SCOPE TECHNOLOGIES CORP.

(Formerly Scope AI Corp.)

Financial Statements
For the Years Ended September 30, 2024 and 2023
(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **Scope Technologies Corp. (formerly Scope AI Corp.)**

Opinion
We have audited the financial statements of **Scope Technologies Corp. (formerly Scope AI Corp.)** (the "Company"), which comprise the statements of financial position as at September 30, 2024 and 2023, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with 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 describes matters and conditions that indicate the existence of a material uncertainty that may cast significate doubt about the Company'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 of the current period. 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, we have determined the matters described below to be the key audit matters to be communicated in this report**.**

Valuation of Intangible Asset
As described in Note 6 to the financial statements, the Company completed the acquisition of the quantum resilient entropy (the "QSE Technology") during the year ended September 30, 2024 with the considering price of $400,000 cash and 2,800,000 common shares of the Company valued at $2 per share being the Company's stock trading price at the time of issuance (the "Consideration Payment"). The Company obtained an independent valuation of the QSE Technology which did not identify an active market for such technology. There is a significant uncertainty of the existence of a market the output and Company was unable to determine it will generate probable future economic benefits. An impairment provision was recognized of $5,999,999 during the year ended September 30, 2024. The valuation of the intangible assets required significant judgement and estimation by management.

Our audit procedures included, among others:

- Obtained and reviewed the terms of Technology Agreement and the relevant directors' resolution;
- Traced the cash payment and shares issued relating to the Consideration Payment;
- Evaluated the competence, capabilities, and objectivity of the external valuation expert engaged by management;

- Assessed the reasonableness of significant assumptions used and verified the mathematical accuracy of the valuation model used;
- Reviewed and assessed the accounting memo including impairment assessment prepared by management;
- Discussed with management with respect to the probable future economic benefit;
- Reviewed the existence of technology demo; and
- Assessed the adequacy of disclosures in the financial statements related to the QSE Technology acquired.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis. Our opinion on the financial statements does not cover the other information and we do 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, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting 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 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 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 these 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 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 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 financial statements, including the disclosures, and whether the 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 Linda Zhu.

Mao & Ying LLP

Chartered Professional Accountants

Vancouver, Canada,
January 28, 2025

SCOPE TECHNOLOGIES CORP.
(Formerly Scope AI Corp.)
Statements of financial position
(Expressed in Canadian Dollars)

	Note	September 30, 2024	September 30, 2023
		$	$
Assets			
Current			
Cash and cash equivalents	12	1,075,575	50,572
Accounts and other receivables		36,013	41,165
Investments	5	-	4
Prepaid expenses	14	704,576	54,763
		1,816,164	146,504
Non-current			
Intangible asset	6	1	-
		1	-
		1,816,165	146,504
Liabilities			
Current			
Accounts payable & accrued liabilities		74,803	231,164
Due to related parties	7	413,524	5,246
Other liabilities	8	-	122,000
		488,327	358,410
Shareholder's Equity (Deficit)			
Share capital	9	13,648,641	2,135,890
Reserves		2,683,067	1,226,658
Deficit		(15,003,870)	(3,574,454)
		1,327,838	(211,906)
		1,816,165	146,504

Going concern (Note 1)

Approved and authorized on behalf of the Board of Directors on January 28, 2025.

"*Darien Lattanzi*" Director   "*Alan Tam*" Director

SCOPE TECHNOLOGIES CORP.
(Formerly Scope AI Corp.)
Statements of loss and comprehensive loss
For the years ended September 30, 2024 and 2023
(Expressed in Canadian Dollars)

	Note	**Years ended** **September 30, 2024**	September 30, 2023
		$	$
Advertising and promotion		**1,518,538**	14,388
Bank charges		**2,678**	1,643
Consulting and salaries	**7**	**295,679**	46,500
Currency exchange		**13,058**	3,437
Filing and transfer agent fees		**94,394**	42,851
Investor relations		**46,859**	101,052
Office expenses	**7**	**54,565**	9,117
Professional fees		**234,078**	285,283
Research and development	**7,11**	**131,251**	902,645
Share-based compensation	**9**	**2,388,819**	1,054,248
Travel and entertainment		**2,225**	7,530
		4,782,144	2,468,694
Change in fair value related to derivative asset	**5**	**-**	3,541
Finance charge	**5**	**-**	4,839
Impairment of investments	**5**	**688,298**	768,591
Impairment of intangible asset	**6**	**5,999,999**	-
Interest and other income		**(30,970)**	(40,291)
		6,657,327	736,680
Net loss before tax		**11,439,471**	3,205,374
Income tax recovery	**13**	**(10,055)**	-
Net loss and comprehensive loss for the year		**11,429,416**	3,205,374
Basic and diluted net loss per share	**9**	**0.26**	0.09
Weighted average number of shares outstanding		**44,283,389**	37,410,960

The accompanying notes are an integral part of these financial statements

SCOPE TECHNOLOGIES CORP.
(Formerly Scope AI Corp.)
Statements of changes in equity (deficit)
For the years ended September 30, 2024 and 2023
(Expressed in Canadian Dollars)

	Share Capital Number	Share Capital $	Reserves $	Deficit $	Total $
Balance, September 30, 2022	**37,000,001**	**1,283,390**	**172,410**	**(369,080)**	**1,086,720**
Issued - exercise of warrants	1,750,000	350,000	-	-	350,000
Issued - technology acquisition	250,000	502,500	-	-	502,500
Share-based compensation	-	-	1,054,248	-	1,054,248
Net loss	-	-	-	(3,205,374)	(3,205,374)
Balance, September 30, 2023	**39,000,001**	**2,135,890**	**1,226,658**	**(3,574,454)**	**(211,906)**
Issued - private placement	2,500,000	4,000,000	-	-	4,000,000
Less: Issue costs - cash	-	(114,659)	-	-	(114,659)
Issued - exercise of restricted share rights	400,000	760,000	(760,000)	-	-
Issued - exercise of warrants	6,000,000	1,095,000	-	-	1,095,000
Issued - technology acquisition	2,800,000	5,600,000	-	-	5,600,000
Transfer equity reserve related to warrants exercised	-	172,410	(172,410)	-	-
Share-based compensation	-	-	2,388,819	-	2,388,819
Net loss	-	-	-	(11,429,416)	(11,429,416)
Balance, September 30, 2024	**50,700,001**	**13,648,641**	**2,683,067**	**(15,003,870)**	**1,327,838**

The accompanying notes are an integral part of these financial statements

SCOPE TECHNOLOGIES CORP.
(Formerly Scope AI Corp.)
Statements of Cash Flows
For the years ended September 30, 2024 and 2023
(Expressed in Canadian Dollars)

	September 30, 2024	September 30, 2023
	$	$
Operating Activities		
Net Loss	**(11,429,416)**	(3,205,374)
Items not involving cash:		
Change in fair value related to derivative asset	**-**	3,541
Fair value of shares issued	**-**	502,500
Finance charge	**-**	4,839
Impairment of investments	**688,298**	768,591
Impairment of intangible asset	**5,999,999**	-
Interest income	**-**	(17,585)
Share-based payments	**2,388,819**	1,054,248
Unrealized foreign exchange	**-**	(5,000)
Changes in non-cash working capital:		
Accounts and other receivables	**5,152**	(20,370)
Prepaid expenses	**(649,813)**	(54,763)
Accounts payable and accrued liabilities	**(156,361)**	101,456
Due to related parties	**8,278**	5,246
Cash used in Operating Activities	**(3,145,044)**	(862,671)
Investing Activities		
Investment redemption	**-**	1,000,000
Loans advanced	**(688,294)**	(752,752)
Cash (used in) provided by Investing Activities	**(688,294)**	247,248
Financing Activities		
Loan proceeds	**50,000**	50,000
Repayment of loans	**(100,000)**	-
Shares issued for cash, net	**4,980,341**	350,000
Share subscriptions in advance	**(72,000)**	72,000
Cash provided by Financing Activities	**4,858,341**	472,000
Increase (Decrease) in Cash and Cash Equivalents	**1,025,003**	(143,423)
Cash and Cash Equivalents, Beginning of Year	**50,572**	193,995
Cash and Cash Equivalents, End of Year	**1,075,575**	50,572

Supplemental cash flow information (Note 12)

1. NATURE OF OPERATIONS AND GOING CONCERN

Scope Technologies Corp. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on June 20, 2018. Effective April 1, 2024, as part of a rebranding, the Company changed its name to Scope AI Corp. and effective September 9, 2024, to Scope Technologies Corp. The Company, through its brands, QSE Group and GEM AI, provides solutions in data security, quantum encryption, and neural networks. The Company's registered and corporate head office is located at 1800-510 West Georgia Street, Vancouver, British Columbia, V6B 0M3.

These financial statements were prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As of September 30, 2024, the Company had a working capital surplus of $1,327,837 (2023 – working capital deficit of $211,906). The Company incurred a net loss of $11,429,416 for the year ended September 30, 2024 (2023 - $3,205,374) and had an accumulated deficit of $15,003,870 as of September 30, 2024 (2023 - $3,574,454).

As of September 30, 2024, the Company does not have sufficient capital to meet the requirements for its administrative overhead or maintaining its development programs. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. To finance future activities, the Company will be required to issue further share capital through private placements and the exercise of options and warrants or obtain debt. There can be no assurance that such financing will be available to the Company and, therefore, a material uncertainty exists which casts significant doubt over the Company's ability to continue as a going concern.

The economic uncertainties around persistent inflation pressure, geopolitical events and other global factors have the potential to slow growth in the global economy. Future developments in these challenging areas could impact on the Company's results and financial condition and the full extent of that impact remains unknown. However, as of September 30, 2024, the Company has not been significantly impacted by these matters.

These financial statements do not include the adjustments to assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES

Statement of compliance

These financial statements were prepared in accordance with International Financial Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") using historical cost and the accrual basis, except for cash flow information and financial instruments measured at fair value.

Significant Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that affect amounts reported in the financial statements. 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, and subject to measurement uncertainty. The effect on the financial statements of changes in such estimates in future reporting periods could be significant.

Significant estimates and areas where judgment is applied that have significant effect on the amount recognized in the financial statements include:

2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES, continued

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 expenditures, meet its liabilities for the ensuing year, and to fund planned development programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The factors considered by the Company include, among other things, the Company's cash position on September 30, 2024, its projected development and general operating costs, its ability to raise financing, and its intention to continue operating the Company.

Intangible assets

Judgment is required in determining the economic useful lives of identifiable intangible assets. Judgment is also required to determine the frequency with which these assets are to be tested for impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's intangible assets.

Impairment of investments

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. Significant judgment is required 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. Estimates and assumptions may change if new information becomes available. If information becomes available suggesting that the recovery of investments is unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available.

Share-based payments

Share-based payments are determined using the Black-Scholes option pricing model at the date of grant and are expensed to comprehensive loss over each award's vesting period with the offset credit to share-based payment reserve. These models utilize subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

Material Accounting Policy Information

Cash and cash equivalents

Cash and cash equivalents include cash on deposit and highly liquid short-term interest-bearing investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value.

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite useful life is reviewed annually.

2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES, continued

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method as appropriate and are treated as a change in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the statements of loss and comprehensive loss. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually. The assessment of indefinite use life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Leases

The Company has elected to apply the available exemptions as permitted by IFRS 16 to recognize a lease expense on a straight-line basis for short-term leases (lease term of 12 months or less) and low value assets. The Company has also elected to apply the practical expedient whereby leases whose term ends within 12 months of the date of initial application would be accounted for in the same way as short-term leases. The Company has applied the short-term lease exemption on its lease of the office premises and therefore was not required to recognize any right-of-use assets and lease liabilities.

Related Party Transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered a related party transaction when there is a transfer of resources or obligations between related parties and is measured at the transaction amounts of the services rendered.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax basis. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the enactment date.

Deferred tax assets also result from unused tax losses carried forward, resource related tax pools, and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share Capital

Proceeds from the issue of units, consisting of common shares and share purchase warrants, are first allocated to common shares based on the quoted market value of the common shares at the time the units are priced, and the balance, if any, is allocated to the attached warrants. Share issue costs are netted against share proceeds prorated to common shares and share purchase warrants. In the event of modification of warrants issued as part of private placement units, no re-measurement adjustment is recognized within equity.

2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES, continued

Share-based Payments

Share-based payments for employees are measured at fair value of the instruments issued on the date of grant and share-based payments for non-employees are measured at either the fair value of the goods or services received, or the fair value of the equity instrument issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded on the date the goods or services are received.

Consideration received on the exercise of stock options and other equity instruments is recorded as share capital and the related fair value previously recorded is transferred from share-based payment reserve to share capital. Upon expiry or cancellation, related fair value previously recorded is transferred from share-based payment reserve to deficit.

Restricted share rights ("RSRs") are recorded at fair value based on the Company's stock trading price on the date of grant and recognized in comprehensive loss over the vesting period. When RSR's vest, the share-based payment expense associated with the RSR's included in reserves is credited to share capital.

Foreign Currency Translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- Monetary assets and liabilities, at the rate of exchange in effect as at the reporting date.
- Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- Revenues and expenses (excluding amortization, which is translated at the same rate as the related asset), at the exchange rates in effect on the date of the transaction; and
- Gains and losses arising from this translation of foreign currency are included in the determination of net loss.

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 except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, warrants, and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options, warrants, and similar instruments that would be antidilutive.

Financial Instruments

The category into which a financial asset is placed, and the resultant accounting treatment, is largely dependent on the nature of the business of the entity holding the financial asset. All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs.

Financial assets

The Company initially recognizes financial assets on the trade date, which is the date that the Company becomes a party to the contractual provisions of the financial instrument.

2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES, continued

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies its financial assets as subsequently measured at amortized cost except for financial assets that do not meet the criteria to be recognized as subsequently measured at amortized cost or subsequently measured at fair value through other comprehensive income either from the Business Model test or from the solely payments of principal and interest test, are classified as fair value through profit or loss.

Financial liabilities

Financial liabilities are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires.

Fair value

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Impairment of financial assets carried at amortized cost

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

New and amended standards adopted by the Company

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies. These amendments continue the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures. The adoption of these amendments had minimal impact on the disclosures in these financial statements.

2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES, continued

Recent Accounting Pronouncements

Amendments to IAS 1 Presentation of Financial Statements IAS 1 has been amended to clarify classification of liabilities as current or non-current. The amendments are effective for the years beginning on or after January 1, 2024. The amendment is expected to have no impact for the Company.

In April 2024, the IASB issued IFRS 18 – Presentation and Disclosure in Financial Statements (“IFRS 18”) to replace IAS 1 – Presentation of Financial Statements. This standard focuses on updates to the statement of profit or loss, including: (a) the structure of the statement of profit or loss; (b) required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity’s financial statements (that is, management-defined performance measures); and (c) enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general. The Company will apply IFRS 18 for the annual period beginning October 1, 2027, and it will be applied retrospectively, requiring the comparative information for the financial year ending September 30, 2026 to be restated in accordance with IFRS 18. The Company is currently assessing the effect of this new standard on its financial statements.

3. FINANCIAL INSTRUMENTS

The Company’s financial instruments include cash and cash equivalents and other non-tax receivables which are classified as financial assets at amortized cost, and accounts payable and accrued liabilities, due to related parties and other liabilities, which are classified as financial liabilities at amortized cost. The carrying values of all these instruments approximate their fair values due to the short period to maturity.

The Company’s financial instruments are exposed to certain financial risks, including interest rate risk, liquidity risk, currency risk, credit risk, and other price risk. The Company’s exposure to these risks and its methods of managing the risks are summarized as follows:

(i) Interest Rate Risk

Interest rate risk is the risk that future cash flows or fair values will fluctuate as a result of changes in market interest rates.

The Company’s exposure to interest rate risk relates to deposits of excess funds into cashable term deposits at prevailing market rates.

(ii) Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet financial obligations as they fall due. The Company’s approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due by forecasting cash flows for operations, anticipated investing, and financing activities and through management of its capital structure. As of September 30, 2024, all of the Company’s financial liabilities are either due immediately or have contractual maturities of less than 90 days.

3. FINANCIAL INSTRUMENTS, continued

(iii) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its contractual obligations. The Company is exposed to credit risk with respect to managing its cash.

The Company's risk management policies require significant cash deposits, or any short-term investments be invested with Canadian chartered banks rated BBB or better. The maximum credit risk exposure is the carrying value of cash and cash equivalents.

(iv) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk to the extent expenditures incurred, funds received, and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily US dollars).

The Company does not manage currency risks through hedging or other currency management tools. As of September 30, 2024, cash totaling $6,430 (2023 - $27,495) was held in US dollars; accounts receivable totaling $nil were receivable in US dollars (2023 - $4,050); investments and accrued interest totaling $nil were held in US dollars (2023 - $4) and accounts payable and accrued liabilities totaling $13,524 were payable in US dollars (2023 - $59,587) and $9,656 (2023 - $nil) were payable in Euros.

Based on forecast exchange rate movements for the next twelve months, assuming all other variables remain constant, the Company considers its financial performance and cash flows would not be materially affected by a 5% weakening or strengthening of the US dollar or Euro.

(v) Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to other price risk.

4. CAPITAL MANAGEMENT

The Company's capital includes components of equity.

The Company's objectives in managing its capital are to maintain the ability to continue as a going concern and to continue its development programs for the benefit of its stakeholders. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place setting out the expenditures required to meet its strategic goals. The Company compares actual expenses to budget to manage costs, commitments, and development activities.

The Company is not subject to any regulatory capital requirements. The Company's operations have been substantially funded by the issuance of equity instruments and the Company will continue to rely on such funding depending upon market and economic conditions at the time.

There have been no changes in the Company's approach to capital management during the year ended September 30, 2024.

(Expressed in Canadian Dollars)

5. INVESTMENTS

Investments as of September 30, 2024, and 2023, were as follows:

		Farm Flight Inc. ("Farm Flight")				
	GIC $	Convertible Note $	Warrants $	Loan Agreement $	Loan Facility $	Total $
Balance as at September 30, 2022	1,001,638	-	-	-	-	1,001,638
Additions	-	136,590	-	95,566	520,596	752,752
Fair value of warrants - recognition	-	(12,842)	12,842	-	-	-
Fair value of warrants - subsequent	-	-	(3,541)	-	-	(3,541)
Finance charge	-	-	-	(4,839)	-	(4,839)
Redemptions / interest received	(1,018,656)	-	-	-	-	(1,018,656)
Interest accretion	17,018	7,681	-	1,856	9,686	36,241
Foreign Exchange	-	(660)	(646)	(429)	6,735	5,000
Impairment	-	(130,768)	(8,654)	(92,153)	(537,016)	(768,591)
Balance as at September 30, 2023	**-**	**1**	**1**	**1**	**1**	**4**
Additions	-	-	-	-	688,294	688,294
Impairment	-	(1)	(1)	(1)	(688,295)	(688,298)
Balance as at September 30, 2024	**-**	**-**	**-**	**-**	**-**	**-**

Between October 2023 and January 2024, the Company advanced a further total of $688,294 (USD$504,000) to Farm Flight pursuant to the Loan Facility Agreement. During that time, the Company management undertook another review of the financial condition of Farm Flight, and it became evident that the proposed transactions would not proceed as planned and concluded that it did not expect recovery of any of these instruments.

Management therefore recorded an impairment of $688,298 during the year ended September 30, 2024 (2023 - $768,591) in accordance with Level 3 of the fair value hierarchy.

6. INTANGIBLE ASSET

On July 9, 2024, the Company entered into a technology agreement (the "Technology Agreement") with Ovryde Ltd. ("Ovryde") whereby Ovryde agreed to transfer its ownership and rights relating to delivery and application of quantum resilient entropy (the "QSE Technology") (Note 7). Consideration for the acquisition was valued at $6,000,000, consisting of 2,800,000 common shares (issued on August 6, 2024) valued at $2.00 per common share, which was the Company's stock trading price at the date of issuance, and payment of $400,000 cash (included in due to related parties balance as of September 30, 2024 (Note 7) and paid in October 2024). Ovryde is controlled by the spouse of Sean Prescott, who is an officer and director of the Company (Note 7).

In accordance with IFRS 3 - Business Combinations, the Company determined that the acquisition of the QSE Technology was an asset acquisition rather than a business acquisition. This determination was based on an assessment of the substance of the transaction, which did not meet the definition of a business in accordance with IFRS 3. The acquisition primarily involved the purchase of an intangible asset without any associated substantive process or outputs that would constitute a business.

(Expressed in Canadian Dollars)

6. INTANGIBLE ASSET, continued

The Company obtained an independent valuation of the QSE Technology. As the QSE Technology is an emerging technology that has yet to be broadly adopted, the valuator was unable to identify an active market for the QSE Technology. In assessing the expected future value, the Company considered the potential future economic benefits and examined the historical progression and lifecycle of encryption technologies such as RSA and other cryptographic standards; because there is a significant uncertainty of the existence of a market for the output and the Company was unable to determine it will generate probable future economic benefits an impairment provision was recognized of $5,999,999 during the year ended September 30, 2024.

Intangible assets as of September 30, 2024, and 2023, were as follows:

	QSE Technology $	Total $
Cost		
Balance, September 30, 2022 and 2023	-	-
Addition	6,000,000	6,000,000
Balance, September 30, 2024	**6,000,000**	**6,000,000**
Accumulated impairment		
Balance, September 30, 2022 and 2023	-	-
Impairment	5,999,999	5,999,999
Balance, September 30, 2024	**5,999,999**	**5,999,999**
Carrying amounts		
Balance, September 30, 2023	-	-
Balance, September 30, 2024	**1**	**1**

7. RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and have been measured at the exchange amount of consideration agreed between the related parties. Except as disclosed elsewhere, the Company entered into the following related party transactions with amounts due to related parties being unsecured, non-interest-bearing, and with no formal terms of repayment:

- Fees in the amount of $15,000 (2023 – $nil) were charged by James Young Consulting, a company controlled by James Young, a director and officer of the Company, pursuant to a contract for consulting services. On April 29, 2024, the Company entered into an employment agreement appointing James Young as Chief Executive Officer. Under the agreement, remuneration payable is $10,000 per month, less statutory deductions, and an annual discretionary bonus ($nil to date). In addition, the Company granted 1,000,000 restricted share rights (Note 9).

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS, continued

- Fees in the amount of $75,033 (US$55,000) (2023 – $nil) were charged by Spresso Security – FZCO (“Spresso”), a company controlled by Sean Prescott, a director of the Company, for research and development work on the Neural Network and QSP Platforms. Accounts payable to Spresso as of September 30, 2024, were $13,524 (US$10,000) (2023 - $nil). Sean Prescott is an indirect controlling party to the QSE Technology Agreement (Note 6), under which accounts payable as of September 30, 2024, were $400,000 (2023 - $nil), and a trustee to the Prescott Family Foundation (the “Foundation”), the former counterparty to the Technology Acquisition Agreement (Note 11).

- Fees in the amount of $64,000 (2023 – $nil) were charged by Lattz Equity, a company controlled by Darien Lattanzi, a director of the Company, pursuant to a contract for consulting services.

- Fees in the amount of $60,000 (2023 – $24,000) were charged by Alan Tam Inc, a company controlled by Alan Tam, a director and officer of the Company, pursuant to a contract for consulting services.

- Pursuant to a month-to-month sub-lease agreement, amounts of $34,992 (2023 – $4,996) were charged by Munchen Motorwerks Ltd, a company of which Darien Lattanzi is also director, for office space rental and included in office expenses. Accounts payable as of September 30, 2024, were $nil (2023 - $5,246).

Key management personnel are the persons responsible for planning, directing, and controlling the activities of an entity, and include the chief executive officer, chief financial officer, and directors. The Company has no long-term employee or post-employment benefits. A summary of compensation awarded to key management, was as follows:

	September 30, 2024	**September 30, 2023**
	$	**$**
Short-term benefits	268,083	24,000
Share-based payments	678,055	773,088
	946,138	**797,088**

8. OTHER LIABILITIES

Included within other liabilities, as at September 30, 2023, were $50,000 with respect to funds received from a consultant for an on-demand interest-free short-term loan. On October 13, 2023, the Company received an additional on-demand interest-free short-term loan of $25,000. On November 2, 2023, the Company repaid $75,000, the total loan amount being outstanding. Also included within other liabilities, as at September 30, 2023, were $72,000 with respect to funds received relative to future exercise of common share purchase warrants all of which was allocated to share capital on completion of exercise during the year ended September 30, 2024.

On October 13, 2023, the Company received an on-demand interest-free short-term loan of $25,000 from a third party. On January 30, 2024, the Company repaid $25,000, being the total loan amount outstanding.

9. SHARE CAPITAL

Issued share capital

As of September 30, 2024, there were 50,700,001 (September 30, 2023 – 39,000,001) issued and fully paid common shares.

9. SHARE CAPITAL, continued

a) Financings

Year Ended September 30, 2024

On October 27, 2023, the Company closed a non-brokered private placement for the issuance of 1,250,000 units at a price of $1.60 per unit for aggregate gross proceeds of $2,000,000. Each unit comprised one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $2.25 per share for a period of two years. The Company allocated the entire proceeds to common shares and $nil to warrants by applying the residual method.

On July 30, 2024, the Company closed a non-brokered private placement for the issuance of 1,250,000 common shares at a price of $1.60 per common share for aggregate gross proceeds of $2,000,000.

b) Other

Year Ended September 30, 2024

On May 8, 2024, pursuant to exercise of 400,000 vested restricted share rights (Note 9(c)), the Company issued 400,000 common shares and recognized a transfer of $760,000 from reserves to share capital being reclassification of vested share-based compensation.

On August 6, 2024, the Company issued 2,800,000 common shares valued at $2.00 per share being the Company's stock trading price at the date of issuance for $5,600,000 pursuant to the QSE Technology Agreement (Note 6).

Year Ended September 30, 2023

On May 24, 2023, the Company issued 250,000 common shares valued at $2.01 per share being the Company's stock trading price at the date of issuance for $502,500 pursuant to the Technology Acquisition Agreement (Note 11).

c) Equity Incentive Plan

The Company established an Equity Incentive Plan (the "Plan") under which the board of directors may at any time authorize the granting of stock options, deferred share units and restricted share rights to such participants as it may select for the number of shares that it will designate, subject to the provisions of the Plan.

<u>*Stock Options*</u>

On October 3, 2022, the Company granted 1,500,000 stock options to directors and consultants at an exercise price of $0.60 per common share expiring on October 3, 2027. The options vest one-third immediately, one-third six months from grant date and the remainder twelve months from grant date. The fair value of the options granted was $0.705 per option using the Black-Scholes model with the following assumptions: (i) grant date share price - $0.80 per share; (ii) risk free rate – 3.23%; (iii) expected life - 5 years; (iv) expected volatility – 128.68%; and (v) expected forfeiture and dividends – nil.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL, continued

On September 24, 2024, the Company granted 100,000 stock options to an employee at an exercise price of $1.73 per common share expiring on September 24, 2029. The options vest one-quarter immediately, one-quarter six months from grant date, one-quarter twelve months from grant date, and the remainder eighteen months from grant date. The fair value of the options granted was $1.53 per option using the Black-Scholes model with the following assumptions: (i) grant date share price - $1.73 per share; (ii) risk free rate – 2.74%; (iii) expected life - 5 years; (iv) expected volatility – 138.53%; and (v) expected forfeiture and dividends – nil.

Volatility was estimated by using the common share's historical trading price of other companies in the same industry during the similar period.

Stock options granted and outstanding were as follows:

	Number of options	Weighted average exercise price ($)	Weighted average remaining life (years)
Balance - September 30, 2022	-	-	-
Granted	1,500,000	0.60	-
Balance - September 30, 2023	1,500,000	0.60	4.01
Granted	100,000	1.73	
Balance - September 30, 2024	**1,600,000**	**0.67**	**4.99**
Unvested	(75,000)	-	4.99
Exercisable - September 30, 2024	**1,525,000**	**0.67**	**4.99**

Expiry date	Exercise price ($)	Remaining life (years)	Options Outstanding	Unvested	Exercisable
October 3, 2027	0.60	4.99	1,600,000	75,000	1,525,000

<u>Restricted Share Rights ("Rights")</u>

Pursuant to a consulting agreement with an advisor to the Company dated October 16, 2023, the Company granted 1,000,000 rights whereby each right vests as follows: 10% upon grant; 30% after six months; 30% after one year and the remaining 30% after eighteen months. Each vested right is redeemable for one common share of the Company at the time of vesting and expire April 16, 2025.

Upon grant, the rights were valued at $1,900,000 based on the Company's stock trading price of $1.90 per share at the grant date, which is being recognized over the vesting period, and, as of September 30, 2024, a total of 400,000 rights have vested and been exercised.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL, continued

Pursuant to employment agreement dated April 29, 2024 (Note 7), the Company granted 1,000,000 rights to an officer and director of the Company, whereby each right vests as follows: 10% after six months; 10% after nine and twelve months; 15% after fifteen and eighteen months and 20% after twenty-one and twenty-four months. Each vested right is redeemable for one common share of the Company at the time of vesting and expire five years from the date of grant.

Upon grant, the rights were valued at $1,850,000 based on the Company's stock trading price of $1.85 per share at the grant date, which is being recognized over the vesting period, and, as of September 30, 2024, a total of nil rights have vested (Note 15).

Restricted share rights outstanding were as follows:

	Number of Rights
Balance - September 30, 2022 & 2023	-
Granted	2,000,000
Exercised	(400,000)
Balance - September 30, 2024	**1,600,000**
Exercisable - September 30, 2024	**-**

Expiry date	Number of Rights
April 16, 2025	600,000
April 29, 2029	1,000,000
	1,600,000

During the year ended September 30, 2024, the Company recorded $43,561 in share-based compensation expense related to the vesting of stock options and $2,345,258 related to the vesting of restricted share rights (2023 - $1,054,248 relating to vesting of stock options and $nil related to the vesting of restricted share rights).

d) Share Purchase Warrants

Share purchase warrants issued, exercised and outstanding were as follows:

	Number of warrants	Weighted average exercise price ($)	Weighted average remaining life (years)
Balance - September 30, 2022	9,000,000	0.19	1.44
Exercised	(1,750,000)	0.20	
Balance - September 30, 2023	7,250,000	0.19	0.44
Issued	625,000	2.25	
Expired	(1,250,000)	0.20	
Exercised	(6,000,000)	0.18	
Balance - September 30, 2024	**625,000**	**2.25**	**1.07**

(Expressed in Canadian Dollars)

9. SHARE CAPITAL, continued

Expiry date	Exercise price $	Number of warrants outstanding
October 27, 2025	2.25	625,000
		625,000

Upon exercise, the fair value of previously issued agent share purchase warrants of $172,410 (2023 - $nil) was reclassified from reserves to share capital.

e) Diluted Loss per Share

Excluded from the calculation of diluted loss per share were 1,600,000 stock options, 625,000 share purchase warrants and 1,600,000 unvested restricted share rights (2023 – 1,500,000 stock options, 7,250,000 share purchase warrants and nil restricted share rights respectively), that could potentially dilute basic earnings per share in the future but were not included as being antidilutive for each of the years ending September 30, 2024, and 2023.

10. SEGMENTED INFORMATION

The Company's operations are in one reportable segment, being the specialization in quantum security and machine learning providing solutions in data security, quantum encryption, and neural networks. Currently, the operations are all based in Canada.

11. TECHNOLOGY ACQUSITION AGREEMENT

On February 15, 2022, the Company entered in a technology acquisition agreement (the "Technology Acquisition Agreement") with the Foundation for the exclusive right of use to the Foundation's image recognition technology (the "Technology"). A director of the Company is also the trustee to the Foundation (Note 7). In consideration for the rights granted, the Company agreed to issue:

- 250,000 common shares on the latter of completion of expenditures of $250,000 or February 15, 2023 (issued on May 24, 2023).
- An additional 250,000 common shares on the latter of completion of expenditures of $600,000 or February 15, 2024.
- An additional 250,000 common shares on the latter of the Company generating revenue of $250,000 or February 15, 2025.
- An additional 250,000 common shares on the latter of the Company generating revenue of $500,000 or February 15, 2026.

The Company has the option to accelerate the Technology Acquisition Agreement by providing to the Foundation notice of two business days and to issue all the Consideration Shares to the Foundation. Pursuant to the same agreement, the Company may terminate the Technology Acquisition Agreement at any time without cause, and without incurring any additional obligation, liabilities, or penalty, by providing at least 30 days' prior written notice to the Foundation. Pursuant to an assignment agreement dated June 25, 2024, the Foundation assigned the technology to Ovryde (Note 7) and Ovryde agreed to assume the obligations under the Technology Agreement. As at September 30, 2024, the Company has not completed $600,000 expenditures and both parties mutually agreed to indefinitely pause and defer all amounts due under the Technology Acquisition Agreement.

(Expressed in Canadian Dollars)

12. SUPPLEMENTAL CASH FLOW INFORMATION

	September 30, 2024	September 30, 2023
	$	**$**
Cash:		
Interest received	30,970	18,656
Non-Cash:		
Working capital:		
Change in fair value related to derivative asset	-	3,541
Finance charge	-	4,839
Accounts payable included in intangible assets	400,000	-
Investing activities:		
Shares issued pursuant to agreements	5,600,000	502,500
Financing activities:		
Share subscriptions received in prior period	72,000	-
Fair value of restricted share rights exercised transferred from reserve to share capital	760,000	-
Fair value of warrants exercised transferred from reserve to share capital	172,410	-

Cash and cash equivalents consist primarily of cash at banks and other short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. As at September 30, 2024, cash on hand was $107,426 and $968,149 was held in Prime-Linked Cashable GICs.

13. INCOME TAX

A reconciliation of the income tax charge computed at statutory rates to the reported loss before taxes is as follows:

	2024	2023
Statutory tax rate	**27%**	27%
	$	**$**
Income tax benefit at statutory rate	**(3,088,657)**	(865,451)
Permanent differences	**2,450,821**	625,356
Temporary differences	**(19,135)**	(12,944)
Change in timing differences	**(111,564)**	(192,772)
Unused tax losses and tax offsets not recognized	**758,480**	445,811
Income tax recovery	**(10,055)**	**-**

The Company received a refund of $10,055 during the year ended September 30, 2024 with respect to reassessment of previous year tax filings.

(Expressed in Canadian Dollars)

13. INCOME TAX, continued

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

	September 30, 2024	September 30, 2023
	$	$
Non-capital losses	**3,760,971**	1,357,994
Capital losses	**720,525**	758,103
Intangible asset	**399,999**	-
Share issue costs	**187,608**	143,821
	5,069,103	2,259,918

The Company has Canadian unrecognized non-capital losses that expire as follows:

	September 30, 2024
	$
2041	**3,809**
2042	**417,005**
2043	**906,930**
2044	**2,433,227**
	3,760,971

14. PREPAID EXPENSES

Included in prepaid expenses is an amount of $678,851 (2023 - $nil) representing advance payment for an ongoing marketing campaign.

15. SUBSEQUENT EVENTS

Other than disclosed elsewhere, the following occurred subsequent to September 30, 2024:

During December 2024 and January 2025, a total of 705,667 stock options were exercised at $0.60 per common share for gross proceeds of $423,400.

During December 2024, the terms of an employment agreement dated April 29, 2024 (Notes 7 & 9), were amended with respect to vesting dates of restricted share rights granted thereunder. Each right will now vest as follows: 20% after ten months; 10% after twelve months; 15% fifteen and eighteen months and 20% after twenty-one and twenty-four months.

On December 23, 2024, the Company entered into a one year $1,000,000 convertible debt financing from First Majestic Silver Corp. ("First Majestic"). The debt financing includes a compound annual interest rate of 4% and the sole right of First Majestic to convert the principal amount of the loan at $1.40 per share.

15. SUBSEQUENT EVENTS, continued

On January 10, 2025, the Company closed a non-brokered private placement and issued 1,285,714 units ("Units") at a price of $1.40 per Unit for gross proceeds of up to $1,800,000. Each Unit consists of one common share and one common share purchase warrant (each, a "Warrant"). Each Warrant will entitle the holder to acquire one additional common share at an exercise price of $1.80 for a period of two years upon issuance.

On January 10, 2025, the Company granted 400,000 stock options to employees at an exercise price of $1.00 per common share expiring on January 10, 2030. The options vest one-quarter six months from grant date, one-quarter twelve months from grant date, one-quarter eighteen months from grant date and one-quarter twenty-four months from grant date.