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Condensed Consolidated Interim Financial Statements

For three and six months ended January 31, 2025, and 2024

(Expressed in Canadian Dollars)

(Unaudited)



Xtract One Technologies Inc.

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

	January 31, 2025	July 31, 2024
Assets		
Current assets		
Cash and cash equivalents (Note 15)	\$ 5,428,446	\$ 8,628,521
Receivables (Note 4)	956,108	3,862,199
Prepaid expenses and deposits	1,307,648	949,012
Current portion of deferred cost of revenue (Note 6)	371,291	371,309
Inventory (Note 5)	4,427,562	3,688,246
	12,491,055	17,499,287
Property and equipment (Note 7)	2,408,515	2,135,956
Intangible assets (Note 8)	5,070,629	4,465,755
Non-current portion of deferred cost of revenue (Note 6)	313,184	496,868
Right of use assets (Note 9)	1,007,880	344,304
Total assets	\$ 21,291,263	\$ 24,942,170
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,881,009	\$ 3,991,292
Current portion of deferred revenue (Note 10)	4,868,490	3,443,524
Current portion of lease liability (Note 9)	167,004	190,400
	6,916,503	7,625,216
Non-Current liabilities		
Non-current portion of deferred revenue (Note 10)	3,534,874	3,155,579
Non-current portion of lease liability (Note 9)	954,890	190,526
	\$ 11,406,267	\$ 10,971,321
Shareholders' equity		
Share capital (Note 13)	\$ 144,398,090	\$ 144,372,452
Contributed surplus	16,789,921	16,163,950
Accumulated deficit	(151,849,134)	(146,565,553)
Accumulated other comprehensive income	546,119	-
	\$ 9,884,996	\$ 13,970,849
Total liabilities and shareholders' equity	\$ 21,291,263	\$ 24,942,170

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,	
	2025	2024	2025	2024
Revenue (Note 10)	\$ 3,412,189	\$ 2,920,058	\$ 7,040,026	\$ 6,036,411
Cost of revenue (Note 11)	1,008,420	1,136,386	2,321,850	2,168,328
Gross profit	\$ 2,403,769	\$ 1,783,672	\$ 4,718,176	\$ 3,868,083
Operating expenses (Notes 12)				
Selling and marketing	\$ 1,224,575	\$ 1,299,727	\$ 2,887,734	\$ 2,807,384
General and administration	1,648,688	1,693,019	3,512,880	3,340,835
Research and development	1,640,018	2,058,606	3,439,629	3,784,797
Loss on inventory write-down (Note 5)	281,429	107,013	281,429	107,013
Loss on retirement of assets (Note 7)	21,675	-	21,675	-
Total operating expenses	\$ 4,816,385	\$ 5,158,365	\$ 10,143,347	\$ 10,040,029
Loss before the undernoted	(2,412,616)	(3,374,693)	(5,425,171)	(6,171,946)
Other income				
Interest and other income	66,671	56,543	141,590	152,583
Net loss for the period	\$ (2,345,945)	\$ (3,318,150)	\$ (5,283,581)	\$ (6,019,363)
Other comprehensive income for the period				
Currency translation differences for foreign operations	263,300	-	546,119	-
Comprehensive loss for the period	\$ (2,082,645)	\$ (3,318,150)	\$ (4,737,462)	\$ (6,019,363)
Weighted average number of shares	218,423,567	198,495,594	218,410,655	198,463,158
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.03)

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, 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
Balance - July 31, 2023	198,248,575	\$ 135,823,337	\$ 14,420,259	\$ -	\$ (135,500,698)	\$ 14,742,898
Shares issued on the						
exercise of stock options (Notes 13, 15)	182,500	131,411	(46,562)	-	-	84,849
Share-based compensation (Notes 13, 14)	-	-	445,167	-	-	445,167
Loss for the period	-	-	-	-	(6,019,363)	(6,019,363)
Balance - January 31, 2024	198,431,075	\$ 135,954,748	\$ 14,818,864	\$ -	\$ (141,520,061)	\$ 9,253,551

⁽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,	
	2025	2024
Cash flow used in operating activities		
Loss for the period	\$ (5,283,581)	\$ (6,019,363)
Adjustment for:		
Share-based compensation (Notes 13, 14)	634,640	445,167
Depreciation (Notes 7, 9, 12)	725,154	608,308
Amortization (Notes 8, 12)	422,454	402,950
Finance cost (Notes 9, 15)	22,916	12,212
Loss on retirement of assets	21,675	-
Loss on inventory (Note 5)	281,429	107,013
	(3,175,313)	(4,443,713)
Changes in non-cash working capital		
Receivables	3,009,688	(1,304,098)
Prepaid expenses and deposits	(352,624)	400,482
Inventory	(1,329,105)	(1,838,646)
Deferred cost of revenue (Note 6)	183,702	74,264
Accounts payable and accrued liabilities	(2,134,232)	(96,073)
Deferred revenue	1,597,727	3,178,444
Cash used in operating activities	(2,200,157)	(4,029,340)
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 used in financing activities		
Proceeds on issue of share capital	16,970	84,849
Lease payments (Note 9)	(162,129)	(190,498)
Cash used in financing activities	(145,159)	(105,649)
Effect of exchange rate changes on cash and cash equivalents	(10,397)	-
Net decrease in cash and cash equivalents for the period	\$ (3,200,075)	\$ (4,134,989)
Cash and cash equivalents beginning of the period	8,628,521	8,327,449
Cash and cash equivalents end of the period	\$ 5,428,446	\$ 4,192,460

Supplemental cash flow information (Note 15)

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



Xtract One Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended January 31, 2025, and 2024

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(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 relocated during the quarter and is now 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, 2024. These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on March 12, 2025.

(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. The functional currency of Xtract US changed from Canadian dollars to U.S. dollars as of August 1, 2024.

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

Foreign currency transactions are translated into 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 a 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.

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, 2024, as these condensed consolidated interim financial statements follow the same accounting policies and methods of application.

(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.



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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 technologically, 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, when assets are available for use and are depreciated.

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



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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 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



Xtract One Technologies Inc.

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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, 2025</u>	<u>July 31, 2024</u>
Trade receivables	\$ 548,944	\$ 3,268,990
Taxes receivable	407,164	593,209
	<u>\$ 956,108</u>	<u>\$ 3,862,199</u>

As of January 31, 2025, the Company had not made a provision for uncollectible accounts (July 31, 2024 - \$53,068).

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, 2025</u>	<u>July 31, 2024</u>
Components and work-in-progress	\$ 984,915	\$ 375,653
Finished goods	3,442,647	3,312,593
	<u>\$ 4,427,562</u>	<u>\$ 3,688,246</u>

During the six months ended January 31, 2025, the Company recorded total inventory sold of \$1,209,417 (2024 - \$787,412) under cost of revenue. The Company has reclassified inventory in the



Xtract One Technologies Inc.

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amount of \$519,238 (July 31, 2024 - \$678,000) to subscription and demo assets and \$20,534 (July 31, 2024 - \$45,865) to office equipment (Note 7). As at January 31, 2025, the Company had outstanding purchase obligations of \$1,512,786 (July 31, 2024 - \$2,850,453) related to future finished goods that will be drawn down within the next year. During the six months ended January 31, 2025 the Company recognized a loss of \$ 281,429 (2024 - \$107,013) 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, 2023	\$	-
Additions		1,561,774
Reclassification		(516,397)
Balance at July 31, 2024 and January 31, 2025	\$	1,045,377
Accumulated amortization		
Balance at July 31, 2023	\$	-
Amortization		250,853
Reclassification		(73,653)
Balance at July 31, 2024		177,200
Amortization		183,702
Balance at January 31, 2025	\$	360,902
Carrying amount as at July 31, 2024	\$	868,177
Carrying amount as at January 31, 2025	\$	684,475
Current portion of deferred cost of revenue		(371,291)
Non-current portion of deferred cost of revenue	\$	313,184

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, 2025, the Company recognized net additions of \$nil to deferred cost of revenue (July 31, 2024 - \$1,045,377) and expensed \$183,702 to cost of revenue (2024 - \$74,264).



Xtract One Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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7. Property and equipment

Details of the Company's property and equipment as at January 31, 2025 and July 31, 2024 are as follows:

	Office equipment	Computer hardware	Furniture & fixtures	Subscription & demo assets	Leasehold improvements	Total
Cost						
Balance at July 31, 2023	\$ 1,612,488	\$ 490,792	\$ 154,766	\$ 1,564,316	\$ 244,178	\$ 4,066,540
Additions	-	-	-	-	-	-
Reclassification	45,865	-	-	678,000	-	723,865
Retirement of assets	(217,881)	(164,509)	-	-	(85,910)	(468,300)
Balance at July 31, 2024	\$ 1,440,472	\$ 326,283	\$ 154,766	\$ 2,242,316	\$ 158,268	\$ 4,322,105
Foreign currency translation	8,566	-	-	153,678	-	162,244
Additions	-	-	-	-	129,180	129,180
Reclassification	20,534	-	-	519,238	-	539,772
Retirement of assets	-	-	(17,295)	(44,739)	(25,750)	(87,784)
Balance at January 31, 2025	\$ 1,469,572	\$ 326,283	\$ 137,471	\$ 2,870,493	\$ 261,698	\$ 5,065,517
Accumulated depreciation						
Balance at July 31, 2023	\$ 1,039,696	\$ 431,589	\$ 100,512	\$ 292,855	\$ 138,071	\$ 2,002,723
Depreciation	144,909	29,385	11,936	738,367	51,590	976,187
Reclassification	-	-	-	(419,527)	-	(419,527)
Retirement of assets	(142,272)	(161,313)	-	-	(69,649)	(373,234)
Balance at July 31, 2024	\$ 1,042,333	\$ 299,661	\$ 112,448	\$ 611,695	\$ 120,012	\$ 2,186,149
Foreign currency translation	3,430	-	-	54,743	-	58,173
Depreciation	52,097	5,963	4,538	422,436	18,486	503,520
Reclassification	(3,161)	-	-	(21,570)	-	(24,731)
Retirement of assets	-	-	(11,480)	(32,312)	(22,317)	(66,109)
Balance at January 31, 2025	\$ 1,094,699	\$ 305,624	\$ 105,506	\$ 1,034,992	\$ 116,181	\$ 2,657,002
Carrying amount as at July 31, 2024	\$ 398,139	\$ 26,622	\$ 42,318	\$ 1,630,621	\$ 38,256	\$ 2,135,956
Carrying amount as at January 31, 2025	\$ 374,873	\$ 20,659	\$ 31,965	\$ 1,835,501	\$ 145,517	\$ 2,408,515

The Company recorded depreciation of subscription assets in the amount of \$381,526 (2024 - \$302,812) under cost of revenue. During the six months ended January 31, 2025, the Company recognized a loss of \$21,675 (2024 - \$nil) related to disposal of property and equipment.



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8. Intangible assets

The carrying values of intangible assets as at January 31, 2025 and July 31, 2024 are as follows:

	Quasar licensed distribution rights	EhEye intellectual property	Internally developed intellectual property	Total
Cost				
Balance at July 31, 2023	6,574,000	1,250,000	235,000	8,059,000
Additions	-	-	427,955	427,955
Balance at July 31, 2024	\$ 6,574,000	\$ 1,250,000	\$ 662,955	\$ 8,486,955
Foreign currency translation	668,000	-	-	668,000
Additions	-	-	710,154	710,154
Balance at January 31, 2025	\$ 7,242,000	\$ 1,250,000	\$ 1,373,109	\$ 9,865,109
Accumulated amortization				
Balance at July 31, 2023	2,658,425	468,750	88,125	3,215,300
Amortization	657,400	125,000	23,500	805,900
Balance at July 31, 2024	\$ 3,315,825	\$ 593,750	\$ 111,625	\$ 4,021,200
Foreign currency translation	350,826	-	-	350,826
Amortization	348,204	62,500	11,750	422,454
Balance at January 31, 2025	\$ 4,014,855	\$ 656,250	\$ 123,375	\$ 4,794,480
Carrying amount as at July 31, 2024	\$ 3,258,175	\$ 656,250	\$ 551,330	\$ 4,465,755
Carrying amount as at January 31, 2025	\$ 3,227,145	\$ 593,750	\$ 1,249,734	\$ 5,070,629

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 five 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 five 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 five 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 \$710,154 of directly attributable development expenditures met the criteria. As at January 31, 2025, the Company has determined that this technology is not yet available for commercial use.

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, 2025, the Company remeasured its right of use asset and liability for one of its properties due to a lease term extension and entered into one new office lease agreement. The acquisition cost of the new agreement was \$5,028 (2024 - \$nil), which was capitalized as part of the right of use asset.

The carrying amounts of the Company's right of use assets, liabilities, and the movements for the six months ended January 31, 2025, and the year ended July 31, 2024, are as follows:

	Right of use assets	Right of use liabilities
As at July 31, 2023	\$ 286,796	\$ 356,841
Additions	242,181	240,381
Depreciation	(327,384)	-
Finance costs	-	22,420
Remeasurement	142,711	142,711
Lease payments	-	(381,427)
As at July 31, 2024	\$ 344,304	\$ 380,926
Additions	823,840	818,811
Depreciation	(221,634)	-
Finance costs (Note 15)	-	22,916
Remeasurement	61,370	61,370
Lease payments	-	(162,129)
As at January 31, 2025	\$ 1,007,880	\$ 1,121,894



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

<u>Fiscal year</u>	<u>Amount</u>
2025	\$ 208,631
2026	252,138
2027	288,876
2028	233,927
2029	235,279
2030	19,608
Effects of discounting	(116,565)
Right of use liabilities	\$ 1,121,894
Current portion of right of use liabilities	167,004
Non-current portion of right of use liabilities	\$ 954,890

During the six months ended January 31, 2025, there were no short term or low value leases recorded (2024 - \$nil).

10. Revenue

The Company recognized \$ \$7,040,026 (2024 - \$6,036,411) of revenue during the six months ended January 31, 2025. As at January 31, 2025, accounts receivable pertaining to revenue was \$ 548,944 (July 31, 2024 - \$3,268,990) and deferred revenue was \$8,403,364 (July 31, 2024 - \$6,599,103).

Deferred revenue consists of advance payments received from customers for the future 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>
2025	\$ 2,898,720
2026	3,572,950
2027	1,627,071
2028	235,833
2029	68,790
	\$ 8,403,364
Current portion of deferred revenue	4,868,490
Non-current portion of deferred revenue	\$ 3,534,874

Revenue from three customers represented 40% of the Company's total revenue for the six months ended January 31, 2025 (2024 – four customers represented 60%).



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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,	
			2025	2024
Total backlog*	\$ 6,992,355	\$ 9,701,374	\$ 16,693,729	\$ 12,293,846

* 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,	
	2025	2024
Product	\$ 1,610,034	\$ 1,370,472
Installation	89,185	215,221
Shipping	110,061	113,375
Depreciation	381,526	302,812
Salaries and commissions	131,044	166,448
	\$ 2,321,850	\$ 2,168,328



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12. Operating Expenses

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

	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
Professional fees	261,605	18,462	-	280,067
Facilities	138,258	50,773	-	189,031
Tradeshows and advertising	-	-	926,880	926,880
Development supplies	-	235,401	-	235,401
Insurance	169,679	-	-	169,679
Share-based compensation (Note 13)	360,344	193,642	80,654	634,640
Depreciation (Note 7, 9)	302,734	-	40,894	343,628
Amortization (Note 8)	-	422,454	-	422,454
Other	480,433	412,355	80,104	972,892
	\$ 3,512,880	\$ 3,439,629	\$ 2,887,734	\$ 9,840,243

	Six months ended January 31, 2024			
	General and Administration	Research and Development	Sales and Marketing	Total
Personnel costs	\$ 1,703,251	\$ 2,253,345	\$ 1,755,146	\$ 5,711,742
Professional fees	312,925	37,602	-	350,527
Facilities	99,005	46,695	-	145,700
Tradeshows and advertising	-	-	918,060	918,060
Development supplies	-	774,629	-	774,629
Insurance	98,514	-	-	98,514
Share-based compensation (Note 13)	246,121	146,036	53,010	445,167
Depreciation (Note 7, 9)	292,114	-	13,376	305,490
Amortization (Note 8)	-	402,950	-	402,950
Other	588,905	123,540	67,792	780,237
	\$ 3,340,835	\$ 3,784,797	\$ 2,807,384	\$ 9,933,016

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, 2025		Year ended July 31, 2024	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of period	218,388,237	\$ 144,372,452	198,248,575	\$ 135,823,337
Shares issued on the exercise of warrants	-	-	736,683	574,928
Shares issued on the exercise of stock options	38,750	25,638	215,000	154,964
Shares issued on prospectus financing, net of share issue costs	-	-	16,100,000	6,358,056
Shares issued on private placement financing, net of share issue costs	-	-	3,087,979	1,461,167
Balance end of period	218,426,987	\$ 144,398,090	218,388,237	\$ 144,372,452

Warrants

Warrant activity for the six months ended January 31, 2025, and the year ended July 31, 2024, is as follows:

	Six months ended January 31, 2025		Year ended July 31, 2024	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance beginning of period	61,075,159	\$ 0.63	41,548,456	\$ 0.63
Warrants issued on financing	-	-	20,312,914	0.63
Warrants exercised	-	-	(736,683)	0.60
Warrants expired	-	-	(49,528)	0.60
Balance end of period	61,075,159	\$ 0.63	61,075,159	\$ 0.63



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As at January 31, 2025, outstanding warrants are as follows:

Number of warrants outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)
8,836,650	\$ 0.75	March 17, 2025	1.6
1,124,935	\$ 0.51	April 24, 2026	14.8
19,187,979	\$ 0.64	April 24, 2027	26.8
20,000,000	\$ 0.60	February 10, 2028	36.3
11,925,595	\$ 0.60	April 12, 2028	38.4
61,075,159	\$ 0.63		28.3

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. During the six months ended January 31, 2025, and the year ended July 31, 2024, other than stock options as discussed herein, no other incentive awards were issued or outstanding pursuant to the Omnibus Plan.

The stock option activity for the six months ended January 31, 2025, and the year ended July 31, 2024, is as follows:

	Six months ended January 31, 2025		Year ended July 31, 2024	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of period	11,250,204	\$ 0.65	9,680,386	\$ 0.75
Granted	3,309,000	0.67	3,474,818	0.70
Exercised	(38,750)	0.44	(215,000)	0.47
Forfeited / Expired	(478,750)	1.02	(1,690,000)	1.36
Balance end of period	14,041,704	\$ 0.64	11,250,204	\$ 0.65

During the six months ended January 31, 2025, the Company recognized share-based compensation related to stock options of \$634,640 (2024 - \$445,167).



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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,	
	2025	2024
Expected life	3.4 years	3.4 years
Expected market volatility of shares	66%	70%
Share price	\$ 0.69	\$ 0.65
Expected dividend rate	0%	0%
Exercise price	\$ 0.67	\$ 0.68
Risk-free interest rate	3.21%	4.26%
Weighted average fair value per option granted	\$ 0.323	\$ 0.312

Details of the outstanding stock options as at January 31, 2025, 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
30,000	\$ 0.69	May 11, 2025	3.4	30,000	\$ 0.69
250,000	\$ 0.97	August 10, 2025	6.3	250,000	\$ 0.97
18,750	\$ 0.69	September 15, 2025	7.5	18,750	\$ 0.69
30,000	\$ 0.56	October 29, 2025	9.0	30,000	\$ 0.56
720,000	\$ 0.57	November 11, 2025	9.4	720,000	\$ 0.57
60,000	\$ 0.49	March 22, 2026	13.7	60,000	\$ 0.49
803,750	\$ 0.52	June 15, 2026	16.5	803,750	\$ 0.52
140,000	\$ 0.43	October 25, 2026	20.8	140,000	\$ 0.43
135,000	\$ 0.44	December 8, 2026	22.3	135,000	\$ 0.44
1,167,500	\$ 0.73	February 16, 2027	24.5	872,500	\$ 0.73
100,000	\$ 0.54	April 1, 2027	26.0	75,000	\$ 0.54
150,000	\$ 0.54	April 4, 2027	26.1	112,500	\$ 0.54
700,000	\$ 0.57	April 13, 2027	26.4	525,000	\$ 0.57
125,000	\$ 0.46	June 14, 2027	28.5	125,000	\$ 0.46
125,000	\$ 0.42	July 11, 2027	29.4	125,000	\$ 0.42
628,750	\$ 0.38	October 3, 2027	32.1	460,000	\$ 0.38
1,000,000	\$ 0.50	January 13, 2028	35.4	1,000,000	\$ 0.50
448,348	\$ 0.69	March 17, 2028	37.6	448,348	\$ 0.69
250,000	\$ 0.75	April 24, 2028	38.8	125,000	\$ 0.75
86,644	\$ 0.95	June 16, 2028	40.5	43,322	\$ 0.95
400,000	\$ 0.90	July 1, 2028	41.0	200,000	\$ 0.90
101,644	\$ 0.91	July 10, 2028	41.3	50,822	\$ 0.91
1,991,250	\$ 0.68	October 3, 2028	44.1	991,876	\$ 0.68
555,068	\$ 0.69	February 7, 2029	48.2	138,767	\$ 0.69
126,000	\$ 0.69	March 15, 2029	49.5	31,500	\$ 0.69
650,000	\$ 0.75	July 9, 2029	53.3	650,000	\$ 0.75
3,199,000	\$ 0.67	October 7, 2029	56.2	799,750	\$ 0.67
50,000	\$ 0.68	November 4, 2029	57.1	12,500	\$ 0.68
14,041,704	\$ 0.64		38.0	8,974,385	\$ 0.62



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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, 2025, and 2024, 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, 2025, was \$932,049 (2024 - \$614,822). In addition, share-based compensation expense relating to key management for the six months ended January 31, 2025, was \$365,112 (2024 - \$185,276).

As at January 31, 2025, there was \$nil (July 31, 2024 - \$482,000) 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, 2025.

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, 2025, the Company held a number of fixed guaranteed investment certificates ("GIC") valued at \$69,350 (July 31, 2024 - \$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, 2025, conducted by the Company are as follows:

Transfer of inventory to property and equipment, net (Note 7)	\$	539,772
Transfer of contributed surplus on the exercise of stock options	\$	8,669
Addition to the right of use assets (Note 9)	\$	823,840
Addition to the lease liabilities (Note 9)	\$	818,811



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Non-cash financing and investing activities during the six months ended January 31, 2024, conducted by the Company are as follows:

Transfer of inventory to property and equipment, net	\$	1,121,694
Transfer of property and equipment to deferred cost of revenue, net	\$	862,664
Transfer of contributed surplus on the exercise of stock options	\$	46,562
Addition to the right of use assets (Note 9)	\$	242,181
Addition to the lease liabilities (Note 9)	\$	240,381

No cash was paid toward income taxes during the six months ended January 31, 2025, and 2024. The Company paid interest expense embedded in its lease payments of \$22,916 during the six months ended January 31, 2025 (2024 - \$12,212).

16. Financial instruments and risk management

As at January 31, 2025, 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, 2025, the Company had current assets of \$12,491,055 (July 31, 2024 - \$17,499,287) to settle current liabilities of \$6,916,503 (July 31, 2024 - \$7,625,216). 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.



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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 in an increase or decrease in profit or loss of approximately \$21,688 assuming all other variables remain constant. During the six months ended January 31, 2025, 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.



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17. Geographic information

	For six months ended	
	January 31, 2025	As at January 31, 2025
	Revenue	Non-current assets
Geographic location		
United States	\$ 5,828,496	\$ 4,802,248
Japan	787,658	313,184
Canada	190,291	3,439,945
United Kingdom	199,399	244,831
France	34,182	-
Total	<u>\$ 7,040,026</u>	<u>\$ 8,800,208</u>

	For six months ended	
	January 31, 2024	As at July 31, 2024
	Revenue	Non-current assets
Geographic location		
United States	\$ 4,173,798	\$ 4,528,450
Japan	1,518,723	496,868
Canada	343,890	2,116,235
United Kingdom	-	301,330
Total	<u>\$ 6,036,411</u>	<u>\$ 7,442,883</u>

18. Subsequent event

On February 14, 2025, the Company granted 59,750 employee stock options with an exercise price of \$0.51 per option. The options were granted with a term of five years and a vesting period over three years.