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Condensed Consolidated Interim Financial Statements

For three and six months ended January 31, 2026, and 2025

(Expressed in Canadian Dollars)

(Unaudited)



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

	January 31, 2026	July 31, 2025
Assets		
Current assets		
Cash and cash equivalents	\$ 15,721,093	\$ 8,220,089
Receivables (Note 4)	2,639,155	1,600,176
Prepaid expenses and deposits	2,505,042	2,328,455
Current portion of deferred cost of revenue (Note 6)	432,386	434,284
Inventory (Note 5)	3,938,823	2,829,437
	25,236,499	15,412,441
Property and equipment (Note 7)	1,848,656	2,351,765
Intangible assets (Note 8)	4,000,294	4,527,260
Non-current portion of deferred cost of revenue (Note 6)	21,737	167,850
Right of use assets (Note 9)	816,423	953,513
Total assets	\$ 31,923,609	\$ 23,412,829
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,659,618	\$ 3,027,553
Current portion of deferred revenue (Note 10)	7,004,214	6,142,469
Current portion of lease liability (Note 9)	243,004	252,104
	9,906,836	9,422,126
Non-Current liabilities		
Non-current portion of deferred revenue (Note 10)	2,125,704	2,426,834
Non-current portion of lease liability (Note 9)	736,151	878,294
	\$ 12,768,691	\$ 12,727,254
Shareholders' equity		
Share capital (Note 13)	\$ 162,846,069	\$ 150,239,300
Contributed surplus	19,735,103	18,535,306
Accumulated deficit	(163,701,769)	(158,442,649)
Accumulated other comprehensive income	275,515	353,618
	\$ 19,154,918	10,685,575
Total liabilities and shareholders' equity	\$ 31,923,609	\$ 23,412,829

Reporting entity (Note 1)
Basis of preparation (Note 2)
Subsequent event (Note 18)

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

Approved on behalf of the Board:

"Peter Evans"

Director, Chief Executive Officer

"Peter van der Gracht"

Director, Chairman of the Board



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

	Three months ended January 31,		Six months ended January 31,	
	2026	2025	2026	2025
Revenue (Note 10)	\$ 5,796,295	\$ 3,412,189	\$ 10,392,246	\$ 7,040,026
Cost of revenue (Note 11)	2,667,181	1,008,420	4,592,901	2,321,850
Gross profit	\$ 3,129,114	\$ 2,403,769	\$ 5,799,345	\$ 4,718,176
Operating expenses (Notes 12, 14)				
Selling and marketing	\$ 1,803,362	\$ 1,224,575	\$ 3,747,575	\$ 2,887,734
General and administration	1,993,777	1,648,688	3,981,383	3,512,880
Research and development	1,636,854	1,640,018	3,325,968	3,439,629
Loss on inventory write-down (Note 5)	562	281,429	84,141	281,429
Loss on retirement of assets (Note 7)	-	21,675	-	21,675
Total operating expenses	\$ 5,434,555	\$ 4,816,385	\$ 11,139,067	\$ 10,143,347
Loss from operations	(2,305,441)	(2,412,616)	(5,339,722)	(5,425,171)
Interest and other income	43,937	66,671	80,602	141,590
Net loss for the period	\$ (2,261,504)	\$ (2,345,945)	\$ (5,259,120)	\$ (5,283,581)
Other comprehensive income (loss) for the period				
Currency translation differences for foreign operations	(120,204)	263,300	(78,103)	546,119
Comprehensive loss for the period	\$ (2,381,708)	\$ (2,082,645)	\$ (5,337,223)	\$ (4,737,462)
Weighted average number of shares	257,968,232	218,423,567	249,297,742	218,410,655
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)

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



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)
(Unaudited)

	Share Capital		Contributed surplus	AOCI ⁽¹⁾	Accumulated deficit	Total
	Number of shares	Amount				
Balance - July 31, 2025	239,126,987	\$ 150,239,300	\$ 18,535,306	\$ 353,618	\$ (158,442,649)	\$ 10,685,575
Shares issued on the exercise of warrants (Notes 13, 15)	5,250,000	2,861,504	(288,704)	-	-	2,572,800
Shares issued on the exercise of stock options (Notes 13, 15)	191,893	287,386	(259,386)	-	-	28,000
Shares issued on private placement financing net of share issue costs	15,334,100	9,457,879	1,046,555	-	-	10,504,434
Share-based compensation (Notes 13, 14)	-	-	701,332	-	-	701,332
Other comprehensive loss for the period	-	-	-	(78,103)	-	(78,103)
Loss for the period	-	-	-	-	(5,259,120)	(5,259,120)
Balance - January 31, 2026	259,902,980	\$ 162,846,069	\$ 19,735,103	\$ 275,515	\$ (163,701,769)	\$ 19,154,918
Balance - July 31, 2024	218,388,237	\$ 144,372,452	\$ 16,163,950	\$ -	\$ (146,565,553)	\$ 13,970,849
Shares issued on the exercise of stock options (Notes 13, 15)	38,750	25,638	(8,669)	-	-	16,969
Share-based compensation (Notes 13, 14)	-	-	634,640	-	-	634,640
Other comprehensive income for the period	-	-	-	546,119	-	546,119
Loss for the period	-	-	-	-	(5,283,581)	(5,283,581)
Balance - January 31, 2025	218,426,987	\$ 144,398,090	\$ 16,789,921	\$ 546,119	\$ (151,849,134)	\$ 9,884,996

⁽¹⁾ AOCI is Accumulated Other Comprehensive Income

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



Xtract One Technologies Inc.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

	Six months ended January 31,	
	2026	2025
Cash flow used in operating activities		
Loss for the period	\$ (5,259,120)	\$ (5,283,581)
Adjustment for:		
Share-based compensation (Notes 13, 14)	701,332	634,640
Depreciation (Notes 7, 9, 12)	728,340	725,154
Amortization (Notes 8, 12)	479,063	422,454
Finance cost (Notes 9, 15)	20,582	22,916
Loss on retirement of assets	-	21,675
Loss on inventory (Note 5)	84,141	281,429
	(3,245,662)	(3,175,313)
Changes in non-cash working capital		
Receivables	(1,148,388)	3,009,688
Prepaid expenses and deposits	(220,054)	(352,624)
Inventory	(1,396,156)	(1,329,105)
Deferred cost of revenue (Note 6)	146,163	183,702
Accounts payable and accrued liabilities	(339,666)	(2,134,232)
Deferred revenue	822,624	1,597,727
Cash used in operating activities	(5,381,139)	(2,200,157)
Cash flow used in investing activities		
Purchase of property, plant and equipment (Note 7)	-	(129,180)
Internally developed intangible assets (Note 8)	-	(710,154)
Acquisition of right of use asset (Note 9)	-	(5,028)
Cash used in investing activities	-	(844,362)
Cash flow generated from financing activities		
Proceeds on issue of share capital	13,105,234	16,970
Lease payments (Note 9)	(171,825)	(162,129)
Cash generated from (used in) financing activities	12,933,409	(145,159)
Effect of exchange rate changes on cash and cash equivalents	(51,266)	(10,397)
Net increase (decrease) in cash and cash equivalents for the period	\$ 7,501,004	\$ (3,200,075)
Cash and cash equivalents beginning of the period	8,220,089	8,628,521
Cash and cash equivalents end of the period	\$ 15,721,093	\$ 5,428,446

Supplemental cash flow information (Note 15)

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



Xtract One Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended January 31, 2026, and 2025

(Expressed in Canadian Dollars)

(Unaudited)

1. Reporting entity

Xtract One Technologies Inc. (the "Company") was incorporated under the Business Corporation Act of British Columbia. Its common shares are listed under the trading symbol "XTRA" on the Toronto Stock Exchange ("TSX") in Canada, "XTRAF" on the OTCQX in the United States, and "OPL" on the Frankfurt Stock Exchange in Germany. Certain warrants of the Company are also listed for trading on the TSX under the trading symbol "XTRA.WT". The Company's wholly owned subsidiaries include Xtract One Detection Ltd. ("Xtract Detection"), Patriot One (UK) Limited ("Patriot UK"), Xtract One (US) Technologies Inc. ("Xtract US"), EhEye Inc. ("EhEye") and Xtract Technologies Inc. ("Xtract Technologies"). The principal business of the Company is the development and commercialization of integrated, layered, AI-powered threat detection gateway solutions, referred to as the "Gateways", with the aim of enhancing public health and safety.

The Company's head office is located at 55 York Street, Suite 1100, Toronto, Ontario, Canada, M5J 1R7, and its registered and records office is located at Bentall 5, 2501 - 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2B5.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements, including the comparative period, have been prepared in accordance IFRS – Accounting Standards ("IFRS"), with International Accounting Standard ("IAS 34"), *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"), and on a going concern basis. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed, and therefore, these condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements as at July 31, 2025. These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on March 4, 2026.

(b) Principles of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries, Xtract Detection, Patriot UK, Xtract US, EhEye, and Xtract Technologies. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity directly or indirectly so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account in the assessment of whether control exists. Subsidiaries are consolidated from the date on which control is transferred to the Company and deconsolidated from the date on which control ceases.

All significant intercompany balances and transactions have been eliminated on consolidation.



Xtract One Technologies Inc.

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(c) Functional currency, presentation currency and foreign currency translation

The functional currency of the Company and all of its subsidiaries is the Canadian dollar, except for Xtract US whose functional currency is the U.S. dollar.

These condensed consolidated interim financial statements are presented in Canadian dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the interim condensed consolidated statements of loss and comprehensive loss.

The financial statements of Xtract US, which has a functional currency that is different from the presentation currency of Canadian dollars, are translated into Canadian dollars as follows: assets and liabilities at the closing rate at the date of the interim condensed consolidated statements of financial position, and income and expenses at the average rate of the period as this is considered a reasonable approximation to actual rates. All resulting changes are recognized in other comprehensive income (loss) as translation adjustments.

(d) Basis of measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value, if applicable. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(e) Comparative figures

The Company has reclassified comparative figures for the prior period Operating Expenses in Note 12 to align with the current period presentation. As a result, the Company has reclassified the amount of \$222,846, \$263,564, and \$137,660 from Other operating expenses to Development supplies, Information technology and Tradeshow, advertising, and investor relations expenses respectively, for a total reclassification of \$624,070.

3. Material accounting policies

The accounting policies, estimates, and judgments used in the preparation of these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended July 31, 2025, as these condensed consolidated interim financial statements follow the same accounting policies and methods of application.



Xtract One Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(a) Material accounting judgments, estimates, and assumptions

The preparation of these condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, and contingent liabilities at the date of the condensed consolidated interim financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Material areas requiring the use of management estimates and judgments include:

Share-based compensation

The fair value of stock options granted is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on the measurement date, the exercise price of the option, expected volatility, expected life of the options, expected dividends, and risk-free interest rate. These estimates will impact the valuation of share-based compensation.

Deferred income tax assets and liabilities

The measurement of deferred income tax provision is subject to the uncertainty associated with the timing of future events and changes in legislation, tax rates, and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to the expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Company. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

Treatment of development costs

Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically and economically feasible, which management assesses based on the attributes of the development project, perceived user needs, industry trends, and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible.



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Estimated useful lives, depreciation, and amortization of property and equipment and intangible assets

Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

Right of use lease assets and liabilities

The right-of-use assets and liabilities are measured at the present value of future lease payments discounted using the rate implicit in the lease or incremental borrowing rate for the Company estimated based on comparable companies' borrowing rates if the rate implicit in the lease is not readily determined. These assumptions will impact the valuation of right-of-use assets and liabilities and finance costs.

Assessment of a subsidiary's functional currency

As per IAS 21 *The Effects of Changes in Foreign Exchange Rates*, an entity's functional currency is the currency of the primary economic environment in which it operates. Management exercises judgment when assessing the primary and secondary indicators to determine an entity's functional currency.

Revenue recognition

Revenue arising from the sale of or subscription to use the Company's products is recognized as the Company fulfills its performance obligations. There are significant estimates made in determining and measuring performance obligations that could impact the timing of revenue recognition.

Going concern

The preparation of the Company's condensed consolidated interim financial statements requires management to identify whether the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. A different basis of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. To assess this, the Company must identify events and conditions that may indicate significant doubt about the Company's ability to continue as a going concern. The Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

The ability of the Company to continue as a going concern is dependent on either a single or a combination of events occurring - obtaining additional financing through the issuance of debt or equity, and/or generating profit through its operations. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company or that profitable



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operations are not achieved. These matters result in material uncertainties which may cast significant doubt on whether the Company will continue as a going concern.

The Company manages its liquidity risk in order to meet its contractual obligations by ensuring there is appropriate cash on hand and obtaining other opportunities for financing. The Company identifies when funds are required through the planning and budgeting process to support the Company's normal operations. The Company's ability to continue as a going concern involves significant judgments and estimates while determining forecasted cash flows and is dependent on the Company's ability to obtain financing.

These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these condensed consolidated interim financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classification used.

(b) New accounting standards issued but not yet in effect

Presentation and Disclosure in Financial Statement (IFRS 18)

In April 2024, the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* ("IFRS 18") which replaces IAS 1 *Presentation of Financial Statements*.

IFRS 18 introduces:

- i. new requirements on presentation within the statement of profit or loss;
- ii. disclosure standards regarding management defined performance measures; and
- iii. principles for aggregation and disaggregation of financial information in the financial statements and the notes.

IFRS 18 will be effective for annual reporting periods beginning on or after January 1, 2027. IFRS 18 is to be applied retrospectively. The Company is currently assessing the impact that IFRS 18 will have on its consolidated financial statements.

4. Receivables

Receivables are comprised of the following:

	<u>January 31, 2026</u>	<u>July 31, 2025</u>
Trade receivables	\$ 2,561,610	\$ 1,416,532
Taxes receivable	77,545	183,644
	<u>\$ 2,639,155</u>	<u>\$ 1,600,176</u>

As of January 31, 2026, the Company had not made a provision for uncollectible accounts (July 31, 2025 - \$nil).



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5. Inventory

The Company's inventory consists of hardware components and finished goods that will be used in product offerings and is summarized below:

	<u>January 31, 2026</u>	<u>July 31, 2025</u>
Components and work-in-progress	\$ 423,440	\$ 341,335
Finished goods	3,515,383	2,488,102
	\$ 3,938,823	\$ 2,829,437

During the six months ended January 31, 2026, the Company recorded total inventory sold of \$2,993,952 (2025 - \$1,209,417) under cost of revenue. The Company has reclassified inventory in the amount of \$549,338 (July 31, 2025 - \$1,534,395) to subscription and demo assets and \$48,549 (July 31, 2025 - \$37,939) to office equipment (Note 7). As at January 31, 2026, the Company had outstanding purchase obligations of \$5,976,773 (July 31, 2025 - \$2,023,958) related to future finished goods that will be drawn down within the next year. During the six months ended January 31, 2026, the Company recognized a loss of \$84,141 (2025 - \$281,429) related to obsolete inventory.

6. Deferred cost of revenue

The Company's deferred cost of revenue consists of hardware and software delivered to customers in advance of recognizing revenue, and is summarized below:

Cost	Deferred cost of revenue	
Balance at July 31, 2024	\$	1,045,377
Additions		114,578
Balance at July 31, 2025		1,159,955
Additions		59,899
Balance at January 31, 2026	\$	1,219,854
Accumulated amortization		
Balance at July 31, 2024	\$	177,200
Amortization		380,621
Balance at July 31, 2025		557,821
Amortization		207,910
Balance at January 31, 2026	\$	765,731
Carrying amount as at January 31, 2026	\$	454,123
Current portion of deferred cost of revenue		(432,386)
Non-current portion of deferred cost of revenue	\$	21,737



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These costs are deferred until the corresponding revenues are recognized, at which point they are amortized to cost of revenue. During the period ended January 31, 2026, the Company recognized additions of \$59,899 to deferred cost of revenue (July 31, 2025 - \$114,578) and expensed \$207,909 to cost of revenue (2025 - \$183,702).

7. Property and equipment

Details of the Company's property and equipment as at January 31, 2026 and July 31, 2025 are as follows:

	Office equipment	Computer hardware	Furniture & fixtures	Subscription & demo assets	Leasehold improvements	Total
Cost						
Balance at July 31, 2024	\$ 1,440,472	\$ 326,283	\$ 154,766	\$ 2,242,316	\$ 158,268	4,322,105
Foreign currency translation	4,349	-	-	69,738	-	74,087
Additions	-	-	-	-	185,725	185,725
Reclassification	37,939	-	-	1,210,864	-	1,248,803
Retirement of assets	-	-	(29,939)	(43,230)	(188,010)	(261,179)
Balance at July 31, 2025	\$ 1,482,760	\$ 326,283	\$ 124,827	\$ 3,479,688	\$ 155,983	\$ 5,569,541
Foreign currency translation	(2,631)	-	-	(60,462)	-	(63,093)
Reclassification	16,606	-	-	(214,229)	-	(197,623)
Balance at January 31, 2026	\$ 1,496,735	\$ 326,283	\$ 124,827	\$ 3,204,997	\$ 155,983	\$ 5,308,825
Accumulated depreciation						
Balance at July 31, 2024	\$ 1,042,333	\$ 299,661	\$ 112,448	\$ 611,695	\$ 120,012	\$ 2,186,149
Foreign currency translation	1,988	-	-	28,288	-	30,276
Depreciation	105,961	11,926	8,179	946,636	34,826	1,107,528
Reclassification	(3,021)	-	-	(29,436)	-	(32,457)
Retirement of assets	-	-	(20,520)	(30,884)	(22,317)	(73,721)
Balance at July 31, 2025	\$ 1,147,261	\$ 311,587	\$ 100,107	\$ 1,526,299	\$ 132,521	\$ 3,217,775
Foreign currency translation	(1,159)	-	-	(31,411)	-	(32,570)
Depreciation	43,048	2,683	2,714	540,245	2,560	591,250
Reclassification	(2,814)	-	-	(313,473)	-	(316,287)
Balance at January 31, 2026	\$ 1,186,336	\$ 314,270	\$ 102,821	\$ 1,721,660	\$ 135,081	\$ 3,460,168
Carrying amount as at July 31, 2025	\$ 335,499	\$ 14,696	\$ 24,720	\$ 1,953,389	\$ 23,461	\$ 2,351,765
Carrying amount as at January 31, 2026	\$ 310,399	\$ 12,013	\$ 22,006	\$ 1,483,337	\$ 20,901	\$ 1,848,656

The Company recorded depreciation of subscription assets in the amount of \$414,541 (2025 - \$381,526) under cost of revenue.



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8. Intangible assets

The carrying values of intangible assets as at January 31, 2026 and July 31, 2025 are as follows:

	Quasar licensed distribution rights	EhEye intellectual property	Internally developed intellectual property	Total
Cost				
Balance at July 31, 2024	\$ 6,574,000	\$ 1,250,000	\$ 662,955	\$ 8,486,955
Foreign currency translation	348,000	-	-	348,000
Additions	-	-	729,730	729,730
Balance at July 31, 2025	\$ 6,922,000	\$ 1,250,000	\$ 1,392,685	\$ 9,564,685
Foreign currency translation	(141,000)	-	-	(141,000)
Balance at January 31, 2026	\$ 6,781,000	\$ 1,250,000	\$ 1,392,685	\$ 9,423,685
Accumulated amortization				
Balance at July 31, 2024	\$ 3,315,825	\$ 593,750	\$ 111,625	\$ 4,021,200
Foreign currency translation	170,050	-	-	170,050
Amortization	697,675	125,000	23,500	846,175
Balance at July 31, 2025	\$ 4,183,550	\$ 718,750	\$ 135,125	\$ 5,037,425
Foreign currency translation	(93,097)	-	-	(93,097)
Amortization	346,929	62,500	69,634	479,063
Balance at January 31, 2026	\$ 4,437,382	\$ 781,250	\$ 204,759	\$ 5,423,391
Carrying amount as at July 31, 2025	\$ 2,738,450	\$ 531,250	\$ 1,257,560	\$ 4,527,260
Carrying amount as at January 31, 2026	\$ 2,343,618	\$ 468,750	\$ 1,187,926	\$ 4,000,294

Quasar - Licensed distribution rights

In June 2019, the Company entered into a licensing agreement with Quasar Federal Systems, Inc. ("Quasar") receiving a perpetual, worldwide, exclusive, fully paid-up, transferable and irrevocable license (with a right of sublicense) to use Quasar's intellectual property in exchange for an aggregate cash consideration of \$6,574,000 (US\$5,000,000). The Quasar license includes access to patented sensor technology and patent-pending magnetic detection and security screening technology. The Company also has the right to engage Quasar's development team to assist with future modifications to the technology, as well as manufacturing and implementation engineering. The license was recognized as an intangible asset and is amortized over its estimated useful life of ten years. The remaining useful life of the Quasar license is approximately four years.

EhEye - Intellectual property

In connection with the acquisition of EhEye during the year ended July 31, 2019, the Company determined the fair value of the intellectual property acquired in connection with the acquisition of EhEye to be \$1,250,000. As at November 1, 2019, the Company determined that this technology was ready for commercial use and began amortizing the acquired intellectual property over the technology's estimated useful life of ten years. The remaining useful life of this intangible asset is approximately four years.



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Internally developed intellectual property

In fiscal 2019 and 2020, the Company determined that \$235,000 of directly attributable development expenditures met the criteria for capitalization. As at November 1, 2019, the Company determined that this technology was ready for commercial use and began amortizing the capitalized development costs over the technology's estimated useful life of ten years. The remaining useful life of this intangible asset is approximately four years.

In fiscal 2024, the Company determined that \$427,955 of directly attributable development expenditures met the criteria for capitalization. In fiscal 2025, an additional \$729,730 of directly attributable development expenditures met the criteria. As at August 1, 2025, the Company determined that this technology was available for commercial use and began amortizing the capitalized development costs over the technology's estimated useful life of ten years. The Company does not anticipate any further amounts meeting the criteria for capitalization.

9. Right of use assets and lease liabilities

The Company has recorded the right of use assets and lease liabilities in its statements of financial position related to three properties for which the Company has entered into office lease agreements with an initial term of one year or more. These leases have been classified as a single class of right of use assets under office leases. During the six month period ended January 31, 2026, there were no remeasurements of existing leases and no new lease agreements, therefore no additional acquisition costs were recognized (2025 - \$5,028).

The carrying amounts of the Company's right of use assets, liabilities, and the movements for the six months ended January 31, 2026, and the year ended July 31, 2025, are as follows:

	Right of use assets	Right of use liabilities
As at July 31, 2024	\$ 344,304	\$ 380,926
Additions	868,375	863,856
Depreciation	(384,951)	-
Finance costs (Note 15)	-	45,181
Remeasurement	125,785	125,785
Lease payments	-	(285,350)
As at July 31, 2025	\$ 953,513	\$ 1,130,398
Depreciation	(137,090)	-
Finance costs (Note 15)	-	20,582
Lease payments	-	(171,825)
As at January 31, 2026	\$ 816,423	\$ 979,155



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The following table summarizes the Company's future lease commitments:

<u>Fiscal year</u>	<u>Amount</u>
2026	\$ 118,813
2027	313,901
2028	249,087
2029	235,277
2030	137,245
Effects of discounting	(75,168)
Right of use liabilities	\$ 979,155
Current portion of right of use liabilities	(243,004)
Non-current portion of right of use liabilities	\$ 736,151

The Company has elected to apply the recognition exemption for leases of low value assets for an office lease agreement for which the Company has not recognized a right-of-use asset or liability. Lease payments for this asset are expensed on a straight-line basis over the 12 month lease term and the total expenses relating to this lease for the six months ended January 31, 2026 are \$1,757 (2025 - \$nil).

10. Revenue

The Company recognized \$10,392,246 (2025 - \$7,040,026) in revenue during the six months ended January 31, 2026. As at January 31, 2026, accounts receivable pertaining to revenue was \$2,561,610 (July 31, 2025 - \$1,416,532) and deferred revenue was \$9,129,918 (July 31, 2025 - \$8,569,303).

Deferred revenue consists of advance payments received from customers for the sale of or subscription to use the Company's products. The Company estimates that these amounts will be recognized as revenue under the following timelines:

<u>Fiscal year</u>	<u>Amount</u>
2026	\$ 5,329,800
2027	2,577,594
2028	980,239
2029	225,863
2030	15,364
2031	1,058
	\$ 9,129,918
Current portion of deferred revenue	(7,004,214)
Non-current portion of deferred revenue	\$ 2,125,704

Revenue from one customer represented 15% of the Company's total revenue the six months ended January 31, 2026 (2025 – three customers represented 40%).



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The Company has a backlog of contracted sales that has not yet been recognized as revenue but will be recognized in future periods as performance obligations are met. It is estimated that these commitments will be recognized as revenue under the following timelines:

	Less than one year	Greater than one year	Total backlog January 31,	
			2026	2025
Total backlog*	\$ 6,922,107	\$ 6,975,766	\$ 13,897,873	\$ 16,693,729

* Backlog figures exclude contracted sales that are pending installation.

11. Cost of revenue

The breakdown of expenses incurred as part of cost of revenue is as follows:

	Six months ended January 31,	
	2026	2025
Product	\$ 3,477,621	\$ 1,610,034
Installation	104,884	89,185
Shipping	194,107	110,061
Depreciation	414,541	381,526
Salaries and commissions	401,748	131,044
	\$ 4,592,901	\$ 2,321,850



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12. Operating expenses

The Company's operating expenses are comprised of the following:

	Six months ended January 31, 2026			
	General and Administration	Research and Development	Sales and Marketing	Total
Personnel costs	\$ 1,857,718	\$ 2,201,546	\$ 2,213,877	\$ 6,273,141
Tradeshows, advertising, and investor relations	174,955	-	1,212,893	1,387,848
Professional fees	335,909	22,347	-	358,256
Information technology	241,428	2,371	85,131	328,930
Development supplies	-	226,307	-	226,307
Facilities	152,084	64,577	-	216,661
Insurance	168,575	-	-	168,575
Share-based compensation (Note 13)	397,598	198,852	104,882	701,332
Depreciation (Notes 7, 9)	188,119	-	125,680	313,799
Amortization (Note 8)	-	479,063	-	479,063
Other	464,997	130,905	5,112	601,014
	\$ 3,981,383	\$ 3,325,968	\$ 3,747,575	\$ 11,054,926

	Six months ended January 31, 2025			
	General and Administration	Research and Development	Sales and Marketing	Total
Personnel costs	\$ 1,799,827	\$ 2,106,542	\$ 1,759,202	\$ 5,665,571
Tradeshows, advertising, and investor relations	137,660	-	926,880	1,064,540
Professional fees	261,605	18,462	-	280,067
Information technology	187,543	1,468	74,553	263,564
Development supplies	-	458,247	-	458,247
Facilities	138,258	50,773	-	189,031
Insurance	169,679	-	-	169,679
Share-based compensation (Note 13)	360,344	193,642	80,654	634,640
Depreciation (Notes 7, 9)	302,734	-	40,894	343,628
Amortization (Note 8)	-	422,454	-	422,454
Other	155,231	188,041	5,550	348,822
	\$ 3,512,881	\$ 3,439,629	\$ 2,887,733	\$ 9,840,243

13. Share capital

Authorized capital

The authorized share capital of the Company consists of an unlimited number of common shares with no par value.



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Share capital

The issued and outstanding share capital is as follows:

	Six months ended January 31, 2026		Year ended July 31, 2025	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of period	239,126,987	\$ 150,239,300	218,388,237	\$ 144,372,452
Shares issued on the exercise of warrants	5,250,000	2,861,504	-	-
Shares issued on the exercise of stock options	191,893	287,386	38,750	25,638
Shares issued on prospectus financing, net of share issue costs	15,334,100	9,457,879	20,700,000	5,841,210
Balance end of period	259,902,980	\$ 162,846,069	239,126,987	150,239,300

On November 10, 2025, the Company issued a total of 15,334,100 units ("Units") at a price of \$0.75 per Unit for aggregate gross proceeds of \$11,500,575 pursuant to a prospectus financing (the "Prospectus Offering"), which included the issuance of 13,334,000 Units and an additional 2,000,100 Units in connection with the full exercise of the underwriter's over-allotment option. Each Unit consisted of one common share of the Company (each, a "Common Share") and one-half of common share purchase warrant (each a whole warrant, a "Warrant" and collectively the "Warrants"). Each Warrant is exercisable into one Common Share until November 10, 2028, at an exercise price of \$0.95. The Warrants issued in the Prospectus Offering, including those from the over-allotment, were assigned a fair value of \$0.1 per Warrant, resulting in an aggregate fair value of \$766,705, calculated using the residual value approach in which proceeds are first allocated to the Common Shares based on the closing market price on the date of the issuance with any residual balance allocated to the Warrants.

In connection with the Prospectus Offering, the Company paid cash commissions of \$690,035 and issued 920,046 common share purchase warrants to the underwriters of the Prospectus Offering (the "Underwriter's Warrants"). The total fair value of the Underwriter's Warrants was \$279,850 with each exercisable into one Common Share at an exercise price of \$0.75 until November 10, 2028.

The total fair value of \$279,850 of the Underwriter's Warrants was calculated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	November 10, 2025
Expected life	3
Expected market volatility of shares	64.0%
Share price	\$ 0.73
Expected dividend rate	0%
Exercise price	\$ 0.75
Risk-free interest rate	2.45%
Weighted average fair value per warrant granted	\$ 0.304



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Additional transaction costs associated with the Prospectus Offering were \$306,106.

Warrants

Warrant activity for the six months ended January 31, 2026, and the year ended July 31, 2025, is as follows:

	Six months ended January 31, 2026		Year ended July 31, 2025	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance beginning of period	74,387,509	\$ 0.57	61,075,159	\$ 0.63
Warrants issued on financing	8,587,096	0.93	22,149,000	0.48
Warrants exercised	(5,250,000)	0.49	-	-
Warrants expired	-	-	(8,836,650)	0.75
Balance end of period	77,724,605	\$ 0.62	74,387,509	\$ 0.57

As at January 31, 2026, outstanding warrants are as follows:

Number of warrants outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)
1,124,935	\$ 0.51	April 24, 2026	2.8
19,185,979	\$ 0.64	April 24, 2027	14.8
20,000,000	\$ 0.60	February 10, 2028	24.3
11,925,595	\$ 0.60	April 12, 2028	26.4
16,901,000	\$ 0.48	June 18, 2028	28.6
8,587,096	\$ 0.93	November 10, 2028	33.3
77,724,605	\$ 0.62		23.9

Incentive awards

The Company offers an omnibus equity incentive plan (the "Omnibus Plan") that provides for the granting of incentive awards up to 10% of its issued and outstanding common shares to directors, officers, employees, and consultants. Incentive awards may consist of options, restricted share units, deferred share units, performance share units and other share-based awards. The exercise price of each option is equal to the quoted market price of the Company's common shares on the five-day volume weighted average price immediately preceding the date of grant with a maximum term of five years. Vesting terms, if any, are set at the discretion of the Board.



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The stock option activity for the six months ended January 31, 2026, and the year ended July 31, 2025, is as follows:

	Six months ended January 31, 2026		Year ended July 31, 2025	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of period	14,104,204	\$ 0.63	11,250,204	\$ 0.65
Granted	3,582,770	0.74	4,018,750	0.64
Exercised*	(790,000)	0.55	(38,750)	0.44
Forfeited / Expired	(330,000)	0.88	(1,126,000)	0.81
Balance end of period	16,566,974	\$ 0.66	14,104,204	\$ 0.63

*In accordance with the Company's Omnibus Plan, 720,000 stock options were exercised during the three month period ended January 31, 2026, on a cashless basis (net exercise) for the issuance of 121,893 common shares.

No other incentive awards were issued or outstanding pursuant to the Omnibus Plan.

During the six months ended January 31, 2026, the Company recognized share-based compensation related to stock options of \$701,332 (2025 - \$634,640).

Fair value of options granted during the period was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six months ended January 31,	
	2026	2025
Expected life	3.4 years	3.4 years
Expected market volatility of shares	62%	66%
Share price	\$ 0.72	\$ 0.69
Expected dividend rate	0%	0%
Exercise price	\$ 0.74	\$ 0.67
Risk-free interest rate	2.47%	3.21%
Weighted average fair value per option granted	\$ 0.309	\$ 0.323



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Details of the outstanding stock options as at January 31, 2026, are as follows:

Number of stock options outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)	Number of stock options exercisable	Weighted average exercise price
60,000	\$ 0.49	March 22, 2026	1.7	60,000	\$ 0.49
760,000	\$ 0.52	June 15, 2026	4.5	760,000	\$ 0.52
135,000	\$ 0.43	October 25, 2026	8.8	135,000	\$ 0.43
135,000	\$ 0.44	December 8, 2026	10.3	135,000	\$ 0.44
882,500	\$ 0.73	February 16, 2027	12.5	882,500	\$ 0.73
100,000	\$ 0.54	April 1, 2027	14.0	100,000	\$ 0.54
150,000	\$ 0.54	April 4, 2027	14.1	150,000	\$ 0.54
700,000	\$ 0.57	April 13, 2027	14.4	700,000	\$ 0.57
125,000	\$ 0.46	June 14, 2027	16.5	125,000	\$ 0.46
125,000	\$ 0.42	July 11, 2027	17.4	125,000	\$ 0.42
494,000	\$ 0.38	October 3, 2027	20.1	494,000	\$ 0.38
1,000,000	\$ 0.50	January 13, 2028	23.4	1,000,000	\$ 0.50
448,348	\$ 0.69	March 17, 2028	25.6	448,348	\$ 0.69
250,000	\$ 0.75	April 24, 2028	26.8	187,500	\$ 0.75
86,644	\$ 0.95	June 16, 2028	28.5	64,983	\$ 0.95
400,000	\$ 0.90	July 1, 2028	29.0	300,000	\$ 0.90
101,644	\$ 0.91	July 10, 2028	29.3	76,233	\$ 0.91
1,923,750	\$ 0.68	October 3, 2028	32.1	1,440,939	\$ 0.68
555,068	\$ 0.69	February 7, 2029	36.2	277,534	\$ 0.69
106,000	\$ 0.69	March 15, 2029	37.5	53,000	\$ 0.69
650,000	\$ 0.75	July 9, 2029	41.3	650,000	\$ 0.75
3,074,000	\$ 0.67	October 7, 2029	44.2	1,537,000	\$ 0.67
50,000	\$ 0.68	November 4, 2029	45.1	25,000	\$ 0.68
550,000	\$ 0.50	February 7, 2030	48.2	137,500	\$ 0.50
41,000	\$ 0.51	February 14, 2030	48.5	14,938	\$ 0.51
100,000	\$ 0.40	April 4, 2030	50.1	25,000	\$ 0.40
3,564,020	\$ 0.74	September 29, 2030	56.0	895,693	\$ 0.74
16,566,974	\$ 0.66		35.5	10,800,167	\$ 0.64

Loss per share

Stock options and warrants are not included in the determination of fully diluted loss per share for the three and six months ended January 31, 2026, and 2025, as these instruments are anti-dilutive.

14. Related party transactions

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers. Key management compensation earned by officers and directors of the Company during the six months ended January 31, 2026, was \$1,066,226 (2025 - \$932,049). In addition, share-based compensation expense relating to key management for the six months ended January 31, 2026, was \$439,029 (2025 - \$365,112).



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During the quarter ended January 31, 2026, 720,000 stock options were exercised on a cashless basis in accordance with the Company's Omnibus Plan by a member of the Company's key management personnel, resulting in the issuance of 121,893 common shares to the key management personnel, and the cumulative grant-date fair value of \$243,720 was reclassified to share capital. As at January 31, 2026, there was \$6,386 (July 31, 2025 - \$487,995) in accounts payable and accrued liabilities due to officers and directors of the Company or to companies controlled by directors and officers of the Company. There were no other related party transactions during the six months ended January 31, 2026.

15. Supplemental cash flow information

Cash and cash equivalents consist of balances and investments in highly liquid short-term deposits, which may be converted into cash within 24 hours. Deposits with banks and short-term interest-bearing investments with an original term to maturity greater than three months but less than one year are presented as short-term investments.

As at January 31, 2026, the Company held a number of fixed guaranteed investment certificates ("GIC") valued at \$69,350 (July 31, 2025 - \$69,350), which are included and presented as cash equivalents. These GICs are considered highly liquid and readily convertible into cash, and as such, they are included in the calculation of cash and cash equivalents.

Non-cash financing and investing activities during the six months ended January 31, 2026 conducted by the Company are as follows:

Transfer of inventory to property and equipment, net (Note 5)	\$	597,887
Fair value of 920,046 Underwriter's Warrants issued for broker fee (Note 13)	\$	279,850
Fair value of 7,667,050 Warrants issued to investors (Note 13)	\$	766,705
Transfer of contributed surplus on the exercise of warrants	\$	288,704
Transfer of contributed surplus on the exercise of stock options	\$	259,386

Non-cash financing and investing activities during the six months ended January 31, 2025 conducted by the Company are as follows:

Transfer of inventory to property and equipment, net	\$	539,772
Transfer of contributed surplus on the exercise of stock options	\$	8,669
Addition to the right of use assets	\$	823,840
Addition to the lease liabilities	\$	818,811

No cash was paid toward income taxes during the six months ended January 31, 2026, and 2025. The Company paid interest expense embedded in its lease payments of \$20,582 during the six months ended January 31, 2026 (2025 - \$22,916).



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16. Financial instruments and risk management

As at January 31, 2026, the Company's financial instruments comprise of cash and cash equivalents, receivables, accounts payable and accrued liabilities. The carrying values of receivables, accounts payable and accrued liabilities approximate fair value due to the short-term nature of the instruments. The Company's cash and cash equivalents are carried at amortized cost.

Risks to the Company's financial instruments and their potential impact on the Company's financial instruments are summarized below:

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 manages its liquidity risk in order to meet its contractual obligations by ensuring there is appropriate cash on hand and obtaining other opportunities for financing. As at January 31, 2026, the Company had current assets of \$25,236,499 (July 31, 2025 - \$15,412,441) to settle current liabilities of \$9,906,836 (July 31, 2025 - \$9,422,126). Most of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents and receivables. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset-backed commercial paper. The Company's receivables primarily consist of trade receivables that the Company continues to collect on, and refundable sales tax from the Canada Revenue Agency, which are not subject to significant credit risk. The Company's maximum exposure to credit risk is limited to the carrying amount of cash and cash equivalents and receivables.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

Interest rate risk

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently has no interest-bearing financial instruments other than cash and cash equivalents, and consequentially its exposure to interest rate risk is insignificant.

Foreign currency risk

Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. The Company's financial assets and liabilities that are denominated in foreign currencies are impacted by changes in the exchange rate between the Canadian dollar relative to the U.S. dollar. This primarily includes cash and cash equivalents, trade and other receivables, and trade and other payables. A 5% appreciation or depreciation of the CAD against the USD as of the reporting date would have resulted



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in an increase or decrease in profit or loss by approximately \$450,218 assuming all other variables remained constant. During the six months ended January 31, 2026, the Company generated a portion of revenue in U.S. dollars, along with corresponding expenses in U.S. dollars. Management continues to evaluate its foreign currency risk as the business grows internationally.

Price risk

Price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company did not hold material equity investments during the quarter, and therefore, exposure to price risk is insignificant.

17. Geographic information

Geographic location	For six months ended	
	January 31, 2026	As at January 31, 2026
	Revenue	Non-current assets
United States	\$ 7,593,098	\$ 3,510,300
Canada	1,723,415	3,023,241
Japan	844,960	21,737
United Kingdom	209,945	131,832
France	20,828	-
Total	<u>\$ 10,392,246</u>	<u>\$ 6,687,110</u>

Geographic location	For six months ended	
	January 31, 2025	As at July 31, 2025
	Revenue	Non-current assets
United States	\$ 5,828,496	\$ 4,236,832
Canada	190,291	3,407,375
Japan	787,658	167,850
United Kingdom	199,399	188,331
France	34,182	-
Total	<u>\$ 7,040,026</u>	<u>\$ 8,000,388</u>

18. Subsequent event

The following transaction occurred subsequent to the reporting period:

- i. On February 7, 2026, the Company granted 550,000 stock options to directors of the Company with an exercise price of \$0.55 per option. The options were granted with a term of five years and a vesting period over three years.