



BTQ TECHNOLOGIES CORP.

Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022

(unaudited)

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed interim consolidated financial statements by an entity's auditor.

BTQ TECHNOLOGIES CORP.

Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)
(unaudited)

	September 30, 2023 \$	December 31, 2022 \$	January 1, 2022 \$
		(Note 17)	(Note 17)
Assets			
Current assets			
Cash and cash equivalents	4,955,465	2,058,214	–
Receivables	116,614	107,542	475
Prepaid expenses and deposits	427,827	28,734	31,080
Loan receivable (Note 8)	–	1,354,400	–
Total current assets	5,499,906	3,548,890	31,555
Non-current assets			
Restricted cash	2,875	–	–
Property and equipment (Note 4)	114,223	115,620	17,572
Intangible assets (Note 5)	4,745,383	5,070,156	150,769
Right-of-use asset (Note 6)	47,051	–	–
Investments (Note 9)	81,120	67,720	–
Deposits	31,047	26,451	–
Total non-current assets	5,021,699	5,279,947	168,341
Total assets	10,521,605	8,828,837	199,896
Liabilities and shareholders' equity (deficit)			
Current liabilities			
Accounts payable and accrued liabilities (Note 14)	449,923	740,746	64,258
Loans payable	–	–	17,231
Due to related parties (Note 14)	28,626	30,364	316,997
Lease liability (Note 7)	54,410	–	–
Total liabilities	532,959	771,110	398,486
Shareholders' equity (deficit)			
Share capital (Notes 3 and 10)	22,202,066	9,950,950	62,900
Options reserve (Notes 3 and 11)	1,369,160	–	–
Warrants reserve (Note 12)	67,386	–	–
RSU reserve (Note 13)	677,696	–	–
Accumulated other comprehensive income (loss)	296,405	342,558	(2,467)
Deficit	(14,624,067)	(2,235,781)	(259,023)
Total shareholders' equity (deficit)	9,988,646	8,057,727	(198,590)
Total liabilities and shareholders' equity (deficit)	10,521,605	8,828,837	199,896

Nature of operations and going concern (Note 1)

Commitment (Note 18)

Subsequent event (Note 19)

Approved and authorized for issuance on behalf of the Board on November 14, 2023:

"Olivier Roussy Newton" Director

"Michael Resendes" Director

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

BTQ TECHNOLOGIES CORP.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Expenses				
Consulting fees	37,728	–	86,185	–
Depreciation and amortization (Notes 4, 5 and 6)	229,689	113,813	451,958	428,275
General and administrative	112,058	141,290	484,384	297,157
Marketing and promotion	510,254	35,997	898,375	56,317
Professional fees (Note 14)	245,728	85,269	483,816	236,638
Research and development	574,946	–	1,664,950	–
Share-based compensation (Notes 11 and 13)	755,391	–	2,661,449	–
Transfer agent and regulatory fees	14,055	–	216,701	–
Wages and benefits (Note 14)	148,209	186,388	514,021	435,363
Total expenses	2,628,058	562,757	7,461,839	1,453,750
Loss before other income (expense)	(2,628,058)	(562,757)	(7,461,839)	(1,453,750)
Other income (expense)				
Collaboration and grant income	139,713	–	153,188	–
Foreign exchange income (loss)	(33,728)	74,584	(43,484)	63,592
Interest income	6,669	–	8,733	–
Interest expense (Note 7)	(37,969)	–	(37,969)	–
Listing costs (Note 3)	–	–	(5,006,915)	–
Total other income (expense)	74,685	74,584	(4,926,447)	63,592
Net loss for the period	(2,553,373)	(488,173)	(12,388,286)	(1,390,158)
Comprehensive income (loss)				
Foreign currency translation adjustment	124,904	400,663	(46,153)	452,357
Net comprehensive loss for the period	(2,428,469)	(87,510)	(12,434,439)	(937,801)
Loss per share, basic and diluted	(0.02)	(0.01)	(0.11)	(0.04)
Weighted average number of common shares outstanding	122,932,711	88,956,522	116,673,664	36,102,564

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

BTQ TECHNOLOGIES CORP.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)
(unaudited)

	Share capital		Options reserve \$	Warrants reserve \$	RSU reserve \$	Accumulated other income (loss) \$	Deficit \$	Total shareholders' equity (deficit) \$
	Number of shares	Amount \$						
Balance, December 31, 2022	92,000,000	9,950,950	–	–	–	342,558	(2,235,781)	8,057,727
Shares of the Company pursuant to reverse takeover	8,747,629	3,499,051	–	–	–	–	–	3,499,051
Revaluation of stock options pursuant to reverse takeover	–	–	97,532	–	–	–	–	97,532
Shares issued for cash	18,001,250	7,200,500	–	–	–	–	–	7,200,500
Shares issued to finder for the Transaction	2,500,000	1,000,000	–	–	–	–	–	1,000,000
Share issuance costs	–	(160,560)	–	67,386	–	–	–	(93,174)
Shares issued from vested RSU's	1,822,500	712,125	–	–	(712,125)	–	–	–
Fair value of stock options granted	–	–	1,271,628	–	–	–	–	1,271,628
Fair value of restricted share units granted	–	–	–	–	1,389,821	–	–	1,389,821
Foreign currency translation loss	–	–	–	–	–	(46,153)	–	(46,153)
Net loss for the period	–	–	–	–	–	–	(12,388,286)	(12,388,286)
Balance, September 30, 2023	123,071,379	22,202,066	1,369,160	67,386	677,696	296,405	(14,624,067)	9,988,646
Balance, December 31, 2021	1,000,000	62,900	–	–	–	(2,467)	(259,023)	(198,590)
Shares issued for patents	65,000,000	9,432,866	–	–	–	–	–	9,432,866
Shares issued for cash	26,000,000	455,184	–	–	–	–	–	455,184
Foreign currency translation gain	–	–	–	–	–	452,357	–	452,357
Net loss for the period	–	–	–	–	–	–	(1,390,158)	(1,390,158)
Balance, September 30, 2022	92,000,000	9,950,950	–	–	–	449,890	(1,649,181)	8,751,659

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

BTQ TECHNOLOGIES CORP.

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(unaudited)

	Nine months ended September 30, 2023 \$	Nine months ended September 30, 2022 \$
Operating activities		
Net loss for the period	(12,388,286)	(1,390,158)
Items not involving cash:		
Amortization of intangible assets	314,236	408,715
Depreciation of property and equipment	18,972	19,560
Depreciation of right-of-use asset	118,750	—
Listing costs	5,006,915	—
Interest expense	37,927	—
Share-based compensation	2,661,449	—
Changes in non-cash operating working capital:		
Receivables	16,236	(139,690)
Prepaid expenses and deposits	(403,102)	(19,945)
Accounts payable and accrued liabilities	(745,900)	368,912
Net cash used in operating activities	(5,362,803)	(752,606)
Investing activities		
Purchase of intangible assets	—	(1,815,595)
Purchase of property and equipment	(17,774)	(112,367)
Purchase of investment	(13,314)	(68,535)
Cash acquired in reverse takeover	16,562	—
Net cash used in investing activities	(14,526)	(1,996,497)
Financing activities		
Repayment of related party loans	—	(288,211)
Repayment of loans payable	—	(17,231)
Repayment of loan receivable	1,354,400	—
Proceeds from issuance of shares	7,200,500	7,024,184
Share issuance costs	(93,174)	—
Repayment of lease obligation	(149,004)	—
Net cash provided by financing activities	8,312,722	6,718,742
Effect of foreign exchange rate changes on cash and cash equivalents	(38,142)	452,592
Increase in cash and cash equivalents	2,897,251	4,422,231
Cash and cash equivalents, beginning of period	2,058,214	—
Cash and cash equivalents, end of period	4,955,465	4,422,231
Cash and equivalents consist of:		
Cash in bank	4,380,465	4,422,231
Redeemable GIC	575,000	—
Total cash and cash equivalents	4,955,465	4,422,231

Supplemental cash flow information (Note 15)

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

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

BTQ Technologies Corp. (formerly Sonora Gold & Silver Corp.) (“the Company”) was incorporated on November 23, 1983 under the Business Corporations Act (British Columbia). The principal activity of the Company is the development of computer-based technology related to post-quantum cryptography, particularly as it applies to blockchain and related technologies, and their protection from the emerging security risk of quantum computing. The Company’s head office is located at 16-104 555 Burrard Street, Vancouver, BC, Canada. The Company’s common shares trade on the NEO Exchange under the ticker symbol “BTQ”.

On February 17, 2023, the Company acquired all of the issued and outstanding shares of BTQ AG, a Liechtenstein incorporated company, in exchange for 92,000,000 common shares. This transaction constituted a reverse takeover of the Company by BTQ AG with BTQ AG being identified as the accounting acquirer. As a result, these condensed interim consolidated financial statements are a continuation of BTQ AG. The Company’s results of operations are included from February 17, 2023 onwards, except for share capital which has been retroactively adjusted to reflect the capital of the Company. Refer to Note 3.

These condensed interim consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has a net loss of \$12,388,286 for the nine months ended September 30, 2023 (2022: \$1,390,158), and, as of September 30, 2023, the Company had an accumulated deficit of \$14,624,067 (December 31, 2022 - \$2,235,781). The Company’s ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. These factors indicate a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern.

The Company’s business financial condition and results of operations may be further negatively affected by economic and other consequences from Russia’s military action against Ukraine and the sanctions imposed in response to that action in late February 2022. While the Company expects any direct impacts of the war in Ukraine to the business to be limited, the indirect impacts on the economy and on the cybersecurity industry and other industries in general could negatively affect the business and may make it more difficult for it to raise equity or debt financing. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about on its business, results of operations, financial position, and cash flows in the future.

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

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to interim financial information, as outlined in International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” and using the accounting policies consistent with those in the audited financial statements as at and for the year ended December 31, 2022.

The condensed interim consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical cost, except for certain financial assets and liabilities that are measured at fair value.

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiary listed in the following table:

Name of Entity	Country of incorporation	Functional Currency	Ownership interest as at September 30, 2023	Ownership interest as at December 31, 2022
BTQ AG	Liechtenstein	U.S. dollars	100%	0%

The results of the subsidiary are included in the consolidated financial statements of the Company from the date that control commences until the date the Company's control ceases. Control is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through power over the investee. All significant inter-company transactions, balances, income and expenses are eliminated on consolidation.

Change in presentation currency

Effective February 17, 2023, the accounting acquirer, BTQ AG, changed its presentation currency from U.S. dollars to Canadian dollars. In making this change in presentation currency, the Company followed the guidance in IAS 21, *The Effects of changes in Foreign Exchange Rates* and has applied this change retrospectively, as if the Canadian dollar has always been its presentation currency, as follows:

- Assets and liabilities have been translated into Canadian dollar at the rate of exchange prevailing at the respective reporting dates;
- The condensed interim consolidated statements of loss and comprehensive loss were translated at the average exchange rates for the respective reporting periods, or at the exchange rates prevailing at the applicable transaction date;
- Equity transactions have been translated at the exchange rate prevailing at the date of the transactions; and
- Exchange differences arising on translation were recorded in accumulated other comprehensive income (loss) in shareholders' equity.

Refer to Note 15 for the impact of the change in presentation currency.

Accounting standards issued but not yet effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended September 30, 2023, and have not been early adopted in preparing these condensed interim consolidated financial statements. These new standards, and amendments to standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

3. REVERSE TAKEOVER

On December 31, 2021 (as amended on April 29, 2022, July 30, 2022 and November 29, 2022), the Company, BTQ AG, and shareholders of BTQ AG entered into an agreement pursuant to which the Company agreed to acquire all of the issued and outstanding shares of BTQ AG (the "Transaction").

The closing of the Transaction occurred on February 17, 2023, at which time the Company issued 92,000,000 common shares in exchange for the issued and outstanding common shares of BTQ AG. The Company consolidated its common shares on a 10:1 basis immediately prior to the closing of the transaction.

As a result of the completion of the Transaction, the former shareholders of BTQ AG acquired 75.88% of the outstanding common shares of the Company, and, for accounting purposes, are considered to have acquired control of the Company. Accordingly, the Transaction constitutes a reverse acquisition of the Company by BTQ AG and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, *Share-based Payment* and IFRS 3, *Business Combinations*. As the Company did not qualify as a business prior to the closing of the transaction according to the definition in IFRS 3, this reverse acquisition did not constitute a business combination; rather it was treated as an issuance of shares by BTQ AG for the net assets of the Company. Accordingly, no goodwill was recorded with respect to the Transaction. The Transaction was measured at the fair value of the common shares that BTQ AG would have had to issue to the shareholders of the Company, being 8,747,629 common shares with a fair value of \$3,499,051, and the fair value of 350,000 stock options of the Company with a fair value of \$97,532, to give the shareholders of the Company the same percentage of equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of BTQ AG acquiring the Company. The Company issued 2,500,000 common shares with a fair value of \$1,000,000 as a finder's fee for the Transaction. The fair value of common shares and stock options issued were estimated based on the Company's financing event which took place concurrently to the reverse takeover transaction at the price of \$0.40 per common share. Refer to Note 6. These condensed interim consolidated financial statements include the accounts of the Company as at February 17, 2023 and the historical accounts of the business of BTQ AG since its incorporation on March 26, 2021.

The purchase price is allocated as follows:

	\$
Fair value of the Company's shares (8,747,629 common shares)	3,499,051
Fair value of 350,000 stock options of the Company outstanding	97,532
Fair value of 2,500,000 common shares issued as a finder's fee	1,000,000
Total consideration	4,596,583
Less: fair value of identifiable assets and liabilities acquired:	
Cash	16,562
Prepaid expenses	25,308
Restricted cash	2,875
Accounts payable and accrued liabilities	(455,077)
Net liabilities	(410,332)
Listing costs	5,006,915

The fair value of stock options of the Company was calculated using the Black-Scholes option pricing model with the following assumptions: volatility of 150%, expected life of 2.1 years, no dividends, no forfeitures, and a risk-free rate of 4.15%.

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

4. PROPERTY AND EQUIPMENT

	IT equipment \$	Furniture and equipment \$	Total \$
Cost:			
Balance, December 31, 2022	106,064	47,032	153,096
Additions	13,160	4,614	17,774
Balance, September 30, 2023	119,224	51,646	170,870
Accumulated depreciation:			
Balance, December 31, 2022	32,774	4,702	37,476
Additions	15,703	3,269	18,972
Foreign exchange translation difference	126	73	199
Balance, September 30, 2023	48,603	8,044	56,647
Net carrying value:			
Balance, December 31, 2022	73,290	42,330	115,620
Balance, September 30, 2023	70,621	43,602	114,223

5. INTANGIBLE ASSETS

	Patents \$	IP in progress \$	Assembled workforce \$	Internet domain btq.com \$	Total \$
Cost:					
Balance, December 31, 2022 and September 30, 2023	2,952,592	2,396,541	115,124	142,821	5,607,078
Accumulated amortization:					
Balance, December 31, 2022	421,799	–	115,123	–	536,922
Additions	314,236	–	–	–	314,236
Foreign exchange translation difference	6,037	4,247	–	253	10,537
Balance, September 30, 2023	742,072	4,247	115,123	253	861,695
Net carrying value:					
Balance, December 31, 2022	2,530,793	2,396,541	1	142,821	5,070,156
Balance, September 30, 2023	2,210,520	2,392,294	1	142,568	4,745,383

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

6. RIGHT OF USE ASSETS

	Premises \$
Cost:	
Balance, December 31, 2022	–
Additions	173,006
Balance, September 30, 2023	173,006
Accumulated depreciation:	
Balance, December 31, 2022	–
Additions	118,750
Foreign exchange difference	7,205
Balance, September 30, 2023	125,955
Carrying amounts:	
1As at December 30, 2022	–
As at September 30, 2023	47,051

7. LEASE LIABILITY

The Company entered into a premises lease agreement which gives the Company the right to use an underlying asset which expires on May 14, 2024. The Company's obligation to make lease payments arising from the lease is calculated by discounting the fixed lease payments over the lease term at the Company's incremental borrowing rate. The incremental borrowing rate used in the calculation was 25%.

	2023 \$	2022 \$
Balance, beginning of period	–	–
Additions	173,006	–
Principal payments	(149,004)	–
Interest payments	37,927	–
Foreign exchange difference	(7,519)	–
Balance, end of period	54,410	–
Less: current portion	54,410	–
Non-current portion	–	–

8. LOAN RECEIVABLE

On December 1, 2022, as part of the Company's strategic investment strategy, BTQ AG entered into an agreement with MEV Trading Inc. ("MEV"), under which the Company granted a loan of \$1,351,400 (US\$1,000,000) which is non-interest bearing, and due on June 30, 2023. In consideration for the loan, MEV issued a warrant to BTQ AG entitling BTQ AG to purchase shares of MEV non-voting stock equal to 10% of the loan amount based on the fully-diluted pre-money valuation of the borrower as determined by the most recent qualified equity financing round before the maturity date or within one year of issuance, whichever occurs earlier. On August 7, 2023, the Company received repayment of the US\$1,000,000 loan receivable.

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

9. INVESTMENTS

	\$
Balance, December 31, 2022	67,720
Additions	13,314
Foreign exchange translation difference	86
Balance, September 30, 2023	81,120

During the year ended December 31, 2022, the BTQ AG invested \$67,720 (US\$50,000) in the Holonym Foundation (“Holonym”), which corresponds to a 1% stake in the enterprise. The equity investment is not traded in an active market. The management of the Company considers the participation in Holonym to be a strategic, long-term equity investment. Holonym is using some of the Company’s technology related to post-quantum security and zero-knowledge proofs.

On January 11, 2023, BTQ AG invested \$13,314 (US\$10,000) in the form of a Simple Agreement for Future Equity (“SAFE”) into Cysic Inc. (“Cysic”), a developer of hardware system designed to provide hardware acceleration systems for ZK-proof protocols. Cysic specializes in the ZK proof system which is a cryptographic technique that confirms whether a statement is true or false without revealing that statement’s contents through their printed circuit board, enabling businesses to bring a well-scaled web3 to the masses.

10. SHARE CAPITAL

Authorized: Unlimited number of common shares without par value

Share transactions during the nine months ended September 30, 2023:

- On February 17, 2023, the Transaction closed, resulting in a reverse takeover (refer to Note 3). The Transaction was measured at the fair value of the shares that BTQ AG would have had to issued to the shareholders of the Company, being 8,747,629 common shares with a fair value of \$3,499,051;
- On February 17, 2023, the Company issued 2,500,000 common shares with a fair value of \$1,000,000 as finder’s fee for the Transaction;
- On February 17, 2023, the Company completed a subscription receipt financing of 18,001,250 common shares at \$0.40 per share for gross proceeds of \$7,200,500. In connection with the financing, the Company incurred share issuance costs of \$93,174 and issued 232,936 finders’ warrants with fair value of \$67,386. The fair value of the finders’ warrants was calculated using the Black-Scholes option pricing model.
- On July 7, 2023, the Company issued 1,822,500 common shares pursuant to the conversion of vested RSUs

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

10. SHARE CAPITAL (continued)

Escrowed shares

On completion of the Transaction, certain principals of the Company entered into a NP 46-201 Escrow Agreement with the NEO Exchange and Computershare Trust Company of Canada, as escrow agent, in respect of 45,250,000 common shares. Under the terms of the Escrow Agreement, 25% of such escrowed securities were released upon closing (February 17, 2023) with subsequent 25% releases occurring 6, 12, and 18 months from closing. These escrow shares will be released as follows:

<u>Date of automatic timed release</u>	<u>Amount of escrow shares released</u>
On the date that the Company's common shares were listed on the NEO, February 17, 2023	1/4 of the escrowed shares
6 months after the listing date (August 17, 2023)	1/4 of the escrowed shares
12 months after the listing date (February 17, 2024)	1/4 of the escrowed shares
18 months after the listing date (August 17, 2024)	The remainder of the escrowed shares

As at September 30, 2023, 22,625,000 common shares remained in escrow.

11. STOCK OPTIONS

The Company has a stock option plan (the "Plan") for directors, officers, employees, and consultants of the Company. Stock options are exercisable for periods of up to five years, as determined by the Board of Directors of the Company, to purchase common shares of the Company at a price not less than the discounted market price on the date of the grant. The maximum number of shares which may be issuable under the Plan cannot exceed 10% of the total number of issued and outstanding common shares on a non-diluted basis.

The following table summarizes the continuity of the Company's stock options:

	<u>Number of stock options</u>	<u>Weighted average exercise price \$</u>
Outstanding, December 31, 2022	–	–
Outstanding stock options of the Company prior to reverse takeover	350,000	0.50
Granted	8,095,000	0.41
Expired	(170,000)	0.50
Outstanding, September 30, 2023	8,275,000	0.41
Exercisable, September 30, 2023	1,371,875	0.42

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

11. STOCK OPTIONS (continued)

Additional information regarding stock options outstanding as at September 30, 2023, is as follows:

Range of exercise prices \$	Outstanding			Exercisable	
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of stock options	Weighted average exercise price \$
0.40	7,635,000	3.8	0.40	1,066,875	0.40
0.45	250,000	4.3	0.45	125,000	0.45
0.50	180,000	1.4	0.50	180,000	0.50
0.64 to 0.65	210,000	4.3	0.64	—	—
	8,275,000	3.8	0.41	1,371,875	0.42

The fair value for stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends or forfeitures and the following weighted average assumptions:

	2023
Risk-free interest rate	3.40%
Expected life (in years)	4.37
Expected volatility	150%

The total fair value of vested stock options recognized during the nine months ended September 30, 2023 was \$1,271,628 (2022 – \$nil), which was recorded as share-based payment reserve and charged to the consolidated statement of loss. The weighted average fair value of the stock options granted during the nine months ended September 30, 2023 was \$0.34 (2022 – \$nil) per option.

12. SHARE PURCHASE WARRANTS

The following table summarizes the continuity of share purchase warrants:

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2022	—	—
Issued	232,936	0.40
Balance, September 30, 2023	232,936	0.40

As at September 30, 2023, the following share purchase warrants were outstanding and exercisable:

Number of warrants outstanding	Exercise price \$	Expiry date
232,936	0.40	February 17, 2025

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

13. RESTRICTED SHARE UNITS

During the nine months ended September 30, 2023, 3,740,000 restricted share units (“RSUs”) (2022 – nil) were awarded. The fair value of the RSUs, which is determined with reference to the trading price of the Company’s common shares on the date of issuance, was determined to be \$1,747,575 (2022 - \$nil). During the nine months ended September 30, 2023, \$1,389,821 was recognized as share-based compensation, and \$712,125 were transferred to share capital on the vesting of 1,822,500 RSU’s.

A summary of the changes in RSUs is presented below:

	Number of RSUs
Balance, December 31, 2022	–
Issued	3,740,000
Converted	(1,822,500)
Balance, September 30, 2023	1,917,500
Unvested	1,907,500
Vested, September 30, 2023	10,000

14. RELATED PARTY TRANSACTIONS

Parties are considered to be 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. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Key Management Compensation

Key management personnel are persons responsible for planning, directing, and controlling the activities of an entity, and include directors, the chief executive officer (“CEO”), and chief financial officer (“CFO”) of the Company. Key management personnel compensation during the three and nine months ended September 30, 2023 and 2022 was comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Professional fees	21,000	–	38,661	–
Share-based payments	434,420	–	646,348	–
Wages and benefits	41,753	31,803	127,311	64,963
Total	497,173	31,803	812,320	64,963

As at September 30, 2023, the Company owed \$25,531 (December 31, 2022 - \$27,264) to the CEO of the Company, which is non-interest bearing, unsecured, and due on demand.

As at September 30, 2023, the Company owed \$3,095 (December 31, 2022 - \$3,100) to a company controlled by the father of the CEO of the Company, which is non-interest bearing, unsecured, and due on demand.

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

14. RELATED PARTY TRANSACTIONS (continued)

As at September 30, 2023, the Company owed \$10,869 (December 31, 2022 - \$nil) to the COO of the Company, which is included in accounts payable.

As at September 30, 2023, the Company owed \$7,350 (December 31, 2022 - \$nil) to a firm where the CFO is a partner, which is included in accounts payable.

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine months ended September 30, 2023 \$	Nine months ended September 30, 2022 \$
Non-cash investing and financing activities:		
Receivables acquired in reverse takeover	25,308	—
Restricted cash acquired in reverse takeover	2,875	—
Accounts payable and accrued liabilities assumed in reverse takeover	455,077	—
Shares issued as a finder's fee for the Transaction	1,000,000	—
Shares issued for purchase of intangible assets	—	9,432,866
Shares issued for vested RSUs	712,125	—
Finders' warrants issued pursuant to private placement	67,386	—

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair Values

Fair value hierarchy

The following provides a description of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Fair Values (continued)

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at September 30, 2023 and December 31, 2022 as follows:

	Fair value measurements using			Balance, September 30, 2023 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$	
Investments	–	–	81,120	81,120

	Fair value measurements using			Balance, December 31, 2022 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$	
Investments	–	–	67,720	67,720

The fair values of the Company's other financial instruments, which include cash and cash equivalents, restricted cash, receivables, loan receivable, accounts payable and accrued liabilities, and due to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in a foreign currency.

The Company's subsidiary has certain monetary financial instruments denominated in U.S. dollars. The Company has not entered into foreign exchange rate contracts to mitigate this risk.

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Foreign Exchange Rate Risk

The following table indicates the impact of foreign currency exchange risk on net working capital as at September 30, 2023. The table below also provides a sensitivity analysis of a 10% strengthening of the foreign currency against functional currencies identified which would have increased (decreased) the Company's net loss by the amounts shown in the table below. A 10% weakening of the foreign currency against the functional currencies would have had the equal but opposite effect as at September 30, 2023.

	US\$
Cash	1,432,085
Accounts payable and accrued liabilities	(243,334)
Total foreign currency financial assets and liabilities	1,188,751
Impact of a 10% strengthening or weakening of foreign exchange rate	118,875

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk as it does not have any liabilities with variable rates.

(e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company relies on raising debt or equity financing in a timely manner.

The following amounts are the contractual maturities of financial liabilities as at September 30, 2023 and December 31, 2022:

As at September 30, 2023

	Total \$	Within 1 year \$	Within 2-5 years \$
Accounts payable and accrued liabilities	449,923	449,923	–
Due to related parties	28,626	28,626	–
Lease liability	54,410	54,410	–
Total	532,959	532,959	–

As at December 31, 2022

	Total \$	Within 1 year \$	Within 2-5 years \$
Accounts payable and accrued liabilities	740,746	740,746	–
Due to related parties	30,364	30,364	–
Total	771,110	771,110	–

BTQ TECHNOLOGIES CORP.

Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)
(unaudited)

17. CHANGE IN PRESENTATION CURRENCY

For comparative purposes, the consolidated statement of financial position as at December 31, 2022 includes adjustments to reflect the change in presentation currency from U.S. dollar to Canadian dollars. The effect of the translation is as follows:

As at December 31, 2022	As previously reported US\$	Translated \$
Current assets	2,620,267	3,548,890
Non-current assets	3,898,366	5,279,947
Total assets	6,518,633	8,828,837
Current liabilities	569,337	771,110
Total liabilities	569,337	771,110

As at January 1, 2022	As previously reported US\$	Translated \$
Current assets	24,890	31,555
Non-current assets	132,782	168,341
Total assets	157,672	199,896
Current liabilities	314,312	398,486
Total liabilities	314,312	398,486

18. COMMITMENT

On September 22, 2023, the Company entered into a premises lease agreement. Effective October 1, 2023, the Company is obligated to make a monthly lease payment of \$9,280 for a period of one year.

19. SUBSEQUENT EVENT

Subsequent to September 30, 2023, the Company issued 100,000 RSUs to a consultant.