2022 - \$915,141) to settle current liabilities of \$186,811 (2022 - \$377,754).

(d) Price risk

The Company is exposed to the risk of changes in share prices due to its investments in other companies. Investments are affected by various underlying factors. Based on the investments held by the Company as at December 31, 2023, a 5% increase (decrease) in the share price of these investments would have increased (decreased) net loss by \$35,801 for the year ended December 31, 2023.

(e) Currency risk

Exposure to currency exchange rates arises from cash and investments in foreign currencies.

As at December 31, 2023, U.S. dollar-denominated investments amounted to \$247,979 (US\$188,648) (\$244,149 (US\$180,852) in 2022). The Company has not entered into any foreign exchange derivative contracts to mitigate this risk.

The impact of a 5% increase (decrease) in U.S. dollar on the Company's net loss and deficit for investments would be a decrease or (increase) net loss and deficit of \$12,399 respectively at December 31, 2023, assuming that all other variables remained constant.

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12. Segmented reporting

The Company operates in one segment, technology development. As at December 31, 2023 and 2022, all of the Company's long-term assets are located in Canada.

13. Subsequent events

Non-brokered private placement

On March 20, 2024, the Company completed a non-brokered private placement, issuing a total of 15,000,000 units at a price of \$0.05 per unit for gross proceeds of \$750,000. Each unit is comprised of one common share and one warrant of the Company. Each warrant entitles its holder to acquire one common share of the Company at a price of \$0.15 for a period of 12 months following the closing of the private placement. The securities issued in the private placement are subject to a four month and one day hold period expiring on July 22, 2024.

As a result of the closing of the private placement, there are 150,502,838 common shares of the Company issued and outstanding.

14. Comparative figures

In the statement of loss and comprehensive loss and in the statement of cash flows, some comparative figures for the year ended December 31, 2022 have been reclassified to conform to the presentation adopted for the year ended December 31, 2023.