xtract one

formerly Patriot One Technologies Inc.

Management's Discussion and Analysis

For the year ended July 31, 2023

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") is prepared as of October 19, 2023, and is intended to assist in understanding the results of operations and the financial condition of Xtract One Technologies Inc. (the "Company") (formerly "Patriot One Technologies Inc."). Throughout this MD&A, reference to the Company is on a consolidated basis. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended July 31, 2023, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). The policies applied in the audited consolidated financial statements are based on IFRS policies effective as of October 19, 2023, the date the Board of Directors approved the audited consolidated financial statements. All amounts in this MD&A are expressed in Canadian Dollars unless otherwise indicated. The business of the Company is subject to a number of risks and uncertainties. Please refer to the Company's annual information form (the "AIF") for the fiscal year ended July 31, 2023, available under the Company's profile at www.sedarplus.ca, for more information about these risks and uncertainties.

Forward-Looking Information

This MD&A contains forward-looking information that involves material assumptions and known and unknown risks and uncertainties, which are beyond the Company's control. Such assumptions, risks, and uncertainties include, without limitation, those associated with loss of markets, expected sales, future revenue recognition, the effect of global and regional economic conditions, industry conditions, changes in laws and regulations and how they are interpreted and enforced, the lack of qualified personnel or management, fluctuations in foreign exchange or interest rates, demand for the Company's products, and availability of funding. The Company's performance could differ materially from that expressed in, or implied by, this forward-looking information, and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if they do so, what benefits the Company will derive therefrom. The forward-looking information is made as of the date of this MD&A, and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. Actual events or results could differ materially from the Company's expectations and projections.

Corporate Structure and Profile

The Company's common shares are listed for trading on the TSX under the trading symbol "XTRA", on the OTCQX in the United States under the trading symbol "XTRAF", and on the Frankfurt Stock Exchange in Germany under the trading symbol "0PL". The Company is a reporting issuer in all provinces and territories of Canada, except Québec. The principal regulator of the Company is the Ontario Securities Commission. On December 1, 2022, the Company changed its name from "Patriot One Technologies Inc." to "Xtract One Technologies Inc.". As indicated below, certain subsidiaries concurrently changed their names.

As at July 31, 2023, the Company had five wholly-owned subsidiaries, Xtract One Detection Ltd. (formerly "Patriot One Detection Ltd."), a limited company incorporated under the laws of the province of British Columbia, Canada, Patriot One (UK) Limited, a limited company incorporated under the laws of England and Wales, United Kingdom, Xtract One (US) Technologies Inc. ("Xtract US") (formerly "Patriot One Detection Technologies Inc."), a limited company incorporated under the laws of the state of Colorado, United States of America, EhEye Inc., a limited company incorporated under the laws of the province of

New Brunswick, Canada, and Xtract Technologies Inc. ("Xtract"), a limited company incorporated under the laws of the province of British Columbia, Canada.

The Company, through Xtract US, has a 49% interest in Sotech Secure, LLC, a limited liability corporation formed under the laws of the State of Delaware.

Business Highlights for the year ended July 31, 2023

The following is a summary of the key business highlights for the Company for the year ended July 31, 2023:

- Total contract value of new bookings[1] was $15.0 million as of July 31, 2023, as compared to $3.4 million for the year ended July 31, 2022, representing an increase of 344%;

- Platform contractual backlog was $4.1 million as of July 31, 2023, as compared to $1.3 million as of July 31, 2022, representing an increase of 213%. The Platform backlog as of July 31, 2023, excludes an additional $10.4 million in signed agreements that are pending installation[1] representing an increase of 447% over the last year, when the signed agreements pending installation balance was $1.9 million;

- Accelerated topline growth for our Platform operating segment with $3.6 million of revenue for the year ended July 31, 2023 as compared to $0.8 million for the year ended July 31, 2023, representing a 365% increase in Platform revenue compared to July 31, 2022;

- Completed a strategic investment of $13.4 million from Madison Square Garden Sports Corp. ("MSG Sports") to fund continued innovation and support accelerated growth in revenue;

- Entered into a commercial agreement with Sphere Entertainment Co. (formerly Madison Square Garden Entertainment Corp.), which allows Sphere Entertainment Co. and its affiliate Madison Square Garden Entertainment Corp. ("MSG Entertainment") (formerly MSGE Spinco, Inc.) to deploy SmartGateway solutions across the Sphere in Las Vegas, which opened in September 2023, and MSG Entertainment's portfolio of iconic venues, including New York's Madison Square Garden, The Theater at Madison Square Garden, Radio City Music Hall, Beacon Theatre, and The Chicago Theatre;

- Announced a new strategic partnership with the Oak View Group ("OVG") which has introduced a new patron screening technology to multiple properties, enabling OVG owned and operated properties to utilize Xtract One's SmartGateway system to enhance the customer experience and safety;

- As part of this strategic partnership, secured contracts with OVG to protect entrances at multiple venues including Angel of the Winds Arena, Total Mortgage Arena, Acrisure Arena, Simmons Bank Liberty Stadium, Cross Insurance Center, and Budweiser Gardens;

- Secured contracts with several sport and entertainment venues including SAP Center, the home of the NHL's San Jose Sharks, and Tech CU Arena which is the home of the AHL's San Jose Barracuda;

[1] This is a supplementary financial measure and is not defined or standardized under IFRS. Refer to section *Non-IFRS and Supplementary Financial Measures*.

- Continued expansion into new market verticals with deployments in the Lakewood School District, Sentara Health, Hyundai Transys, and City of Phoenix Municipal Courts;
- Subsequent to the year ended July 31, 2023, chosen by the U.S. Department of Veteran Affairs Medical Centers in Virgina to create a more efficient healthcare environment while ensuring the safety of patients and staff;
- Subsequent to the year ended July 31, 2023, partnered with the American Association of Professional Baseball as the exclusive preferred supplier to enhance venue security and guest experiences at games; and
- Subsequent to the year ended July 31, 2023, the Company announced its next phase of growth through a selective international expansion with three multinational companies, one of which is a global entertainment organization with a three year contract totaling over $5.1 million USD.

Business of the Company

The principal business of the Company is to develop and commercialize an integrated, layered, artificial intelligence ("AI") powered threat detection gateway solution with the aim of enhancing public safety. This includes the Xtract One Gateways (the "Gateways") and Xtract One Insights, which together comprise the Company's Platform segment. The Company's mission is to create transformative technology solutions that deliver exceptional experiences, safer environments, and informed operational insights for our customers, and their patrons and staff. The Company has two distinct operating segments, being its Platform and Xtract operating segments. The Platform operating segment develops and commercializes a platform of AI-powered threat detection technologies, while Xtract develops and commercializes advanced AI solutions for customers.

Outlook and Overall Performance

Platform Operating Segment

During the year, the Company focused on continued commercialization of the Platform solutions, by accelerating customer sales and sales-related activities. These efforts have resulted in a record year of total contract value signed for the Company, with several additional contracts currently in negotiation. Some of these contracts are for single locations with the potential to grow to dozens of locations. Revenue related to Platform subscription arrangements or upfront sales amounted to $3.6 million for the year ended July 31, 2023. As at July 31, 2023, the backlog of sales commitments related to the Platform was approximately $4.1 million and continues to grow. This excludes an additional $10.4 million in signed agreements that are pending installation. As the Company continues to sell its Platform solution using a subscription model, management expects monthly recurring revenue and sales backlog to increase, providing predictable long-term cash flow.

The strategic partnership and $13.4 million investment from MSG Sports well-positions the Company for future success, through their ongoing feedback, guidance, insights, and key introductions from MSG Sports, with their immense influence and brand name in the sports industry.

The strategic partnership with OVG has allowed the Company to continue to develop key customer relationships in the sports and entertainment industry through OVG’s network of OVG360-managed venues and OVG Arena Alliance members. During the fiscal year ended July 31, 2023, the Company worked with OVG on a number of contracts and installations, including deploying Gateways at Cross Insurance Center, Acrisure Arena, Angels of the Winds Arena, Total Mortgage Arena, and Budweiser Gardens.

The continued customer wins and the strategic partnerships with MSG Sports and OVG, has strengthened the Company’s market position, increasing the Company’s ability to further penetrate the market resulting in increased backlog, signed contracts, and ongoing business momentum.

The Company continues to invest in the research and development of its suite of technologies that form the Platform and to advance the functionality of its product offerings in response to the growing market opportunities and feedback from customers, resellers, and partnership organizations. The Company continues to accelerate its product development roadmaps in response to market opportunities and customer needs, focusing on the industry-specific utility of the various solutions and capabilities under development.

Management is encouraged by the ongoing and accelerating interest in its Platform solution and sees the recent growth in successful deployments, customer commitments, and the continued sales pipeline growth, as validation of its product performance and the addressable market. Management sees these factors as positive leading indicators of the expected future performance of the Company.

Xtract Operating Segment

During the year, the Xtract team continued to focus on supporting the internal Platform developments and the associated machine learning complexities of the various solutions under development in close coordination with the product development and data science teams, while also developing the AI-based solutions contracted through public sector agencies.

Xtract recognized revenue of $514,245 during the 2023 fiscal year, which was related to professional service contracts. This innovative AI team continues to work collaboratively with the Company’s internal Platform efforts along with building an ever-expanding set of capabilities, which continue to inform and advance the strategic aims of the Company. Critical strategic decisions for Xtract are made in close consultation and coordination with the Company’s leadership to ensure maximum synergies are achieved.

Investing in Research and Development

During the 2023 fiscal year, the Company continued to invest in research and development activities focused on its primary product offerings to advance functionality in response to the expanding addressable market and global opportunities.

AI-Powered Threat Detection Gateway

The first AI-powered threat detection gateway was initially released to the market in August 2020, followed by enhanced versions of the Gateway in September 2021, March 2022, and September 2022, which incorporated technology and functionality enhancements that made the patron screening product increasingly accurate, flexible, and practical for sports and live entertainment venues.

The current Gateway product, the SmartGateway, is the primary focus within the Company’s technology portfolio due to the significant market demand for AI threat detection screening solutions. Accordingly, the Company has increased its investment in developing, testing, and enhancing the SmartGateway product, with the primary objective being to align the Gateway to meet the growing market demands of its current and future customers, further maintaining the Company’s status as a market leader in advanced patron screening solutions. In addition, these investments have also facilitated ancillary product updates to support increasingly complex environments such as, workplaces, schools, and healthcare organizations. These enhancements are expected to increase the capabilities of the Gateway that suit our customers’ requirements and stay up to date with protecting threats, thereby expanding the market for the Gateway beyond the current target markets.

In preparation for market and segmentation expansions, the Company has diligently worked on the regulatory requirements for different markets, while optimizing the Gateway's functionality for customer reconfigurability, accuracy, and supportability. Additionally, Xtract One has finalized the design for a ruggedized version of the Gateway to ensure its durability and performance in various environments, therefore, creating a single product offering and deployment model for all customers.

Technology Update

Throughout the fiscal year, the Company focused its efforts to actively improve on its technology solutions. The Company’s commitment to innovation and meeting the evolving needs of customers remains unwavering. In direct response to feedback from field engineers and customers in the live entertainment and sports venue markets, changes to the Gateway were focused on improved durability and system diagnostics. The Company directed significant focus on the enhancement of the unified enterprise software, Xtract One Insights, to support customers with multiple Gateways by providing a combination of fleet management functionality, real-time analytics, and post-event reporting capabilities. The Company continues to look for ways to further improve the technology with planned software updates and new value-added functionality to deliver exceptional customer service and improved patron experience as additional insights in the field and features are identified following successful customer deployments.

The AI innovations developed by Xtract remain critical components to the delivery of the total security solution. The Company continues to build out new functionality and advance scalability to support the growing set of clients adopting the Company’s Gateways. The Company’s unified AI-powered security platform remains unique in the marketplace and is being bolstered with enterprise features to support high-traffic venues and facilities implementing Gateways at scale. The Company continues to assess ways to expand its capabilities through development partnerships and strategic integrations.

Market Opportunity

In the short term, the Company is focusing on markets where its solution operates effectively in the customer’s physical environment, and where the timing of the sales cycle is reasonable. This strategy has been adopted to deliver near-term revenue. The Company has identified the following key market segments that are well-suited for the Company’s threat detection solutions:

- Stadiums, arenas, theatres, and outdoor event spaces
- Casinos
- Manufacturing and distribution facilities

The Company has been using marketing campaigns targeted at these industry groups which have led to promising opportunities and helped secure a growing backlog and pipeline of commitments. In addition, the Company has secured key strategic partnerships with two prominent industry leaders, OVG and MSG Sports, to further solidify its position as a market leader in the sports and entertainment market. During the 2023 fiscal year, the Company continued to make meaningful progress with many customers and was able to build up its backlog of Platform subscription contracts. Some of the Company's initial sales began as smaller purchases from large enterprise customers, after which these existing customers have expanded their commitments by increasing the number of deployments of the Platform to additional sites during the year. Many customers prefer a phased approach with a rollout of the Platform to a few entrances to ensure they are comfortable with their related security protocols before using it throughout their venues. The Company is focused on the success of these initial deployments which have started to lead to much larger customer commitments.

Although these target markets are our priority in the short term, the intention is to expand into additional markets with future releases of the product. The Company will continue to focus on expansion, entering new geographical markets in the current target industries. The Company has also selectively engaged with customers in other market verticals such as schools and healthcare where there is a strong product fit. To further this expansion, the Company has placed an emphasis on regulatory certifications and requirements. These certifications increase our credibility in the marketplace and allow us to pursue new market opportunities. The Company continues to make significant enhancements to its products to improve its capabilities and address customer needs. As products continue to develop, we will expand our target market to new market verticals.

The total addressable market available to the Company in the physical security space is approximately $135 billion and is expected to experience rapid growth and transformation. Organizations are becoming increasingly concerned about employee and patron safety while being unwilling to sacrifice the patron experience. These organizations are looking for creative solutions to address these competing priorities which is driving demand for unique and innovative physical security solutions. The Company believes its patron screening solutions help address both of these problems far better than anything else in the market today.

The Company is currently expanding its reseller base, covering larger geographical territories and their respective end-user clientele. In furtherance of these initiatives, the Company also uses a direct-to-end-user sales model which more precisely addresses our target industry groups. This gives more visibility into opportunities enabling the Company to forecast more accurately, control the sales process, remain competitive, increase sales margins, maintain the relationship with the end-user, and learn directly from these customers for further enhancements to the Platform. The effect of this approach has already been seen with a substantial increase in sales, sales pipeline, and the number of well-qualified opportunities where we have intimate knowledge of the customer and their processes. In parallel, the Company is building a program to support the recruitment of strategic alliance partners that offer complementary technologies where we can develop integrations and connect our products to offer more complete solutions together. This will provide access to a larger installation base and promote direct sales.

Throughout the year, the Company was engaged in selected opportunities for collaboration, innovation, and business development relationships to accelerate growth and expand its presence globally. The Company is actively pursuing opportunities to leverage new technologies, execute new business opportunities, and grow our client base while providing business value to our clients.

The Company has also instituted competitive sales programs and pricing schemes in close coordination with resellers and end-user customers to ensure that the go-to-market strategy is competitive and directly addresses market needs.

Annual Financial Performance

Selected Financial Data - Summary of Results

	For the year ended July 31,		
	2023	2022	% Change
Revenue			
Platform	$ 3,596,999	$ 773,724	365%
Xtract	514,245	2,845,940	(82%)
Total revenue	$ 4,111,244	$ 3,619,214	14%
Expenses			
Sales and marketing	2,789,338	1,968,641	42%
Research and development	6,206,176	4,463,527	39%
General and administration	1,362,378	2,044,536	(33%)
Personnel costs	5,723,359	5,284,255	8%
Professional fees	677,469	772,091	(12%)
Hardware	926,058	277,286	234%
Amortization	805,900	805,900	(0%)
Depreciation	643,390	765,126	(16%)
Share-based compensation	950,536	1,063,840	(11%)
Loss on inventory	346,374	502,397	(31%)
Loss on retirement of assets	181,107	12,155	1390%
	20,612,085	17,959,754	15%
Adjusted loss from operations[1]	16,500,841	14,340,540	15%
Impairment of goodwill	-	25,582,433	-
Loss from operations	16,500,841	39,922,973	(59%)
Unrealized gain on investment	(58,333)	(175,000)	(67%)
Realized loss on investment	55,082	-	-
Interest and other income	(161,117)	(31,284)	415%
Loss and comprehensive loss	$ 16,336,473	$ 39,716,689	(59%)
Adjusted loss and comprehensive loss[1]	$ 16,336,473	$ 14,134,256	16%
Weighted average number of shares	176,664,492	155,744,354	13%
Basic and diluted loss per share	$ 0.09	$ 0.25	(64%)
Adjusted basic and diluted loss per share[1]	$ 0.09	$ 0.09	(0%)

1 This is a non-IFRS measure and is not defined or standardized under IFRS. Refer to section Reconciliation of Non-IFRS Financial Performance Measure.

Overall Annual Results

Overall loss and comprehensive loss for the year ended July 31, 2023, was $16.3 million compared to $39.7 million for the same year ended July 31, 2022, representing a decrease of $23.4 million or 59%. The decrease in the overall loss and comprehensive loss for the year ended July 31, 2023, was mainly attributable to the non-recurring impairment of goodwill during the year ended July 31, 2022.

Adjusted loss and comprehensive loss, which excludes the impairment of goodwill, increased by $2.2 million for the year ended July 31, 2023, compared to the year ended July 31, 2022. The increase was primarily attributable to the cessation of $3.3 million in non-dilutive grant funding received during the prior year ended July 31, 2022, along with increased sales and marketing related activity. This increase in operating expenses was partially offset by an increase in revenue.

Revenue

The Company recognized total revenue of $4,111,244 during the year ended July 31, 2023, compared with $3,619,214, for the year ended July 31, 2022, representing an increase in total revenue of $492,030 or 14%.

The Company recognized Platform revenue of $3,596,999 during the year ended July 31, 2023, as compared to $773,274 during the year ended July 31, 2022, representing a 365% increase. The Company believes that revenue from this operating segment will continue to grow in the upcoming periods due to the extensive backlog it has built up from Platform subscription contracts adding to the growth in monthly recurring revenue as well as the increase in customer site surveys, trials, and deployment activities currently underway.

The Company recognized $514,245 in revenue related to work completed on contracts from the Xtract operating segment for the year ended July 31, 2023, as compared to $2,845,940 for the year ended July 31, 2022. The decrease was mainly attributable to the timing of the completion of some larger projects, as well as the continued focus on the Platform segment.

The Company's backlog of contracted commitments is broken down as follows:

	Less than one year	Greater than one year	As of July 31, 2023	2022	% Change
Platform revenue	$ 2,277,346	$ 1,849,140	$ 4,126,486	$ 1,317,238	213%
Xtract revenue	393,872	-	393,872	908,118	(57%)
Total backlog	$ 2,671,218	$ 1,849,140	$ 4,520,358	$ 2,225,356	103%

The Company recorded a Platform backlog of $4,126,486 as at July 31, 2023, compared to $1,317,238 as of July 31, 2022, representing an increase of $2,809,248 or 213%. The increase is mainly attributable to several new contracts and deployments that the Company secured and completed in recent quarters. The Platform backlog as of July 31, 2023, excludes an additional $10.4 million in signed agreements that are pending installation, which has grown substantially by 447% from the $1.9 million of signed contracts pending installation that existed as of July 31, 2022.

The Company recorded an Xtract backlog of $393,872 as of July 31, 2023, as compared with $908,118 as of July 31, 2022, representing a decrease of 57% or $514,246. The decrease was mainly attributable to the completion of some larger projects and the Company's strategic focus on the Platform. The Xtract segment continues to have a backlog of opportunities that the Company is selectively pursuing.

Sales and marketing

Sales and marketing expenses were $2,789,338 for the year ended July 31, 2023, as compared to $1,968,641 for the year ended July 31, 2022, representing an increase of 42% or $820,697. The increase in this expenditure during the year was primarily attributed to the Company's growing investment in sales and marketing activities and a higher number of marketing campaigns and trade shows. The Company expects sales and marketing expenses will remain steady or increase slightly as sales activity continues in the upcoming periods.

Research and development

Research and development ("R&D") expenses were $6,206,176 for the year ended July 31, 2023, as compared to $4,463,527 for the year ended July 31, 2022, representing an increase of 39% or $1,742,649. The change in R&D expenses was primarily attributable to the $3.2 million of non-dilutive funding received from various grants during the year ended July 31, 2022.

R&D costs are presented net of related non-dilutive funding provided to reimburse research and development costs. During the prior year, this included COVID-19 relief funding from the Canadian Government, non-dilutive funding from Raytheon, as well as Supercluster funding for the development of COVID-19 response solutions.

The following table details our gross R&D costs net of grants:

	Year ended July 31,		
	2023	2022	% Change
R&D costs before grants	$ 6,206,176	$ 7,615,383	(19%)
Raytheon ITB program funding	-	(2,553,000)	(100%)
Supercluster funding	-	(410,530)	(100%)
R&D allocation of Covid-19 relief funding	-	(188,326)	(100%)
	-	(3,151,856)	(100%)
R&D costs net of grants	$ 6,206,176	$4,463,527	39%

R&D costs before grants for the year ended July 31, 2023 was $6,206,176 compared to $7,615,383 for the year ended July 31, 2022, representing a decrease of $1,409,207 or 19% in R&D related expenses. The decrease in the year over year expense can be attributed to the Company's strategic shift in focus, where it has transitioned from primary research and development activities to a greater emphasis on continuous development and sales efforts.

Despite this shift, the Company remains committed to investing in R&D activities aimed at refining and enhancing our Platform solutions. In addition to this ongoing commitment, we will actively explore non-dilutive funding opportunities that may become available in the future.

General and administration

General and administrative expenses were $1,362,378 for the year ended July 31, 2023, as compared with $2,044,536 for the year ended July 31, 2022, representing a decrease of 33% or $682,158. The reduction in these expenses during the year was primarily attributable to management's ongoing effort to cut non-strategic discretionary expenditures and the settlement of outstanding provisions. The Company is continually looking for opportunities to reduce non-strategic expenses. We expect general and administrative expenses will remain steady in the upcoming quarters.

Personnel costs

Personnel costs, excluding those costs associated with research and development activities, were $5,723,359 for the year ended July 31, 2023, as compared with $5,284,255 for the year ended July 31, 2022, representing an increase of 8% or $439,104. This increase was primarily due to broad upward pressure on wages during fiscal year 2023 in addition to the expansion of the sales and marketing team as the Company continues to focus on accelerating sales. The Company believes that these costs will remain steady or increase slightly as we continue to grow our operations to meet sales demand in the upcoming quarters.

Professional fees

Professional fees were $677,469 for the year ended July 31, 2023, as compared with $772,091 for the year ended July 31, 2022, representing a decrease of 12% or $94,622. The decrease was primarily attributable to costs associated with the prospectus financing during the year ended July 31, 2022. The Company believes these costs will remain stable or increase slightly in the upcoming quarters.

Hardware

Hardware expenses were $926,058 for the year ended July 31, 2023, as compared to $277,286 for the year ended July 31, 2022. The increase of $648,772 or 234% in hardware expense year over year, was attributable to the associated costs of the increased Platform sales.

Amortization

Amortization costs of $805,900 remained unchanged for the years ended July 31, 2023, and July 31, 2022.

Depreciation

Depreciation expense was $643,390 for the year ended July 31, 2023, as compared with $765,126 for the year ended July 31, 2022, representing a decrease of 16% or $121,736. The decrease is attributable to certain disposals of fixed assets and office leases under IFRS 16 which are no longer in use.

Share-based compensation

Share-based compensation was $950,536 for the year ended July 31, 2023, as compared to $1,063,840 for the year ended July 31, 2022, representing a decrease of 11% or $113,304. The decrease was primarily attributable to a decrease in the number of stock options issued and outstanding during the year ended July 31, 2023.

Loss on retirement of assets

During the year ended July 31, 2023, the Company wrote down $181,107 worth of obsolete fixed assets as compared to $12,155 for the year ended July 31, 2022. Management continuously reviews fixed assets for indications of impairment or obsolescence.

Loss on inventory

During the year ended July 31, 2023, the Company recorded a loss on inventory of $346,374 compared to $502,397 during the year ended July 31, 2022, representing a decrease of $156,023 or 31%. The decrease is mainly attributable to technological upgrades during the prior year ended July 31, 2022 for the Company's Gateway product and continual assessment of the net realizable value of older technology. Management continuously reviews the inventory it holds for signs of impairment or obsolescence.

Unrealized gain on investment

Unrealized gain on investment was $58,333 for the year ended July 31, 2023, as compared to $175,000 for the year ended July 31, 2022. The unrealized gain changes are attributable to fair value fluctuations in the Company's investment in Gemina Laboratories Ltd. ("Gemina Labs") prior to its disposal of the investment during the year ended July 31, 2023.

Realized loss on investment

The realized loss on investments was $55,082 for the year ended July 31, 2023, as compared to $nil for the same period ended July 31, 2022. The realized loss is attributable to the disposal of the Company's investment in Gemina Labs during the year ended July 31, 2023.

Interest and other income

Interest and other income was $161,117 for the year ended July 31, 2023, as compared to $31,284 for the year ended July 31, 2022, representing an increase of 415% or $129,833. The increase was partially due to a $20,000 loan forgiveness provided by the Government of Canada for the early repayment of a Canada Emergency Business Account loan, and an increase in market interest rates compared to the previous year.

Loss per share

On a per weighted average share basis, basic and diluted loss per share was $0.09 for the year ended July 31, 2023, as compared to $0.25 for fiscal 2022. The decrease in basic loss per share of $0.16 or 64% loss per share can be attributed to the impairment of goodwill in fiscal 2022.

Financial Data – Summary of Quarterly Results (in $000s)

	Quarter Ended							
	Jul 31, 2023	Apr 30, 2023	Jan 31, 2023	Oct 31, 2022	Jul 31, 2022	Apr 30, 2022	Jan 31, 2022	Oct 31, 2021
Revenue								
Platform	$ 1,646	$ 802	$ 721	$ 427	$ 267	$ 85	$ 232	$ 189
Xtract	128	73	94	220	527	853	946	520
Total revenue	$ 1,774	$ 875	$ 815	$ 647	$ 794	$ 938	$ 1,178	$ 709
Expenses								
Sales and marketing	999	529	472	789	544	498	606	320
Research and development	1,457	1,298	1,451	2,001	2,086	1,944	880	(446)
General and administration	147	415	407	394	782	369	543	351
Personnel costs	1,560	1,351	1,240	1,572	1,749	1,394	1,137	1,004
Professional fees	81	173	331	92	134	94	349	195
Hardware	269	244	263	150	71	5	177	24
Amortization	201	201	201	201	201	202	202	201
Depreciation	162	158	162	161	179	198	193	194
Share-based compensation	140	281	379	150	325	533	148	58
Loss on inventory	30	2	314	-	334	90	79	-
Loss on retirement of assets	77	23	81	-	-	12	-	-
Adjusted loss from operations[1]	$ 3,349	$ 3,800	$ 4,488	$ 4,864	$ 5,611	$ 4,401	$ 3,136	$ 1,192
Impairment of goodwill	-	-	-	-	25,582	-	-	-
Loss from operations	3,349	3,800	4,488	4,864	31,193	4,401	3,136	1,192
Unrealized loss (gain) on investment	-	58	(182)	66	(15)	(15)	(44)	(102)
Realized loss on investment	55	-	-	-	-	-	-	-
Interest and other income	(84)	(31)	(34)	(12)	(17)	(1)	(11)	(2)
Loss and comprehensive loss	$ 3,320	$ 3,827	$ 4,271	$ 4,918	$ 31,162	$ 4,385	$ 3,082	$ 1,088
Adjusted loss and comprehensive loss[1]	$ 3,320	$ 3,827	$ 4,271	$ 4,918	$ 5,579	$ 4,385	$ 3,082	$ 1,088
Basic and diluted loss per share	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.19)	$ (0.03)	$ (0.02)	$ (0.01)
Adjusted basic and diluted loss per share[1]	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.02)	$ (0.01)
Working capital	$ 7,672	$ 8,358	$ (1,870)	$ 2,261	$ 6,791	$ 11,991	$ 9,473	$ 12,129
Total assets	$ 18,998	$ 18,750	$ 11,121	$ 13,694	$ 18,058	$ 48,744	$ 45,146	$ 48,087
Non-current liabilities	$ 124	$ 154	$ 183	$ 268	$ 357	$ 432	$ 515	$ 597

[1] This is a non-IFRS measure and is not defined or standardized under IFRS. Refer to section *Non-IFRS and Supplementary Financial Measures*.

Quarterly Results Trend Analysis

The quarterly expenditure trend across the previous eight fiscal quarters above reflects the evolution of the Company's revamped strategy to accelerate revenue growth for our Platform operating segment. The Company's primary objective has been the further development and commercialization of an integrated, layered, AI-powered threat detection solution. In fiscal 2022, the Company began to see the results of its enhanced marketing and sales efforts through increased revenue, sales commitments, and a qualified sales pipeline. In fiscal 2023, the Company has begun to make strategic partnerships and customer relationships that have grown the sales pipeline and contributed towards scaling the operations, with the anticipation of long-term recurring revenue.

The Company has no discontinued operations.

Fourth Quarter Results

Revenue

During the three months ended July 31, 2023, the Company recognized total revenue of $1,744,118, as compared to $793,851 for the three months period ended July 31, 2022, representing an increase of $980,267 or 123%. Revenue of $1,646,568 was attributable to the Platform operating segment for the three months ended July 31, 2023, in comparison with $267,234 for the three months period ended July 31, 2022 representing an increase of $1,379,334 or 516%. The increase compared to the previous year is mainly attributable to a higher number of sales contracts signed and deployed during the fiscal year 2023 along with the monthly recognition of sales subscription arrangements.

Revenue recognized relating to the Xtract operating segment during the three months ended July 31, 2023, was $127,551, as compared with the $526,617 for the same period on July 31, 2022. The decrease was mainly attributable to the timing of the completion of some larger projects, as well as the continual focus on the Platform segment.

Adjusted loss and comprehensive loss

During the three months ended July 31, 2023, the Company recognized a total adjusted loss and comprehensive loss of $3,320,139 as compared to $5,579,134 for the year ended July 31, 2022, representing a decrease of $2,258,995 or 40%. The decrease was mainly attributable to an increase in revenue during the three months ended July 31, 2023 along with a decrease in overall expenditures.

Liquidity and Capital Resources

As of July 31, 2023, the Company had a working capital of $7,672,943 which includes current assets of $11,804,517 to meet current liabilities of $4,131,574. The majority of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has non-current liabilities of $124,358, related to the long-term portion of the capitalized lease liabilities in accordance with IFRS 16. The Company has purchase obligations of $921,351 in relation to future finished goods for the Platform within the next year.

Selected Financial Data – Summary of results for the years ended July 31,

	2023	2022	% Change
Cash and cash equivalents beginning of year	$ 6,277,321	$ 9,652,493	(35%)
Cash used in operating activities	(13,535,322)	(9,271,441)	46%
Cash received from (used in) investing activities	364,462	(95,757)	481%
Cash received from financing activities	15,220,988	5,992,026	154%
Change in cash for the year	2,050,128	(3,375,172)	(161%)
Cash and cash equivalents end of year	$ 8,327,449	$ 6,277,321	33%

During the year ended July 31, 2023, the Company had a net increase in cash flow of $2.1 million, compared with a negative cash flow from operations, investing, and financing activities of $3.4 million for the year ended July 31, 2022.

The cash flow used in operating activities was $13.5 million for the year ended July 31, 2023, as compared with $9.3 million for the year ended July 31, 2022, representing an increase of $4.2 million or 46%. The increase in negative cash flow from operating activities can be attributable to an increase in non-cash working capital, specifically inventory to support sales growth, offset by deferred revenue cash receipts.

Cash flow generated from investing activities was $0.4 million for the year ended July 31, 2023, as compared with $0.1 million of cash flow used in investing activities for the same year in 2022 representing an increase of $0.5 million or 481%. The increase in positive cash flow from investing activities can be attributed to the disposal of the Company's investment in Gemina Labs during the year ended July 31, 2023.

Cash received from financing activities was $15.2 million for the year ended July 31, 2023, as compared to $6.0 million for the year ended July 31, 2022, representing an increase of $9.2 million or 154%. The increase in financing activities in the current period relates to proceeds received from a private placement agreement with MSG Sports, and proceeds from the exercise of warrants.

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to safeguard its ability to continue as a going concern and to sustain the future development of the business. Our objective is met by retaining adequate cash reserves to provide for the possibility that cash flows from operations will not be sufficient to meet future cash flow requirements. To maintain or adjust our capital structure, we may issue shares, such as through private placements or other possible debt or equity arrangements. The Board of Directors does not establish a quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements.

Non-IFRS and Supplementary Financial Measures

This MD&A refers to historical non-IFRS performance measures and supplementary financial measures. These measures do not have any standardized meaning prescribed under IFRS, and therefore may not be comparable to other reporting issuers.

Supplementary financial measures included in this MD&A are 'Agreements pending installation' and 'Total contract value of new bookings'. Agreements pending installation reflect the total value of signed contracts awarded to the Company that have not been installed at the customer site. 'Total contract value of new bookings' is comprised of all new contracts signed and awarded to the Company, regardless of the performance obligations outstanding as of the reporting period. Total contract value is the aggregate value of sales commitments from customers as of the reporting period without consideration of the Company's completion of the associated performance obligations outlined in each contract. Management believes that these supplementary financial measures provide a better evaluation of the operating performance of the Company's business and facilitates meaningful comparison of results in the current period with those in prior periods and future periods.

Non-IFRS measures included in this MD&A are, 'Adjusted loss from operations', 'Adjusted loss and comprehensive loss', and 'Adjusted basic and dilutive loss per share'. Management believes that these non-IFRS performance measurements provide investors with useful information as it excludes an amount that is not indicative of the core operating results, and ongoing operations, and further, provides a consistent basis for comparison between reporting periods. The Company has adjusted its loss from operations and loss and comprehensive loss pertaining to the year ended July 31, 2022, to exclude a non-routine, non-cash impacting impairment loss relating to goodwill. Adjusted loss from operations is reconciled within the section "Financial Data – Summary of Annual Results (in $000s)". The following tables provide an illustration of the calculation of 'Adjusted loss and comprehensive loss, and 'Adjusted basic and dilutive loss per share for the years ended July 31, 2023, and 2022:

Adjusted loss and comprehensive loss (in $000s)

	2023	2022
Loss and comprehensive loss	$ 16,336	$ 39,717
Adjusted for:		
Impairment of goodwill	-	25,582
Adjusted loss and comprehensive loss	**$ 16,336**	**$ 14,134**

Adjusted basic and dilutive loss per share

	2023	2022
Basic and dilutive loss per share	$ 0.09	$ 0.25
Adjusted for:		
Impairment of goodwill per share outstanding	-	0.16
Adjusted basic and dilutive loss per share	**$ 0.09**	**$ 0.09**

Financial Instruments and Other Instruments

The Company's only material financial instruments are cash and cash equivalents and receivables.

The Company's risk exposures and the impact on our 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 capital to meet short-term business requirements 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 cashflows and is dependent on the Company's ability to obtain financing.

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 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, foreign exchange rates, equity prices, and customer risk.

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 consequently, 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. Most of the Company's assets and liabilities are denominated in Canadian dollars; however, the Company holds some cash balances in American dollars. As of July 31, 2023, the Company did not have any material monetary assets or liabilities denominated in a foreign currency and consequently is not exposed to significant foreign currency risk.

Price risk
Equity 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 fiscal year, and therefore, exposure to price risk is insignificant.

Critical Accounting Policies and Estimates

For a complete description of the Company's significant accounting policies, please see the accompanying notes to the audited consolidated financial statements for the year ended July 31, 2023.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results may differ from these estimates. Significant 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.

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.

Revenue recognition

Revenue arising from the sale of or subscription to use the Platform 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.

Xtract contract revenue is recognized in proportion to the stage of completion of each contract. Significant assumptions are used to determine the stage of completion and changes in these assumptions could impact the revenue recognized during the period.

Going concern

The preparation of the Company's consolidated 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 cashflows and is dependent on the Company's ability to obtain financing.

The consolidated 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 the consolidated financial statements, then adjustments would be necessary for the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

Recent Accounting Pronouncements

The International Accounting Standards Board (IASB) has published new standards and amendments or interpretations to existing standards which are outlined below.

New accounting standards issued but not yet in effect

Disclosures of accounting policies (Amendments to IAS 1)

The IASB has published Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) to guide companies in applying materiality judgements to accounting policy disclosures.

The amendments:

(i) Require companies to disclose their material accounting policies rather than their significant accounting policies; and

(ii) With the corresponding amendments to IFRS Practice Statement 2, provide further guidance and examples on how to apply the materiality process to identify material accounting policy information that should be disclosed compared to policies that do not.

This amendment is effective for annual periods beginning on or after January 1, 2023, and is to be applied prospectively. Earlier application is permitted. The Company does not expect the adoption of this amendment to have a significant impact on the consolidated financial statement disclosures.

Definition of Accounting Estimates (Amendments to IAS 8)

The IASB has published the Definition of Accounting Estimates (Amendments to IAS 8), in which a new definition of accounting estimates was established.
The amendments:

(i) Define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty";
(ii) Clarify what changes in accounting estimates are; and
(iii) Clarify the distinction between changes in accounting estimates, accounting policies, and correction of errors.

This amendment is effective for annual periods beginning on or after January 1, 2023, and is to be applied prospectively. Earlier application is permitted. The Company does not expect the adoption of this amendment to have a significant impact on the consolidated financial statements and its respective disclosures.

Classification of liabilities as current or non-current (Amendments to IAS 1)

The IASB has published the Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarified the guidance on whether a liability should be classified as either current or non-current.

The amendments:

(i) Clarify that the classification of liabilities as current or non-current should be based on whether rights to defer exist at the end of the reporting period;
(ii) Clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
(iii) Make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. The Company does not expect the adoption of this new amendment to have a significant impact on the consolidated financial statements and its respective disclosures.

Related Party Balances and 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 year ended July 31, 2023, was $1,386,079 (2022 - $1,331,560). In addition, share-based compensation expense relating to key management for the year ended July 31, 2023, was $628,501 (2022 - $502,692).

As at July 31, 2023, $202,718 (July 31, 2022 - $102,568) in accounts payable and accrued liabilities is 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 years ended July 31, 2023, and 2022.

Controls and Procedures

Evaluation of disclosure controls and procedures

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. As at July 31, 2023, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized, and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting

The Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer in a timely manner.

In addition, the Chief Executive Officer and Chief Financial Officer have designed or caused it to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements.

The Chief Executive Officer and Chief Financial Officer have been advised that the control framework used to design the Company's ICFR is recognized by the Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether there were changes to its ICFR during the year ended July 31, 2023, that have materially affected or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.
A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.

Risk and Uncertainties

The Company's business is subject to a number of risk factors which are described in our most recently filed AIF. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks occur, business plans may be impacted and the financial condition and results of operation may suffer, potentially significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

Additional information and other publicly filed documents relating to the Company are available through the Internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR+"), which can be accessed at www.sedarplus.ca.

Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Subsequent Events

On September 6, 2023, 100,000 stock options were exercised and converted into Common Shares for gross proceeds of $51,200.

On October 3, 2023, the Company granted 2,128,750 employee stock options with an exercise price of $0.68 per option. These options were granted for a term of five years and a vesting period over three years.

On October 12, 2023, 2,500 stock options were exercised and converted into Common Shares for gross proceeds of $950.

On October 17, 2023, 3,750 stock options were exercised and converted into Common Shares for gross proceeds of $1,425.

Disclosure of Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. As of the date of this MD&A, the Company has 198,354,825 common shares issued and outstanding. In addition, there are 41,548,456 warrants which may be converted to one common share each at prices ranging from $0.60 to $0.75. The Company also has stock options outstanding to purchase an additional 11,012,886 common shares with exercise prices ranging from $0.38 to $1.83 per share.