Condensed Consolidated Interim Financial Statements

For three months ended October 31, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

Xtract One Technologies Inc.

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

		October 31, 2023		July 31, 2023
Assets				
Current assets				
Cash and cash equivalents	$	5,290,181	$	8,327,449
Receivables (Note 4)		1,621,802		847,429
Prepaid expenses and deposits		528,320		1,026,668
Current portion of deferred cost of revenue (Note 3)		165,020		-
Inventory (Note 5)		1,510,019		1,602,971
		9,115,342		11,804,517
Property and equipment (Note 6)		2,185,477		2,063,817
Intangible assets (Note 7)		4,642,225		4,843,700
Non-current portion of deferred cost of revenue (Note 3)		261,627		-
Right of use assets (Note 8)		263,439		286,796
Total assets	$	16,468,110	$	18,998,830
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	2,428,392	$	2,519,350
Deferred revenue (Note 9)		1,347,595		1,379,741
Current portion of lease liability (Note 8)		226,242		232,483
		4,002,229		4,131,574
Non-current portion of lease liability (Note 8)		94,193		124,358
	$	4,096,422	$	4,255,932
Shareholders' equity				
Share capital (Note 12)	$	135,906,165	$	135,823,337
Contributed surplus		14,667,434		14,420,259
Accumulated deficit		(138,201,911)		(135,500,698)
	$	12,371,688	$	14,742,898
Total liabilities and shareholders' equity	$	16,468,110	$	18,998,830

Reporting entity (Note 1)
Basis of preparation (Note 2)
Subsequent event (Note 16)

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 October 31, 2023		2022	
Revenue (Note 9)				
Platform revenue	$	2,996,206	$	426,538
Xtract revenue		120,147		220,268
Total revenue	$	3,116,353	$	646,806
Cost of revenue (Note 10)				
Platform cost of revenue	$	978,562	$	193,184
Xtract cost of revenue		53,380		114,491
Total cost of revenue	$	1,031,942	$	307,675
Gross profit	$	2,084,411	$	339,131
Operating expenses (Notes 11, 13)				
Selling and marketing	$	1,507,657	$	1,490,359
General and administration		1,647,816		1,577,218
Research and development		1,726,191		2,135,775
Total operating expenses	$	4,881,664	$	5,203,352
Loss from operations		(2,797,253)		(4,864,221)
Other expenses (income)				
Unrealized loss on investments		-		65,625
Interest and other income		(96,040)		(11,662)
Loss and comprehensive loss for the period	$	(2,701,213)	$	(4,918,184)
Weighted average number of shares (Note 12)		198,354,825		163,179,222
Basic and diluted loss per share	$	(0.01)	$	(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				
	Number of shares	Amount	Contributed surplus	Accumulated deficit	Total
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	106,250	82,828	(29,241)	-	53,587
Share-based compensation (Notes 11, 12)	-	-	276,416	-	276,416
Loss for the period	-	-	-	(2,701,213)	(2,701,213)
Balance - October 31, 2023	198,354,825	$ 135,906,165	$ 14,667,434	$ (138,201,911)	$ 12,371,688
Balance - July 31, 2022	163,179,222	$ 119,796,584	$ 13,912,816	$ (119,164,225)	$ 14,545,175
Share-based compensation (Notes 11, 12)	-	-	150,471	-	150,471
Loss for the period	-	-	-	(4,918,184)	(4,918,184)
Balance - October 31, 2022	163,179,222	$ 119,796,584	$ 14,063,287	$ (124,082,409)	$ 9,777,462

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)

	Three months ended October 31, 2023	2022
Cash flow used in operating activities		
Loss and comprehensive loss for the period	$ (2,701,213)	$ (4,918,184)
Adjustment for:		
Share-based compensation (Note 11, 12)	276,416	150,471
Depreciation (Notes 6, 8, 11)	286,845	194,267
Amortization (Notes 7, 11)	201,475	201,475
Finance cost (Note 8)	6,547	13,013
Unrealized loss on investments	-	65,625
	(1,929,930)	(4,293,333)
Changes in non-cash working capital		
Receivables	(774,373)	(5,348)
Prepaid expenses and deposits	498,348	235,519
Inventory	(680,192)	(366,111)
Deferred cost of revenue (Note 3)	13,752	-
Accounts payable and accrued liabilities	(90,958)	521,657
Deferred revenue	(32,146)	(37,890)
Cash used in operating activities	(2,995,499)	(3,945,506)
Cash flow used in investing activities		
Purchase of property and equipment (Note 6)	-	(32,539)
Cash used in investing activities	-	(32,539)
Cash flow from financing activities		
Proceeds on issue of share capital	53,587	-
Lease payments (Note 8)	(95,356)	(93,192)
Cash used in financing activities	(41,769)	(93,192)
Net decrease in cash for the period	$ (3,037,268)	$ (4,071,237)
Cash beginning of the period	8,327,449	6,277,321
Cash end of the period	$ 5,290,181	$ 2,206,084

Supplemental cash flow information (Note 14)

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

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 in Canada, "XTRAF" on the OTCQX in the United States, and "0PL" on the Frankfurt Stock Exchange in Germany. 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"). The principal business of the Company is the development and commercialization of an integrated, layered, AI-powered threat detection gateway solution, referred to as the "Platform", with the aim of enhancing public health and safety.

The Company's head office is located at 400-257 Adelaide Street West, Toronto, Ontario, Canada, M5H 1X9, 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 with International Accounting Standard ("IAS 34"), Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("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, 2023. These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on December 7, 2023.

(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. 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.

(c) Functional and presentation currency

The functional currency of the Company and its subsidiaries is the Canadian dollar, and these condensed consolidated interim financial statements are presented in Canadian dollars.

(d) Comparative figures

As at August 1, 2023, the Company changed its accounting for the presentation of its consolidated statements of loss and comprehensive loss from 'by nature' to 'by function'. The Company made this change in presentation to provide more relevant financial information to facilitate peer benchmarking. The Company has amended the prior year's presentation to conform to the current year's presentation.

As a result, hardware expenses, along with other direct costs attributable to the production of goods were reclassified to cost of revenue to appropriately reflect the function of the expense and facilitate the gross profit calculation. The Company considers items such as customer support, freight, installation, depreciation, and sales commissions directly attributable to the cost of revenue.

Personnel fees, professional fees, share-based compensation, depreciation, and amortization costs were reclassified amongst cost of revenue, general and administrative, selling and marketing, and research and development expenses as required to appropriately reflect the function of these expenses. Further disclosure of the breakdown of nature of expenses can be found in Note 11.

Comparative amounts for the three month period ended October 31, 2022 in the consolidated interim statements of loss and comprehensive loss have been reclassified for consistency. Since these amounts are within operating activities in the consolidated interim statements of loss and comprehensive loss, this reclassification did not have any effect on the consolidated statements of financial position or the consolidated statements of cash flows.

The summary of reclassification amounts for the comparative period are as follows:

	Three months ended October 31, 2022		
	Balance by nature	Reclassification	Balance by function
Cost of revenue	$ -	$ 307,675	$ 307,675
Sales and marketing	789,147	701,212	1,490,359
Research and development	2,000,697	135,078	2,135,775
General and administration	393,909	1,183,309	1,577,218
Personnel costs	1,571,864	(1,571,864)	-
Professional fees	92,440	(92,440)	-
Hardware	150,278	(150,278)	-
Amortization	201,475	(201,475)	-
Depreciation	160,746	(160,746)	-
Share-based compensation	150,471	(150,471)	-
	$ 5,511,027	-	**$ 5,511,027**

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, 2023, as these condensed consolidated interim financial statements follow the same accounting policies and methods of application, with the exception of the policies implemented during the period ended October 31, 2023.

(a) Material accounting policies implemented during the three month period ended October 31, 2023

Deferred cost of revenue

During the three month period ended October 31, 2023, the Company adopted an accounting policy due to certain circumstances where the Company incurs costs for the hardware and software delivered to a customer in advance of recognizing revenue. These costs are recorded as deferred cost of revenue and are carried forward until the related revenues are recognized, at which time they are expensed. Deferred cost of revenue is recorded at the lower of cost and net realizable value. For the three month period ended October 31, 2023, the Company reclassified $440,399 (Note 6) (July 31, 2023 - $nil) of assets pertaining to a pilot arrangement that converted into a purchase agreement to deferred cost of revenue, and expensed $13,752 (October 31, 2022 — $nil) of these costs as a component of cost of revenue.

(b) Material accounting judgments, estimates, and assumptions

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

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

Share-based compensation

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

Deferred income tax assets and liabilities

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

Treatment of development costs

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

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 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 would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classification used.

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

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.

(Expressed in Canadian Dollars)

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 the 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.

4. Receivables

Receivables are comprised of the following:

	October 31, 2023	July 31, 2023
Trade receivables	$ 1,354,236	$ 512,926
Taxes receivable	267,566	334,503
	$ 1,621,802	**$ 847,429**

As of October 31, 2023, the Company had not made a provision for uncollectible accounts (July 31, 2023 - $nil).

5. Inventory

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

	October 31, 2023	July 31, 2023
Components and work-in-progress	$ 578,183	$ 720,430
Finished goods	931,836	882,541
	$ 1,510,019	**$ 1,602,971**

During the three months ended October 31, 2023, the Company recorded total inventory sold of $580,170 (2022 - $116,757) under cost of revenue. The Company has reclassified inventory in the amount of $773,144 (October 31, 2022 - $102,177) to subscription and demo assets. As at October 31, 2023, the Company had outstanding purchase obligations of $3,425,952 (July 31, 2023 - $921,351) related to future finished goods for the Platform product offerings that will be drawn down within the next year. The Company has not taken a provision for the write down of inventory for the three months ended October 31, 2023 (2022- $nil).

(Expressed in Canadian Dollars)

6. Property and equipment

Details of the Company's property and equipment as at October 31, 2023 and July 31, 2023 are as follows:

	Office equipment	Computer hardware	Furniture & fixtures	Subscription & demo assets	Leasehold improvements	Total
Cost						
Balance at July 31, 2022	$ 1,701,290	$ 534,589	$ 398,624	$ 351,145	$ 211,639	$ 3,197,287
Additions	-	-	-	-	32,539	32,539
Reclassification	61,643	-	-	1,293,629	-	1,355,272
Retirement of assets	(150,445)	(43,797)	(243,858)	(80,458)	-	(518,558)
Balance at July 31, 2023	**$ 1,612,488**	**$ 490,792**	**$ 154,766**	**$ 1,564,316**	**$ 244,178**	**$ 4,066,540**
Reclassification	-	-	-	255,222	-	255,222
Balance at October 31, 2023	**$ 1,612,488**	**$ 490,792**	**$ 154,766**	**$ 1,819,538**	**$ 244,178**	**$ 4,321,762**
Accumulated depreciation						
Balance at July 31, 2022	$ 952,035	$ 406,393	$ 234,651	$ 39,782	$ 86,585	$ 1,719,446
Depreciation	190,126	67,795	30,947	280,374	51,486	620,728
Disposals	(102,465)	(42,599)	(165,086)	(27,301)	-	(337,451)
Balance at July 31, 2023	**$ 1,039,696**	**$ 431,589**	**$ 100,512**	**$ 292,855**	**$ 138,071**	**$ 2,002,723**
Depreciation	35,799	7,468	2,957	151,650	13,211	211,085
Reclassification	-	-	-	(77,523)	-	(77,523)
Balance at October 31, 2023	**$ 1,075,495**	**$ 439,057**	**$ 103,469**	**$ 366,982**	**$ 151,282**	**$ 2,136,285**
Carrying amount as at July 31, 2023	$ 572,792	$ 59,203	$ 54,254	$ 1,271,461	$ 106,107	$ 2,063,817
Carrying amount as at October 31, 2023	**$ 536,993**	**$ 51,735**	**$ 51,297**	**$ 1,452,556**	**$ 92,896**	**$ 2,185,477**

The Company recorded depreciation of subscription assets in the amount of $145,577 (2022 - $28,238) under cost of revenue. During the period, the Company reclassified $440,399 of net subscription assets (July 31, 2023 - $nil) out of property and equipment to deferred cost of revenue (Note 3).

(Expressed in Canadian Dollars)

7. Intangible assets

The carrying values of intangible assets as at October 31, 2023 and July 31, 2023 are as follows:

		Quasar licensed distribution rights		EhEye intellectual property		Internally developed intellectual property		Total
Cost								
Balance at July 31, 2023 and October 31, 2023	**$**	**6,574,000**	**$**	**1,250,000**	**$**	**235,000**	**$**	**8,059,000**
Accumulated amortization								
Balance at July 31, 2023	$	2,658,425	$	468,750	$	88,125	$	3,215,300
Amortization		164,350		31,250		5,875		201,475
Balance at October 31, 2023	**$**	**2,822,775**	**$**	**500,000**	**$**	**94,000**	**$**	**3,416,775**
Carrying amount as at July 31, 2023	$	3,915,575	$	781,250	$	146,875	$	4,843,700
Carrying amount as at October 31, 2023	**$**	**3,751,225**	**$**	**750,000**	**$**	**141,000**	**$**	**4,642,225**

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 six 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 six years.

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 six years.

(Expressed in Canadian Dollars)

8. 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 three month period ended October 31, 2023, the Company remeasured its right of use asset and liability for one of its properties due to a lease term extension.

The carrying amounts of the Company's right of use assets, liabilities, and the movements for the three months ended October 31, 2023, and the year ended July 31, 2023, are as follows:

	Right of use assets	Right of use liabilities
As at July 31, 2022	$ 589,832	$ 677,276
Depreciation	(303,036)	-
Finance costs	-	42,237
Lease payments	-	(362,672)
As at July 31, 2023	$ 286,796	$ 356,841
Depreciation	(75,760)	-
Finance costs	-	6,547
Remeasurement	52,403	52,403
Lease payments	-	(95,356)
As at October 31, 2023	$ 263,439	$ 320,435

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

Fiscal year	Amount
2024	187,233
2025	97,358
Effects of discounting	(16,559)
Remeasurement of lease	52,403
Right of use liabilities	$ 320,435
Current portion of right of use liabilities	(226,242)
Non-current portion of right of use liabilities	$ 94,193

During the three months ended October 31, 2023, there were no short term or low value leases recorded (2022 - $nil).

(Expressed in Canadian Dollars)

9. Revenue

Revenue recognized during the three months ended October 31, 2023, relates to Platform and Xtract revenue.

The Company recognized $2,996,206 (2022 - $426,538) in revenue related to the sale of and subscription to use the Platform during the three months ended October 31, 2023. As at October 31, 2023, accounts receivable for Platform revenue was $1,173,432 (July 31, 2023 - $360,059) and deferred revenue was $1,347,595 (July 31, 2023 - $1,379,741).

The Company recognized $120,147 (2022 - $220,268) in revenue from Xtract during the three months ended October 31, 2023. As at October 31, 2023, accounts receivable for work completed on contracts was $180,804 (July 31, 2023 - $152,867), and there was no deferred revenue recorded (July 31, 2023 - $nil).

The Company has a backlog of contracted sales that have 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 October 31, 2023	Total backlog October 31, 2022
Platform revenue	$ 3,589,966	$ 5,661,802	$ 9,251,768	$ 1,875,454
Xtract revenue	265,606	-	265,606	687,850
Total backlog*	$ 3,855,572	$ 5,661,802	$ 9,517,374	$ 2,563,304

* Backlog figures exclude contracted sales that are pending installation.

10. Cost of revenue

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

	Three months ended October 31, 2023	Three months ended October 31, 2022
Product	$ 600,536	$ 129,358
Installation	121,343	16,888
Shipping	53,321	18,700
Depreciation	145,577	28,238
Salaries and commissions	111,165	114,491
	$ 1,031,942	**$ 307,675**

(Expressed in Canadian Dollars)

11. Operating expenses

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

	Three months ended October 31, 2023			
	General and Administration	Research and Development	Sales and Marketing	Total
Personnel costs	$ 897,057	$ 1,100,223	$ 889,518	$ 2,886,798
Professional fees	160,558	14,402	-	174,960
Facilities	28,267	21,029	-	49,296
Tradeshows and advertising	-	-	305,277	305,277
Share-based compensation (Note 12)	158,206	85,051	33,159	276,416
Depreciation (Note 6, 8)	135,152	-	6,116	141,268
Amortization (Note 7)	-	201,475	-	201,475
Other	268,576	304,011	273,587	846,174
	$ 1,647,816	**$ 1,726,191**	**$ 1,507,657**	**$ 4,881,664**

	Three months ended October 31, 2022			
	General and Administration	Research and Development	Sales and Marketing	Total
Personnel costs	$ 930,891	$ 1,369,533	$ 640,971	$ 2,941,395
Professional fees	92,440	-	-	92,440
Facilities	43,520	19,345	-	62,865
Tradeshows and advertising	-	-	288,020	288,020
Share-based compensation (Note 12)	14,797	80,714	54,960	150,471
Depreciation (Note 6, 8)	160,748	-	5,280	166,028
Amortization (Note 7)	-	201,475	-	201,475
Other	334,823	464,708	501,128	1,300,659
	$ 1,577,218	**$ 2,135,775**	**$ 1,490,359**	**$ 5,203,352**

12. Share capital

Authorized capital

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

(Expressed in Canadian Dollars)

Share capital

The issued and outstanding share capital is as follows:

	Three months ended October 31, 2023		Year ended July 31, 2023	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of period	198,248,575	$ 135,823,337	163,179,222	$ 119,796,584
Shares issued on the exercise of warrants	-	-	2,630,700	2,236,095
Shares issued on financing, net of share issue costs	-	-	31,925,595	13,308,750
Shares issued on the exercise of stock options	106,250	82,828	513,058	481,908
Balance end of period	198,354,825	$ 135,906,165	198,248,575	$ 135,823,337

Warrants

Warrant activity for the three months ended October 31, 2023, and the year ended July 31, 2023, is as follows:

	Three months ended October 31, 2023		Year ended July 31, 2023	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance beginning of period	41,548,456	0.63	12,253,561	0.74
Warrants issued on financing	-	-	31,925,595	0.60
Warrants excercised	-	-	(2,630,700)	0.60
Balance end of period	41,548,456	$ 0.63	41,548,456	$ 0.63

As at October 31, 2023, outstanding warrants are as follows:

Number of warrants outstanding	Weighted average exercise price	Expiry date	Weighted average life remaining (months)
781,711	$ 0.60	March 17, 2024	4.6
8,841,150	$ 0.75	March 17, 2025	16.6
20,000,000	$ 0.60	February 10, 2028	51.3
11,925,595	$ 0.60	April 12, 2028	53.4
41,548,456	$ 0.63		43.6

(Expressed in Canadian Dollars)

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 three months ended October 31, 2023, and the year ended July 31, 2023, 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 three months ended October 31, 2023, and the year ended July 31, 2023, is as follows:

	Three months ended October 31, 2023		Year ended July 31, 2023	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance beginning of period	9,680,386	$ 0.75	9,758,579	$ 0.91
Granted	2,128,750	0.68	3,542,636	0.57
Exercised	(106,250)	0.50	(513,058)	0.59
Forfeited / Expired	(747,500)	1.64	(3,107,771)	1.05
Balance end of period	10,955,386	$ 0.68	9,680,386	$ 0.75

During the three months ended October 31, 2023, the Company recognized share-based compensation related to stock options of $276,416 (2022 - $150,471).

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

	Three months ended October 31, 2023	Three months ended October 31, 2022
Expected life	3.4 years	3.8 years
Expected market volatility of shares	70.0%	79.0%
Share price	$ 0.65	$ 0.38
Expected dividend rate	0%	0%
Exercise price	$ 0.68	$ 0.38
Risk-free interest rate	4.26%	3.14%
Weighted average fair value per option granted	$ 0.312	$ 0.215

(Expressed in Canadian Dollars)

Details of the outstanding stock options as at October 31, 2023, 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
355,000	$ 1.81	July 3, 2024	8.1	355,000	$ 1.81
30,000	$ 1.83	July 25, 2024	8.8	30,000	$ 1.83
70,000	$ 1.81	September 6, 2024	10.2	70,000	$ 1.81
150,000	$ 1.21	December 23, 2024	13.8	150,000	$ 1.21
75,000	$ 1.37	January 21, 2025	14.7	75,000	$ 1.37
30,000	$ 0.69	May 11, 2025	18.4	30,000	$ 0.69
250,000	$ 0.97	August 10, 2025	21.3	250,000	$ 0.97
18,750	$ 0.69	September 15, 2025	22.5	18,750	$ 0.69
80,000	$ 0.56	October 29, 2025	24.0	80,000	$ 0.56
720,000	$ 0.57	November 11, 2025	24.4	540,000	$ 0.57
60,000	$ 0.49	March 22, 2026	28.7	60,000	$ 0.49
846,250	$ 0.52	June 15, 2026	31.5	622,500	$ 0.52
152,500	$ 0.43	October 25, 2026	35.8	115,000	$ 0.43
135,000	$ 0.44	December 8, 2026	37.3	135,000	$ 0.44
1,451,250	$ 0.73	February 16, 2027	39.5	748,125	$ 0.73
100,000	$ 0.54	April 1, 2027	41.0	50,000	$ 0.54
150,000	$ 0.54	April 4, 2027	41.1	75,000	$ 0.54
25,000	$ 0.56	April 6, 2027	41.2	12,500	$ 0.56
700,000	$ 0.57	April 13, 2027	41.4	350,000	$ 0.57
125,000	$ 0.46	June 14, 2027	43.5	125,000	$ 0.46
125,000	$ 0.42	July 11, 2027	44.4	125,000	$ 0.42
891,250	$ 0.38	October 3, 2027	47.1	453,125	$ 0.38
1,000,000	$ 0.50	January 13, 2028	50.4	1,000,000	$ 0.50
448,348	$ 0.69	March 17, 2028	52.6	448,348	$ 0.69
250,000	$ 0.75	April 24, 2028	53.8	62,500	$ 0.75
86,644	$ 0.95	June 16, 2028	55.5	21,661	$ 0.95
400,000	$ 0.90	July 1, 2028	56.0	100,000	$ 0.90
101,644	$ 0.91	July 10, 2028	56.3	25,411	$ 0.91
2,128,750	$ 0.68	October 3, 2028	59.1	532,188	$ 0.68
10,955,386	**$ 0.68**		**42.8**	**6,660,108**	**$ 0.70**

Loss per share

Stock options and warrants are not included in the determination of fully diluted loss per share for the three months ended October 31, 2023, and 2022, as these instruments are anti-dilutive.

(Expressed in Canadian Dollars)

13. 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 three months ended October 31, 2023, was $303,557 (2022 - $311,870). In addition, share-based compensation expense relating to key management for the three months ended October 31, 2023, was $122,076 (2022 - $57,674).

As at October 31, 2023, there was $147,678 (July 31, 2023 - $202,718) 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 three months ended October 31, 2023.

14. Supplemental cash flow information

Non-cash financing and investing activities during the three months ended October 31, 2023 conducted by the Company are as follows:

Transfer of inventory to property and equipment, net (Note 5)	$	773,144
Transfer of property and equipment to deferred cost of revenue, net (Notes 3, 6)	$	440,399
Transfer of contributed surplus on the exercise of stock options	$	29,241

Non-cash financing and investing activities during the three months ended October 31, 2022 conducted by the Company are as follows:

Transfer of inventory to property and equipment (Note 5)	$	102,177

No cash was paid toward income taxes during the three months ended October 31, 2023, and 2022. The Company paid interest expense embedded in its lease payments of $6,547 during the three months ended October 31, 2023 (2022 - $13,013).

Financial instruments and risk management

As at October 31, 2023, 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 fair value. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

(Expressed in Canadian Dollars)

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – Inputs that are not based on observable market data (unobservable inputs).

The Company has segregated all financial assets that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

	As at October 31, 2023			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 5,290,181	$ -	$ -	$ 5,290,181
Balance end of period	$ 5,290,181	$ -	$ -	$ 5,290,181

	As at July 31, 2023			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 8,327,449	$ -	$ -	$ 8,327,449
Balance end of year	$ 8,327,449	$ -	$ -	$ 8,327,449

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 October 31, 2023, the Company had current assets of $9,115,342 (July 31, 2023 - $11,804,517) to settle current liabilities of $4,002,229 (July 31, 2023 - $4,131,574). Most of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms.

Credit risk

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

Market risk

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

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

Foreign currency risk
Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. The Company's financial assets and liabilities that are denominated in foreign currencies are impacted by changes in the exchange rate between the Canadian dollar and the U.S. dollar. This primarily includes cash and cash equivalents, trade and other receivables, and trade and other payables. During the three month period ended October 31, 2023, the Company generated a portion of revenue in U.S. dollars, along with corresponding expenses in U.S. dollars, which acted as a natural foreign exchange hedge. 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.

15. Segmented information

Operating segments

The Company currently has two distinct operating segments being the Platform and Xtract. The Platform develops and commercializes an AI-powered threat detection gateway solution. Xtract develops innovative AI solutions for customers.

The accounting policies of the operating segments are the same as those described in the summary of material accounting policies (Note 3). The Company currently has no intersegment sales. Xtract labor costs incurred in the development of Platform technologies are allocated to the Platform operating segment at cost.

Segmented reporting information is presented for both Company's distinct operating segments. The following tables summarize the operations and current financial position of each segment for the three months ended October 31, 2023 and October 31, 2022:

(Expressed in Canadian Dollars)

	For the three months ended October 31, 2023		
	Platform	Xtract	Total
Revenue	$ 2,996,206	$ 120,147	$ 3,116,353
Cost of revenue	978,562	53,380	$ 1,031,942
Gross profit	$ 2,017,644	$ 66,767	$ 2,084,411
Expenses			
Sales and marketing	1,507,657	-	1,507,657
General and administration	1,578,207	69,609	1,647,816
Research and development	1,595,621	130,570	1,726,191
	4,681,485	200,179	4,881,664
Loss from operations	2,663,841	133,412	2,797,253
Interest and other income	(96,040)	-	(96,040)
Loss and comprehensive loss for the period	$ 2,567,801	$ 133,412	$ 2,701,213
Non-current asset additions	$ -	$ -	$ -
Finance cost[(1)]	$ 1,948	$ 4,599	$ 6,547
As at October 31, 2023			
Current assets	$ 8,811,071	$ 304,271	$ 9,115,342
Current liabilities	$ 2,755,671	$ 1,246,558	$ 4,002,229

(1) Finance costs relate to an embedded interest in lease commitments (Note 8) and are included in general and administrative expenses.

(Expressed in Canadian Dollars)

	For the three months ended October 31, 2022		
	Platform	Xtract	Total
Revenue	$ 426,538	$ 220,268	$ 646,806
Cost of revenue	193,184	114,491	307,675
Gross profit	$ 233,354	$ 105,777	$ 339,131
Expenses			
Sales and marketing	1,490,359	-	1,490,359
Research and development	2,020,548	115,227	2,135,775
General and administration	1,361,836	215,382	1,577,218
	4,872,743	330,609	5,203,352
Loss from operations	4,639,389	224,832	4,864,221
Unrealized loss on investment	65,625	-	65,625
Interest and other income	(11,662)	-	(11,662)
Loss and comprehensive loss for the period	$ 4,693,352	$ 224,832	$ 4,918,184
Non-current asset additions	$ -	$ 32,539	$ 32,539
Finance cost(1)	$ 6,620	$ 6,393	$ 13,013
As at October 31, 2022			
Current assets	$ 4,902,629	$ 1,007,058	$ 5,909,687
Current liabilities	$ 2,234,077	$ 1,414,488	$ 3,648,565

(1) Finance costs relate to an embedded interest in lease commitments (Note 8) and are included in general and administrative expenses.

(Expressed in Canadian Dollars)

Geographic Breakdown

The Platform segment currently conducts its operations globally. The Xtract segment operates within Canada.

	For three months ended October 31, 2023			As at October 31, 2023		
	Revenue			Non-current assets		
Geographic location	Platform	Xtract	Total	Platform	Xtract	Total
Canada	$ 26,538	$ 120,147	$ 146,685	$ 1,696,411	$ 225,633	$ 1,922,044
Japan	941,879	-	941,879	261,627	-	261,627
United States	2,027,789	-	2,027,789	5,169,097	-	5,169,097
Total	$ 2,996,206	$ 120,147	$ 3,116,353	$ 7,127,135	$ 225,633	$ 7,352,768

	For three months ended October 31, 2022			As at July 31, 2023		
	Revenue			Non-current assets		
Geographic location	Platform	Xtract	Total	Platform	Xtract	Total
Canada	$ -	$ 220,268	$ 220,268	$ 1,680,377	$ 257,400	$ 1,937,777
Japan	-	-	-	467,897	-	467,897
United States	426,538		426,538	4,788,639	-	4,788,639
Total	$ 426,538	$ 220,268	$ 646,806	$ 6,936,913	$ 257,400	$ 7,194,313

Revenue from two customers represented 41% of the Company's total revenue under the Platform operating segment for the three months ended October 31, 2023.

16. Subsequent event

On November 15, 2023, 32,500 stock options were exercised and converted into common shares for gross proceeds of $12,350.